I. Project Context

Country Context

This project to the Kingdom of Morocco for the “Micro, Small and Medium Enterprise (MSME) Development Project” aims to support access to finance for Morocco MSMEs. It is the second loan proposed under the MSME Facility for MENA Adaptable Program Loan (APL) structure, as part of the larger MSME Facility for the MENA region, which aims to provide a comprehensive package of financing and technical assistance for MSMEs across the MENA region, jointly with the IFC.

In Morocco, the importance of access to finance – particularly for MSMEs – is both an economic and political priority. The “Arab Spring” has shown the powerful consequences of exclusion and high levels of youth unemployment in the MENA region and this was also at the forefront of the street protests in Morocco during 2011. Jobs are at the forefront of attention and unemployment is the main political and economic issue facing the new Government. Despite a relatively favorable socio-political situation compared to some other MENA countries, the Moroccan population has experienced frustration over governance, social inclusion, the lack of economic development opportunities and employment issues. Access to finance is frequently cited as one of the population’s main grievances and the private sector continues to claim it is one of the biggest obstacles to the development of business.

The previous and current Moroccan governments have recognized the importance of financial inclusion for individuals and MSMEs. The new Government has confirmed the reform program undertaken to date which is aimed at reaching segments of the population that remain excluded from finance. The cornerstone of this reform program is the improvement of the regulatory environment, financial infrastructure and support mechanisms for MSME finance. This project aims to support this ongoing reform program through a targeted intervention, aimed at assisting the financial institutions in their efforts to reach smaller firms. This financial support is set to be complemented with further policy reforms aimed at improving the enabling environment for MSME finance, and with the provision of technical assistance to improve the capacity of financial institutions to better serve this segment.

II. Sectoral and Institutional Context

Morocco has made significant progress in developing its financial sector over the past ten years. The total assets of Moroccan financial institutions have grown significantly and exceed 200 per cent of GDP, a ratio that is well above the level predicted by Morocco’s per capita income. This progress in financial development has been the result of sound macroeconomic policies and important financial sector reforms earlier in the decade, which positioned Morocco to take advantage of favorable conditions (e.g. abundant liquidity and global economic growth). These financial reforms were supported by the Bank through two Financial Sector Development Policy Loans in 2005 and 2009, and included the restructuring of state-owned financial institutions, the strengthening of the regulatory framework and the improvement of financial infrastructure.

Following a recent divesture by the Ministry of Finance, state-owned banks only play a limited role in the banking system. Today, they account for less than 10% of the market share, down from a 40% market share in 2002. The three largest banking groups (Attijariwafa, Credit Populaire du Maroc -CPM- and BMCE), which control 65.5% of bank assets, are private. The Ministry of Finance completed in 2011 its strategy to strengthen state-owned financial institutions, the strengthening of the regulatory framework and the improvement of financial infrastructure.

Morocco has made significant inroads in expanding access to financial services for both individuals and MSMEs. A recent World Bank survey has featured Morocco as a regional leader in providing SME with access to credit : the share of SME Loans in total loans amounts to 24%, which is the highest ratio in the MENA region. Morocco has also been able to maintain the highest rates of microcredit access in the MENA region, although the sector’s rapid expansion has slowed down after the crisis in 2007. Morocco stands out in terms of MFI branch networks, comprising 83 percent of the region’s reported total. The leasing and factoring industry, two key sources of financing for MSMEs, are amongst the most developed in the MENA region. The Moroccan Post has been an important provider of savings and payment services for the low income population for many years. The recent establishment of a fully fledged new Postal Bank aims to provide a more comprehensive set of financial services, including credit, to reach individuals and MSMEs in underserved areas.
The country’s achievements in expanding financial inclusion for individuals and MSMEs were underpinned by important regulatory reforms and policies. The financial infrastructure was substantially strengthened through the establishment of a modern credit bureau, which provides detailed credit information on individuals and MSMEs to banks and NBFIs. The credit bureau also started to collect data from microcredit associations, covering at least 50% of loans granted by microcredit associations. Morocco has also embarked on a far reaching reform of their partial credit guarantee scheme Caisse Centrale de Garantie (CCG), which is now the largest guarantee fund in the MENA region.

However, despite the significant progress reached, access to financing remains a challenge for certain populations. While Morocco has made significant process in expanding access to finance to SMEs, the largest part of bank financing goes to the larger enterprise part of the SME spectrum. Very small enterprises continue to face challenges in accessing credit. They tend to have less collateral, weaker management capabilities and are more vulnerable to information asymmetry, reducing the likelihood of receiving bank credit. Microenterprises have access to credit through the country’s extensive network of microfinance institutions (MFIs). But although Morocco’s microcredit industry is one of the most developed in the region, microcredit loans barely exceed 1 percent of total bank credit. Moreover, the rapid expansion of microcredit in Morocco resulted in a crisis in the microcredit industry due the lack of an effective credit information sharing system and weak governance structures.

Against this background, the Government requested World Bank support to its wider financial sector development program through an investment loan in support of access to finance for MSMEs. The program supported under the proposed operation would be implemented by the Caisse Centrale de Garantie (CCG), which has played a catalytic role in promoting access to finance for MSMEs in Morocco.

The proposed operation supports the Moroccan government’s increased efforts to support the development of MSMEs. The government has recently drafted a new strategy aimed at supporting the development of very small enterprises (VSEs), with measures to enhance their job-creation potential, which include simplified taxation system, adapted social charges, extended social security coverage, and specific banking products backed by a guarantee fund, which are in the process of being developed. Already the Finance Act 2011 had introduced major incentives for VSE, of which reduced corporate profit tax to 15 percent from 30 percent, a tax amnesty for businesses that integrate into the formal sector, and tax incentives for individual VSE opting to transform into a corporation.

### III. Project Development Objectives

**A. Proposed Development Objective(s)**

The Project Development Objectives (PDOs) are presented at three levels. The MSME Facility provides the framework for the APL which has been reviewed by the Board of Executive Directors on July 14, 2011 jointly with the presentation of the first loan to Tunisia (MSME Development Project). As set out in the Project Appraisal Document of the Tunisia MSME Development Project, the proposed Morocco loan (APL 2) will be submitted for the Regional Vice President’s approval and to the Board on an Absence of Objection basis:

- Micro, Small and Medium Enterprise (MSME) Facility: to catalyze financing, risk-sharing and technical assistance to address policy, legal, institutional, capacity, and informational constraints holding back MSME access to finance in the MENA region, and thereby to support improvements in MSME employment, competitiveness, and incomes.

- Adaptable Program Loan (APL): to improve access to finance for micro, small and medium enterprises in the MENA region. The APL is the IBRD financing mechanism for the MSME Facility.

- APL 2 (Morocco): to improve access to finance for MSMEs in Morocco.

### IV. Project Description

**Component Name**

Risk Sharing Facility

### V. Financing (in USD Million)

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<tr>
<td>Total</td>
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### VI. Implementation

The risk sharing facility will be implemented by the Caisse Centrale de Garantie (CCG). The CCG is a specialized public credit institution dedicated to promoting the development of MSMEs by offering loans and guarantees to bank loans to this segment. The CCG has demonstrated adequate management and satisfactory institutional capacity according to an onsite inspection carried out by the Moroccan central bank in 2010. The MoF and CCG have already designated staff that will be responsible for the implementation of the project.

The responsibilities of the CCG, as the implementing agency, will be, among others: (i) reviewing the corresponding documentation of the loans and/or portfolios to be guaranteed; (ii) approving the granting of partial credit guarantees; (iii) collecting fee payments from participating institutions; (iv) verifying eligibility of loans, compliance with all the covenants of the guarantee, and payment of all guarantee fees up to date; (v) verifying that participating institutions maintain their eligibility status in time as outlined in the Operations Manual.

### VII. Safeguard Policies (including public consultation)

<table>
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VIII. Contact point

World Bank
Contact: Teymour Abdel Aziz
Title: Economist
Tel: 458-8116
Email: tabdelaziz@worldbank.org

Borrower/Client/Recipient
Name: Kingdom of Morocco
Contact: Nouaman Al Aissami
Title: Division de Credit
Tel: 212-0537677388
Email: n.alaissami@tresor.finances.gov.ma

Implementing Agencies
Name: Caisse Centrale de Garantie
Contact: Abdelkhalek Glilah
Title: Directeur Ressources
Tel: 212-537716933
Email: a.glilah@ccg.ma

IX. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop