Morocco – Second Capital Market Development and SME Finance Development Policy Loan -- Overview

In recent years Morocco has pursued well sequenced and increasingly complex reforms of its financial system. The current wave of reforms centers on capital market development, diversifying finance beyond banks, reforming the pension system as the cornerstone of capital markets, and developing new financing solutions to meet the needs of vulnerable households and small and medium enterprises (SMEs).

The World Bank has been providing technical and financial support to the government of Morocco to pursue these reforms, in order to improve the financial lives of households and small businesses, and to ensure capital is efficiently allocated to strategically important sections of the economy, including infrastructure.

The Second Capital Market Development and SME Finance Development Policy Loan (DPL), approved in May 2017, is a $350 million budget support operation, the second in a programmatic series of two DPLs. The first DPL in the amount of US$300 million was approved in April 2014.

What are the program’s objectives?

The program objectives are to:

- Improve access to finance for small and young enterprises;
- Strengthen capital markets by improving the institutional framework and broadening the range of instruments;
- Improve the financial sustainability of the Caisse Marocaine des Retraites (Mandatory Pension Fund for Civil and Military Services); and
- Strengthen the oversight of the banking sector.

The programmatic series supports comprehensive upstream reforms by the Ministry of Economy and Finance, central bank, capital market authority, and insurance and pension supervisor that enable new financing solutions for key investments in infrastructure and small enterprises. This helps create jobs and raise incomes of communities across Morocco. It also promotes the economic participation of vulnerable groups, including women and rural dwellers. The reform of the largest pension fund, also supported by the current program, ensures that it remains a sustainable and efficient local investor in existing and new asset classes. Because the financial sector is increasingly taking on more risk, the program supports policies that strengthen oversight of the banking sector, thereby helping to ensure financial stability.

How does the program unleash economic opportunity for Moroccan citizens?

The program introduces new tools to expand the role of capital markets in Morocco. New instruments and practices enable large borrowers to replace bank financing with market financing. This process frees up bank capital to lend to SMEs which promotes growth and economic opportunity for lower-income segments of the economy. The program also supports measures to include vulnerable households and micro-businesses into the formal financial system. This builds resilience within households, reduces poverty, allows for the expansion of small businesses, and generates jobs.
Objectives and reforms supported by the DPL series:

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| **Pillar A: Improve access to finance for small and young enterprises** | • Establishment of a co-financing arrangement supporting the financial restructuring of MSMEs.  
• Establishment of the conditions for paying value added tax (VAT) credits to MSMEs.  
• The central bank (Bank Al-Maghrib) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring.  
• Established non-bank providers of payment service in Morocco. |
| **Pillar B. Strengthen capital markets by improving the institutional framework and broadening the range of instruments** | • The Board of the capital market authority (Autorité Marocaine du Marché des Capitaux) appoints the members of its College of Sanction, and the Minister of Economy and finance adopts the rulebook (Règlement Général) of the capital market authority.  
• Law on the stock exchange and investment advice is published  
• Law on real estate investment trusts (organismes de placement collectif immobilier) is published; Decree exempting real estate investment trusts from corporate income tax has been published. |
| **Pillar C. Improve the financial sustainability of the Caisse Marocaine des Retraites (CMR)** | • The laws setting forth the new parameters of the civil service pension fund are published. |
| **Pillar D. Strengthen oversight of the banking sector** | • The central bank transmits to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates. |