DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR MOROCCO

As Approved by the Board of Directors at its meeting on 11 February 2015

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EXECUTIVE SUMMARY

Morocco is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. While several important milestones have been reached, further reforms are needed in the application of democratic principles.

Over the past two and half years, Morocco has made notable progress in its reform of political institutions. It adopted a new Constitution approved through a public referendum, undertook a free and fair parliamentary election, formed two governments based on a parliamentary majority, and introduced more effective checks and balances in the political system with the Parliament taking on clear legislative and supervisory responsibilities. The Moroccan authorities are committed to continue implementation of new laws passed to further strengthen checks and balances, improve political and human rights and broaden participation. The Government has taken measures to reduce the influence of entrenched vested interests in key economic sectors such as agribusiness. Yet, several of these entrenched groups continue to retain significant market shares in other sectors. The Government has been relatively slow in acting upon the advices of several independent regulatory bodies, such as the Antitrust Agency, regarding progressing the Parliament's adoption of certain laws that aim to reduce concentration of economic power.

Morocco has a track record of good economic performance though with some volatility. Following an average growth rate of 5 percent in the past decade, real GDP growth slowed to 2.7 percent in 2012 and rebounded to 4.4 percent in 2013. Unemployment stayed around 9 percent for the last three years since 2010; and labour force participation, particularly among women, is still very low (26 percent). The external position has come under pressure since 2010, but eased recently, with the current account deficit narrowing from 9.7 percent of GDP in 2012 to 7.6 percent of GDP in 2013. The fiscal balance has improved thanks to a number of policy measures. Looking forward, output growth is expected to moderate slightly to 4.2 percent in 2014, as agricultural output normalises and non-agricultural sectors accelerate in tandem with an expected recovery in the Eurozone.

Morocco faces similar transition challenges to other SEMED countries, having a growing population with high expectations for improved living standards. Although the country has fared comparatively better than its regional peers and made greater progress implementing structural reforms, stabilising the economy and attracting investments, Morocco still faces a number of cross-cutting challenges and transition gaps remain in many sectors. The low level of competitiveness prevalent in Morocco, which results from non-tariff barriers to entry, limited access to finance, and low levels of corporate governance, continues to impede the country's entrepreneurial potential. Despite large investments in the recent past, infrastructure is still inadequate to meet the increasing needs of the population, and concerns remain over energy security. Wide economic disparities persist between regions, as a result of low access to infrastructure and public services, and inefficiencies in the agricultural sector.

The Bank's two years of experience in the country has confirmed the relevance of its existing instruments and business model to address these challenges. In close coordination with other IFIs, the Bank will therefore be guided by the following priorities, which will form the core of the Bank's strategy in Morocco in the coming years.

- **Realizing Morocco's entrepreneurial potential:** While entrepreneurship has always been ingrained in Morocco, its full potential is constrained by the unconducive business climate. Private companies lack access to finance and face an array of bureaucratic and legalistic hurdles, which prevent them from growing, both in domestic and export markets. Other impediments include the high level of informality, and the lack of incentives to innovate for both companies and their financiers. Financing instruments will include private equity funds, dedicated credit lines associated with technical assistance to both local banks and clients (e.g., SEFF, SBS programmes), and direct investments from the Bank in the form of senior loans, mezzanine or equity. In parallel the bank will assist businesses in their efforts to grow competitive in both domestic and international markets by providing access to business advisory in order to improve their business models and support them in adopting best international practices. The Bank will also promote women's entrepreneurship and access to finance. Lastly, the Bank will expand its policy dialogues to *inter alia* support the implantation of the competition policy and facilitate access to collateral for lenders.

- **Promoting Regional Inclusion:** The Moroccan economy is characterised by wide economic disparities between administrative regions. The coastal regions in the northern part of the country account for more than 60 percent of GDP, half of it being in the Greater Casablanca region. Meanwhile, inner regions continue to rely heavily on primary agriculture and artisanal production. This is compounded by large regional disparities in relation to the quality and length of education and in relation to gender equality. In rural areas, women continue to face much lower access to health, education and public services, as well as economic opportunities. Regional access to infrastructure remains limited, despite past investments undertaken by the authorities with the support of multilateral agencies. The Bank will thus work to improve the infrastructure and invest in projects which promote inclusion and equal opportunities between men and women in the inner regions, where gender inequalities are particularly acute. Technical cooperation and policy dialogue will also be put in place to support local governments and companies in order to enhance core capabilities and encourage skills transfer.

- **Supporting Sustainability and Commercialisation of Public Services and Infrastructure:** Over the past ten years, Morocco has developed large infrastructure projects in the transport, municipal environment, power and water sectors. However, national operators and infrastructure providers do not operate on a commercial basis, and large operating subsidies, along with tariffs that are not cost reflective, continue to hamper the sustainability of operations. Despite their scale, these projects have not been able to meet the country's large and growing infrastructure needs, resulting in water scarcity and an increase in electricity imports. While most infrastructure projects have so far received state guarantees and concessional funding, alternative forms of financing must be developed to address the country's needs. In this context, the private sector has a key role to play both in terms of financing and bringing expertise in these sectors. Technical assistance will be provided to establish the conditions required for the involvement of the private sector.

- **Advancing Capital Markets Development:** Wider availability of risk capital and long term financing is critical for Morocco private sector development as well as for the implementation of the authorities' ambitious infrastructure strategy. Although

Morocco has a comparatively well-developed debt capital market, the equity market serves mainly large corporates, with limited outreach to SMEs, while the low liquidity in the equity market prevents it from developing into a reliable source of growth capital. Several core financing activities remain state-owned and would benefit from being fully commercialised. The Bank will follow a sequential approach in advancing capital market development, focusing initially on supporting equity and bond issuances with demonstration effect to deepen market liquidity. The Bank will also engage with relevant stakeholders on improving capital markets regulation, financial products and market infrastructure, recognising that improvements in those areas take time and that liquid markets are a prerequisite for success. The Bank will also work with the Moroccan authorities on the further commercialisation of state-owned banks and support the insurance sector with the view to develop long term investors.

To deliver on those priorities, EBRD will continue to seek extensive cooperation with IFIs and bilateral agencies, which have been present in the SEMED region for many years, and ensure that it offers an operational response that complements and builds on the work already done, based on its unique added value.

1 OVERVIEW OF THE BANK'S ACTIVITIES TO DATE

1.1 The Bank's current portfolio

Private Sector ratio: 69%, as of December 2014

Sector	Portfolio				
Amount in EUR million	Number of projects	Portfolio	*% of Portfolio*	Operating Assets	*% of Operating Assets*
Energy	**2**	**72**	**18%**	**30**	**12%**
Natural Resources	1	12	3%	12	5%
Power and Energy	1	60	15%	18	7%
Financial Institutions	**3**	**187**	**47%**	**187**	**74%**
Depository Credit (banks)	3	187	47%	187	74%
Non-depository Credit (non-bank)	0	0	0%	0	0%
ICA	**12**	**77**	**19%**	**35**	**14%**
Agribusiness	5	21	5%	19	8%
Equity Funds	4	42	10%	15	6%
ICT	0	0	0%	0	0%
Manufacturing & Services	2	6	1%	1	1%
Property & Tourism	1	9	2%	0	0%
Infrastructure	**1**	**65**	**16%**	**1**	**0%**
MEI	1	65	16%	1	0%
Transport	0	0	0%	0	0%
TOTAL	**18**	**402**	**100%**	**253**	**100%**

Source: EBRD Business Performance Navigator

1.2 Implementation of the previous strategic directions

The Bank has been operating in Morocco on the basis of a Country Assessment developed in 2011 and updated in August 2012 (BDS12-198). The assessment identified the following priorities for the Bank:

- 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 its regulation 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.

Since September 2012, when the SEMED Special Fund was established, the Bank has invested Euro 402 million in 18 projects as of December 2014 to support those priorities. The Bank has been steadily building up a portfolio of private sector clients in Morocco (13 private sector projects, vs. 2 sovereign projects). Although projects remain modest in size in the corporate sector, the Bank focused on delivering tailored financing products with a high replication potential. For example, the Bank was the first IFI to offer mezzanine financing in the country, with the local fruit juice manufacturer Citruma, resulting in a clear demonstration effect of the feasibility of this type of innovative structure, not yet widely available in Morocco. The Bank also invested in two Moroccan subsidiaries of large agribusiness groups, Lesieur and Frulact, with a focus on strengthening backward linkages to suppliers. The SBS team played an important role both in terms of marketing and improving the competiveness of the Bank's investee companies by addressing key weaknesses.

To reach out further to the private sector and in particular to smaller companies, the Bank focused on developing relationships with reputable financial intermediaries. The Bank signed several SME credit lines and Trade Facilitation Program (TFP) facilities, and invested in three regional private equity funds active in Morocco. The Bank also broke new ground by participating in the first international bond issue by a commercial bank in Morocco, allowing BMCE to diversify its source of funding and increase liquidity in the market. EBRD's anchor investor role proved critical to the success of the operation, and the highly visible transaction set an example for other commercial banks to follow.

Given Morocco's high dependency on imported energy, the Bank has focused its efforts on supporting sustainable energy to improve energy security and enhance economic competitiveness. Most of the Bank's direct financings of the private sector, such as the loan to a copper mine, Compagnie Minière de Seksaoua, served to finance energy efficiency measures. In the power sector, the project signed with the Office National de l'Electricité et de l'Eau Potable (ONEE) enabled the Company to complete its rural electrification efforts and to launch a smart grid programme to prepare for the deployment of smart metering and for the installation of decentralised renewable energy generation In the two rural electrification and water projects with ONEE, policy dialogue complemented this project to improve governance in the sector, by promoting best international practices and introducing international accounting standards (IFRS). In close cooperation with key stakeholders, the Bank also is contributing to the development of the regulatory framework to open the medium voltage electricity network to private renewable energy producers.

The Bank has also worked to foster and enhance business environment, through technical assistance focused on improving the legal framework for derivatives, aligning financial transactions securitisation with best international practices, facilitating access by SMEs to public sector tenders and further liberalising the telecommunication sector. Several initiatives, such as swaps and unfunded risk sharing, are also being pursued to provide the Bank with access to local currency.

1.3 Key lessons from the first period of operations

The first two years of operations gave the Bank the opportunity to deepen its understanding of key transition challenges in the country, further prioritise its activities, refine its operating model, and develop a network of business and institutional partners.

The fact that the Bank had not been known in the region's business community, coupled with the Bank's inability to lend in local currency in an environment of very tight currency exchange restrictions that prevent number of companies from borrowing in foreign currency, have proved challenging for the Bank's initial activities in the corporate sector. The limited offer in terms of currency hedging products, resulting from the curbed demand for this type of instruments, demonstrates the constraints in term of access by corporates to hard currency financing. This has been heightened by limited staff resource available at the resident office, explaining the relatively small number of direct investments so far. However, those bottlenecks are being addressed thanks to the Moroccan authorities support with the Bank progressing in its effort to access local currency and quickly raising its profile through the signature of new reference projects.

Lending practices remain rather conservative in Morocco and only a limited range of financial products is available to serve corporate and SMEs business needs. The Bank's innovative instruments and its business model consisting of a strong local presence, coupled with a combined approach between the Small Business Support unit and the Banking team for marketing and client support, has proven to be an efficient way of addressing these needs. The successful introduction of Trade Facilitation Programme with four local commercial banks has also demonstrated the benefit of deploying its expertise though well developed and tested instruments. Leveraging the Bank's experience gained in other countries of operations, in particular Turkey, will remain a key element for the success in Morocco of products such as the Sustainable Energy Efficiency Facility.

IFIs and bilateral agencies have been present in the SEMED region for many years. It is therefore critical for the Bank to offer an operational response that complements and builds on the work already done, based on the Bank's unique added value, and ensure it is not duplicating efforts. In addition, the Bank volumes are likely to remain modest in comparison to the very large amounts of concessional finance from IFIs and Gulf sovereign funds, which may impact the Bank's leverage on reforms.

In that regard, challenges identified in the Country Assessment related to non-sovereign financing and mobilisation of private sector investment in energy and infrastructure sectors have proven correct. Given its comparatively more stable political situation in the region, Morocco has benefited from large amounts of concessional funding and grants since 2011, with a side effect that has been to reduce incentives to involve the private sector in energy and infrastructure. In addition, legal and regulatory frameworks are not yet in place to enable an effective private sector involvement. As a result, the Bank's initial involvement in the power and municipal infrastructure sectors has been through sovereign loans to finance rural development in both the electricity and water sectors, which explains the comparatively high level of public sector projects in the portfolio (52 percent, as of May 2014). However, building on its experience fostering private participation in utilities and infrastructures, the Bank is paving the way for fully fledged private public partnerships. Through its two sovereign projects the Bank focused on improving the sector governance (e.g., introduction of IFRS accounts and service contacts), and agreeing on a reform agenda with the client and the Moroccan authorities for further private sector participation in the electricity and water sectors.

2 OPERATIONAL ENVIRONMENT

2.1 Political Context

Morocco is a constitutional monarchy, with extensive powers allocated to the King. Following the adoption of the 2011 Constitution, the Chief of Government is now selected from the party with the largest number of seats in Parliament, and the Government is formed based on parliamentary representation. Though the King remains the Head of the Executive, the new Constitution gives the Government, and especially its Chief, significantly wider executive powers than under the preceding Constitution.

Legislative oversight has been strengthened. The Parliament elected in November 2011 has been holding extensive debates on key policies and laws. There has also been an improvement in fighting corruption and increasing access to information, primarily as a result of debates surrounding several laws and the authorities' increased engagement with local civil society organisations. The Government has taken measures to reduce the influence of entrenched vested interests in key economic sectors such as agribusiness. Yet, several of these entrenched groups continue to retain significant market shares in other sectors. The Government has been relatively slow in acting upon the advices of several independent regulatory bodies, such as the Antitrust Agency, regarding progressing the Parliament's adoption of certain laws that aim to reduce concentration of economic power.

There were major differences between the parties that formed the first coalition government after the November 2011 parliamentary elections regarding the priorities of the Government and the scope of political and economic reforms to be introduced. That resulted in a slow pace reforms in a number of areas. However, following the formation of a new coalition government in 2013, that pace has increased significantly. Though a range of views persist inside the Parliament and within leading civil society organisations – including large syndicates – regarding certain aspects of the reform agenda (for example concerning the re-pricing of different energy sources and the structuring of the public-sector pension system), there is widespread support for progressing these reforms.

The Government is advancing the implementation of the Regionalisation strategy which was included in the 2011 Constitution and in the Government's 2012 programme. A new law regarding the implementation of the regionalisation strategy is on the Parliament's legislative agenda.

2.2 Macroeconomic context

Morocco has, as a whole, a track record of good economic growth though with some volatility. Following an average growth rate of 5 percent in the past decade, real GDP growth slowed to 2.7 percent in 2012. This mainly reflected modest agricultural output and weak external demand, especially in the Eurozone which remains Morocco's main economic partner. In 2013, growth expanded by 4.4 percent, thanks to a number of policy measures and a rebound in the agricultural sector, and despite a weak external demand which continued to restrain non-agricultural growth. Meanwhile, Morocco's inflation stood at an annual average rate of 1.9 percent in 2013, the lowest inflation rate among the SEMED countries. Unemployment stayed around 9 percent for the last three years since 2010; and labour force participation, particularly among women, is still very low (26 percent). Meanwhile, Morocco has successfully completed the third and last review under the IMF's USD 6.2bn Precautionary and Liquidity Line (PLL) which was approved in August 2012. Authorities have not drawn on the credit line treating it as precautionary and view it a strong anchor for reforms and a buffer against deteriorations in external conditions. In July 2014, Morocco was granted a new USD 5 billion PLL for a period of two years.

Morocco's external position has come under pressure since 2010, but eased recently. Weak external demand has weighed on the trade balance, with the deficit more than doubling since 2010 to about 9.7 percent of GDP in 2012. However, the external position improved in 2013 with the current account deficit narrowing to 7.6 percent of GDP, owing to lower fuel and food imports. Additionally, the strategies implemented by the government to target the development of high value added exports have attracted large investment flows, and contributed to the strong export growth in automobiles (23 percent), aerospace (21 percent) and electronics (12 percent) in 2013. Net Foreign Direct Investment (FDI) significantly increased (20 percent) and represented 3.2 percent of GDP in 2013, while international reserves stabilized above four months of imports. In the meantime, recovery in the tourism sector remains weak.

The fiscal balance has improved thanks to a number of policy measures. The fiscal deficit narrowed from an average of 7 percent of GDP in 2011 and 2012 to 5.4 percent of GDP in 2013. Expenditures declined significantly in 2013, mainly on the back of energy subsidy reforms and restrained public investment spending. Rationalizing energy subsidies in particular yielded savings of nearly 2 percent of GDP, aided by lower international oil prices. The reduction in spending on public investments was due to the cancellation of projects budgeted but not executed by end-October 2013. On the revenue side, the reduction in tax receipts was partially offset by higher grants and nontax revenue.

The banking sector remains overall sound. The banking system has been resilient to shocks, remaining adequately capitalised and profitable, thanks to prudent regulation by the central bank. However, there are liquidity shortages in the market in local and foreign currencies, with heavy reliance on central bank interventions. Widening fiscal and current account deficits in 2012 adversely affected bank liquidity, leading to a slowdown in credit growth. The central bank has responded by increasing liquidity injections and lowering reserve requirements by 4 percentage points since September 2012, bringing the ratio down to 2 percent.

Looking forward, output growth is expected to moderate slightly to 4.2 percent in 2014, as agricultural output normalises and non-agricultural sectors accelerate in tandem with an expected recovery in the Eurozone.

2.3 Structural reform context

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. Average import tariffs were substantially reduced even though non-tariff barriers, in particular in the agricultural sector, still remain substantial. In recent years, Morocco has undergone a rapid process of trade integration. The most important trade agreements have been the Euro-Mediterranean Free Trade Agreement (FTA) with the EU, to be complemented by the Deep and Comprehensive Free Trade Agreement presently under negotiation and aiming to bring Moroccan legislation closer to EU legislation in trade-related areas, the Agadir Agreement with Egypt, Jordan and Tunisia (within the framework of a greater Arab Free Trade Area), the US-Morocco FTA, which came into force in 2006, and the FTA with Turkey signed in 2004 and effective since 2006. However some capital account restrictions on residents remain including surrender requirements for export proceeds and limits on foreign investments by local institutional investors.

The authorities have taken some steps to address fiscal structural issues, but significant implementation challenges remain. A new fuel price indexation that links gasoline and diesel to global oil prices was introduced by the government in 2013, and in February 2014 all remaining subsidies on petrol and industrial fuel were removed. This follows a 15 percent reduction in food subsidies as well as an increase in fuel prices by 20 percent in 2012. However, progress on other reforms, such as broader subsidy reform and the adoption of a new organic law related to the finance bill ("loi de finances"), has been more difficult, owing to their politically sensitive nature and the difficulty in achieving consensus. In May 2013 Morocco appointed a commission to draw up different proposals for reforming the country's pension system, whose financial situation is precarious, and which has continued to place a heavy burden on state finances. Negotiations are currently underway with various stakeholders. Despite these difficulties, measures have also been taken to limit the effects of higher prices on lower income groups, including safeguards to keep public transportation costs unchanged.

Morocco has embarked on a series of reforms to deepen the financial sector. A new draft banking law is currently under discussion in parliament and is expected to be voted on later this year. A series of reforms are in progress, with the aim of fostering the development of alternative financial products, and increasing access to finance. Efforts are also underway to develop a framework for participative finance in Morocco[1], which will cover equities, deposits and Islamic bonds *(sukuk)*. Reviews of the statute of Bank Al-Maghrib and the Banking Act are ongoing, with technical assistance from the IMF to strengthen macro-prudential supervision and better monitor systemic risks to the financial sector. This is especially important in light of the cross-border expansion of Moroccan banks, particularly into sub-Saharan Africa, which will complicate banking supervision and increase the need to monitor risks related to branches or subsidiaries. In response, the central bank is strengthening coordination and exchange of information with supervisory and regulatory agencies in host countries, including onsite supervision missions.

The regulatory and legal framework governing capital markets has been strengthened. Under recent changes in regulation, the sector's supervision authorities– CDVM, Bank Al-Maghrib and the Department of Insurance and Social Welfare which reports to the Ministry of Finance – will increase their independence and will see their supervisory powers strengthened. Other recent changes to regulation cover the trading of derivatives and the definition of a legal framework for the covered bonds, which will be issued by banks only and must be authorised beforehand by the central bank. In particular, a new securitisation law has been adopted and the draft law for the trading of derivatives instruments has now been passed and published. Efforts are also underway to introduce a framework for asset-backed securities, and in particular covered bonds, on which a draft law is being prepared, as banks have expressed a willingness to issue mortgage backed bonds. In addition, an amendment to the law on venture capital entities has been transmitted to the Parliament and should be passed before end of year 2014. The purpose of this amendment is to establish a legal framework adapted to the development of venture capital activities in Morocco.

The government has also made efforts to encourage corporates to seek direct financing through the stock market, particularly for medium-sized enterprises, by extending the tax incentives for listings on the stock market, for an additional three years. In addition, the Moroccan authorities are presently considering some liberalisation in the currency exchange control as part of a new monetary policy. The consequences of such liberalisation and the

[1] In order to ensure consistency in the banking law, the Moroccan Government decided to establish a common legal framework for all financing activities and to include one chapter on participative finance (which regulates the financing activities compliant with Islamic *Sharia*).

prerequisite are being assessed, to reduce external vulnerabilities and strengthen competitiveness. Most banks and large corporates are seen to be ready to manage exchange rate risk, but smaller firms may be affected by the increased volatility.

The implementation of the decentralization plans remains slow in view of the complexity of the reform. An organic law detailing the transfer of decision-making power to the regions is expected to be developed. This will require the development of a funding framework and the creation of specific instruments (e.g. setting rules for direct borrowing at state level and establishing a fund to support the development of poorer regions). However, the limited capacity at the level of regional administrations will be a challenge. Effective decentralization will need to be accompanied with associated political governance and electoral reforms, so as to avoid de-concentration, whereby managerial responsibility is merely shifted from central government officials in Rabat to regional administrators.

2.4 Access to finance

Private sources of capital

Morocco enjoys a rather developed banking system which has shown a good resilience during the global financial crisis, thanks to proactive intervention by the authorities and liquidity injection by the central bank. Banking system resilience conversely stems from conservative lending practices, with a preference for senior loans. With the exception of a few large corporate, tenors are rather short, in particular for SMEs. Strict currency controls also limit companies' access to hard currency loans to address their funding requirements.

Several initiatives have been introduced to address the challenge of SME's access to finance. SMEs account for only 35 percent of total domestic loans to the private sector[2], and simplifying requirements for SME borrowers remains a challenge. Banks mainly practise asset-based lending, while SMEs often lack sufficient collateral, equity, and formalisation of management accounts. On the demand side, improving financial literacy through training and technical advisory services to small entrepreneurs is needed to improve access to finance. Bank Al-Maghrib introduced in December 2013 a new mechanism whereby commercial banks could refinance themselves through Bank Al-Maghrib for their loans to MSME. Moreover, the "Caisse Centrale de Garantie" (CCG), one of key player in the loan guarantee for SMEs in Morocco, adopted in July 2013 a three year program aiming at widening its guarantee schemes by introducing new guarantee products. In addition, the authorities have taken measures to extend microcredit activities, improve financial literacy, and strengthen financial transparency and risk management tools, in cooperation with the General Confederation of Moroccan Enterprises (CGEM). Efforts are also underway to provide for a more modern and legally efficient framework for secured transactions, especially with a view to encouraging sound lending to SMEs. In response, the Moroccan Foundation for Financial Education was created, as well as an observatory of SMEs, funded by the Banking Association.

Equity markets face structural issues, especially in relation to their ability to stimulate entrepreneurial activities and ultimately employment growth. Presently, stock markets provide a venue for investors to trade the shares of the established listed companies but play only a very limited role in financing investments, especially for new and growing businesses.

[2] According to a survey conducted by EBRD of commercial bank lending activities.

State owned enterprises and family owned businesses, which contribute to the bulk of the economy, do not meaningfully rely on capital markets to finance themselves, limiting the supply of potential issuers. In this context, a draft law amending the Stock Exchange regulation has been prepared and is getting finalised with the involvement of key stakeholders. One of its objectives consists in the establishment of an alternative market with simplified operating rules dedicated to SMEs and able to address their specific requirements.

The Casablanca Finance City (CFC) project, a public/private partnership launched in 2010 aims at addressing those challenges by creating a regional financial hub in Casablanca, with a particular focus on firms from North, West and Central African regions. The CFC steering committee, which comprises the Ministry of Finance, the Central Bank, the Casablanca Stock Exchange, Maroclear, as well as the largest local banks, is responsible for driving the sequencing and the plan of actions for the financial liberalisation as well as the promotion of structural reforms to deepen local capital markets and the preparation of the required legal and regulatory framework.

The country has a relatively developed corporate bond market: several large corporates, mostly industrial companies, issued local bonds. The Bank participation in the first commercial international USD bond issue with BMCE should pave the way for future issuing on international markets.

Even though the private equity industry is the largest in the Maghreb with capital available for investment representing 0.25 percent of GDP, the lack of exit options, narrow investor base and reluctance from family-owned businesses to open their capital, remain key challenges for the sector.

Legal and regulatory conditions for participative financing are also being implemented in Morocco. When available, it could broaden the investor base (in particular in Gulf Cooperation Council markets) and translate into incremental domestic savings mobilization, though such effects are likely to be limited to rural areas and modest in terms of volume.

Multilateral development banks and donor finance

Since Morocco’s independence, all major IFIs operating in northern Africa have been active in the country, including the World Bank Group (IBRD and IFC), the African Development Bank (AfDB) and the Islamic Development Bank (IsDB). KfW and AFD are also among the most active bilateral agencies in Morocco.

Thanks to a comparatively more stable political environment than regional peers, and a strong appetite from the Government to mobilise external finance to help address the demand of a growing population, the country has benefited from a high level of investments from IFIs. Since 2011, they have been financing in excess Euro 3.2 billion per year of projects, mainly in the form of sovereign guaranteed projects.

IBRD and IDA have been mainly active in projects supporting solar power, sanitation, roads, social inclusion and employment, providing policy dialogue and investment of around Euro 650 million per year. With average yearly commitments of Euro 150 million per year, **IFC**’s strategy in Morocco focuses on increasing private sector led economic growth, mainly through minority stake in Moroccan banks and insurance companies, and equity investments in mid cap enterprises.

The **AfDB** strategy for Morocco is articulated around two main themes (i) enhancing governance and social inclusion; and (ii) supporting the development of "green" infrastructure. Through budgetary support and projects, it is investing around Euro 500 million per year in sectors such as agriculture, health and education to support Moroccan national programs and in large infrastructure projects in the water and renewable electricity sectors.

IsDB is also mainly investing in the infrastructure sector, electricity, water and port, with commitments around Euro 400 million per year, coupled with capacity building in health and education sectors.

The **European Investment Bank**, through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), promotes growth and job creations, supporting directly the private sector or indirectly enabling the private sector to flourish by improving infrastructure. It invested over the past years around Euro 500 million per year in large infrastructure projects in the energy, water and road sectors, and dedicated actions to support the SMEs.

KfW and **AFD** follow comparable strategies in Morocco and have jointly invested in a number of large infrastructure projects. Their priorities are the support to the Moroccan economy competitiveness, the reduction of regional economic disparities and the support to sustainable development with investment in the power, water, rail and urban development sectors, associated with support to SMEs trough private equity funds and dedicated credit lines with local banks. KfW is investing annually on average in excess of Euro 500 million. AFD, together with its private sector arm Proparco, substantially increased its volume of activities from 2011 until 2013 to reach around Euro 480 million per year.

In addition, the development arms of the **Gulf Co-operation Council** countries have been stepping up their project finance activity in Morocco beyond budgetary support to also cover areas such as property and tourism in undeveloped areas. These projects have been part of large initiatives supported by the Government to develop the country providing basic infrastructure, enabling economic growth and inclusive development.

2.5 Business environment and legal context

The business environment has improved in recent years, but progress is required to promote investment and increase competitiveness. The World Bank 2014 Doing Business report ranked Morocco at 87th (out of 189 countries), gaining 28 places between 2011 and 2014, on the back of progress in the environment for starting a business, registering property, and paying taxes. According to the same report, starting a business in Morocco has become less costly in 2014 compared with previous years thanks to the reduction in company registration fees. Furthermore, the time required to register a transfer of ownership has been reduced and taxing procedures for companies also improved. Some measures have been taken to ease the procedures for registering property. To help offset the impact of Morocco's bureaucratic hurdles, the government has opened one-stop shop regional investment centres.

The government has also taken several commendable steps to encourage foreign investment. This was mainly done via strengthening the capacity of the National Committee for the Business Environment, in order to help coordinate different ministries, with the aim of ensuring a transparent framework for domestic and foreign investment. As a result, measures were implemented to cut red tape and to streamline business-relevant administrative procedures since 2010. For large investments, a package of incentives has been instituted, such as tax incentives, land grants, simplified administrative procedures, financing instruments and connecting infrastructure. This has helped to attract foreign direct investment in high value-added industries, contributing to strong export growth in automobiles, aeronautics, and electronics. Nonetheless, more measures are needed in streamlining government bureaucracy, improving transparency, reforming the judiciary, and improving governance[3].

Further plans to improve the business environment are set for 2014, such as the implementation of a new procurement law. A new competition law was adopted by the Parliament in June 2014 to strengthen the independence of the competition council, through an increase of its consultative role and new decision making powers, which will enable it to have greater control over economic concentration operations. In addition, a national corruption watchdog was put in place, which is likely to improve entry and competition. Efforts are also underway to create a structured legal framework for identification and development of public-private partnerships (PPP) projects. This dedicated PPP legal framework should help make the country more attractive to foreign investors and allow for better project management by public authorities. Reforms for the judiciary system have also been announced. However, there remains important gaps and need for further reform. Insolvency laws have been identified as an area in need of improvement. In particular there is a need to ensure better representation of creditors' interests in insolvency proceedings, and to facilitate the implementation in practice of reorganisation and liquidation mechanisms.
See Annex 4 for a more detailed assessment of the legal environment.

2.6 Social context

Morocco's good relative economic performance has not translated into rapid improvement in social indicators in the past decade. Although overall poverty level has decreased, benefits from economic development have not been equally shared, and there are substantial regional variations, with a sharp divide between rural and urban regions. The access to health, education, and public services remains more difficult in rural areas, and especially among women, exacerbating differences in living standards across the country.

Although access to education has improved, overall education quality lags behind, creating significant skill mismatches. While the government focused on increasing primary education, tertiary education has not been able to meet the skills demand from the private sector, and continues to target mainly public sector and high administration roles with an over-supply of students majoring in 'soft' subjects such as humanities at the expense of engineers, scientists and technicians. Furthermore, with Arabic being the language of instruction in secondary public schools and French predominantly used at the university level, there is a language barrier, especially for youth from inner regions that creates a major obstacle to significant educational attainment. This situation is compounded by the low quality of vocational training provision. The government is taking a number of steps to remedy this situation, particularly through the National Education Emergency Plan. In its second phase for 2009-2015, the plan aimed at developing global jobs in Morocco to address the need for specific sectors such as off-shoring, automotive industry, and electronics.

[3] The preparation of a Public Services Charter in coordination with the Open Government Partnership (Deauville Partnership) should be noted. It intends to set the principles of sound governance for public administration and local governments.

Unemployment remains a key concern in particular among the youth and the highly educated. Although overall unemployment fell by 4 percentage points between 2000 and 2013, it remains high at 9 percent in 2013. Unemployment rates are even higher among the youth (19.8 percent), and the highly educated (18.2 percent). While unemployment rate is higher in urban areas (14 percent compared to 3.8 percent in rural areas), employment in the rural areas tend to be concentrated in low-skill and low-paid jobs. In addition, overall women labour market participation rate (26 percent) remains one of the lowest among EBRD's countries of operations. The structural rigidities in the labour market do not allow for flexibility in the redeployment of the work force. Labour regulations and comparatively high taxes have an adverse impact on competiveness and job creation. To minimise these costs and remain competitive in their markets, many firms choose to remain informal, a situation estimated to affect 40 percent of employees, with higher proportion of women and youth.

Some of the challenges that Morocco is facing also relate to gender equality gaps. The adoption of the Code of Personal Status (Moudawana or Family Code) was key to the promotion of women's rights, which entered into force in February 2004, and consolidates gender equality in all areas and strengthens rights of women as a key component of the Moroccan society (see Gender Profile Annex for more details). Nevertheless, despite the progress made, the enforcement of the code remains constrained, especially in rural areas. There is particularly low recognition of the economic role of women, their access to positions of decision-making remains very limited, and wage discrimination remains, despite some programmes being put in place (eg."Entre Elles" programme of Ministry of Industry or the Ikram Programme 2012-2015, a national programme on the promotion of gender equality).

2.7 Energy efficiency and climate change context

Morocco faces issues of energy security, sustainability and affordability. In a context where energy demand in the country is forecast to triple by 2030, the country is highly dependent on fossil fuel imports and increasingly on electricity imports. Although Morocco's primary energy intensity[4] and carbon intensity[5] are among the lowest in SEMED, these ratios are likely to grow as the country continues to develop.

Morocco has no domestic fossil fuel resources but does have strong wind and solar resources. The country aims to have 42 percent of installed capacity from renewables by 2020 and to implement the energy efficiency programme which implementation is being delayed across all sectors.

There are large opportunities for energy efficiency in buildings, partly thanks to the new building code expected in 2014. There is also a significant potential for municipal and corporate energy efficiency. However, SMEs lack the incentives, expertise or appropriate finance mechanisms to implement energy efficiency measures.

In addition, Morocco is one of the most vulnerable countries to climate change in the EBRD region. The scarcity of water in Morocco is an important constraint on the country's growth.

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[4] 0.12 toe/'000 US$2005ppp in 2011, a ratio slightly lower that the OECD average
[5] 0.33 kgCO2/'000 US$2005ppp, a ratio above OECD average

On the supply side, maintenance of water and wastewater networks is proven challenging and networks suffer from severe losses, while access to wastewater networks is relatively low which has an effect on the welfare of households. In addition limited access to drinking water affects particular women and girls who are mainly the ones in charge of household's tasks.

On the demand side, irrigation is the most significant water use, taking up to 87 percent of abstracted water compared to 10 percent for drinking water supplies. Upgrades of irrigation systems are therefore an important water efficiency priority. The EBRD's involvement and activities will therefore contribute positively to the extremely pressing issue of water efficiency in the municipal sector and in the private sector.

3 STRATEGIC ORIENTATIONS

3.1 Strategic Directions

Morocco faces similar transition challenges to other SEMED countries, having a growing population with high expectations for improved living standards. Although the country has fared comparatively better than its regional peers and made greater progress implementing structural reforms, stabilising the economy and attracting investments, Morocco still faces a number of cross-cutting challenges and transition gaps remain in many sectors. The low level of competitiveness prevalent in Morocco, which results from non tariff barriers to entry, limited access to finance, and low levels of corporate governance, continues to impede the country's entrepreneurial potential. Despite large investments in the recent past, infrastructure is still inadequate to meet the increasing needs of the population, and concerns remain over energy security. Wide economic disparities persist between regions, as a result of low access to infrastructure and public services, and inefficiencies in the agricultural sector.

The Bank's two years of experience in the country has confirmed the relevance of its existing instruments and business model to address these challenges. In close coordination with other IFIs, the Bank will therefore be guided by the following priorities, which will form the core of the Bank's strategy in Morocco in the coming years:

- **Realizing Morocco's entrepreneurial potential:** While entrepreneurship has always been ingrained in Morocco, its full potential is constrained by the unconducive business climate. Private companies lack access to finance and face an array of bureaucratic and legalistic hurdles, which prevent them from growing, both in domestic and export markets. Other impediments include the high level of informality, and the lack of incentives to innovate for both companies and their financiers. Financing instruments will include private equity funds, dedicated credit lines associated with technical assistance to both local banks and clients (e.g., SEFF, SBS programmes), and direct investments from the Bank in the form of senior loans, mezzanine or equity. In parallel the bank will assist businesses in their efforts to grow competitive in both domestic and international markets by providing access to business advisory in order to improve their business models and support them in adopting best international practices. The Bank will also promote women's entrepreneurship and access to finance. Lastly, the Bank will expand its policy dialogues to *inter alia* support the implantation of the competition policy and facilitate access to collateral for lenders.

- **Promoting Regional Inclusion:** The Moroccan economy is characterised by wide economic disparities between administrative regions. The coastal regions in the northern part of the country account for more than 60 percent of GDP, half of it being in the Greater Casablanca region. Meanwhile, inner regions continue to rely heavily on primary agriculture and artisanal production. This is compounded by large regional disparities in relation to the quality and length of education and in relation to gender equality. In rural areas, women continue to face much lower access to health, education and public services as well as economic opportunities. Regional access to infrastructure remains limited, despite past investments undertaken by the authorities with the support of multilateral agencies. The Bank will thus work to improve the infrastructure and invest in projects which promote inclusion and equal opportunities between men and women in the inner regions, where gender inequalities are particularly acute. Technical cooperation and policy dialogue will also be put in place to support local governments and companies in order to enhance core capabilities and encourage skills transfer.

- **Supporting Sustainability and Commercialisation of Public Services and Infrastructure:** Over the past ten years, Morocco has developed large infrastructure projects in the transport, municipal environment, power and water sectors. However, national operators and infrastructure providers do not operate on a commercial basis, and large operating subsidies, along with tariffs that are not cost reflective, continue to hamper the sustainability of operations. Despite their scale, these projects have not been able to meet the country's large and growing infrastructure needs, resulting in water scarcity and an increase in electricity imports. While most infrastructure projects have so far received state guarantees and concessional funding, alternative forms of financing must be developed to address the country's needs. In this context, the private sector has a key role to play both in terms of financing and bringing expertise in these sectors. Technical assistance will be provided to establish the conditions required for the involvement of the private sector.

- **Advancing Capital Markets Development:** Wider availability of risk capital and long term financing is critical for Morocco private sector development as well as for the implementation of the authorities' ambitious infrastructure strategy. Although Morocco has a comparatively well-developed debt capital market, the equity market serves mainly large corporates, with limited outreach to SMEs, while the low liquidity in the equity market prevents it from developing into a reliable source of growth capital. Several core financing activities remain state-owned and would benefit from being fully commercialised. The Bank will follow a sequential approach in advancing capital market development, focusing initially on supporting equity and bond issuances with demonstration effect to deepen market liquidity. The Bank will also engage with relevant stakeholders on improving capital markets regulation, financial products and market infrastructure, recognising that improvements in those areas take time and that liquid markets are a prerequisite for success. The Bank will also work with the Moroccan authorities on the further commercialisation of state-owned banks and support the insurance sector with the view to develop long term investors.

3.2 Key challenges and Bank activities

Theme 1: Realizing Morocco's Entrepreneurial Potential

Transition challenges

- Barriers to entry, cross-ownership as well as uneven implementation of regulatory oversight and the still weak levels of corporate governance, have all contributed to insufficient competition in Morocco. Some entrenched groups with vested interests continue to retain significant market shares in certain key economic sectors. The competition policy, which was adopted in 2000 by the Directorate for Competition (Direction de la Concurrence et des Prix), requires amendments to bring the law to conformity with international standards especially in terms of implementation and oversight.
- Improving access to finance is key to realising Morocco's full entrepreneurial potential. Access to finance remains especially difficult for SMEs, hampered by weak collateral regimes, the lack of a registry of moveable assets, and a preference by banks for asset-based lending. Impediments also include poor contract enforcement and weak mechanisms to resolve insolvencies.
- The SME sector suffers from a number of other structural weaknesses, including low capitalisation, as well as poor productivity and limited number of skilled middle-management staff. The high level of informality and the lack of innovation are additionally pointed out as important obstacles to SMEs development. These challenges could be heightened by the increasing regional trade integration, which will provide export opportunities, but also come with increased competition on domestic markets.
- Better protection of investors, in particular minority shareholders, would improve the business environment. Weak intellectual property rights protection is also an obstacle to the development of the knowledge economy.

Operational response

- The Bank will work with partner banks and microcredit institutions, whose network and client knowledge complement those of the Bank, to assist micro and small enterprises in their transition out of informality. This will be achieved through intermediated programs demonstrating the benefits of formality and transparency to access financing.
- These efforts will be complemented by the Small Business Services (SBS) unit's activities, which provide business advisory services promoting dissemination of best international practices to SMEs and support the development of a local business advisory network. To increase its impact and outreach, SBS will expand in the regions, through the establishment of new offices in cities such as Tangier and Agadir, and leverage on existing local expertise through strategic partnerships with SMEs associations, such as the one within the General Confederation of Moroccan Enterprises (CGEM) or the national SME supporting agency (Agence Nationale pour la Promotion de la Petite et Moyenne Entreprise).
- The Bank will support firms' growth and competiveness in both domestic and export markets, through capital investments as well as advisory on improving corporate governance and aligning operating practices with international standards. Particular attention will be paid to compliance with EU standard which will be a critical for ensuring competitiveness under the DCFTA presently under negotiation. Innovative investments such as mezzanine will complement senior loans and direct equity investments, and local currency instruments will be promoted.

- In sectors with dominant players, the Bank will promote the emergence of smaller operators, and support local investors or foreign direct investors that can foster competition in sectors which have been unduly protected and suffer from lack of competitiveness.
- The Bank will seek opportunities to invest debt or parallel equity, alongside its Private Equity funds partners.
- The Bank will contribute to the improvement of energy efficiency in the private sector by offering direct investments to address efficiency challenges, build capabilities in the banking sector through targeted frameworks (e.g., SEFF) and support climate technology transfer (e.g., FinTECC). In addition, it will provide targeted technical assistance to address the barriers to the development of the energy efficiency market.
- The Bank will design direct and intermediated projects supporting female entrepreneurship, through greater access to finance, training, and networking for women entrepreneurs.

Policy Dialogue

- Alongside IFC and the Arab Monetary Fund (AMF), the Bank will assist the Moroccan authorities in the reform of the legal framework for taking security over movable property, with the view to facilitate secured lending, therefore helping to improve access to credit for the private sector, particularly SMEs.
- The Bank will continue its dialogue with the Union for the Mediterranean (UFM) on joint initiatives to promote women´s economic empowerment and/or women´s entrepreneurship.
- The Bank will cooperate with the Moroccan authorities in the development of legal frameworks and sustainable training schemes facilitating SMEs participation and increased success rate in public tenders. This initiative goes alongside IFIs joint activities and knowledge sharing on procurement matters.
- The Bank will engage with the Moroccan authorities in initiatives which aim at improving the competition policy’s implementation and oversight. This could take the form of an engagement with the Competition Council to support a capacity building programme. Building on the Bank’s existing experience and recently approved projects, several areas of intervention could be considered including: developing analytical skills to conduct investigations and market assessments; developing the advocacy function of the Council; as well as supporting and facilitating greater collaboration between the Council and the sector regulator (telecom, energy in particular).

Results Framework for Theme 1: Realizing Morocco's Entrepreneurial Potential

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
1.1	Access to finance remains difficult, especially for SMEs, hampered by weak collateral regimes, lack of a registry of moveable assets, and a preference by banks for asset-based lending.	**Facilitate access to finance, in particular for SMEs**	▪ Direct / indirect (incl. with risk sharing) financing through banks, microcredit institutions and private equity funds, when possible in local currency ▪ SBS advisory on financial literacy ▪ Policy dialogue on secured transactions	▪ Number / volume of SME loans extended by client banks *(Baseline – established at projects approval)* ▪ Key changes to the legal framework related to access to finance, as a result of the Bank's policy dialogue (e.g., secured transactions) *(Baseline – N/A)*
1.2	Private firms suffer from poor productivity, limited management skills, weak levels of corporate governance, high level of informality and lack of innovation	**Strengthen competitiveness of private sector through gains in efficiency, skills, productivity, and innovation**	▪ Direct / indirect financing, supported by TC on corporate governance and operating practices and demonstration of benefits of transparency ▪ SBS business advisory on strategy, improving management practices, productivity and quality standards ▪ SEFF and FinTECC in close cooperation with other MDBs. ▪ Policy dialogue to promote women´s entrepreneurship	▪ SBS / TIMS indicators on number of client firms that reported increased productivity (and those which did not) *(Baseline – established at projects approval)* ▪ Volume of energy savings achieved as result of the Bank's operation, based on EBRD methodology in toe/yr *(Baseline –0)* ▪ Evidence of improvement in the environment supporting women's entrepreneurship, as a result of the Bank's policy dialogue *(Baseline – N/A)*
	Context indicator: Δ Business sophistication index (baseline 2014-2015: score 3.9 / rank 78^{th}). *Source: Global Competitive Index (World Economic Forum)*			

Theme 2: Promote Regional Inclusion

Transition challenges

- The Moroccan economy is characterised by pronounced regional disparities. Rural development and gradual eradication of regional disparities are key to promoting both gender equality and regional inclusion. The rural-urban divide in particular has translated into significant disparities in terms of access to services, infrastructure, and finance, especially for women.
- There is a persistent skills mismatch between the focus and quality of the education system (both, at a vocational and tertiary level) and the requirements of private sector employers. In rural regions, lack of access to basic education contributes to entrench economic and financial exclusion.
- Inefficiencies remain in the agriculture sector, which continues to be an important channel for promoting regional development. The sector accounts for about 40 percent of employment and significantly contributes to domestic food security. Challenges include developing a competitive processing industry and transforming the primary production into higher value added products. This requires an increase in the efficiency of input usage, in particular water and fertilisers, and a diversification away from water intensive grain crops. In addition, limited access to land, in particular for women, and land fragmentation are constraints to agriculture and rural development, and contribute to the lack of economic inclusion. Lastly, there are opportunities to improve work conditions in the supply chain.
- Regional access to infrastructure and public services remains a key challenge. Transport links between the coast and the inland regions need to be further developed to enhance access to employment and economic opportunities. In rural areas, there are substantial investment needs in areas such as wastewater collection and treatment, water supply, and drainage. Developing and expanding rural telecommunications services and improving rural electrification would help narrow economic disparities across regions.
- Improvements in the business environment are needed to offers similar conditions across regions. These include, among other issues, improvements to the market structure, institutions, enforcement of regulations, and access to services. Rural credit remains limited. In the agriculture sector, improving access to finance requires increasing collateralisation options and simplifying the land tenure system.

Operational response

- The Bank will promote sustainability and competitiveness in the agriculture sector, the main economic activity in the inner regions, by supporting agribusinesses with strong upstream and downstream linkages in their value chain in line with the approach defined by the authorities in their *Maroc Plan Vert*. The Bank will work with these clients to address, where possible, gender issues.
- To promote economic development in underserved regions, the Bank will seek to finance commercially viable projects that build competitive advantages in those regions, supporting for example international-standard property and tourism products in the regions, or encouraging responsible development of regional mining and oil and gas resources, and that foster local skills transfer (particularly for women and youth) through high quality training.

- In the transport sector, the Bank will seek to support further development of the much needed basic infrastructure, whether road, railways, ports, intermodal and logistics platforms, with the view to facilitate access to remote regions, thus boosting regional trade and allowing development of commercial operations.
- The Bank will continue to explore opportunities to foster competition in rural areas in utility and telecom services, and promote universal access to services, equal employment opportunities between men and women, and skills transfers. This may entail working with public entities, as well as with central and local governments.
- As part of its project, the Bank will seek to improve environmental and social standards, and promote gender equality as well as youth and regional inclusion.

<u>Policy dialogue</u>

- The Bank will promote equal access in utilities and public services, with a focus on rural areas where inequality is comparatively higher.
- As part of EBRD's Private Sector for Food Security Initiative, the Bank will work with the authorities and private sector stakeholders to identify opportunities to improve agricultural and animal husbandry practices (e.g. animal welfare, improved food standards). Based on its previous engagement the Bank will focus on crops where Morocco has a competitive edge for export activity (e.g. olive production) and will support the development of modern retail and appropriate logistics infrastructure along agribusiness value chain. Jointly with the Union for the Mediterranean (UfM) and the FAO, the Bank will lead a High Level Forum for Food Security in SEMED in 2015, which will provide a unique platform for sharing experience, coordinating activities and working on agriculture sector reforms.

Results Framework for Theme 2: Promote Regional Inclusion

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	Rural-urban divide translates into large gaps in access to services, finance, and significant disparities in the underlying business environment. There is a need to improve employment opportunities in rural areas into higher value-added roles	**Promote inclusive economic development in the regions by supporting private firms, with a particular focus on agribusinesses and skills transfer**	▪ Direct / indirect investments in agribusiness, SMEs and projects building competitive advantage in underserved regions (e.g. natural resources, tourism) ▪ SBS advisory to extend regional outreach with special attention to firms within the agribusiness value chains ▪ Local skills transfer (particularly for youth and women) through high quality training	▪ Number of companies supported via backward and forward linkages. outside the coastal regions of the North through SBS and investments *(Baseline –0)* ▪ Number of target group members (women, youth and regions) accessing training to acquire skills due to Bank's support *(Baseline – 0)* and qualitative account of sustainable training mechanisms created (e.g., partnerships between educational institutions and private sector employers) *(Baseline – N/A)*
2.2	Regional access to physical infrastructure and public services remains a key challenge	**Support further development of physical infrastructure and access to public services to create economic opportunities in remote regions**	▪ Investment in physical infrastructure and utilities in remote regions, when possible in cooperation with other IFIs	▪ Number of successful projects and qualitative account of infrastructure services extended outside the coastal regions of the North, through viable financing structures *(Baseline – 0)*
	Context indicators: Δ ATC Regional Inclusion sub-indicators : Access for services *(Baseline 2014 – Large)*, Education *(Baseline 2014 – Large)*			

Theme 3: Support Sustainability and Commercialisation of Public Services and Infrastructure

Transition challenges

- Private sector participation in the infrastructure remains low. Greater private sector provision of services is needed, including through PPPs, in particular in water supply, wastewater collection, treatment facilities and solid waste management, as well as in transport to modernise the transport networks and reduce congestion.
- There is a need for the commercialisation of national operators and infrastructure providers' operations, including tariff reform and operating subsidies reduction. Tariff reforms to improve cost recovery and regulatory independence are among key reform challenges.
- Centralised decision-making within municipalities impedes the efficiency of public services. Major challenges in this area include boosting municipalities' capacity in managing their increasing responsibilities and strengthening regulators. There is a need to promote sub-sovereign financing solutions for infrastructure projects.
- The absence of an independent energy regulator and of a wholesale power market (ONEE fulfils the single buyer role for electricity), and restricted competition in power generation has limited the attractiveness of the market to private investors and weighed on efficiency. The key transition challenge going forward is to assist the development of the domestic energy market and support the implementation of the Moroccan renewable strategy, to address institutional barriers to unlock potential for energy efficiency, and assist with demand-side management of energy efficiency.

Operational response

- Building on its experience, and recognizing that the infrastructure and utilities sectors reform spans over a long period of time based on incremental changes in the legal and regulatory framework, the Bank will work on preparing the ground for private sector involvement and commercialisation of public services and infrastructure, through policy dialogue and technical assistance (e.g., introduce IFRS). Once prerequisite conditions are in place, the Bank will support a greater involvement of the private sector, including through PPPs.
- The Bank will work with local governments to strengthen their financial standing, allowing them to finance energy efficiency measures, water supply, waste treatment and urban transport projects, thus supporting the on-going decentralisation process. In cases where municipalities are too small to be reached directly, the Bank will design framework programmes coupled with actions at regional level.
- The Bank will support the on-going reform of the energy sector by seeking to finance renewable energy projects in wind, solar or biomass, where possible in coordination with other IFIs and local agencies, engaging with state-owned utility ONEE, and exploring ways to address future needs for desalinisation.
- Whilst promoting the principle of universal access to utilities, the Bank will also seek to introduce more sustainable financing schemes by reducing the relative importance of grant and subsidies, to allow them to be replicated and support a transfer of competence from the central government authorities to local governments and regions.
- When financing projects, the Bank will explore various instruments with demonstration effects, including infrastructure bonds and local currency loans.

- The Bank will undertake a gender assessment related to energy use behaviours and the respective energy needs of women and men, in order to provide recommendations for future operations (the assessment will cover all SEMED countries including Morocco) as well as enable the Bank to comply with the Climate Investment Funds' requirements.
- The Bank will seek opportunities for developing gender components in municipal infrastructure sector projects, where possible and relevant.

Policy dialogue

- The Bank will provide assistance to state-owned utilities to improve their corporate governance standards and ultimately their reorganisation and commercialisation.
- The Bank will continue to engage with the Moroccan authorities on enhancing private sector investment in medium voltage renewable energy, pursuing its policy dialogue in order to contribute further to the reform of the energy sector, including on the development of the energy efficiency regulatory and institutional frameworks.
- The Bank will also participate in joint initiatives such as the PPP platform led by the Union for Mediterranean, which brings together IFIs to jointly work on specific projects to seek political support, promote best practices, and support capacity building and knowledge sharing.

Results Framework for Theme 3: Support Sustainability and Commercialisation of Public Services and Infrastructure

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
3.1	Need for further commercialisation of national and municipal operators and infrastructure providers' operations, as well as higher private sector participation	**Improve efficiency and quality of infrastructure and utilities services through commercialisation of corporate structures and preparing the ground for further private sector participation**	▪ Investments in municipal, transport and power infrastructure where possible in coordination with other IFIs, supported by conditionalities for commercialisation and PSP (e.g., IFRS introduction) ▪ PPPs and direct investments with private operators (once prerequisite conditions are in place)	▪ Improvements in cost performance and / or profitability at client level *(Baseline – established at projects approval)* ▪ Number of infrastructure projects where financial, operational or regulatory risks have been effectively transferred to the private sector or to an IFI *(Baseline – 0)*
3.2	Absence of an independent energy regulator and of an wholesale power market, as well as low competition in generation limit attractiveness of power market to private investors and weighs on efficiency	**Assist the development of the domestic energy market, in particular the establishment of an independent regulator, and address institutional barriers to unlock potential for energy efficiency and renewable energy**	▪ Policy dialogue supporting reform of the energy sector (e.g., establishment of an independent regulator, enhancing private sector investment in medium voltage renewable energy)	▪ Key regulatory changes achieved as a result of the Bank's energy reform policy dialogue (e.g., establishment of an independent regulator, framework for private sector investment in medium voltage renewable energy) *(Baseline – N/A)*
	Context indicator: Δ ATC (Market Institutions) scores for municipal, transport and energy *(Baseline 2014 – Water & Wastewater: Large; Urban Transport: Large; Roads: Medium; Railways: Medium; Power: Large; Sustainable Energy: Medium)*			

Theme 4: Advance Capital Markets Development

Transition challenges

- Further strengthening of the capital markets is needed in order to promote longer term financing and a more diverse range of techniques and financial products. Securities markets are relatively large (as percentage of GDP), but lack liquidity, and regulatory and tax frameworks for more advanced products are yet to be devised. Also, competition in banking and non-banking financial services needs to be improved.
- The local stock exchange needs further development. Liquidity in the market remains low and has been decreasing in recent years, leading to a downgrade of Morocco from emerging market to frontier market status on the MSCI suite of indices in November 2013. The number of listed companies is relatively small; the market is highly concentrated and mostly overloaded, with its role in providing growth capital limited.
- Increasing private sector participation in capital markets is needed. Public sector bond issuance accounts for the large majority of outstanding debt. In addition, government debt securities are mainly held by the financial sector. Moreover, there is limited participation by foreign investors, who could fill the gap between the Morocco's strong investment needs and available domestic savings, as well as bring more credit risk based pricing of new issues.
- The corporate bond market needs further development, including securitisation and covered bonds. The framework for basic derivatives should be strengthened to provide FX and interest risk management tools that will enable the exchange regime to be more flexible. In addition, the primary market has several weaknesses, including: (i) absence of a reliable benchmark government yield curve to determine "risk-free" interest rate levels; (ii) absence of price differentiation among different corporate bonds, which largely ignores credit quality considerations or the bond's structures and seniority.

Operational response

- The Bank will seek to use and promote financing mechanisms not yet widely available in Morocco (e.g., subordinated debt, local currency lending by foreign banks), with a view to broaden the financial instruments offer.
- To stimulate trading volumes and liquidity on the equity market, the Bank will help companies prepare for public offerings (from SME to larger corporates), with a dual listing component where possible, act as an anchor investor in IPOs with demonstration effects, and engage with listed corporates to explore ways to increase their free float, either by participating in capital increase, or facilitating State exit in public companies.
- To demonstrate the benefits of debt and capital markets financing and raise foreign investors' awareness, the Bank will seek to participate in domestic and international bond offerings of Moroccan issuers with demonstration effects. The Bank will seek to promote new debt instruments, such as infrastructure bonds, as an effective way to finance large infrastructure and renewable energy projects.
- The Bank will work with the Moroccan authorities on the further commercialisation of State-owned banks.
- The Bank will consider bankable opportunities in the insurance sector with the aim to increase competition and develop long term capital market investors

Policy dialogue

- The Bank will continue to engage with the local stock exchange to improve its governance, facilitate future listing and broaden exit options for equity holders.
- As part of the Deauville Partnership initiative and the agreed allocation of activities among IFIs, the Bank will support the Ministry of Finance in establishing a regulatory framework allowing for the enforceability of close-out netting and opening the market to OTC derivatives.
- The Bank will support the development of a legal and regulatory framework which would support innovative financing structures, such as warrants for primary agriculture production, or real estate investment funds (REITs).

Results Framework for Theme 4: Advance Capital Markets Development

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
4.1	Lack of diverse range of financial instruments, with associated tax and regulatory frameworks	**Broaden range of financial instruments and promote innovative financial solutions**	▪ Showcase innovative financial instruments with demonstration effects (e.g., subordinated debt, local currency lending, infrastructure bonds) across sectors ▪ Policy dialogue on legal and regulatory framework for new financial products (e.g., derivatives, agricultural warrants, REITS)	▪ Number of new financial instruments introduced as a result of the Bank's projects and policy dialogues and qualitative account of their demonstration effect
4.2	Bond and equity markets lack liquidity and private sector participation is limited	**Support equity and bond market liquidity, demonstrate benefits of capital markets financing and raise foreign investors' awareness**	▪ Help companies prepare for public offerings, act as an anchor investor in IPOs with demonstration effects, and engage with listed corporates to increase their free float ▪ Participate in domestic and international bond offerings with demonstration effects, promote new debt instruments ▪ Engage with Casablanca Stock Exchange on market framework and governance	▪ Evidence of improvement in capital markets (e.g., number of new listings *[Baseline – 0]*, reduced market concentration *[Baseline Jan 2015– top-10 listed companies = 71% of total market capitalisation]*) and, as appropriate, attribution to the demonstration effect of EBRD capital market transactions (e.g. equity or bond investments, exits through public offerings)
	Context indicators: Δ ATC (Market Structure) score for capital markets; *Baseline 2014 – Medium* Market capitalization of listed companies (% of GDP) : *Baseline 2013 : 51%* Securities (bonds and stocks) traded in 2013 (% of GDP) : *Baseline 2013 : 5.6%*			

3.3 Potential risks to Country Strategy implementation

The ability of the Bank to deliver on its strategy in Morocco will be influenced by a number of factors outside the Bank's control. Political changes may affect the authorities' priorities and their ownership of the proposed strategy, while economic factors may impact demand for the Bank's products and the availability of sponsors. As best it can, the Bank will work to address and mitigate these risks through proactive and sustained engagement with its clients, its international partners in the country, as well as the Government.

- EBRD's ability to provide local currency finance will be conditioned on access to local currency funding. Slow progress in the development of local capital markets and/or an absence of market-based instruments such as currency swaps would pose risks to the delivery of part of EBRD's projects.
- Successful implementation of Themes 2 and 3 rely on a progressive delegation of decision-making power and financing capacity to local governments, and may therefore be impacted by the pace of the regionalisation reform.
- An important risk factor for EBRD's specific sustainable financing *modus operandi* is the significant presence of other IFIs and donor agencies, operating overwhelmingly under concessional terms, coupled with important grant-funded projects from Golf Countries. This will be a continued challenge for the Bank working on the basis of sound banking principles, seeking transition impact and introducing cost-sharing schemes for technical assistance, especially in the area of energy/ infrastructure financing (Theme 2 and 3).
- Lastly, potential heightened market volatility and reduced investor appetite for emerging market risk could impact equity and debt issuances volumes, as well as availability of foreign sponsors, and therefore undermine the Bank's ability to meaningfully contribute to capital markets liquidity under Theme 4.

3.4 Environmental and Social Implications of Bank Proposed Activities

Morocco faces a number of environmental challenges including land degradation and desertification, energy and water supply shortages, air and water pollution, and social challenges, including presence of vulnerable groups and high levels of informal employment. Projects and due diligence will be designed to take these issues into consideration. While management of environmental and social issues are addressed in current legislation, there are likely to be challenges in fully implementing the Banks Environmental and Social Policy and Performance Requirements particularly in relation to health and safety, labour conditions, stakeholder engagement and land acquisition. The Bank will work closely with clients developing Environmental and Social Action Plans with the objective of mitigating potential negative impacts and ensuring compliance with Moroccan national standards, applicable EBRD Performance Requirements and good international practice where possible.

Agriculture is an important contributor to Morocco's GDP and accounts for some 40 percent of employment. The Southern Mediterranean sub-region however, is expected to experience an increase in climate change vulnerability, with decreasing precipitation and increasing temperatures. EBRD's projects in this sector will require companies to explore climate change resilience opportunities, promote efficient use of water and energy and increase treatment of wastewater, thereby raising environmental and social standards. TC funds may be deployed to improve agricultural and animal practices, and also to address inequalities in employment.

Disparity between regions, particularly in relation to municipal infrastructure, is a key challenge for the country. This has resulted in a lack of access to infrastructure and services and a high degree of informal employment opportunities, particularly for youth and women. Improvements in transport and municipal services can deliver significant benefits in quality of life and support economic growth. Projects will be structured to ensure that excluded groups will be enabled to access project benefits and efforts will be made to understand the differentiated priorities and needs of men and women, boys and girls. EBRD can also contribute to improvements in corporate standards by promoting good governance of environmental and social issues, including the implementation of existing legislation.

EBRD'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. EBRD's FI training programme is well established and can be readily implemented in Morocco, and provides an opportunity to strengthen capacity for managing environmental and social issues. Further, increased lending to SME's will increase the availability of capital and result in sustainable development through increased access to finance.

Power and energy projects supporting Morocco's sustainable energy strategy will improve efficiency and increase market share of renewable energy projects. Rural electrification and safe and affordable access to power will be important issues to be considered in the development of EBRD's projects in this sector. Improved commercialisation and tariff reform can contribute to improved services, though implications for affordability need to be assessed.

3.5 EBRD co-operation with MDBs

MDBs and IFIs have a strong presence in the country, which was reinforced after the 2011 regional political events. Morocco comparatively more stable political environment allowed it to capture a larger share of MDBs regional envelopes. Extensive cooperation is therefore needed to ensure an efficient and effective implementation of the Bank's strategy. Close dialogue and coordination is also required to joint resources, knowledge and financing, in particular for large infrastructure projects.

When undertaking coordination activities, the Bank will leverage its broader shareholders base to facilitate dialogue and interaction among European financing institutions, as well as international IFIs. Platforms and initiatives such as the Deauville partnership where the Bank is playing a key role will continue to be determinant to ensure the success of a broader international coordination activity. Where relevant, the Bank will seek to coordinate its action with the development arms of the Gulf Co-operation Council countries active in Morocco. The Bank will also build upon its strong relationship with the European Union, and notably EU funding programmes and respective investment facilities to elaborate joint projects with other European Financing Institutions, for example on projects financing power generation from renewable energy sources, energy efficiency, regional transport, and pollution reduction.

In this context, early discussions have taken place for the elaboration of the Bank's strategy. A comprehensive consultation process has taken place with the European Union, MDBs and IFIs to present the Bank's strategic priorities and ensure their relevance and complementarity with the actions already undertaken by these institutions. These themes were also designed to call on the Bank's unique areas of expertise and which are not traditionally covered by IFIs active in Morocco, such as capital market development, local currency finance, or direct investment in SMEs.

The Bank has also initiated joint investment projects, establishing grounds for broader and more concrete cooperation, such as the Sustainable Energy Efficiency Facility in which AFD, EIB, KfW have been invited to participate, with NIF support. In line with the MoU signed with the ICD, similar approach will be taken with non-European financing institutions on investment projects. Coordination will also take place on policy dialogue matters through platforms such as the Deauville Partnership or the Union for Mediterranean, and targeted joint initiatives, such as the Arab Secured Transactions Initiative, under which EBRD is leading its policy work on secured lending, alongside the IFC and the Arab Monetary Fund. In addition, the Bank is and will continue to be active in dedicated knowledge sharing groups (e.g., IFI procurement, compliance) which expanded their mandate to the SEMED region.

ANNEX 1 – POLITICAL ASSESSMENT

Morocco is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. While several important milestones have been reached, further reforms are needed in the application of democratic principles.

Over the past two and half years, Morocco has made notable progress in its reform of political institutions. It adopted a new Constitution approved through a public referendum, undertook a free and fair parliamentary election, formed two governments based on a parliamentary majority, and introduced more effective checks and balances in the political system with the Parliament taking on clear legislative and supervisory responsibilities. The Moroccan authorities are committed to continue implementation of new laws passed to further strengthen checks and balances, improve political and human rights and broaden participation.

Free Elections and Representative Government

The reforms enshrined in the 2011 Constitution, the formation of two coalition Governments headed by the leader of the party that secured the largest number of seats in the Parliament in a competitive election, and the active supervisory role undertaken by the legislature, demonstrate that Morocco has enhanced the representativeness and accountability of Government. At the same time, in accordance with the 2011 Constitution, the King retains significant political powers.

Free, fair and competitive elections
After the wave of uprisings 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. The process of drafting the Constitution was not fully inclusive, as there were only limited consultations with political parties and civil society. The constitutional referendum in July 2011 passed with a 98.5 percent majority. 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.

Morocco held its first parliamentary election under the new Constitution in November 2011. 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, although the CoE drew attention to allegations of irregularities, cases of vote buying, and use of administrative resources[6].

Separation of powers and effective checks and balances
The 2011 Constitution deepens the separation of powers, with significantly broadened powers entrusted to the Government and the Chief of Government.

[6] Statement by the Council of Europe Parliamentary Assembly, published on 26 November 2011.

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 Chief of Government formed a coalition representing a parliamentary majority.

The new Constitution empowers the Parliament by broadening legislative 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. Since its election, the Parliament has held genuine debates on various political, economic, social and cultural policies. And the Government has asserted its executive control over most domestic issues, as per the rights that the 2011 Constitution grants to it.

Morocco has also commenced a judicial reform programme that follows guidance from the Council of Europe's 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 takes on the functions of inspection and oversight, in addition to the ability to impose disciplinary measures. The 2011 Constitution also gives a new mandate to the Constitutional Court, allowing it solely to opine on the constitutionality of laws. There has been a significant strengthening of the Office of the Inspector General, which has wide scope to investigate complaints against judges. However, the implementation of these powers remains slow.

Effective power to govern of elected officials

The effective power to govern is increasingly held by elected officials. Yet, the King retains wide political powers. In Morocco, the monarchy is widely seen as the symbol of national unity and several social groups consider it the guarantor of the preservation of the state. Under the 2011 Constitution, the King is enjoined to choose the Chief of Government from the party with the most elected seats in the Chamber of Representatives. The King, the Chief of Government, or Parliament can propose amendments to the Constitution, but only the King has the authority to put constitutional amendments to a national referendum. The King can dismiss ministers and dissolve Parliament, which would lead to new elections. The King also heads the Council of Ministers, though he normally delegates that authority to the Chief of Government, and he is the supreme arbiter among political parties.

The 2011 Constitution gives the Chief of Government 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. And 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 2011 Constitution endows the Government with wide powers over making appointments, proposing policies and laws to the Parliament, and undertaking executive measures.

Civil Society, Media and Participation

Political freedom has widened significantly in Morocco over the past two and a half years. Civil society is relatively free to engage in various activities and has access to multiple forms of domestic and international funding. The media, however, faces significant restrictions.

Scale and independence of civil society

Over the past decade, many associations have been formed in Morocco in defence of human rights and civil liberties. There are NGOs and civic groups to expose and fight corruption, 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 groups representing various regions. In general, Moroccan civil society organisations have credibility and operate at close proximity to the problems of ordinary citizens in some of the more deprived and disadvantaged parts of the country. Several leading CSOs have been active in debating and opposing governmental policies, most notably in the government's plans for reforming the state's subsidies and pensions systems.

The 2011 Constitution improved the overall environment for civil society organisations. The current regulatory framework is based on optional, no-objection basis notification of establishment of a new CSO 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, the security services 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.

According to the Minister in Charge of Relations with the Parliament and Civil Society only 10 percent of the 70,000 active associations in the country receive over 80 percent 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). There is a significant number of active CSOs that are not registered and as such are excluded from governmental work and/or access to funding. In Q1 2014, the Government launched a national dialogue aiming to engage local civil society organisations on ways to energize the sector. However, the level of participation of local CSOs in that dialogue remains limited.

Independent pluralistic media that operates without censorship
Morocco has a pluralistic media scene. The 2011 Constitution specifies the right to freedom of expression and the right to accessing information, both included in a draft law on the Parliaments' legislative agenda. The Constitution granted the High Authority for Audio-Visual Communication a constitutional status. Privately owned newspapers, publishing houses, TV channels, and magazines have, over the past two and half years, exhibited higher levels of freedom and autonomy. However, all publications and broadcast media must obtain accreditation, which the Government can withdraw.

The Press Code eliminates most of the causes that could have resulted in legal cases against journalists, protects sources of information from persecution, and gives legal recognition to digital communications. But it includes provisions for censorship, including vague ones such as "threats to public order"; the Press Code also includes provisions that allow for imprisoning journalists in cases of defamation and libel. The March 2014 EU Progress Report on the Implementation of the European Neighbourhood Policy indicated that journalists remain subject to detention and referred to the country's low ranking on indices of journalists' freedom[7]. One area of improvement in media freedom has been online media which has grown in recent years, although several NGOs claimed that the Government regularly collect information that enable the security forces to identify journalists and bloggers.

Multiple channels of civic and political participation
Morocco has witnessed a significant improvement in general political participation, openness in discussing 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.

Freedom to form political parties and existence of organised opposition
Out of the 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 backgrounds and experiences. The coalition government has experienced acute differences amongst constituent parties that reflected genuine plurality in terms of ideologies and policies. Morocco has an active opposition, also comprising parties with very different ideologies and policy priorities. There is a vibrant activist movement in universities, professional syndicates, and across the society.

Rule of Law and Access to Justice

The Constitution and the evolving political system separate the legislature and the judiciary from the executive. However, there remain significant concerns, for example relating to the possibility of trying civilians in front of military courts in cases related to specific crimes in accordance with the Code of Military Justice. The 2011 Constitution provides for the independence of the judiciary. At the same time, the King chairs the Higher Council of the Judiciary and appoints half of its members.

Supremacy of the law
The Constitution enshrines the supremacy of the law through specific measures, for example against arbitrary arrests, and by bringing the security forces under civilian authority. The judiciary and the National Ombudsman's Office have very wide powers of investigation and resolving criminal and civil matters. However, a number of observers, including the National Council on Human Rights (CNDH), have reported on cases of excessive use of force by the security forces, which points to their continued considerable influence. The March 2014 EU Progress Report on the Implementation of the European Neighbourhood Policy also stated that security forces have used disproportionate force against peaceful demonstrations. There have been cases in which civilians were tried in front of military courts, in accordance with the Code of Military Justice. In July 2014, the Parliament passed a law that, when implemented, will restrict the mandate of military courts in trying civilians.

Independence of the judiciary
The Constitution provides for an independent judiciary and guarantees conditions for a fair trial. In 2012 the King appointed a 40-member High Commission for Comprehensive Judicial

[7] EU Progress Report on the Implementation of the European Neighborhood Policy (March 2014).

Reform which has worked to complete a national charter for judicial reform. The Charter was published in 2013 and has been amended in Q1 2014.

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 believe that the King remains the ultimate arbiter of justice. In May 2012, over one hundred Moroccan 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. Judicial reform, though a key priority for the Government, has been progressing at a slow pace.

Government and citizens equally subject to the law
The 2011 Constitution ensures the equality of all citizens and state institutions before the law. The Constitution also subjects the government to the purview of the legislature. Since the formation of the coalition government on December 2011, the parliament has actively supervised and monitored the government.

Effective policies and institutions to prevent corruption
In 2012, Morocco updated the National Anti-Corruption Strategy that was developed in 2010. The country is also a Contracting Party to the United Nations Convention against Corruption. The Central Corruption Prevention Authority (ICPC) is independent and plays a significant role in-between governmental agencies. Recent laws passed in 2013 have widened its mandate and strengthened its powers, and makes it mandatory for senior public officials to declare their wealth upon assuming office. The country has a law on financial disclosure that applies to judges, ministers and members of parliament. The Government expanded the role of 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. The Government is increasingly taking measures aimed at ensuring transparency, for example by publishing last year a list of transport license holders as well as sand-quarry contractors.

Publications by the ICPC indicate that corruption remains a significant concern. Although the 2011 Penal Code protects victims, witnesses, experts and whistle-blowers regarding corruption offenses, according to several legal experts implementation of the law is inconsistent. Several observers believe that some prominent families in the country with large business holdings try to use their political connections to attract favourable treatment. In its December 2013 Corruption Perceptions Index, Transparency International ranked Morocco 91 out of 177 countries.

Civil and Political Rights

The situation for civil and political rights has improved significantly over the past two and half years. However, freedom of expression faces threats and there are significant concerns regarding ill-treatment at the hands of security forces.

Freedom of speech, information, religion and conscience, movement, association, assembly and private property
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. A new law ensures the

neutrality of places of worship regarding politics. The 2011 Constitution grants the National Council on Human Rights a Constitutional Status; the Council's law was also amended to include civil, political, economic, social, cultural, and environmental rights. The Law widened 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. The Government has progressed the implementation of its "Equality Plan" (Plan Gouvernmental pour l'Egalité), and has issued a law against any form of discrimination.

The Mediator Institution (previously the Office of General Grievances) took the role of an ombudsman and was empowered to undertake investigations into allegations of governmental injustices. An Inter-ministerial Delegation for Human Rights was set up to interact with local and international human rights observers.

Some activists, bloggers, journalists and others have complained of harassment for expressing their views, including speaking about the monarchy and the unity of Morocco. Moroccan law criminalizes statements considered libel against the monarchy and "state institutions", or against the country's territorial integrity. The Constitution allows for freedom of assembly; however, rallies require prior approval of the Interior Ministry.

Political inclusiveness for women, ethnic and other minorities

The past few years witnessed a significant improvement in political inclusiveness in Morocco. The authorities introduced affirmative action whereby the quota of women in the Chamber of Representatives in the Parliament is now 15 percent. Following the November 2011 elections, women's representation in the Chamber of Representatives is 17 percent. 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 have also produced significant changes which are reflected in the country's Criminal Code, Labour Code, and Code of Personal Status. CSOs, such as the Union for Women Action and the Moroccan Association for Women's Rights, have been very active proponents of gender equality, especially in the rural parts of the country. Moroccan law allows women to pass nationality to their children. Morocco accessed to and ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children.

The 2011 Constitution creates an 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 cultural and ethnic backgrounds. A further step has been passing a law which makes the Amazigh an official state language, and in 2012, the Government granted approvals to a number of radio channels broadcasting in that language.

Morocco controls most of the disputed territory of Western Sahara, which remains the subject of UN resolution efforts that have yet to bear fruit[8]. The Moroccan authorities made a proposal in 2007 to grant autonomy to this territory under Moroccan sovereignty, while the

[8] See UN Security Council Resolution 1979, adopted on 27 April, 2011.

Polisario Front liberation movement requests the holding of a referendum on independence. There have been mutual accusations of human rights violations on both sides.

Freedom from harassment, intimidation and torture

The 2011 Constitution provides for prohibition on torture, and the country amended the Criminal Code to explicitly criminalise torture. The Code provides for severe sentences for perpetrators of torture. There has also been a notable strengthening of the Public Prosecution Service with regard to investigating police officers and the Royal Gendarmerie. Amended laws now allow restricted access to judges and give several NGOs the right to visit some prisons.

However, a number of observers, including the National Council on Human Rights, reported on excessive use of force by security forces as well as cases of abuse (for example in prisons and detention centres). Several NGOs maintain that the Government has repeatedly failed to implement the provisions of the Anti-torture Law. In September 2012, the UN Special Rapporteur on Torture visited Morocco, and commended the emergence of a culture of respect for human rights generally and the work done by the Council on Human Rights. However, he also stated that he received credible testimonies that indicate that “acts of torture” do take place in Morocco and “are linked to large demonstrations”. In April 2014, Amnesty International echoed the same concern. And in May 2014, the UN Commissioner for Human Rights urged the Moroccan authorities to investigate cases of alleged torture[9]. Morocco has not yet ratified the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. But the Parliament has already passed a law that paves the way for the ratification.

[9] Statement by on 28 May 2014 by the UN High Commissioner for Human Rights.

ANNEX 2 – SELECTED ECONOMIC INDICATORS

Morocco

	2006	2007	2008	2009	2010	2011	2012	2013
Output and expenditure			*(Percentage change in real terms, s.a.)*					
GDP	7.8	2.7	5.6	4.8	3.6	5.0	2.7	4.4
Private consumption	6.9	3.8	6.0	4.6	2.2	7.4	3.7	3.7
Public consumption	2.9	4.3	4.8	12.1	-0.9	4.6	7.9	3.7
Gross fixed capital formation	9.7	14.3	11.5	2.6	-0.7	2.5	1.6	0.2
Exports of goods and services	11.6	5.2	7.3	-14.8	16.6	2.1	2.6	2.4
Imports of goods and services	8.2	15.0	12.2	-6.0	3.6	5.0	1.7	-1.5
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)	9.7	9.8	9.6	9.1	9.1	8.9	9.0	9.2
Prices				*(Percentage change)*				
Consumer prices (annual average)	3.3	4.9	3.8	0.9	1.0	0.9	1.3	1.9
Consumer prices (end-year)	3.3	4.9	4.2	-1.5	2.2	0.9	2.6	0.4
Fiscal Indicators				*(In per cent of GDP)*				
Central government balance	-2.2	0.0	0.4	-2.2	-4.7	-6.7	-7.3	-5.5
Central government revenues	23.4	25.4	27.0	23.6	22.8	24.0	24.3	23.5
Central government expenditure	25.2	25.0	26.6	25.7	27.5	30.0	31.3	29.0
Central government debt	57.3	53.5	47.3	47.1	50.3	53.7	59.6	63.5
Monetary and financial sectors				*(Percentage change)*				
Broad money (M2, end-year)	16.1	17.5	7.4	7.7	5.0	7.2	43.9	3.1
Credit to the private sector (end-year)	15.3	28.2	21.0	8.9	10.7	10.1	5.1	0.8
				(in per cent of total loans)				
Non-performing loans ratio	10.9	7.9	6.0	5.5	4.8	4.7	4.9	5.9
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	6.3	6.2
Interbank Rate (end-month)	2.8	3.5	3.6	3.5	3.3	3.4	3.2	3.0
Policy Rate (Rediscount Rate)	3.3	3.3	3.5	3.3	3.3	3.3	3.0	3.0
				(MAD per US dollar)				
Exchange rate (end-year)	8.46	7.71	8.10	7.86	8.36	8.58	8.4	8.2
Exchange rate (annual average)	8.80	8.19	7.75	8.06	8.42	8.09	8.63	8.41
External sector				*(in per cent of GDP)*				
Current account	2.7	-0.1	-5.2	-5.4	-4.6	-8.0	-9.7	-7.6
Trade balance	-14.3	-18.7	-21.9	-17.9	-16.6	-19.4	-20.9	-19.6
Merchandise exports	19.4	20.4	22.6	15.4	19.6	21.8	22.3	21.2
Merchandise imports	-33.7	-39.1	-44.5	-33.3	-36.2	-41.2	-43.3	-40.8
Foreign direct investment	3.7	3.7	2.8	1.9	1.7	2.5	2.8	3.2
Gross reserves, excluding gold (end-year)	29.6	30.0	25.9	23.5	23.8	20.1	16.1	16.7
External debt stock	26.6	26.0	25.2	27.1	29.6	31.6	34.6	37.2
Public external debt	11.9	11.3	10.5	12.1	13.5	13.8	15.4	16.5
Private external debt	14.7	14.7	14.8	15.0	16.1	17.8	19.2	20.7
				(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	4.2	4.3
Memorandum items				*(Denominations as indicated)*				
Population (end-year, million)	30.5	30.8	31.2	31.5	31.9	32.2	32.6	32.9
GDP (in billions of MAD))	577.3	616.2	688.8	732.4	764.0	802.6	827.5	872.8
GDP per capita (in US dollars)	2,153.0	2,438.0	2,849.0	2,871.0	2,844.0	3,079.0	2,942.0	3,150.0
Share of industry in GDP (in per cent)	16.1	15.6	19.3	16.7	18.0	19.6	19.6	…
Share of agriculture in GDP (in per cent)	14.1	11.2	12.0	13.8	13.0	13.2	12.4	…
FDI (In billion of US dollars)	2.4	2.8	2.5	2.0	1.6	2.6	2.7	3.4
External debt - reserves (in US$ billion)	-2.0	-3.0	-0.6	3.3	5.2	11.4	17.8	21.3
External debt/exports of goods and services (per cent)	146.6	129.5	111.5	175.6	152.7	145.0	155.1	175.9
Broad money (M2, end-year in per cent of GDP)	78.1	85.9	82.6	83.7	84.2	85.9	119.9	117.2

ANNEX 3 - ASSESSMENT OF TRANSITION CHALLENGES

Market Str:	Market Inst:	Key challenges:
CORPORATES		
Agribusiness		
Medium	Medium	▪ increasing efficiency of input usage, in particular water and fertiliser through tariff and subsidies reforms and promote more wider access to climate resilient crop seeds; ▪ improving access to finance e.g. by increasing collateralisation options and simplifying the land tenure system; ▪ further improving the business environment to facilitate investments in modern processing, logistics, specialised infrastructure and distribution systems.
Manufacturing and Services		
Medium	Medium	▪ increasing the overall competitiveness, productivity, and efficiency of the sector by further lowering import tariffs, introducing modern management practices and promoting higher levels of R&D ▪ improving the business environment to facilitate new entry by strengthening the competition policy, increasing investors' protection and contract enforcement and improving tax administration.
Real estate		
Medium	Medium	▪ further streamlining property-related bureaucracy, such as simplifying and speeding up the process of property registration or improving the availability of land information; ▪ further developing the affordable residential segment; ▪ improving the standards of commercial property, including further focus on energy efficiency and sustainability.
ICT		
Small	Medium	▪ ensuring full regulatory independence of the telecommunications regulator; ▪ further developing the telecommunications infrastructure (broadband internet); ▪ improving intellectual property rights; ▪ developing high skilled human capital.
ENERGY		
Natural Resources		
Large	Large	▪ reducing energy import dependency, by improving efficiency and diversifying energy sources; ▪ taking steps to privatise selected state-owned mining assets and encourage foreign direct investment in the phosphate sector ▪ increasing competition in the downstream petroleum products distribution sector and ensure open third party access to associated ports/storage infrastructure;

Market Str:	Market Inst:	Key challenges:
		▪ reducing government's subsidies for petroleum products.
Sustainable Energy		
Medium	Medium	▪ upgrading the electricity transmission and distribution system to absorb large intermittent renewable capacity; ▪ further develop interconnection capacity with Algeria and Spain; ▪ addressing the fiscal impact of RES support; ▪ developing a competitively traded electricity market for renewable energy, ▪ reforming fuel subsidies and addressing institutional barriers to unlock potential for energy efficiency; ▪ developing the energy efficiency regulatory and institutional framework.
Power		
Large	Large	▪ establishing an independent regulator; ▪ pursuing market liberalisation reforms, unbundling, and privatisation; ▪ liberalising the retail segment; ▪ creating a wholesale market to attract new capacity to meet growing energy demand and promote renewables.
		INFRASTRUCTURE
Water and wastewater		
Medium	Large	▪ restructuring and commercialisation of water utilities (reduction of losses, labour restructuring and productivity improvements); ▪ establishment of a national regulator for tariffs; ▪ tariff reform to improve cost-recovery; ▪ further development of PPP financing of water and wastewater systems.
Urban Transport		
Medium	Large	▪ tariff reform to improve tariff structure in particular in term of subsidies ▪ capacity building to improve planning capacity; ▪ tackling high congestion in larger cities through a combination of regulatory and market-based instruments; ▪ commercialisation of urban transport services.
Roads		
Medium	Medium	▪ further develop the available financing structures, particularly for secondary roads; ▪ introduce PPPs.
Railways		
Large	Medium	▪ restructuring the railway incumbent ONCF by fully corporatising and separating infrastructure from operations and by implementing cost restructuring measures to improve its financial performance; ▪ strengthening the regulatory and institutional framework by separating the policy making, regulatory and operational functions into distinct entities, and by

Market Str:	Market Inst:	Key challenges:
		establishing an independent railway regulator; ▪ introducing third party access to the network; ▪ introducing Public Service Obligation contracting.
FINANCIAL INSTITUTIONS		
Banking		
Medium	Medium	▪ increasing deposits/GDP ratio; ▪ improving competition in the banking sector; ▪ privatising state-owned banks.
Insurance and other financial services		
Medium	Medium	▪ supporting the development of independent customer credit companies; ▪ increasing competition in insurance, consumer credit and leasing; ▪ supporting the development of the private pension and mortgage markets.
Micro, Small and Medium-sized enterprises		
Medium	Large	▪ broadening access to financing for MSMEs and simplifying requirements for MSME borrowers and expanding beyond collateral-based lending; ▪ improving secured creditors rights and support out of court enforcement; ▪ improving financial literacy and bankability through training and technical advisory services to small entrepreneurs; ▪ creating incentive and positive environment for SMEs to formalize.
Private equity		
Medium	Medium	▪ raising more funds from non-DFI investors acting as catalyst; ▪ improving exit options by reducing the number of buy backs from the main shareholder.
Capital Markets		
Medium	Medium	▪ further developing the local stock exchange, including its demutualization; ▪ further developing the corporate bond market (including securitisation and covered bonds); ▪ developing the framework for basic derivatives, both on and off-exchange traded, to provide FX and interest risk management tools that will enable the exchange regime to be more flexible.

ECONOMIC INCLUSION[10] GAP RATINGS

ECONOMIC INCLUSION		
Inclusion gap dimension	**Inclusion gap**	**Key challenges**
Regions		
Access to Services	Large[11]	▪ increasing access to infrastructure and services that substantially enhance the economic opportunities of the local population, specifically in relation to improved health, access to employment, training or entrepreneurial activities
Quality and Quantity of Education	Large	▪ addressing the implications of Morocco's multilingual education system to reduce language barriers to accessing tertiary education particularly for young people from the less privileged backgrounds or inner regions of the country
Youth		
Opportunities for Youth (Youth unemployment and youth NEET[12])	Large	▪ increasing labour market flexibility to reduce barriers to entry ▪ developing effective progression routes from training into employment through partnerships between employers and education providers (at tertiary and vocational levels)
Quality and quantity of education	Large	▪ enhancing the role of private sector employers to inform the development and delivery of vocational and tertiary education curricula through the introduction of Sector Skills Councils. ▪ creating work-based training programmes with a strong focus on 'soft' skills to enhance the employability of young graduates

[10] These **inclusion related transition gaps** rate the institutions, markets and education systems across all of EBRD's countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*.

[11] The inclusion gap for 'access to services' was developed specifically for the Morocco Country Strategy. Regional inclusion gaps for countries in the SEMED region will become part of EBRD's standard set of inclusion gaps following the completion of the Life in Transition Survey for SEMED countries in 2015.

[12] Youth Not in Education, Employment or Training (NEET)

Gender		
Legal regulations	Medium	▪ improving the enforcement of the Moudawana or Family Code, especially in rural areas of the country
Access to health services	Large	▪ strengthening measures to reduce the comparatively high maternal mortality rate in the country through improved awareness of and access to quality medical care
Labour policy and practice	Medium / Large	▪ reducing the legal restrictions on women's employment in certain sectors, including night shift work and other professions
Employment and firm ownership	Large	▪ incentivise the private sector to adopt equal opportunities employment standards ▪ strengthening the provision of career guidance at secondary and tertiary education levels in order to attract more female students into technical / professional subjects and careers
Access to finance	Large	▪ supporting FIs in the development of financial products combined with non-financial support services specifically targeting female entrepreneurs in the SME segment ▪ incentivising FIs to review collateral requirements for women-led businesses,e.g. by accepting the applicant's salary (in lieu of land or property) as collateral

ANNEX 4 – LEGAL TRANSITION

This annex offers an analysis of legal sectors directly relevant to the Bank's investment strategy for the forthcoming period. It is based on research and assessments conducted by the EBRD Legal Transition Programme and aims to match the strategic orientations defined earlier on in this document.

Morocco has a mixed legal system of civil law mainly based on French law and, to a more limited extent, Islamic law. The principal sources of commercial legislation in Morocco can be found in the Code of Obligations and Contracts of 1913, and Law No. 15-95 establishing the Commercial Code.

Theme 1: Realising Morocco's full entrepreneurial potential

Taking security over movable property

Possessory pledge over tangible assets is governed by the Law of Obligations and Contracts. Non-possessory security is governed by several pieces of legislation and the registration requirements differ depending on the type of the asset. A non-possessory security can be established over a wide range of movable assets, from a pledge over a going concern (fonds de commerce), tools, machinery, motor vehicles to a pledge of shares. However, a uniform modern legal system of taking non-possessory security over any type of movable property and an efficient registration of such rights does not exist (e.g. under the Commercial Code, different regimes exist for pledge of fonds de commerce, non-possessory pledge over tools and equipment, and non-possessory pledge over shares).

Apart from the pledge over goodwill, a generic description of the charged assets is not available as a specific description of collateral is required and the security agreement must specify the secured amount or at least the maximum amount secured. Hence, there is no effective way to take as collateral inventory, receivables and other types of future property.

In case of charge over fond de commerce, the enforcement procedures are prescribed by the Commercial Code, while for other collaterals the enforcement rules provided by the Code of Civil Procedure apply. However, regardless of the applicable regime, out of court enforcement is not possible and enforcement is perceived to be costly and time-consuming.

In April 2013 the EBRD, alongside IFC and the Arab Monetary Fund (AMF), started to work on a secured transaction reform in Morocco providing technical assistance to the Moroccan Ministry of Economy and Finance in drafting the relevant provisions which would provide for a modern and legally efficient framework for secured transactions, especially with a view to encouraging sound lending to SMEs[13].

Theme 2: Promoting regional inclusion

Electronic Communications

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[13] This secured transaction reform project is part of the Arab Secured Transactions Initiative (ASTI) launched by AMF and the IFC in 2011.

The Consolidated Law 24 of 1996 on Post and Telecommunications is the primary law impacting the electronic communications sector in Morocco. In Morocco, the law sets out the general provisions and principles applicable while decrees provide for the detailed implementation of the law. Broadly speaking, the Moroccan legislative framework for the sector has a number of best practice features, including the interconnection regime, infrastructure access, market analysis, universal service and role of telecommunications operators in national security and emergency situations.

Regulation of the sector has developed in practice more than the legislation in place would suggest, as the general authorities and functions provided to the sector regulator (Agence Nationale de Réglementation des Télécommunications - ANRT) in the 1996 law have been used as a foundation to support separate decrees. For example, although market analysis is not specified in the law, the provisions of secondary legislation adopt many best practice concepts, as used in the EU framework.

Morocco retains an individual licensing regime, unlike the EU style general authorisation and notification framework. ANRT's authority to set tariffs is understood to differ depending on whether the service is wholesale or retail, interconnection related, subject to margin or price squeeze, instead of the general authority best practice to set tariffs for services of operators with significant market power. Levels of fines appear to be meaningful to large operators; however, ANRT lacks the power to impose graduated penalties. ANRT must apply to court (Tribunal de Rabat) in order to impose a fine; ANRT may not impose fines directly, except for non-disclosure of information. All ANRT decisions are appealable to the Tribunal de Rabat and ANRT decisions cannot be suspended during appeal.

In early 2014 ANRT is understood to have presented a draft amendment bill for Law 24 of 1996 which would enhance its power in regulating the sector. It is understood that the new powers would enable the ANRT to impose penalties of up to 2 percent of revenue before tax on operators where there is a breach of regulation, as well as enforcing stricter consumer protection requirements, infrastructure sharing, roaming and fibre based roll-out regulations.

When finalised, the planned amendments to Law 24 of 1996 should draw Morocco's framework a good deal closer to that of best international practice, and make the overall environment more conducive to investment for competitive operators. Notwithstanding these very positive changes, some rules and practices remain to be improved in terms of consistency with international best practise; rules which will better allow the entry, increase and sustainability of competitive provision of service, particularly in the area of broadband. Among the improvements that could be made are: transition from individual licensing to general authorisation framework; a more detailed market analysis framework and guidance in the law; a requirement that operators to provide reference offers for infrastructure access; and, enhanced procedures in law to obtain rights of way, as well as enhancements to the independence of executive appointments and dismissals; and, elimination of the requirement for ministerial approval of regulatory decrees.

Theme 3: Supporting sustainability and commercialisation of public services and infrastructure

Concessions/Public Private Partnerships (PPP)

The 2006 Law No 54-05 on delegated management of public services or Infrastructure to municipalities or public enterprises is applicable to private sector participation in public infrastructure and services (the "PSP Law"). In addition, sector specific laws exist in particular sectors, e.g. in ports, in highways, railways and airports, water and electricity.
Morocco has a long tradition of PPP projects both under the PSP Law and earlier in history. The scope of the law is, however, very restricted as it does not apply to concessions by the central government. It does not apply to companies fully owned by the State either, as these are no longer considered public enterprises.

According to the EBRD Assessment of PPP Laws throughout the EBRD countries, Moroccan laws are rated as medium compliance/effectiveness with international best practice. Security and state support (availability of reliable security instruments to contractually secure the assets and cash-flow of the private party in favour of lenders, including "step in" rights and the possibility of government financial support, or guarantee of the contracting authority's proper fulfilment of its obligations) are the lowest rated of the dimensions and are in need of some dramatic upgrade.

The PSP Law provides for different form of PPP but major international institutions involved in PPP development agree that the Moroccan legal framework would benefit from a new PPP law. A draft Public Private Partnership law 86-12 has been approved in December 2012 by the Council of Government and is at its final study stage. Once adopted by the Parliament, this law would need to be completed by an executive decree to allow its efficient implementation. In addition, following numerous consultations a new PPP unit was created within the Ministry of Economy and Finances in 2011 and is already in operation working in close cooperation with some international institutions, such as EIB and IFC, for the development of pilot PPP projects.

Despite the absence of a clear government PPP policy, Morocco has been developing PPPs in a number of different fields by drawing lessons from international experience and has accumulated considerable experience e.g. in water irrigation concessions. There are a few dozen concessions, chiefly of the Build-Operate-Transfer type, mostly in public transportation, ports, waste, water and electricity distribution, and power. In addition, some further concessions are under consideration, including a desalination plant in Agadir and the Taza wind farm.

Renewable Energy

Given its heavy dependency on foreign fossil fuel imports, Morocco is increasingly looking to diversify the energy supply mix and utilise its renewable energy potential. Morocco also faces rising electricity demand in a context in which it imports up to a quarter of its consumed electricity from Spain. Morocco has a significant potential for wind and solar power. With the enactment of the National Energy Strategy in 2009, the development of renewable energy has become a major state policy objective. The country's national strategy sets ambitious targets to support the acceleration of renewable energy projects: 42 percent of the total installed capacity from renewable sources by 2020, with 14 percent or 2 GW for each of wind, solar and hydro power. Morocco is seeking to achieve its renewable energy installed capacity targets through projects that are: (i) government-owned, (ii) public-private partnerships, and (iii) fully private.

To promote development of renewable energy, Morocco adopted Law N.13-09 on Renewable Energy. This law allows for the first time private entities to produce and export electricity using the national grid (subject to the payment to the State of an annual fee). The Law on Renewable Energy opens for competition of renewable electricity production and sets an authorisation regime for renewable energy projects with a capacity of 2MW or more. If the capacity of an electricity generating facility is between 20kW and 2MW, a declaration is required; and for capacity under 20kW no conditions will apply.

The supply of electricity must be undertaken through the national electricity network and interconnections. The law does not permit a developer to build a direct electric distribution line unless i) the electricity produced is aimed for export; ii) the operator has entered into a formal agreement with the grid operator. Certain gaps in the legal framework remain, such as further opening up the rest of the electricity network (to include low and medium voltage) and introducing implementing regulations. In addition, the market could be liberalised further to allow for the trading of electricity.

The energy sector is dominated by the state-owned vertically-integrated Office National de l'Électricité et de l'Eau Potable (ONEE) (regulated by Law N.40-09). ONEE has the obligation to adequately integrate the approved wind and solar programmes (each of 2GW) into the national grid planning. Beyond that, ONEE is closely involved in the sector development and its approval is required for obtaining all necessary permits. Grid expansion and reinforcement is under the sole responsibility of the grid operator. The sector would benefit from the unbundling of ONEE and the adoption of a comprehensive grid code. In order for renewable energy to take a major share of energy production in the future, it is important to match technical capacity, adaptability of the grid and the load requirements of the network.

Currently there is no independent regulatory authority and the Ministry of Energy, Mining, Water and Environment (MEMEE) assumes the role of regulator. Establishment of an independent regulator is essential for transparency and market development.

Pursuant to the Law on Renewable Energy, ADEREE was established and charged with the implementation of the national plan for renewable energy and energy efficiency. In addition, Law N.57-09 established Moroccan Agency for Solar Energy (MASEN), which has specific objectives related to the management and implementation of the state plan for solar power development. Strengthening of the institutional capacity for all types of renewable energy is important for ensuring the realisation of the sector policy targets.

Further aligning of the legal and regulatory framework with international best practices, in particular with respect to supporting small scale decentralised initiatives and facilitation of innovative approaches to sustainable energy such as demand side responses, abolition of national content requirement and gradual cost pass-through to consumers, should direct the government's further reform efforts.

Theme 4: Advance capital markets developments

A significant number of legislative and regulatory reforms have been undertaken in the capital markets area recently, with 12 draft laws in various stages of completion. Five draft laws have already been submitted to the Moroccan Parliament. Specifically, some of the primary institutions regulating the debt market are being reformed to increase their level of independency and supervisory powers, efforts to introduce Islamic finance products are underway, a draft law on covered bonds is being prepared and a draft law is underway to establish a regulated market for the trading of derivatives instruments (under the supervision of the Conseil Déontologique des Valeurs Mobilières (CDVM) and the Central Bank).

The aim of the aforementioned drafts is to develop local capital market in Morocco with the ultimate goal of establishing Casablanca as a finance centre for North and West Africa. Once adopted, these laws would address many of the main impediments of the current legal and regulatory framework, and would allow for the expansion of fixed income and money markets products for which interest in the market exists (e.g. sukuk, covered bonds).

Morocco is part of Deauville Partnership countries and the EBRD has conducted, with other IFIs, a capital market assessment mission under that umbrella. Following the assessment, EBRD engaged with market participants and authorities on legal and regulatory technical cooperation on derivatives legal framework that would also apply to over-the-counter derivatives transactions. This reform would allow Morocco based financial institutions and corporates to hedge their risk and exposure, including currency or interest rate risk, and non-Morocco based financial institutions to source local currency in a safe and efficient manner.

ANNEX 5 – GENDER PROFILE

Gender Inequality Indicators and Indexes

Indexes and Sources	*Index value*	*Country Rank*
Gender Inequality Index (UNDP 2013)	0.444	84th out of 187
Human Development (UNDP 2013)		130th out of 187
SIGI (OECD 2012)	0.126173	17th out of 86
Global Gender Gap Index (WEF)	0.6	120th out of 135

Education

The gender gap in primary education recorded a significant improvement at national level, from 0.84 in 2000-2001 to 0.94 (94 schoolgirls versus 100 boys) in 2011 - 2012. In rural areas, progress was even greater and the gap reduced from 0.76 in 2000-2001to 0.94 percent in 2011-2012. Meanwhile, efforts deployed with literacy programs and non-formal education led to a gradual reduction in the rate of illiteracy of the population (aged more than 10 years), from 44.1 percent in 2004 to 30 percent in 2010. However, rural women remained the most affected, with 58 percent of them still illiterate and 93 percent of working women with no educational qualification (versus 38 percent in urban areas).

Labour participation and gender pay gap

According to ILOSTAT (Labour Force Survey 2012), women's labour force participation is estimated at 26 percent, compared to 72 percent for men. The combined labour force participation (for women and men over 15 years old) is just below 50 percent and one of the lowest in the MENA region The unemployment rate is similar for men and women (9.9 percent for women and 8.7 percent for men), while 81 percent of men and 82 percent of women are workers without social security coverage.

Employment is still considered an economic necessity for men, but a choice for women and as a consequence of social norms, many women stop working once they are married. Married women – who represent some 59 percent of the female population – are considerably less likely to be in work than unmarried women. The "marital-status gap" in labour force participation (relative difference in labour force participation between married and never-married women) is 70 percent in Morocco (WB, 2013). In the formal private sector, women's average earnings represent 70 percent of men's average earnings. Key sectors for women's employment are agriculture (50 percent of the work force are women and especially important in rural areas, where 92 percent of women workers work in agriculture), services (25 percent of working women are employed in services and the proportion is significantly higher in urban areas, with 68.6 percent of women employed in services) and manufacturing (where women represent 75 percent of the workforce in textiles and garment manufacturing).

Nearly half of all working women in Morocco are unpaid family workers, most of whom are concentrated in the agricultural sector in rural areas (with 74 percent of women working in agriculture are unpaid family workers). Large numbers of women are also engaged in informal economic activities that can take place at home, such as food preparation. This is often due to social and family pressures that encourage women to stay in the private sphere of the home: 22 percent of women that created an informal production unit have done so because of 'family tradition'. This is the second most common reason for not engaging in the formal sector, behind 'lack of paid work'. Some 50 percent of urban women and 86 percent of rural women do not have an employment contract.

The legal requirement for a woman to obtain her husband's permission to work was abrogated by the 2004 Moudawana reform. However, 30.6 percent of young women say that they are unwilling or unable to work because their husbands do not allow it, while another 23.3 percent are forbidden to do so by their parents. Another 22.9 percent report that they are too busy with household chores to find employment outside the home. There are legal restrictions on women's employment, for instance women are not allowed to work night shifts or work in certain sectors (including construction and public works, transformation of electricity, various type of underground work and so on).

Entrepreneurship, access to finance, assets and credit
According to article 35 of the Constitution the right to property is guaranteed. Women have the legal capacity to own land (including collectively) and other property, and do not need their husband or guardian's approval to do so. However women represent a small proportion of land-owners in Morocco, with only around 7 percent of urban women and 1 percent of rural women owning land. This is due to social norms that encourage women's financial dependence on men, leading to women in rural areas to giving up their share of inheritance to male relatives following pressure from family members and from social norms or interpretation of laws established for inheritance. Unregistered lands are also inherited according to customary and/or religious laws that are often more disadvantageous to women than the Moudawana.

According to the Ministry of Finance's Gender Budget Report 2013, the number of women entrepreneurs (owners or CEO) is around 9,000-10,000, which constitutes 10 percent only of the total of entrepreneurs. Most of the companies managed or owned by women are SMEs. The sectoral distribution of female-owned firms is similar to that of male-owned firms, with nearly 85 percent in manufacturing and 15 percent in services (respectively 88 percent and 10 percent for men). However, there are differences in the types of manufacturing: women are more likely to be engaged in the textile sector and agro-processing. Female-owned enterprises in Morocco are significantly more likely to export and to attract foreign investments.

According to an OECD survey (2013), representatives of business development services for women stated that women entrepreneurs need more information and awareness regarding support services and their benefits. Women entrepreneurs may not be able to attend workshops and trainings because of mobility restrictions; they may also abandon their business idea once they get married. Lack of confidence and fear of failure also constitute obstacles to women starting their own business. Lower levels of financial literacy and business skills also translate into longer 'incubation' periods for women's businesses.

Participation in decision making
The Moroccan Moudawana (Code of Personal Status) has been reformed in 2004 and includes the following modifications which protect the rights of women: (i) the co-responsibility of spouses - i.e. the rule of obedience of the wife to her husband - is abandoned, (ii) marital guardianship is abandoned, (iii) the age of the martial is set for men and women at 18, and (iv) polygamy is highly restricted.

In order to improve the representativeness of Moroccan women in political decisions, the Act No. 27-11 (October 2011) fixed a quota of 60 seats (15 percent) for women in the House of Representatives, out of a total of 395. As a consequence, women made up 17 percent of the elected parliamentarians in the November 2011 (67 seats), against 10.5 percent in the 2007 elections.

The adoption of a new Constitution in July 2011, the reform of the Moudawana, the process of Gender-Responsive Budgeting (as part of the Finance Law which includes the Gender Report published yearly), as well as the implementation of the Government Plan for Gender Parity 2012-2016 (Ikram Programme) are all promising signs of changes and reforms.

ANNEX 6 – EBRD AND THE DONOR COMMUNITY

Donor funded technical cooperation in Morocco has allowed the Bank to undertake early diagnostic work, identify investment opportunities, build capacities of prospective clients, and share transition experience from policy makers and private sector stakeholders from EBRD Countries of Operations in Central and Eastern Europe. Significant TC funds were provided to support the transfer of skills and the growth of local private MSMEs through a range of advisory and investment programmes, including the Business Advisory Services, the Enterprise Growth Programme and the Local Enterprise Facility.

Since September 2012 when full-scale operations in Morocco have been launched, the Bank has been using donor funds on a larger scale. The focus of technical cooperation is expected to shift from analytical work to investment support, including strengthening clients' procurement and corporate governance standards, building project's implementation capacities and introducing international accounting standards. Donor funds are also expected to support policy dialogue with a view to helping the Government advance its reform agenda. Efforts will be made to ensure that donor funding benefits clients and end-beneficiaries in outer regions of the country to support regional inclusion.

To sustain these needs, the EBRD will rely on a number of donor funds administered by the Bank or managed externally, in addition to resources made available by its shareholders:

- SEMED Multi-Donor Account: supported by several bilateral donors and considered the "fund of first resort" in SEMED, it will provide TC grants across a wide range of activities and sectors;
- Bilateral donors: TC funds will also be sought from donors having bilateral donor accounts administered by the EBRD, who have expressed interest in supporting activities in SEMED;
- EU Neighbourhood Investment Facility (NIF): the NIF's Southern window will remain an important source of funding for TC and non-TC grants, mainly in support of investment operations co-financed with other IFIs in such sectors as transport, energy, MEI, and private sector development;
- Middle East and North Africa Transition Fund: operating under the umbrella of the Deauville Partnership and administered by the World Bank, the Fund offers TC grants for policy and institutional reforms. The Bank will use this source for larger-size policy dialogue assignments;
- Climate funds: donor resources will be sought from the Clean Technology Fund and the Global Environment Facility, in particular for capacity building and non-TC instruments in the areas of climate change mitigation and material efficiency. Additional grant resources for water efficiency will also be sought via the Special Climate Change Fund (targeted at climate resilience actions);
- EBRD Shareholder Special Fund (SSF): contributed by all shareholders from the Bank's net income, the SSF will provide TC and non-TC support in areas which cannot be covered by other donor sources.