



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
MICROFINANCE DEVELOPMENT PROJECT
(GRANT NO. TF015084)
{APPROVED ON JUNE 27, 2013}
TO THE
KINGDOM OF MOROCCO

June 28, 2019

FINANCE, COMPETITIVENESS AND INNOVATION GLOBAL PRACTICE

MIDDLE EAST AND NORTH AFRICA

Regional Vice President:	Ferid Belhaj
Country Director:	Marie Francoise Marie-Nelly
Regional Practice Director:	Najy Benhassine
Practice Manager/Manager:	Jean Pesme
Task Team Leader:	Peter McConaghy



ABBREVIATIONS AND ACRONYMS

BAM	Bank Al-Maghrib
MENA	Middle East and North Africa
MoEF	Ministry of Economy and Finance
NFIS	National Financial Inclusion Strategy
PDO	Project Development Objective
PMU	Project Management Unit
UFA	Universal Financial Access
WBG	World Bank Group



BASIC DATA

Product Information

Project ID P144500	Financing Instrument Investment Project Financing
Original EA Category	Current EA Category
Approval Date 27-Jun-2013	Current Closing Date 30-Jun-2019

Organizations

Borrower Kingdom of Morocco	Responsible Agency Ministry of Economy and Finance
--------------------------------	---

Financing (in USD Million)

SUMMARY

Total Project Cost	0
Total Financing	0
Financing Gap	0

DETAILS

Project Development Objective (PDO)

Original PDO

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.



Summary Status of Financing

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-15084	25-Jul-2013	25-Jul-2013	25-Jul-2013	30-Jun-2019	4.90	2.59	2.31

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

- The purpose of this restructuring is to extend the closing date of the Morocco Microfinance Development Project (Grant no. TF015084) from June 30, 2019 to July 31, 2019.** This will be the second extension of closing date for this project and the extension was approved by the Middle East and North Africa (MENA) Transition Fund Steering Committee on a no-objection basis on Friday June 28, 2019. This restructuring responds to request letters received from the Director of Treasury at the Ministry of Economy and Finance (MoEF) dated June 4, 2019.
- Project Context/Description.** The Project Development Objective (PDO) is to promote access to finance for low income households and micro and small enterprises through the promotion of a sustainable and inclusive microfinance sector. The project in the amount of US\$4.9 million became effective on July 25, 2013 and is implemented by the MoEF. It consists of three components:
 - Component I: Strengthening the institutional, legal, regulatory, tax and governance framework for microfinance (US\$1.9 million).** This component aims to: (a) prepare an action plan to assess and reinforce the capacity of the National Federation of Microcredit Associations of Morocco; and (b) support activities contributing to the strengthening of the legal, regulatory, tax and governance framework of the microfinance sector.
 - Component II: Strengthening the market infrastructure, product innovation and funding sources for microfinance (US\$1.5 million).** This component focuses on activities aimed at: (a) building common platforms improving the efficiency and effectiveness of microcredit associations; (b) building market infrastructure in support of microenterprises; and (c) promoting the strengthening and diversification of funding.
 - Component III: Integrating Microfinance into a national financial inclusion strategy¹ (NFIS) (US\$1.5 million).** This component aims to: (a) conduct a cross-cutting stocktaking exercise of activities aimed at promoting

¹ Activities are implemented across project partners including the Bank Al-Maghrib (Central Bank), the national microfinance association (*fédération nationale des associations de microcrédit*), the national training center for microcredit associations (*centre mohammed VI de soutien à la microfinance solidaire*), the center for the development of micro and small enterprises (*le centre des très petites entreprises solidaires*), and the national foundation for financial education (*fondation nationale pour l'éducation financière*).



financial inclusion; (b) finances the design and roll out of financial literacy programs for low income households and microenterprises; (c) finances studies and impact evaluations assessing the effectiveness of public policies aimed at promoting financial inclusion; and (d) develop a comprehensive national financial inclusion strategy, in consultation with all key public and private sector stakeholders, and develop an action plan to achieve the objectives of the strategy.

3. **Implementation Progress.** The Project has made credible progress on advancing financial inclusion in Morocco.
- **Component I activities have focused on concrete steps towards modernizing the legal, regulatory, and supervisory framework for microfinance.**² Currently, Morocco boasts some of the largest microfinance institutions registered as non-profit associations in the world. This legal status is sub-optimal from the perspective of funding sustainability, product diversification, and governance arrangements. In November 2018, the Government amended law No. 18-97 on microcredit authorizing an increase in the maximum lending size from MAD 50,000 to MAD 150,000. Closely linked, the *Caisse Central de Garantie*, Morocco's national credit guarantee agency, extended its guarantee products to the microfinance sector. MoEF and the Central Bank (Bank Al-Maghrib, BAM) have set up a working group to approach second generation microfinance sector reforms including the creation of a microfinance bank licensing regime.
 - **Component II of the Project has supported investments in common infrastructure and tools necessary to advance microfinance and broader digital economy outcomes in Morocco.** The program supported the development of digital financial education tools targeted to vulnerable households and microentrepreneurs.³ To date these tools have been used to train 15,655 households and 4,141 microentrepreneurs working with partners across the microfinance sector including the National Foundation for Financial Education housed at BAM.⁴ Other activities include analytical work related to supply chain finance for rural entrepreneurs and support to make operational Morocco's Observatory for Small and Medium-Sized Enterprises.
 - **Component III of the grant has supported cross-cutting exercises and studies related to financial inclusion in the Kingdom of Morocco.** This includes completing the 2017 Findex survey exercise. This survey assesses financial access and usage and boasts a sample size five times as large as the 2017 Findex update completed in other economies. It was the first time the Moroccan Authorities had agreed to participate in the exercise since the product's inception in 2011 and to make the data public (available on the Findex website).⁵ The findings showed significantly larger financial inclusion gaps than originally anticipated and significant opportunities to bridge financial inclusion through digitizing payments and enhancing outreach to women. Component III also financed capacity building workshop and technical notes to support the development of Morocco's NFIS.
4. **Results Indicators:** Two out of four PDO-level indicators have already been achieved ('total outstanding microcredit portfolio' and 'portfolio at risk'). A third indicator (number of final beneficiaries of microfinance institutions) is nearly met at 925,000 clients against an end-target of 1,100,000 beneficiaries, and the fourth indicator (percentage of adults with an account at a formal institution) is at 56%. At the intermediate indicator level, six of the seven indicators are met, a 50% increase in the number of intermediate indicators achieved since September 2017. Indicators related to financial literacy trainings have significantly exceeded expectations.

² Activities include: regulatory review benchmarking against microfinance guidance as set by the Basel Committee on Banking Supervision; Sectoral studies on market potential, credit risk, and financial integrity risks; Technical workshops providing knowledge exchange with peer Central Banks.

³ Available here: <http://www.cm6-microfinance.ma/fr/e-learning>

⁴ Data draws from the World Bank Group Financial Capability Survey in Morocco. Link to report available here:

<http://www.worldbank.org/en/topic/financialinclusion/publication/2014-morocco-financial-inclusion-and-capability-survey>

⁵ <https://globalfindex.worldbank.org/>



5. **Justification for extension of closing date.** The Government of Morocco (GoM) through its National Financial Inclusion Council presided by the Minister of Finance and the Governor of the Central Bank has: (i) approved a National Financial Sector Strategy (NFIS) on April 1, 2019; and (ii) put in place a steering committee for its implementation. The NFIS runs until April 2024 with ambitious targets towards formal and responsible financial access and usage of financial services for low-income Moroccans.⁶ It is the result of four years of consultation across public and private sector entities relevant to key financial inclusion in the Kingdom. The project activities are aligned with reforms related to microfinance, women's access to finance, and digital payments supported by the Financial Inclusion and Digital Economy Development Policy Financing (IBRD US\$700 million) (Report No. PGD66) that was approved by the World Bank Group's Board of Executive Directors on February 19, 2019.
6. The authorities have requested an extension of the grant's closing date to complete analytical and technical support on priority topics to achieve targets set out in the NFIS. Successful implementation of the NFIS will support achieving the PDO indicators measuring the percentage of adults having access to the formal financial system and the total number of borrowers in the microfinance sector.⁷ The extended closing date will also allow to complete Component I and II activities supporting core reforms. These include second generation microfinance sector reform, in addition to finalizing activities aimed at improving market infrastructure for the microfinance sector, including supporting the Kingdom's Observatory for Small and Medium-Sized Enterprises.
7. Extending the closing date will also allow the authorities to make progress on their ambitious broader financial sector reform agenda. In addition to reforms related to financial inclusion supported by this grant, the authorities are advancing an ambitious reform agenda related to capital markets (new product introduction), financial infrastructure, and financial stability (resolution of troubled loans and new banking law). Since 2013, the World Bank has been supporting this reform agenda through development policy loans and investment project financings related to MSME development.⁸ Because of the comprehensive nature of this reform program, the human resources within the MoEF are often stretched, which translates into needing more time and technical support to complete activities.
8. **Action Plan to Accelerate Implementation.** The project Management Unit (PMU), overseen by the Deputy Director of the Treasury Directorate at the MoEF (Direction du Trésor et des Finances extérieures; DTFE), has taken stock of current implementing arrangements with the objective of ensuring PMU capacities are aligned to the scope and complexity of the operation. The PMU will focus on activities of strategic importance throughout July 2019.
9. **Project Performance.** The team confirms that: i) the PDO remains highly relevant and achievable; ii) that the performance of the PMU has improved over the past 18 months and is satisfactory; iii) the ratings for both Progress towards achievement of PDO and Overall Implementation Progress are Moderately Satisfactory and expected to further improve given delivery schedule of currently active project activities; and iv) the Bank and the Recipient have agreed on actions that will be undertaken by the Recipient to complete the project (see paragraph 9). Disbursement as of May 2019 is US\$2.6 million (or 53%). An additional US\$ 962,000 has been committed for activities that are currently under implementation.

⁶ The strategy calls for increasing the number of adults with access to an account from 20% in 2018 to 50% in 2023 and 75% in 2030, with the emphasis on improving access points, developing digital platforms, financial resilience (savings, insurance) and SME financing.

⁷ Currently 29% of adults have access to the formal financial system (PDO indicator one) against an end target of 51%. The total number of microfinance borrowers (PDO indicator two) stands at 925,000 against an end target of 1,100,000.

⁸ This includes the US\$650 million Capital Markets and SME Finance Development Policy Financing series (2013, 2017), the US\$700 million Financial Inclusion and Digital Economy DPF (2019), and the US\$50 million MSME Development Project (FY2013 – FY2018).



10. There are no outstanding fiduciary (financial management or procurement) issues. Interim financial reporting, audit reports, and procurement plans are up to date. The 2017 audit report was found satisfactory to the Bank and supported the report’s recommendations. The 2018 audit report is due June 30, 2019.

II. DESCRIPTION OF PROPOSED CHANGES

The restructuring seeks to extend the current closing date from June 30, 2019 to July 31, 2019.

I. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Implementation Schedule	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Change in Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓



IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-15084	Effective	31-Jan-2018	30-Jun-2018, 31-Jan-2018, 30-Jun-2019	31-Jul-2019	30-Nov-2019

Note to Task Teams: End of system generated content, document is editable from here.