

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 80881

Project Name	Morocco Microfinance Development Project
Region	MIDDLE EAST AND NORTH AFRICA
Country	Kingdom of Morocco
Sector	Private Sector Development (100%)
Lending Instrument	Specific Investment Grant
Project ID	P144500
Borrower(s)	Ministry of Economy and Finance
Implementing Agency	Ministry of Economy and Finance
Environmental Screening Category	{ }A { }B { X }C { }FI
Date PID Prepared	25-January-2013
Estimated Date of Appraisal Completion	25-January-2012
Estimated Date of Board Approval	N/A (to be submitted to MENA Transition Fund Steering Committee February 2013, planned submission for RVP approval May 2013)
Decision	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments.

I. Country Context

A. Country Context

1. Morocco made significant economic headway during the decade preceding the Arab Spring, and weathered the first round of the global financial crisis relatively well, maintaining an investment grade rating since 2007. This reflected sustained efforts to implement sound macroeconomic policies and ambitious structural reforms. The financial sector was strengthened to support the new dynamism of the nonagricultural sector and (although much still remains to be done) the microfinance segment is among the most developed in the MENA region.

2. However, Morocco has confronted growing economic challenges in the second round of the global financial crisis. Developments in the euro area and continued high fuel and food import prices are expected to put sustained pressure on fiscal and external balances. The recent shocks have left the Government with much smaller policy margins at a time when the population has higher expectations for job creation and poverty alleviation. Unemployment remains high (9 percent), especially among urban youth, despite one of the lowest participation rates (49 percent) among comparator countries. Some 4 out of 5 unemployed youth live in urban areas; 2 out of 3 are between 15-29 years old; and 1 in 4 holds a university diploma.

3. Poverty is another stubborn challenge in Morocco. Around 8 million people, representing a quarter of the national population, are either living in absolute poverty or under constant threat of falling back into poverty. Seventy percent of the poor live in rural areas and in 2007 the urban

poverty rate was 4.8 percent, compared to 14.5 percent in rural areas. Income of the poor has been growing at a slower rate than the average income.

4. In the current political and economic environment, inclusive growth and job creation by the private sector dominate the policy debates. With government increasingly financially constrained, there are high expectations that SMEs and micro-enterprises can increasingly contribute to private sector job creation in Morocco. The World Bank's 2011 financial sector flagship showed that access to finance is a key constraint in areas and income levels underserved by conventional banks, such as the informal sector.

II. Sectoral and Institutional Context

5. Morocco's Microfinance Institutions (MFIs) have established a solid track record in expanding access to the informal sector, despite problems resulting from an initial period of high growth without an adequate institutional and governance framework. A recent crisis has led to a pause in the sector's development. The ensuing consolidation of the sector, as well as other central bank measures to improve governance, supervision, and the sharing of information on micro-borrowers, has helped to lay the foundation for further expansion of access to micro-finance, in a more sustainable way.

6. While the Moroccan microcredit sector has reached remarkable achievements over the past decade, it has still more potential to reach low-income households and micro, small and medium enterprises (MSMEs). The legal, regulatory and supervisory framework has been focused on the sector's stability following the crisis and will need to be developed and strengthened to enable the sector's growth and diversification and funding sources. The national federation of micro-credit association (FNAM), the representative body of Morocco's MFIs, has not had the adequate capacity to play the role of a strong, proactive industry organization, representing the sector's interests towards the regulators and policymakers and delivering high quality services that address member's needs. MFIs have been focused to improve their governance and risk management functions following the crisis, moderating their expansion and product development. They will need to be supported to scale-up outreach, product innovation and diversification to meet the large unmet needs of financing of Morocco's low-income population.

7. The proposed operation aims to support the transformation of the Moroccan microfinance sector in order to strengthen its impact, resilience and sustainability, both for lending to enterprises as well as households for investment. The project was designed to address the shortcomings that continue to limit the sector's transformation from its current narrow focus on 'micro-lending' to a strong, sustainable and innovative microfinance sector, offering a broad and comprehensive array of financial services to meet the large unmet demand for financing. The program aims to strengthen the institutional, legal, regulatory, tax and governance framework for microfinance, laying the framework for the sectors expansion. In addition to reforms on the institutional level, the program proposes to strengthen the market infrastructure, product innovation and funding sources for microfinance, enabling MFIs to broaden their product offering, lower their delivery cost, and strengthen their financing sources. Finally, the project aims to integrate the microfinance sector into a broader national financial inclusion strategy,

ensuring that it can achieve its development objectives in coordination with other policies that aim to expand access to finance for the poor. A strong and sustainable microfinance sector will be particularly beneficial to women and youth, which have been amongst the key beneficiaries of the Moroccan microcredit sector: Of all microloans issued in Morocco, 55.3% have benefitted women and 46.9% have benefitted age groups between 30 and 49 years.

III. Project Development Objectives

8. The project objective is to promote access to finance to low income households and micro and small enterprises through the promotion of a sustainable and inclusive microfinance sector. This objective will be achieved through a comprehensive package of analytical work and technical assistance aimed at supporting the enabling environment for microfinance and financial inclusion, leading to enhanced financial services to wider segments of the population.

IV. Project Description

9. The project aims to support access to finance to low income households, micro- and small enterprises through the promotion of a sustainable and inclusive microfinance sector. This objective will be achieved through a comprehensive package of analytical work and technical assistance aimed at supporting the enabling environment for microfinance and financial inclusion. The program is structured around three core components: (1) Strengthening the institutional, legal, regulatory, tax and governance framework for microfinance, (2) Strengthening the market infrastructure, product innovation and funding sources for microfinance, and (3) Integrating Microfinance into a national financial inclusion strategy. A brief description of the respective components is included below.

Project Components

Component 1: Strengthening the institutional, legal, regulatory, tax and governance framework for microfinance (USD 1.9 million)

10. This component aims to support activities contributing to the strengthening of the institutional, legal, regulatory and governance framework of the microfinance sector. This component aims to a) assess and reinforce the capacity of the National Federation of Microcredit Associations of Morocco (FNAM) and b) support activities contributing to the strengthening of the legal, regulatory, tax and governance framework of the microfinance sector. This component will also finance goods, services, travel, and incremental operating costs incurred by the PMU in the implementation and management of the project.

- a) *Assess and reinforce the capacity of the National Federation of Microcredit Associations of Morocco (FNAM):* FNAM is the primary industry association responsible for development of the microfinance sector in Morocco through policy guidance, MFI coordination, and engagement with key actors including funders and regulators. The institutional capacity of FNAM needs to be strengthened to ensure the sector can effectively restructure, expand, and respond to changing regulatory and market

conditions. The project will assist the FNAM in fulfilling its core mandate of acting as the industry's steering body by centralizing information and disseminating studies, acting as an intermediate body between state regulating bodies and microfinance institutions, developing and delivering services that address member's needs/issues, and providing support across all levels and in all regions and districts in the Country. FNAM also plays the role of an intermediary between Microfinance Institutions and key stakeholders of Microfinance services of Morocco, including the Government, Central Bank, Donors, Development partners, financiers, investors and clients of microfinance services.

This component will be implemented in two stages: First, a comprehensive diagnostic will be conducted to assess the current role, funding structure, statutes, governance and capacity of the FNAM, measuring the gap between its current status and desired future role, benchmarking it with other global best practice examples. In a second step, a technical assistance program will be developed building on the recommendations of this diagnostic, with the objective of transforming the FNAM into a proactive industry organization and knowledge hub of the Moroccan microfinance sector.

- b) *Strengthening of the legal, regulatory and governance framework of the microfinance sector:* This sub-component aims to support activities contributing to the modernization of the legal, regulatory and fiscal framework for microfinance, as well as the development of governance and risk management standards for the microcredit sector. Activities will include, inter alia, studies that inform the development of a tax policy adapted to the specific needs of the MFIs, review the cap on borrowings for clients of MFIs, the regulation of remuneration of credit, reviews and adapt the solvency and liquidity ratios of the MFIs, and strengthen the financial reporting and regulatory oversight of BAM over MFIs. Improving the use of judicial and non-judicial (arbitration, mediation) means for recovering unpaid loans will also be a key activity of the project under this component.

Component 2: Strengthening the market infrastructure, product innovation and funding sources for microfinance (USD 1.5 million)

11. This component focuses on activities aimed at a) building common platforms improving the efficiency and effectiveness of microcredit associations, b) build market infrastructure in support of microenterprises, and c) promote the strengthening and diversification of funding.

- a) *Promoting innovative common platforms and new products for MFIs.* This sub-component will support the development of common platforms, systems and products aimed at improving the efficiency and effectiveness of MFIs. Activities will include studies on the development of new products for the microfinance sector, the development of a mobile banking platform for MFIs, which is expected to have a transformational impact on the sector through the significant reduction of transaction costs for cash transfers for low income households and microenterprises. Other proposed activities include the development of a training and certification program for MCA officers.

- b) *Building market infrastructure for micro entrepreneurs:* This sub-component will support the development of market infrastructure aimed at facilitating microenterprises' access to markets. Activities supported will include studies on how microenterprises can improve the commercialization of their products, and the development of an electronic platform allowing microenterprises to market their goods, or the development of a e-project platform through which microentrepreneurs can get information on innovative business models, and supporting the development of a micro-credit mediation function within the framework of BAM's mediation center.
- c) *Strengthen and diversify funding sources:* This sub-component aims to support activities which would inform policymakers, regulators, supervisors and MFIs on how the microfinance sector can diversify and strengthen its funding sources to ensure its financial sustainability over the medium and longer term. Proposed activities include, inter alia, studies aimed at assessing refinancing possibilities to MFIs and amend existing regulations to allow MFIs tapping into new financial resources, and structuring and designing a guarantee mechanism including all stakeholders. In a second phase, this sub-component would, building on the findings of the aforementioned studies, finance the design and structuring of mechanisms (eg. stabilization fund, guarantees, etc.) aimed at strengthen the financial sustainability and stability of the sector.

Component 3: Integrating Microfinance into a national financial inclusion strategy (USD 1.5 million)

12. This component aims to integrate the national microfinance roadmap into a wider, comprehensive national financial inclusion strategy. In a first step, this component aims to conduct a cross-cutting stocktaking exercise of all previous and ongoing activities aimed at promoting financial inclusion, putting the microfinance sector in a larger financial sector development context. This component will also finance the design and roll out of financial literacy programs for low income households and microenterprises, the key beneficiaries of microfinance, within the framework of the proposed 'foundation for financial education', which is in the process of being rolled out under the leadership of BAM. This component will also finance studies and impact evaluations assessing the effectiveness of public policies and private initiatives aimed at promoting financial inclusion, as well as the impact of financial inclusion, including microfinance, on employment creation, poverty reduction and growth.

In a second phase, this component aims to build on the findings of the aforementioned activities to develop a comprehensive national financial inclusion strategy, to be developed in a structured consultative process with all key public and private sector stakeholders, and develop an action plan with specific objectives and targets to achieve the aims of the strategy, as well as a clearly defined M&E framework to measure progress.

V. Financing

(\$m.)

Source:
Borrower/Recipient
IBRD

IDA	
Others (specify) Trust Fund (Grant; Transition Fund Financing)	US\$ 4.90
	Total
	US\$ 4.90

VI. Implementation

B. Institutional and Implementation Arrangements

Institutions

13. The project is proposed to be implemented by the Ministry of Finance and Economy. The Ministry is in charge of the regulation of the microcredit sector: Its competencies include the regulation of the maximum amount of microcredit (currently capped at 50,000 MAD); the sector's accounting framework; The maximum interest rate; asset/liability ratios, etc., in consultation with the Micro-Credit Advisory Board. This overarching regulatory role qualifies the Ministry of Finance and Economy as a well suited implementing agency for this cross-cutting project.

Implementation of Activities

14. The MoF will be responsible for the implementation of all project components, supported by an in-house project team, in close collaboration with FNAM, BAM and Centre Mohamed VI. The MoF has ultimate responsibility for the implementation of the project and exercises oversight functions including approval of the Operations Manual, work plan, and budgets, and oversight of fiduciary implementation and progress towards implementation and results.

15. The MoF will prepare a work plan describing activities, timeline, and budgets for activity implementation. The MoF will also develop an Operations Manual, the development of which will be subject to World Bank no objection and will be completed prior to negotiations or otherwise will constitute a condition of grant effectiveness. The operations manual will describe the policies to be followed for all project components. The Operations Manual will be supported by sub-manuals with detailed procedures, instructions, and templates, which will not require Bank's no objection.

16. An ad-hoc advisory committee comprising representatives from BAM, FNAM and Centre Mohamed VI will be formed to advise the project based on ad-hoc briefings provided by the MoF throughout the lifetime of the project. The advisory committee will provide strategic input and guidance throughout project implementation. The committee will provide technical expertise to project implementation and help ensure the project is effectively addressing key regulatory, legal, governance, and market development issues in order to successfully help the industry overcome market bottlenecks. The committee also serves coordination and communication functions, ensuring all partners involved are aware of progress and key lessons learned across project sub-components.

C. Results Monitoring and Evaluation

17. The results framework for the project is centered around the PDO and specifies PDO level and intermediate indicators which will be monitored to evaluate project performance towards the objectives. Primary responsibility for results monitoring will fall on MoEF, which will present an M&E report to the World Bank on a quarterly basis.

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)		X
Natural Habitats (OP/BP 4.04)		X
Pest Management (OP 4.09)		X
Physical Cultural Resources (OP/BP 4.11)		X
Involuntary Resettlement (OP/BP 4.12)		X
Indigenous Peoples (OP/BP 4.10)		X
Forests (OP/BP 4.36)		X
Safety of Dams (OP/BP 4.37)		X
Projects in Disputed Areas (OP/BP 7.60)*		X
Projects on International Waterways (OP/BP 7.50)		X

VIII. Contact point at World Bank and Borrower

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

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