This volume is a product of the staff of the International Bank for Reconstruction and Development / The World Bank. The World Bank does not guarantee the accuracy of the data included in this work. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The material in this publication is copyrighted.

FINANCIAL SECTOR ASSESSMENT PROGRAM

KINGDOM OF MOROCCO

FINANCIAL INCLUSION

TECHNICAL NOTE

JANUARY 2016

This technical note was prepared by a team led by Teymour Abdel Aziz and included Sarah Fathallah, Fredesvinda Montes, Fadwa Bennani, Peter McConaghy, Ines Del Mazo, Oscar Madeddu, Elsa Rodriguez Felipe, Murat Sultanov, Bassim Sharafeldin, Maria Do Ceu da Silva Pereira and Marco Nicoli. The team is grateful for contributions received from Mohammed Khaled, Amine Benjelloun, Houda Zinoun, Meriem Chattou and Hicham Bayali. The report was written under the guidance of Aurora Ferrari and Douglas Pearce and was reviewed by Mahesh Uttamchandani, Roberto Rocha, Jennifer Chien and Leyla Castillo. The technical note was prepared within the framework of the Morocco FSAP, which was led by Gabriel Sensenbrenner (World Bank) and Jianping Zhou (IMF).

THE WORLD BANK
FINANCE AND MARKETS GLOBAL PRACTICE
# CONTENTS

Executive Summary .........................................................................................................................6  
A. Overview of the Real Economy and the Financial Sector .........................................................9  
B. Status of Financial Inclusion: Demand and Supply Side Analysis .........................................10  
C. Market Players and Institutional Potential to Expand Financial Inclusion .........................17  
   C.1. Banks ...............................................................................................................................17  
   C.2. Non-Bank Financial Institutions ....................................................................................18  
D. Legal and Regulatory Framework .............................................................................................21  
   D.1. General Legal and Regulatory Framework .................................................................21  
   D.2. Regulatory Framework for Non-Bank Financial Institutions .......................................22  
   D.3. Financial Consumer Protection ....................................................................................25  
E. Financial Infrastructure .............................................................................................................26  
   E.1. Credit Reporting System ...............................................................................................26  
   E.2. Secured Transactions .......................................................................................................30  
   E.3. Payment Systems, Remittances and Cashless Transactions ...........................................32  
F. Government Policies and Programs .........................................................................................34  
   F.1. National Financial Inclusion Strategy ............................................................................34  
   F.2. Support Mechanisms for SME Finance .........................................................................35  
   F.3. Support Mechanisms for Low-Income Housing Finance ..............................................38  
G. Recommendations .....................................................................................................................40  

II. Annex: Secured Transactions Framework: Selected Issues ...................................................45  
III. Annex: Legal and Regulatory Framework for Microfinance: Selected Issues .....................47
Figures
Figure 1. Supply Side Data: Number of Accounts and Bank Branches ..........................................................10
Figure 2. Share of Adults with Account at a Financial Institution ..............................................................11
Figure 3. Share of Adults that have borrowed from a Financial Institution ..................................................11
Figure 4. Discrepancy between Supply- and Demand-Side Data .................................................................12
Figure 5. Financial Inclusion of Firms in Morocco .......................................................................................16
Figure 6. Evolution of Leasing Finance in Morocco ....................................................................................19
Figure 7. Credit Bureau Coverage (% of adults) .........................................................................................27
Figure 8. CRS: Number of Rejected Contracts.............................................................................................28
Figure 9. CRS: Value of Accepted and Rejected Contracts ........................................................................28
Figure 10. CRS: Number of Contracts ........................................................................................................29
Figure 11. Governance Structure for a National Financial Inclusion Strategy ..............................................35

Tables
Table 1: Key Recommendations ..................................................................................................................8
Table 2. Adults with a Home Construction/Purchase Loan ........................................................................12
Table 3. Use of Cash Based and Cashless Payment Instruments .................................................................13
Table 4. ATM Network and Payment Card Ownership ...............................................................................14
Table 5. Main Mode of Deposit and Withdrawal Transactions ..................................................................14
Table 6. Remittances ....................................................................................................................................15
Table 7. Overview of Bank Lending to Large Firms and SMEs .................................................................18
Table 8. Factoring: Cross Country Comparison ..........................................................................................20
Table 9. Factoring: Time Series for Morocco ..............................................................................................20
Table 5. Selected Incentives for No-Frills Account Use from International Experience .......................22
Table 11. Detailed Recommendations .......................................................................................................40

Boxes
Box 1. Guidance on Microfinance Activities and the Core Principles for Effective Banking Supervision ..............................................................................................................................24
Box 2. Overview of Complementary Instruments in Support of MSME Finance ................................37
Box 3: Evolution of the Legal Framework for Microfinance ....................................................................47
# ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABB</td>
<td>Al-Barid Bank</td>
</tr>
<tr>
<td>ACH</td>
<td>Automated Clearing House</td>
</tr>
<tr>
<td>APSF</td>
<td>Professional Association of Finance Companies (<em>Association Professionnelle des Societes de Financement</em>)</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>BAM</td>
<td>Central Bank of Morocco (<em>Bank Al-Maghrib</em>)</td>
</tr>
<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
</tr>
<tr>
<td>BCP</td>
<td>Basel Core Principles for Effective Banking Supervision</td>
</tr>
<tr>
<td>CB</td>
<td>Credit Bureau</td>
</tr>
<tr>
<td>CCG</td>
<td>Central Guarantee Fund (<em>Caisse Centrale de Garantie</em>)</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>CGCR</td>
<td>General Principles for Credit Reporting</td>
</tr>
<tr>
<td>CMI</td>
<td>Centre Monétique Interbancaire</td>
</tr>
<tr>
<td>CMMB</td>
<td>Moroccan Banking Mediation Centre (<em>Centre Marocain de Médiation Bancaire</em>)</td>
</tr>
<tr>
<td>CPU</td>
<td>Consumer Protection Unit</td>
</tr>
<tr>
<td>CRS</td>
<td>Credit Reporting System</td>
</tr>
<tr>
<td>ESM</td>
<td>Experian Services Maroc</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSIMT</td>
<td>Clearing and Settlement System for Conventional Payment Instruments (<em>Groupement pour un Système Interbancaire Marocain de Télécompensation</em>)</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MAD</td>
<td>Moroccan Dirham</td>
</tr>
<tr>
<td>MEF</td>
<td>Ministry of Economy and Finance</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
</tr>
<tr>
<td>MTO</td>
<td>Money Transfer Operator</td>
</tr>
<tr>
<td>NFIS</td>
<td>National Financial Inclusion Strategy</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
</tr>
<tr>
<td>OMPIC</td>
<td>Moroccan Office of Industrial and Commercial Property (<em>Office Marocain de la Propriété Industrielle et Commerciale</em>)</td>
</tr>
<tr>
<td>PCG</td>
<td>Partial Credit Guarantee</td>
</tr>
</tbody>
</table>
PoS  Point of Sale
RSP  Remittance Service Provider
SME  Small and Medium Enterprise
UK   United Kingdom
USD  United States Dollar
WB   World Bank
WBG  World Bank Group

Note to Readers:

Scope: This note covers a large spectrum of financial inclusion topics in Morocco, mostly from the vantage point of banks, microcredit associations and finance companies. However, limits to the FSAP budget prevented extending the analysis to important policy initiatives or subjects, including low-income housing finance, rural finance, financing start-ups, promoting long-term saving, facilitating SME listings, the role of the National Initiative for Human Development or tax incentives to formalize economic activity.

Comparator/Peer Countries: The analysis relies on benchmarking Morocco to the averages of (i) MENA countries and (ii) its income group as defined by the World Bank. In addition, Peru, South Africa and Turkey were selected as emerging market peers based on income level, financial depth and degree of financial inclusion in specific areas: Peru (microfinance), South Africa (low-income household access), Turkey (SME finance).
EXECUTIVE SUMMARY

1. *Morocco has made important progress in economic development and financial inclusion since the 2007 FSAP.* Sustained economic growth has contributed to reducing poverty and greater sharing of economic prosperity. The financial sector has emerged as one of the most developed and inclusive in the Middle East and North Africa (MENA) region. Private credit to GDP (73 percent) and household credit to GDP (31 percent) are also above income group averages. The share of SMEs with a loan or line of credit has doubled since 2007¹, and an estimated 41 percent² of Moroccan adults use a formal financial product or service, also above both regional and income group averages.

2. *Progress in financial inclusion reflects the authorities’ commitments at the highest level.* Both the Ministry of Economy and Finance (MEF) and the Central Bank (Bank Al-Maghrib, BAM) have pursued multi-year strategies to foster financial inclusion. Milestones include the transformation of the Moroccan Post into a commercial bank that has opened six million accounts between 2009 and 2014. The launch of the first private credit bureau in 2009 enhanced the quality and availability of credit information. The MEF’s loan guarantee program has given low-income households access to affordable financing for their housing needs and helped SMEs gain access to bank credit. Policies on consumer protection and financial literacy help ensure the sustainability of financial inclusion gains.

3. *Gains in financial access were supported by reforms in the legal, regulatory and supervisory framework.* Leasing and factoring have emerged as a key source of enterprise financing thanks to such reforms. The microcredit sector is back on a growth path following a serious crisis in 2008, with major improvements in the governance and oversight of microcredit associations. A new banking law enacted in 2015 includes a legal mandate for consumer protection and introduces licensing and supervision of new institutions: (i) Participative banks; (ii) non-bank providers of payment and transaction account services.

4. *While important progress to expand financial access was reached, challenges remain large.* Important segments of the Moroccan population remain financially excluded and are disproportionately female, poor, and living in rural areas. At firm level, important parts of SME segments remain underserved: small firms; new firms; female owned; innovative firms are less likely to get financing due to higher risks and/or costs. But even well-established SMEs have challenges to sustain and attract new external financing, challenges which are exacerbated by difficulties in the use, registration and enforcement of collateral.

5. *Morocco’s key challenge lies in maintaining its successful expansion of financial access, while sustaining achieved gains in an increasingly maturing financial system.*

---

¹ Source: WB Enterprise Surveys.
² Estimate from the WB’s Financial Inclusion and Capability Survey (2013), based on a representative survey of households.
Various authorities have demonstrated strong commitment over the years, but efforts tended to be fragmented across sectors and institutions. The contemplated National Financial Inclusion Strategy (NFIS) has the potential to coordinate and unify the agenda. But success stories from other countries show that such a strategy requires dedicated financial and human resources, a representative governance to decide on goals and oversee implementation, and a robust monitoring and evaluation framework to track progress toward goals.

6. **National inclusion strategies that worked in other countries were anchored in:** (i) **strengthening the enabling environment**, (ii) **financial infrastructure** and (iii) **policy instruments that support the achievement of specific targets.** The authorities are already pursuing several initiatives that will support a national strategy.

7. **Enabling environment:** The strategy should identify obstacles that prevent financial institutions from targeting underserved segments. One obstacle is the blanket cap on lending rates that applies to any loan issued by banks and finance companies regardless of its cost or risk. Thought should also be given to reviewing and strengthening the legal, regulatory and supervisory framework for microfinance in line with the Basel Committee’s guidance for the application of the Basel Core Principles for Effective Banking Supervision (BCP) to microfinance activities. The purpose is to allow MFIs that meet BAM’s requirements to broaden their financial services, including offering savings accounts.

8. **Financial infrastructure:** The strategy should aim to lower costs in payment and money transfer chains, and incentivize the use of electronic payments, including payments from and to public entities. The credit reporting system would benefit from higher data quality and greater data coverage beyond financial institutions, as well as stronger governance and oversight. Most of these reforms are currently being addressed by BAM. The ongoing reform of the legal framework for secured transactions is expected to provide MSMEs with more options for accessing bank credit.

9. **Support instruments:** The guarantee programs in support of low-income housing and SME finance have demonstrated impact, but could benefit from further improvements to increase their effectiveness, efficiency and results measurement. The more recent crisis response instruments in support of SME finance should be integrated a comprehensive financial inclusion strategy to maximize impact at least cost.
Table 1: Key Recommendations

<table>
<thead>
<tr>
<th>Areas</th>
<th>Recommendations</th>
<th>Responsibility</th>
<th>Timeframe*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Inclusion</strong></td>
<td><strong>National Financial Inclusion Strategy</strong> Establish a well-resourced governance and a robust monitoring and evaluation framework for the proposed National Financial Inclusion Strategy.</td>
<td>BAM/MEF</td>
<td>I</td>
</tr>
<tr>
<td><strong>Financial Sector Regulation</strong></td>
<td>Review the global ceiling on lending rates, which currently prevents financial institutions from adequately pricing loans associated with higher cost and/or risk.</td>
<td>MEF</td>
<td>NT</td>
</tr>
<tr>
<td><strong>Microfinance</strong></td>
<td>Amend the legal, regulatory and supervisory framework for microfinance in line with Basel Committee’s guidance for the application of the Basel Core Principles for Effective Banking Supervision to microfinance activities and global good practices to enable MFIs qualified under BAM criteria to broaden their financial services, including offering savings accounts.</td>
<td>BAM/MEF</td>
<td>NT</td>
</tr>
<tr>
<td><strong>Credit Reporting System</strong></td>
<td>The ongoing reform of the credit reporting system should cover the following key areas:</td>
<td>BAM</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>Improve the quality of data submitted by financial institutions to the credit bureau; ensure the provision of value added services, and expand the range of data providers to non-financial institutions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review the governance framework of the credit reporting system, including provisions on service continuity, provider licensing and oversight, market conduct, data quality and data protection.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cashless Transactions</strong></td>
<td>Reduce obstacles to the use of electronic payments and consider measures to incentivize their use by the public and private sector.</td>
<td>Various</td>
<td>NT</td>
</tr>
</tbody>
</table>

*"I" is within one year; "NT" is 1-3 years.
A. Overview of the Real Economy and the Financial Sector

1. **Morocco has witnessed a period of strong economic growth over the past ten years.** Sound macroeconomic policies and sustained structural reforms have contributed to economic growth – averaging nearly 5 percent over 2001-2011 – and contributed to the reduction of poverty and shared prosperity. The extreme poverty rate dropped from 2 to 0.3 percent over the period, while the wellbeing of the bottom 40 percent of the population grew in both absolute and relative terms.

2. **Despite positive macro outcomes, Morocco continues to face challenges of inequality and poverty.** Morocco’s Gini coefficient of 0.41 reflects still high level of inequality, with 13.3 percent of the population living just above the poverty line. Disparities remain between regions, but also within cities. Unemployment, averaging at 9 percent, is arguably the most critical concern, particularly in cities (13.7 percent compared to 4 percent in rural areas), among women (at 10 percent compared to 9 percent for men, however, with a very low participation rate of 25 percent), youth (18 percent, and only 32 percent participate), and educated individuals. The lack of economic opportunities also translates in inequality, exclusion, lack of access to essential goods and services.

3. **A more competitive and inclusive financial sector can help address these challenges.** The financial sector spurs economic opportunity by allocating savings to productive activities, generating growth and the vital employment opportunities that Morocco needs. A large share of these opportunities are generated by Moroccan SMEs, which account for more than 95 per cent of the total number of operating enterprises, and are estimated to contribute to over 20 per cent to GDP, to over 30 of exports and 50 per cent to total employment. But beyond the allocation of fund towards firms, the financial sector also plays a pivotal role in raising the standards of living of households by creating opportunities to better allocate their savings over time, giving them access to basic needs such as housing or education at an affordable cost.

4. **The financial sector already contributes significantly to finance the economy and households, although gaps remain.** Private credit to GDP (76 percent) and household credit to GDP (26 percent) have been rising and are above regional and income group averages. Part of this growth has translated into gains in access: the share of corporate bank loans to SMEs amounted to 29 per cent by end 2014, and an estimated 41 percent of Moroccan adults use a formal financial product or service, placing Morocco above regional and income group averages. However, important segments remain underserved. On the firm level, financial exclusion particularly affect certain groups, which include smaller firms and younger enterprises, which are associated with higher risks, but also higher contributions to employment creation. A similar pattern is observed at the household level:

---

3 Source: BAM Annual Report (2013)
4 Source: BAM (December 2014)
disproportionately large share of the financially excluded adults in Morocco is female, poor, and living in rural areas. Expanding financial access to these groups contributes to their well-being and helps them to invest in education, health and other building blocks of a more prosperous existence.

B. Status of Financial Inclusion: Demand and Supply Side Analysis

Access to Finance for Individuals

5. Morocco has made significant progress in advancing financial inclusion for households since the 2007 FSAP update. Headline indicators on the supply side reveal strong outcomes in the use and availability of financial services. The number of accounts has risen steadily over the past seven years, surpassing the regional and income group average. This trend is mirrored by the growth in physical infrastructure: There are approximately 24 commercial bank branches per one thousand adults and 726 commercial bank accounts per one thousand adults, significantly above regional and income group averages. The transformation of the financial services of the Moroccan post into a commercial bank (Al-Barid Bank, ABB) in 2009 had a visible impact on account ownership and branch network (Figure 1).

Figure 1. Supply Side Data: Number of Accounts and Bank Branches

<table>
<thead>
<tr>
<th>Deposit accounts with commercial banks per 1,000 adults</th>
<th>Commercial bank branches per 100,000 adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco, Turkey, Peru, South Africa</td>
<td>Morocco, Turkey, Peru, South Africa</td>
</tr>
</tbody>
</table>

Source: IMF Financial Access Survey

6. Recent demand side surveys confirm the increase in financial access, but reveal considerable variations within the population. The World Bank’s Global Findex survey of 2011 estimated that 39.1 percent of Moroccan adults have an account at a financial institution (Figure 2), but figures for women, low-income households and young adults were significantly lower. These findings are consistent with the 2013 ‘Financial Inclusion Survey’. Men are 20 percentage points more likely than women to be financially included, and there is a stark inequality of financial inclusion across urban and rural lines and between the poorest and the richest income quartiles. The Survey found that 53 percent of adults in urban areas use a formal
financial product or service, and 19 percent in rural areas (average: 41 percent). The most commonly reported obstacles to formal use is lack of money (37 percent), lack of need (27 percent), and usage costs (24 percent). Adults not participating in the formal financial system use informal methods to save and borrow: 33 percent report using only informal methods to save, and 10 percent rely exclusively on informal lenders. 49 percent of adults do not save at all and 72 percent of adults do not borrow.

Figure 2. Share of Adults with Account at a Financial Institution

![Figure 2](image)


Figure 3. Share of Adults that have borrowed from a Financial Institution

![Figure 3](image)

Source: WB Findex, except WB Financial Inclusion Survey for Morocco 2014 observation. Note: the WB Findex indicator pertains to the share of adults which have borrowed from a financial institution in the year preceding the survey.
7. The share of Moroccan adults with a mortgage loan is higher than in peer countries (Table 2). This result was supported by government programs providing credit guarantees to banks for low-income housing (see section F.3. Support Mechanisms for Low-Income Housing Finance). This finding is mirrored in supply side data: Total mortgage loans to individuals at end 2014 amounted to MAD 170 billion, corresponding to 22 percent of total bank credit. Housing finance has been growing at a sustained rate, helped by the general improvement of affordability of loans through increasingly longer maturities (up to 25 years) and lower interest rates (91 percent of loans had interest rates in a 4 percent to 8 percent range in 2013, against 45 percent in 2009).

Table 2. Adults with a Home Construction/Purchase Loan

<table>
<thead>
<tr>
<th>Outstanding loan for</th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>home construction (% age 15+)</td>
<td>3.2</td>
<td>5.1</td>
<td>5.8</td>
<td>1.8</td>
<td>8.8</td>
<td>4.5</td>
</tr>
<tr>
<td>home purchase (% age 15+)</td>
<td>4.8</td>
<td>1.1</td>
<td>4.3</td>
<td>1.4</td>
<td>4.5</td>
<td>2.1</td>
</tr>
<tr>
<td>female (% age 15+)</td>
<td>3.2</td>
<td>1.1</td>
<td>4.1</td>
<td>1.9</td>
<td>3.4</td>
<td>1.9</td>
</tr>
<tr>
<td>poorest 40% (% age 15+)</td>
<td>2.2</td>
<td>0.6</td>
<td>1.6</td>
<td>1.6</td>
<td>3.6</td>
<td>1.9</td>
</tr>
<tr>
<td>rural (% age 15+)</td>
<td>1.3</td>
<td>1.8</td>
<td>1.4</td>
<td>0.3</td>
<td>4.0</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: WB Findex 2011

8. There remains unmet demand for housing finance, particularly amongst low-income groups. Beyond government support mechanisms, mortgages are typically available only to households with regular salaries (public or private sector), excluding workers in the informal sector which account for a significant share of the total workforce. Banks have reported difficulties in serving the housing finance market of the lowest-income segment profitably. MFIs face hurdles in providing housing loans due to regulatory and institutional constraints (see D.2. Regulatory Framework for Non-Bank Financial Institutions).
9. **The use of electronic payments is comparable to peers, but checks are still widely used.** A study\(^5\) conducted by BAM in 2013 identified credit transfers are the most widely used electronic payment instrument (25% of all cashless transactions), but concluded that overall usage of electronic payments remains low, with each person performing an average of 3 cashless transactions per year. This mirrors the findings of the 2011 Findex survey (Table 3). A number of factors contribute to these outcomes *(see E.3. Payment Systems, Remittances and Cashless Transactions)*.

**Table 3. Use of Cash Based and Cashless Payment Instruments**

<table>
<thead>
<tr>
<th>(% of adults, age 15+)</th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used checks to make payments</td>
<td>12.7</td>
<td>0.5</td>
<td>2.9</td>
<td>1.5</td>
<td>1.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Used electronic transaction to make payments</td>
<td>7.4</td>
<td>1.9</td>
<td>13.1</td>
<td>11.1</td>
<td>0.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*Source: WB Findex 2011*

10. **Debit cards are the second most developed electronic payment mechanism.** Their usage stands at 19 percent of total of cashless transactions, according to BAM’s 2013 statistics, a finding also reflected in Findex (Table 4). In the period 2006-2011, the domestic card payment transactions have grown 24 percent year on year in average, the number of debit cards have doubled to around 7.8 million cards – over 95 percent of all cards issued. Their usage is still small: It is estimated that around 10 percent of debit cards are used for payments at least once a year. Credit card ownership and usage remains very small (Table 4).

11. **The usage of payment cards is limited by the ATM and PoS network.** Industry experts reckon the number of potential merchants in Morocco is around 100,000 against around 26,000 currently accepting payment cards. The slow expansion of PoS may be partially explained by perceived high usage fees for merchants. The number of ATMs per 100,000 adults is above the regional and income group average, but significantly below selected peers (Table 4). The modest ATM density contributes to the stronger reliance on conventional transaction methods to deposit and withdraw funds from financial institutions (Table 5).

---

\(^5\) Source: BAM (Instruments de Paiement Échangés à Travers les Circuits Bancaires, 2013).
Table 4. ATM Network and Payment Card Ownership

<table>
<thead>
<tr>
<th></th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated teller machines (ATMs)</td>
<td>21.5</td>
<td>28.9</td>
<td>59.1</td>
<td>58.8</td>
<td>12.3</td>
<td>13.2</td>
</tr>
<tr>
<td>(per 100,000 adults)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card (% age 15+)</td>
<td>4.5</td>
<td>10.0</td>
<td>7.8</td>
<td>45.1</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Debit card (% age 15+)</td>
<td>22.4</td>
<td>14.1</td>
<td>45.3</td>
<td>56.6</td>
<td>5.5</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: WB Findex 2011

Table 5. Main Mode of Deposit and Withdrawal Transactions

<table>
<thead>
<tr>
<th>Main mode of deposit (% with an account, age 15+)</th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>3.2</td>
<td>2.6</td>
<td>13.8</td>
<td>63.9</td>
<td>7.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Bank agent</td>
<td>1.6</td>
<td>1.6</td>
<td>0.2</td>
<td>0.7</td>
<td>4.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Bank teller</td>
<td>56.3</td>
<td>65.7</td>
<td>71.4</td>
<td>27.3</td>
<td>65.7</td>
<td>82.5</td>
</tr>
<tr>
<td>Retail store</td>
<td>2.9</td>
<td>3.5</td>
<td>1.0</td>
<td>0.0</td>
<td>1.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main mode of withdrawal (% with an account, age 15+)</th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>27.0</td>
<td>43.6</td>
<td>88.9</td>
<td>89.1</td>
<td>42.4</td>
<td>28.1</td>
</tr>
<tr>
<td>Bank agent</td>
<td>1.6</td>
<td>0.5</td>
<td>0.2</td>
<td>0.0</td>
<td>0.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Bank teller</td>
<td>43.2</td>
<td>40.1</td>
<td>7.9</td>
<td>9.3</td>
<td>50.2</td>
<td>60.0</td>
</tr>
<tr>
<td>Retail store</td>
<td>3.3</td>
<td>2.0</td>
<td>1.8</td>
<td>0.2</td>
<td>0.9</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: WB Findex 2011

12. Remittance services are widely used both into, but especially, within the country, and costs are comparable to peers (Table 6). The World Bank Remittance Prices Worldwide database has monitored the cost of sending money to Morocco since September 2008. The average cost of sending money from France, Germany, Italy, the Netherlands, and Spain, has dropped over the past six years from 12.64 to 8.03 percent and is comparable to international benchmarks. Among other factors, competition among players intensified after 2010 when BAM started to ban exclusivity agreements.
Table 6. Remittances

<table>
<thead>
<tr>
<th>Used an account at a financial institution to send remittances</th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>all adults (% age 15+)</td>
<td>10.3</td>
<td>3.1</td>
<td>10.0</td>
<td>7.9</td>
<td>0.5</td>
<td>2.9</td>
</tr>
<tr>
<td>female</td>
<td>5.5</td>
<td>1.4</td>
<td>7.2</td>
<td>3.7</td>
<td>0.2</td>
<td>2.3</td>
</tr>
<tr>
<td>poorest 40%</td>
<td>5.2</td>
<td>0.8</td>
<td>4.7</td>
<td>5.7</td>
<td>0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>rural</td>
<td>7.2</td>
<td>3.6</td>
<td>8.6</td>
<td>10.3</td>
<td>0.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Mobile phone used to send money (% age 15+)</td>
<td>5.1</td>
<td>1.4</td>
<td>5.4</td>
<td>2.2</td>
<td>0.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Average Cost of Sending USD200 to Selected Country (%)</td>
<td>8.1</td>
<td>5.8</td>
<td>9.6</td>
<td>8.0</td>
<td>8.1</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: WB Findex 2011, RPW, FinStats 2015

Access to Finance for Small and Medium Enterprises

13. **Morocco has made recent progress at addressing financing gaps of SMEs.** The share of formal firms with a loan and line of credit has doubled since 2007\(^6\) across all size groups, placing Morocco above regional and income group peers (Figure 5). This outcome was facilitated by government programs in support of access to finance for SMEs, which account for more than 90 per cent of the total number of operating enterprises, contributing to over 20 percent to GDP, to over 30 percent of exports and 50 percent to total employment.\(^7\) A more detailed discussion of public support programs for SME finance is provided in section F.

14. **Gains in SME access pertain both to short term and long term credit, but challenges remain.** Demand side data suggests that access to savings or deposit accounts is high amongst all firm size groups, while access to credit is more unequal, showing remaining variations between small, medium and large firms (Figure 5a). Firms are increasingly using banks to finance their investments (b and c) as well as their working capital (d and e). However, the proportion of loans requiring collateral and the amount of collateral needed per loan has only marginally decreased since 2007, which may partially explain the comparatively high share of firms which consider access to financing to be a major constraint (f).

---

\(^6\) The data is based on an enterprise survey of formal firms conducted in Morocco in 2013. The survey does not cover firms operating in the informal sector. The full data set, sample size and methodology can be viewed under the following link: http://www.enterprisesurveys.org/data/exploreeconomies/2013/morocco

\(^7\) BAM Annual Report (2013)
Figure 5. Financial Inclusion of Firms in Morocco

a. Share of Moroccan Firms with Deposit Accounts and Loan/Line of Credit

b. % of firms using banks to finance investments

c. % of investments financed by banks

d. % of firms using banks to finance working capital

e. % of working capital financed by banks

f. Benchmarking of headline financial access indicators for firms with comparator countries

<table>
<thead>
<tr>
<th></th>
<th>Small (5-19)</th>
<th>Medium (20-99)</th>
<th>Large (100+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco 2007</td>
<td>86.8</td>
<td>33.4</td>
<td>90.0</td>
</tr>
<tr>
<td>Morocco 2013</td>
<td>97.0</td>
<td>51.9</td>
<td>84.0</td>
</tr>
<tr>
<td>Peru</td>
<td>87.4</td>
<td>66.8</td>
<td>47.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>78.7</td>
<td>40.2</td>
<td>28.9</td>
</tr>
</tbody>
</table>

Source: WB Enterprise Survey Database
C. Market Players and Institutional Potential to Expand Financial Inclusion

C.1. Banks

15. **Banks continue to be the main provider of financial services.** In addition to the classic savings and lending products, banks provide a broad range of financial services, including mortgage finance, payment services and money transfers. A number of banks have developed ‘Low Income Banking’ (LIB) strategies and developed standardized packages of basic financial services in an effort to capture new market segments, leveraging on the distribution networks of agents, which include money transfer companies and MFIs.

16. **The postal bank (Al-Barid Bank, ABB) has emerged as a leading provider of banking services to low-income groups in rural areas.** The launch of ABB in 2009 has provided many low-income clients with access to savings, insurance, and money transfer products, reaching 5.7 million deposit and savings accounts by end 2014 (31 percent of all bank accounts). This growth was facilitated by an extensive distribution network which includes branches and agents. The provision of credit is limited to housing loans through a partnership with a mortgage lender, but ABB intends to underwrite loans on its own once BAM deems it equipped to do so.

17. **Despite efforts to expand outreach to low income groups, banks struggle to serve them profitably.** A number of banks have scaled down their financing of low-income housing despite a major program of state guarantees. Three banks account for 95% of all mortgages to this segment.

18. **Banks remain also the principal source of external finance for SMEs, although non-bank financial institutions are growing.** Bank credit to SMEs amounted to MAD 104,150 million as of December 2013, corresponding to 28 percent of all corporate loans (Table 7). Leasing assets stood at MAD 41,846 million in December 2014, with an estimated 80 percent held by SMEs.

---

8 This figure pertains to mortgages backed by a credit guarantee product targeting low-income households (FOGARIM) in 2014.
Table 7. Overview of Bank Lending to Large Firms and SMEs (in MAD bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large firms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Short term credit</strong></td>
<td>246</td>
<td>219</td>
<td>206</td>
<td>74</td>
<td>75</td>
<td>78</td>
</tr>
<tr>
<td><strong>Medium/long term</strong></td>
<td>82</td>
<td>73</td>
<td>69</td>
<td>25</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>328</td>
<td>292</td>
<td>275</td>
<td>99</td>
<td>100</td>
<td>104</td>
</tr>
<tr>
<td><strong>SMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Short term credit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medium/long term</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BAM

19. **The leading five banks account for more than 95 percent of SME loans.** They have developed specialized SME units, supported by important public support instruments (*see section F.2. Support Mechanisms for SME Finance*). Crédit Populaire du Maroc has a strong foothold in retail and SME finance due to its cooperative structure and large branch network. Attijariwafa Bank, Banque Marocaine du Commerce Exterieur and Société Générale Maroc also have sizeable SME portfolios. Farmers and agricultural SMEs are predominantly served by Crédit Agricole Maroc.

20. **Banking sector concentration is more pronounced for very small enterprises**. The two leading banks in this segment account for more than 80 percent of total credit. Credit to this segment has been on a declining trend and exhibits the highest NPL ratios of all lending. Banks report that the very small enterprise portfolio is less profitable than other segments and continue to adjust their business model to improve the risk/return profile of this segment.

C.2. Non-Bank Financial Institutions

Microfinance

21. **Microfinance institutions have become a viable source of financing for low-income populations, microenterprises and small firms.** Similar to the banks, the microfinance sector is concentrated: The three largest microfinance institutions (MFIs) – Al Amana, Attawfiq and Albaraka – account for roughly 95 percent of market share. The remaining 10 are small, mostly locally operating MFIs. The main product is microcredit for productive purposes, followed by much smaller volumes of home improvement loans (up to a specified limit). MFIs are not allowed to provide other financial services by themselves, but can offer more products as agents, including savings, payment cards, money transfer and insurance. However, these products still represent a small portion of the MFIs’ operations and revenue.

22. **The microfinance sector underwent a crisis in 2007, which led to a sharp drop in profitability and growth.** The crisis has preceded by years of rapid growth in clients and credit volumes, which proved to be unsustainable in light of weaknesses of the sector’s governance, risk management, oversight and financial infrastructure. These weaknesses contributed to a

---

9 Very small enterprises are firms with a turnover of less than MAD 3 million.
rise in NPLs and fraudulent practices which gained pace in 2007 and lead to a near collapse of the then second largest MFI, which was absorbed by another MFI with government intermediation. The crisis resulted in a strengthening of the sector’s oversight, financial infrastructure and institutional capacity, which have paved the way for the sector’s recovery.

23. **MFIs currently reach about five percent of the adult population.** Data on the income of borrowers suggests that MFIs target low-income clients. Approximately 16 percent of those in the poorest two income quintiles report having used a microfinance product as compared to 11 percent among the rest of the population. Data also indicates that MFIs don’t compete with banks on that clientele: Just one percent of adults with an outstanding loan from a MFI report also having credit from a bank, and only eight percent of these adults have a savings or deposit account with a bank.

**Leasing**

24. **Leasing has emerged as an important source of investment financing for Moroccan SMEs.** The leasing sector has grown at comparable rates with international peers, a development that was enabled by a sound legal and regulatory framework. The estimated leasing penetration rate\(^\text{10}\) stood at around 16 percent by December 2014, which is relatively high both in a regional and income group comparison. Most of the leasing credit is provided to finance moveable assets, but the share of immovable assets has grown over the last few years to reach a third of total leasing assets (Figure 6).

**Figure 6. Evolution of Leasing Finance in Morocco**

<table>
<thead>
<tr>
<th>Evolution of Leasing Assets (MAD mn)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moveable Assets</td>
<td>24,276</td>
<td>26,051</td>
<td>27,431</td>
<td>27,766</td>
<td>27,403</td>
<td>26,794</td>
</tr>
<tr>
<td>Immovable Assets</td>
<td>9,812</td>
<td>10,778</td>
<td>12,333</td>
<td>13,089</td>
<td>13,915</td>
<td>15,051</td>
</tr>
<tr>
<td>Total Assets</td>
<td>34,088</td>
<td>36,830</td>
<td>39,764</td>
<td>40,855</td>
<td>41,319</td>
<td>41,846</td>
</tr>
</tbody>
</table>

*Source: APSF*

\(^{10}\) Annual leasing volume divided by gross fixed capital formation.
Factoring

25. Factoring, an important source of working capital financing for SMEs, has seen important growth in Morocco since the last FSAP update. The market penetration, measured as factoring volume/GDP, stood at 3.6 percent, placing Morocco significantly ahead of the regional and income group average (Table 8). Similar to the leasing activity, the sector’s growth was facilitated by a favorable legal and regulatory framework and accelerated by the difficult domestic economic environment and the increase in payment delays, which has raised the working capital financing needs for SMEs and, correspondingly, increased the demand for factoring, as demonstrated in Table 9.

Table 8. Factoring: Cross Country Comparison

<table>
<thead>
<tr>
<th></th>
<th>Morocco</th>
<th>Peru</th>
<th>South Africa</th>
<th>Turkey</th>
<th>MENA</th>
<th>Lower middle income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Factoring Volume/GDP</td>
<td>3.6</td>
<td>5.6</td>
<td>7.6</td>
<td>5.4</td>
<td>1.1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: FinStats

Table 9. Factoring: Time Series for Morocco (factoring volume, MAD million)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Volume</td>
<td>5 249</td>
<td>6 178</td>
<td>7 354</td>
<td>9 152</td>
<td>11 867</td>
<td>21 492</td>
<td>22 296</td>
<td>31 130</td>
</tr>
<tr>
<td>Import</td>
<td>834</td>
<td>675</td>
<td>495</td>
<td>360</td>
<td>105</td>
<td>436</td>
<td>291</td>
<td>218</td>
</tr>
<tr>
<td>Export</td>
<td>1 407</td>
<td>1 292</td>
<td>1 187</td>
<td>1 278</td>
<td>1 207</td>
<td>712</td>
<td>747</td>
<td>766</td>
</tr>
<tr>
<td>Domestic</td>
<td>3 008</td>
<td>4 211</td>
<td>5 672</td>
<td>7 514</td>
<td>10 555</td>
<td>20 344</td>
<td>21 259</td>
<td>30 145</td>
</tr>
</tbody>
</table>

Source: APSF
D. Legal and Regulatory Framework

D.1. General Legal and Regulatory Framework

26. The regulatory framework for financial services enables financial access, but could be improved to reduce obstacles and provide incentives for financial inclusion. The authorities should identify existing barriers that hinder the availability and cost of financial services to low-income populations. This includes revisiting the current interest rate cap which restricts financial institutions from adequately pricing costlier and riskier loans, and therefore holds back the expansion of access to credit services. Furthermore, additional improvements could be made by monitoring the impact of policy measures aimed at facilitating financial access and considering additional measures to facilitate access and usage of financial services.

Access to Deposit and Savings Accounts

27. The authorities made considerable efforts to promote access and usage of deposit accounts, but barriers remain. In 2010, BAM issued two Directives mandating banks to offer 16 services free of charge, such as opening an account to perform basic operations (e.g. receiving salaries, ATM withdrawals, transfers to other accounts within the same bank, etc.). Banks are required to waive minimum transaction/balance requirements and closing fees, and limit account maintenance fees for these accounts. However, the impact of these measures remains unclear due to the lack of data. The 2013 Financial Inclusion survey still found high costs as the main reason preventing unbanked Moroccans to open an account, which may be related to other barriers (e.g. distance from branch), but may also indicate a lack of awareness. The authorities should assess the impact of the basic account regulations and identify remaining bottlenecks, which could involve adjustments to the existing framework or new measures to incentivize account opening and use (see Table 10 for examples in other countries).

---

11 Directive n°1/G/10 relative aux services bancaires minimums devant être offerts par les banques à leur clientèle, à titre gratuit ; Directive n°4/G/10 relative à l’ouverture de comptes de dépôts à vue, sans versement de fonds au préalable.
12 Accounts that are inactive for 6 months from the account opening date can be closed by the bank without prior notice to the client.
Table 10. Selected Incentives for No-Frills Account Use from International Experience

<table>
<thead>
<tr>
<th>Country</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>“Directive of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment with basic feature” provides all EU consumers with the right to open a basic payment account allowing them to perform essential operations, such as receiving salary, pensions, and allowances, as well as paying utility bills. In addition, payment account switching is mandated, establishing a simple and quick procedure for consumers to switch from their existing account to a payment account.</td>
</tr>
<tr>
<td>India</td>
<td><em>Pradhan Mantri Jan Dhan Yojana</em> is a scheme for comprehensive financial inclusion launched by the Prime Minister of India in August 2014, aiming at achieving universal access to banking facilities for all Indian households, starting with “Basic Banking Accounts”. Opening a bank account was not deemed sufficient to tackle financial inclusion, so it was combined with overdraft facility of Rs.5000 (USD 82), granted after 6 months of the account opening, and a debit card with inbuilt accident insurance cover to encourage the use of the account.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>“Regulation 25 of July 2013” of Paraguay’s Banking Superintendency related to basic savings accounts offers partial or total exemption of commissions, charges and fees as compared to conventional deposit accounts for individuals, and can be opened remotely by submitting a copy of the ID remotely. In turn, these basic savings accounts can only be in local currency and are limited to a maximum monthly deposit.</td>
</tr>
<tr>
<td>UK</td>
<td>The Money Advice Service published a “Basic Bank Accounts” guide to educate consumers about how basic bank accounts work and how to get one, including a checklist and table comparing the features of basic bank account products offered in the UK.</td>
</tr>
</tbody>
</table>

Access to Credit

28. **The current lending rate cap prevents financial institutions to recover the operational costs of loans to underserved groups.** The lending interest rate cap is calculated as the weighted average interest rate on consumer loans applied by credit institutions during the previous year plus 200 basis points. The cap obstructs credit institutions from adequately pricing loans associated with higher transactions costs (e.g. microloans) and/or risks (e.g. start-up firms). It is recommended that the interest rate cap is lifted and replaced by a stronger consumer protection and financial literacy framework (see section D.3. Financial Consumer Protection).

D.2. Regulatory Framework for Non-Bank Financial Institutions

Microfinance

29. **The legal and regulatory framework for microfinance was established in 1999 in an effort to regulate the nascent microcredit sector.** Policymakers defined microcredit as lending for productive purposes, and to set modalities of control and governance of associations, which were initially licensed and supervised by the Ministry of Economy and Finance. The increased understanding of the financial needs of the target population led to incremental adjustments in subsequent years to include home construction/acquisition/improvement loans and to enable MFIs to act as agents for banks and insurance companies.
30. **The capacity of the microcredit sector and its oversight were strengthened following the 2007 NPL crisis.** Reforms included more stringent prudential regulations and strengthened oversight through BAM, which developed a strong understanding of the nature and risks of the microcredit industry. Donor-supported capacity building and improved credit information sharing systems helped MFIs to better manage risks and sanitize their portfolios.

31. **While the capacity at the institutional and provider level increased, the legal and regulatory framework for microfinance remains to be improved.** The current definition of microfinance as microcredit for productive purposes does not correspond to the needs of low-income groups, which use financial services to save, finance other needs (e.g. education) and insure themselves against risks. The current loan size cap of MAD 50,000 per client presents another obstacle which limits MFIs’ capability to meet financing needs of households (e.g. home acquisition) and very small enterprises, which are underserved by banking sector. Furthermore, MFIs are not allowed to offer other products (e.g. microleasing) which could contribute to investment finance needs of MSMEs. The current legal form as ‘association’ limits the ability of MFIs to diversify and strengthen funding sources. MFIs cannot transform into ‘banks’ or ‘finance companies’ as it prevents them from recovering the high operational costs of microloans due to the lending interest rate cap, and provides further disincentives due to regulatory requirements which are not adapted to the nature and risks of this product and clientele. The same obstacles prevent banks from ‘scaling down’ to provide microloans on a sustainable basis.

32. **MFIs could play a stronger role to meet the financing needs of low-income groups due to their business model.** Global evidence suggest that the business model of MFIs - based on proximity, close follow up and cash flow based lending techniques – is better suited to assess the risks and financing needs of small firms and low income households, which are often characterized by higher levels of informality. Banks have undertaken efforts to provide financial services to low-income groups, but have yet to develop business models to serve these segments profitably, an observation which is supported by quantitative and qualitative data\(^\text{13}\).

33. **Global experience has shown that a robust regulatory and supervisory framework for microfinance can advance financial inclusion while safeguarding financial stability.** The Basel Committee for Banking Supervision (BCBS) issued a guidance paper in 2010 entitled ‘Microfinance Activities and the Core Principles for Effective Banking Supervision’\(^\text{14}\), which contains supervisory guidance for the application of the Basel Core Principles for Effective Banking Supervision to microfinance activities, and the range of practices on regulating and supervising microfinance activities (Box 1). The guidance identifies the

\(^{13}\) NPL ratios of bank loans to low-income groups (very small enterprises; housing finance) are amongst the highest within their credit portfolios, and banks have confirmed in interviews that these segments are not very profitable. This trend is also reflected in stagnating/sinking lending volumes to these segments and higher market concentration (number of banks engaged), despite presence of strong incentive programs.

\(^{14}\) The guidance paper can be viewed here: [http://www.bis.org/publ/bcbs175.htm](http://www.bis.org/publ/bcbs175.htm)
principles that apply equally to banks and other deposit taking institutions and identified the principles requiring adaptation.

**Box 1. Guidance on Microfinance Activities and the Core Principles for Effective Banking Supervision**

The 2010 BCBS guidance paper on applying the 25 principles to microfinance activities in depository institutions notes the following:

- Licensing requirements should be tailored to the size and nature of the particular institutions’ activities and the systemic risk posed by these institutions. In connection with licensing, the types of permissible microfinance activities (including microcredit, in particular, to distinguish it from other loan types) should be clearly defined in the regulations.
- Differences between microfinance and commercial banking should be understood and considered when assessing risk management processes and techniques. Specifically regarding MFIs, the loan portfolio is their primary asset so supervisors should focus on credit risk in particular and should have specialized knowledge of the labor-intensive microlending methodology.
- Provisioning and reserves for microloans should be tailored rather than grouped with other loan categories.
- Liquidity requirements should reflect MFIs’ high rate of growth and fewer backup liquidity sources as well as the particular behavior of microfinance assets and liabilities.
- Assessment of operational risks as well as internal controls and audit procedures should consider, if applicable, the decentralized nature of the microlending methodology as well as the use of technology and agents (or other contractual and outsourcing arrangements).


34. **Morocco’s environment is conducive to a successful implementation of the Basel Committee’s Guidance on microfinance activities.** On the institutional level, BAM already developed strong supervisory capacity of MFIs, even if the supervisory capacity would have to be strengthened further to ensure effective oversight of depository MFIs. Many principles of the BCBS guidance on microfinance are already partially in place (e.g. stricter loan classification and provisioning rules for MFIs) and could be fully applied within the existing banking law, which allows for the introduction of specialized banks and financial institutions. The capacity has also been revamped on the level of providers: The four largest MFIs have developed strong governance, risk management and operational capacity and adopted advanced information systems which are comparable to the banking sector.\(^{15}\)

35. **The creation of a new institutional framework for depository MFIs would however entail investments by service providers and supervisor.** The licensing and operating requirements for depository MFIs are closer to commercial banking standards and

---

\(^{15}\)Two MFIs are associated with banks and benefit from their know-how and infrastructure, including managerial experience and information systems.
require investments in systems and human resources to meet prudential requirements. The increase in potential risks may also entail dedicated resources and costs for the supervisor.

36. **The reform of the regulatory framework for microfinance could have a transformational impact on financial inclusion.** It could create a new institutional player between microcredit associations and banks to address the financial needs of low-income populations. Depository MFIs could offer their clients a broader range of products that may be more suited to their needs, target new market segments which are currently underserved (e.g. small firms, low-income housing) and strengthen and diversify their funding sources (access to investment funds and deposits). Potential risks to depositors and clients can be mitigated through a robust regulatory and supervisory framework, which strengthens the governance and risk management of MFIs.

**D.3. Financial Consumer Protection**

37. **The framework for financial consumer protection has been strengthened since the last FSAP.** In 2013, BAM expanded the mandate of its Consumer Protection Unit (CPU) from its initial focus on processing consumer complaints to address broader consumer protection issues, including transparency and comparability of financial services. At present, the CPU does not systematically conduct market conduct supervision, relying mainly on BAM’s prudential supervision team for on-site monitoring. The legal and regulatory provisions related to disclosure and transparency (including for statements of accounts, contracts, and notifications to customers) are considered to be adequate. The 2015 banking law strengthened provisions on complaints handling and dispute resolution\(^{16}\), requiring, inter alia, financial service providers to adopt internal complaints handling systems, to adhere to a banking mediation mechanism such as the CMMB\(^{17}\).

38. **Recent survey data\(^{18}\) indicates that dispute resolution mechanisms are not widely used.** More than half of all respondents who has a dispute failed to take action, listing the perceived power of financial service providers and a lack of confidence and awareness of public conflict resolution mechanisms as reasons for inaction. BAM should systematically collect and analyze data on consumer complaints\(^{19}\) and propose remedies to address the main problems identified (e.g. case studies, trainings, etc.) and undertake efforts to raise awareness on dispute resolution mechanisms to the wider public. The findings could inform a more comprehensive consumer protection strategy to further improve the identification and

---

\(^{16}\) The new Banking Law complements other laws on consumer protection, including the General Consumer Protection Law (provisions on disclosure and sales practices) and Consumer Protection-related provisions in the Code of Contracts and the Civil Code, as well as Law 09-08 on the Protection of Personal Data.

\(^{17}\) Moroccan Banking Mediation Centre (CMMB).

\(^{18}\) 2013 WBG Financial Inclusion survey.

\(^{19}\) Credit institutions are required to include, in their annual report on internal control delivered to BAM, a chapter dedicated to this topic providing comprehensive data on the number of complaints received and the amounts involved. A new circular on complaints handling provisions of credit institutions, which is currently being finalized, provides for a new reporting format which will provide more detailed data (subject of complaint, location, etc.).
resolution of harmful market practices based on the risks for consumers. As a first step, this strategy should define what issues/providers/products to target supervisory efforts on, and strengthen standard offsite supervisory tools, which includes strong reporting and auditing systems, supplemented by additional enforcement instruments such as mystery shopping or focus group discussions. In addition, consideration should be given to strengthen the capacity of the CPU unit and train BAM’s onsite supervision staff on market conduct issues.

E. Financial Infrastructure

E.1. Credit Reporting System

39. **The credit reporting system (CRS) has been significantly improved since the 2007 FSAP.** The first credit bureau (Experian Services Maroc, ESM) was launched in 2009 to operate on behalf of BAM under a non-exclusive concession of 25 years. As of February 2015, ESM held 11.2 million loan records, of which 5.1 million are active loans, with 4.9 million individual loan records and 209,000 corporate loan records. On average, over 130,000 enquiries are made per month. At this time, the only services offered by ESM are credit reports. The legal and regulatory framework includes general provisions in the banking law (delegation arrangements, personal data protection, data access rights and rights and obligations of data providers)\(^{20}\); the Consumer Protection Law\(^ {21} \); and contractual arrangements between BAM and CBs/data providers.

40. **The CB collects both positive and negative information on individuals and firms from all entities supervised by BAM and shares it with participating entities.** The CB collects historical data that is retained for 5 years and shares all data with BAM. Data is collected on a monthly basis and is classified by type of credit and legal entity of the borrower. Credit institutions are required to submit and request data.\(^ {22} \) The cost of enquiry varies by user type and the pricing policy is digressive (linked to total number of consultations in the system). Overall, systematic data submission does not appear to be a major issue despite noticeable variations between financial institutions and the average hit rate of all enquiries made to the system is above 95%. The current legal framework does not include provisions on the inclusion of data from non-financial institutions, although BAM is contemplating a reform of the legal framework to introduce such provisions. The inclusion of data from non-financial could be addressed through MoUs between BAM/CBs and data providers subject to prior consent of their clients as an interim solution.

---

\(^{20}\) Banking Law no. 103-12 of December 2014; Law no. 54-05 on the Delegated Management of Public Services of February 2006; Law 09-08 on the Protection of Personal Data of February 2009; Circular no. 1/G/2010 on the terms and conditions of access to information held by the CR; Circular no. 2/G/2010 on the information that credit institutions submit to the credit registry; Directive no. 1/G/2011 on the minimum standards credit institutions must follow when extending credit; Circular no. 3/G/2007 on Financial Penalties.

\(^{21}\) Law no. 31-08

\(^{22}\) BAM could in theory allow other non-bank providers (e.g. telecom companies) to participate in the system under the delegation model on a case by case basis provided they obtain prior consumer consent, although they are in the process of re-thinking the legal framework for CRS to allow for more flexibility and consistency in the future.

(continued)
41. **Consumers can access their own credit reports for free once a year, and have the right to dispute them under specific conditions.** Consumers can dispute the information found in their credit report within fifteen days of the date of receipt of said report\(^{23}\) and file their complaints at BAM, the financial service provider or the CB, which is mandated by law to respond to the dispute within 10 days\(^{24}\). Data on these disputes is collected by a dedicated Client Relationship unit situated under BAM’s Credit Information Division. However, it remains unclear whether consumers are properly informed of their right to obtain their credit report or of the process through which they can dispute its information.

42. **BAM has the mandate to oversee the CRS\(^{25}\) based in four areas.** These include (i) operational procedures (data supply, enquiries, and dispute handling), (ii) information systems, (iii) information security and integrity procedures, and (iv) internal control protocols. Based on the agreement with EMS, BAM conducts offsite and on-site supervision missions (both on a regular and ad hoc basis) of the above mentioned elements, though recent missions have focused mainly on EMS’ information systems.

43. **The Moroccan CRS has not yet delivered the scope, quality and granularity of financial information that peer CRS provide.** The coverage of the CRS\(^{26}\) remains limited and below levels in peer countries (Figure 7).

![Figure 7. Credit Bureau Coverage (% of adults)](source: WB Doing Business Report)

---

\(^{23}\) Article 5 of Circular no. 1/G/2010.

\(^{24}\) Law on Protection of Personal Data

\(^{25}\) Article 160 of the new Banking Law.

\(^{26}\) This indicator reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past 5 years. A detailed description of the methodology can be found at [www.doingbusiness.org](http://www.doingbusiness.org)
The CRS is dealing with incomplete reporting from the two largest reporting banks. There always is some incidence of rejects in credit reporting systems worldwide, but the reject rate should be kept low especially for large reporters. In Morocco, the largest reporter had a reject rate of 7% in February 2015, while the second largest had a rate of 23% (Figure 8). Moreover, the average value of accepted and rejected loans were similar for the largest reporters and these values were not for very small loans (Figure 9).

**Figure 8. CRS: Number of Rejected Contracts**

![Figure 8](image)

*Source: ESM (2015)*

**Figure 9. CRS: Value of Accepted and Rejected Contracts**

![Figure 9](image)

*Source: ESM (2015)*
45. In addition to rejected records, the CRS also shows a material problem of records that are not updated. A large number of contracts in the database have not been re-declared by financial institutions, which does not allow to determine the status of these contracts (closed/open) and, as a result, risk to provide an incomplete/inadequate snapshot of the financial situation/indebtedness of affected borrowers (Figure 10).

Figure 10. CRS: Number of Contracts

<table>
<thead>
<tr>
<th># of loan contracts recorded between 2009 and Feb 2015</th>
<th>Loan contracts closed as of Feb 2015</th>
<th>Active contracts in Feb 2015</th>
<th># of contracts updated in Feb 2015</th>
<th>Contracts not updated in Feb 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions</td>
<td>100%</td>
<td>54%</td>
<td>46%</td>
<td>64%</td>
</tr>
</tbody>
</table>

46. The authorities have acknowledged the need to improve the governance and functioning of the CRS system. A committee comprising BAM, ESM and financial institutions has proposed actions to resolve the non-updated issues. An assessment of the CRS based on the ‘General Principles for Credit Reporting (GPCR)’ should cover the following priority areas:

- **Oversight and governance:** The review should cover all key areas of the GPCR, including service continuity, data quality, data protection, etc. A robust oversight framework becomes particularly relevant as new CBs are licensed to operate.

- **Data quality:** BAM and CBs should work with financial institutions to improve the completeness and quality of data submitted to the CRS, to construct reliable scoring.

- **Coverage:** The CRS should include non-financial data sources (e.g. telecom, utility companies, etc.). The inclusion of non-financial sector data would increase the value of

---

credit information for low-income groups which would particularly benefit from behavioral data to access financing.  

- **Granularity of data**: The CRS should broaden the information collected on individuals and SMEs to monitor and evaluate policies and support instruments that aim to facilitate access to credit for low income groups and small or new firms.

- **Capacity at BAM**: Capacity should be built up to use data for research purposes (monitor indebtedness by segment; measure impact of financial inclusion policies).

47. **The review of the CRS framework should involve key stakeholders and produce an action plan to track progress.** If the review concludes that the reform of the legal framework is the preferable option (e.g. to expand the scope of data providers, address data privacy issues, etc.), intermediary solutions should be considered to address key priorities (e.g. consent clauses for data providers outside of the financial system). Finally, additional efforts could be made to raise awareness amongst consumers and financial service providers to explain the features and benefits of the CRS.

**E.2. Secured Transactions**

48. **Morocco is not able to reap the rewards of a well-structured and modern secured transactions system due to shortcomings in its legal framework.** In the most recent IFC/World Bank Doing Business (2015) rankings for Getting Credit, a measure of credit information sharing and legal rights of borrowers and lenders, Morocco scored only 2 out of 12 points on the strength of legal rights index which measures the effectiveness of regulations on non-possessory security interests in movable property. The Genesis of the laws dealing with security in movable property is French law. The core provisions are found in the Commercial Code, the Code of Obligations and Contracts, and the Civil Procedural Code. Article 431sq of the Commercial Code provide general authority for the use of movables as security for obligations. There is a fragmentation of rules with respect to types of assets and legal interests, so lenders must look to different rules and standards for different types of assets. Borrowers must provide a specific description of collateral in all cases other than the ‘fonds de commerce’ (commercial property) and cannot use certain asset types, limiting their ability to borrow against inventory, receivables and other types of future property. Priority rights of security interests are restricted by overriding statutorily preferred claims such as those for taxes and wages.

---

28 More information on actions that can be undertaken by authorities and other relevant policy makers to improve the flow of data and other relevant credit information on SMEs to creditors through CRS can be found here: [http://documents.worldbank.org/curated/en/2014/05/24310503/international-committee-credit-reporting-facilitating-sme-financing-through-improved-credit-reporting](http://documents.worldbank.org/curated/en/2014/05/24310503/international-committee-credit-reporting-facilitating-sme-financing-through-improved-credit-reporting)
49. **The current registration system is fragmented.** In the general case of the pledge of equipment and the fonds de commerce, the Commercial Code assigns responsibility to the Ministry of Justice, but it has delegated operational responsibility to the Commercial Registry (OMPIC). Pledges of shares of non-publicly traded companies are not registered in any public registry, while pledges of shares of publicly traded companies are registered in a separate public registry. There is no provision in law for registration of pledges of accounts receivable. Leases of movable property are registered in a separate registry operated by the Centre of Matriculation. Interests in fixtures and in items that are deemed immovable by destination are registered as mortgages in the land registry. Finally, security interests in intellectual property is in a separate, centralized registry operated by OMPIC. The document registration process includes errors/arbitrariness in registration and disclosure of proprietary information. In addition, the enforcement process of security interests is complex and slow, requiring time-consuming and costly judicial intervention.

50. **A draft law on secured transactions is nearing examination in Parliament and should aim to reduce substantially the fragmentation of the current framework.** The law should include all types of security interests and their functional equivalents (such as financial leases, long term operating leases, sales with retained titles, etc.). It should have a general description of movable properties such as equipment, accounts receivables and inventory used as collateral. Preferential interests and super-priorities should to be included in the general publicity and priority schemes.

51. **The new law should provide provisions for super priority claims on new investments.** The law should include the possibility to provide exceptions for purchase money security interests in order to incentivize financing for new equipment and inventory outside of the pool of banks, and push banks toward collaborative restructuring solutions. Finally, procedures for non-judicial and expedited judicial taking of possession of the assets and their disposition by the enforcing creditor should be set-out.

52. **The preferential treatment of statutory claims should be limited and clearly defined.** The draft law envisages to maintain priority treatment of government, wage claims, as well as claims of the deposit insurance fund over security rights. Similar provisions exist in other countries, although some require these claims to be explicitly registered. While priority treatment may be justified for public policy reasons, they increase the cost of credit: As such claims diminish the economic value of an asset to a secured creditor, creditors will often shift the economic burden of such claims to the grantor by increasing the interest rate or by withholding the estimated amount of such claims from the available credit. The draft should limit such claims, both in type and amount, and – if included – provide a clear and specific description of these claims to enable prospective secured creditors to assess their

---

29 The central security depository – Maroclear.
30 As defined by the Civil Procedural Code.
impact on security rights. BAM should consider adjusting the risk weights for secured loans to reflect improvements in collateral use, registration and enforcement when the new law is effective.

**E.3. Payment Systems, Remittances and Cashless Transactions**

53. **Morocco’s retail payment system has significantly improved since the last FSAP.** The clearing and settlement system for conventional payment instruments (GSIMT) has developed into a full-fledged automated clearing house (ACH) system, and its management of risks has improved. The card payments market supported by the CMI system has also grown significantly. The infrastructure for remittances – an important income source for Moroccan families – is functioning well: Remittance flows reached USD 6.8 billion in 2013 (7 percent of GDP) according to World Bank estimates.

54. **The retail payments infrastructure comprises clearing and settlement for conventional payment instruments (checks, credit and debit transfers) and payment cards.** The main retail inter-bank infrastructures in Morocco comprise the GSIMT (Groupement pour un Système Interbancaire Marocain de Télécompensation) – an ACH processing cheques, credit transfers and debit transfers, and the CMI (Centre Monétique Interbancaire) – a card payment switch, which was established by nine banks and is licensed and supervised by BAM as a ‘financial institution specialized in the management of payment instruments’.

55. **The market for disbursing remittances in Morocco is dominated by Money Transfer Operators (MTOs) and largely cash based.** There are about ten distributors of remittances licensed by BAM; more remittance service providers (RSPs), including international MTOs, operate through agents and intermediaries. Major international MTOs hold the large majority of the market share. The banning of exclusivity agreements allowed a number of smaller providers to emerge; however, these continue to serve a rather small portion of the market.

56. **On the demand side, the development of electronic payments is hampered by deep-rooted preferences for cash.** Transactions in the informal sector – more than a third of GDP – are cash-based. The government uses checks to pay its suppliers. Finally, stronger legal protection of checks have led to entrenched business practices, despite the increasing incidence of bounced checks (“impayés”) since 2012.

57. **Strong legal protections for cash-based transactions and pricing issues may reduce the appeal of electronic payments.** The legal framework applicable to payment instruments may negatively affect their usage. For example, the Code of Commerce imposes

penalty for a bouncing of a check, while there is no similar protection for debit transfers. The rejection rate for cheques is estimated to be around 2 percent whereas that for direct debits is around 20 percent. Electronic transactions like direct debits - defined as an arrangement to transfer money from an account on agreed dates - are not popular with payees (representing only 15.4 percent of all transactions), due to lack of clarity on its enforceability, high rejection rates and a long dispute period of 7 days during which the payer can contest the debit. According to BAM’s statistics, credit transfers is the most widely used non-paper based payment instrument (it represents at present 25.1% of total) and its usage is increasing. Pricing may be an additional hindering factor. Electronic transaction fees paid by consumers and merchants, which market participants have described to be be high, should be monitored, as well as costs for international remittances, despite their decreasing trend.

58. **Retail payment infrastructures may also hamper diffusion.** Industry participants have indicated that CMI has been slow in expanding the merchant base further due to inefficiencies on its end. Some industry experts reckon the number of potential merchants in Morocco is around 100,000 against around 26,000 currently accepting payment cards in Morocco. The slow expansion of PoS may be partially explained by perceived high usage fees for merchants. Furthermore, the lack of access criteria for CMI or GSIMT could become an issue when non-banks enter into the market, as existing infrastructures could prevent the access to new entrants using restrictive criteria. This should be addressed in the framework of BAM’s oversight powers, which should include the power to induce payment networks that are run or owned by private sector institutions to set up transparent governance mechanisms and to develop objective, fair, and transparent access criteria. Finally, international remittance services do not fully take advantage of the existing infrastructure. For example, routing remittance transfers as credit transfers through networks like CMI or GSIMT could make payments more efficient and encourage the use of non-cash instruments.

59. **The banking law of 2015 paves the way for a more open and competitive payment systems framework.** The law introduces a category of ‘non-bank payment service providers’. This is a key innovation to the current model which only permitted banks (and to a limited extent, MTOs) to offer payment services. As a result, most payment services currently offered are based on bank accounts or e-money accounts (in this last case provided by banks or banks operating in partnership with telecom companies). The low take-off of e-money products demonstrates limitations of the current framework, which also constrained the development of agent networks, except for MTOs, due to the different regime for banks and MTOs in this respect (creating an uneven level playing field).

60. **The success of the new framework requires implementing regulations to enable the development of innovative services.** Even though the high-level principles contained in the 2015 banking law are sufficiently open to promote a competitive and efficient payment services market, the precise policy options contained in the implementing regulations will be crucial to turn these principles into reality. The final framework should grant BAM powers
and authority to carry out effective oversight and enable BAM to steer the evolution of the market for payment services. The new framework should be proportionate to the risks of respective activities and create a level-playing field between banks and non-bank payment service providers. BAM’s responsibilities should include the promotion of competition in the market for the provision of payment services.

61. The promotion of electronic payments should be part of a wider national financial inclusion strategy.

F. Government Policies and Programs

F.1. National Financial Inclusion Strategy

62. Various authorities have demonstrated strong commitment over the years, but efforts tended to be fragmented across sectors and institutions. The leadership was assumed by MEF and BAM, which is reflected through global commitments (membership in Alliance for Financial Inclusion and signatory of Maya Declaration) and various national strategies and initiatives. These include BAM’s Strategic Plan (2013-2015), which includes a pillar on financial inclusion, BAMs Financial Sector Development Plan 2020 and the MEF’s strategic plans for the CCG (2009-2013, 2013-2016). Recent financial inclusion initiatives include the establishment of the Moroccan Foundation for Financial Education and the proposed establishment of an MSME Observatory. Additional strategies were led by other entities, and additional sectorial strategies which included financial inclusion components. These strategies and initiatives highlight the strong commitment the authorities to promote human development and economic growth, supported by financial inclusion as a key contributor to achieve these goals.

63. The authorities are initiating work on a national Inclusion Strategy (NFIS). The example of a good governance structure is provided in Figure 11. The key issue lies in explicitly dedicating government resources to the national strategy. The planned National Financial Inclusion Strategy has the potential to coordinate and unify the agenda. Success stories from other countries show that such a strategy requires dedicated financial and human resources for the technical secretariat, reliable data to establish the baseline, representative governance to decide on goals and oversee implementation, and a robust monitoring and evaluation framework to measure initial conditions and track progress toward goals. The NFIS also requires a robust monitoring and evaluation framework to measure progress, identify obstacles, evaluate the impact and effectiveness of key reforms, and demonstrate success at

---

32 Eg. Microfinance Strategy 2020
34 See “Réflexion sur la Stratégie Nationale d’Inclusion Financière” in ‘Note de présentation du projet de loi de finances 2016’.
both the national and program level. The scope and design of government programs need to be linked to the strategy, and may need to be revised following the elaboration of the NFIS

Figure 11. Governance Structure for a National Financial Inclusion Strategy

F.2. Support Mechanisms for SME Finance

64. Mechanisms targeting SMEs comprise credit guarantees, public-private funds for equity and quasi-equity financing, and a central bank refinancing facility. The guarantee program was initially designed to target structural market failures (e.g. programs targeting young enterprises, small firms, etc.). During the global financial crisis, the guarantee instrument was deployed in a countercyclical fashion (e.g. guarantees for working capital to support SMEs’ financing shortfalls following the Eurozone crisis and payment delays; etc.) and supplemented by additional financing support instruments, including BAM’s refinancing mechanism (see sections below). The Moroccan authorities have also introduced co-financing funds for similar purposes, but these have been less widely used.

65. The Moroccan SME finance support instruments are comparable to interventions used across the globe. Guarantee schemes were scaled up in many countries during the global financial crisis (2007-13). An analysis of the three main instruments (guarantees, co-financing and crisis response) is provided in the subsequent sections.
Credit Guarantees

66. **The guarantee program for SME loans has undergone a major reform since the last FSAP to increase its outreach.** The CCG’s strategic plan for 2009-2013 program introduced a new product offering adapted to the financial needs of SMEs at different stages of the corporate life cycle – from start-up financing, investments, working capital, to restructuring credit. Additional improvements in program design and administration were introduced to reduce the administrative burden for banks and SMEs and improve the program’s targeting and impact. The guarantee program was adjusted on a regular basis to address emerging financing needs during the crisis (e.g. guarantees for exporting firms) and target new segments (e.g. very small enterprises).

67. **Improvements in design and administration were complemented by reforms in governance and risk management.** BAM conducted the first on-site supervision of the CCG in 2011, reviewing the institution’s governance, risk management, internal controls, IT and accounting systems, and provided reform recommendations which have largely been implemented. Following BAM’s supervision report, the CCG embarked on a technical assistance project to improve its IT and risk management framework.

68. **The reform of the guarantee program has yielded positive results.** The number and volume of guarantees increased steadily since 2009. The number of banks utilizing the guarantee program has risen as well and reflects their strengthened confidence in the program’s value proposition. An impact evaluation commissioned in 2010 concluded that the program plays an enabling role for finance constraint SMEs, estimating that more than 80 percent of SME loans would not have been granted in the absence of a guarantee.

69. **The authorities are working on a new strategic plan which aims to further improve the program’s effectiveness, efficiency and M&E framework.** The new strategic plan should ensure that the monitoring and evaluation framework enables the authorities to measure and monitor the impact of the program by product, and adjust the business model and product mix and features accordingly – in line with an overarching strategy to support SMEs and their financing.

Co-financing

70. **The Moroccan authorities have put in place a number of co-financing funds which are mainly aimed at supporting industrial strategies.** Six of the seven funds, which are managed by the CCG, have a sectorial focus, one fund supports SMEs undergoing financial difficulties (see section below on Crisis Response Instruments). The co-financing ratio ranges between 40-50 percent for most funds, and the portion financed by the government is subsidized. The uptake of most funds has been modest.
71. **The additionality of the co-financing products remains unclear.** There is no overarching strategy underpinning the choice of sector and/or instrument, and it is unclear why the desired objective (supporting SMEs in specific sectors) could not be achieved through other means (e.g. guarantees, which consume less fiscal resources). The subsidized nature of the funds may provide incentives for SMEs which are not in need of funding, but meet the eligibility criteria, to apply for funding.

*Crisis response measures*

72. **The authorities have put in place support measures aimed at cushioning the adverse effects of economic downturns for SMEs.** These measures include, inter alia, co-financing instruments (‘MSME Support Fund’) and re-financing instruments targeting medium and long term loans granted to MSMEs through the Central Bank (currently used by six banks), while the MEF provided assistance to export oriented SMEs through a new guarantee product for working capital loans (Box 2). Generally speaking, these instruments resemble policies put in place in OECD countries during the global financial crisis.

---

**Box 2. Overview of Complementary Instruments in Support of MSME Finance**

**Co-Financing: MSME Support Fund**

Funding targeting MSMEs experiencing financial difficulties. Enterprises must still be commercially viable. Available for companies with turnover of up to MAD 500 million. The fund is managed by the CCG and budgeted at MAD 1.2 billion for three years from various resources. It is structured as co-financing with banks (50%) in the form of subordinated debt.

**Central Bank Financing for MSMEs**

In 2012, BAM expanded the collateral eligible for monetary policy operations to private securities representing claims on MSMEs. In 2013, BAM introduced a ‘funding for lending scheme’ for banks encourage them to finance loans to MSMEs (amounts are less than or equal to 50 million MAD and with a maturity longer than or equal to 12 months). This instrument allows banks to receive advances from BAM in an amount equal to the volume of loans they intend to give to MSMEs each year. They may also obtain additional refinancing equal to the volume of loans distributed to MSMEs operating in the industrial sector or whose production is export-oriented. These advances are allocated quarterly in the form of secured loans and/or repos, for a period of one year at the main policy rate. Funds not used to extend SME loans need to be paid back at a premium.

*Source: BAM (2014)*

73. **The MSME Support Fund has witnessed strong uptake, but questions remain on design features.** The eligibility criteria for the newly established SME support fund define the target group of ‘SMEs in difficulties’ as ‘viable firms, but having temporary difficulties (cash flow problems, reduced activity, unbalanced financial structure, loss of clients, payment delays by public or private entities). The broad definition of eligible firms, which many SMEs

---


36 Excluding loans to real estate developers and professionals.
could meet, may provide incentives for SMEs which do not truly experience financial or operational difficulties to apply for funding given the below market lending rates. This certainly limits the losses of the fund, but also its additionality. It is also unclear how it complements existing mechanisms targeting the same group. Other interventions such as technical assistance for SMEs experiencing difficulties may prove more effective than financial support if the distress of these firms is caused by operational weaknesses (e.g. poor management capacity; diversification; etc.).

74. **The Refinancing Mechanism has also experienced strong uptake, but questions remain on targeting and sustainability.** The largest amount of financing was allocated to three banks. Data suggest that the financing they received has been above the historical levels of SME credit provided by these banks. The facility is priced as the standard repo facility, but with longer maturities. These favorable terms reduce incentives to develop capital market solutions such as the securitization of SME loans.

75. **While BAM’s efforts to support SMEs’ access to finance are commendable, there are a number of governance issues that merit further consideration.** While BAM has allocated important resources to support SME financing, its current mandate defines price stability as its main policy objective. While it is not uncommon for central banks to include other policy goals in their charter, it is important that such goals are clearly defined to ensure consistency, and to mitigate potential conflicts with price stability. Another example is the presence of BAM in the credit committee of the MSME support fund. Its role as a co-financier of bank loans may conflict with its role as a banking supervisor. Finally, resources of the deposit insurance fund should not be among those available for the MSME support fund.

76. **The rise in the number of instruments and actors promoting SME finance raises questions of coordination.** Most initiatives were driven by a single entity and have not been embedded in an overarching strategy to support the development of SMEs and their financing, risking to limit potential synergies with other initiatives at best, and to duplicate similar efforts led by other entities at worst. The case of SME finance illustrates the importance of a more coordinated approach to support a complex and transversal policy agenda, whose success is strongly dependent on broader financial sector reforms and a more enabling business environment. The proposed National Financial Inclusion Strategy could provide a platform to foster greater coordination of SME finance support instruments to maximize their effectiveness and efficiency in the years to come.

**F.3. Support Mechanisms for Low-Income Housing Finance**

77. **A major partial credit guarantee program supports access to housing finance for low and informal income households.** The program was established in 2004 to help banks extend mortgages down-market. This instrument was complemented by: (i) relaxing regulations allowing MFIs to lend for home improvements (ii) a contractual savings scheme
since 2011, (iii) a new legal regime for residential leasing to promote access to first time home buyers with little or no down-payment. On the supply side, tax breaks and subsidized land to developers have encouraged affordable housing production. This package has had clear additionality for low or irregular income groups. However, the poorest deciles still struggle to meet minimum monthly payments under the guarantee program. New distribution channels for the guarantees (ABB, MFIs) as well as product innovations (micro-mortgages, home improvement microcredits) could better suit the repayment capacity of these lowest-income groups. Finally, specific support mechanisms targeting these groups may have to be considered to tackle extreme affordability gaps.
G. Recommendations

Table 11. Detailed Recommendations

<table>
<thead>
<tr>
<th>Areas</th>
<th>Recommendations</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Financial Inclusion Strategy</td>
<td>Establish a well-resourced governance and a robust monitoring and evaluation framework for the proposed National Financial Inclusion Strategy.</td>
<td>BAM/ MEF</td>
<td>I</td>
</tr>
<tr>
<td><strong>LEGAL, REGULATORY, SUPERVISORY AND INSTITUTIONAL FRAMEWORK FOR FINANCIAL INSTITUTIONS AND INSTRUMENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Legal and Regulatory Framework for Financial Inclusion</td>
<td>Review the global ceiling on lending rates, which currently prevents financial institutions from adequately pricing loans associated with higher cost and/or risk.</td>
<td>MEF</td>
<td>I</td>
</tr>
<tr>
<td>Microfinance</td>
<td>Amend the legal, regulatory and supervisory framework for microfinance in line with Basel Committee’s ‘guidance for the application of the Basel Core Principles for Effective Banking Supervision’ to microfinance activities and global good practices to enable MFIs qualified under BAM criteria to broaden their financial services, including offering savings accounts.</td>
<td>BAM/ MEF</td>
<td>I</td>
</tr>
<tr>
<td>Financial Consumer Protection</td>
<td>Increase efforts to analyze consumer complaints statistics submitted by banks and other financial service providers and consider adjusting the regulation and supervision of market conduct of financial institutions as needed.</td>
<td>BAM</td>
<td>NT</td>
</tr>
<tr>
<td></td>
<td>Increase BAM’s capacity to conduct effective market conduct supervision to monitor consumer protection issues that may arise in the market.</td>
<td>BAM</td>
<td>NT</td>
</tr>
<tr>
<td></td>
<td>Consider making existing external complaint resolution schemes more known through better disclosure and awareness campaigns to inform the public about CPU’s and CMMB’s role.</td>
<td>BAM</td>
<td>NT</td>
</tr>
<tr>
<td><strong>FINANCIAL INFRASTRUCTURE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Reporting System</td>
<td>The ongoing reform of the credit reporting system should cover the following key areas:</td>
<td>BAM</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>Improve the quality of data submitted by financial institutions to the credit bureau; ensure the provision of value added services, and expand the range of data providers to non-financial institutions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review the governance framework of the CRS, including provisions on service continuity, provider licensing and oversight, market conduct, data quality and data protection.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strengthen capacity at BAM to use data for supervisory purposes (supervision of CRS; market conduct oversight; macro prudential policy; etc.) and research purposes.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured Transactions</td>
<td>The current draft law on secured transactions should include:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) All types of security interests and their functional equivalents (such as financial leases, long term operating leases, sales with retained titles, etc.) in the scope of the law (ii) A general description of movable properties such as for example, equipment, accounts receivables and inventory used as collateral should be permissible (iii) Preferential interests and super-priorities need to be included in the general publicity and priority schemes (iv) Acquisition finance security interest should have priority over prior interests in the class of assets (v) Procedures for non-judicial and expedited judicial taking of possession of the assets and their disposition by the enforcing creditor should be set-out.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>In addition, the movable collateral registry should be established subject to international best practice (notice based, fully electronic, centralized, accessible 24/7, reasonable flat fees, etc.).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashless Transactions</td>
<td>Reduce obstacles to the use of electronic payments and consider measures to incentivize their use by the public and private sector. One example is to mandate or incentivize public entities to shift their transactions from cash based to electronic transactions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUPPORT INSTRUMENTS</td>
<td>Partial Credit Guarantee Program for Low-Income Housing Finance and SME Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Framework and Delivery Model</td>
<td>The ongoing reform of the credit guarantee program should cover the following key areas:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review the design, targeting and funding model of guarantee products.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review the delivery model (e.g. individual guarantees, portfolio, or hybrid) and diversify funding sources of the guarantee program.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop an M&amp;E and impact evaluation framework to improve the measurement of outcomes and impact.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-Financing for SMEs</td>
<td>The ongoing reform of the co-financing program for SMEs should include a review of the effectiveness and efficiency of the co-financing funds and program adjustments if needed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSME Support Fund</td>
<td>Review the choice of instrument and consider other ways to achieve the desired objective (supporting ‘MSMEs in difficulties’) at lower costs/higher effectiveness (e.g. technical assistance programs, existing/revised credit guarantee offering).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review fund governance (e.g. role of BAM as supervisor and member of credit committee; funding sources).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME Refinancing Scheme</td>
<td>Develop a comprehensive and long-term strategy to support SME finance as part of the NFIS and revise SME refinancing scheme in view of promoting sustainable long term SME finance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strengthen monitoring arrangements to ensure that the refinancing scheme is used for the intended purpose.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*"T" is within one year; "NT is 1-3 years."
### I. ANNEX: IMPLEMENTATION STATUS OF 2007 FSAP RECOMMENDATIONS

Status of Implementation of the 2007 FSAP Recommendations on Financial Inclusion for Morocco

<table>
<thead>
<tr>
<th>Access to Finance</th>
<th>Assessment</th>
<th>Recommendation</th>
<th>Implementation Status and Outstanding Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services to the population are provided through three major channels. The banking sector is the most important player, and offers the full range of services, but mostly in the urban areas. Another important player is the postal system, which provides saving and basic payment services in all regions of Morocco. Finally, microcredit institutions have emerged in the last decade, offering microloans to the population. As in many countries, direct competition between these players is limited, since each player targets different segments of the population.</td>
<td>Ensure open entry to the financial sector, to deepen financial intermediation and stimulate competition.</td>
<td>Mostly implemented. There is a wide range of licenses for financial service provision in Morocco, including commercial banks, finance companies, microcredit associations, and non-bank payment providers. Application for any of these licenses is open to any new entrant that meets the requirements of the license. However, the removal of barriers to serve costlier and riskier segments (e.g. revision of the interest rate cap) and reform of the institutional environment for microfinance could contribute to increased competition which would benefit underserved segments.</td>
<td></td>
</tr>
<tr>
<td>The plans to establish a credit bureau are already fairly advanced, and it is expected to become operational during 2009. The credit bureau will collect both positive and negative information on borrowers from lending institutions (banks and financing companies) and microcredit associations. Pending the setup of the credit bureau, it is difficult to correctly evaluate the actual indebtedness of potential borrowers.</td>
<td>Include clients of non-bank financial institutions and utilities in Credit Bureau coverage. In the long run, the government should consider expanding its coverage to other providers of credit information such as other NBFIs (particularly leasing and consumer finance companies), utilities, social security and tax authorities. This would provide both negative and positive information on segments of the population that do not yet have access to credit, and thus facilitate outreach to new viable borrowers.</td>
<td>Partially implemented. The current credit reporting system now covers MFIs, but continues to exclude information from non-financial data providers, such as utility and telecommunication companies.</td>
<td></td>
</tr>
<tr>
<td>National databases on household income levels, geographic distribution, development of individual economic sectors, and SME characteristics are not sufficiently disaggregated and</td>
<td>Through household and enterprise surveys, identify unserved segments of the population to better target and monitor financial access programs. The surveys should</td>
<td>Partly implemented. The Moroccan authorities have committed to many data collection initiatives in recent years (demand-side financial capability survey, SME</td>
<td></td>
</tr>
<tr>
<td>Assessment</td>
<td>Recommendation</td>
<td>Implementation Status and Outstanding Issues</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>frequently do not provide trends and dynamics to serve as benchmarks or base an outreach strategy upon. This is also true for household data on access to credit and financial services. Data on the number of creditors and average loan size is not available. These deficiencies could be overcome by conducting a national household and enterprise survey with focus on financial issues.</td>
<td>provide information on access to banking services and actual demand, and allow measuring the use of deposit, payment and loan services by individual groups. Such a survey would complement information on credit conditions and credit demand which is regularly gathered by the BAM from the banking sector.</td>
<td>observatory, etc.), though further efforts are still needed to ensure remaining data gaps are covered to provide an accurate baseline ahead of the National Financial Inclusion Strategy implementation, and to track progress on results. The authorities should consider to conduct demand side surveys for households and firms on a regular basis (e.g. every 2-4 years) to achieve this objective.</td>
<td></td>
</tr>
<tr>
<td>The Moroccan government launched a multitude of guarantee funds to stimulate access to finance for SME, poorer segments of the population or those do not have a regular income. The programs are managed by the CCG, and profit from its solid human capacity and internal controls. The eligibility criteria are in general well specified. Reporting standards are clearly defined and adhered to, but in the absence of baseline and benchmarking data, monitoring and evaluation of the outreach and general impact is deficient. According to banks interviewed, the government programs are a good tool to familiarize the banks with new segments of the population and to develop new lending tools, but their overall share in bank portfolios remains negligible.</td>
<td>Consider consolidating government SME programs, improve baseline information and reporting on outreach indicators. Monitor regularly costs and risks of programs. There is a need to better target government programs, and to make potential fiscal risks transparent. The current approach of “learning while you go” should be supplemented by: (i) an improved national statistical database through household and enterprise surveys, which allows establishing baseline data; (ii) better targeted individual programs based on identified needs and a clearly defined pool of beneficiaries; and (iii) improved monitoring and evaluation systems. The government might also want to consider reducing the number of programs through consolidation.</td>
<td>Mostly implemented. The authorities have undertaken a considerable effort to streamline SME support programs as part of the CCG’s 2009-2012 Strategy, which have improved their targeting and efficiency. Additional efforts are needed to improve data collection on SMEs, reduce fiscal risks and improve the M&amp;E framework of government support programs for SME and housing finance.</td>
<td></td>
</tr>
<tr>
<td>The government might want to shift its support to more indirect means of support to stimulate SME finance. In several Latin American countries, as well as more advanced industrial countries such as Australia, reverse factoring has been a successful tool to reach out to small suppliers and bring them into the financial sector. In Mexico i.e. the government, through its development bank NAFIN, supported the</td>
<td>Shift government focus from direct intervention in the form of guarantees or co-financing, to support development of enabling technologies and joint platforms, such as i.e. reverse factoring, mobile banking, etc. The government might want to assess whether supply chains exist in Morocco and would present opportunities for financing.</td>
<td>Mostly implemented. Both leasing and factoring have emerged as a growingly important source of financing for SMEs. Several new laws aim to facilitate the availability of risk capital for SMEs and entrepreneurs, allowing them to further diversify their financing sources.</td>
<td></td>
</tr>
</tbody>
</table>
### Assessment

Development of an electronic platform for providing reverse factoring services to SMEs. NAFIN’s factoring program has been very successful and extended over nine billion U.S. dollars to SMEs – or 1.2 million transactions - since inception in September 2001.

The new banking law in 2006 gave the BAM supervisory oversight over MFIs, but leaves room for interpretation of the actual scope of supervision. Given that the sector is not taking deposits, the BAM has correctly abstained from issuing prudential regulations. The BAM established reporting requirements on financial ratios, and developed together with the sector a harmonized “plan comptable” which will allow to aggregate the data. This support will also be beneficial to help improve the still deficient internal structures and reporting systems in the MFIs. The government has prudently abstained from setting an interest rate ceiling, although allowed by the legal framework.

### Recommendation

Continue to adapt supervision of microfinance associations to latest developments without unduly slowing their growth. Allowing MFIs to transform into deposit taking institutions would in the long run entail entering the sphere of prudential supervision. In this case, the BAM would need to carefully assess the prudential framework applicable for MFIs, and strike a careful balance between supervision and costs incurred on the MFIs. The level of expertise and capacity in the BAM would likely have to be increased. The authorities might want to take into account that separate forms and degrees of regulation and supervision may be needed for MFIs with different liability structures.

### Implementation Status and Outstanding Issues

**Pending.** An ongoing reform for microcredit associations is underway to allow their transformation. There is a broad consensus amongst the authorities and industry players that the reform lead to a proportional and activity-based framework to ensure a level-playing field across financial service providers (regardless of their status) while not compromising their ability to serve riskier and costlier but currently underserved clients. The details of such framework have yet to be fully fleshed out.
II. ANNEX: SECURED TRANSACTIONS FRAMEWORK: SELECTED ISSUES

1. The legal framework for secured transactions is currently being reformed through a draft law which is under consultation in Parliament. The draft law was reviewed by a legal expert, who has identified four areas which require further attention. His observations are summarized below:

Registration security rights and priority rules

2. The current draft limits the registration in the new national registry requirement only to the new security rights over movables created by the new law. 30 statutory liens and preferential rights listed in articles 1174 and 1175 of the draft reform are not required to be registered. While they primarily concern State bodies, some of them benefit private parties. As undisclosed proprietary rights, they compete unfairly with, and prevail over, registered security rights in the general registry. They introduce uncertainty and unpredictability that will likely be factored into any credit decision and lead credit providers to choose over-collateralization to offset the risk. The registration of nantissements de fonds de commerce on a separate registry (asset-based), and the non-registration of retention of titles, are likewise elements of uncertainty that are functionally the equivalent of the lack of registration requirement to the statutory liens.

3. To the extent possible, it is recommended that all security rights are registered in the same registry. If policy considerations mandate that certain unregistered preferential claims should continue to have priority over registered security rights, it is recommended that these are limited (e.g. up to a certain amount, e.g. six months’ salary, six months tax due, etc.), as recommended by the UNCITRAL Legislative Guide on Secured Transactions (rec. 83).

Nantissement de fonds de commerce

4. The advent of new comprehensive and registered security rights render the nantissement de fonds de commerce otiose and, as such, unnecessary to keep in the reformed system. Should the legislator wish to keep it, it should at minimum require its registration in the debtor-based national registry.

Purchase money secured interests (PMSI)

5. The provision of super-priority rights for acquisition financing would facilitate credit to purchase new assets. Granting a priority right to PMSI is neither to the detriment of the grantor nor of the existing secured or unsecured creditors. PMSIs are limited to the asset that they permit to purchase. Once the financing is reimbursed, the security ends but the asset stays in the patrimony of the grantor and offers a new collateral to future credit providers. Obviously, recognizing a priority to PMSI over other previously registered security rights depends on the PMSI itself being registered in the general registry.

37 Georges Affaki
Prudential risk weights for secured loans

6. One of the reasons why credit providers today require security rights over immovable assets is a consequence of the Central Bank not considering security over movables as sufficiently certain to allow a better risk weighting. Rather than a cause for the disaffection, the Central Bank attitude is a consequence of the current inefficiency of the secured transaction regime as it applies to movables. If this regime were to change and to offer more efficiency to new security rights, the Central Bank has indicated its openness to updating its grid of weighting rates also to favor security over movables. In so doing, the Central Bank would not be acting in any way other than in the strict application of the Basle prudential standards. The Central Bank should be closely associated with the reform so as to anticipate its outcome and update its grid as soon as the reform enters into force.
III. ANNEX: LEGAL AND REGULATORY FRAMEWORK FOR MICROFINANCE: SELECTED ISSUES

A. The Current Legal and Regulatory Framework for Microfinance in Morocco

1. The microfinance law of 1999 permits microfinance institutions (MFIs) to grant loans to low income individuals with the objective to promote a revenue generating activity. Associations may also engage in related activities such as training, consulting and technical assistance. In 2004, MFIs were authorized to grant loans for home improvement purposes, as well as introducing water and electricity. In addition, MFIs were allowed to finance the acquisition of health insurance plans in 2007. MFIs are allowed to be agents (through the status of intermediation in banking operations as stated in 34-03 on credit establishments and assimilated bodies) for other financial services, including savings, money transfer and insurance, but are not permitted to provide these services on their own. Permission to lend or operate was granted by the MEF until 2015, when the new banking law puts said responsibility under BAM.

Box 3: Evolution of the Legal Framework for Microfinance

Law 18-97 (Microcredit law) is the founding text for the microcredit sector. It was passed in 1999 and through its first few articles, it defines the following:
- Microcredits shall be distributed through non-profit associations that are compliant with regulations of associations (Dahir No. 1–58–376 of 3 January)
- Microcredits can only be given out for revenue generating activities
- Establish a ceiling of 50,000 MAD
- Authorizations to operate will be granted by the ministry of finance

In 2004, law 58-03 was adopted, modifying and completing law 18-97, thereby allowing MFIs to grant microloans for home improvement purposes. This included improving homes as well as introducing water and electricity. In 2007, law 04-07 was adopted, modifying and completing law 18-97, thereby allowing MFIs to sign contracts with insurance companies for the benefit of their clients. The latest amendment to the microcredit law, law 41-12, allowed MFIs to own part or all the shares of finance companies. It also formalizes a framework for the consolidation of MFIs, through acquisitions or mergers.

Law 34-03 applies the regulations of credit establishments and assimilated bodies to MFIs. In the text, BAM dictated a set of prudential measures to set guidelines for provisions on NPLs, internal controls, governance and reporting requirements.

The supervision of MFIs was handed over from the MEF to BAM in December 2007 (Circulaire n°07/DSB/2007) following the sector’s repayment crisis. The new banking law of 2015 grants the licensing authority to BAM (previously held by the MEF).

2. The information sharing system was improved following the 2007 crisis, when MFIs developed an internal database for the sector. They share client information with other MFIs and unlike BAM’s credit bureau, the associations consult this system more regularly. In addition, MFIs were given access to the credit bureau which started operations in 2009 and are
providing and obtaining data from it (all credit institutions and associated entities are required to consult the credit bureau).

3. The governance rules applicable to MFIs are defined by directives issued by BAM. These include the requirement that board members should make objective decisions on governance situation and therefore must be independent and impartial regarding the management of the association. This implies that the board be structured on the basis of objectivity, transparency and independence in order to efficiently take and approve decisions.

4. There is no specific consumer protection measures regarding MFIs. However, BAM has recently focused on requiring increased transparency from banks and strengthening dispute resolution mechanisms. BAM has required the inclusion of specific clauses in customer agreements, required transparency in the bank statements and required communication of all the fees charged at least once a year. BAM is also developing a standardized list of various terminologies used in the customer agreements and a price index for banking services with a reference year of 2010 for three levels of usage – regular, active and passive. This price index would be computed for all the banks and made publicly available. The mechanism of banking ombudsman was created in 2009 and has been popularized as a mechanism for customers to use to channel disputes that have not been resolved through the banks own dispute resolution process. The ombudsman is appointed by an eight member committee chaired by BAM and comprising five independent members and three members from the banking industry. The ombudsman office is adequately staffed and has a budget. Until December 2011, 188 cases were referred to the banking ombudsman, of which 28 pertained to payments-related disputes. There is a separate ombudsman for finance companies.

B. Limitations of the Current Legal and Regulatory Framework

5. The current legal and regulatory framework limits the capability of the microfinance sector to increase the scale and scope of their financial services to address remaining finance gap of low-income groups. The definition of MFIs as associations authorized to provide microcredit for productive purposes does not correspond to the needs of low-income groups, which use financial services to save, finance other needs (e.g. education, housing) and insure themselves against risks. Financing for business needs is also limited through loan size cap, preventing MFIs from accompanying their best clients and finance small enterprises, which are underserved by banking sector. Furthermore, MFIs are not allowed to offer other products (e.g. microleasing) which could contribute to investment finance needs of micro and small enterprises. Finally, associative status limits MFIs ability to diversify and strengthen funding sources (be it from banks, investors, or depositors).

6. The microfinance sector could play a stronger role in small enterprise financing given their knowledge of the clientele, and the incentive structure, which naturally places them as the most profitable clients. This requires the creation of an enabling environment allows MFIs to scale-up, and requires a new outlook on the role and definition of microfinance, which

---

38 Directive n°1/G/2009 du 16 septembre 2009 relative à la gouvernance au sein des associations de microcrédit
includes a broader range of services, including savings. The subsequent section aims to lay out the future options for the development of the institutional framework of the sector, and provide policy recommendations informed by international experience, global standards and the specificities of the Moroccan context.

C. Options for the Development of the Legal and Regulatory Framework

7. The elaboration of the future strategy for microfinance needs to first define scope of services to be provided based on the policy objectives and institutional capacity. The most common policy choices can be grouped into three categories: associations (current model), non-deposit taking microfinance institutions (specialized finance companies) and deposit taking microfinance institutions (e.g. microfinance banks). Once the most appropriate model – which may be a combination of multiple forms – is identified, one should determine whether these choices can be realized using the existing framework (e.g. amending existing laws), or if a new legal framework needs to be established. The choice of model should balance the benefits against the costs for service providers, authorities and beneficiaries. The analysis of the Moroccan context provided in the note (see D.2. Regulatory Framework for Non-Bank Financial Institutions) concluded that the introduction of a new form of ‘depository MFI’ is opportune given the expected benefits and potential risks. The Basel Committee for Banking Supervision have issued guidelines on how general principles for banking regulation and supervision would need to be adjusted to the nature of microfinance services, clients and institutions, using the 25 BCP as reference. The guidelines have identified the principles that apply equally to banks and other deposit taking institutions (12 principles, e.g. Principle 1 (Objectives, independence, powers, transparency and cooperation) and identified the principles requiring adaptation (the remaining 13). The subsequent section aims to highlight some of these key principles that would need to be adjusted in the Moroccan context:

Licensing Criteria (Principle 5)

8. Licensing requirements, including minimum capital rules, should be tailored to the size and nature of the particular institutions’ activities and the systemic risk posed by these institutions. According to the Banking Law the minimum capital requirement to apply for a banking license is 200 million MAD,\(^{39}\) which is relatively high for MFIs, even for the largest three in the market, who may be interested in applying for a banking license to be able to offer more financial services besides microcredit, such as savings.\(^{40}\) Deposits are a less expensive source of funding for financial institutions which helps in expanding the growth and outreach of highly needed financial services to the unbanked and underserved.

9. While setting a minimum capital requirement is an important entry barrier to limit the number of financial institutions in order not to over burden the financial supervisory authority and make the best use of its resources, it is recommended to consider adjusting the minimum capital requirement for deposit-taking MFIs. Other requirements (such as fit and proper requirements of the shareholders/founders and directors) can be better alternatives to limit the

\(^{39}\)BAM Circular No. 20/w/2006.

\(^{40}\)In Yemen, including many other countries, where a new category of banks was created (i.e. microfinance banks) with lower minimum capital requirements, the demand for savings proved to be higher than the demand for credit.
number of new entrants, preserve the resources and supervisory capacities of the supervisory authority and making sure only responsible and qualified players enter the market.

**Capital Adequacy (Principle 6)**

10. Setting a high capital adequacy ratio (CAR) adds more protection to depositors’ funds, and there is an international consensus on the importance of setting even higher CAR requirements for deposit-taking MFIs than banks. In general and especially at early stages, the higher CAR requirements would not constitute a challenge for new deposit-taking MFIs which normally would take more time than banks to leverage their equity and build their loan portfolios. However, on the longer run, a higher CAR may limit access to financial services.\(^{41}\)

11. According to the current banking regulations adopted by BAM, all licensed bank must comply with the minimum CAR of 12%. The regulation states in detail the different categories and classifications of assets and exposures for the calculation of this ratio.

12. While it is recommended to set higher CAR requirements for deposit-taking MFIs in order to mitigate the higher risks of the microfinance business, it is also important for regulators to take into consideration the special nature of microfinance, the limited sources of funding available to MFIs and the importance of keeping the balance between safety and access.\(^{42}\)

**Problem Assets, Provisions and Reserves (Principle 9)**

13. It is recommended to have adjusted classification and provisioning requirements to properly mitigate the risks associated with microcredit. To achieve this, regulation should first adopt a clear definition of the term “microcredit” to distinguish it from other loan types. This is not only important for MFIs, but also to other service providers as it creates a level playing field by focusing on supervising and regulating the activity and the service not the entity. Setting higher provisioning requirements on microloans just because not being secured by conventional guarantees should be avoided, while at the same time adopt a more strict provisioning schedule for delinquent or non-performing microloans because of the risk of faster deterioration of the loan portfolio compared to banks.

14. The current requirements set by BAM to cover unsecured lending and loan loss provisioning for banks, represents a constraint for deposit-taking MFIs due to the special nature of microfinance and the fact that the majority of microloans are not backed by conventional guarantees.

---

\(^{41}\) CGAP, A Guide to Regulation and Supervision of Microfinance 2012.

\(^{42}\) According to Principle 6 of the Core Principles adopted by the Basel Committee on Banking Supervision on Microfinance activities and the Core Principles for Effective Banking Supervision, CAR requirements should relate to (i) the nature of microfinance risks for all institutional types, and (ii) the size and constituents of capital of deposit-taking MFIs. Also, where deposit-taking MFIs have fewer options to raise capital compared to banks, or exhibit a more pronounced risk profile, a proportionately higher CAR may be warranted.
D. Additional Considerations

15. The aforementioned examples represent three of thirteen principles that require adaptation. In addition to these prudential rules, the authorities need to consider a number of broader issues pertaining to the definition of microfinance, as well as aspects pertaining to non-prudential regulation and supervision, which include market conduct and fiscal considerations.

Definition of Microcredit

16. If a new framework for deposit taking MFIs involves lighter or more favorable regulation, existing institutions and new market entrants may contort to qualify as MFIs. Such speculation among regulatory alternatives, or “regulatory arbitrage,” both by service providers (e.g. conventional banks failing to meet minimum capital requirements). The introduction of such a definition becomes necessary to avoid this, and typically includes a restriction on the loan amount and/or purpose (as in Morocco) or additional criteria.

17. At present, microcredit is defined as a loan for productive purposes, with a maximum loan amount of MAD 50,000. The maximum loan amount, as stated in law 18-97, is 50 000 MAD, which can constitute an obstacle to the growth of the sector, limiting unserved or underserved clients from having access to finance. A better alternative would be to set a ceiling on the average loan in the microfinance portfolio in order to prevent/control mission drift and at the same time keep some space for MFIs to expand their outreach and serve more clients (e.g. small enterprises) who do not have access to finance. Moreover, this can help MFIs in lowering the average cost of their loan portfolios.

Mission Drift

18. One oft-cited concern about the provision of microfinance services by for-profit entities versus non-profit entities is the perceived increased risk of mission drift. The concern is that the transformed MFI would shift its their focus from a public benefit purpose to instead serve the private interests of its owners, which may diverge from their original social mandate and be more profit driven. MFIs can strongly influence the orientation of the new entity by retaining an ownership interest to ensure that it continues to serve its original social mission (e.g., serving the poor). Even if the new entity decides to open its capital to new investors, it can continue to preserve its mission by ensuring that the interests of the new investors are aligned with its mission (e.g. through socially responsible investors).

Taxation

19. One of the questions that is raised in many countries where MFIs licensed as associations benefit from tax exemptions is the treatment of revenues from commercial MFIs (finance companies/banks), which includes Morocco. While tax laws are very country specific, some general principles could be provided to guide the discussion. With regards to countries in which the income earned by a tax-exempt association in connection with its permitted activities is not subject to tax: if a tax-exempt association is permitted to be a majority shareholder of a for-profit company (not necessarily the case and it likely depends on what other activities the association engages in), then arguably dividends received from assets
owned (e.g., shares in a company) would also not be taxed. The rationale is based on the assumption that the association uses that income to further its public benefit activities.

**Transformations of Associations**

20. The creation of a new legal status for MFIs will raise questions on how the transformation of associations to for-profit companies would be dealt with from a regulatory perspective. The current legal framework does not obstruct an association from selling its loan portfolio or exchanging its assets. It is, however, necessary to ensure that the exchange is for the true value of the portfolio to reduce the risks of asset stripping. Once the new framework is established, it would be beneficial to create clear guidelines for MFIs willing to transform which covers all relevant aspects of the transformation process, including governance and taxation.