

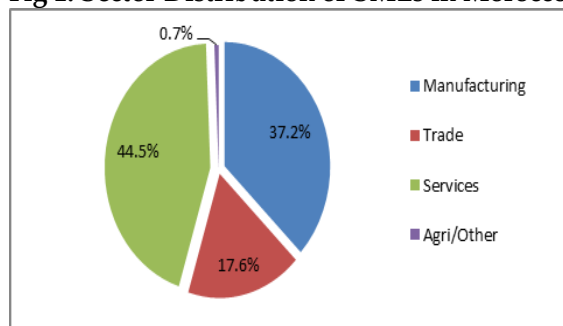


## SUPPORTING ACCESS TO FINANCE FOR MICRO, SMALL & MEDIUM ENTERPRISES WITH PARTIAL CREDIT GUARANTEES: THE MOROCCAN EXPERIENCE

Teymour Abdel Aziz<sup>1</sup>

**Introduction:** Micro, Small and Medium Enterprises (MSMEs) represent an important pillar of the Moroccan economy. Estimates indicate they account for more than 90 percent of all enterprises and contribute to 21.6 percent of total employment. These numbers only reflect the statistics of the formal economy: Their contribution to the real economy is significantly higher if the economic activity of the informal sector were to be included. Most MSMEs are in the services sector (44.5 percent), followed by manufacturing (37.2 percent) and trade (17.6 percent) (Fig 1).

**Fig 1: Sector Distribution of SMEs in Morocco**



Source: Haut Commissariat au Plan (2002)

**Government Strategy and Policies in Support of MSMEs:** The Moroccan government has acknowledged the importance of MSMEs for the national economy and has developed a number of initiatives aimed at improving the enabling environment for these firms. A new national strategy aimed at promoting the

development of small enterprises was elaborated in 2011, which includes a simplified taxation system, adapted social charges, extended social security coverage, and specific banking products. The Budget Law of 2011 introduced major incentives for small firms, including a reduction of the corporate profit tax from 30 percent to 15 percent, tax incentives for businesses that integrate into the formal sector, and tax incentives for sole proprietorships opting to transform into corporations. Morocco has also adopted a new definition of MSMEs, with the objective to replace a broad range of different definitions with a simple and uniform definition across ministries and agencies.

In addition to fiscal, legal and regulatory reforms, a number of support mechanisms aimed at strengthening the capacity of Small and Medium Enterprises (SMEs) have been established. The Government's "Agence Nationale pour la Promotion des PME<sup>2</sup>" (ANPME)<sup>2</sup>, is an agency dedicated to the promotion of SMEs. It manages financial support programs and provides business development services. Discussions are under way to set up a similar institution providing business development services and technical support to smaller, micro enterprises.

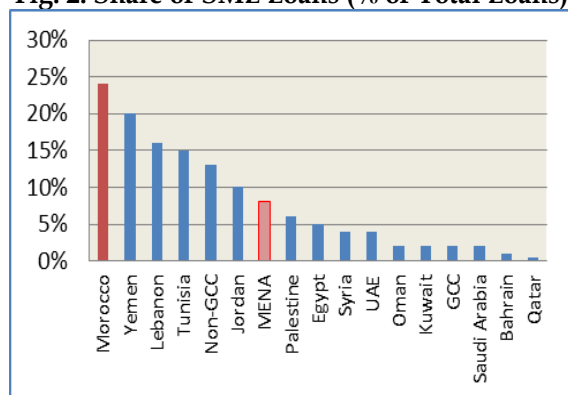
**Access to Finance and MSMEs:** Morocco has made significant inroads in expanding access to financial services for both individuals and MSMEs. A 2011 World Bank survey has featured Morocco as a regional leader in providing SMEs with access to credit: the share of SME loans in total loans amounts to 24

<sup>1</sup> Teymour Abdel Aziz is an Economist with the MENA Financial and Private Sector Development Group (MENA FPD). This quick note has been cleared by Simon C. Bell, Sector Manager, MENA FPD.

<sup>2</sup> For More see <http://www.anpme.ma/>

percent, which is the highest ratio in the MENA Region (Fig 2). Morocco has also been able to maintain the highest rates of microcredit access in the MENA region; although the sector's rapid expansion slowed down after the crisis in 2007. Morocco stands out in terms of Microfinance Institutions' branch networks, comprising 83 percent of the MENA Region's reported total. The leasing and factoring industry, two key sources of financing for MSMEs, are amongst the most developed in the MENA Region. The Moroccan post has been an important provider of savings and payment services for the low income population for many years. The recent establishment of a full-fledged Postal Bank aims to provide a more comprehensive set of financial services, including credit, to reach individuals and MSMEs in underserved areas.

**Fig. 2: Share of SME Loans (% of Total Loans)**



Source: Union of Arab Banks/Roberto Rocha, Zsofia Arvai and Subika Farazi, 2011 "Financial Access and Stability: A Road Map for the Middle East and North Africa" World Bank, Washington D.C.

Still, while Morocco has made significant progress in expanding access to finance to SMEs, the largest part of bank financing goes to the larger enterprises in the SME spectrum. Smaller enterprises, start-ups, youth and women led firms continue to face significant challenges in accessing credit. They tend to have less collateral, weaker management capabilities and are more vulnerable to information asymmetry, reducing the likelihood of receiving bank credit. They are underserved by the existing financial system, situated between larger established SMEs, which are served by the commercial banking sector, and microenterprises, which access

credit through an extensive network of microcredit providers.

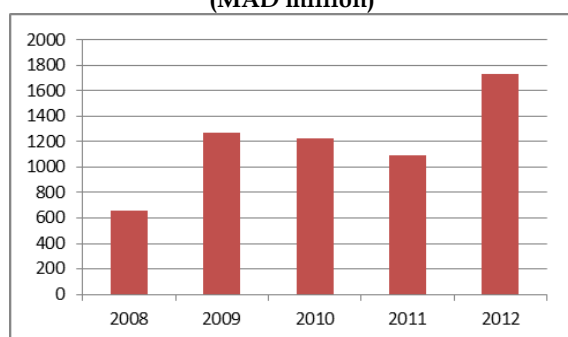
**Targeting Underserved SMEs:** In order to facilitate access to finance to underserved SMEs, the Moroccan authorities have established the Caisse Centrale de Garantie (CCG)<sup>3</sup>, a public financial institution providing partial credit guarantees (PCGs) for loans to MSMEs. By sharing the risk with financial institutions for loans to underserved segments, such instruments can reduce the impact of the market failures which cause these groups to be excluded from financing. Well-designed partial credit guarantee schemes are considered one of the most market-friendly types of interventions, as they generate fewer distortions in the credit market and are more consistent with a well-functioning banking system. Through the provision of risk mitigation tools, PCGs provide a strong incentive for banks to get into the MSME market, while retaining sound incentives for loan origination and oversight.

While the CCG was established in 1949, it has only had a very limited impact on SME financing. It lacked a clear strategy and targeting, and banks complained about cumbersome procedures and burdensome claims processing rules, leading to a limited uptake of their products. As part of its 2009-2012 development plan, the CCG saw its products overhauled. It introduced new guarantee products on SMEs (no guarantee can exceed 10 million MAD and combined guarantees on a single borrower cannot exceed 15 million MAD, ensuring that guarantees are used for SMEs). Guarantee products have been re-designed to better match SME needs according to their life cycle (investment loans, working capital, restructuring, and private equity). Guarantee parameters have been revised in line with international best practice (equity allocations, fees, simplification and harmonization of eligibility criteria). This helped streamline and strengthen the national credit guarantee mechanism, previously considered complex and fragmented. Furthermore, improvements in the claims payment process reduced the administrative burdens for client banks.

<sup>3</sup> For more see: <http://www.ccg.ma/fr/index.php>

**The Reforms Deliver Results:** Since the 2009 introduction of new products the CCG significantly increased its activities. The launch of new products coincided with the global economic crisis, resulting in a significant slowdown in overall economic activity. In this context, the government used CCG guarantee products as a countercyclical instrument to enable SMEs, especially exporters, to overcome financial difficulties. CCG commitments for companies almost doubled between 2008 and 2009 mainly driven by guarantees for working capital loans.

**Fig 3: Volume of SME loan guarantees (MAD million)**



Source: CCG

While the new design of the guarantee system has had a significant impact on the volume of guarantees, it has not helped to broaden the base of the recipient firms. In fact, the number of guarantees issued annually has almost stagnated between 2008 and 2010, while the average size of guarantees has increased from 0.7 to 1.3 million MAD. With this backdrop, the CCG has developed a new guarantee product to accompany (and leverage on) banks' strategies towards small enterprises.

This new product, the Damane Express, relies on simplified financial eligibility criteria for borrowers and introduces a new, innovative "delegated approach" (i.e. individual applications will not be reviewed ex ante by the CCG) and will not differentiate among various types of credit (only requiring that they do not exceed one million MAD). Guarantees are delivered rapidly by the CCG as soon as it receives electronically the information collected by the bank. This new product follows the directions set for the reform of the Partial Credit Guarantee (PCG) scheme in 2009. It is

intended to be simple and attractive for banks which could use it to more easily include credit products in the financial packages they offer to small enterprises.

The reforms of the CCG have been showing positive results. A recently commissioned impact evaluation study revealed that 72 percent of the loans guaranteed by the CCG would not have been financed by banks in the absence of a guarantee. The CCG also benefits many female entrepreneurs. The share of women-owned SMEs covered by guarantees of the CCG was at 30 percent in 2011, significantly higher than the national average of 12 percent<sup>4</sup>.

**World Bank Support to the CCG:** The World Bank supports the CCG's ambitions to expand access to financing to SMEs through financial and technical assistance. The Morocco MSME Development Project, effective since June 2012, provides \$50 million to support CCG's partial credit guarantee program for MSME loans, including its new Damane Express product for very small enterprises, and "Ilyaki", a new guarantee product dedicated to women led businesses. In addition to financial support, the World Bank aims to strengthen the capacity and sustainability of the country's leading PCG scheme through the provision of technical assistance in the areas of risk management and product development, as part of the regional MSME TA facility, in close collaboration with the IFC.

**Contact MNA K&L:**

Gerard A. Byam, Director, Strategy and Operations. MENA Region, the World Bank Regional Quick Notes Team:  
Omer Karasapan, and Roby Fields  
Tel #: (202) 473 8177

*The MNA Quick Notes are intended to summarize lessons learned from MNA and other Bank Knowledge and Learning activities. The Notes do not necessarily reflect the views of the World Bank, its board or its member countries.*

<sup>4</sup> Source: CCG (2011), WB ICA survey (2008) - Note: The definition of a woman-owned SME is based on the CCG's and the World Bank's Enterprise Survey definition which asks whether at least one of the owners is female, or whether any of the females are owners.