Roadmap for aligning the Moroccan financial sector with sustainable development

Roadmap of the Moroccan financial sector for the emergence of sustainable finance in Africa

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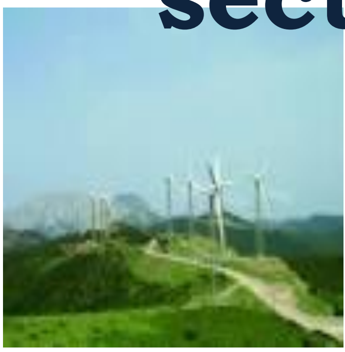

Roadmap for aligning the Moroccan financial sector with sustainable development

Document coordinated by Bank Al-Maghrib with the contribution of:

- The Moroccan Capital Market Authority;
- The Supervisory Authority of Insurance and Social Welfare;
- The Ministry of Economy and Finances;
- Casablanca Finance City Authority;
- Casablanca Stock Exchange;
- The Moroccan Banking Association;
- The Moroccan Federation of Insurance and Reinsurance Companies.

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Executive summary

Over the past two decades, the Kingdom of Morocco has undertaken a voluntary process of development which encourages a balance between environmental, economic and social aspects. The new 2011 Constitution also enshrined sustainable development as a right for all citizens.

Fully committed to climate issues, Morocco launched a number of initiatives, including the National Charter for Environment and Sustainable Development, the National Sustainable Development Strategy, the “Green Morocco” Plan, the Green Investment Plan, the law relating to plastic waste.....etc. It also initiated strategic projects in key areas such as renewable energy, agriculture, tourism and transport, in order to showcase its strong commitment to the principle of sustainability.

Drawing on the acquired experiences, Morocco was among the first countries to have submitted its Intended Nationally Determined Contribution (INDC), as part of the 21st Session of the Conference of the Parties held in Paris, which aims at reducing greenhouse gas emissions by 32 percent in 2030, requiring an estimated overall budget of 45 billion US dollars.

The implementation of this commitment demands a strong mobilization of all actors of the Moroccan society, particularly the financial sector whose role is to fund and support the transition to a more sustainable economy, including projects for mitigating the carbon footprint of the economy and for adapting to climate change, in addition to investing in less harmful assets to the environment and becoming more involved in raising awareness on environmental and social concerns and thus promoting the emergence of good practices.

As a source of financing and investors, credit institutions, insurance companies and stakeholders in the capital market, have a major role to play in providing sustainable or "green" financing instruments and products for sustainable development projects.

This sustainable finance must be based on an environmental, social and governance risk management system that would identify risks and measure the impact induced by the funded projects on the environment and follow up the corrective actions to be implemented by their initiators. This should also help to quantify the carbon footprint in assets portfolios held by financial players so as to trigger the corrective measures for its reduction.

As advisors, these financial institutions have a role of raising awareness and educating economic operators on environmental, social and sustainability issues. To this end, they must show exemplarity in this field by promoting the emergence of a true internal culture of environmental and social risks and communicating regularly on actions taken in this area.

Financial regulators also have their share of responsibility for the success of the transition to a more sustainable economy through appropriate regulations and / or incentives promoting a coordinated and gradual alignment of the Moroccan financial sector with the imperatives of sustainable development.

Attentive to this issue, several Moroccan banks and financial institutions, from the early 2000s, began to take into account environmental and social questions in their internal procedures and operating modes. Some also subscribed to responsible investment principles and / or developed specific products to support companies engaged in a process of sustainable development. This awareness and its translation into concrete action and measures nevertheless operates at differentiated pace and manner.

It is important today to lay the groundwork for a real roadmap for the alignment of the financial sector, in all its components, with the challenges of sustainable development. This comprehensive, coordinated and unified vision will determine the success of the challenge raised by Morocco for the transition to a sustainable and low carbon economy.

To gain further efficiency and sustainability, it is also essential to opt for an inclusive financial model enabling the whole population, men, women, young people and businesses to have access to sustainable, innovative, quality and affordable financial services that meet their needs and are tailored to their income generating activities.

A large process of consultation and discussion involving all stakeholders, operators, professional associations and regulators, notably under the impetus of the Scientific Committee of the COP 22, allowed to draw up the broad outlines of this roadmap which, taking into account the best practices internationally, is based on 5 key areas:

- Extending risk-based governance to socio-environmental risks;
- Developing sustainable financial tools and products;
- Promoting financial inclusion as a driver for sustainable development;
- Capacity-building in the field of sustainable finance;
- Transparency and market discipline.

In line with the steadfast commitment of Morocco to promote regional South-South cooperation, and capitalizing on the strong presence of the Moroccan financial sector in Africa as well as on the experience of the Moroccan "Casablanca Finance City", this roadmap includes an African dimension encouraging the emergence of a green finance at the continental level.

It is rooted in a broader economic and political vision in which public authorities have a vital role to play by adopting measures likely to promote green projects and the development of attractive sustainable financial products. One of the key measures proposed in this framework is to progressively integrate environmental considerations in the public support offered to SMEs, especially through guarantee funds and co-financing funds. The aim being to support investment projects in the green economy and adaptation projects to climate change which weigh heavily on corporate budgets, and encourage businesses that committed themselves to an environmental and social management.

Summary of the proposed measures

Axis 1 : Socio-environmental risks' governance

Banking sector | **Insurance sector** | **Capital market**

Sustainable finance charter

Banking sector

- Including sustainability factors in banks' internal rating systems
- Identifying the carbon risk included in the assets portfolio and assess its impact

Insurance sector

- Investing 5 billion dirhams of assets under management in "green assets" over a 5-year period.
- Reducing the ecological impact of the sector activity.

Capital market

- Listed issuers : including the sustainability dimension in the governance model and launch a dedicated communication campaign
- Asset management companies : Evaluating the carbon footprint of managed funds

Axis 2: Financial products/tools dedicated to sustainable development

Banking sector | **Insurance sector** | **Capital market**

Adopt a shared definition of green projects/assets/instruments

Banking sector

- Mobilizing green resources (Global funds, issuing green bonds…)
- Developing green saving products and specific funding offers
- Set up, whenever needed, a refinancing mechanism of loans to eligible projects

Insurance sector

- Developing green saving products: objective: 500 million Dhs / year
- Expanding the offer for climate change coverage
- Inventing insurance solutions for environmental risks

Capital market

- Setting up ad-hoc investment vehicles to collect saving targeting sustainable investment mobiliser
- Encouraging the issuance of Green Bonds

Axis 3 : Promoting financial inclusion

Banking sector : Payment services providers | **Insurance sector** | **Capital market**

- Reducing gender gaps
- Adopting a national strategy for financial inclusion.

Banking sector : Payment services providers

- Developing a digital financial inclusion numérique

Axis 4 : Capacity-building

Banking sector | **Insurance sector** | **Capital market** | **CFC**

- Extending the action scope of the Moroccan Foundation for Financial Education to environmental issues and sustainable finance
- Developing training programs for staff to sensitize them about the challenges of sustainable development and strengthen their understanding and appreciation of the underlying risks.

Capital market

- Developing other awareness channels of environmental concerns
- Including sustainable finance as part of the minimal knowledge required by professionals
- Developing e-learning modules aimed to the general public

CFC

- Including green finance training modules in the CFC Academy
- Organizing workshops and lecture series for businesses member of the CFC ecosystem

Axis 5 : Transparency and market discipline

Banking sector

- Publishing a specific report on sustainability policies, including how the credit decision-making process takes into account the social, environmental and governance criteria, as well as the means used to contribute to sustainable financing.

Capital market

- Issuers: Requiring a note on the environmental and social impact of the activity. This measure will, subsequently, be generalized to all listed companies.
- environnemental des projets financés.
- Develop a guide for issuers to prepare the issuance of Green Bonds and the communication on the use of funds and the environmental impact of funded projects.
- Asset Managers: introduce new information and environmental and social transparency requirements.
- Develop an ESG index “Environmental, social and governance responsibility”

1. International Context

The issue of environmental protection was raised to the rank of major international problem since the 70s. The Stockholm Conference (1972), the first binding international law in the field of the environment, has notably led to the establishment of the United Nations Environment Program (UNEP) which, at the request of the G7, created in 1988, in partnership with the World Meteorological Organization, the Intergovernmental Panel on Climate Change (IPCC) to assess from a scientific point of view, the influence of man on climate change, and also to measure the risks and propose adaptation and mitigation strategies.

The United Nations Conference on Environment and Development (UNCED) was later on then created in 1992. Called the Earth Summit or Rio Conference, it brought together 182 States to discuss the future of the planet. It was during this first Earth Summit that the concept of sustainable development was agreed upon to describe a process of development that meets the needs of the present without compromising those of the future. The Earth Summit also set up an annual international calendar of meetings through the United Nations Framework Convention on Climate Change (UNFCCC).

It led to the creation of the COP (Conference of the Parties), responsible for strengthening international efforts to address climate change, which, at its 21st session in Paris concluded an historic agreement to keep global warming "well below 2 ° C compared to pre-industrial levels". The 22nd Conference of the Parties that the Kingdom of Morocco is hosting in Marrakech from 7 to 18 November (COP 22), will focus on the implementation of national commitments to meet this challenge.

Finance represents undeniably a major issue in this context for two reasons.

On the one hand, the mobilization of financial investments for sustainable development is a prerequisite for the desired transition to a more sustainable global economy. The 2014 World Investment Report of the United Nations Conference on Trade and Development (UNCTAD) estimated that an amount of 5 to 7 trillion US dollars is needed to fund SDGs and that developing countries alone will need about 3.9 trillion US dollars a year while they can only have access to 1.4 trillion US dollars. In reality, public funding can only cover a small part of these needs. For its part, the Paris Agreement states that support will be provided to developing countries to enable them to achieve their goals, both in terms of mitigation and adaptation, including through financial aid granted by developed countries. The floor of climate aid to developing countries was set at 100 billion US dollars per year and will be reviewed at the latest in 2025.

On the other hand, many international studies suggest that environmental and social challenges, and the answers provided to them, could have a significant impact on investment, financial markets, the value of certain assets and, ultimately, financial stability and growth.

Transitioning to a sustainable finance thus appears more than a need, a necessity. Many countries, particularly developing and emerging countries, engaged in this endeavor over the last couple of years and initiated structural reforms of their financial sector to align it with sustainable development. The inquiry into the design of a sustainable financial system conducted by UNEP in 2014 revealed that a "quiet revolution" is underway to integrate sustainable development in the structure of the financial system. This revolution is conducted notably by central banks and financial regulators, oftentimes in cooperation with market participants, including rating agencies and stock exchanges.

The Heads of States and Governments of the G20 meeting in China, on 4-5 September 2016, recognized the need to increase green financing in order to support sustainable global growth from an environmental perspective. This challenge can be met through the solutions identified by the Working Group on Sustainable Finance, created for this purpose by the G20 in its July 2016 report, to promote the financial system's ability to mobilize private capital for green investments. Seven options are made available:

- Putting in place clear signals and strategic policy frameworks for investors, in favor of green financing;
- promoting voluntary principles on green financing;
- expanding learning networks for capacity building in this area;
- supporting the development of domestic markets for the issuance of green bonds;
- promoting international / regional / bilateral cooperation to facilitate cross-border investments in green bonds;
- encouraging and facilitating the sharing of information on environmental and financial risks and,
- improving the measurement of green financing activities, through indicators to be developed, and their impacts.

2. National context

The framework law No. 99-12 bearing National Charter for Environment and Sustainable Development, enshrines sustainable development as a core value shared by all components of society, and more particularly as an approach to be translated into public policies of general and sectoral development.

This text defines sustainable development as "a development approach which takes into consideration the inextricable nature of the environmental, social and economic dimensions of development activities and which aims to meet current needs without compromising the capacity of future generations in this area." It states that sustainable development constitutes "a fundamental value that all components of society are called to integrate in their activities. It is a course of action that all parties involved in the economic, social, cultural and environmental development of the country are required to adopt".

In addition to the State, the aforementioned law also urges private companies to encourage and finance research and development programs serving environmental and sustainable development sectors, and to:

- Adopt the responsible procedures and methods of procurement, exploitation, production and management, in line with the sustainable development requirements;
- Undergo a periodical assessment of their activities' impact on the environment;
- Reduce, to the bare minimum, the negative effects of their activities on the environment and the ecosystems where they are based;
- Contribute to disseminating the sustainable development values by requiring their partners, including suppliers, to respect these values as well as the environment;
- Adopt a transparent communication regarding their environment management.

In addition, the Government is bound to develop a national sustainable development strategy (NSDS) in order to ensure that all involved parties are imbued with the broad guidelines applicable in this this area.

This strategy, released late 2014, addresses the following vision: "implementing a green and inclusive economy in Morocco by 2020", as a culmination of a thorough diagnosis based on integrating four basic pillars of sustainable development, namely the economy, the environment, in addition to the social and the cultural aspects.

The budget for implementing the transition to a green and inclusive economy is estimated at about 97 billion dirhams, of which the State would finance less than one third. The financial sector is therefore called to play a major role. In fact, the fourth strategic axis of the NSDS addresses the need to strengthen economic and financial instruments and to set up an environmental tax policy. With particular regard to the fight against climate change, the NSDS has established climate finance as a strategic axis necessary to support the country's mitigation and adaptation projects.

Reaffirming its commitment to sustainable development and to the environment, The Kingdom of Morocco was among the first countries to have submitted its Intended Nationally Determined Contributions (INDC) which involves, besides mitigation, the aspect of adaptation to climate change. Although this aspect is definitely crucial, only few countries have incorporated it in their national contributions.

Morocco pledges to reduce greenhouse gas emission by 32 percent in 2030, with an unconditional 13 percent reduction, requiring a budget of USD 10 billion that Morocco will have to mobilize on its own, particularly through key measures of solar and wind energy plans. The additional 19 percent reduction requires a budget of 35 billion USD which is conditioned by access to new sources of funding, including the Green Climate Fund, and by the conclusion of a new binding agreement under the auspices of the UNFCCC.

Funding has therefore become a pressing issue, given that the successful implementation of Morocco's commitments to sustainable development heavily depends on its ability to mobilize necessary resources.

The Moroccan banking sector has always voluntarily supported the sectoral plans of the Kingdom (e.g. Green Morocco) and the country's energy transition to reduce its energy independence while minimizing its environmental impacts. Some banks have developed specific products to support companies committed to sustainable development, while others have created investment funds dedicated to socially responsible projects/companies and to those involved in energy efficiency processes.

Besides, the insurance sector has introduced, since 2011, a "climate multi-risk" product to protect investments in major cereal crops against a variety of climate-related damage (drought, excess moisture, hail, frost, wind and sand storm). The area covered under this insurance has increased gradually for the past few years to reach 1 million ha in the 2015/2016 crop year.

Moreover, as a true pillar of sustainable growth, financial inclusion was placed by stakeholders at the heart of their concerns in recent years. In fact, each one of them undertook several actions to improve access by the different categories of the population, both individuals and businesses, to financial services.

As part of a broader strategy aimed at deepening the national banking market, with a view to ensure both an integrated development of the financial sector by 2020 as well as Morocco's positioning as a regional financial hub, the actions undertaken by the banking sector mainly focused on different ways towards improving access to banking services, their degree of use and their quality, while working to promote financial education of the population and strengthening the protection of financial services consumers. Other actions and reforms were also initiated by other public and private bodies.

However, these initiatives remain individual, whereas a successful green transition and sustainable development requires a common vision of sustainable and inclusive finance, supported by a comprehensive strategy involving all stakeholders. This vision is reflected in the present roadmap.

3. Objectives of the roadmap

The present roadmap sets out the actions and measures necessary to ensure a coordinated and progressive alignment of the Moroccan financial sector, including the banking, insurance and capital markets activities, with the challenges of sustainable development. The ultimate goal of this roadmap is hence to promote the emergence of a true multidimensional "sustainable finance", which takes into account environmental concerns, especially those induced by climate change, as well as social and governance ones.

The roadmap shall be reviewed and adjusted periodically in line with the market’s evolution.

4. Road map

This roadmap has capitalized on the best international practices, and was established after consultation between the concerned parties, regulators and professionals. It was set out to align the Moroccan financial sector with sustainable development according to the orientations of the National Charter for Environment and Sustainable Development, thus reflecting the main guidelines defined by the National Strategy for Sustainable Development in the field of finance.

The roadmap revolves around five major themes:

- Extending risk-based governance to socio-environmental risks;
- Developing sustainable financial instruments and products ;
- Promoting financial inclusion as a driving force for sustainable development;
- Capacity-building in sustainable finance ;
- Ensuring market transparency and discipline.

Each of these axes is broken down by sector: banking, insurance, capital market and the Casablanca Financial Center (CFC). Still, some measures are transversal and concern all components of the financial sector.

I- Extending risk-based governance to socio-environmental risks

Aligning the financial system with sustainable development requires a systematic consideration of sustainability factors in the financing and investment decisions, particularly through integrating environmental, social and governance (ESG) criteria in the financial systems and decision-making processes.

These factors shall be considered upstream to influence the behavior of operators from the very outset of the relationship with the customers by providing them with the necessary advice and raising their awareness as to the environmental, social and governance challenges. Besides, consideration of these factors shall also be made downstream as regards decision-making and defining the terms and conditions of financing / investment.

Integration of sustainability factors goes through three major steps:

- Step 1: Carry out a systematic assessment of the positive and/or negative sustainability impacts of the projects/ decisions financing and investment, by integrating sustainability factors, called "ESG" factors, in the risk management and assessment systems.

- Step 2: Translate the sustainability impacts into financial opportunities / risks. For example, renewable energy provides investment opportunities. On the other hand, negative ESG impacts may lead to financial risks related to depreciation of the underlying assets or to a reputational risk.

- Step 3: Improve the impact of sustainability in financing and investment decisions by setting up appropriate policies. Several approaches have been identified by the Global Sustainable Investment Alliance (GSIA), namely:
  - Filtering, which consists in excluding or favoring projects / assets / sectors based on standard sustainability-oriented criteria.
  - Thematic investment oriented towards sustainable projects in specific areas (energy, agriculture, green technology ...).
  - Integration, which determines investment decisions based on a comprehensive analysis of the financial and sustainability aspects.

PROPOSED MEASURES:

Cross-sectoral measures:

- Supporting all components of the financial sector (banking, insurance and capital market) to establish and adopt a "sustainable finance" charter whose aim would be threefold:

- Make funding and / or investment commitments in sustainable funding;
- Make commitments in terms of social and environmental responsibility;
- Educate customers and issuers making public offerings as to the environmental and social concerns and promote the culture of environmental risks prevention.

Banking sector:

- Adapt banks internal rating systems in such a way as to incorporate sustainability factors (ESFG factors) in the processes of credit risk assessment and of funding and/or investment decision-making, just like the other assessment criteria included (governance, finances, debt, liabilities, sector ...).

- Engage banks in a carbon-risk identification process included in their assets portfolios and evaluate their impact using an approach to be defined.

Insurance sector:

- Financing energy projects and investing in ecological values which offer high added value by placing MAD 6 billion of assets under management in "green assets" in a 5-year timeframe.

- Reducing the environmental impact of the sector by reconsidering the activity through expanding the use of digital technology instead of paper and raising awareness of employees and of the distribution network on environmental concerns.

Capital market:

- Assist issuers making public offerings in integrating the climate and sustainability dimension into their governance model.

- Provide a detailed communication on the integration of the above dimensions in the annual report on governance, which will be required from listed companies.

- Assist the asset management companies to set up a carbon footprint assessment process for the different types of funds they manage (mutual funds, Collective Investment schemes, Securitization trust, Real estate investment schemes...).

II- Developing financial products dedicated to sustainable development

The challenge of sustainable development requires appropriate financial means.

To meet this requirement, the financial sector stakeholders are called upon to adapt their product ranges and services to the needs of their customers in terms of clean technology financing and energy efficiency ... but also as regards coverage against the risks caused by climate change impacts.

The implementation of these innovative financial instruments for sustainable development requires an upstream mobilization of stable resources responding to environmental and social concerns. It is true that several international funds (investment, pension, philanthropic funds...) operate within this framework, but mobilization of "sustainable" or "green" savings remains a vital asset to consider.

PROPOSED MEASURES:

Cross-sectoral measures:

- Contribute to adopting a common definition of "green" assets and instruments and of standard criteria for labeling projects as well as to establishing mechanisms for their control.

Banking sector:

- Encourage banks to use and mobilize "green" resources, namely through international credit lines related to the theme (Green Climate Fund...) and the issuance of green bonds.

- Promote the development of green savings products (dedicated to financing sustainable development projects), including a green savings book for the new generations in such a way as mobilize small savings for environmental investment projects while raising investors' awareness as to sustainable development challenges. These products could benefit from tax incentives.

- Strengthen and broaden the range of financing offers dedicated to sustainable development projects, focusing on innovation.

- Consider, if needs grow, the ability of Bank Al-Maghrib to set up a mechanism for refinancing loans granted by banks to eligible projects, similar to the one set up for VSMEs.

- Besides, Bank Al-Maghrib could coin, on the occasion of the 22nd session of the Conference of the Parties, chaired by Morocco, commemorative silver medals celebrating the event. A part of the proceeds from the sale of these commemorative medals should be donated to environmental protection and sustainable development NGOs.

- Through this operation, Bank Al-Maghrib intends to launch an international initiative for the creation of a unique "green" collection coin likely to be issued worldwide. This coin could be sold for the equivalent of 1USD. Proceeds from this sale will be used to finance sustainable development projects, particularly projects of fighting climate change.

Insurance sector:

- Develop "green" savings products, such as retirement savings products whose premiums would be placed in green assets. The goal is to supply 500 million dirhams each year.

- Extend the offer of coverage against climate change impacts and develop insurance solutions for environmental risks.

Capital market:

- Set up specialized investment instruments to mobilize savings and catalyze them towards sustainable investments.

- These instruments may fall within the current regulatory framework of collective investment funds in Morocco.

- They can take the form of mutual funds whose investment is governed by the environmental criteria or CISO (Collective Investment in Capital) aiming to finance projects related to the resources optimization, environment preservation and sustainable development in general.

- Securitization funds may also be a channel for financing sustainable projects via the sale of green assets.

- On the other hand, the Moroccan Capital Market Authority (AMMC) will shape its regulatory framework to better control the reporting requirements of green funds.

- Encourage the issuance of Green Bonds: In Morocco, bond issues are mainly regulated by the Companies Act, the Public Offering Act, the Code of obligations and contracts and the texts implementing them.

- Such a regulatory framework will allow the issuance of green bonds, as specific provisions on the use of raised funds and information and reporting requirements can be included in the issuance agreement and the issuance information notice.

- However, the AMMC is committed to complete this regulatory framework to set up the provisions necessary for an upstream supervision of bond issuing and throughout the life of bonds issued. The Authority will establish, if necessary, appropriate incentives.

- These measures should allow the Moroccan bond market to become a regional leading market of Green Bonds issuance.

III- Promoting financial inclusion as a vector for sustainable development

Facing a financial world that is becoming increasingly complex, financial inclusion has become an important factor for economic efficiency and social equity, which are two key features of sustainable development. Financial inclusion is crucial for poverty reduction. It is about how individuals and enterprises can be able to access to a range of useful products and financial services adapted to their needs (transactions, payments, savings, credit and insurance), offered by regulated and accountable institutions, at a relatively low-cost.

Researches have demonstrated that financial inclusion helps to:

- end extreme poverty;
- reduce hunger and achieve food security;
- ensure health and welfare;
- ensure access to quality education;
- ensure gender equality.

Financial inclusion can also be a significant channel to achieve the Sustainable Development Goals (SDGs) that aspire to make the right decisions to reach sustainable improvement of the fate of future generations.

Financial inclusion is at the heart of the Moroccan agenda, for several years now. Numerous actions and reforms were actually initiated by various state and private-sector bodies along these lines: The main objective of these guidelines is to lay and promote sound and solid foundations for Responsible and Sustainable Finance for the benefit of various categories of the population as well as businesses.

To date, significant progress has been achieved in relation to financial inclusion; but there are still some challenges, mainly regarding access to and use of financial services (existing rural-urban and gender disparities and banking services that are not used efficiently ...) as well as in coordination of measures from a national strategy perspective.

PROPOSED MEASURES

Banking sector & payment services providers:

- *Develop a digital financial inclusion through the creation of a widely available and low-cost national solution for mobile payment* which aims to (i) be an important driver of financial inclusion through accelerating access of the population to financial services and (ii) control the quantity of money in circulation. Also, the establishment of a trial version in 2017 is expected for a subsequent effective solution that will be launched by the end of 2017.

- The legal framework fostering the development of this offer has been implemented through the introduction of a new category of non-bank financial institutions "payment institutions" in the new banking law. These institutions, to which Bank Al-Maghrib intends to give accreditation in 2017, will have the ability to open payment accounts and offer payment services (savings, transfers, payments...). In June 2016, the related regulation was approved by the credit institutions committee.

- We have, at this stage, identified the first flow of transactions that may be dematerialized (mainly domestic transfers between individuals in small amounts, purchases of individuals operating in retail business, the payment of network service bills and purchase of phone top-ups), the technological needs and technical platforms to be implemented or promoted, adaptations and developments to be conducted as well as complementary tracks between existing payment methods and mobile payment.

- The key to successfully achieve the adoption of this solution by the majority is the establishment of a set of tax and pricing incentives.

Cross-sectoral measures:

- *Reduce gender-gaps* in terms of access to formal financial services through (i) development of the Moroccan Foundation for Financial Education (FMEF), programs that are exclusively deployed for women within the framework of the Foundation Strategic Plan 2017- 2019, (ii) the encouragement of financial service providers to integrate the gender dimension and to develop new products and services tailored to women's needs in general and women entrepreneurs' needs in particular, and (iii) the establishment of gender indicators.

- Gender disparities in terms of access to formal financial services are indeed very significant. Women in developing economies are 20% less likely than men to hold a basic deposit account and 17% less to obtain a loan from a formal institution during the previous year. This disparity is more pronounced at the bottom of the socio-economic pyramid and is therefore creating a vicious circle. Women cannot take advantage of any opportunity offered to them by the market if they do not have access to financing, which exacerbates gender disparities.

- By allowing women to securely save and receive money transfers, and to also have access to loans in order to set up or expand a business project, we improve living conditions for themselves and their families because women invest more in health and education, and more generally in areas that can enhance their children welfare.

- In Morocco, even though the use of banking services rate of the Moroccan population is almost 70%; 61% of customers who have deposit accounts are men.

- *Establish a National Financial Inclusion Strategy* (NFIS) aiming to join up initiatives of different stakeholders in Morocco and to set up a road map defining priorities, roles and responsibilities of stakeholders.

- Recognizing the vital role of Financial Inclusion in economic development and poverty reduction, the Moroccan authorities have joined forces in recent years to promote access, use, and quality of financial services, for both individuals and businesses. The initiatives implemented by Bank Al-Maghrib and the Ministry of Economy and Finance affirmed the strong willingness to promote financial inclusion. These efforts have been applauded by the World Bank as part of its Financial Sector Assessment Program (FSAP) which emphasized the major breakthroughs achieved by Morocco and also on the challenges to be addressed, which is the core objective of a National Financial Inclusion Strategy.

- The conduct of the World Bank's Global Findex survey, that would provide a reliable diagnosis of the "Demand" for a better definition of strategic guidelines and the implementation of appropriate governance structure of the NFIS, are the first milestones in the development of this strategy, whose first three-year strategic plan will be defined for the 2017-2019 period.

IV- Capacity-building in sustainable finance

The lack of economic and financial players' resources, resulting namely from a lack of awareness of challenges, an inadequate practice of management risks tools and techniques..., is often the major constraint to sustainable and comprehensive economic and social development. This lack of resources often leads to institutions poor governance, to deficiencies in the performance of organizations and to qualification deficit of the workforce.

Enhancing stakeholders' capacities in the field of sustainable development is a prerequisite to ensure a sustainable finance.

PROPOSED MEASURES:

Cross-sectoral measures:

- *Extending the scope of action of the Moroccan Foundation for Financial Education* (FMEF) to include tackling environmental concerns as well as sustainable finance, through the integration of these subjects in school curricula being prepared, in coordination with the ministerial departments concerned.

- Engaging the financial sector to implement *training programs* for their staff to promote their awareness of sustainable development issues and widen their perception and appraisal related to underlying risks.

Capital markets:

- In addition to the actions carried out under the aegis of the FMEF, it is necessary to develop alternative means of *raising awareness regarding environmental concerns* and the financial markets role in the fight against global warming (e.g. educational vignettes on the website of the Moroccan Capital Markets Authority).

- *Integrate sustainable finance in the core of minimum knowledge* that will be required from professionals and whose control will be assessed during the accreditation examinations of persons empowered to exercise some functions within bodies subject to the Moroccan Capital Markets authority supervision.

- Casablanca Stock Exchange will develop an e-learning training module intended to the general public to raise awareness about the importance of adopting an environmentally and socially responsible approach in terms of investment projects choices...

Casablanca Finance City:

- Include *green finance training modules* in the CFC Academy;

- Organize workshops and courses about developing Environmental, social and governance (ESG) criteria and socially responsible investment (SRI) criteria; for all businesses members of the CFC Ecosystem.

V- Transparency and market discipline

The transition to a socially and environmentally green economy must be associated with an effort of transparency up to its standards, both in terms of the current carbon footprint and actions undertaken in terms of sustainable development and ecological and social consequences of operated and financed activities.

Communication is therefore very crucial as it will allow investors and market participants to gradually adapt to this model and establish a virtuous circle to gain a better insight of the future risks and to take appropriate decisions, while making input in minimizing the impacts of the transition to a low carbon economy.

PROPOSED MEASURES:

Banking sector:

- Strengthen and improve communication about sustainable development policies and systems through the publication of a specific report on the sustainability policies, and more particularly how the credit granting process takes into account ESG criteria as a selective component, as well as the means used to contribute to sustainable financing.

Capital market:

- *Reinforcing reporting obligations of public offering issuers*: The Moroccan Capital Market authority will henceforth require from any company that seeks to list on a stock exchange the provision of a report on the environmental and social impact of its activities. This measure will be subsequently applied on all listed companies and will be subject to periodic reporting obligations.

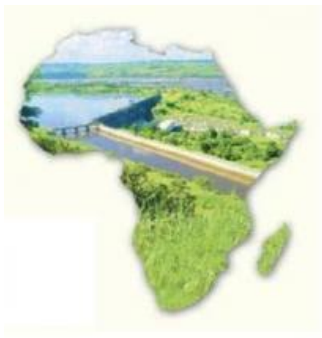
- Develop a *guide for public offering issuers* that will be considered as a reference for the preparation of Green Bonds issuances and for the communication related to the use of funds and to the environmental impact of financed projects.

- Develop an ESG guide for listed companies for the establishment of their sustainability reports.

- *Strengthening reporting obligations for asset managers*: The extension of the obligation of social and environmental information to all issuers will allow providing investors with the necessary information for assessing the impact of their investments. The Moroccan Capital Market authority sets a medium-term objective to introduce new environmental and social information and transparency requirements for asset managers in the medium term.

- Casablanca Stock Exchange is willing to set up in the very short term, an *ESG* index that will encompasses listed companies with the highest rating in the ranking performed by the extra-financial rating agency "Vigeo Eiris". This index will allow a better assessment of the most virtuous companies in terms of ESG criteria, risk management, communication and global environmental compliance. The index will also enable a better measurement of their stock performance and contribute to the development of a diversified range of investment (for SRI funds and investors ...).

Roadmap of the Moroccan financial sector for the emergence of sustainable finance in Africa



Roadmap for the emergence of sustainable finance in Africa

Document coordinated by Bank Al-Maghrib with the contribution of:

- The Moroccan Capital Market Authority;
- The Supervisory Authority of Insurance and Social Welfare (ACAPS);
- Casablanca Finance City Authority;
- Casablanca Stock Exchange;
- The Moroccan Bankers' Association (GPBM);
- The Moroccan Federation of Insurance and Reinsurance Companies.

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Executive Summary

Sustainable development is a global issue that requires the engagement and involvement of all stakeholders in all countries.

Parties to the Paris Agreement set themselves the goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels, while working towards a carbon-neutral world. To this end, they made strong commitments through their Nationally Determined Contributions (NDCs), both in terms of reducing their greenhouse gas emissions and adapting for better resilience to the effects of climate change.

However, the implementation of these commitments remains dependent on the ability to secure the necessary funding.

The Paris Agreement called for expediting support for the developing countries to help them in their mitigation and adaptation efforts, mainly through (i) financial aid from developed countries, (ii) technology transfer, and (iii) capacity building. Developed countries will continue to provide USD 100 billion of climate finance per year until 2025 when a new and higher collective quantified goal is to be set.

It is true that these funding promises are difficult to achieve and the resources available to developing countries remain far below their needs.

The World Investment Report 2014 of the United Nations Conference on Trade and Development (UNCTAD) estimates the amount needed to fund sustainable development goals (SDG) worldwide at $5 to $7 trillion. According to the report, total investment needs in in SDG sectors in developing countries are estimated at $3.9 trillion per year while current investment in these sectors is around $1.4 trillion.

The African continent is particularly affected by this problem, as it is directly exposed to the effects of climate change. Paradoxically, Africa benefits from less than 3 percent of sustainable development projects around the world and receives less than 5 percent of total climate finance flows.

Although several funds exist today to support initiatives and projects against climate change worldwide, they are still exclusively based in developed countries, making access difficult for the most vulnerable countries, both because of their procedures and their geographical location.

The needs are so important that developing countries can no longer rely solely on the “North” aid. It is imperative that countries of the “South” put in place funding mobilization mechanisms of their own. The transition of Africa to a more sustainable economy requires the emergence of a green African financial market to support this transition.

For a concrete and effective action in this direction, it is necessary to raise the awareness of the various African stakeholders on the issues of sustainable development and their vital nature.

With its achievements and experience in sustainable development sectors, particularly through the various sectoral policies in agriculture, water and forestry, renewable energy and human development, and in line with its reaffirmed commitment to promote South-South regional cooperation, Morocco has a leadership role to play for the emergence of a green finance in Africa.

The Kingdom has major assets that can enable it to truly contribute to aligning the African financial sector with sustainable development in order to support the transition to a more responsible economy.

First of these assets is the strong presence of its financial sector in Africa and the solid partnership and cooperation relations that Moroccan public and private actors have built with their African counterparts, which should be further strengthened and expanded to the field of sustainable development in order to create a green African financial market.

Another major element is the “Casablanca Finance City”, a hub intended to attract investment flows to the continent. This financial center aims to turn into a pan-African hub in the area of climate finance and thereby contribute to mobilizing the necessary resources to support the fight against climate change in Africa.

The roadmap of the Moroccan financial sector for the emergence of sustainable finance in Africa revolves around two strategic areas:

- Strengthening regional and continental cooperation on sustainable development;
- Positioning the Casablanca financial center as a hub for climate finance.

In the same vein, financial sector regulators and professionals in Morocco are organizing several conferences and roundtables with their international counterparts in parallel to the 22nd session of the Conference of the Parties (COP 22), chaired by Morocco. These will focus on their respective roles in sustainable development, particularly on key success factors for the creation and development of a green finance market in Africa.

The recommendations of these events, which mark the first milestone in the implementation of this roadmap, will make it possible to enrich and fine-tune it for greater efficiency.

1. Roadmap

I- Strengthening regional and continental cooperation on sustainable development

For more than 50 years, the Kingdom of Morocco has occupied a leading position in the continent, which it places at the heart of its strategic choices. Cooperation between Morocco and its African partners is multidimensional. The focus of cooperation, which was once military then political, is now economic.

Many Moroccan corporations have bet on Africa over the past decade, investing in several sectors, including telecom, mining, real estate, energy and agri-food. The financial sector is no exception. The three major Moroccan banking groups are present in more than twenty sub-Saharan African countries. The insurance industry has also embarked on this path. Supporting this development, public authorities and financial regulators, including Bank Al-Maghrib, the central bank of Morocco, have concluded several agreements with their African counterparts.

This dynamic of South-South cooperation, making Morocco the second largest African investor on the continent after South Africa, has taken on a new dimension in recent years, centered on the imperative of human development and sustainable development.

In line with this commitment, and in order to contribute effectively to the emergence -not only desired but necessary- of a green finance market in Africa, it is the responsibility of all stakeholders in the Moroccan financial sector to reinforce their cooperation with African actors in order to mobilize stronger and more ambitious climate action.

PROPOSED MEASURES

Banking sector:

- Developing *exchanges between Bank Al-Maghrib and its African counterparts* in the field of sustainable development;

- Working towards the establishment of an African initiative for sustainable development;

- *Developing the partnership of the Moroccan Bankers' Association (GPBM) with its counterparts in Africa and northern countries,* in particular within the framework of the Union Bancaire Francophone, the Union of Arab Banks and the GPBM/French Banking Federation "Sustainable Development" Liaison;

Insurance sector:

- *Sharing the experience* of the Moroccan insurance sector with African countries in the area of climate risk hedging and the disaster impact coverage system.

Capital market:

- Proposing to include the issue of climate finance in all *bilateral cooperation agreements* concluded with African capital market regulators.

- Contributing, through the various international and regional organizations of which the AMMC is a member, to the development of *international standards for the regulation of green finance*.

- The AMMC, in collaboration with the Casablanca Stock Exchange, intends to launch, on the sidelines of the COP22, an *initiative for Africa* aimed at federating African regulators and stock markets around commitments towards the development of green capital markets in Africa.

Casablanca Finance City:

- Strengthen *international partnerships* with leading green financial centers with the following objectives: research and innovation, exchange of best practices and the organization of conferences and symposia on green finance.

II- Positioning the Casablanca financial center as a climate finance hub

Casablanca Finance City (CFC), a financial center dedicated to Africa and a tool put in place by the Kingdom in the service of African development, aims to attract investment flows towards the multiple opportunities that the continent offers. This is particularly the case for investments related to climate change adaptation and mitigation, from which Africa receives only a tiny fraction (less than 5 percent).

Several green investors are already using CFC as a gateway to the continent. CFC has today the ambition to increase the density of its ecosystem and build a local platform of expertise and know-how dedicated to the climate in Africa, attracting all players in the green value chain interested in African markets.

In this perspective, one of the missions of CFC is to promote internationally the continent's green investment opportunities and massify the ecosystem in order to attract a greater part of financing flows in this sector. Moreover, the development of a green ecosystem focused on Africa (sector experts in Africa, climate experts, financiers, managers of green investment funds, etc.) and local expertise in this field will make it possible to significantly increase the number of projects eligible for this type of financing and thus gear, in a more optimal manner, the capital available towards green investment in the continent.

Several aspects have been identified to accelerate the "co-development" of green economy and finance in the continent:

PROPOSED MEASURES

- Setting up a dedicated value proposition to attract global green actors to the CFC to operate in the region as well as international investors to finance African green projects. This is achieved mainly by establishing a special framework for “green” investment funds based on incentives, such as the Africa 50 Fund which is conspicuous by its innovation combining expertise and know-how to develop a pipeline of “bankable” projects in the continent.

- Supporting the AAA initiative “Adaptation of African Agriculture to climate change”, mostly by:
  - □ strengthening the AAA value proposition, through the specific framework dedicated to pan-African funds;
  - □ further specific door-to-door marketing among public and private African agricultural funds as well as service companies, think tanks, research organizations dedicated to African agriculture.

- Facilitating the emergence of a “climate finance” research, expertise and know-how center at the service of Africa (engineering, assembly, green financing projects, etc.). This is critical as Africa is suffering from a problem of funding absorption due to the scarcity of “bankable” projects eligible for financing[1].

- Launching the African Forum for Responsible Investment (AFRI) initiative. Like other regional associations (such as Eurosif, UKSIF, USSIF, etc.), this forum will aim to promote socially responsible investment (SRI) and its principles across the continent through three main missions:
  - □ Promoting SRI concepts and best practices
  - □ Building a knowledge center on SRI in Africa
  - □ Supporting initiatives in favor of transparency, reporting and quality.

- Bringing together a hard core of Moroccan and African investors engaged in SRI, this association would be based in Casablanca to serve Africa, which would add an additional dimension to the attributes of the pan-African green financial center.

2. COP22 Agenda: Sustainable Finance

2 November 2016

- Panel discussion on the theme of "Climate Change: Role of the Insurance Industry and Challenges it Faces", to be organized by the Moroccan Federation of Insurance and Reinsurance Companies (FMSAR)

  The aim of this panel discussion is to initiate with national and international

[1] Of the 300 climate think-tanks around the world, only 9 are located in Africa (3 percent).

experts a profound reflection on climate change challenges to the insurance industry.

It will focus on opportunities for investment in clean energy, protection of property and people from natural disasters, vulnerability of the African continent to climate risks and solutions to mitigate the impact of climate change through insurance mechanisms.

4 November 2016

- Climate Finance Day: This Climate Finance Day 2016 is organized by Casablanca Finance City Authority (CFCA), in partnership with Paris EUROPLACE, the African Development Bank, the World Bank Group, the EIB, and other major institutions concerned with climate change issues (UNEP Inquiry, UNEP Finance Initiative, etc.)

  The purpose of this event is to ensure sustained engagement by private financial stakeholders to climate actions through the pursuit of two main objectives: (i) to contribute to extending climate finance throughout the world and especially in Africa, by defining financial characteristics specific to the continent and (ii) to operationalize the mobilization of financial stakeholders by concrete actions.

5 November 2016

- 2nd Climate Finance Forum, to be organized by the International Development Finance Club (IDFC) jointly with the CDG group and the Agence Française de Développement.

  This forum will explore the means, methodologies and approaches likely to facilitate transition to more sustainable economies in developing countries and transformation of the commitments made by these countries, as part of their national contributions, into policies and action plans with focus on the financial aspect, particularly to support adaptation projects.

  The role of public-private partnerships and development banks will be highlighted during this event.

16 November 2016

- Workshop on the theme of "Promoting the Emergence of Green Capital Markets in South Countries", to be organized by the AMMC jointly with the Casablanca Stock Exchange, Maroclear and the United Nations Sustainable Stock Exchange (SSE).

The event aims to bring together regulators, stock exchanges and other financial market stakeholders and international experts to share experiences and best practices on climate finance and discuss the latest developments in regulations and initiatives to align capital markets with a climate resilient development.

The workshop also aims to contribute to the debate on the specific context of developing countries and identify effective solutions and mechanisms by the establishment of global and regional partnerships between capital market regulators, stock exchanges and central depositories on climate finance.