I. Introduction and Context

Country Context

This document outlines a proposal for a financial intermediary loan to the Kingdom of Morocco for the “Micro, Small and Medium Enterprise (MSME) Development Project” in support of access to finance for MSMEs. This project is 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.

Morocco has witnessed a period of strong economic growth over the past ten years, and made significant inroads in expanding access to finance for both individuals and MSMEs. Sound macroeconomic policies and sustained structural reforms have contributed to higher growth, averaging 4.9 percent over 2001-10, sharply surpassing the average rate of the 1990s (2.8 percent). However, despite these important macroeconomic outcomes, Morocco continues to face significant challenges: High unemployment rates, particularly amongst the youth, a rising budget deficit and an uncertain macroeconomic outlook due to the slowing growth of Morocco’s main trading partners are amongst the key concerns. Similarly, the important gains in financial inclusion have yet to reach sizeable segments of the Moroccan population, particularly small enterprises and individuals in rural areas.

The Moroccan government has recognized the importance of financial inclusion for individuals and MSMEs, and embarked on a comprehensive reform program 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.

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.

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 (Figure 1, annex III). 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 NBFI s. 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 been a regional leader in SME financing, the largest part of bank financing goes to the larger enterprise part of the SME spectrum. Very small enterprises continue to face significant 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 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 a Financial Intermediary Loan (FIL), with a particular emphasis on small enterprise financing. The program supported under the proposed operation would be implemented by the Caisse Centrale de Garantie (CCG).

The proposed operation supports the Moroccan government’s increased efforts to support the development of very small enterprises (VSEs). The government adopted 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 VSB, of which reduced corporate profit tax to 15 percent instead of 30 percent, a tax amnesty for businesses that integrate the formal sector, and tax incentives for individual VSB opting to transform into a corporation.

The proposed operation is closely aligned with the current Country Partnership Strategy for Morocco (2010-2013) discussed by the Board on January 26, 2010. The new strategy proposes three thematic pillars aligned with the development priorities of the country. The first pillar states that the structural transformation of the Moroccan economy will require a comprehensive and coordinated set of policies in many areas, underpinned by a financial sector that better serves smaller firms. The proposed operation is targeting precisely the financial inclusion of this underserved segment of the Moroccan economy. The provision of funding targeted at very small firms may be complemented at a later stage through technical assistance for participating financial institutions to improve the effectiveness of their MSME lending, under the framework for the regional TA window of the MENA MSME Facility. This targeted operation will be complemented by a broader set of policy reforms and actions aimed at improving the enabling environment for MSME finance through the new financial sector DPL.

II. Proposed Development Objective(s)

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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.

Project Beneficiaries:

17. The end beneficiaries of the MSME Facility will be micro, small and medium enterprises. A wider definition of beneficiaries would include Governments, regulators, and financial institutions benefitting from technical assistance. The end beneficiaries for the regional APL will be MSMEs, with an emphasis on very small enterprises (VSEs). The financing of MSMEs will be channeled through eligible financial institutions based on pre-agreed eligibility criteria.

Key Results

18. The following results are expected in fulfillment of the PDO. The results framework has been defined for the APL at a regional level and will be applied to each borrowing country under the APL, the baseline indicators and target values are for the Morocco loan.

MSME Facility:

- At least 4 MENA countries make policy, legal or financial infrastructure reforms to promote access to finance for MSMEs, which are recommended by World Bank Group policy lending or technical assistance.
- Partnerships developed with at least 2 providers of business services and/or equity financing to high potential or start-up SMEs.

APL:

- $50 million additional IBRD lending or guarantees for MSME Finance, within 5 years.
- At least 2 MENA countries borrowing from the APL, within 3 years.
- Participating financial institutions (PFIs) increase their MSME Finance portfolio and the number of new Micro and SME borrowers during the APL period.

APL 2 (Morocco):

- MSME Finance portfolio of participating financial institutions increases by at least 20% within 5 years, and
- Number of new MSME borrowers in PFIs increases by at least 10% within 5 years.

III. Preliminary Description

Concept Description

This project is part of the larger MSME Facility, which aims to provide a comprehensive package of financing and technical assistance for the MENA region, jointly with the IFC. The APL is an IBRD regional financing mechanism that provides a structure for rolling out country level financial intermediary loans (FILs). Country level loans under the APL structure can include a line of credit component and a contingent credit (risk sharing) component, so that the most appropriate instrument can be applied in each market to support MSME Finance.

The APL 2 for Morocco will be a financial intermediary loan of USD 50 million, provided through the regional APL structure, in support of MSME financing. This would be the second loan in an anticipated series of FILs across eligible countries. The main component of this loan is expected to be a credit line of up to USD 50 million. The project could also include a contingent credit (risk sharing) component, to be managed by the IFC and/or the CCG.

The credit line will be administered by the Caisse Centrale de Garantie (CCG) as an implementing agency. The criteria for eligible institutions will be consistent with OP 8.30 and with those defined for the regional APL, and refer to legal status, profitability and asset quality of the institution, commitment and track record in serving the MSME segments, and adherence to prudential standards.

Policy Lending to improve the enabling environment for MSME Finance will complement this loan. The resulting policy and legal reforms will strengthen the impact of the financing provided by the APL, by enabling financial institutions to offer financial services to smaller and under-served MSMEs. A new Financial Sector Development Policy Loan building on successful reforms supported by previous DPLs is under preparation in Morocco: The second pillar will comprise measures to enhance access to small and medium enterprises.
IV. Safeguard Policies that might apply

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VI. Contact point

**World Bank**

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**Borrower/Client/Recipient**

Name: Kingdom of Morocco  
Contact:  
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Tel:  
Email:

**Implementing Agencies**

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