Report Number : ICRR0021303

1. Project Data

Project ID	Project Name
P129326	MA-MSME Development
Country	**Practice Area(Lead)**
Morocco	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-81820	31-Dec-2017	50,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
28-Jun-2012	31-Dec-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	49,206,618.72	0.00

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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (page 5) and the Project Appraisal Document (page 7), the project development objective (PDO) of the Morocco Micro, Small and Medium Enterprise (MSME) Development Project was "to improve access to finance for micro, small and medium enterprises in the Kingdom of Morocco". The operation was the second of a planned three-part adaptable program loan (APL) for the MSME Development Program of the MSME Facility for the Middle East and North Africa (MENA) Region. The first APL was made to the Tunisia MSME Development Project; a planned third APL has not since been made to another MENA country.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The Morocco MSME Development Project had a single component.

Support for the Issuance of Partial Credit Guarantees provided financing to support the provision by the Caisse Centrale de Garantie (CCG) of partial credit guarantees (PCGs) to participating financial institutions (PFIs) to enable the PFIs to extend loans to eligible MSMEs. The project funds would cover the losses of the CCG from the provision of MSME loan guarantees: to start-ups (Damane Crea); to existing SMEs for their working capital requirements (Damane Exploitation), expansion projects (Damane Dev), and restructuring initiatives (Damana Istimrar), as well as to existing SMEs in the textile industry (Integra-Textile); and, to very small enterprises (VSEs), those with a turnover of less than Moroccan Dirhams (MAD) 3.0 million (US$330,000 equivalent), using simplified lending criteria and processes (Damane Express). By providing funds to cover the expected losses of the CCG from its MSME guarantee products, the project expected the CCG to expand its PCGs, and the PFIs, their lending, to MSMEs.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost --- the coverage for the expected losses of the CCG from its MSME loan guarantee products --- was estimated at appraisal at Euro 37.9 million (US$50 million equivalent).

Financing: The project was financed with an adaptable program loan from the IBRD of Euro 37.9 million (US$50 million equivalent). The actual disbursement at project close was US$49.2 million.

Dates: The project was approved on June 28, 2012 and became effective on February 20, 2013. It closed as scheduled on December 31, 2017

3. Relevance of Objectives

Rationale

The PDO to improve access to finance for MSMEs was relevant to economic conditions in Morocco at the time of project appraisal in 2012. Inadequate access to credit was cited by the private sector and by the country's citizens as one of the biggest obstacles to the development of business enterprises, particularly SMEs. And yet, SMEs were crucial to the Moroccan economy, accounting for more than 90 percent of operating enterprises and contributing more than 20 percent of GDP, more than 30 percent of exports, and 50 percent of employment.

The PDO continues to be relevant to the development agenda of the Government after the project closed. The latest IMF macroeconomic surveillance report, the "Morocco 2017 Article IV Consultation Staff Report" of March 2018 (page 16) supports the "continued initiatives by the authorities to provide SME credit guarantees and to address potential obstacles to SME credit access". A Government statement in the Information Annex to the Staff Report (page 2) says "the central bank will continue to aim at ensuring adequate financing of the economy, in particular for SMEs".

The PDO remains firmly aligned with the strategic objectives of the Bank Group's "Country Partnership Strategy (CPS) for the Kingdom of Morocco for the Period FY2014-17" after the project closed. The CPS supports the country's development program in three results areas: promoting competitive and inclusive growth; building a green and resilient future; and, strengthening governance and institutions for improved service delivery to all citizens. In particular, the project is firmly aligned with the outcome advanced in the CPS (page 20) to "improve access to finance, with a particular focus on low-income households, micro, small and young firms, and the youth and women".

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve access to finance for micro, small and medium enterprises in the Kingdom of Morocco.

Rationale

The degree of achievement of the objective is assessed as Substantial.

The project exceeded the targets for the eight output (intermediate results) indicators for the PDO:

- The number of MSME loans covered by guarantees increased by 3,967 percent from 685 in 2011 (the base year) to a cumulative total of 27,857 in 2017 (by the project's closing date), exceeding the target of a 20 percent cumulative increase.
- The volume of MSME loans covered by guarantees increased by 2,817 percent from Moroccan Dirhams (MAD) 1.1 billion in 2011 to a cumulative total of MAD 31.8 billion in 2017, exceeding the target of a 10 percent cumulative increase.
- The number of loans to SME start-ups that were covered by guarantees increased by 674 percent from 134 in 2011 to a cumulative total of 1,037 in 2017, exceeding the target of a 20 percent cumulative increase.
- The volume of loans to SME start-ups that were covered by guarantees increased by 720 percent from MAD 483 million in 2011 to a cumulative total of MAD 4.0 billion in 2017, exceeding the target of a 10 percent cumulative increase.
- The number of loans to existing SMEs that were covered by guarantees increased by 6,014 percent from 122 in 2011 to a cumulative total of 7,459 in 2017, exceeding the target of a 20 percent cumulative increase.
- The volume of loans to existing SMEs that were covered by guarantees increased by 4,973 percent from MAD 491 million in 2011 to a cumulative total of MAD 24.9 billion in 2017, exceeding the target of a 10 percent cumulative increase.
- The number of loans to VSEs that were covered by guarantees increased by 4,375 percent from 429 in 2011 to a cumulative total of 19,199 in 2017, exceeding the target of a 20 percent cumulative increase.
- The volume of loans to VSEs that were covered by guarantees increased by 3,361 percent from MAD 114 million in 2011 to a cumulative total of MAD 4.0 billion in 2017, exceeding the target of a 10 percent cumulative increase.

The project exceeded the targets for the two outcome (PDO-level results) indicators for the PDO:

- The number of MSME loans made by PFIs increased by 88 percent from 384,950 in 2011 to a cumulative total of 722,774 in 2017, exceeding the target of a 20 percent cumulative increase.
- The volume of outstanding MSME loans in the portfolio of PFIs increased 18 percent from MAD 120.4 billion in 2011 to a cumulative total of MAD 142.0 billion in 2017, exceeding the target of a 10 percent cumulative increase.

This ICR Review concurs with the ICR’s own assessment (pages 12-13, and 16) that the surpassing of project targets needs to be qualified:

- First, the central bank, Bank Al-Maghrib (BAM), introduced a refinancing facility for MSMEs at the time when the project started, as part of its counter-cyclical monetary policy in 2012. The facility provided one-year funding to MSMEs at the central bank's refinancing rate, and the uptake was reportedly significant. The availability of the refinancing would have boosted MSME lending concurrently with the expansion of CCG's MSME guarantee operations over 2012-17, raising a results attribution issue vis-a-vis the project.

- Second, the Government cut taxes for VSEs from 30 percent to 15 percent in 2011, and offered other tax incentives for VSEs to convert into corporations and integrate within the formal sector. The increased profitability, arising from the tax cuts and incentives, would have conceivably encouraged greater VSE borrowing. Neither the Project Appraisal Document nor the ICR attempted to quantify these effects, although the VSE tax cuts and incentives were known at the time of appraisal.
- Third, the results targets may have been set too low, according to the ICR. The economic and financial conditions at the time of project preparation in 2011 were particularly challenging --- economic growth in the Euro Area, Morocco's principal trading partner, had slowed following the Global Financial Crisis of 2008-09; growth in the loan guarantee program had stagnated over 2008-10; and, the CCG was reluctant to set a high target particularly for the new guarantee product targeted at VSEs, the Damane Express, for which the demand was still uncertain. The relatively conservative targets, set at appraisal, would have exaggerated the results of the project.
- Finally, the available data does not allow for an analysis of "additionality" --- the amount of MSME lending that was realized as a result of the expansion of the CCG's MSME loan guarantee operations versus the amount of MSME lending that would have happened without the expansion, (or, at another level, versus the amount of MSME lending that would have happened without guarantee operations at all). This would have been a more robust approach to measuring the results of the project rather than simply comparing the end-of-project data with the baseline data in 2011 (see section 9A of this ICR Review). The ICR (pages 7 and 16) argues, however, that "additionality" is implied by the contention by the PFIs that they would be reluctant to lend to MSMEs without guarantee cover.

Rating
Substantial

Rationale
The efficacy of the project is assessed as substantial, while taking into account the possibility that the performance targets may have been set too low at the appraisal stage, and additionality with and without the project would be difficult to quantify, given a parallel BAM facility, Government tax incentives, and a high number of entities acting simultaneously. However, the PFIs' reluctance to lend to MSMEs without guarantees, and the significant degree to which targets were surpassed, would support a substantial rating.

Overall Efficacy Rating
Substantial

5. Efficiency

The efficiency of the project is assessed as Substantial.

Although no formal cost-benefit analysis was prepared for the project, either at appraisal or at closing, the economic efficiency of the project can be approximated from the following:

- For the amount of the project fund that was availed by the CCG, US$49.2 million or MAD 453.6 million in local currency, the volume of MSME loans made by PFIs, backed by CCG partial credit guarantees, was MAD 31.8 billion over 2012-17, or 70 times the size of the IBRD loan. A line of credit would have generated a far smaller volume of MSME loans (MAD 453.6 million, for instance, if the PFIs simply re-lent the project funds as five-year term loans).
- The project mobilized private sector resources for MSME lending to private enterprises. The PFIs used their own resources for MSME lending. The PFIs would have partial recourse to the CCG, and the CCG, to the project funds, only if an MSME loan defaulted. A line of credit would have mobilized private resources for MSME lending only if it required some matching by the PFIs, and even then, the ratio would have been far less than 70:1.
- The project required little administrative cost. The PFIs and the CCG employed their own administrative processes for lending and guarantee operations, and would have reverted to the project funds only in the case of a guaranteed MSME loan default. According to the ICR (page 16), the default rate for the CCG MSME portfolio was below 2 percent.

The project was also operationally efficient:

- The project funds were fully disbursed --- utilized to cover CCG's losses on PCG guarantee products. The project cost was not exceeded --- there were no over-runs.
- The project was implemented as designed --- there were no restructurings. As the project did not involve any procurement, there were no procurement issues.
- The project closed as scheduled --- there were no project extensions.

Efficiency Rating
Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objectives is rated as High; the efficacy, Substantial; and, the efficiency, Substantial.

As there were only minor shortcomings in the project's achievement of its objectives and in its efficiency, the outcome of the project is assessed as Satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risk to the sustainability of the development outcome is assessed as Negligible to Low.

The CCG, one of three institutions providing MSME loan guarantees in Morocco, had a long operating history as a credit institution, having been established in 1949, and is rated as a "high capacity" organization. The CCG has a credible record of providing PCGs to MSMEs. It broadened its guarantee program over 2009-12 to provide eight categories of PCG products that are better aligned with the financial needs of SMEs over their life cycle. It also introduced a new guarantee product targeted at VSEs, the Damane Express, in a bid to extend the coverage of the guarantee system to include micro enterprises. As a financial institution, the CCG is supervised by the central bank, the BAM.

The PCG system for MSMEs is robust. The CCG guarantees only a portion of an eligible MSME loan, typically 50-80 percent, depending on the guarantee product, which helps mitigate moral hazard issues. Because PFIs retain part of the risk of their MSME loans, they are bound to exercise due diligence and undertake monitoring. The CCG's loss ratio on its overall portfolio has declined from 1.9 percent in 2011 to 0.6 percent in 2017.

According to the IMF's 2017 Article IV Staff Report (pages 1-3), macroeconomic policies in Morocco are sound and reforms have helped strengthen the resilience of the economy, improve the fiscal and financial policy frameworks, and increase economic diversification. Banks are well capitalized and the risks to financial stability are limited, with non-performing loans, although still relatively high, being well provisioned. The positive macroeconomic assessment implies that the demand for credit and for credit guarantees will likely remain strong in the short- to medium-term.

Apart from expanding its guarantee portfolio, the CCG has also strengthened and streamlined its operational and administrative systems, which were previously considered to be complex and fragmented. Claims payment processing has been improved, and the administrative burden on client PFIs has been reduced. The Damane Express, for instance, uses a "delegated approach" under which individual applications for guarantee cover are not required to be reviewed ex-ante by the CCG. The improvements suggest that the supply of PCG products to MSMEs will be facilitated going forward.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project's quality at entry was Satisfactory.

The Bank responded promptly to a Government request for a Bank loan, following the Arab Spring, to support Morocco's initiative to expand the access to finance for SMSEs. The project was prepared within a short period (seven months from concept meeting to Board approval) and as part of the MSME Facility for the MENA Region, a comprehensive package of financing and technical assistance provided by the Bank and the IFC to improve the enabling environment for MSME finance in the MENA region. The first APL under the regional program had been approved the year before, for Tunisia's MSME Development Project.

The Bank adopted a simple project design. The project funds would help the CCG expand PCGs, by covering the CCG's losses on its PCG portfolio. And PCGs, in turn, would help PFIs expand lending to SMSEs, by lowering the risks to MSME lending, reducing the requirements for collateral, and unlocking potential lending to VSEs. Morocco had an ongoing PCG program and had already made significant progress with MSME finance. The project would help expand the PCG scheme and encourage more PFI lending to SMEs and new lending to VSEs.

The Bank picked an existing agency, the CCG, with a long operating history and a proven record of PCG operations to implement the project. The CCG had just strengthened its PCG product line to include guarantee products directed at the SME life cycle and a new guarantee product for VSE lending. The CCG had also improved its operational and administrative systems.

The Bank supported the project with complementary technical assistance (TA) drawn from the MSME Technical Assistance Facility, itself financed by a grant under the MENA Regional MSME Technical Assistance Facility. The TA helped further strengthen the capacity of PFIs for MSME lending through policy advice and training activities.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

The quality of supervision was Moderately Satisfactory.

The project was supervised by a capable and experienced Bank staff. There was no turnover in the leadership or membership of the Bank team.

Supervision was performed regularly. Supervision missions were fielded twice a year. The team produced nine Implementation Status and Results Reports (ISRs) over the roughly five-year duration of the project.

The ICR (page 24) reports that the Government appreciated the support provided by the Bank team during project implementation.

A few minor weaknesses with supervision included: a less than strong Bank emphasis on M&E (there were gaps in M&E data reporting); slippages with the timely filing of key documents in the Bank's WB Docs archiving system; and, the absence on an environment specialist in supervision missions.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Project Appraisal Document (page 21) defined eight indicators to measure the outputs of the project and two indicators to measure the outcomes, both to reflect the objective to improve the access to finance for MSMEs. In practice, the passage by the Government of tax cuts for VSEs under the Budget Law for 2011 and the opening by the MAB of the MSME Refinancing Facility in 2011 complicated what should be a straightforward attribution of the incremental number and amount of PCGs by the CCG and MSME loans by PFIs directly to the project. That should not be taken against the project's M&E design, however, as the intervention by the BAM was expected or predicted at the time of appraisal.

The results indicators could have been improved, however, by projecting the historical trend for CCG guarantee operations and PFI MSME lending into the future without the project. Targets could then have been defined relative to the trend line. The results of the project would then be compared to the targets, set along this statistical trend, to discern whether the project made a statistically significant impact on CCG guarantees and MSME loans over 2012-17.

b. M&E Implementation

The ICR reports that M&E data for some of the results indicators were not readily available during supervision missions. Moreover, the Bank had to re-compute the quantitative results during the last ISR in July 2017 to validate the reports, as there were questions about the accuracy of the previous data. In hindsight, the project could have benefitted from the services of an M&E expert at the project's outset.

c. M&E Utilization

The M&E data was useful to the CCG and to the Ministry of Finance and Economy for monitoring and reporting on the number, type, and volume of MSME loans covered by PCGs in Morocco and on the number and volume of PCGs issued by the CCG. Overall, the M&E date was useful for monitoring developments in MSME finance in Morocco.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards: The project is categorized as an "FI" (Financial Intermediary) and triggered the Bank's Environmental Assessment safeguards policy (OP/BP 4.01). The Master Environmental and Social Management Framework (ESMF), prepared earlier for the MSME Facility for the MENA Region, was customized for the project to comply with the policy. The ESMF, which identifies, minimizes, avoids and screens out, mitigates, and monitors potential environmental and social impacts was made part of the project operations manual, disclosed in country on May 4, 2012, and published in the Bank website on May 9, 2012. An Environmental and Social Screening Unit was also established under the Project Implementing Entity and was operational during the project's life.

Sub-projects that triggered other safeguards policies --- OP/BP 4.04 on Natural Habitats, OP/BP 4.36 on Forests, OP/BP 4.37 on Safety of Dams, OP/BP 4.10 on Indigenous Peoples, OP/BP 4.12 on Involuntary Resettlement, OP/BP 7.50 on Projects on International Waterways, and OP/BP 7.60 on Projects in Disputed Areas --- were not to be eligible for financing by PFIs that received guarantee coverage under the project. Overall, there was considerable difficulty with environmental screening as the PFIs were reluctant to undertake extensive environmental impact screening, assessments and monitoring of small loans. In response, the PFIs were required to take a specialized training in environmental procedures.

Notwithstanding the difficulties, the CCG implemented the ESMF well. Trained staff in an environmental and social screening unit classified sub-projects into three classes according to their environmental impact. According to the CCG, 10 percent of sub-projects were rejected for their potential adverse environmental impact. The Bank assisted the CCG in building its capacity for the management of environmental and social risks, including through training activities, and the CCG is now deemed to have a strong capacity for environmental risk screening and assessment.

Social Safeguards: No social safeguards were triggered. The social impacts of the project were positive, with MSMEs as beneficiaries. Loans to MSMEs led to job creation and helped raise incomes, diversify livelihoods, and reduce poverty.

b. Fiduciary Compliance

Financial Management: The CCG prepared biannual interim financial reports, which were unaudited (UIFRs), and annual financial statements, which were audited, and included detailed statements of commitments and disbursements by PFIs. The Department of Treasury and External Financing (DTFE) of the Ministry of Economy and Finance validated and transmitted the UIFRs and withdrawal applications to the Bank. The DTFE performed its functions in a timely and satisfactory manner, although there were delays with the submission of UIFRs to the DTFE.

Audit: External annual audits did not flag any major shortcoming. Recurrent recommendations included: the need for enhancing internal control by updating the accounting manual; enhancing risk monitoring by improving the accounting control system; and, applying the provisions of BAM Circular No. 4/W/2014 on the internal control of credit institutions.

Procurement: There was no procurement activity for this project. The project funds were not used to provide any direct financing of goods, works, or services for MSMEs.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Modest	Substantial	M&E design could have been improved, and implementation strengthened, but the deficiencies were not altogether significant to detract from using the M&E plan to assess PDO achievement.
Quality of ICR		Substantial	---

12. Lessons

Three lessons are drawn from the ICR (pages 25-26), with adaptation.

PCGs can encourage PFI lending to VSEs, apart from lending to SMEs. The number and volume of PFI loans to VSEs rose the largest among three categories of MSME lending in Morocco over 2012-17. PCGs for VSE loans were highly valued by PFIs, according to the ICR. It also helped that lending criteria were simplified and guarantee processes were streamlined (guarantees were approved within 48 hours) to facilitate lending to VSEs (four PFIs ramped up guarantee usage for VSE loans).

Projects implemented by existing institutions with a strong capacity and successful track record are best placed to achieve success. Established in 1949, the CCG had a long operating history and a successful record of PCG operations. The choice of the CCG as implementing agency obviated the need to create a new institution, with attendant organizational pains. The CCG had strong organizational capacity and strong management skills, according to the BAM, which supervised the financial institution. It had a low turnover of staff managing the project and performed its duties efficiently, according to the ICR.

Complementary TA strengthens project implementation. The project was accompanied by technical assistance, which further strengthened the capacity of the CCG and improved capacity in the banking system to serve MSMEs in Morocco. Although not embedded in the financing operation, the technical assistance was conveyed through the MENA Regional MSME Technical Assistance Facility.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The assessment of the project's results is evidence-based. The ICR provides a useful summary of the operations' performance, set within the results framework for the project (pages 27-31), and offers a narrative supporting the rating (pages 11-15).

The analysis of the project outputs and outcomes is candid. While the project exceeded the performance targets, the ICR cites the opening by the BAM of an MSME Refinancing Facility in 2012 as having likely boosted the expansion of MSME lending by PFIs during the project's duration (page 13).

The document provides a comprehensive record of the project. The ICR adequately documents the context of the project (pages 5-6), the results framework (pages 7-8), and the project design (page 10), including an overview of the guarantee operations and the guarantee product offerings of the CCG (pages 37-42).

a. Quality of ICR Rating

Substantial