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R2017-0043/1

February 22, 2017

Closing Date: Friday, March 10, 2017 at 6 p.m.

FROM: Vice President and Corporate Secretary

Morocco

Financing Innovative Startups and Small and Medium Enterprises Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Morocco for a Financing Innovative Startups and Small and Medium Enterprises Project (R2017-0043), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of

The World Bank

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Report No: PAD1362

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$50 MILLION

TO THE

KINGDOM OF MOROCCO

FOR A

FINANCING INNOVATIVE STARTUPS AND SMALL AND MEDIUM ENTERPRISES PROJECT

February 16, 2017

Finance and Markets Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 4, 2017)

Currency Unit	=	Moroccan Dirhams (MAD)
MAD 1	=	US$0.10
US$1	=	MAD 10.16

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFEM	Moroccan Women CEOs' Association *(Association des Femmes chefs d'Entreprises du Maroc)*
AMIC	Moroccan Association of Equity Investors *(Association Marocaine Des Investisseurs en Capital)*
AMMC	Moroccan Capital Market Authority *(Autorité Marocaine du Marchés des Capitaux)*
BAM	Bank Al-Maghrib
CCG	Central Guarantee Agency *(Caisse Centrale de Garantie)*
CDG	Asset Management Company *(Caisse des Dépôts et de Gestion)*
CDVM	Capital Market Regulator *(Conseil Déontologique des Valeurs Immobilières)*
CAGR	Compound Annual Growth Rate
CGEM	Association of Moroccan Enterprises *(Confédération Générale des Entreprises du Maroc)*
CNRST	National Center for Scientific and Technical Research *(Centre National de la Recherche Scientifique et Technique)*
CSE	Casablanca Stock Exchange
DA	Designated Account
DB	Doing Business
DFI	Development Finance Institution
DTFE	Department of the Treasury and External Finance *(Direction du Trésor et des Finances Extérieures)*
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
EU	European Union
FII	Fonds Innov Invest
FM	Financial Management
FS	Financial Statement
GDP	Gross Domestic Product
GOM	Government of Morocco
IC	Investment Committee
IFC	International Finance Corporation
IPO	Initial Public Offering
IR	Investment Readiness
IRR	Internal Rate of Return
LA	Loan Agreement
M&E	Monitoring and Evaluation

MNF	Maroc Numeric Fund
MoEF	Ministry of Economy and Finance
MoITIDE	Ministry of Industry, Trade, Investment, and Digital Economy
MSME	Micro, Small, and Medium Enterprise
NCB	National Competitive Bidding
OECD	Organisation for Economic Co-operation and Development
OPCC	Capital Investment Organization (*Organisme de Placement Collectif en Capital)*
PA	Project Agreement
PDO	Project Development Objective
PE	Private Equity
PEFA	Public Expenditure and Financial Accountability
PI	Partner Intermediaries (financial and non-financial)
PM	Project Manager
PMU	Project Management Unit
POM	Project Operations Manual
R&D	Research and Development
REM	Morocco Enterprise Network *(Réseau Entreprendre Maroc)*
RMIE	National Network of Business Incubation *(Réseau Maroc Incubation et Essaimage)*
S.A	Corporation *(Société Anonyme)*
SA	Subsidiary Agreement
SAS	Limited Liability Company *(Société par Actions Simplifiée)*
SC	Steering Committee
SCA	Limited Share Partnership *(Société en Commandite par Actions)*
SOE	State-Owned Enterprise
TC	Technical Committee
TOR	Terms of Reference
VC	Venture Capital

Regional Vice President:	Hafez Ghanem
Country Director:	Marie Francoise Marie-Nelly
Senior Global Practice Director:	Ceyla Pazarbasioglu
Practice Manager	Jean Pesme
Task Team Leader:	Randa Akeel

MOROCCO
Financing Innovative Startups and SMEs Project

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PAD DATA SHEET

Kingdom of Morocco

Financing Innovative Startups and SMEs Project (P150928)

PROJECT APPRAISAL DOCUMENT

MIDDLE EAST AND NORTH AFRICA

0000009282

Report No.: PAD1362

Basic Information			
Project ID P150928	EA Category F - Financial Intermediary Assessment	Team Leader(s) Randa Akeel	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [x]		
	Series of Projects [ ]		
Project Implementation Start Date 10-March-2017	Project Implementation End Date 30-April-2023		
Expected Effectiveness Date 20-June-2017	Expected Closing Date 31-Dec-2023		
Joint IFC No			

Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Jean Pesme	Ceyla Pazarbasioglu	Marie Francoise Marie-Nelly	Hafez Ghanem

Borrower: Kingdom of Morocco			
Responsible Agency: La Caisse Centrale de Garantie			
Contact:	Taoufiq Lahrach	Title:	Secretary General
Telephone No.:	+212 5 37 71 68 68	Email:	t.lahrach@ccg.ma

Project Financing Data(in US$, millions)					
[X]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Development	50.00
Total	50.00

Expected Disbursements (in US$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	0000	0000
Annual	25.00	15.00	10.00	00.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	25.00	40.00	50.00	50.00	50.00	50.00	50.00	50.00	0.00	0.00

Institutional Data

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Trade & Competitiveness

Proposed Development Objective(s)

The project development objective is to facilitate the increase of private equity and quasi-equity finance for innovative startups and small and medium enterprises in the Project Area.

Components

Component Name	Cost (US$, millions)
Financing Program	42.00
Ecosystem Support	6.00
Project Management, Coordination and M&E	1.875
Front-end Fee	0.125

Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
OVERALL	Substantial

Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No []
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	**X**	
Natural Habitats OP/BP 4.04	**X**	
Forests OP/BP 4.36	**X**	
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	Recurrent	Due Date	Frequency
Section IV. B. 1 (b) of the Loan Agreement: Withdrawal Conditions			

Description of Covenant

Under Category (1), unless the Project Implementing Entity has signed at least one Administration Agreement with a Participating Financial Intermediary

Name	Recurrent	Due Date	Frequency
Section IV. B. 1 (c) of the Loan Agreement: Withdrawal Conditions			

Description of Covenant

Under Category (2), unless the Project Implementing Entity has signed at least one Participation Agreement with a Participating Non-Financial Intermediary

Conditions

Source Of Fund	Name	Type
IBRD	Subsidiary Agreement	Effectiveness

Description of Condition

The Subsidiary Agreement has been executed on behalf of the Borrower and the Project Implementing Entity.

Source Of Fund	Name	Type
IBRD	Project Operations Manual	Effectiveness

Description of Condition

The Project Operations Manual has been prepared, in form and substance satisfactory to the Bank, and adopted by the Borrower and the Project Implementing Entity.

Source Of Fund	Name	Type
IBRD	External Auditor TOR	Effectiveness

Description of Condition

The Borrower has caused the Project Implementing Entity to prepare draft terms of reference, acceptable to the Bank, for the recruitment of an external auditor.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Randa Akeel	Team Leader (ADM Responsible)	Senior Financial Sector Economist	Economist	GFM05
Renganaden Soopramanien	Team Member	Legal Counsel	Legal	LEGAM
Jean-Charles de Daruvar	Team Member	Senior Counsel	Legal	LEGAM
Aissatou Diallo	Team Member	Senior Disbursement Officer	Disbursement	WFALA
Abdoulaye Keita	Team Member (ADM Responsible Procurement)	Senior Procurement Specialist	Procurement	GGO05
Moustapha El Bechir	Team Member	Senior Procurement Specialist	Procurement	GGO05
Laila Moudden	Team member	Financial Management Analyst	Financial Management	GGO23
Jean-Jacques Verdeaux	Procurement	Lead Procurment Specialist	Procurement	GGo05
Ana Paula Cusolito	Team Member	Senior Economist	Economics	GTC03

Justin Piers William Hill	Team Member	Senior Private Sector Specialist	Private Sector Development	GTCIE
Loic Chiquier	Team Member	Senior Adviser	Venture Capital	GFM3A
Marjorie Penesa Espiritu	Team Member	Senior Program Assistant	Logistics	GFM05
Markus Friedrich Vorpahl	Safeguards Specialist	Senior Social Development Specialist	Social Safeguards	GSU05
Mohamed Adnene Bezzaouia	Safeguards Specialist	Environmental Specialist	Environment	GEN05
Mohamed Hisham El-Shiaty	Team Member	Senior Private Sector Specialist	Entrepreneurship Support	GTCME
Nasser Kadiri	Team Member	Investment Officer	IFC investments in Morroco	CMEMR
Philippe De Meneval	Team Member	Program Leader	Program Leader	MNC01
Roya Vakil	Team Member	Financial Sector Specialist	Financial Sector	GFM05
Steve W. Wan Yan Lun	Team Member	Operations Analyst	Operations	GFM05
Suiko Yoshijima	Safeguards Specialist	Environmental Specialist	Environment	GEN06

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Morocco	Regions Provinces	Tanger-Tétouan-Al Hoceima, l'Oriental, Fès-Meknès, Rabat-Salé-Kénitra, Béni-Mellal-Khénifra, Casablanca-Settat, Marrakech-Safi, Draâ-Tafilalet, Souss-Massa Guelmim, Tan-Tan, Sidi-Ifni and Oued Noun.	x x		

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required ? Consultants will be required

I.STRATEGIC CONTEXT

A. Country Context

1. **Morocco has a population of 33.8 million and an estimated nominal gross domestic product (GDP) of US$104 billion (2016).** Economic growth has slowed, registering 0.5 percent in the second quarter of 2016 compared to 4.2 percent during the same period in the previous year. Morocco is heavily dependent on rain-fed agriculture, and the decline in growth is mainly due to a 10.9 percent decrease in agricultural output for the 2015/2016 crop year due to insufficient rainfall. Performance in nonagricultural sectors has also been deficient. The main driver of current growth has been domestic consumption, benefitting from relatively higher household income, a rise in workers' remittances, an improvement in consumer credit, and a low inflation rate. The strong export performance of the automobile, aeronautics, and electronics industries and declining oil prices have also contributed.

2. **Macroeconomic performance has been strong due to extensive government efforts to reduce the fiscal deficit by 6.8 percent in 2012 to 3.5 percent in 2016, by keeping debt from rising and reducing the current account deficit from 9.5 percent of GDP in 2012 to 2.9 percent in 2016.** Inflation is expected to remain below 2 percent, reflecting a prudent monetary policy and a fall in international commodity prices. In the context of low inflation and sluggish credit growth, the Central Bank (Bank Al-Maghrib [BAM]) cut its key policy rate in March 2016 by 25 basis points to 2.25 percent - the lowest rate on record.

Despite an improvement in poverty, literacy, and social indicators, vulnerability to poverty remains high, and high unemployment among the educated urban population and youth represents a major social challenge. Currently 13.3 percent of the population lives in poverty or under a threat of falling into poverty. Total unemployment was at 8.6 percent at end of second quarter 2016 with the economy struggling to absorb some 250,000 new job seekers annually. Unemployment among urban youth is 17.1 percent, for women, who have a labor participation rate of less than 23 percent, unemployment is 9.9 percent, but it is 20.4 percent for women in urban areas. The World Bank estimates[1] that Morocco needs to reach annual growth rates of 5–7 percent just to absorb new entrants into the labor market. Here the role of firm age and job creation productivity is important. According to the 2014 World Bank Group Report, Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa (Report No. 88879-MNA), start-ups and young, dynamic, high-growth firms accounted for all net job creation in the manufacturing sector in Morocco, offsetting job destruction by all other formal manufacturing businesses. In Morocco, start-ups and young enterprises, as compared to all small and medium enterprises (SMEs), face the highest barriers to accessing finance. This is because banks cannot finance start-ups without requesting substantial collateral and alternative financing like Venture Capital (VC) that is suited for young high-growth companies is undeveloped.

3. **The Government of Morocco (GOM) has requested US$50 million in financing from the World Bank to help address a market gap in the supply of equity financing for innovative young small and medium enterprises and to catalyze the venture capital (VC) market.** In this context, a joint team from the World Bank and International Finance Corporation's (IFC) VC unit

[1] Forthcoming Country Economic Memorandum (CEM), 2017.

helped design the proposed project which will invest in innovative SMEs alongside private investors, who will play an important role in the selection of investments. The project will also address weaknesses in the investment know-how of ecosystem agencies supporting entrepreneurs (see definition in table 1) and boost scale in the creation of financially viable enterprises (deal flow). Once a critical mass of successful ventures has been reached and the initial risk posed by an underdeveloped investment ecosystem is addressed through a public program, the IFC would be able to further expand the market and connect the Moroccan early stage ecosystem to global counterparts through investments and capacity building.

B. Sectoral and Institutional Context

Risk Capital and Access to Finance

4. **Despite being the best regional performer with regard to access to finance for SMEs, Morocco's financial sector does not address the needs of many innovative high-growth potential companies at the initial stages of their development.** The banking sector dominates the financial system. According to the 2015 Financial Sector Assessment Program, financial system assets surpass 200 percent of GDP, of which banks represent 140 percent, insurance and Private Equity (PE) funds 40 percent, and pensions 25 percent. The World Bank Group's 2017 Doing Business (DB): Equal Opportunity for All, ranks Morocco comparatively low for Getting Credit (101 out of 189), though there was a slight improvement from 109 in 2016. The situation is particularly dire for young companies. In a December 2014 Enterprise Survey of 407 firms, access to finance was cited as a major obstacle by the majority of young companies (established three years ago or less).

5. **Owing to government reforms, leasing and factoring have emerged as key sources of enterprise financing.** In addition, a reformed legal framework for strengthening credit reporting will facilitate bank access to credit history, which should increase lending to SMEs. Similarly a law for establishing a movable collateral registry under review by the council of government will open opportunities for SMEs with movable assets to borrow from banks. Planned reforms of the legal and operational framework for secured transactions will also help. The Central Guarantee Agency (*Caisse Centrale de Garantie*, CCG), has a number of tools to support bank lending to SMEs through guarantees, but CCG Guarantee tools focus primarily on companies with an existing revenue stream and a track record of at least three years. Thus, while financial access to established SMEs is set to improve, there is nothing to support the financing needs of start-ups and companies in early development stages (see paragraph 10 on the early-stage financing gap and Annex 6).

6. **Morocco has also made substantive reforms related to strengthening regulatory and policy frameworks for investor protection, including for foreign investors.** Reforms also include efficiency and transparency in government to business services, trade liberalization, competition policy, anti-corruption, and consumer protection. Morocco's overall rank in the 2017 DB report shows a positive trend, with an overall ranking of 68 out of 190 countries compared to 75 in 2016. Reforms improving ease of DB include important indicators: 'Starting a Business', 'Getting Electricity', 'Registering Property', and 'Paying Taxes'. The Auto-Entrepreneur Law passed in February 2015 enables the self-employed to register their businesses easily and affordably. An auto-entrepreneur enterprise pays a flat income tax of 1–2 percent.

Table 1. Technical Terminology

Accelerator	A business accelerator is similar to an incubator but differs in that it usually has a greater focus on companies entering or growing in a national or global market. Business accelerators will generally offer all of the services offered by a business incubator. A major difference is the level of hands-on involvement by accelerator management, which should increase the chances of success.
Angel investor	Refers to any individual who invests his or her money in an entrepreneurial company (unlike institutional venture capitalists, who invest other people's money). The angel may provide capital to one or more start-up companies, takes a personal stake in the success of the venture, by sharing their skills, experience, and networks. Such investments are characterized not only by high risk but also by potentially large return on investment. Sometimes a group of individuals together agree to form an 'angel network' to invest their money communally in a certain company.
Entrepreneurship ecosystem	The definition of ecosystem is a community of organisms and their environment functioning as an ecological unit. In the case of entrepreneurship, ecosystem refers to the individuals, organizations, or institutions and the operating and living environment that promotes or inhibits entrepreneurial start-up or probability of success.
Entrepreneurship	Where an individual assumes the risk and responsibility in designing and implementing a business strategy or starting a business, thereby identified as an entrepreneur.
Equity investment	Money invested in a firm by its owner(s) or holder(s) of common stock but is not returned in the normal course of the business. Investors recover it only when they sell their shareholdings to other investors, or when the assets of the firm are liquidated and proceeds distributed among them after satisfying the firm's obligations. It is also called equity contribution.
Incubators	Refers to a facility with a program to help small companies improve their chance of survival through the start-up phase. An incubator may offer services such as office space (usually at a reduced rate); shared office services: receptionist, conference rooms, computers, office equipment, and so on; entrepreneurial advice and mentoring; business planning; contacts and networking.
Investment capital	Money invested in a business venture with an expectation of income and recovered through earnings generated by the business over several years. It is generally understood to be used for capital expenditure rather than for day-to-day operations (working capital) or other expenses.
Investment readiness	Formal program of training and coaching provided to entrepreneurs to help make their ventures attractive for investment and to help them approach potential investors. It can be provided as part of an accelerator program or separately.
Internal rate of return (IRR)	Measurement of the average annualized rate of return of an investment consisting of negative flows (cash outflows) and positive flows (cash inflows). It is used to measure and monitor performance of PE transactions.
Quasi-equity	A category of unsecured debt taken by a company embedded with equity instruments (usually warrants, stock options) attached, which increase the value of the debt and allow for greater flexibility when dealing with repayment. Examples of quasi-equity include subordinated debt and mezzanine debt. Subordinated debt is a loan or security that ranks below (usually second) to higher priority loans (such as senior debt) and securities with regard to claims on a company's assets or earnings. Subordinated debt is also known as a junior security. In the case of borrower default, creditors who own subordinated debt will not be paid until senior debt holders are paid in full. Mezzanine debt is frequently associated with acquisitions and buyouts, where it may be used as an interim debt that will allow a company to purchase an asset or implement an activity while searching for better lower-cost, longer-term financing. For example, if a company needs money to finish fulfilling an order, it takes a mezzanine loan to be able to complete the company's obligations while looking for a business line of credit with lower interest rate and better payment options. Mezzanine debt prioritizes new lenders/owners ahead of existing owners in case of bankruptcy* and is considered a very expensive debt.

Senior debt	Borrowed money that a company must repay first if it goes out of business. If a company goes bankrupt, senior debt holders, who are often bond holders or banks that have issued revolving credit lines, are most likely to be repaid, followed by junior/subordinate debt holders, preferred stockholders, and common stockholders. Senior debt is secured by collateral, and that collateral can be sold to repay senior debt holders. As such, senior debt is considered lower risk and carries a relatively low interest rate. Even though senior debt holders are the first in line to be repaid, they will not necessarily receive the full amount they are owed in a worst-case scenario. http://www.investopedia.com/terms/s/seniordebt.asp#ixzz4F3rAtvYW
VC	Start-up, growth equity capital, or loan capital provided by private investors (the venture capitalists) or specialized financial institutions (development finance houses or VC firms). It is also called risk capital.

Note:[*]http://budgeting.thenest.com/difference-between-mezzanine-debt-subordinated-debt-30054.html, accessed on October 20, 2016.

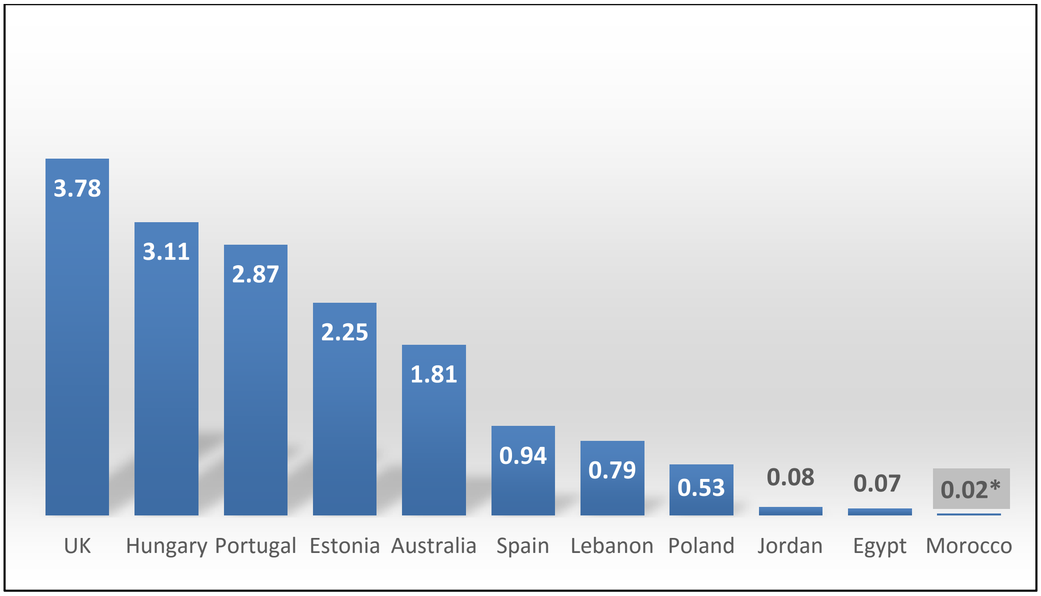
The Market Gap in Early Stage Equity Financing in Morocco

7. **PE is relatively well developed in Morocco, but VC and business 'angels' are practically nonexistent**. There are 22 equity fund management companies investing in an average ticket size of US$4 million per company. The Law No. 41-05 introduced in 2015 created a new type of fund entity called the Capital Investment Organization (*Organisme de Placement Collectif en Capital*, OPCC) – capital investment fund. The OPCC opens the space for VC funds investing in SMEs to operate through a transparent tax system.

8. **Promising reforms being developed by the Casablanca Stock Exchange (CSE) seek to encourage SMEs to enter the stock market—an important form of raising capital for companies and in attracting investors.** The CSE is the fourth largest exchange in Africa by market capitalization, behind those of South Africa, Egypt and Nigeria.[2] The CSE allows for three types of listings: large companies, medium-size companies, and high-growth companies. Given this structure, companies raising as little as US$1 million can theoretically seek to access the capital markets. The reforms will relax reporting requirements for smaller and more innovative companies to create a junior exchange, or an SME board. The CSE endeavors to complete the required infrastructure for the junior board as soon as possible.

[2] The stock exchange in South Africa is the Johannesburg stock exchange (JSE), the Egypt stock exchange (ESE) combines Cairo and Alexandria, and the Nigeria stock exchange (NSE) was formerly the Lagos stock exchange.

Figure 1. Seed-VC Investment Rate/GDP (%)

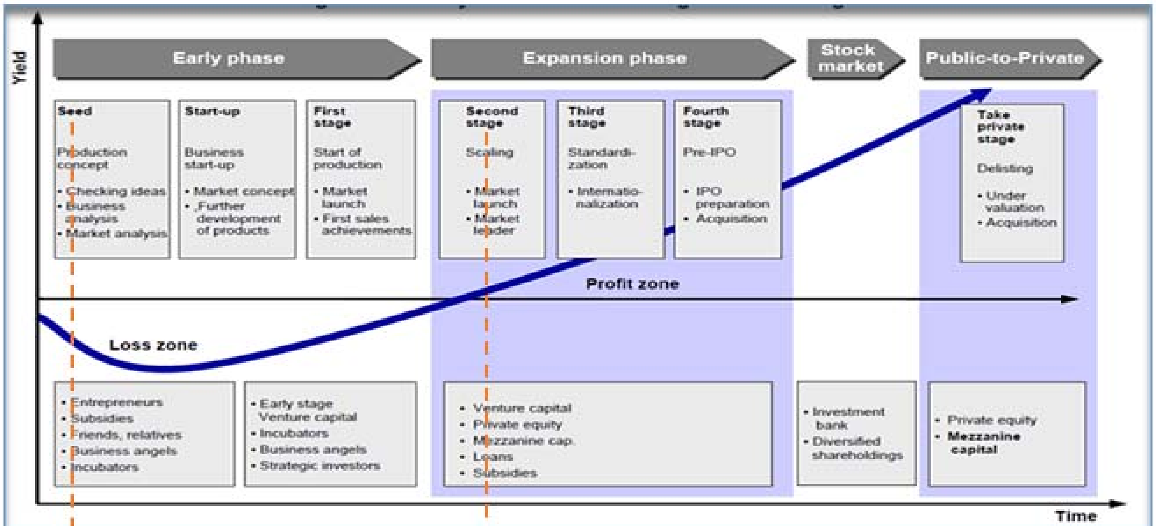


Source: For European countries—Organisation for Economic Co-operation and Development (OECD) data on seed and VC (2014 or most recent available data); for Middle East and North Africa (MENA) countries, World Bank assessment of early-stage investment finance in MENA (approximate total industry investment in seed and VC per country as of 2014)
Note: *Calculations using data from AMIC Annual Report 2015.

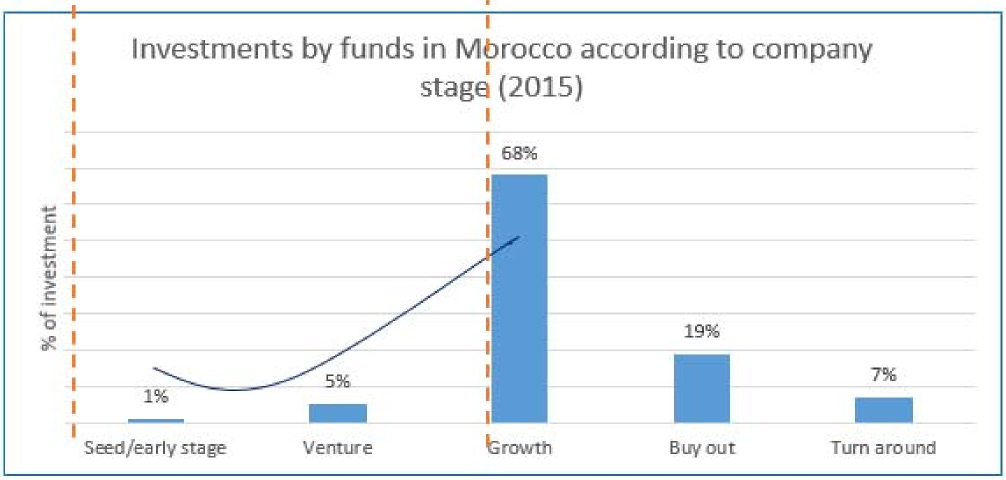
9. **Data from the Moroccan Association of Equity Investors (*Association Marocaine des Investisseurs en Capital,* AMIC) showed that enterprises needing seed, and VC, received 6 percent of the total investments made in 2015—one of the lowest in the region.** Thus, with regard to financing supply, Moroccan start-ups and innovative young SMEs are facing the classic 'valley of death[3]' situation. Based on a full assessment of the market conducted by the World Bank Group (Annex 5), including interviews and focus groups with investment funds and entrepreneurs, there is a shortage of financing in the market starting from the pre-seed stage (US$20,000) to early-VC stage (US$2 million). The proposed project seeks to address this gap by providing pre-seed, angel/seed, and early VC financing for innovative SMEs. Public involvement to support the supply of risk capital finance is a tested model used by many governments (the United Kingdom, Scotland, Israel, Croatia, Lebanon, Singapore, and so on) to fill the financing gap for young innovative entrepreneurs, create a critical mass of successful ventures, build the capabilities of the early-stage investment community, and provide a demonstration effect to encourage future investment in this asset class.

[3] The space between where the entrepreneur's own resources from family and friends is depleted and the stage when the company is financially viable to attract later stage investment available in the market.

Figure 2. Life Cycle of a Firm and Stages of Financing



Source: OECD.



Source: AMIC data.

Entrepreneurship and Innovation Ecosystem

10. **Despite the deficiency in supply of early-stage finance, Morocco's ecosystem has experienced significant rise in entrepreneurship activities.** This has helped more entrepreneurs start and grow businesses and has in turn increased demand for the limited financing available. The momentum created through these programs will quickly die if the financing gap is not addressed; hence, this project comes at a critical time.

11. **Successful entrepreneurial ventures thrive within ecosystems where they can obtain specialized technical assistance, have access to experienced advice and mentoring (both locally and from overseas), have options for obtaining equity finance, draw on pools of high-quality potential team members, have links to potential clients, and are surrounded by networks of peers and role models within a supportive culture.** In Morocco, there are 16 identified support entities, of which 81 percent (13) were formed after 2011 and 50 percent (8) after 2014. There are three accelerators, all launched in 2015–2016. Geographically, Casablanca accounts for half of the support entities identified, while Marrakesh and Rabat host three. Most

offer advisory support in varying degrees. Mowgli, a United Kingdom-based entity that trains mentors and matches them with entrepreneurs, started a program in 2011 funded by the UK Department for International Development. Mowgli trained up to 36 mentors and has plans to expand the program. Morocco Enterprise Network/*Réseau Entreprendre Maroc* (REM) also matches entrepreneurs with mentors and provides them with pre-seed soft loans. The Center for Entrepreneurship and Executive Development (CEED (established in 2013) offers comprehensive advisory support through the various stages of business development and growth. The Casablanca Technology Park offers office space and access to multiple services for start-up companies. A tech park was recently launched in Rabat, and one will be launched in Marrakesh in the near future.

Box 1. Successful Entities Supporting Female Entrepreneurs in Morocco

Morocco has some successful entities to support women entrepreneurs, who stand to substantially benefit from an increased supply in start-up and early-stage finance. The Moroccan Women CEOs' Association (*Association des Femmes chefs d'Entreprises du Maroc*, AFEM), established in 2000, operates 3 working spaces for women entrepreneurs in Casablanca (40 spaces), Rabat (10 spaces), and Agadir (20 spaces). It is currently establishing additional spaces in Fez, Tangier, and possibly Marrakech. The AFEM supports the development of business plans for start-ups led by women entrepreneurs (hosted in the working spaces) through an 18-month support program. The graduates then become members of the women CEOs' network, currently with over 300 members, which provides advocacy and lobbying and facilitates peer-to-peer learning, among its services. From 2006 to 2012, the AFEM helped create 70 enterprises; in November 2012, 76 enterprises were receiving pre-incubation support through the AFEM. The Women Mentoring Association, established in 2010, gathers over 300 women business leaders to provide mentoring to other women entrepreneurs through a one-year support program. The network works closely with similar organizations around the world, especially from the MENA Region, and provides training for future mentors. Partnership through the project with all of these entities will help women entrepreneurs present their proposals to investors.

12. **The current trend in entrepreneurship activity is very positive, but the ecosystem is young, it has limited coverage outside Casablanca, in addition to gaps in capability and depth.** There is a need to provide strategic capacity strengthening for innovative entrepreneurs to help them meet investor requirements. High-priority areas include pre-seed grants to support innovative business concepts; investment readiness (IR) programs and mentoring to help start-ups seek investment; and strengthening the business angel community, important financial and nonfinancial actors during start-up stages. In Morocco, all these areas need to be enhanced to improve the quality and quantity of potential enterprises. The proposed project incorporates demand-side interventions to provide pre-seed grants and build lasting critical skills through IR programs, including creation of mentors and development of an active business angel community.

Factors Leading to Lack of Financing for Early-Stage Company Financing

13. **There are three interrelated reasons in Morocco that cause markets to provide less than optimal financing for early-stage companies**: **asymmetric information, institutional failures, and coordination failures.**

14. **Asymmetric information.** This is the case when a bank or an investor does not have all the information it needs about a new venture to make informed decisions, while the entrepreneur has more accurate information about the potential of his or her project and own capacity. This leads to adverse selection and moral hazard.

- **Adverse selection.** Since banks and traditional PE investors do not have the information to properly assess the risk of a new company (no track record, no revenue), they will price their lending/funding cost and terms based on average default risks and high transaction costs for due diligence and support. Thus, entrepreneurs who have more knowledge about their risk seek other solutions, or exit, which leaves higher-risk companies in the market as they would be willing to pay the higher costs. This in turn raises default risk until financing becomes too costly to appeal to most start-ups and SMEs. Institutional failures can exacerbate information asymmetry (see paragraph 16) and need to be addressed. For example, setting up credit registries provides better information about an SMEs' borrowing history, but young companies that are less than three years old would not have a credit history and thus would not be captured, while bankruptcy laws allow creditors to calculate recoverable investment and total risk in case of business failure.

- **Moral hazard.** Banks do not have perfect information on the activities the entrepreneur will undertake after receiving a loan. For its part, the entrepreneur has knowledge about all his or her liabilities to make informed decisions in future activities and may decide to take on more risk to seek the potential higher return. Similarly, in the case of equity, an entrepreneur may have the incentive to undertake projects that benefit him or her and not the ones that would maximize profits for the shareholders. To hedge against these hazards, banks demand high collateral to ensure that they get back the value of their loan. Equity investors demand significant shares in a company (under-value the firm) to maintain control and influence decision making—which many entrepreneurs refuse. Again institutional failures play a part. In the case of equity financing, having a number of things in place—minority investor rights, a proper insolvency regime, contract enforcement, and intellectual property rights—will help address investors' uncertainties. These steps help make it clear what investors own and what they can recuperate, which in turn allows them to make more accurate risk assessments.[4]

15. **Institutional failures** usually exacerbate information asymmetry. These can be addressed through the provision of more and better information to financial institutions – for instance through credit registries. In the same vein, an effective legal framework (including bankruptcy law, minority investor rights, insolvency regime, contract enforcement, and Intellectual Property Rights allow investors to better price their risks. With the help of World Bank Group advisory services and analytics, the GOM is taking measures to approve a second private credit bureau, initiating reforms to the insolvency regime, and preparing a national financial inclusion strategy to increase entrepreneurship financing. Related efforts by the GOM are therefore most welcome, even if improved information through credit registries will not fully address the challenges of young firms. Strong minority investor rights are important to help increase access to equity financing by firms. According to DB 2017, Morocco has a score of 5.3 out of 10 on its 'Strength of Protecting Minority Index', which is above the regional average (4.5). In recent years, Morocco has strengthened minority investor protections by clarifying ownership and control structures and by requiring greater corporate transparency. The Government is also working to improve the justice sector in this respect, as well as on the insolvency regime and investment law (see Annex 5 on the

[4] On the other hand, better protection for investors allows entrepreneurs increased leverage in negotiations.

investment law). However, these rights would still not completely address the adverse selection problem faced by start-ups because of the high transaction cost equity investors incur to make new businesses successful. To compensate for the high transaction costs, investors demand exorbitant terms that are unacceptable to an entrepreneur or forfeit the potential investment. Technical assistance and programs that support the business ecosystem environment in creating better-quality and investment-ready ventures can mitigate some of the costs that equity funds may face and make the potential investment more appealing.

16. **Coordination failure.** This refers to situations when a VC industry fails to develop due to weaknesses in the ecosystem, such as lack of enough promising investment ready start-ups, lack of business angels to back them in earlier stages, lack of able lawyers to negotiate deals and IP agreements, lack of experienced investment professionals, and lack of developed exit markets.[5] Yet many of these elements cannot emerge without a developed VC industry existing in the first place. The Moroccan equity industry is concentrated with players investing on larger PE deals with few VC players. The project seeks to help the GOM correct a coordination failure in the market, taking into consideration lessons learned from two previous government initiatives as well as from models in other parts of the world. Addressing the problem of industry coordination failure is usually done through a mechanism using temporary government support until the industry is fully developed and self-sustaining. Examples where this has been done include, Australia, Brazil, India, Israel, United States, United Kingdom, and Canada.

C. Higher-Level Objectives to which the Project Contributes

17. **The higher-level objective of the project is to increase productivity and competitiveness in the Moroccan private sector through creation of a VC market that currently does not exist in Morocco.** The project is aligned with Pillar III of the Government's 2013–2016 Development Program to, "Pursue strong, competitive, multi-sector, diversified wealth and employment-generating, and equitable economic growth." The Moroccan Ministry of Economy and Finance (MoEF) is also preparing a National Financial Inclusion Strategy aimed at continued reforms for improving infrastructure and regulatory frameworks to help SMEs' access to finance. The high profile and attention the government has given to this project through public announcements and consultations drives its commitment in ensuring the successful implementation of the proposed project. The project was announced by the Minister of Economy and Finance at the Global Entrepreneurship Summit held in Marrakesh in 2014. In July 2016, the MoEF signed an agreement with the CCG – the Fond Innov Invest (FII) - giving the CCG the mandate to implement the WB project. Through this project, the government seeks to strengthen its ability to meet its national agenda for innovation and financial inclusion.

[5] Exits. Initial public offerings (IPOs) are typically not a viable exit strategy in most emerging economies with underdeveloped capital markets. Thus, PE/VC funds tend to rely on sales to strategic and financial sponsors and 'self-liquidating instruments' to facilitate exit. In Morocco, trade sale was the most dominant form of exit used in 2014. According to AMIC data, exits in 2014 jumped 23 percent from 2013. Since 2009, the total amount exited reached MAD 2 billion, representing 41 percent of the overall amount invested by the PE industry. Efforts by the CSE to relax requirements for SMEs to enter the Bourse are a step in the right direction.

D. Relationship to Country Partnership Framework and the MENA Regional Strategy

18. **The proposed project contributes to the implementation of the MENA Strategy pillar on renewing the social contract by creating opportunities and jobs through development of a stronger private sector with more diverse sources of financing and supporting entrepreneurial innovation and knowledge creation—a public good.** The project is fully aligned with the current Country Partnership Strategy (CPS) 2014–2017 Result Area 1: 'Promoting Competitive and Inclusive Growth', and the June 2016 Performance and Learning Review of the CPS, which confirmed the relevance of the Pilar and this proposed operation. It forms a part of the CPS strategic outcome 1.2: improve access to finance with a particular focus on low-income households; micro, small, and young firms; and, youth and women. The project will also form a part of the planned National Financial Inclusion Strategy. The project likewise is fully aligned with the World Bank Group's strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner.

19. **Notably, the proposed project aims to play a key role in changing mindsets, especially among youth, who have been conditioned to seek public sector employment.** By supporting an environment in which young people are encouraged to take calculated risks toward developing their own firms and opportunities, the proposed project will develop precisely the skills and behaviors needed to succeed in a rapidly globalizing world. Developing an equity financing market brings elements of market governance that also spur accountability and transparency while promoting intelligent risk taking. The proposed project also promotes linkages to regional cooperation as entrepreneurs and innovative firms seek markets that go beyond national ones (Maghreb as a whole, Africa, and the Middle East). In short, a positive narrative of innovation and entrepreneurship, facilitated with the right type of financing ('smart capital'), tackles the hard task of changing behaviors and a culture focused narrowly on the promise of stability of public sector employment. Such a narrative also helps build the laws and regulations to facilitate entrepreneurship—key to a private sector-driven economy. These skills and sets of behavior also play a critical role in building greater resilience to all sorts of economic and social shocks that may come.

E. Relationship to other World Bank Projects

20. **The proposed project forms part of the World Bank Group's broader finance and private sector work program—which comprises policy reform, advisory services, and financing—to address the various challenges restricting growth during all stages of a company life cycle.** The Capital Market Development and SME Finance Programmatic Development Policy Financing support reforms that encourage the financial system to contribute to higher growth through better allocation of capital and credit. An integrated set of advisory services and snalytics underpins the reforms supported by the Development Policy Financing: secured transaction framework; micro, small, and medium enterprise (MSME) credit scoring; new payment instruments; public-private investing, lending, and guarantee products targeting finance-constrained MSMEs; capital market practices and their regulation; and financial stability. The proposed project will also complement other World Bank-financed projects in Morocco that seek to create successful start-ups by increasing financial access to beneficiaries. The projects will also benefit from an increased pipeline of potential start-ups created under these programs.

F. International Finance Corporation

21. **The project was designed in collaboration with the IFC VC Unit that played a key role in the design of the project investment strategy and criteria.** The project does not pose a risk of crowding out IFC and plays a complementary role to IFC's operations in early-stage equity investments. Notably, IFC Startup Catalyst—a recently launched global program designed to invest in commercially minded seed funds, accelerators, and incubators—has, as one of its first concept investees, a combined accelerator and VC structure based in Cairo. Also of interest is IFC's broader venture investment program, including its investments in regional venture funds (for example, Wamda), and, over time, direct equity investment opportunities in start-ups across MENA. Hence, while IFC does not have plans to make early-stage investments in Morocco, it does not rule out investing in a seed or early-stage VC fund related to the proposed project once those funds prove their performance relative to global benchmarks. The proposed project therefore serves as a bridge between the inception and early development stage of the start-up and acceleration ecosystem until it can receive IFC support. Thus, the project is helping build a potential future investment pipeline for IFC. The World Bank and IFC will continue to work together to leverage their tools and expertise to help build and complete sustainable innovation ecosystems in Morocco and elsewhere in MENA by helping connect them to more developed ecosystems in other parts of the world.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

22. **The project development objective is to facilitate the increase of private equity and quasi-equity finance for innovative startups and small and medium enterprises in the Project Area.**

23. Innovative[6] in this context is defined as 'new" or improved products; new or improved processes and/or business models; and goods and/or services that are new/improved to Morocco or to other markets. PE includes institutional investors.

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[6] According to the Oslo Manual (3rd Edition, 2005), the various types of innovations are defined as follows:

(a) Product innovation. The introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user-friendliness, or other functional characteristics. Product innovation can utilize new knowledge or technologies or can be based on new uses or combinations of existing knowledge or technologies.

(b) Process innovation. The implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment, and/or software. Process innovation can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.

(c) Marketing innovation. The implementation of a new marketing method involving significant changes in product design or packaging, product placement, or product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing the firm's sales.

(d) Organizational innovation. The implementation of a new organizational method in the firm's business practices, workplace, organization, or external relations. Organizational innovations can be intended

B. Project Area

24. **The Project Area will include the following geographical areas:** (a) regions of Tanger-Tétouan-Al Hoceima, l'Oriental, Fès-Meknès, Rabat-Salé-Kénitra, Béni-Mellal-Khénifra, Casablanca-Settat, Marrakech-Safi, Draâ-Tafilalet, Souss-Massa. and (b) provinces of Guelmim, Tan-Tan, and Sidi-Ifni.

C. Project Beneficiaries

25. **The key project beneficiaries will be entrepreneurs in the Project Area seeking to create new innovative start-ups with potential for fast growth and/or entrepreneurs who own existing companies on the brink of high-growth expansion.** Intermediate beneficiaries are potential private risk capital agents who will leverage their capital through co-investing partnerships. Other intermediate beneficiaries will be the critical infrastructure entities of the innovation ecosystem that provide support to entrepreneurs, such as mentoring, incubation, acceleration, and business advisory services.

D. PDO-Level Results Indicators

26. **The PDO will be measured through the following results indicators**:

(a) Private Capital Mobilized

(b) Beneficiaries that introduced a new or improved on an existing product, process, or service under the Project

(c) SMEs receiving private VC equity financing through the Project

27. **SMEs are defined as those with a defined annual turnover, young (less than five years old), formally established, and innovative companies (new or existing).** A strong source of deal flow in Morocco is expected from the digital sector, which has underpinned the early-stage start-up systems in many countries. Digital is a cross-cutting technology with applications in many sectors. The project is also likely to draw on Cleantech - particularly clean energy, which has been a government focus, and where the World Bank Group has supported a Climate Innovation Centre with a solid pipeline that is also supported by IFC, agribusiness (limited to innovative packaging and distribution of popular ethnic meals that does not involve production or use of pesticides), and cultural/tourism (with crossover with digital). The GOM has a number of priority sectors (automotive, aerospace, food, textiles, pharmaceuticals, business processing) that may provide some deal flow. The growth of SMEs in recent years has resulted primarily from local companies becoming part of supply chains for larger projects in various sectors, including construction, tourism, automotive and aeronautical manufacturing, and a range of services and specialty products. Most of these are among the more than 300 firms working with major automobile producers and aeronautics parts suppliers in Morocco, as well as hundreds of others located in larger cities, near car and consumer goods sales outlets. New-to-market technology and the

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to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradeable assets (such as codified external knowledge), or reducing costs of supplies.

companies that are applying technology to traditional sectors such as power, communications, sales, catering, and consumer services are also joining the SME segment.

28. **While it is beyond the monitoring scope of the project, the project is expected to create a large number of indirect jobs due to spillover effects on the supply and value chain (see paragraphs 58–59).** As such, 'jobs' is not included as a core indicator, but the project will track the number of new jobs directly created by the project beneficiaries through regular surveys. To support knowledge gathering and inform future interventions, the project will collect information on the number of initial direct jobs created and filled by women and youth. Collection of those indicators form part of the project's Monitoring and Evaluation (M&E) framework as described in Annex 1 (Beneficiary Performance template) of this PAD, and included in the Project Operations Manual (POM).

III. PROJECT DESCRIPTION

29. **The project activities will help young innovative SMEs develop to the stage where they are able to demand larger amounts of financing available in the market.** It will also support angel investors, thereby addressing findings from the 2014 Independent Evaluation Group report on the "World Bank Group Support for Innovation and Entrepreneurship (Report 88023)" that VC funds are more likely to succeed where there is an adequate supply of start-ups and high-growth SMEs emerging from earlier stages in the innovation process. Start-ups and innovative SMEs that have graduated from early financing sources, such as angel investors are more likely to generate sound investments and deal flows."

30. **Project design benefitted from extensive consultations with private and public sector stakeholders.** The GOM conducted four stakeholder consultation workshops with various private and public stakeholder groups based on the following themes: SME financing, ecosystem support, innovation, and equity funds. In addition, the World Bank organized two workshops with funds and ecosystem providers and two focus group meetings with entrepreneurs to identify gaps in the system and to discuss solutions and validate the project design (see Annex 6 for the list of entities consulted and summary of consultation discussions).

A. Project Components

31. **The Project implementation period is six years and funding will be distributed among three components:** (1) Financing Program (US$42 million); (2) Ecosystem Support (US$6 million); and (3) Project Management, Coordination, and Monitoring and Evaluation (US$1.875 million).

Component 1: Financing Program (US$42 million)

32. **This component will target the following funding categories: angel/seed, early-stage, and VC stage.** Equity or quasi-equity capital will be provided by the project to competitively selected intermediaries who will invest equity/quasi-equity capital in young innovative SMEs. The objective is to enable new and existing innovative SMEs to access risk capital, other types of financing (soft loans) and the critical nonfinancial support typically provided by equity investors.

33. **The supply of angel/seed, early-stage, and VC equity financing in Morocco is extremely low as shown in Figure 1.** The US$42 million allocated under this component is intended to only partially fill the market gap to allow the private sector to fill the remaining gap ('crowding-in').

34. **Project funds will be disbursed under two subcomponents with an equal amount to be leveraged from the private sector.** The reason for separating the activities into two subcomponents is the different nature of the target investment categories. Angel/seed investments require specialized expertise in sourcing and management that is different from the management of investments in early-stage VC companies. Angel/seed funds invest in companies at a much earlier stage and at higher risk; angel/seed funding has a smaller investment ticket size than VC funds; management costs for Angel funds are higher, and the decision-making process by Angel funds is quicker. In addition, separating the investment categories gives a clear signal to private co-investors allowing them to identify where they can play a role.

- **Subcomponent 1a: Angel/Seed financing(s) (US$9 million).** Seed equity financing will be made available to innovative SMEs through newly created or existing intermediaries in the entrepreneurial ecosystem such as Angel Funds, Accelerators, investment management companies or others. These intermediaries will make equity or quasi-equity investments in young innovative SMEs up to a maximum of US$500,000 per investment based on criteria set forth in the POM. Enterprises receiving equity or quasi-equity capital through the selected intermediaries will be eligible based on their need to a one-time complementary concessional loan also covered by the project. For new funds mobilized under the project, incentives will be available to encourage private investors who wish to contribute equity. The level and type of incentives will vary according to the level of the private contribution. Project proceeds will cover, through a grant, the management fees for all intermediaries, including set up of the fund(s).

- **Subcomponent 1b: Early stage/VC fund(s) (US$33 million).** Funds will be made available for equity in newly created early stage/VC funds and for investment in current existing funds that meet the eligibility criteria under the project. New and existing early stage VC funds will make equity or quasi-equity investments in young innovative SMEs at an average investment ticket size of US$500,000 per investment based on criteria set forth in the POM. Early stage/VC funds will have a term of 10 years with the option of extending (not exceeding 15 years). Based on demands for new funds, the project will cover the share of management fees, including set up of the funds, based on the level of capital invested and at a rate commensurate with managing this type of asset class. Enterprises receiving equity or quasi-equity capital from the early stage/VC funds under this subcomponent will be eligible based on their need to a one-time concessional loan[7] also covered by the project. Project funds will cover the government's share of management fees in funds that are newly created under the project in the form of a grant.

[7] A zero interest non-collaterized loan with flexible terms that can allow the enterprise to pay back.

35. **Competitive and results-based management fees are included (both angel/seed fund(s) and early-stage/VC fund(s)) to attract top talent and reinforce success in investment management, regional portfolio diversity, and assets' capital value appreciation upon exit.**

Figure 3. Subcomponent 1a: Angel/Seed Financing

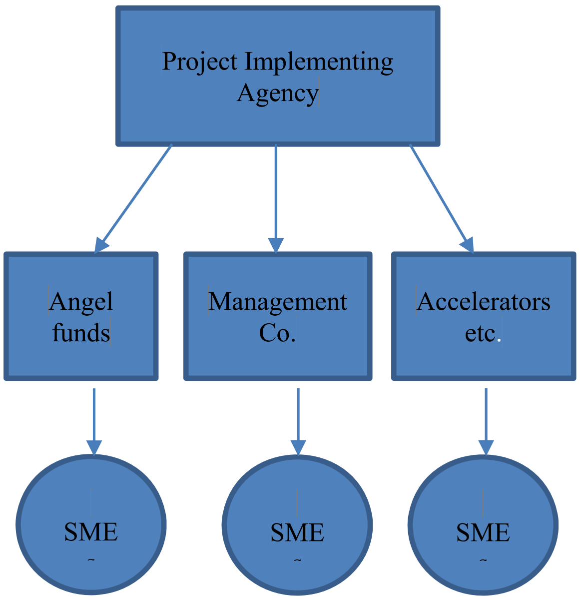
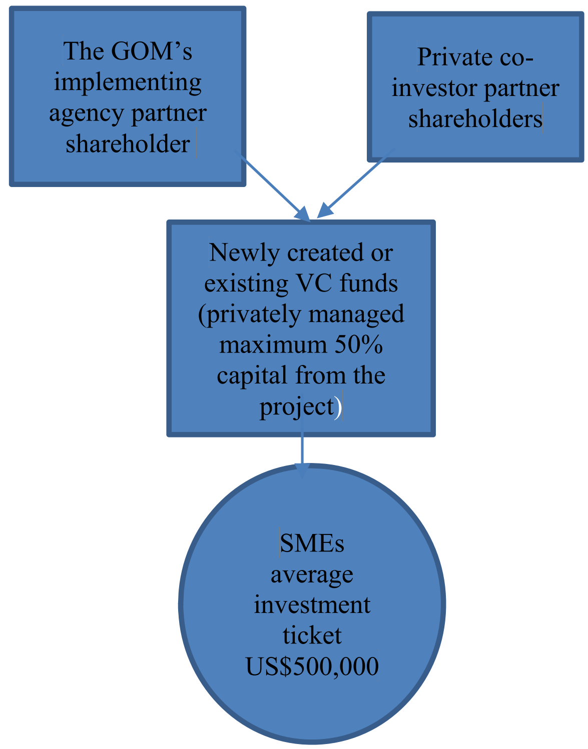


Figure 4. Subcomponent 1b: Early Stage/VC Fund(s)



Incentives to Attract Private Capital

36. **Incentives for private investors are included in the project design.** The GOM will adopt a system of asymmetric returns forfeiting a portion of its share of investment returns in favor of private co-investors in funds. In other words, private investors who provide capital in a fund alongside the government will receive a higher share of the upside, on the basis of a ceiling depending on the level of contribution from private investors.

37. **The project will cover all the higher-than-normal transaction costs fund managers incur in supporting the investments based on an action plan and estimated costs included in the funds' proposal. Investment transaction costs will be provided through project funds.**

Selection of Investments

38. **The GOM or any other government entity—including the entity that will implement the project on behalf of the MoEF—will not play any role in investment selection, which will be done in accordance with industry best practices by the selected private fund managers.** For both the angel/seed and early-stage/VC fund investments, the POM specifies clear, transparent

governance structure and accountability measures, specifically with regards to eligibility, criteria, review, due diligence, and selection process. These measures embody the principles of responsible governance, equity, and transparency and ensure the independence of the process, eliminating the risk of capture by select groups by thorough application of filtering and accountability measures to the investment decision-making bodies. Annex 3 lays down the governance structure and selection process in more detail.

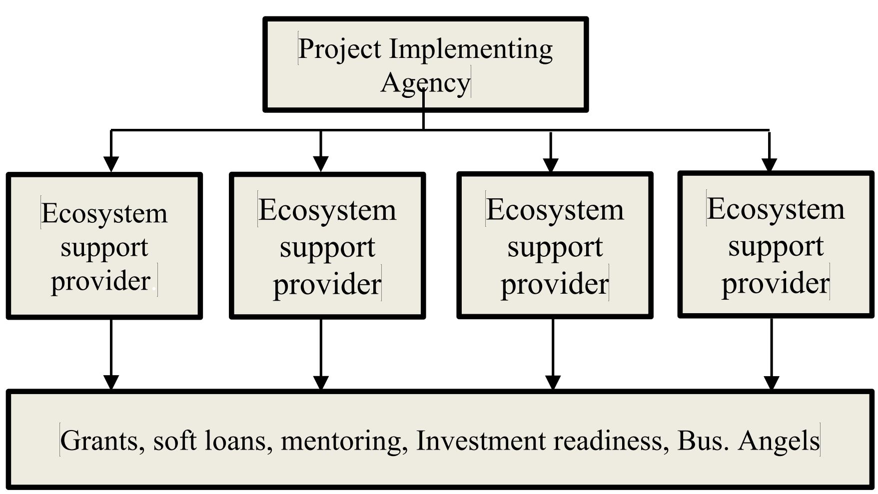
Component 2: Ecosystem Support (US$6 million)

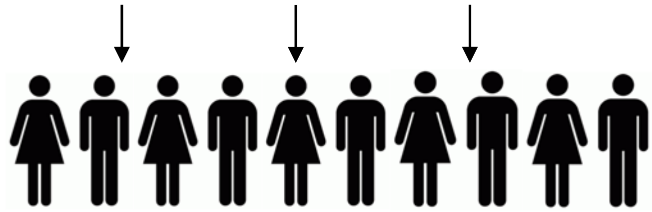
39. **This component will support organizations within the entrepreneurship ecosystem in the project area to stimulate new innovative enterprises.** This will be done through the following activities:

- **Subcomponent 2a: Pre-seed Grants (US$2 million).** This activity is aimed at the earliest stage of entrepreneurship (pre-seed) to support the entrepreneur or startup to test the viability of his or her business idea. Funding will support the provision of pre-seed grants to entrepreneurs and young innovative SMEs in amounts up to US$20,000 each.
- **Subcomponent 2b: Soft Loans (US$2 million).** This activity is aimed at newly created start-ups, to finance the commercialization of their innovation and help establish their company. The maximum loan amount can be up to US$50,000 and can be repaid in the event of success or transferred to a grant in the event the startup fails.
- **Subcomponent 2c: Entrepreneurship Support (US$2 million).** This activity will aid the continued development of the nascent Moroccan ecosystem to continue improving the quality and quantity of entrepreneurial ventures that are able to be funded by the project's financial component. Funding will support ecosystem providers to deliver mentoring and IR programs to approximately 100 entrepreneurs and build the business angel community based on criteria specified in Annex 3.

40. **Ecosystem organizations selected under this component will be required, where applicable, to prepare their programs in partnership with equity funds.** Evidence of partnership with angel/seed and early-stage/VC funds will form part of the evaluation criteria.

Figure 5. Ecosystem Support





Component 3: Project Management, Coordination, and Monitoring and Evaluation (US$1.875 million)

41. **This component will fund the Project Management Unit (PMU) and all of its incremental eligible operational and administrative costs for the management and supervision of the project over the project life (six years).** Project funds will also support training, marketing, citizen engagement, and outreach of the project specifically to the regions, including outreach through website and conferences. The project funds will also cover certain legal and administrative costs as well as fiduciary, safeguards, and M&E. The Government confirmed that its commitment as an equity shareholder in the investments and funds will extend beyond the project life and agreed to cover operational and management costs after the project closure.

B. Project Financing

42. **The lending instrument is an Investment Project Financing (IPF) loan of US$50 million, including a front-end fee of 0.25 percent and a commitment fee of 0.25 percent, provided under IBRD terms**.

C. Project Cost and Financing

43. The project costs and financing are detailed in the table below.

Project Components	Project Cost (US$, millions)	IBRD Financing (US$, millions)	% Financing
1. Financing Program	**42.00**	**42.00**	**100**
a. Angel/Seed Financing	9.00	9.00	
b. Early-Stage/VC Fund(s)	33.00	33.00	
2. Ecosystem Support	**6.00**	**6.00**	**100**
a. Pre-seed Grants	2.00	2.00	
b. Soft Loans	2.00	2.00	
c. Entrepreneurship Support	2.00	2.00	
3. Project Management, Coordination, and Monitoring and Evaluation	**1.875**	**1.875**	**100**
Total Costs	**49.875**	**49.875**	**100**
Total Project Costs	49.875	49.875	
Front-End Fees	0.125	0.125	
Total Financing Required	**50.00**	**50.00**	

D. Lessons Learned and Reflected in the Project Design

44. **Lessons were drawn from similar ongoing and past IBRD-financed operations in India, Lebanon, Mexico, and Croatia.** The 'India Industrial Technology Project (1990–1997)' includes a US$45 million loan that supported the creation of four VC funds that were credited for

launching the Indian VC market. The 'Mexico Innovation for Competitiveness Project' highlighted the importance of aligning private sector incentives with public development goals. The Lebanon 'Innovation in SMEs' and the Croatia 'Innovation and Entrepreneurship Venture Capital' projects (both ongoing) are showing the importance of linking the financing component with the broader entrepreneurship ecosystem and grants to develop good quality deals viable for investment.

45. **Lessons applied in the design of this project are also based on experiences with publicly funded equity programs in Morocco and other countries, such as the Singapore Spring Seeds Capital Fund, Scottish Enterprise Fund, and the UK Business Angel Co-investment Fund.** These funds all apply a co-investment scheme with private investors to ensure they have "skin in the game" and play a role in sourcing deals and supporting them post investment. Co-investments are made on equal terms with private investors. Key issues that hindered the success of previous public-supported early-stage equity funds in Morocco were related to two main problems: inadequate total capital available to address the entire market financing gap that left investee companies with no follow-on financing and the type of investment committee (IC) members who did not understand high-risk early-stage investment capital but were selected to represent the funds' shareholders (traditional financial and investment institutions—banks, pension fund, insurance companies). The project addresses the entire equity financing gap facing young innovative companies in Morocco. In addition, the project incorporates clear criteria for governance and eligible IC members.

IV.IMPLEMENTATION

A. Institutional and Implementation Arrangements

46. **A loan agreement (LA) will be signed between the World Bank and the Borrower (Kingdom of Morocco), a project agreement (PA) will be signed between the World Bank and the project implementing agency (CCG); and a subsidiary agreement (SA) will be signed between the Borrower and the project implementing agency.**

47. **Intermediaries (angel/seed funds/management company/accelerators, early-stage/VC funds and ecosystem providers) will be selected competitively to implement the activities under Component 1 and Component 2, respectively.** These intermediaries will be referred to collectively as Partner Intermediaries (Financial and non-financial) (PIs).

48. **The CCG will be responsible for project management.** The CCG will host the PMU and be responsible for: tendering and selecting PIs in accordance with the procurement guidelines, criteria and evaluation process stipulated in the PAD and the POM; signing legal agreements with each PI and holding equity shares on behalf of the GOM, conducting M&E of the activities, supervising fiduciary and safeguards management in accordance to World Bank guidelines; and reporting to the World Bank on all aspects of project progress.

49. **A project Steering Committee (SC) will have broad oversight of the project and will provide strategic advice with regard to the project's overall direction and impact within the broader national development agenda.** The SC will be chaired by the director of the Treasury at the Ministry of Economy and Finance (DTFE). The secretariat will be the CCG. The SC will

include high-level public representatives (director general, secretary general, or their designated representatives) from the Ministry of Industry, Trade, Investment, and Digital Economy (MoITIDE), the CCG, and other ministries who have programs that support entrepreneurship. In certain cases, such as, for example, to validate strategy, coordinate, and/or confirm market status and conditions, representatives from the private sector and other agencies such as the AMIC and the Association of Moroccan Small and Medium Enterprises (*Confédération Générale des Entreprises du Maroc*, CGEM) would be invited to participate in SC meetings.

50. **Project implementation will also include a Technical Committee (TC) that will meet twice a year or more, as needed, to review progress on project activities and results indicators.** The designated representative from the DTFE will chair the TC, and the TC will receive full reporting from the PMU on the project. It will include designated representatives from the CCG senior management and from the Ministry of Industry. With regard to fiduciary, safeguards, and project reporting, the PMU will report to the World Bank as indicated in the fiduciary and project reporting sections of the PA and POM. The TC together with the CCG will present progress on the project to the SC and ensure linkage and collaboration with other government stakeholders working on related programs.

B. Results Monitoring and Evaluation

51. **One of the key recommendations stemming from the World Bank Morocco Portfolio Deep-Dive exercise is that PMUs should assign a dedicated M&E specialist with the requisite capacity.** The CCG is implementing another World Bank-financed project (*Morocco MSME Development Project*) and is therefore familiar with M&E requirements. In addition, there is adequate capacity to conduct and develop M&E frameworks in Morocco either through local or international consultants or firms. The PMU will develop M&E specialist's Terms of Reference (TOR) that will become a part of the POM.

52. **Fund managers and ecosystem support providers have the primary responsibility for tracking results and implementing project activities as these entities have direct access to the project beneficiaries.** Fund managers and ecosystem providers will be required to include in their proposals the mechanisms that they will use to conduct M&E in accordance with the project's results framework and M&E guidelines specified in Annex 1 of this PAD and included in the POM. Fund managers and ecosystem providers will present an M&E report twice a year to the PMU based on criteria stipulated in the POM. The PMU will be responsible for submitting a consolidated M&E report to the TC and the World Bank twice a year. Results monitoring will be based on qualitative and quantitative information collected from project beneficiaries, investors, and fund managers. Fund managers and firms that receive financing from the project funds, including those benefiting from ecosystem support grants, will be obliged by their contracts to provide information twice a year.

C. Sustainability

53. **Project design incorporates a financial structure that balances various investment categories (angel/seed, early-stage, VC).** For each investment category, there are likely to be different performances with regard to the number of firms that survive and grow and the multiple of capital value increase achieved. The balance between the three investment categories is

expected to produce a positive aggregate return led by the better survival and growth performance of VC stage companies. Based on this the project is expected to be sustainable. However, since the GOM will bear the burden of the higher-than-normal transaction costs that come with managing early-stage companies and may also give private co-investors some of their share of the return as an incentive, the project will likely not achieve an overall positive aggregate return. The lack of financial tools available to support young innovative SMEs and the economic benefits (higher exports, more jobs, higher sales) generated by these companies will provide positive returns which justifies the overall investment.

54. **The angel/seed and early-stage/VC funds will operate beyond the project life of six years.** This time horizon was an important consideration in the choice of the implementing agency. The CCG is a long-standing institution in Morocco, and has been operating for more than 60 years with experience in making investments in funds on behalf of the Government. The Innovation Investment Unit that will constitute the PMU is a permanent unit at the CCG funded under its budget. It has the resources and capacity to maintain long-term monitoring and management of its commitments.[8] In addition, the MoEF has agreed to sustain operating and M&E costs until all project investments are exited or liquidated. This has been reflected in the LA. In addition the CCG can use various financing tools (subordinated debt, mezzanine, or senior debt options) to give it flexibility when exiting from the investments. The financing tools and exit terms will be decided at the time of investment negotiations.

V.KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Table 2. Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project	High
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
OVERALL	Substantial

55. **The operation's risks have been carefully assessed during appraisal, and specific measures have already been identified to reduce them.** The overall project operation is rated as substantial. The risks rated as High and Substantial are related to Sector Strategies (Substantial), project technical design (High), and fiduciary (Substantial).

[8] To protect the CCG's financial standing, project loan repayment will not be linked to the investment returns.

Table 3. Summary Explanation of Key Risks and Mitigation Measures

Key Risks	Explanation and Mitigation Measures
Sector Strategies and Policies (Rating: Substantial)	Notwithstanding the significant effort the government has made in reforming the private sector, there are two areas related to government strategy and regulations that may create substantial risk to effective implementation of the project. These risks are related to guarantee of risk capital (removing risk) and the Venture Capital Law (OPCC). The CCG has an equity guarantee tool called "Damane Capital Risque" which guarantees up to 75 percent of loss incurred by funds investing in SMEs. The objective of this tool is to attract private investors and funds to invest in SMEs. However, equity guarantees tend to reinforce risk aversion of existing market players, and introduce perverse incentives for fund managers (such as taking unreasonably high risk, or not investing adequate time to support an investment). To mitigate against distorted incentives the project incorporates a different incentive mechanism – preferential treatment to private investors on investment returns. In other words providing an incentive on the upside rather than the downside. The World Bank will also review and provide non-objection on the proposals of selected fund managers to ensure that they are companies with successful track records and high standing who would not risk their reputation.
Technical design of the Project (Rating: High)	Risks in the technical design of public financial initiatives include, Crowding-out of private sector, management and selection of investment, and low deal-flow. **Crowding out.** Very large government interventions can be counterproductive, crowding out private investment especially when opportunities are limited. To mitigate this risk, the project rather than trying to fill the entire market gap, embodies a public-private co-investment mechanism with government providing some capital and allowing the private sector to leverage the rest. The risk-sharing characteristic of co-investment would attract investors, who without the available capital would not invest at all. That said, the crowding-out effects of co-investment funds are generally smaller than other type of interventions, as they explicitly (as is the case in this project) foster partnerships with private investors. The proposed project incorporates a flexible approach allowing the private sector to choose whether they want to partner with the government to co-invest in a fund or to co-invest on a deal-by-deal basis so as not to compromise the returns of their own portfolios while marginally expanding their risk. **Management and selection of investments.** Experience has shown that operational constraints on public agencies and the risk-averse attitudes among public sector staff, combined with their lack of direct knowledge and experience in entrepreneurship, makes it extremely difficult to manage sourcing and selection of deals with the proper speed and flexibility. Hence, it is better to use an approach that uses private sector management and decision making. The proposed project takes this into account, specifying as a mitigation measure, that the PMU will recruit on a competitive basis, private fund manager/s to select and manage investments. **Low pipeline of deals** To mitigate against this risk the project incorporates a technical assistance component which includes pre-seed grant to entrepreneurs and support to the ecosystem increase the quantity and quality of viable start-ups.
Fiduciary (Rating: Substantial)	Although there will be little direct procurement for the project, evaluation of existing procurement systems considers the overall risk assessment of procurement implementation at the CCG to be "Substantial". To help mitigate the risk, a set of actions have been identified during project preparation and recommended for implementation (ref. Annex 3). For each contract financed by the loan, the Procurement Plan outlines the different procurement methods or consultant selection methods, the estimated costs, prior review requirements, and agreed time frame. All the contracts procured will be entered into the new electronic System for Tracking Exchanges on Procurement (STEP), mandatory for all new projects. The procurement procedures and SBDs that will be used by the recipient are also well defined in the POM, which includes specific and detailed sections regarding

Key Risks	Explanation and Mitigation Measures
	procurement. FM risk is rated as Moderate. Additional mitigating measures can be found in Table 3.1 of Annex 3.
Overall (Rating: Substantial)	Since this is a new World Bank financed innovative project implemented in Morocco for the first time, notwithstanding risk mitigation measures, the overall risk rating is Substantial. Some additional mitigation measures include a project implementation support plan with fiduciary staff based in country.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

Economic Analyses

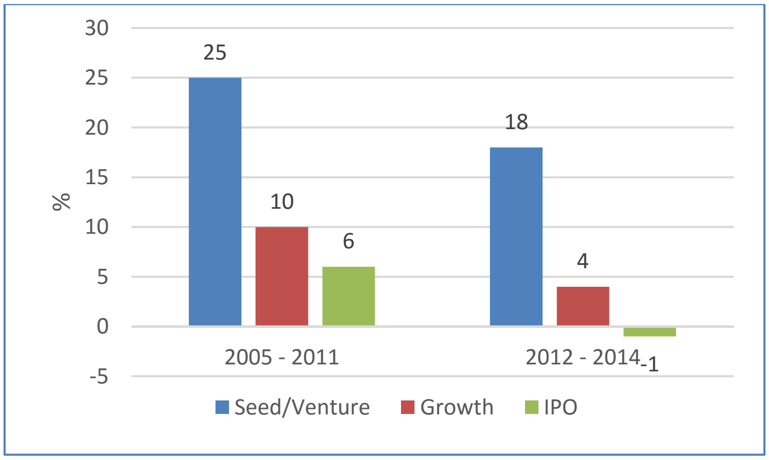
56. **Lack of access to early-stage equity financing is a key barrier to innovative firm creation and expansion in Morocco, which in turn has negative consequences on productivity, economic growth, and job creation.** Overall productivity changes occur when new entrants compete with, and in some cases replace, existing firms as they can introduce new methods or products that drive higher productivity. As SMEs account for most of the entrants and exits of firms, having a dynamic SME sector is important to competition, contributing significantly to efficient resource allocation and aggregate productivity growth.

57. **An OECD (2015) study of SMEs found that although less than half of start-ups in OECD countries survive, and only a smaller percentage of those turn into high-growth companies, those firms contribute importantly to net jobs.** Within the SME-size class, micro firms (less than 10 employees) are responsible for 58 percent of total net job growth (the highest proportion) while new firms (younger than five years) were responsible for an overwhelming majority of new jobs.

58. **An AMIC survey of Moroccan investment funds conducted between 2005 and 2014 found that companies in the early stage and venture category achieved a 22 percent average employment compound annual growth rate[9] (CAGR) between 2005 and 2014, compared to about 5 percent for companies in later growth and IPO stage (figure 6).** This level of job creation is still significantly better than the performance of about 80 percent of SMEs, which is the reason why governments in many developed and developing countries are pursuing policies and interventions that distinguish SME support by firm age and size. Net job creation by start-ups can only be seen in the long term and it would not be feasible to measure it within one project.

[9] The CAGR is a measure of growth over multiple time periods.

Figure 6. Employment CAGR for Companies That Received Equity Capital (2005–2011 and 2012–2014)



Source: AMIC.

59. **The project's economic contribution to job creation, knowledge, and growth will take place in the long term, after a 'demonstration effect' occurs and more investments go to**

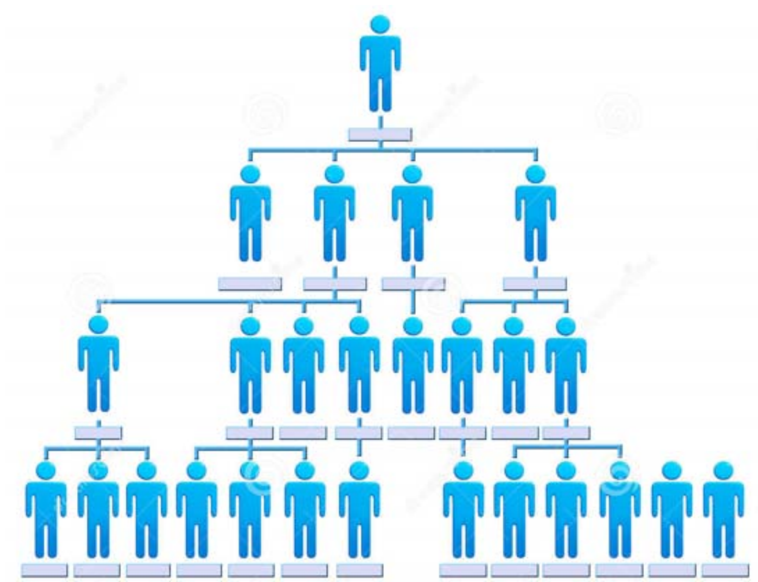
(a) more productive and competitive firms that can offer higher-quality jobs;

(b) new spin-off companies (Uber is a spin-off using the Airbnb housing platform but for car sharing);

(c) value chain companies that supply goods and services to the new companies; and

(d) firms utilizing new global digital technologies and business models and introducing them to the Moroccan market.

Figure 7. Job Creation by One Start-up Entrepreneur: Jobs Emanating from Spin-off Companies Created by Employees and Jobs Created by Companies within the Value Chain

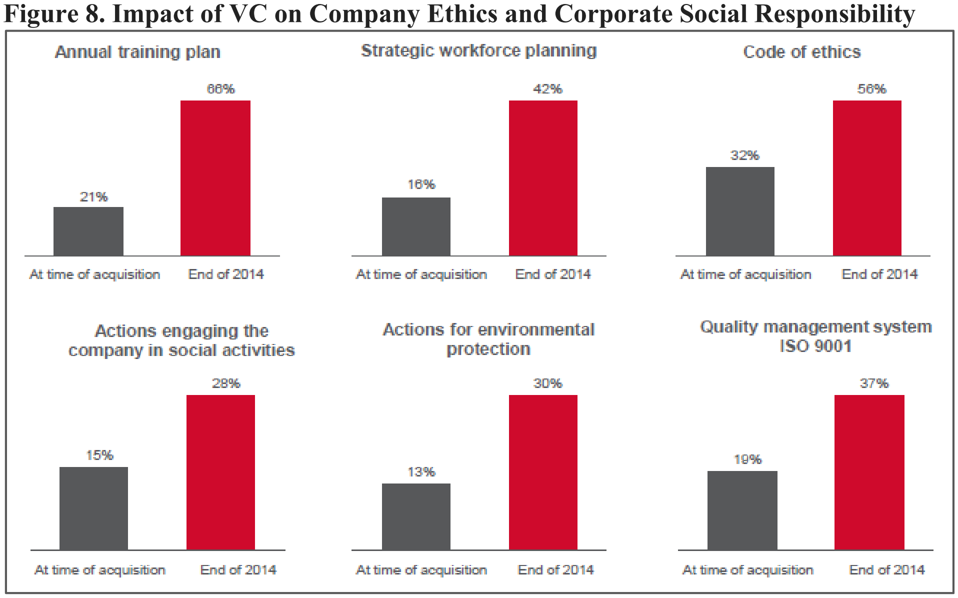


60. **The impact of angel investing on the survival rate of start-ups is critical.** Recent research[10] shows that 'angels' are beneficial to the growth, performance, and survival of start-ups, even if they are located in economies that are not friendly to entrepreneurs. According to the findings, start-ups that have angel backing are at least 14 percent more likely to survive for 18 months or more after funding than firms that do not. The same report indicates that angel-backed firms hire 40 percent more employees, and angel-backing increases the likelihood of successful exit from the start-up phase by 10–17 percent. In countries other than the United States, angel-funded firms are also more likely to attract follow-on financing.

61. **Studies in the United States, where the VC market started, tested the contribution of VC on local metropolitan economies over 10 years.** Samila and Sorensen showed that an increase in local supply of VC (for start-ups and early-stage companies) positively affects (a) the number of firm start-ups, (b) employment, and (c) aggregate income. Nascent entrepreneurs may recognize the need for capital in the future and will come forward in larger numbers if they believe there is suitable finance. Also, VC-funded firms encourage others to engage in entrepreneurship either through a demonstration effect or by training future firm founders.[11]

62. **Beyond financing, VC investors add value to businesses and the broader business environment and economy.** Figure 8 shows how VC encourages employee training, development of a company code of ethics, engaging the company in social activities, and actions for environmental protection. Other advantages brought by new investment partners include improved corporate governance in areas such as financial audits, reporting tools, budget monitoring, oversight, and performance indicators.

Figure 8. Impact of VC on Company Ethics and Corporate Social Responsibility



Source: AMIC.

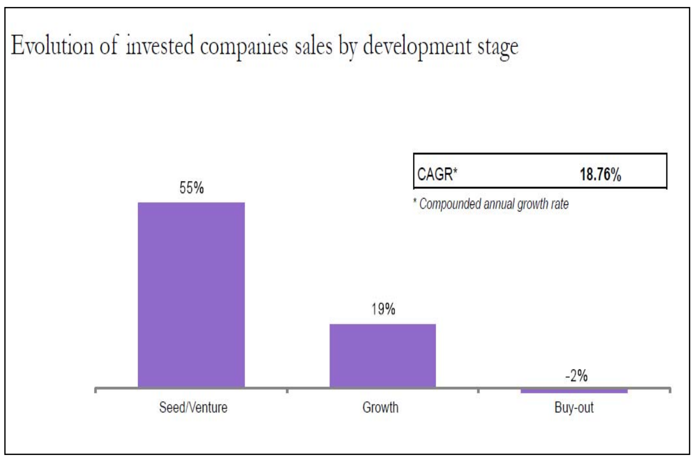
[10] The Globalization of Angel Investments: Evidence across Countries by Lerner, Schoar, Sokolonski, and Wilson (NBER Working Paper No. 21808).

[11] They found that a doubling in the supply of VC in a region results in the establishment of 0.49 percent to 2.6 percent more new establishments on average. They also found that doubling in the supply of VC results in up to 1.0 percent expansion in the number of jobs and a 1.4 percent to 6.4 percent increase in aggregate income.

Financial Analysis

63. **Although funds management will use pure commercial practices, the IRR will not be the appropriate measure for the Government to measure return on the project.** Instead of IRR, project returns should be measured in terms of development. The GOM has strong ownership of this project and is focused on the longer term benefits once the demonstration effect catalyzes a more dynamic, larger market of entrepreneurs and VCs engaged in creating high-growth companies. Benefits will come from spillover effects across the value chain. In addition, public returns will come in the form of tax revenues from higher sales, more exports, higher income, and contributions to social security, and a cohort of innovation-based firms introducing and commercializing global innovations (for example, digital platforms and clean tech) within Morocco. A survey conducted by the AMIC of firms that have received equity capital in Morocco found that the sales growth rate of companies that receive investment capital was on average 19 percent. Out of those, seed/early-stage companies showed the highest rate of sales growth with average sales of 55 percent compared to all other firms in the survey (figure 8).

Figure 9. Growth Rates in Sales of Companies That Received VC in Morocco



Source: AMIC.

B. Technical

Implementing Agency Assessment

64. **The CCG was established in 1949 as a government agency reporting to the minister of Economy and Finance and the BAM.** The CCG executive board includes representatives from the CCG's management, the president (or designate) from the Association of Banks, the Chamber of Commerce and Industry, the Association of Agriculture and Fisheries, and the Association of Artisanal Industry. Under the 1996 CCG Law No. 47-95, the CCG is a financially autonomous public entity with the objective of supporting the development of the private sector through the administration of guarantee programs for Moroccan businesses. Under the law, the CCG also has as one of its objectives the mandate to manage other commercial entities, guarantee funds, and other similar operations and make any financial or real estate operations, whether civil or commercial, to enable them to implement their activities.

65. **The CCG has experience supporting PE funds through public-private investment partnerships.** The CCG's strategy 2009–2012, supported by an agreement between the Ministry of Industry and Technology and the MoEF signed on February 17, 2010, stipulates a more proactive role for CCG in promoting seed, early-stage, and VC investment in start-ups and SMEs. According to the strategy, the CCG launched the "Emergence Invest" program tasked with investing in equity investment funds in partnership with the private sector to support the scaling and transformation of SMEs. The CCG can also link or develop specific guarantee tools to support the beneficiaries of the project and has representatives in all major regions that can link its beneficiary SMEs to banks. It has also established two previous public-private equity funds and enjoys the long-term sustainability to continue to administer, through the Government, the financing and supervision of project financing facility beyond the project duration. The CCG's 2013–2016 Strategy envisions the creation of new public-private equity funds to support seed, early stage and VC investments. Hence, the World Bank assessment finds the CCG to be the natural entity in Morocco to legally represent the Government in the project and follow up with fund partners, managers, and ecosystem support agencies that will be implementing the activities.

Value Added of Bank's support

66. **A report by the "World Bank Group's Independent Evaluation Group, The Big Business of Small Enterprises (2014)", states that "a credible theory of change for MSME interventions must be focused on leaving a sustainable supply of the service (such as financing, business development services, or training) by establishing well-functioning markets and institutions, not simply providing a temporary supply of benefits to a small group of firms during a project's lifespan.[12]"** The World Bank Group through its lending instruments to governments has a comparative advantage in that it can help create an early-stage equity market for young SMEs at a scale that can be transformative. This is particularly the case in a country like Morocco where the operation is embedded within a broad World Bank Group program that encompasses policy and financial sector reform, infrastructure development, and health and education. The World Bank Group has the ability to leverage expertise from various global solutions teams and the IFC to develop the appropriate comprehensive solution. The World Bank Group can also play a convening role bringing other development finance institutions (DFIs) as potential future partners to support country operations through global or regional initiatives.

67. **The World Bank Group can also leverage knowledge and lessons learned from its previous projects in this space (Lebanon, Croatia, Mexico, and India).** The World Bank Group has already facilitated a link between the CCG and the entity in Lebanon (Kafalat) that is implementing a similar project. Kafalat project manager (PM) has shared knowledge and experience from the Lebanon project with the CCG, and the two entities have an ongoing relationship. As additional similar projects are developed in the region (Jordan under preparation) as well as elsewhere, the World Bank Group will continue to convene stakeholders in the sector through workshops and networking opportunities and events.[13]

[12] Page 2 of IEG The Big Business of Small Enterprise 2006-2012 (Report 93485)

[13] The World Banks's How-To Finance Innovation Technology and Entrepreneurship conference is an annual event that brings together World Bank staff, clients including staff from PMUs, as well as experts and practitioners from around the world to distill lessons, share knowledge and network.

C. Financial Management

68. **As part of the preparation process for the Project, a financial management (FM) assessment was performed to determine the adequacy of the FM arrangements of the CCG** to properly manage and account for all project proceeds, and to produce timely, accurate, and reliable financial statements (FSs) for general and Bank special purposes. The assessment was performed following World Bank operational policy OP 10.00 and the FM Manual for World Bank-financed investment operations. Overall, the assessment revealed that, while the FM arrangements proposed by the client are generally acceptable, there are areas of improvement and a number of mitigating measures have to be put in place in order to ensure a solid fiduciary environment for a smooth project implementation.

69. **The main conclusions of the 2015 Public Expenditure and Financial Accountability (PEFA) report for Morocco indicate that the legal and administrative framework for public financial management (PFM) is sound and offers a solid level of assurance regarding the reliability of information and a strong control environment**. Furthermore, according to the PEFA report, the central government performs well in monitoring the financial position and operations of state-owned enterprises (SOEs). CCG is an SOE and is subject to the oversight of the Directorate of Public Enterprises and Privatization within MoEF. To the extent possible, the project will make use of existing country systems that have been proven satisfactory to the Bank, such as the single treasury account.

70. **The project design is complex and entails a large number of PIs.** The CCG will implement the project and will be responsible for overall fiduciary oversight including FM and disbursement arrangements. Although the CCG has a sound control environment and adequate capacity to carry out the project FM, the large number of PIs and the complex flow of funds and flow of information may affect its capacity to provide timely and reliable information required to manage and monitor the implementation of the project and the appropriate use of project funds.

71. **In order to mitigate the identified risks, the CCG will implement the following mitigating measures**: (a) An independent financial monitoring system will be put in place to ensure rigorous supervision of project expenditures and payments, (b) the CCG will host a segregated Operating Account for the project and each PI will open a separate Bank Account to manage funds received as part of the project; (c) the contracts between the CCG and the PIs will clearly define FM, financial reports and audits requirements; (d) The POM includes procedures for selecting the PIs and defines eligibility criteria for selecting SMEs for project funding. Additionally, the POM includes reporting formats, as well as auditing and disbursements arrangements to be applied to the project; (e) a special purpose assignment audit will be required for each PI in order to ensure that disbursements made by the PI are eligible. The TORs for this assignment have been included in the POM; and (f) PIs are investment fund management companies and ecosystem partners. PIs, according to their status, comply with the Moroccan regulations applicable to them, particularly in accounting, social and fiscal matters, unless otherwise agreed with the World Bank, in line with OP 10.00 guidelines as well as eligibility criteria set forth in the POM.

Disbursement

72. **Disbursements of the loan proceeds will be made in accordance with the *Disbursement Guidelines for Investment Project Financing* (February 2017) applicable to investment operations pursuant to which loan proceeds are disbursed against incurred eligible expenditures.** The Bank will disburse proceeds from the Loan Account to the project using the advance method which entails advancing loan proceeds into the US denominated DA opened at the Borrower's central bank (BAM) to finance eligible expenditures as they are incurred and for which supporting documentation will be provided at a later date. Detailed disbursement arrangements are provided in Annex 3.

D. Procurement

73. **The CCG will be the executing agency of the project.** In this capacity, it will be responsible for the implementation of the activities included in the various components. The CCG's capacity assessment was completed during project preparation. It noted that the CCG has a good organization in place, with services and experienced staff dedicated to procurement and an internal audit unit, which is the first level for monitoring of compliance with procedures and the quality of procurement. The CCG has a procedures manual that includes a specific procurement module including detailed procedures and standard documents to be used. The project will be carried out in accordance with the provisions of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) (Consultant Guildeines); "Guidelines: Procurement of Goods, Works and Non-Consulting Srvices under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) (Procurement Guidelines); and "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 (Anti-Corruption Guidelines).

74. **Following an in-depth assessment of its capacity (organization, resources and performance) carried out by the Public Enterprise and Privatization Directorate (DEPP) of the MEF, the CCG was found eligible to be subject to less prior control (known as "contrôle modulé de la dépense").** This means that CCG is no longer subject to systematic prior reviews of its procurement activities by the DEPP, but merely to ex post reviews.

75. **Nevertheless, the capacity assessment confirmed that the CCG has no experience in using Bank procurement procedures and is also not familiar with these procedures.** Although the CCG was in the near past the implementing agency of a Bank-financed project (*MSME Development Project*), the said project did not involve procurement activities, exclusively financing guarantees for financial support (working capital, investment loans, and so on). As the CCG will face a steep learning curve learning how to apply Procurement Guidelines, the procurement risk is Substantial.

76. Recommendations to mitigate risks and ensure efficient implementation of procurement activities and contract management are detailed at Annex 3 (Implementation Arrangements) and SORT.

77. **Under Component 1, the project will support, among others, angel/seed financing, and early stage/VC funds.** For the implementation of Subcomponent 1a (Angel/Seed financing) Angel funds, associations, accelerators, or management companies will be selected by the CCG in accordance with the Consultant Guidelines. These entities will act as intermediaries to make equity or quasi-equity investments in small and innovative SMEs, using project resources that are entrusted to them by the CCG through investment or management agreements.

78. **For Subcomponent 1b (Early stage/VC funds), the CCG will select investment companies to act as fund managers with a mandate to set up an investment fund(s) with private partners that they will identify, to whose capital the CCG will contribute with the resources of the project.** Given the specificity of the mechanism for setting up these funds, the selection procedure should be consistent with the Procurement Guideliens applicable to the project. These procedures, which are akin to those of the selection based on quality, have been detailed in the POM. The CCG launched in January 2017 a call for proposals for the selection of fund managers for Subcomponent 1b, and the request for proposals including making the details of the assignment/TOR available to interested candidates**.** The contracts to be signed out of this selection process are considered consultants contracts. The selection will be subject to the Bank's anti-corruption and sanctions provisions as defined in Section 1.23 of the Bank's Consultant Guidelines.

79. **Under Component 2, the project will support ecosystem providers to stimulate new innovative ventures through the financing of pre-seed grants, small loans and support to entrepreneurship (technical assistance).** To this end, the ecosystems providers will be chosen to directly manage the funds for the above-mentioned loans and support grants and to provide technical assistance (training, mentoring and investment preparation programs, and so on) to entrepreneurs and to strengthen the start-up. These ecosystem providers will be selected by the CCG in accordance with the Consultant Guidelines.

80. **Under Component 3, the project will cover costs related to project management by the PMU.** Those activities include mainly, financing support services including legal, fiduciary, safeguard and M&E, training; activities related to marketing, awareness and citizen / client engagement at local level. The activities to be listed in the procurement plan for all the activities, will be conducted in accordance with applicable procurement guidelines.

E. Social (including Safeguards)

81. **This project is categorized as financial intermediary (FI) under the World Bank's Involuntary Resettlement policy OP 4.12 and the World Bank's Indigenous Peoples policy OP 4.10.** The World Bank loan will be channeled through the CCG, an intermediary institution for providing equities to selected SMEs. The project is expected to mainly finance small enterprises in the services or technology sphere that will have limited environmental or social risks associated with them. The assessment indicates that the activities financed by the project will not involve any works that would require land acquisition. No indigenous peoples are likely to be present in, or have collective attachment to, areas where the project activities are located. A resettlement or an indigenous people's framework is not required. An Environmental and Social Management Framework (ESMF) that provides a list of ineligible sub-activities, a screening mechanism, and monitoring and reporting system has been prepared and will be included in the POM to handle potential environmental and social risks. The project PIs will be responsible for

screening investments in angel/seed and early-stage/VC companies and report to the CCG in accordance with the project ESMF (see paragraphs 85-86 for more details). The screening will ensure activities funded will not involve involuntary resettlement or indigenous peoples.

F. Environment (including Safeguards)

82. **This project is classified under the category 'financial intermediary' in accordance with the World Bank's Operational Policy OP 4.01.** This is because the World Bank loan will be channeled through the CCG, an intermediary institution for providing equity financing to selected SMEs. The project is expected to mainly finance small enterprises in the services or technology sphere that will have limited environmental or social risks associated with them. The activities do not involve pure real estate and construction (establishment of offices and purchase of construction plant and equipment). However, it is recognized that there may be some business activities in which the environmental and social risks and impacts may be triggered (although the scale will be limited due to the size of the SMEs) and require assessment and management, for example, labor and working standards, inappropriate disposal of wastes, or unhealthy or hazardous working conditions in some government priority sectors that might receive investments, such as automotive, aerospace, food, textiles, pharmaceuticals, and business processing. The PIs and the CCG are exposed to some level of environmental and social risk through the activities of their investees; therefore, an ESMF that provides a list of ineligible sub-activities, a screening mechanism, and monitoring and reporting system has been prepared and will be included in the POM to handle potential environmental and social risks. Adoption of a POM acceptable to the Bank by the CCG is a condition of effectiveness of the proposed loan.

83. **In addition, the following environmental safeguards policies are triggered:** Since sub-activities (investments in SMEs) are not known, OP 4.04 - Natural Habitats and OP 4.36 - Forests. The screening process described in the ESMF will identify potential risks for natural habitats and forests, and mitigation measures will be prepared as needed. Potential inclusion of agribusiness companies is expected, however, the expected type of businesses is limited to innovative packaging, processing, marketing and distribution and does not involve production nor use of pesticide. Therefore OP4.09 Pest Management is not triggered. Any sub-activities that produce or use pesticides will be excluded from the project and listed in the ineligible activities in the ESMF.

84. **The CCG has experience through an ongoing World Bank–financed project (*MSME Development Project* that has environmental and social management system (ESMS) in place.** The CCG has a designated social and environmental coordinator tasked with screening subprojects financed by banks under the MSME Development Project and categorizing activities according to their risk. All CCG operational staff including the environmental coordinator have received training on World Bank safeguards policies. The CCG has been performing safeguards screening at a satisfactory level and has properly excluded ineligible subprojects such as Category A projects, projects leading to involuntary resettlement, activities falling under IFC's exclusion list, and additional selected activities that are expected to have a significant negative environmental and/or social impact. To date, no issue has been raised on the management of safeguards aspects at the CCG. Therefore, the project will utilize the same ESMS to implement the ESMF. The CCG, with assistance from the World Bank, will continue to improve its capacity to manage environmental and social risks, which includes the screening of projects and their classification into different risk types, as well as building up knowledge about Morocco's environmental and social laws and the

World Bank's environmental and social norms. In addition to reviewing safeguards reports, the CCG will evaluate the safeguards capacity and ESMS of the PIs. The World Bank will provide safeguards training to the CCG and all PIs.

85. The PIs are in charge of conducting screening of subprojects. The CCG, supported by the World Bank, will provide training for PIs on ESMF and conducting the screening mechanism.

86. The CCG's safeguards specialist is responsible for verifying the screening results and monitoring compliance with the ESMF and national laws on environment, health, safety, and social issues and standards. The CCG's safeguards specialist will supervise subprojects to ensure compliance of ESMS, and will prepare the annual environmental performance report. The project manager at the PMU and the manager at each PI will oversee environmental and social issues, and ensure resources are made available for environmental management.

G. Citizen/Client Engagement Mechanism

87. **As part of citizen engagement activities, the CCG will be responsible for the implementation of two beneficiary satisfaction surveys to solicit feedback from project beneficiaries on services received and performance of PIs.** This is explained in further detail in the M&E section of Annex 1.

H. World Bank Grievance Redress

88. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). Complaints can also be submitted to the World Bank's GRS. The GRS will ensure that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

89. Morocco has a number of institutions responsible for grievance handling and resolution. The available national GRS mechanisms and institutions have been recently elevated to constitutional bodies to provide them with more independence and financial autonomy, necessary to validate their power of self-referral. The World Bank's GRS mechanism does not affect the efficiency of the Moroccan complaints and resolution system

Annex 1: Results Framework and Monitoring

Kindgom of Morocco

Financing Innovative Startups and SMEs Project (P150928)

Results Framework

Project Development Objectives

PDO Statement

The project development objective is to facilitate the increase of private equity and quasi-equity finance for innovative startups and small and medium enterprises in the Project Area.

These results are at	Project Level

Project Development Objective Indicators

		Cumulative Target Values									
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
1. Private Capital Mobilized (Amount(US$, millions) - (Core)	0.00	0.00	10.00	15.00	20.00	25.00	30.00				30.00
1(a). Private Angel/Seed Stage Capital Mobilized Through the Project (AmountUS$, millions) - Sub-Type: Breakdown)	0.00	0.00	0.50	1.00	2.50	3.50	5.00				5.00
1(b). Private VC Mobilized	0.00	00.00	5.00	10.00	15.00	20.00	25.00				25.00

Through the Project (Amount US$, millions) - Sub-Type: Breakdown)											
2. Beneficiaries that introduced a new or, improved on an existing, product, process, or service under the Project (Number)	0.00	5.00	10.00	20.00	40.00	60.00	100.00				100.00
3. SMEs receiving PE financing through the project (Number)	0.00	0.00	15.00	20.00	30.00	40.00	60.00				60.00
3(a). SMEs receiving private Angel/Seed equity financing through the project (Number - Sub-Type: Breakdown)	0.00	0.00	5.00	10.00	15.00	20.00	20.00				20.00
3(b). SMEs receiving private VC equity financing through the project (Number - Sub-Type: Breakdown)	0.00	0.00	5.00	10.00	20.00	30.00	40.00				40.00

Intermediate Results Indicators

		Cumulative Target Values									
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Number of entrepreneurs receiving pre-seed grants and soft loans through the project (Number)	0.00	20.00	80.00	140.00	160.00	180.00	200.00				200.00
Percent female entrepreneurs receiving pre-seed grants through the project (Percentage - Sub-Type: Supplemental)		10.00	15.00	20.00	25.00	25.00					25.00
Investment management company contracted to manage the Angel/Seed fund (Number)	0.00			1.00							1.00
Entrepreneurs receiving mentoring and IR support (Number)		20.00	40.00	60.00	80.00	90.00	100.00				100.00
Angel Network developed through the project (Number)	0.00	0.00	0.00	1.00	1.00	1.00	1.00				1.00

Angel network members who received training through the project (Number - Sub-Type: Supplemental)	0.00	0.00	4.00	6.00	8.00	10.00	10.00				10.00
Private Fund Managers contracted to manage new public-private funds under the Project (Number)	0.00	0.00	1.00	2.00	2.00	2.00	2.00				2.00
Public-private funds Shareholder Agreements completed (Number)	0.00	0.00	1.00	2.00	2.00	2.00	2.00				2.00
Beneficiaries satisfied with services received and performance of PIs (%)	0.00	-	-	50.00	-	-	75.00				75.00

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition, and so on)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Private Capital Mobilized	The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.	Semi Annual	Funds portfolio investments/shareholder agreements	Fund Manager/CCG
Private Angel/Seed Stage Capital Mobilized Through the Project	Private capital from co-investment in deals	Semi Annual	Shareholder agreements	Fund Manager
Private VC Mobilized Through the Project	Private Capital share of investment in VC funds plus co-investment with other private capital in deals	Annual	Public-Private Fund Shareholder Agreement and investment shareholder agreements	CCG and the Fund Manager
SMEs that introduced a new or, improved on an existing, product, process, or service	This PDO indicator will track innovation emanating from recipients of Grants and equity investment through the project.	Annually	Regular project reporting	Fund Manager and the CCG
SMEs receiving PE financing through the project	This PDO indicator measures the total number of SMEs that receive equity financing through the project (SMEs that receive follow-on financing through the project should only be counted once)	Annual	Regular survey	Fund Managers and the CCG
SMEs receiving private Angel/Seed equity financing through the project	This indicators captures all SMEs that receive equity financing through the project in an amount less than US$500,000	Annual	Regular survey	CCG
SMEs receiving private VC equity financing through the project	This indicator captures number of SMEs that receive equity financing through the project in an amount above US$500,000	Annual	Regular survey	Fund Managers

Intermediate Results Indicators

Indicator Name	Description (indicator definition, and so on)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of entrepreneurs receiving pre-seed grants through the project	This indicator measures the potential pipeline of start-ups expected to apply for equity financing	Semi-Annual	Pre-Seed Grant Agreements	CCG
Percent female entrepreneurs receiving pre-seed grants through the project	No Self-explanatory	Semi-Annual.	Pre-Seed Grant Agreements	CCG and Ecosystem provider
Investment management company contracted to manage the Angel/Seed fund	No description provided.	one time	Administration agreement	CCG
Entrepreneurs receiving mentoring and IR	Measures the number of entrepreneurs reached through the ecosystem support initiatives under Subcomponent 2b.	Annually	Regular reporting	Ecosystem provider
Angel Network developed through the project	This measures potential equity co-investors.	Annually	Network registration	CCG
Angel network members who received training through the project	This measures the implementation of the TA activity to support the development of Angel investors	Annually	Angel Network report	CCG
Private Fund Managers contracted to manage new public-private funds under the Project	This indicator measures progress in setting up the public-private funds	Annually	Administration Agreement	CCG
Public-private funds Shareholder Agreement completed	This measures a key step in setting up the public-private funds	Annually	Shareholder Agreements provided	CCG

Monitoring and Evaluation Framework

1. **In addition to the Results Framework, fund managers will also monitor and report on specific indicators of beneficiary profile and performance.** The objective is to measure any additional value added from the project not captured in the Results Framework, such as indicators on employment creation by beneficiaries (by gender and age), and exports. This information will be provided by beneficiaries twice during the life of the project, according to the contract signed between the fund manager and the beneficiaries.

Beneficiary Profile Data (example template)

Name of SME/Start-up	
Name of the owner(s)	
Gender of the owner(s)	
Sector in which firm operates	
Geographic area of operation	
How much financing did the firm apply for?	
How much equity or quasi-equity financing did the firm receive?	
Did the firm apply for a loan under the program?	
Did the firm receive the loan? If not, please explain	
Did the firm receive financing other than this fund? If yes, please specify type (debt, credit guarantee, grant, equity), before or after receiving equity from this fund, and source (bank, family, nongovernmental organization, angel, other public program, and so on)	
Does SME produce and report annual FS?	
Has the firm applied for a patent since establishment?	

Beneficiary Performance (example template)

Beneficiary Performance	**Unit of Measure**	**Baseline**	**Cumulative Values**					**Frequency**	**Data Source**
			YR1	**YR2**	**YR3**	**YR4**	**YR5**		
Revenues	US$								
Operating margin	%							Annual	Survey
Exports (if any)	US$							Annual	Survey
No. of full-time employees	Number							Annual	Survey
Of which % women	%							Annual	Survey
Of which % youth (age < 35 years)	%							Annual	Survey
Total private investment in beneficiary SMEs	US$, thousands							Annual	Survey

Innovative Practices in Beneficiaries (example template)

Do you currently have any international accreditations and certifications for quality? (Please describe.)	
Do you have plans to obtain accreditation/certification in the next 3 years? (If yes, please describe nature of the certification and time planned.)	
Do you have an updated website or social networking site?	
Do you use online communication for business purposes? If so, please explain how.	
Do you provide training for your professional/technical staff? If yes, please list kinds and frequency of the training.	
Do you have access to international research and best practices in your area/sector of operation? If so how?	

Program Evaluation

2. **The 3rd level of evaluation will be on the performance of the angel/seed and early stage/VC funds' management.** There will be two overall evaluations (reports) of the program, one at the end of three years and one at the end of the project (six years). These two reports will be led and funded by the Project. The reports will evaluate the efficiency and effectiveness of the program's management and design. The use of survey instruments appears to be an appropriate choice for the purpose of this project. Specific questions and the format of the questionnaire will be further discussed and determined with an evaluation expert. As an example, the following boxes present typical questions normally used to conduct evaluations of innovation financing programs.

Box 1.1. Beneficiaries and Potentially Identified Non-Beneficiaries Survey (example template)

Basic Information

1. Name of the beneficiary/non-beneficiary
2. Date established
3. Sector
4. Stage of development
5. Characteristics of the firms

Topic I. Efficiency of the submission process

1. Is the submission of a proposal for funding an easy procedure?
2. Is the amount of information requested reasonable?
3. How many days does it take to fill the documentation?

Topic II. Transparency of the selection process

1. Do you consider that the selection process is transparent, rigorous, and fair?
2. If your proposal was rejected, what were the reasons for funding being refused?
   (a) Investment too risky

(b) Investor didn’t deal with the sector
(c) Company not investment ready
(d) Investor didn’t deal with the scale of the investment
(e) Anticipated rate of return too low
(f) Investor lack capacity to evaluate deal

3. Is the time between proposal submission and selection acceptable? Why?

Topic III. Effectiveness of the support

1. Financial support
    - (a) How much money did you receive from the fund? (please describe per round)
    - (b) Is the financial support enough for the activities you want to finance? Why?
2. Nonfinancial support
    - (a) Do you receive nonfinancial support (for example, advisory services)?
    - (b) Which type of support?
    - (c) Is this type of nonfinancial support useful?
        - (i) What have you learned?
        - (ii) What capabilities have you developed as a consequence of the investment that you would not otherwise know?

Topic IV. Efficiency of disbursement (only for beneficiaries)

1. Is the process to request the funds easy? (Yes/No)
2. Is the amount of information requested reasonable?
3. How many days does it take you to fill the forms?
4. Is the time between the submission of the request and the disbursement of the money reasonable?
5. Did you stop any activity because the funds didn’t arrive on time?

Topic V. Efficiency of project reporting (only beneficiaries)

1. Do you consider project reporting reasonable? (Yes/No, explain)
    - (a) Amount of information
    - (b) Quality of information
    - (c) Frequency

Topic VI. Signs of additionality

1. What is the likelihood of raising capital in the absence of support?
    - (a) Very good
    - (b) Good
    - (c) Poor
    - (d) Don’t know
2. Beneficiaries: What would be the consequences if you had not received the financial assistance? You can select more than one option.
    - (a) I would have gone ahead with my business in the same way as if I had the financial assistance.
    - (b) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.
    - (c) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
    - (d) I would have gone ahead with my business in a reduced scope, for example, conducting less research and development (R&D) and innovation.
    - (e) I would have gone ahead with my business in the same way as if I had the financial assistance.
    - (f) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.

(g) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
(h) I would have gone ahead with my business in a reduced scope, for example, conducting less R&D and innovation.
(i) I would have gone ahead with my business in a reduced scope, for example, not entering into new markets.
(j) I would have gone ahead with my business but it would have taken more time to have access to the market.
(k) I would not have gone ahead with my business.

3. Applicant non-beneficiaries: What were the consequences of not receiving the financial assistance? Select the correct option:
   (a) I went ahead with my business in the same way as if I had the financial assistance.
   (b) I went ahead with my business in a reduced scope, for example, hiring few workers.
   (c) I went ahead with my business in a reduced scope, for example, investing less in machinery and technology.
   (d) I went ahead with my business in a reduced scope, for example, conducting less R&D and innovation.
   (e) I went ahead with my business in a reduced scope, for example, not entering into new markets.
   (f) I went ahead with my business but it took me more time to have access to the market.
   (g) I didn't go ahead with my business.

Topic VII. Signaling effects: Access to other external sources of finance

Do you consider the program has eased access to equity capital or debt finance from other private investors in successive rounds?

Box 1.2. Investor's Survey (example template)

Basic Information

1. Name

Topic I. Participation in the fund

1. What were the main reasons that encourage you to invest in the fund?
   (a) Sharing risk
   (b) Increasing investment size
   (c) High expected returns

Topic II. Fund management

1. What do you think about the overall management of the fund? (Assign a number from the scale of 1 to 5 with 1 the lowest performance and 5 the best performance.)
   (a) Transparency
   (b) Efficiency
   (c) Effectiveness
   (d) Coordination among investors
   (e) Communication with investors

Topic III. Investment portfolio

1. Do you agree with the way the investment portfolio has been managed? (Assign a number from the scale of 1 to 5 with 1 meaning "I don't agree" and 5 "I totally agree".)
   (a) Size
   (b) Risk

(c) Return
(d) Diversification
(e) Sectors
(f) Stage of development of the investee

2. Would you change something about the investment strategy? (Please specify.)

Topic IV. IRR and exit strategy (this could be after a couple of years)

1. Are you satisfied with the average IRR?
2. What do you think about the exit strategy?
   (a) Timing
   (b) Mode

Topic V. Signs of additionality

1. What would be the consequences if the public sector wouldn't have created the new financing facility?
   (a) I would have gone ahead investing in the same way as if I have the public sector as a co-investor.
   (b) I would have gone ahead investing but in a reduced scope.
   (c) I would have gone ahead investing but taking less risk.
   (d) I would have gone ahead investing but looking for higher internal return rates.
   (e) I would have not gone ahead investing.

Box 1.3. Program Manager's Survey (example template)

Basic Information

1. Name

Topic I. Identifying investment opportunities

1. Does the fund proactively search/identify investment opportunities?
2. Is there a good pipeline? Why?

Topic II. Selection process of beneficiaries

1. What are the criteria that the fund takes into account to make an investment?
   - Risks
   - Expected returns
   - Management team
   - Other (please specify)
2. How long does it take to conduct the due diligence process for an investment?
3. How long does it take between a beneficiary requests the funding and he or she gets it?

Topic III. Financial support

1. How many deals does the fund make per year at each stage (for example, start-up, early stage, VC)?
2. What is the average size of each deal at each stage?
3. Is the fund's performance in terms of deals and average size of the deals in line with (a) what was originally expected and (b) similar private funds? (Yes/No, why?)

Topic IV. Duration of the investment (this is after a couple of years)

1. How long (on average) has the fund invested in each company at each stage?
2. Is this a long enough period to obtain the expected returns?
3. What is the IRR (on average) at each stage?
4. What kind of exit strategy does the fund usually prefer? Why?

Annex 2: Detailed Project Description

MOROCCO: Financing Innovative Startups and SMEs Project

1. **The implication of the stated PDO is that angel/seed and VC facilities be established through funding by the public sector to demonstrate the benefits of an improved supply of risk finance.** This funding is to be used as co-investment with private investors, and funds managed by private sector partners who will play a key role in selecting investments. Funding should also address investment ecosystem know-how gaps related to creation and scaling of financially viable enterprises (deal flow).

2. **Eligible beneficiaries of the project activities are young innovative SMEs that may be constituted of:**

   (a) Entrepreneurs who establish spin-offs from universities

   (b) Entrepreneurs emerging from start-up weekends and boot camps, accelerators/incubators, and other start-up support programs

   (c) Entrepreneurs deploying technology (developed inside or outside the country) to deliver critical services—clean drinking water, renewable energy, low-cost health care and other essential goods and services—to the local population

   (d) Diaspora bringing ideas and business models from Europe, America, Africa or elsewhere

   (e) Entrepreneurs from Morocco establishing joint ventures with businesses outside the country

   (f) Entrepreneurs spinning out new enterprises from companies and multinational corporations operating in Morocco

3. **The project funds will thus be disbursed under three components as follows:**

   (a) A Financing Program Component that will address an identified gap in financing for young innovative SMEs (US$42 million)

   (b) An Ecosystem Support Component that will address three identified weaknesses in the ecosystem (US$6 million):

      (i) Pre-seed grants for Concept development "Ideazation";

      (ii) Soft loans for commercialization of ideas;

      (iii) IR know-how, Mentoring, and Development of a business angel network

   (c) Project Management, Coordination, and Monitoring and Evaluation Component (US$1.875 million)

4. **Project activities are linked and play a complementary role.** Ecosystem providers and fund managers will be engaged to deliver financial and non-financial support to entrepreneurs and startups in a coordinated way. Intermediaries are projected to be engaged upfront (within the first two years of project implementation) to ensure coordinated delivery of support to end beneficiaries. Expected estimated engagement of intermediaries under each component are shown in table 2.1. If funds for an activity are not deployed by the project's midterm review they can be reallocated to another activity. While the project does not specifically target sectors or regions identified as "lagging", efforts to consider opportunities and programs in lagging regions are encouraged.

Table 2.1. Projected Estimated Schedule of Engagement of Intermediaires and Expenses Over 18 Months

Activity	First 6 Months	6 Months*	6 Months*
	Contracted	**Contracted**	**Contracted**
Component 1 (US$42 million) Financing Program	24.75	7	7
Component 2 (US$6 million) Ecosystem Support	0	3	3
Component 3 (US$1.875 million) Project Management, Coordination, and Monitoring and Evaluation	0.25	0.25	0.25

Note: *Amounts are estimates and subject to change.

Project Components

Component 1: Financing Program (US$42 million)

5. **This component will target three equity funding categories (angel/seed, early-stage, and VC).** Equity or quasi-equity capital will be provided by the project to competitively selected intermediaries who will invest equity/quasi-equity capital in young innovative SMEs in the project area. Project funds will be disbursed under two subcomponents with the expectations that a minimum of 40 percent contribution will be provided by the private sector. The reason for separating the activities into two subcomponents is the unique nature of the target investment categories. Angel/seed investments require specialized expertise in sourcing and management that is different than the management of investments in early-stage/VC companies. In addition, separating the investment categories gives a clearer signal to private co-investors allowing them to identify where and how they can play a role.[14]

(a) **Subcomponent 1a: Angel/Seed financing (US$9 million).** Funds will be allocated to newly created and/or existing angel/seed fund(s), management company, accelerator to other eligible intermediaries to make equity or quasi equity in young innovative SMEs based on criteria defined in the POM. Enterprises receiving equity or quasi-equity capital from the selected intermediaries under this subcomponent will be eligible to a one-time complementary concessional loan of up to US$200,000 also covered by the project. A maximum of 50 percent of the amount allocated to

[14] Fund managers and investors may propose a hybrid fund that combines an angel/seed fund with the required qualified team and investment strategy with an early stage/VC fund managed by VC professionals.

intermediaries under this subcomponent will be available for soft loans. The mechanisms for eligibility and selection are specified in the POM.

(b) **Subcomponent 1b: Early stage/VC fund(s) (US$33 million).** Funds are available for equity in newly created early stage/VC funds and investment in existing eligible funds. New and existing early stage VC funds will make equity or quasi equity investments in young innovative SMEs based on criteria set forth in the POM. Enterprises receiving equity or quasi-equity capital from the selected intermediaries under this subcomponent will be eligible to a one-time complementary concessional loan of up to US$300,000 also covered by the project. A maximum of 50 percent of the amount allocated to intermediaries under this subcomponent will be available for concessional loans. The mechanisms for eligibility and selection are specified in the POM.

Eligible Investments in SMEs

6. **An eligible SME financed under the Project meets the criteria for project beneficiaries described in the PAD (paragraph 2 above). To be eligible for investment, an eligible SME must be a legal entity registered in Morocco with the locus of its activities in the project area.** This includes companies with foreign shareholders. Eligible SMEs may not be engaged in any of the activities or sectors stipulated in the negative expenditure list as described under the project ESMF in the POM.

Management Fees

7. **Management fees will be applied based on industry practice and at a level commensurate with the management of this type of asset class.** The project will cover the share of management fees including set up of the fund(s) based on the level of capital invested.

8. Fund managers will be rewarded based on the successes of the fund in appreciating capital values along the following framework:

(a) **Setup of operations.** This represents both the basic work that should be undertaken by the fund manager including, but not limited to, active promotion of the fund; formal or semiformal association with agents likely to supply high-quality deals; and training programs for staff and potential entrepreneurs.

(b) **Conclusion of investment deals.** A reward is linked to the conclusion of deals, either immediately or cumulatively at a later stage when there are clearer signs of the quality of the deals being concluded.

(c) **Management of equity holdings.** This is based on particular value-added inputs to the companies under management, or for the connection of firms to partners within supply chains or to markets that will add to their growth and success.

(d) **Success fees for achievements (carried interest).** This final stage is when a fund is wound up and the value of appreciated investment assets is realized. This is the main reward element and relates to the increase in investment values that have been created through the life of the project.

Funds' Governance and Management

9. **The Government, the PMU, or the World Bank Group will not play a role in the review, selection, or management of investments.** This applies to all financing categories (Angel/seed, early stage/VC). The project implementing agency (CCG/PMU), who will be the equity shareholder on behalf of the government, will have nonvoting non-veto rights on investment decisions and management of investments, as defined in the Shareholder Agreement signed with fund partners and the administration Agreement signed with fund managers. The selected fund manager will establish an advisory board (AB), and an IC in accordance with industry best practices.

10. **The AB will be composed of all principal fund shareholders including the CCG.** The Fund manager will not be part of the AB. The role of the AB will be:

(a) Review and clearance of all conflicts of interest; waivers of investment parameters, and right to object to valuations or approval of valuations methodologies.

(b) Review and clearance of fund extensions and fund investment strategy

11. **The fund manager will chair the IC.** The IC will be composed of six members who are experts in risk capital from the private sector, diaspora, or elsewhere. Public officials/employees including the CCG, or individuals who may have a conflict of interest may not be part of the IC. The IC will sanction decision on investments, follow on financing to a company, and exits proposed by the fund manager.

12. **The selected fund managers will have executive management of the funds.** The fund managers will set out the investment strategy, criteria, and proposed timing of investments in accordance with the criteria and parameters defined in the project document and POM. The fund managers will be responsible for sourcing deals, hiring/replacing staff, managing investments and divestments. The fund managers will also support investee companies to receive the capacity building, networking, and access to clients and markets needed for them to succeed.

Review and Selection of Investments

13. **The fund manager will evaluate each proposal to ensure it:**

(a) meets the project eligibility criteria;

(b) does not trigger any safeguards categories beyond what has been assigned by the World Bank for this project;

(c) provides a sound business case with evidence supporting the analysis of risks and opportunities involved in making the business a success; and

(d) ensures the entrepreneur's credentials and background are sound.

14. **Second, each proposal will then be submitted to the IC for review and selection.** Normal practice in VC environments is for an IC member voting system following on from a discussion of the merits and risks involved in any investment decision. A decision is made when an investment receives two-thirds of the positive votes. The evaluation discussion revolves around an analysis on the potential investment from the managers of the fund which typically includes a recommendation for action, either in favor or against taking an equity interest. This analysis can involve some structured points measurement of the different aspects of the investment being considered, which can serve to highlight either deal breaking aspects or particular risks or upside potential of the specific case. The merits of such an approach are that it forces all the aspects to be considered and a score to be placed on each aspect so leads to a more thorough and complete appraisal.

Rights of the CCG as a PMU

15. **As a fund shareholder the CCG retains the right to oblige its permission for the undertaking of certain strategic actions.** Typical examples include the issuance of new shares, taking on significant new debt, major capital investments, changes in key personnel, significant changes in product or market direction, and major commercial agreements of long duration (such as long leases on property or agency agreements with third parties). This list is not exhaustive; the issues will be thoroughly considered before incorporation in Shareholder and other Administration Agreements. This process will ensure mitigation of risks relating to activities affecting the development objective, safeguards, and sound management.

Exit and Liquidation

16. **The CCG retains the right to exit where it has fully committed its financial resources and it considers that the development objective has been attained**. The CCG may also exit if a fund changes its investment parameters deviating from the development object and parameters set by the project. Should this happen the CCG can sell its shares and re-allocate the funds to other funds or activities under the project. The fund manager(s) will provide details on terms for exit or disposal of shares for shareholders as well as treatment of assets if the fund is liquidated.

Reporting

17. **The CCG will receive regular reports on the performance of the funds in the form of management reports, which will include updated project indicators based on the project results framework and M&E requirements, as described in Annex 1 and the POM.** The CCG will retain the right to require more information from the fund managers should it need access to more than regular management accounts and project reporting; this is for cases where the CCG requires reassurance that the Government's interest is considered.

18. **The funds will also provide reports to the CCG on FM and safeguards screening and management in accordance with the criteria described in the sections on safeguards and FM in the project document and the POM.** The angel/seed and early-stage/VC fund managers will, under the Administration Agreement, also adopt acceptable procurement processes as described in the section on procurement in the POM. Adoption of the POM, including the aforementioned

conditions, will form part of the Administration Agreement signed between the CCG and each fund.

Broad Parameters of the Terms and Conditions for Angel/Seed and Early Stage/VC Financing

Table 2.2. Terms and Conditions for Investment Funds

Term/Condition	Subcomponent 1a. Angel/Seed Financing	Subcomponent 1b. Early Stage/VC Funds	
		Funds to be Newly Created Under the Project	Investment in Existing Funds
Type, size and capitalization of fund	General or sector specific No limits on fund size. Amount committed by the CCG under this component will be based on each proposal The CCG may use equity and quasi-equity instruments to capitalize the fund(s).	General only (not sector specific) Minimum fund capital size US$15 million. The CCG will invest a maximum of US$10 million per fund. The CCG will maintain a maximum shareholding of 33 percent throughout the life of the fund Managers will explicitly provide options for different forms and classes of equity capital investors may utilize for capitalizing the fund. The CCG will use the same financial tools as other private investor partners such as equity and quasi-equity instruments to capitalize the fund(s).	General or sector specific No limits on fund capital size. The CCG will invest a maximum of US$5 million per fund and not surpassing the minimum fund size The CCG will maintain a maximum shareholding of 33 percent throughout the life of the fund The CCG will use the same financial tools as other private investor partners such as equity and quasi-equity instruments to capitalize the fund(s).
Investment Strategy	Maximum investment per ticket US$500 000 dollars Fund investment strategy is expected to have a balanced approach between the risk categories	Investment ticket size between US$200 000 dollars – US$1.5 million Fund investment strategy is expected to have a balanced approach between the risk categories. The investment period should not exceed 5 years, maximum investment per company should not exceed US$1.5 million, a maximum of 10 percent of the fund committed capital can be allocated for each company and a maximum of 15	Investment ticket size between US$200 000 dollars – US$1.5 million CCG will follow the funds existing strategy on condition it follows a balanced approach between the risk categories.

Term/Condition	Subcomponent 1a. Angel/Seed Financing	Subcomponent 1b. Early Stage/VC Funds	
		Funds to be Newly Created Under the Project	Investment in Existing Funds
		percent may be allocated for follow on financing. Follow on financing may be undertaken for up to 2 years following the investment period.	
Incentives	Asymmetric returns commensurate with the high level of risk of this asset class. The Project will cover in the form of a Grant, the higher than normal transaction costs and set up of a newly created fund or company based on an estimate of costs provided by the manager in their proposal. Soft loans offered to enterprises that receive an equity investment through this subcomponent to mitigate the enterprise's risk of failure.	Asymmetric returns commensurate with the level of risk of this asset class. Partner investors who exit the fund before its closure (10 years) will not be eligible for the incentives. The incentives will also not be provided if the fund investment strategy is modified in a way that does not fit with the Project criteria. The Project will cover in the form of a Grant, the higher than normal transaction costs and set up of the fund based on an estimate of costs provided by the manager in their proposal. The Project will cover part of the Fund's set up cost. Concessional loans. These loans are offered to enterprises that receive an equity investment through this subcomponent. The objective is to help companies overcome working capital challenges and mitigates against the enterprise's risk of failure.	Same terms and conditions as all other investors.
Management Fees	To be proposed by the manager in accordance with industry standards	To be proposed by the manager in accordance with industry standards	
Funds' Legal Structure set up and life	Operations must be based in Morocco and may have the legal structure of a Societé	Operations must be based in Morocco and may have the legal structure of Societé	Operations must be based in Morocco and may have the legal

Term/Condition	Subcomponent 1a. Angel/Seed Financing	Subcomponent 1b. Early Stage/VC Funds	
		Funds to be Newly Created Under the Project	**Investment in Existing Funds**
	Anonyme (S.A), OPCC, or any other legally acceptable structure for managing equity investments in Morocco. The duration of engagement with the CCG will be determined at the time of negotiations. CCG investments will only be as minority shares	Anonyme (S.A), OPCC, or any other legally acceptable structure for managing equity investments in Morocco. Funds will have a term of 10 years not surpassing 15 years. Selected fund managers have between 6–18 months after the signature of agreement to raise capital for the first closing (as specified in their proposal) and set up the fund.	structure of Societé Anonyme (S.A), OPCC, or any other legally acceptable structure for managing equity investments in Morocco.
Parts, dividends, valuation methods, and so on	The manager will include an explanation on treatment of intellectual property rights.	The fund manager will include an explanation on dividends, treatment of intellectual property, valuation methods (how the value of the fund shares has been calculated and what assumptions have been made to establish the estimate), treatment and proportion of founders' shares, milestones and value ratchets,[15] and conversion rights.	The fund manager will include an explanation on dividends, treatment of intellectual property, valuation methods (how the value of the fund shares has been calculated and what assumptions have been made to establish the estimate), treatment and proportion of founders' shares, milestones and value ratchets, and conversion rights.

Selection of Angel/Seed and Early-Stage/VC Fund Managers

19. **For the creation of new angel/seed investment company and early-stage/VC funds, managers will be selected based on an international call for proposals, and they will be evaluated in accordance to the project criteria stipulated in the POM.** Rather than being too prescriptive in tendering, the project provides broad terms for the angel/seed and early-stage/VC funds, as defined in the POM, and allow a market-driven response.

[15] A full ratchet is an antidilution provision for shareholders after they have purchased their initial shares. For example, if an investor paid US$2 dollars per share for a 10 percent stake and a subsequent round of financing comes through at US$1 per share, the early round investor would have the right to convert the shares at the US$1 price and thereby double the number of shares.

20. **For investments in existing funds the CCG will select eligible funds based on the project criteria stipulated in the POM.**

21. **All managers must exhibit:** (a) the capacity to properly evaluate investment opportunities in SMEs; (b) capacity to offer mentoring and other support that innovative young SMEs typically need; and (c) not have any criminal record or be included in the World Bank's or the BAM's blacklist database.

22. **Prospective managers and key fund individuals must not be under any material litigation, proceedings or regulatory inquiries during the last three years.** The tender process will also clearly outline selection criteria and weights assigned to each criterion. Selection criteria listed below emphasizes experience and long-term commitment. To maximize the positive effects of the project, selection criteria for the funds will include consideration of the extent of financial leverage they offer.

23. **The selection criteria will assign weights on the following:**

(a) Letter of intent from prospective private shareholders.

(b) Committed capital by fund manager and other private investors

(c) Quality of investment team and experience in well-established early-stage VC markets

(d) Investment management track record

(e) Experience and skills of the proposed team in investing, managing, and exiting early-stage and VC investments

(f) Proposed investment and exit strategy, consistent with objectives of program, including

   (i) potential pipeline;

   (ii) level and structure of management fees; and

   (iii) exit strategy.

(g) Linkage and operational framework with the broader entrepreneurship ecosystem

(h) Location of management team, such that the fund can effectively invest in, and work with, local entrepreneurs in Morocco

24. **The winning bid(s) will be selected through a ranking assessing the technical quality of the bids.** The bids will be evaluated by an Evaluation Committee that includes a representative from the CCG and external experts in equity funds. This Evaluation Committee will be constituted by the CCG in line with the project's POM, and will assess the bids and provide a recommendation to the CCG's management board on the proposed fund manager. The highest ranked proposal

would then be invited to negotiate the Administration Agreement. Overall, if two years after the loan effectiveness the fund manager is not selected, or any of the conditions as described under disbursement conditions for this component is not fulfilled, then the funds will be reallocated to other eligible project activities upon the request of the CCG and MoEF.

LAs Between CCG Private Investor Partners, Angel/Seed Management Companies, and Fund Managers

25. **The CCG will sign Shareholder Agreements with private investor partners that co-invest in an angel/seed or early-stage/VC funds, in accordance with the project document and POM.** The Shareholder Agreement, will outline specifically the key operational aspects of the funds. This would include defining the role of the manager versus the other investing partners; the governance structure; the management fees structure; return distribution; reporting, fiduciary and safeguards, requirements/performance evaluation; and so on. The Shareholder Agreement will be informed by best practices.

26. **The CCG will sign an Administration Agreement with each selected management company managing a project fund.** The selected managers will thus be licensed to operate the angel/seed and/or the early-stage/VC fund(s) on the basis of the Administration Agreement, which will be in accordance with the project document, POM, and Shareholder Agreement. The fund manager's fees, terms, and responsibilities will be bound by the Administration Agreement and subject to review and extension or termination by the fund partners based on performance.

27. **The POM will include a model of the Shareholder agreement acceptable to the World Bank. External auditors or World Bank supervision missions may view the hard copy of the signed Shareholder Agreement.**

Component 2: Ecosystem Support (US$6 million)

28. **Funding under this component will be allocated between the following three subcomponents:**

(a) Pre-seed Grants (US$2 million)

(b) Soft Loans (US$2 million).

(c) Entrepreneurship Support (US$2 million). This includes mentoring, IR support, and the creation of a business angel network.

Subcomponent 2a. Pre-seed Grants (US$2 million)

29. **The objective of this subcomponent is to generate high-quality deal flow for the angel/seed and early-stage funds by funding a stream of prospective new companies, and addressing the funding gap often faced by early-stage entrepreneurs in the initial stages of their venture.** Funding will be provided to ecosystem providers to provide pre-seed grants to

entrepreneurs. Pre-seed grants will be up to US$20,000[16] each and will be offered to eligible entrepreneurs as defined in the project document (paragraph 2 of annex 2) and the POM. The pre-seed grants will be used to advance the development of a promising idea or to make a venture ready for investment.[17]

Subcomponent 2b. Soft Loans (US$2 million)

30. The objective of this subcomponent is to help newly created start-ups to take their new product, prototypes or technological solutions to the market for commercial use. Pre-seed soft loans will be up to US$50,000 each and will be offered to eligible entrepreneurs as defined in the project document (paragraph 2 of annex 2) and the POM. The loans will be non-collaterized, have zero interest and may be transformed into a grant in the case of failure of the enterprise. The criteria, selection, and evaluation of the Soft loans are the same as those for grants under Subcomponent 2a.

Box 2.1.Women Entrepreneurs

Pre-seed grants, mentoring, and IR assistance may be especially useful for women entrepreneurs. Discussions with MIT's Arab Business Forum, which conducts the largest regional business competition, highlighted that while there are many women with innovative business ideas who win competitions, very few of them move on to access seed equity financing, unlike males. The mentoring and IR activities developed through this project, and linked to the venture ecosystem, will play an important role in supporting women entrepreneurs.

Eligible Pre-seed Grant and Soft Loan Activities

31. **The target market for the grants and soft loans will be entrepreneurs in the project area looking to commercialize a novel product, process, or service.** Eligible activities typically funded would be expected to include one or more of the following:

(a) **Proof of concept.** Developing at the earliest stage, the embryo business idea to the point at which a new business can be based.

(b) **Prototyping.** Moving a product from the lab bench to a working model that demonstrates the technical improvement offered by the innovative product.

(c) **Market surveys.** Understanding the potential market, likely buyer behavior, and channels to market the new product or service. For a technical product being developed at a research body, this is often an area where potential entrepreneurs show weaknesses.

(d) **Business plan preparation.** Bringing together evidence on technical, commercial, financial, and management team skills and competences in an operational form that points the way clearly to the implementation of a new business idea.

[16] Pre-seed grants can also be divided in phases with a subsequent phase given based on performance of the initial phase.

[17] The pre-seed grants are a good filtering mechanism as they would also allow the entrepreneur to prove quickly if a business idea is not viable.

(e) **Field testing a prototype or product.** This entails the first step in commercialization of an innovation –that is, taking it to market for commercial use.

32. Ineligible expenditures under this component are the following:

(a) Hard infrastructure, for example, establishment of offices, purchase of plant and equipment

(b) Provision of transactional business services (accounting, tax advice, and so on) to entrepreneurs

(c) Activities that are on the list of ineligible activities included in the ESMF

Pre-seed Grant and Soft Loan Application and Review Process

33. **Selected ecosystem providers will be required to ensure that the pre-seed grant and soft loan processes—application, dispersal, and audit—are rigorous, but also simple and quick, for the beneficiary.** This is a lesson learned from previous government grant programs in Morocco and elsewhere. The application process should be an ongoing process, and application and follow-up interaction should be automated online. This requirement reflects the relatively small amounts of funding and the lack of adoption of previous government grant initiatives aimed at this market, which were encumbered by heavy and lengthy administrative procedures.

34. **The review process should be transparent and independent of the Government.** The review process must utilize an independent Evaluation Committee set up by the selected intermediaries, composed of existing entrepreneurs and other private stakeholders, including the diaspora, who are knowledgeable about entrepreneurship and have experience in various industries. The development of this network will be an ongoing resource for the initiative and the broader ecosystem. Both successful and unsuccessful applicants will be referred to existing entrepreneurship support initiatives and institutions for nonfinancial assistance. Unsuccessful applicants should receive feedback on why their application was not successful and whether, in the view of the assessor, it can be improved.

35. Due **diligence and reporting should be simple and clear so as not to discourage applicants.** Entrepreneurs will sign an agreement with the ecosystem provider regarding the criteria for terms of the grants or the loan and use of funds in accordance with the POM.

Selection Criteria for Grant and Loan Applications

36. Applications **should be assessed against the following broad categories, recognizing that the early-stage nature of these ventures will mean that assessments are based mainly on judgements about the applicants and their teams rather than on empirical data.**

(a) **Could it work?** Will the innovative technology or approach do what is claimed and be produced to sell to a market?

(b) **Could it sell?** Are there sufficient customers who would be interested in buying the product or service because it offers performance, cost, or other benefits compared to those of current products or market competitors?

(c) **Can it scale?** Does the business model offers the opportunity to scale rapidly?

(d) **Could it be profitable?** Can the product or service be made or delivered at a price that will cover all its costs as well as profits to offer an attractive return to the financial investor?

(e) **Could it be done?** Does the team that the entrepreneur has assembled with the right skills and personal strengths of persistence and determination to build a successful business and realize the value contained in the business idea?

(f) **Is it viable?** Does the proposed expenditure within the project make sense and represent 'value for money' (for example, proposed consultancies were in scope, and salaries and wages were sensible)?

(g) **Is it a potential pipeline?** If the project is successful, will the venture be a potential investee for the seed funds?

Subcomponent 2c. Entrepreneurship Support (US$2 million)

37. **Funds will be provided to intermediaries within the ecosystem (ecosystem support providers) to develop and implement key support activities for entrepreneurs as follows:**

(a) **Mentoring.** Either direct provision of mentoring services, or building mentoring capacity and skills, which can be provided by either local or international mentors. Mentors are typically experienced entrepreneurs, who will be strictly vetted and then matched with entrepreneurs. Mentoring programs can be developed and run on their own or can be integrated into formal acceleration initiatives.

(b) **IR programs.** IR activities supported by the project must be designed in partnership with investment funds under Component 1 (Financing Program). There is no standard 'ideal' IR program model that works for all types of firms in developing countries. Firms differ significantly in terms of their attributes, needs, and performance in seeking equity finance, even within narrowly defined industries. However, well-structured IR programs usually have a comprehensive approach that goes beyond mentoring/training, focusing on four dimensions (see Colin Mason and Jennifer Kwok 2009 for a review): equity aversion, 'investability', presentational failings, and networking.[18] It is expected that a quality IR program could combine the following

[18] Equity aversion concerns the entrepreneur's reluctance to access equity finance and surrender business ownership and control. 'Investability' is related to weak viability. This is usually related to a lack of a credible revenue model or data proving a 'unique selling point' to attract sufficient customers to cover fixed and variable business costs. Presentational failings refer to cases where an entrepreneur fails to attract equity due to a poorly developed business plan or poor presentation of the plan. This may be the case even if the underlying business proposition is sound. Therefore, an important part of the training involves improving entrepreneurs' readiness to 'pitch' at investment

types of training: (a) online training in the first stage to help guide the interactions with the mentor, (b) face-to-face/customized mentoring, and (c) group mentoring through master-classes.

(c) **The development of the Moroccan business angel network.**[19] The proposed business angel support will entail a suite of services to angel groups in new developing territories. The package of assistance covered by the World Bank-financed project may include the following:

(i) New group formation

(ii) Network design and establishment (for example, budget, network manager recruitment, deal sourcing processes, investment criteria, standard documentation, and public relations)

(iii) Network manager training and mentoring

(iv) Angel member training and mentoring

(v) The project may also support system-level activities benefitting all Moroccan angel networks, which may include

- development of common documents and guidelines;
- advice and documentation on investment instrument appropriate for the Moroccan market (standard equity, quasi-equity, revenue share agreements or guarantees, and so on);
- advice on relevant regulatory reform;
- diaspora investing/intergroup investing/sidecar funds; and
- study tours/learning and networking with overseas angel investment experts.

(vi) The package will aim to develop individuals and groups of angel investors who could then be 'qualified' co-investors to the early-stage fund, so the accreditation methodologies for both should align.

forums. Assistance in networking with investors is extremely important to connect high-growth entrepreneurs with investors looking for high-quality investment opportunities.

[19] Business angel investment has grown in importance around the world and is an increasingly important element of developing economies' entrepreneurial ecosystems. A paper by Lerner, Schoar, Sokolinski, and Wilson, entitled 'The Globalization of Angel Investments: Evidence across Countries', examines the investments of 13 angel groups across 21 countries. It compares applicants just above and below the funding cutoff and finds that these angel investors have a positive impact on the growth, performance, and survival of firms, as well as on their follow-on fundraising. The paper found that the positive effects of angel financing were independent of the level of venture activity and entrepreneur friendliness in the country. Angel groups were based in Argentina, Australia, Belgium, Canada, China, Germany, Italy, Mexico, New Zealand, Switzerland, the United Kingdom, and the United States.

Selection of Ecosystem Providers for Implementation of the Pre-seed Grants, Soft Loans and Entrepreneurship Support Activities

38. **Ecosystem support providers will be selected through a competitive international call for proposals to implement activities under Component 2.** Ecosystem support providers may apply to implement one or more activities under this component (pre-seed grants and entrepreneurship support). Potential ecosystem providers for the project will be asked to demonstrate the following:

(a) Experience in managing grant programs and processes, either for government or for overseas organizations within Morocco

(b) Capacity and systems to deliver the pre-seed grants program, including national reach, with the characteristics, application, administration, and follow-up activities described as follows:

- Knowledge of and connections into Moroccan entrepreneurship ecosystem and into global networks
- Linkages with angel investors and angel/seed funds operating in the Moroccan ecosystem
- Commitment to stimulating Moroccan entrepreneurship
- Awareness sessions on the initiative for stakeholders, marketing, and fact sheets
- Development of application process and online forms
- Assessment, initial check of application for compliance, process for distributing to evaluators (discussed earlier), ranking system
- Approval process for making final approval/denial
- Assistance, payment process for successful applicants, feedback for unsuccessful applicants, project reporting, and completion (suggest spot audit)

39. **Several key documents will need to be prepared.** These include program guidelines, including assessment framework and guidance for assessors; program fact sheet and website; grant application form; Grant Agreement; and post-project reporting template(s).

Selection Criteria for Implementation of Each Activity

40. **Depending on the type of service sought, the general selection criteria for the ecosystem provider(s) implementing the entrepreneurship support activities should include the following:**

(a) Economic and financial capacity of the applicant (information on the applicant company, history, past achievements, and so on)

(b) Professional and technical capacity of candidate (who are the personnel who will deliver, what is their experience in delivering services to early-stage entrepreneurs, and what is their experience in Morocco?)

(c) Appropriateness of proposed services (methodology—what is it and evidence of previous effectiveness, appropriateness for Morocco, and its entrepreneurship ecosystem, connections, and networks with existing providers)

(d) Expected outcomes (why will their proposal improve the Moroccan early-stage ecosystem?)

(e) Type of partnerships developed with investors and support providers in the ecosystem

41. **For each of the three main target areas—IR, mentoring, and support to business angels—specific best practice design features should be represented.** These are outlined in the following paragraphs.

IR Initiatives

42. The selected IR provider will be expected to provide the following activities:

(a) Prepare an inception report describing all envisioned implementation details.

(b) Prepare eligibility criteria for the program (in consultation with the ecosystem support provider).

(c) Conduct roadshows to guarantee take-up.

(d) Prepare and update an online website for applications (if they do not already have web presence).

(e) Screen applicants and check that they comply with the eligibility criteria.

(f) Provide and supervise mentors for the training components of the program.

(g) Provide judges for the ‘semifinal stage’.

(h) Recruit and attract local, regional, and international investors for the ‘final stage’.

(i) Elaborate methodology for the semifinals.

(j) Elaborate methodology for the finals.

(k) Prepare the logistics for the ‘semifinals’ event and the ‘finals’ event.

(l) Prepare a final report describing all implementation details.

(m) Collect the data required to conduct the impact evaluation:

(i) Application

(ii) Baseline survey

(iii) Data from the semifinals

(iv) Data from the finals

(n) Conduct customer services surveys with the following:

(i) Participants

(ii) Mentors

(iii) Jury evaluation members

(iv) Investors

43. **The ecosystem provider implementing the IR programs must have the following qualifications:**

(a) Extensive experience designing and delivering IR programs for young firms (Note: Experience adjusting and implementing IR programs for developing countries will be highly valued.)

(b) Capacity to deploy the program in Morocco (for example, availability of a large pool of highly qualified mentors willing to travel to the region, connections in the region such as local partners who can help implement the program, and so on)

(c) Capacity to create a network of local and international investors for the pitch event (for example, building the network of local investors may require working closely with local government agencies that can facilitate the process)

(d) Experience collecting data (preferable)

Mentoring

44. **Mentoring programs will include information on the direct provision of mentoring services and building mentoring capacity and skills, both with local and international mentors**. Mentoring is a skill, and mentoring initiatives are more effective when structured. Potential mentors benefit from training session on mentoring skills with an expert coach. This includes questioning techniques, how to listen effectively, and how to provide advice rather than answers. The matchmaking process is also important; mentoring is a relationship, and parties need to like and respect each other. This needs to be brokered. Some initiatives formally set out a participation understanding between mentor and mentee. Mentoring programs can be developed and run on their own or can be integrated into formal acceleration and IR initiatives; the CCG should explore the potential for this. Mentoring programs will have as a criterion linkages to the ecosystem providers and angel/seed and early-stage/VC funds supported by the project.

Business Angel Network

45. **For the support to new business angel groups, specific targets should be established regarding the number of members in the group, generation of deal flow, and the number of pitch meetings and investments made.** Given the newness of angel activities, experienced overseas angel investment experts from the American Angel Association or the European Business Angel Association should be involved in the development and delivery of this element. One of the main outcomes will be to increase the pool of accredited investors who are able to co-invest with the angel/seed fund.

46. **The exact nature of the intervention needs to be tailored to reflect the recommendations of a report on the development of an angel network in Morocco[20]** (report prepared by German Agency for International Cooperation (*Deutsche Gesellschaft fur Internationale Zusammenarbeit*) for the MoEF, and reviewed by the World Bank). From this, a structured package of assistance will be developed to support new business angel groups. Effort should be based on specific targets established. Given the newness of angel activities, experienced overseas angel investment experts involved in the development and delivery of this element should tailor their approaches to reflect Moroccan realities.

47. This support will be through a subgrant agreement between the ecosystem provider and the angel investment group. A typical intervention will resemble the following set of activities.

Table 2.3. Business Angel Support Interventions

Activity	Objectives	Implementation Notes
Stage 1: Foundation setting		• 6 months' time line
Education/awareness raising	• Engage stakeholders including entrepreneurs, enablers, and investors. • Identify potential champions.	• Consultants (angel investing experts) • 2 missions to each target city
Pipeline assessment	• Identify deal flow sources/channels. • Assess existing supply side of capital. • Review regulatory environment for angel investing.	• Will coincide with education/awareness raising
Stage 2: Group building		• 3-year implementation period
Technical assistance	• Mentor champions and group managers to become effective group leaders. • Guide group/network development, including operating model and investment processes. • Launch 3 groups/networks.	—
Operating support	• Stabilize group operations through financial subsidies. • Use growth targets (number of meetings, number of members, number of investments, and so on) to drive results.	• Includes budget for grants—including to hire managers • Administrative/M&E

[20] *Projet pilote d'appui institutionnel au développement de l'activité des "Business Angel" au Maroc.*

48. **Support to business angel groups should also support system-level activities that benefit all Moroccan angel networks, which may include the following:**

(a) The development of common documents and guidelines

(b) Advice and documentation on investment instruments appropriate for Moroccan market (standard equity, quasi-equity, revenue share agreements or guarantees, and so on)

(c) Diaspora investing/intergroup investing/sidecar funds

(d) Study tours/learning and networking with overseas angel investment experts

Component 3: Project Management, Coordination, and Monitoring and Evaluation (US$1.875 million)

49. **This component will fund the PMU and all its incremental operational and administrative costs for the management and supervision of the project over the project life (six years).** Project resources will also support training, marketing, citizen / client engagement and outreach in different regions, setting up a website, conferences as well as operating and legal expenses including fiduciary, safeguards, and M&E. The government has confirmed that its commitment to support the management of the investments beyond the life of the project.

50. **The PMU will:**

(a) conduct outreach to the diaspora to identify and link-in relevant capacity;

(b) receive fiduciary reporting from all project intermediaries (angel/seed intermediaries, early-stage/VC fund, and ecosystem support providers) in accordance with the requirements of the Fiduciary section of the project document and POM;

(c) represent the CCG at the boards of the angel/seed fund(s) and early-stage/VC funds in accordance with the criteria specified in the governance structure of the project document and POM;

(d) conduct regular evaluations related to the project indicators and impact;

(e) prepare and present reports to the World Bank and CCG management as specified under the M&E and Fiduciary sections of the project document and POM;

(f) create and manage a website for the project and ensure marketing, coordination, dissemination, citizens' engagement, and outreach specifically to the regions through CCG outlets, various sector associations, and ministries working on entrepreneurship programs; and

(g) prepare the withdrawal requests for the project DA.

Training

51. **World Bank will train PMU staff and consultants involved in the project to perform reporting on FM and safeguards guidelines as needed.** Additional local training may also be offered to refresh or extend competences in technical areas wherever necessary for efficient implementation of the project as specified in table 2.4.

52. **The PMU will be housed at the CCG's Innovation Investment department.** The PMU staff will include the following:

(a) A PM with the requisite qualification and experience in equity investments.[21] The PM will report to the CCG Secretary General and be responsible for the overall management of the project, including launching the call for proposals and managing the evaluation process; organization and coordination of all activities between parties involved in the project; reporting to the MoEF and the World Bank, as well as other institutions involved; and monitoring the performance of project components and safeguards.

(b) An ecosystem project officer to support the PM and conduct the monitoring of the ecosystem support activities under Component 2.

(c) A financial expert responsible for the project's FM arrangements, such as planning and budgeting, project accounting and reporting, internal controls, disbursements, and external audit arrangements.

(d) A procurement expert responsible for overall coordination, management, and monitoring of procurement.

(e) External consultants for specific functions: safeguards specialist, M&E specialist, communication specialist, and legal and accounting services.

Table 2.4. Structure and Eligible Expenditures of the PMU

Expense Category	Description
Technical Assistance	
Consultants	Includes hiring of consultants and engagement of external experts as needed as part of project management which the CCG does not have.
Operating Costs and Training	
Training	Project-related study tours, training courses, seminars, workshops, and other training activities not included under service providers' contracts. This includes costs of training materials; space and equipment rental; reasonable and necessary local and international travel

[21] The PM should be familiar with equity investments and the development of new and innovative businesses. Entrepreneurial experience will be particularly valuable. Some familiarity with the operations and reporting requirements of the World Bank or other international aid programs will also be an advantage. Awareness of public policy and approaches to SME advancement and the contribution of an innovation ecosystem to stimulating new innovative businesses will also be advantageous. Experience could have been gained through previous work in a financial intermediary, in a commercial environment with innovative companies, through consultancy projects, and experienced can be complemented by academic work in related fields.

Expense Category	Description
	by participants for training activities; reasonable lodging and accommodation; subsistence and local and international per diem of trainees and trainers, registration, tuition, and facilitators' fees; translation and interpretation; and other training-related miscellaneous costs. All based on budgets acceptable to the World Bank.
Incremental operating costs	Reasonable and necessary incremental expenditures incurred by the PMU for project implementation and management and monitoring, including office rental and maintenance; operation and maintenance of office equipment; stationery, office supplies, and utilities; office consumables; office administration including translation, interpretation, printing, and advertising; communication costs; costs associated with the production of bidding documents; reasonable commercial bank charges; reasonable and necessary transportation and travel costs of members of the PMU; maintenance, insurance, and fuel of vehicles; and costs of carrying out meetings and any other miscellaneous costs directly associated with project implementation including payment of CCG staff allocated part time or full time to the project. All based on periodic budgets acceptable to the World Bank, but excluding salaries or honoraria of officials and employees of the borrower's civil services.
Incremental fees	Legal fees including preparation of legal opinions as may be requested by the World Bank during implementation of the project. All based on budgets acceptable to the World Bank but excluding any fees arising from or related to disputes, arbitration, mediation, litigation, or settlement.
Auditing fees	Audits

Annex 3: Implementation Arrangements

MOROCCO: Financing Innovative Startups and SMEs Project

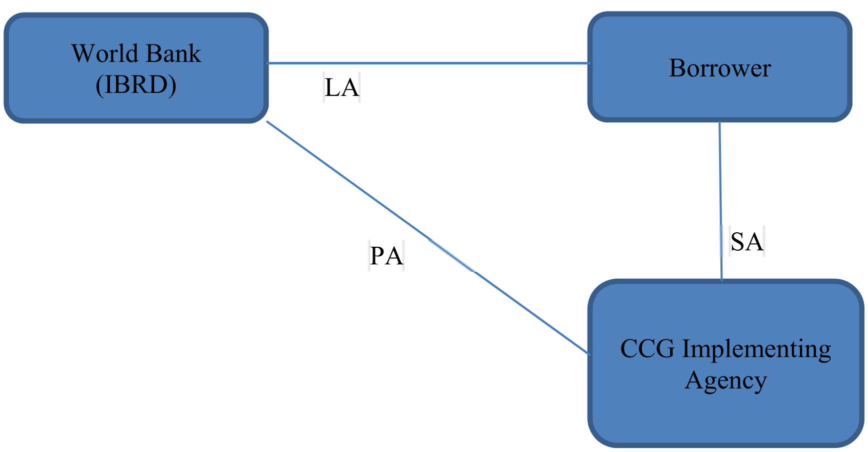
Project Institutional and Implementation Arrangements

(a) The MoEF will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the Kingdom of Morocco as the borrower.

(b) At the same time, the MoEF will sign a Subsidiary Agreement (SA) with the CCG, for the management of the project.[22] The SA will specify that the CCG will be the agency responsible for management and monitoring of project resources, as well as all project activities implemented through agreements with qualified angel/seed and early-stage/VC investment managers and ecosystem service providers selected through competitive processes. The SA will set forth all the terms and conditions under which the MoEF is making funds available to the CCG.

(c) The World Bank and the CCG will sign a Project Agreement (PA), which will include details on the CCG's obligations to the World Bank as the PMU, and will include references to governance, procurement, FM reporting and any safeguard issues. It also refers to the POM, which includes the role of the CCG as an investor in the funds, detailed eligibility criteria, and project implementation and management guidance.

Figure 3.1. Legal Agreements



Project Supervision

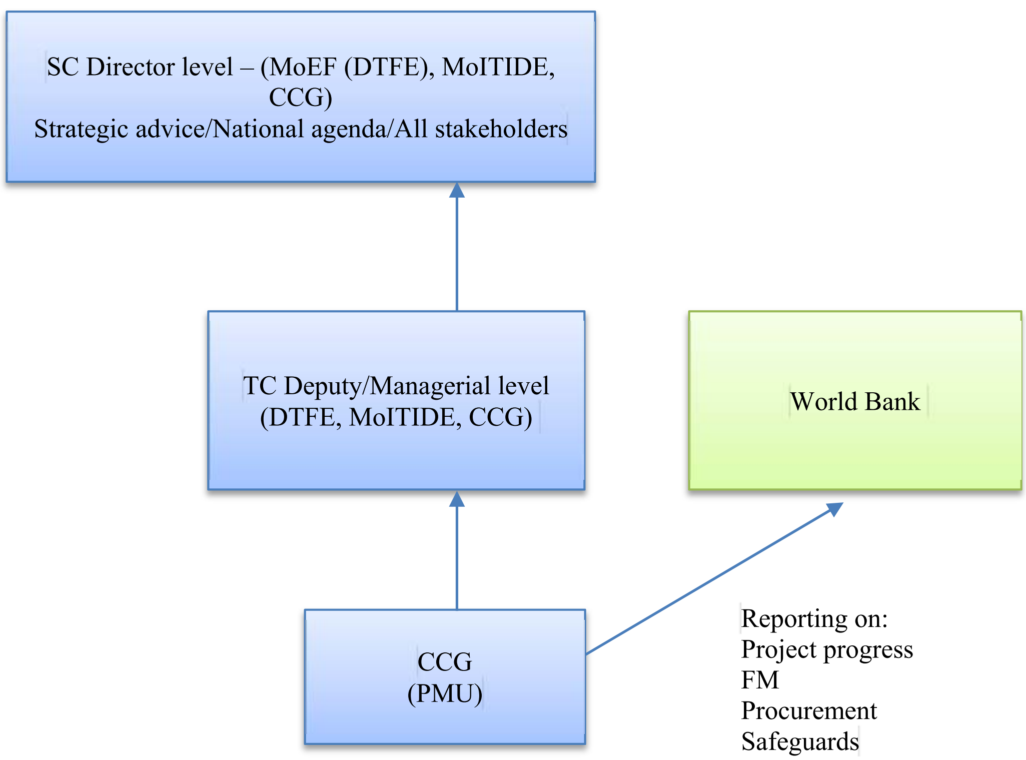
2. **A project SC will have broad oversight of the project and provide strategic advice with regards to the project's overall direction and impact within the broader national development agenda.** The SC will be chaired by the Director of Treasury at the MoEF. The Secretariat will be the CCG. The SC will include high level public representatives (Director

[22] The MoEF and the CCG signed an agreement between them called the Fonds Innov Invest (FII) on July 1, 2016. It gives the CCG the mandate to operate a seed, early-stage, and VC financing program through public funding. The FII Agreement is a condition for the CCG to make investments in equity funds according to the CCG Law No. 47-95 that states that the CCG will implement activities based on agreements signed with public or other entities.

General, Secretary General, or President-level or their designated representatives) from the MoITIDE, the CCG, and other Ministries that have programs supporting entrepreneurship. In certain cases (for example to validate strategy, coordinate, and or confirm market status and conditions) representatives from the private sector, and other agencies like the AMIC and the CGEM, may be invited as needed to consult on specific issues.

3. **Project supervision will also include a TC at the MoEF that will meet twice yearly or more, as needed, to review progress on project activities and results indicators.** The TC will review project reports prepared twice a year by the PMU including the results and M&E framework in accordance with the project reporting guidelines in the project document and POM. The TC will be chaired by the designated representative from the DTFE and receive full reporting from the CCG PMU on the project. It will include designated representatives from the CCG Senior Management, and the Ministry of Industry. With regard to fiduciary, safeguards, and project reporting, the CCG will report to the World Bank as indicated in the fiduciary and project reporting sections of the project document, PA and POM. The TC together with the CCG will present progress on the project to the SC and ensure linkage and collaboration with other government stakeholders working on related programs.

Figure 3.2. Institutional Supervision and Reporting Arrangements



Implementation of Activities

4. **Project implementation is guided by the project POM for all project components that outlines roles, reporting lines, communication procedures and fiduciary, monitoring and safeguards screening and responsibilities, as well as guidelines for the implementation of project components, its established objectives, eligibility criteria, conditions and**

implementation rules. The operations, fiduciary, and governance capacity and features of the project will ensure compliance with the World Bank's guidelines and will also conform to the legal requirements governing the CCG and the GOM mandates and operational structures and local laws. The POM includes the list of ineligible expenditures and the Environmental and Social Risk Management Framework (ESMF). Should the CCG see the need to make changes to the POM to address issues affecting proper implementation of the project, it will discuss the changes with the TC, and seek 'non objection' from the World Bank.

Responsibilities of the CCG

5. **The CCG has the legal mandate to make investments and hold equity shares in financial companies.** Pursuant to (a) the published legal and regulatory provisions relating to public institutions and the CCG and in particular Dahir No. 1-96-107 promulgating Law No. 47-95 relating to the reorganization of CCG (Law 47-95) and to (b) the FII Agreement signed between the MOeF and CCG on July 1, 2016:

6. According to Article 3.3 of Law 47-95, CCG is entitled to manage on behalf of the Moroccan State and other institutions, all guarantee funds and any other similar operations, upon the terms and conditions of ad hoc agreements entered into between the Moroccan State or other institutions and CCG; and

7. Pursuant to Articles 1 and 3.1 of the FII Agreement, CCG is entitled (a) to manage the FII and (b) carry out investments.

8. In addition, according to Article 1 of Law 47-95, CCG is a public institution, and pursuant to Article 8 of Law 39-89, any acquisition by a public institution of a stake in a private company shall, under pain of being declared null and void, obtain a prior authorization of the Prime Minister, which is granted in the form of a Decree. The Decree provides additional legal cover for the CCG to hold equity shares in project angel/seed and early-stage/VC funds.

9. **The CCG will be responsible for making the project operational by performing the following tasks:**

(a) Prepare documents and issue the call for proposals for the angel/seed and the early-stage/VC funds, and ecosystem providers in accordance with criteria and process stipulated in the project document and POM.

(b) Evaluate, and select, proposals submitted by fund managers and ecosystem providers (thereby referred to as PIs) in accordance with the criteria and process stipulated in the project document and POM.

(c) Enter into agreements with PIs;[23] and

[23] Shareholder Agreements with: partner private investors in Angel/Seed or early stage/VC funds; Administration Agreement with selected Angel/Seed fund manager(s), early stage/VC fund manager(s); and Grant Agreements with ecosystem support providers; and

(d) Prepares withdrawals from the DA under BAM.

10. **The CCG represents the interest of the GOM in the project and as such will:**

(a) Give strategic guidance to implementation in accordance to the project objectives and the POM.

(b) Resolve broad management and operational issues pertaining to the implementation of the project activities experienced by the angel/seed and early-stage/VC funds, and the Ecosystem providers.

(c) Conduct M&E of the project indicators, and review and oversee implementation of the M&E and updating indicators, as well as financial safeguards and project reporting by the financial intermediaries.

(d) Propose changes to the POM when necessary approved by the MEF based on 'no objection' from the World Bank.

Project Reports

11. **The Borrower shall cause the Project Implementing Entity (CCG) to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank.** Each Project Report shall cover the period of one calendar semester, and shall be furnished to the MoEF and the Bank not later than forty five days after the end of the period covered by such report.

Financial Management, Disbursements and Procurement

Summary of the FM Assessment and Arrangements

Country and Sector Context

12. **The WB's experience in Morocco and the main conclusion of 2015 PEFA report confirm substantial progress in Public Finance Management (PFM) reforms in Morocco.** Morocco has an overall credible, comprehensive, and transparent Public Finance Management system. According to the PEFA report, the central government performs well in monitoring the financial position and operations of local governments, public agencies, and SOEs. The Directorate of Public Enterprises and Privatization within the Finance Ministry has considerably improved its methods of oversight and control for public sector entities including CCG. PEFA also indicates that CCG produces very detailed annual reports presenting central government's commitments through guarantees granted.

13. **Moreover a Governance Report on Standards and Codes for Morocco (ROSC) was performed in 2011 and assessed positively the supervisory role of the Central Bank with respect to financial institutions.** In Morocco, the entire process related to exercising and complying with the requirements of banking activities falls, under the general competence and control of the Central Bank. The BAM is responsible, among others, for enacting regulatory and

accounting standards, and punishing of violations. All the above-mentioned authority of the central bank is entrusted to the Banking Supervision Department (DSB).

14. **During project preparation, the team carried out a FM capacity assessment of the CCG.** This assessment included: (a) an on-site assessment to CCG and (b) a desk review assessment of CCG's fiduciary performance as the executive agency for another Project currently being financed by the Bank (MSME Development Project). The main objective of this assessment was to determine whether the FM arrangements proposed for the "Financing Innovative Startups and SMEs Project" provide reasonable assurance that the loan proceeds will be used for the purposes intended and with due attention to considerations of economy and efficiency.

15. **The FM team concluded that, while the proposed FM arrangements are generally acceptable, there are areas for improvement and several mitigating measures have to be put in place to ensure a solid fiduciary environment for smooth project implementation.** The capacity assessment confirmed that the project will be implemented using the country's system governed by its current budget law and will rely on existing experienced staff of the CCG. The key risks identified during the capacity assessment were: (a) project funds transferred to PIs,[24] used for other purposes than those intended for the project; (b) CCG's ability to collect financial information and prepare consolidated high quality Project FSs on a timely basis due to the number of PIs; and (c) complex design of implementation arrangements may result in coordination problems, flow of financial information bottlenecks and reporting delays.

16. **In order to mitigate the identified risks, the CCG, along with the Bank support, has agreed to implement the following mitigating measures: (**a) An independent financial monitoring system will be put in place to ensure rigorous supervision of project expenditures and payments, (b) the CCG will host a segregated Operating Account for the project and each PI will open a separate Bank Account to manage funds received as part of the project; (c) the contracts between the CCG and the PI will clearly define FM, financial reports and audits requirements; (d) The POM will include procedures for selecting the PI and will clearly define eligibility criteria for selecting SMEs for project funding. Additionally, the POM will also include reporting formats, as well as auditing and disbursements arrangements to be applied to the project; (e) a special purpose assignment audit will be required for each PI in order to ensure that disbursements made by the PI are eligible. The TORs for such assignment will be included in the POM; and (f) selected PI will be management companies that satisfy the Moroccan prudential standards in force unless otherwise agreed with the World Bank, in line with OP 10.00 guidelines as well as eligibility criteria set forth in the POM.

17. **On the basis of the assessment of inherent and control risks affecting the project, the overall FM residual risk is Moderate.** The table below summarizes significant FM risks identified during the assessment and the mitigating measures agreed with the borrower to address them.

[24] Partner Intermediaries (PI) are: the Investment Company for Angel Seed fund (sub-component 1a.); Fund Managers for the VC public-private funds (sub-component 1b); and Ecosystem Support Providers (Component 2).

Table 3.1.: Risk Mitigating Measures

Risk Type[25]	Risk Rating	Comments/Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating
Inherent risk	**S**		**M**
Country level	M	The 2015 PEFA concluded that the legal and administrative framework for public FM in Morocco is sound and offers a solid level of assurance regarding the reliability of information and a strong control environment.	M
Entity	M	The CCG is an SOE that has experience in managing WB financed projects as it is currently the Project Implementation Entity for the Morocco MSME Development Project (P129326). FM performance for this project has been consecutively rated as satisfactory.	M
Project	S	Complex design of implementation arrangements may result in coordination problems, flow of financial information bottlenecks and reporting delays. To mitigate this risk the POM will define by detailed procedures on flow of funds, flow of information and reporting between the CCG, the PIs and the WB.	M
Control risk	**M**		**M**
Budgeting	L	A project budget and periodical disbursement plan based on the implementation schedule will be developed by CCG	L
Accounting	L	CCG will use their own accounting system to gather, record, classify, analyze, and summarize project's financial transactions and information. Additionally CCG will routinely ensure that PI Institutions maintain adequate accounting standards.	L
Internal Control	L	The CCG internal control system is considered satisfactory because: (a) internal controls provide reasonable assurance that risks to the achievement of the CCG organization objectifies are being managed at the acceptable levels; (b) duties are appropriately segregated among various staff; (c) the CCG has an operational internal audit department which meets professional standards; and (d) the internal auditing procedures are outlined in the department's Operations Manual.	L
Funds Flow	S	The Bank will disburse proceeds from the Loan Account to the project using the advance method which entails advancing loan proceeds into the [US denominated] DA opened at the Borrower's central bank (BAM) to finance eligible expenditures as they are incurred and for which supporting documentation will be provided at a later date. This operation's proceeds are primarily intended to finance the project components. The project upfront cash flow needs are significant to meet the capital requirements necessary to attract eligible PIs and meet CCG's financial obligations to the PIs. CCG is required to mobilize funds in its accounts upfront to support capitalization of early seed stage and investment funds and meet the BAM's prudential rules on credit institutions, and applicable to the CGC. To that end, an initial advance of US$25 million (DA ceiling)	M

[25] The **inherent FM risk** is that which arises from the environment in which the project is situated. The **FM control risk** is the risk that the project's FM system is inadequate to ensure that project funds are used economically and efficiently and for the intended purpose. The **overall FM risk** is the combination of the inherent and control risks as mitigated by the client control frameworks. The **residual FM risk** is the overall FM risk as mitigated by the Bank supervision effort.

Risk Type[25]	Risk Rating	Comments/Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating
		will be disbursed from the Loan Account to the DA upon project effectiveness for the financing of eligible expenditures. Thereafter, the ceiling will be equivalent to a six-month project forecast agreed with the borrower and additional advances will be disbursed based on a cash forecast for six months as provided in the Business Plan of the PIE (CCG). To mitigate the risk of complex design of flow of funds: (a) the CCG will host a segregated Operating Account for the project and each FI will open a separate Bank Account to manage funds received as part of the project; (b) the contracts between the CCG and the PIs will clearly define disbursement arrangements; (c) The POM will include procedures for selecting the PIs and will clearly define eligibility criteria for selecting SMEs for project funding.	
Fin. Reporting	S	Given the large number of executing agencies involved in the project (CCG and PIs) there is the risk of experiencing delays to produce and submit consolidated FSs and project Interim Financial Reports. To mitigate this risk both, the PMU will ensure that each PI prepares and provides to the PMU within 30 days of the end of each semester, an Unaudited Interim Financial Report (UIFR) for all PIs sub-projects and sub-loans that form part of its portfolio and which cover the semester in form and content satisfactory to the Bank and intended to be incorporated in the UIFR for the project. This report will be provided by the PMU to the World Bank and the DTFE at the latest 45 days after the end of each semester per Calendar year. The POM and the contracts between the CCG and PIs will clearly define FM and financial reports requirements.	M
Auditing	S	Due to the substantial number of executing agencies involved in the project, there is the potential risk to experience delays to produce and transmit project audit report on consolidated project FSs. To mitigate this risk both, the POM and the contracts between the CCG and PIs will clearly define audit requirements to be applied as part of the project. The scope and nature of the audit work will be defined in the Audit TOR which will have Bank's non-objection. The audit TORs will include auditing of PIs in order to ensure that disbursements made by PIs are eligible.	M
Overall FM risk	**S**		**M**

Detailed FM Assessment and Arrangements

FM Assessment

National System

18. **The Moroccan public finance system is governed by an elaborate legal and regulatory framework.** It also contains strong reliability and transparency safeguards. The system is based on the principle of strict separation between authorizing officers and accounting officers. Moreover, the system includes (a) prior authorization of expenditures and supervision and (b) internal and external audits.

19. **Reform of the public sector financial control began under Law 69-00 of 11 November 2003 repealing the Dahir of 14 April 1960.** As such, the FM risk of the Moroccan public finance system is considered low.

Experience in the Sector

20. **The Micro, Small and Medium Enterprise (MSME) Development Project (P129326) provided the Bank with experience working with MSMEs in the sector.** The PMU for this project is the CCG whose performance has been consecutively rated as Satisfactory. The CCG has acquired sufficient experience in managing WB financed projects and the new project will be able to capitalize upon its experience.

Extent of the FM Capacity Assessment

21. **The assessment addressed human resources, accounting systems, internal control mechanisms, audit modalities, current information systems, and financial reporting capacities related to project implementation**.

Project Description, Implementation and FM Arrangements

22. The project is designed to cover the needs of early stage investment finance for innovative MSMEs meeting eligibility criteria. The project consists of the following components:

Component 1: Financing Program (US$42 million)

23. **Subcomponent 1a: Angel/Seed financing (US$9 million),** will be entrusted to innovative SMEs through intermediaries such as newly created or existing Business Angels, associations, or management companies. Financing on equity or quasi-equity of these SMEs could reach a maximum of US$500,000 and on the basis of the criteria mentioned in the project document and the POM. Firms that will benefit from equity or quasi-equity provided by the Project's financial intermediaries will, according to their needs, be eligible for Soft loan which will also be covered by the Project under conditions and criteria in accordance with the POM.

24. **Subcomponent 1b: Early stage/VC funds (US$33 million),** will be entrusted to newly established or existing Funds. The latter will carry out equity or quasi-equity investments in innovative young SMEs through an average transaction of US $ 500,000 and according to the criteria set out in the project document and the POM. The early stage/VC Funds will mature after 10 years but may be extended for up to 2+2+1 years without exceeding 15 years. Based on demands for new funds, the project will assume a share of the management fees, in particular the costs of establishing the fund, on the basis of the size of the invested capital, for amounts proportional to the management of these assets category. Firms that will benefit from equity or quasi-equity provided by the Project's financial intermediaries will, according to their needs, be eligible for a concessional loan which will also be covered by the Project under conditions and criteria in accordance with the POM.

25. **Funds under this component will be channeled through financial PIs.** This will involve investment management companies that will be selected through competitive bidding.

Component 2: Ecosystem Support (US$6 million)

26. This component will support entrepreneurial ecosystem organizations in project areas to stimulate new innovative ventures. These bodies will be selected competitively by the CCG on the basis of specifications in accordance with the criteria specified in the POM.

27. Activities include: (a) Pre-seed grants to entrepreneurs for assessment of the viability of their new idea or business concept. The project will support pre-seed grants of up to US $ 20,000 to entrepreneurs and young innovative SMEs; (b) Soft loans to newly created start-ups, to finance the development and realization of the innovation until its industrial or commercial launch. The maximum amount of Soft loan can be up to US $ 50,000 and may be repayable if successful or equivalent to a sub-project grant; and (c) Support the further development of the emerging Moroccan ecosystem so that it can further increase the quality and quantity of entrepreneurial projects likely to be funded by the Project Financing Program. Resources provided to ecosystem providers will enable them to conduct, training, mentoring and investment preparation programs for about 100 entrepreneurs and to strengthen the angel community on the basis of the specified criteria in Annex 3.

28. Funds under this component will be channeled through non-financial PIs, called *Ecosystem Support Providers*, which will be selected through a competitive process.

Component 3: Project Management, Coordination, and Monitoring and Evaluation (US$1.875 million)

29. Includes funding a PMU and all its basic operations, and administrative costs for the management and supervision of the project, including FM and Disbursement activities.

30. **The project will be managed by the CCG under the terms of a SA agreed with the MoEF, Borrower's representative, and a PA with the Bank.** The CCG will be in charge of; oversight of the project components including FM and disbursement arrangements, and monitor compliance with loan covenants and the use of the funds. The Innovation Investment Unit within the CCG will provide the PMU function, and will coordinate inputs from the PIs (Fund Managers, the Investment Management Company, and the Ecosystem Support Providers).

31. **Given the design and the different PIs (financial and non-financial), the key factors in the project FM arrangements towards successful implementation are:** (a) the defined mechanism for the flow of funds including what triggers transfer of funds to the PI and the flow of information from and to CCG and the PI; (b) the reporting and auditing requirements by the different levels of PI.

FM System

32. **General framework.** The CCG FM system is based on principles and procedures defined by the legal framework applicable to banks and lending institutions in Morocco. It is subject to the Central Bank oversight, and has a requirement to have its FSs audited on a yearly basis.

33. **Budgeting system.** A project budget and periodical disbursement plan based on the implementation schedule will be developed by CCG.

Accounting and Reporting System

34. **Both, CCG and PIs will maintain FM systems in accordance with accounting standards acceptable to the Bank**. CCG will use their own accounting system to gather, record, classify, analyze, and summarize project's financial transactions and information. Additionally CCG will ensure that PIs maintain adequate accounting standards. The CCG will prepare semi-annual Consolidated Unaudited Interim Financial Reports (UIFRs) which will be submitted to the Bank within 45 days after the end of each semester. Additionally the CCG will produce Annual Consolidated Project FSs that will be later audited by an external auditor acceptable to the Bank.

35. **PIs** will maintain a separate account each for the use of funds under the project. The PIs will be responsible for the FM of the funds allocated by the CCG and will account for the project funds transferred from the project Account through the Operating Account. PIs are required to prepare and submit to CCG and the Bank, within 30 days of each semester, separate semi-annual Unaudited Interim Financial Reports (UIFR). The UIFRs will be prepared in accordance with Bank's guidelines. The format of UIFRs will be detailed in the project POM. These reports must include: (a) a statement of sources and uses of funds for the reporting period and cumulative; (b) a detailed statement of commitments and disbursements by SME; and (c) a reconciliation statement of the operating account.

Disbursement Arrangements and Flow of Funds

36. **Disbursements of the loan proceeds will be made in accordance with the *Disbursement Guidelines for Investment Project Financing* (February 2017) applicable to Investment Project Financing operations pursuant to which Bank financing proceeds are disbursed against incurred eligible expenditures.** The Bank will disburse proceeds from the Loan Account to the project using the advance method which entails advancing loan proceeds into the [US denominated] DA opened at the Borrower's central bank (BAM) to finance eligible expenditures as they are incurred and for which supporting documentation will be provided at a later date. This operation's proceeds are primarily intended to finance the project components. The project upfront cash flow needs are significant to meet the capital requirements necessary to attract eligible PIs and meet CCG's financial obligations to the PIs. CCG is required to mobilize funds in its accounts upfront to support capitalization of early seed stage and investment funds and meet the BAM's prudential rules on credit institutions, and applicable to the CGC. To that end, an initial advance of US$25 million (DA ceiling) will be disbursed from the Loan Account to the DA upon project effectiveness for the financing of eligible expenditures. Thereafter, the ceiling will be equivalent to a six-month project forecast agreed with the borrower and additional advances will be disbursed based on a cash forecast for six months as provided in the 12-month Business Plan of the PIE (CCG). The provision of additional advances will not be linked to the full reporting of the initial advance and, as a result, the amount of the advance that remains undocumentated in the WB Loan Account, will increase during implementation due to the time lag between when the advance is received by CCG and the release of funds by CCG to beneficiaries thru the PFIs which would trigger the reporting of the use of the advance for eligible expenditures using the certified Statement of Expenditures annexed to the DL.

37. The MoEF will mobilize the equivalent amounts of the advances from the DA to the project account managed by the CCG in a commercial Bank whose terms and conditions are acceptable to the Bank.

38. **Supporting Documentation and Reporting on the Uses Advances for eligible expenditures**. In order to report on the use of advances under Category 1 (Subfinancing under Part A) and Category 2 (Subfinancing under Part B) of the table of eligible expenditures (section IV.A of Schedule 2 to the LA), the borrower will provide certified statements of expenditures (SOE) in the form provided in attachment 5 evidencing eligible expenditures incurred under said categories on a semi-annually basis. The certified SOE will be certified by CCG (Inernal Audit). All other expenditures will be recorded upon receiving from the Borrower standard Statements of Expenditures (SOE). Detailed supporting documentation for SOEs should be retained by the project management or Borrower and must be made available for review for periodic World Bank missions and internal and external auditors.

39. **Disbursement Condition.** Per Section IV. B.1 (b) of the Loan Agreement, no withdrawals shall be made under Category (1), unless the Project Implementing Entity has signed at least one Administration Agreement with a Participating Financial Intermediary; under Category (2), unless the Project Implementing Entity has signed at least one Participation Agreement with a Participating Non-Financial Intermediary.

40. **Eligible Expenditures**. At the CCG level, loan allocations will be as follows:

(a) Goods, non-consulting services, and consulting services, audit, incremental operating costs, training and incremental fees for all 3 components.

(b) Equity investments, loans, and management fees in the Angel-Seed fund and public-private VC funds who will invest in SMEs in line with World Bank eligibility criteria established in the POM, including grants to angel/seed funds and VC to cover additional eligible costs to support beneficiaries of investments collectively "Subfinancing under Part A")

(c) Subprojects pursuant to Grant agreements with ecosystem providers who will give pre-seed grants and support to entrepreneurs in the form of consulting services (mentoring, IR training), and help build an Angel Network under Subcomponent 1a. (collectively "Subfinancing under Part B")

Flow of Funds from MoEF to the CCG Account and from CCG account to PIs

41. **The MoEF will make the funds available to the CCG based on project needs. The transfer will be carried out either through the redeployment of other funds managed by the CCG on behalf of the government, or the budget allocations provided under the Finance Law, under conditions considered acceptable by the World Bank.** Once the funds are transferred to CCG, the latter will transfer funds as follows:

Component 1: Financing Program

(a) **Subcomponent 1a: Angel Seed financing**. the CCG will hold capital and be an investor in funds managed by an Investment Management Company(ies), accelerator or Angel fund selected through a competitive process. Funds will be transferred from the Investment Management Company directly to the SME as selected by the independent IC. The Investment Management Company will open an Operating Account (OA) to receive funds from CCG. The selected entity will receive an advance in the OA that will be justified to CCG before receiving a second advance. The selected entity after selection of the SMEs, will transfer the funds to each company to an Operating Account opened for the project purpose. This will allow clarity in the flow of funds and will make it easier to the auditors to verify the information.

(b) **Subcomponent 1b: Early Stage/VC funds**. Funds for this subcomponent will be transferred by both, CCG and Private VC Partners, to an *Operating Pooled Account (OPA)* set up by each *Fund Manager.* The *Fund Manager* will, in turn, allocate these funds to eligible SMEs.

Component 2: Ecosystem Support

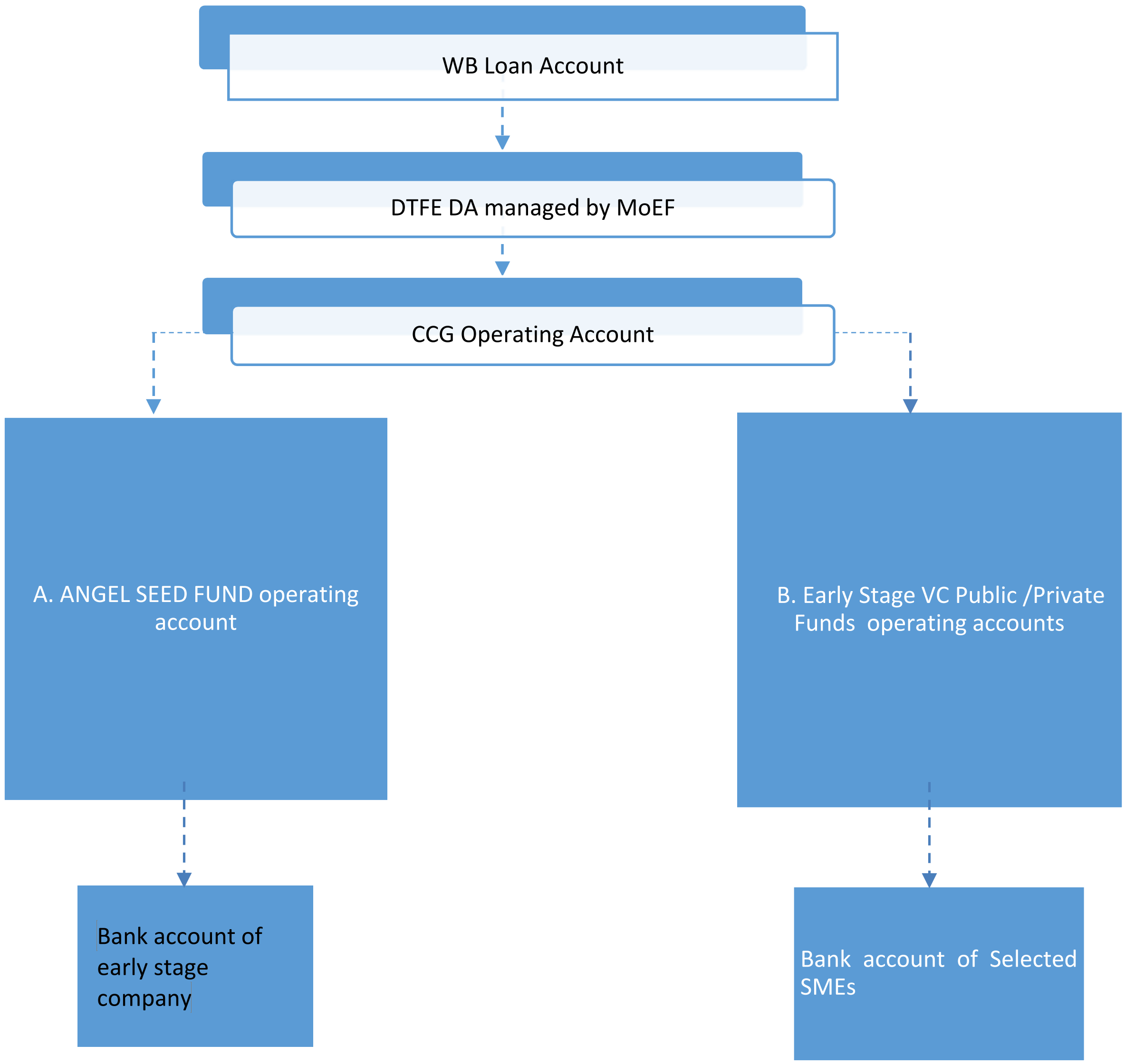
(a) **Funds for the Pre-seed Grants, Soft loans and for supporting Entrepreneurship** will flow from CCG Operating Account to the *Ecosystem Support Providers,* which will open an Operating Account (OA) to receive funds from CCG. The selected entity will receive an advance in the OA that will be justified to CCG before receiving a second advance. The selected entity after selection of the SMEs, will transfer the funds to each entrepreneur's or company bank account opened for the project purpose.

Component 3: Project Management, Coordination, and Monitoring and Evaluation

(a) Expenditures related to the management, coordination and M&E of the project will be covered by project funds identified as operating costs in table 2.4 in Annex 2. Costs will be paid from the CCG DA account to the service providers.

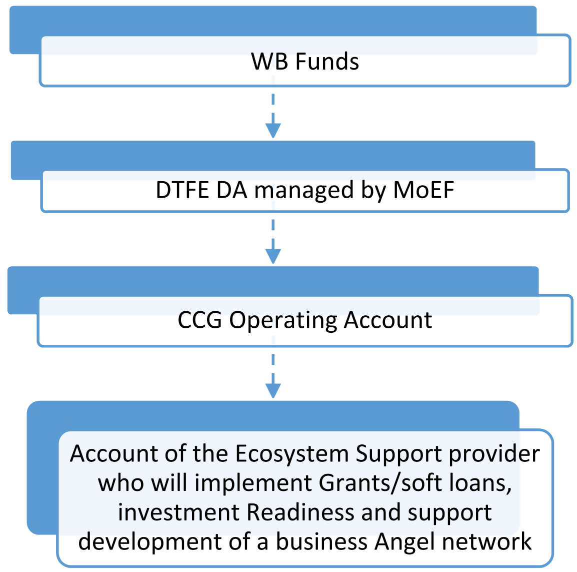
42. **The Loan Agreement, Disbursement Letter and the POM will describe in detail the following:** disbursement procedures from the CCG to the PIs as well as all matters related to eligible project expenditures, disbursement percentage, and withdrawal conditions, reporting on the use of the loan proceeds, minimum value of withdrawal applications, supporting documentation, and frequency of reporting eligible expenditures under the DA.

Figure 3.3. Funds Flow for Component 1 (Financing Program)



43. All legal agreements with PIs (Fund managers, Investment Company and Ecosystem providers) must clarify the mandatory requirements of having FM arrangements acceptable to the Bank, as well as including the audit requirements.

Figure 3.4. Funds Flow for Component 2 (Ecosystem Support)



Internal Controls

44. **The CCG internal control system is considered satisfactory by the Bank as internal controls provide reasonable assurance that risks to the achievement of the CCG organization objectifies are being managed at the acceptable levels and duties are appropriately** segregated among various staff making it possible to reduce the risks of error and fraud. Additionally, the CCG has a Manual of Procedures and acceptable FM arrangements.

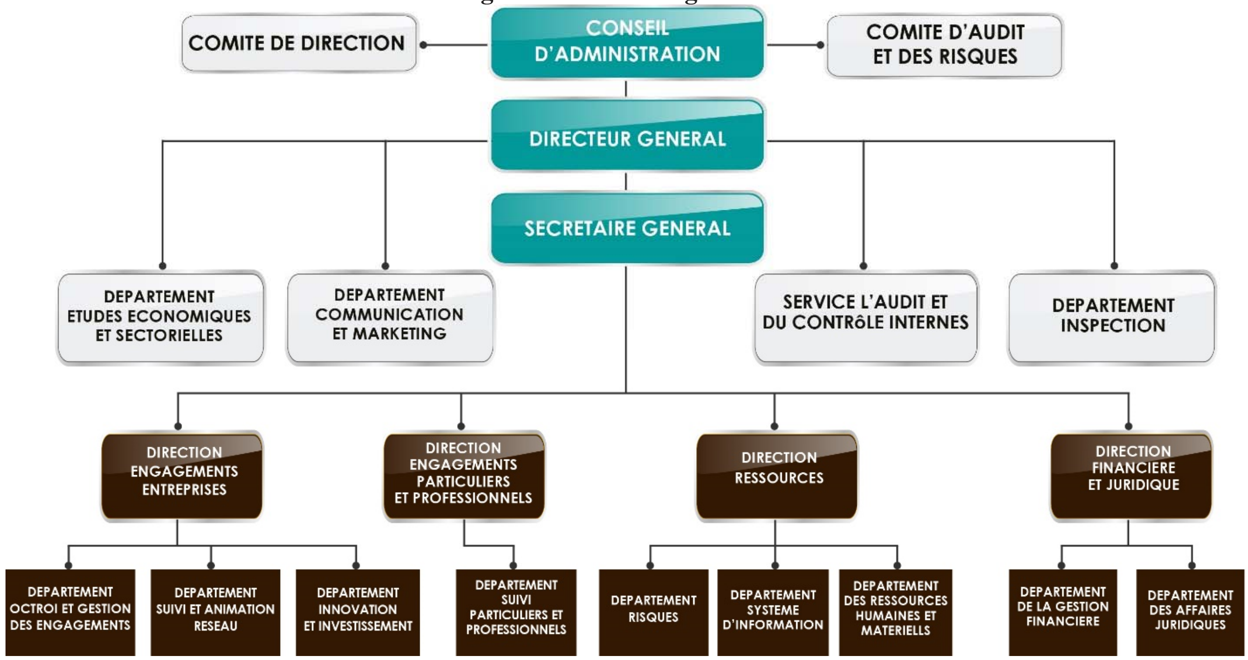
45. **The CCG is subject to the credit institutions laws and regulations.** As such CCG is supervised by the Central Bank (BAM) and has the obligation to provide to the BAM all documents, information, explanations and justifications necessary to the control of the institution, including CCG's audited FSs.

(a) Internal Audit

46. **The CCG has an operational internal audit department which meets professional standards. The internal auditing procedures are outlined in the department's Operations Manual**. The CCG has an audit committee with an acceptable capacity. The Audit Committee's role is to assist the Board by providing an assurance about the quality of internal control system and the reliability of the information provided to directors. The Audit Committee also supports all work within its scope of activity which might be entrusted by the Board.

47. **The audit committee of the CCG is composed of four members:** (a) a representative of the Treasury and External Finance Directorate of the MoEF, Chairman; (b) a representative of the Ministry of Economic and General Affairs; (c) a representative of the professional groups of Banks of Morocco; and (d) The state controller. The audit committee reports to the management board of directors.

Figure 3.5. CCG Organization



(b) External Audit

48. The CCG FSs are audited every year by independent External auditors.

(c) Audit of Project FSs

49. **The Borrower, via CCG, will have its FSs audited in a manner acceptable to the Bank.** Each audit shall cover the period of one fiscal year. The audited FSs for each period will be submitted to the Bank not later than six months after the end of the period.

50. **The annual accounts audit will cover financial and internal controls aspects of the project.** This will include the operations, sources and expenditures related to the project as well as the disbursements made from the Project account to the IP's bank account and from there to the different beneficiaries. The audit will be conducted by auditors appointed by CCG and acceptable to the Bank. The Bank, through the FMS, will review the TOR for the project audit to ensure that the scope and nature are appropriate and comply with international audit standards.

51. **Special Purpose Assignment for PIs. Audits.** There are two categories of IPs: the IP partners of the ecosystem (incubators, cluster, associations) and IP managers of investment funds.

The CCG, under the supervision of the borrower shall ensure that each PI of any category maintains a FM system and prepares FSs in accordance with accounting standards uniformly accepted by the Bank to reflect the operations and financial status of the PI, including operations, resources and expenditures related to the Project. Each of these FSs will cover one financial period and will be made public in a reasonable amount of time acceptable to the World Bank.

Planning of Implementation Support

52. **The project implementation support will be performed in different phases.** Initially, the project FM specialist will provide close support (at least semi- annually) to CCG and PIs during the first phases of implementation and thereafter will conduct annually two supervision missions for the project. The semi-annual UIFRs for the Project and the financial audit reports will be reviewed on a timely basis by the Bank. During the Bank's supervision missions, the Project's FM and disbursement arrangements will be reviewed to ensure compliance with the Bank's requirements. In addition Bank supervision mission will conduct visits to a sample of beneficiaries.

Procurement

Procedures Applicable for Procurement by the CCG

53. The procurement of the proposed project will be carried out in accordance with: (a) the Guidelines for Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans, IDA Credits and Grants, the "Anti-Corruption Guidelines" issued on 15 October 2006 and revised in January 2011; (b) the Guidelines for Procurement of Goods, Works and Non-consulting Services financed by IBRD Loans, IDA Credits and Grants dated January 2011 and revised in July 2014, "Procurement Guidelines"; (c) the Guidelines for the Selection and Employment of Consultants financed by IBRD Loans, IDA Credits and Grants dated January 2011 and revised in July 2014, hereinafter the "Guidelines for Consultants"; and (d) all the standard procurement documents for contracts, in accordance with the provisions of the Loan Agreement (LA).

The various items relating to the project expenditures categories are described below. For each contract financed by the loan, the procurement plan identifies the method of procurement or selection of consultants, the estimated costs, the review requirements and the agreed timetable. All procurement activities will be entered into the new electronic platform, STEP (Systematic Tracking of Exchanges in Procurement), which use is mandatory for all new projects. Procurement procedures and tender documents to be used by the CCG have been detailed in the POM.

54. **Procurement of Goods and Non-consulting services:** Goods and Non-consulting services procured under this project relate mainly to Component 3. More specifically, the project will finance all the activities of the PMU and the expenditure related to the management and supervision of the project. Under this component, the project will finance the development of an electronic tool hosted in the CCG web site, the organization of conferences; logistics for training, services for marketing and awareness-raising and activities to support citizen / client engagement at the local level. For Goods and Non-consulting services to be procured using ICB, the standard bidding documents (DTAO) prepared by the World Bank, will be used. For contracts which estimated amount is below the threshold defined for National Competitive Bidding (NCB) (see PPM), procedures and standard bidding documents for NCB adjusted accordingly and approved by Bank will be used.

(a) **International Competitive Bidding (ICB).** Contracts for Goods and Non-consulting services, estimated to cost the equivalent of US$3,000,000 or more per contract shall be procured on the basis of the International Competitive Bidding (ICB) procedures, using the applicable World Bank Group Standard Bidding Documents.

(b) **NCB.** Each package of Goods and Non-consulting services estimated to cost the equivalent of less than US$3,000,000 may be procured on the basis of NCB procedures. Standard Bidding Documents acceptable to the World Bank Group will be used.

55. NCB procedures adjusted as indicated below could be used for Goods and Non-consulting services contracts estimated to cost the equivalent of three millions US dollars (US$3,000,000) or less. Moreover, it has been agreed with the borrower that each contract financed from the proceeds of this loan shall provide that suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to "obstructive practice". Prior to issuing the first call for bids, a draft standard bidding document to be used under NCB must be submitted to the Bank and found acceptable by the latter.

56. **Necessary adaptations to the NCB procedures.** To ensure broad consistency with the Procurement Guidelines, the following provisions will apply when using NCB under this project. Said procedures shall ensure that, inter alia:

(a) The bidding documents include explicitly the bid evaluation method, award criteria and bidder qualification criteria;

(b) Technical, administrative and financial envelopes are opened immediately after the bid opening session has started and prices are read aloud;

(c) The bids are evaluated on the basis of the price and any other criteria expressed either in pass/fail terms or in monetary terms and disclosed in the bidding documents;

(d) Contracts are awarded to the qualified bidder who has submitted the least-cost evaluated and substantially responsive bid as stipulated in the bidding document; and

(e) Standard bidding documents and bid evaluation reports found acceptable by the Bank are used.

57. Standard bidding documents (SBD) for NCB for Goods and Non-consulting services will be prepared and submitted to the Bank for approval. They will include all the adjustment clauses for NCB in Morocco as well as the Audit Clause and the Fraud and Corruption clauses (AFCC). Any future change after approval of these SDB will be submitted to the Bank for approval, in compliance with the LA.

58. **Shopping.** Goods and Non-consulting services estimated to cost **US$200,000** or less, may be procured using Shopping procedures.

59. **Direct contracting.** Under circumstances which meet the requirements of paragraph 3.6 of the Procurement Guidelines, goods, and Non-consulting services may be procured in accordance with the paragraph 3.7 of the Procurement Guidelines using the Direct Contracting procurement method.

60. **Selection of consultants.** Consultant services will be provided for activities in components 1, 2 and 3 of the project. Under Component 1, the project will support, among others, Initial development; and VC funds. Thus, for the implementation of Subcomponent 1a, associations or management firms will be selected by the CCG in accordance with the Bank's guidelines for selecting consultants and using the selection based on the consultants' qualifications or the Quality based selection methods. These associations and management firms will act as intermediaries to make equity or quasi equity investments in young innovative SMEs, with project resources that are entrusted to them by the CCG through management agreements. For Subcomponent 1b (Public-Private Initial Development Investment Fund/VC), the CCG will select investment companies to act as fund managers with a mandate to set up an investment fund with private partners they will identify, to whose capital the CCG will contribute with the resources of the project. Given the specificity of the mechanism for setting up these funds, **the selection procedure should be consistent with the Bank's procurement principles.** These procedures, which are akin to the Quality-based selection method, will be detailed in the POM. **The CCG has launched in anticipation a call for proposals for the selection of fund managers for Subcomponent 1b, and the request for proposals including making the details of the assignment/TOR available to interested candidates.** The contracts to be signed out of this selection process are considered consultant contracts. The selection will be subject to the Bank's anti-corruption and sanctions provisions as defined in Section 1.23 of the Bank's Consultant Guidelines. Under Component 2, the project will support ecosystem providers to stimulate new innovative ventures through the financing of pre-seed grants, small loans and support to entrepreneurship (technical assistance). To this end, the ecosystems providers will be chosen to directly manage the funds for the above-mentioned loans and support grants and to provide technical assistance (training, mentoring and investment preparation programs, and so on) to entrepreneurs and to strengthen the start-up. These ecosystem providers will be selected by the CCG in accordance with the Bank's guidelines for selection of consultants and using the following selection methods: Quality and cost based selection, Quality based selection and selection based on consultant’s qualifications. Under Component 3, the project will finance support services including legal, fiduciary, safeguard and M&E, training, and so on.

61. The following methods of selecting consultants and corresponding standard documents will be used:

(a) **Quality & Cost Based Selection (QCBS).** could be used for all consultant services. Standard Bank procedures and documents will be used.

(b) **Quality Based Selection (QBS).** Services for assignments which meet the requirements of paragraph 3.2 of the Consultant Guidelines may be procured using the Quality Based Selection method in accordance with the provision of paragraphs 3.1, 3.3 and 3.4 of the Consultant Guidelines.

(c) **Least-cost Selection (LCS).** Services for assignments which meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured using the Least-cost Selection method in accordance with the provision of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

(d) **Selection Based on Consultant's Qualifications (CQS).** Services for assignments which meet the requirements of paragraph 3.7 of the Consultant Guidelines may be procured using the Consultant's qualifications Selection method in accordance with the provision of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

(e) **Single Source Selection (SSS).** Under circumstances which meet the requirements of paragraph 3.9 of the Consultant Guidelines for Single Source Selection, consultant services may be procured in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines, with the Bank's prior agreement.

(f) **Individual Consultants (IC).** Services for assignments that meet the requirements set forth in the paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provision of paragraph 5.2 and 5.5 of the Consultant Guidelines. Under the circumstances described in paragraph 5.6 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

62. **Short lists** may be composed entirely of national consultants for contracts of less than US$300,000 equivalent per contract in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines, and following the provisions mentioned above.

Fraud, Coercion, and Corruption

63. The CCG, as well as bidders, suppliers, and contractors shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraphs 1.16 and 1.17 of the Procurement Guidelines and paragraphs 1.23 and 1.24 of the Consultants Guidelines.

Procurement Plan

64. A procurement plan (PP) was prepared through the World Bank new electronic Procurement Tracking System (STEP). The first PP covers the first 18 months of implementation and was agreed at negotiations. The PP will specify the contracts that will be subject to prior review by the World Bank. All other contracts will be subject to post review. The PP will be updated at least once a year and as required, to reflect the actual project implementation, the capacity improvements and needs for closer support. Once approved, the PP will become available in the project's database and also, it will be published in the required websites (dgMarket, UNDB, Bank's external website, and so on).

Advertisement, Publication of Results and Debriefing

65. In addition to advertising pertaining to each contract, a *General Procurement Notice (GPN)* will be published in dg*Market,* in *United Nations Development Business,* and in at least two national newspapers. The GPN will be published after project is approved by the Bank and prior to Effectiveness. The GPN will provide a description of the project and information on related procurement. Online publication of contract awards (dgMarket, UN Development Business, World Bank external web site, Client Connection) would be required for all contracts of Goods, Non-consulting and Consulting services, subject to Bank prior review. In addition, where

prequalification has taken place, the list of prequalified bidders will be published. All consultants competing for an assignment involving the submission of separate technical and financial proposals, irrespective of its estimated contract value, should be informed of the result of the technical evaluation (number of points that each firm received) before the opening of the financial proposals. The borrower would be required to offer debriefings to unsuccessful bidders and consultants should the individual firms request such a debriefing.

Frequency of Procurement Supervision

66. Supervision of Procurement by the World Bank is an integral part of Project supervision and implementation monitoring. The evaluation of existing procurement systems considers the overall risk assessment of procurement implementation for this project to be Substantial. On that basis, a procurement review will be carried out ex-post and will concern about fifteen percent to 20 percent of contracts not submitted to prior review. This percentage will be adjusted during Project implementation as a function of the performance of the implementing agencies and the results of reviews. Based on the risk associated with procurement (substantial), as mitigation measures, the following actions need to be implemented:

(a) Standard bidding documents (SBD) for NCB for Works, Goods and Non-consulting services were prepared and submitted to the Bank for approval. They include all the adjustment clauses for NCB in Morocco as well as the Audit Clause and the Fraud and Corruption clauses (AFCC). Any future change after approval of these SDB will be submitted to the Bank for approval, in compliance with the LA.

(b) Adoption of the POM. This manual describes procurement arrangements including procedures, responsibility sharing and document flow among the parties involved in Project implementation. The manual includes an Annex with all standard bidding documents that will be used under the project. The finalized version acceptable to the Bank will be adopted before project effectiveness;

(c) The initial procurement plan for the first eighteen months of project implementation was approved. It was entered into STEP (*Systematic Tracking of Exchanges in Procurement*) and then published on required websites. It will be updated in STEP at least once a year or whenever necessary. Each updated version of the plan will be submitted to the Bank for no objection;

(d) Training in Bank procurement procedures will be organized for all staff involved in project implementation at least once a year, over the duration of the project. In particular, a well-tailored training will be conducted before project effectiveness or at the beginning of the activities. Furthermore, with the use of STEP extended to all projects under implementation; the staff of CCG involved in procurement has already been trained by the Bank on the use of this new electronic tool (May and November 2016).

(e) Regular ex-post reviews will be conducted (once a year). It will allow identifying the main issues and providing the necessary recommendations to help improve the quality of procurement and overall, the project implementation.

These measures are not limitative and will be complemented as needed, during project implementation, based on the performance and results achieved.

Procurement Procedures for Funds Managers and Ecosystem Providers Selected Under Components 1 and 2.

67. The fund managers and ecosystem providers will be selected through a competitive process according to Bank guidelines for the selection of consultants, or following selection procedures that are acceptable to the Bank. Once selected on competitive basis, these fund managers and ecosystem providers will then be free to procure goods, works, and consulting/non-consulting services required under their assignment from eligible sources using their own procedures. In such case, World Bank's Audit and the Fraud and Corruption clauses will apply.

68. Furthermore, the provisions on procurement and selection of consultant in loans to financial intermediary institutions and enterprises as defined in the respective Procurement and Consultant guidelines will be followed.

Project Operations Manual

69. The POM will describe the procurement rules and procedures acceptable under the project. In particular, the procedures and criteria for the selection of fund managers and ecosystems providers under Components 1 and 2 will be detailed. The various templates and forms for preparation of proposals, grant agreement, shareholders agreement (investment in existing or newly created funds) or financing agreements will be included in the POM. The provisions related to Bank right to audit and to fraud and corruption that will be included in the requests for proposals, the grant/financing agreements will also be included in the POM.

70. Expenditures for operating costs related to project management under Component 3 and linked to eligible expenditures, will follow CCG procedures found acceptable by the World Bank.

Environmental and Social (including Safeguards)

71. An ESMF included in the project POM provides guidelines for screening proposals for safeguards. The list of non-eligible investments and expenditures below, and the screening and management mechanism for safeguards, are included in the POM. Specifically, business proposals will be excluded from the scheme if they fall under the following categories:

IFC Exclusion List

(a) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.

(b) Production or trade in weapons and munitions.[26]

(c) Production or trade in alcoholic beverages (excluding beer and wine)[6].

(d) Production or trade in tobacco[6].

(e) Gambling, casinos, and equivalent enterprises[6].

(f) Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

(g) Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.

(h) Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

(i) Production or activities involving harmful or exploitative forms of forced labor[27]/harmful child labor.[28]

(j) Commercial logging operations for use in primary tropical moist forest.

(k) Production or trade in wood or other forestry products other than from sustainably managed forests.

Other Ineligible Activities

(a) Real estate purchases and any physical intervention including construction and rehabilitation.

(b) Activities that limit or deprive individual or community access to land, assets, or available resources.

(c) Activities that involve the involuntary restriction of access to legally designated parks and protected areas or cause displacement of individual or community, involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location, or involving

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[26] This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.
[27] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
[28] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

(d) Activities that may adversely affect or benefit an indigenous people, or that impinge on the lands owned, used or claimed under adjudication by indigenous peoples;

(e) Activities which involve or introduce the production/use of pesticides

Monitoring and Evaluation

72. **Broadly, the project's M&E framework should follow guidelines used for the assessment of similar international interventions, such as those in Scotland and Denmark, as well as a similar World Bank Group-financed project in Lebanon.** It should rely on three pillars:

(a) Results indicators; the Results Framework in Annex 1 builds on the core indicators and the intermediate results sought from each component. It includes indicators for leveraging private sector investment in angel, early-stage, and VC; and on the effects of the project on start-ups and early-stage enterprises with regard to their access to finance and growth.

(b) A survey assessment of Component 1 investment strategy and performance of investee companies. The assessment of the investment strategy and firm performance will be based on information gathered from beneficiary firms (for example, revenues, operating margin, employment by gender and age group, exports, and so on)

(c) An evaluation of fund managers; this evaluation regarding efficiency, effectiveness, and value added will be performed by an independent third party hired by the PMU. It will be based on focus group discussions and interviews with fund managers, investors, beneficiaries, and non-beneficiaries.

73. **The primary responsibility for tracking results is with the Fund Managers and Ecosystem Support Providers implementing the activities.** They will present an M&E report twice a year to the PMU at the CCG. The PMU will be responsible for submitting a consolidated M&E report to the TC and the World Bank also on a semiannual basis. Results monitoring will be based on qualitative and quantitative information collected from project beneficiaries and non-beneficiaries, investors, and fund managers. Fund Managers and firms that receive financing from the project funds, as well those benefiting from the ecosystem support grants, will be obliged in their contracts to provide information twice per year.

Annex 4: Implementation Support Plan

MOROCCO: Financing Innovative Startups and SMEs Project

Strategy and Approach for Implementation Support

1. **The World Bank will carry out two main semiannual implementation support missions.** A mid-term review (MTR) mission will be fielded three years after the project has become effective. Should structural implementation challenges emerge before, the resolution of which would require in-depth analysis and restructuring, then the MTR will take place accordingly.

2. **Project procurement and FM missions will be undertaken as part of periodic fiduciary support conducted concurrently across operations in Morocco of all World Bank sectors.** An exception to the principle of autonomous supervision by the fiduciary specialists would be the MTR, Implementation Support missions, and Implementation Completion Report (ICR), where it is likely that the entire World Bank task team will participate. Procurement prior reviews will be ongoing, whereas post reviews will be done twice a year during the first year of the project.

3. **FM supervision.** As part of project implementation support, the World Bank will conduct risk-based FM implementation support within a year from the project effectiveness, and then at appropriate intervals. During project implementation, the World Bank FM Specialist will support the project's financial arrangements in the following ways:

   (a) Review the project's semiannual Interim Financial Reports, the project annual audited FS, and auditor's management letters and remedial actions recommended in the auditor's management letters.

   (b) During the World Bank's on-sight missions, review the following key areas:

      (i) Project accounting and internal control systems.

      (ii) Budgeting and financial planning arrangements.

      (iii) Disbursement arrangements and financial flows, including counterpart funds as applicable.

      (iv) Any incidences of corrupt practices involving project resources.

4. **The World Bank will closely follow implementation of the RFPs and evaluation of proposals for fund managers through the following:**

   (a) Review and 'no objection' of the RFPs before their issuance to ensure they are in accordance with conditions specified in the POM and PA.

   (b) Review and 'no objection' of the structure of the Evaluation Committee in accordance to the criteria specified in the OM and reaching out to partner Development Finance

Organizations, such as the EBRD and EIB, to provide experts to participate on the Evaluation Committee.

Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Review of RFPs and Evaluation criteria, Evaluation of proposals	Project Management Consultant specialists in angel and VC funds programs FM Specialist PS Legal	US$150,000	
12–48 months	Start implementation of the technical assistance component, establishment and start implementation of the Angel/seed subcomponent, establishment and implementation of one VC fund(s)	Project Management FM PS Diaspora Specialist Legal	US$150,000	
Other				

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
TTL	40 weeks	12	
F&M	24 weeks	6	
T&C	24 weeks	6	
Operations Support	12 weeks	0	
FM	12 weeks	0	Local Staff
PS	12 weeks	0	Local Staff
Legal	3 weeks	0	

Partners

Name	Institution/Country	Role
Ministry of Industry	Morocco	SC and TC

Annex 5: Country Financial And Entrepreneurship Support Ecosystem

MOROCCO: Financing Innovative Startups and SMEs Project

Overview of Financing for SMEs in Morocco

1. **The ecosystem entrepreneurship in Morocco include among others the public, private sector, the associations and R & D institutions.** In the public sector other than the relevant Ministries there exist agencies and public establishments such as Maroc PME. The private ecosystem, there are clusters, consulting firms (legal and intellectual / industrial / commercial property rights, and so on.), business incubators and accelerators. In the R&D sector, there are R&D incubators such as National Network of Business Incubation *(Réseau Maroc Incubation et Essaimage,* RMIE), Technology and innovation Cities, Universities/schools, laboratories, Maroc Diaspora networks. In addition there are several associations for mentoring coaching.

2. **The current ranking of Morocco in the Global Entrepreneurship and Development Index (GEDI) is 82/138 globally.** Morocco has god indicators on level of innovation (product and process), but remains weak in capacity for SMEs to achieve high-growth, and access finance and human capital. The ranking of Morocco in the Global Innovation Index in 2015 is 78/141. Strengths include: Dynamism of the innovation ecosystem, industrial property rights system, development of infrastructure, human capital and research through funding instruments to support innovation, and commitment to financing education.

3. **As in most countries in the MENA region, Moroccan start-ups and young SMEs continue to face challenges in accessing financing, especially between the angel/seed stage (US$50,000) and the later-stage (US$2 million and above) through various funds supported by IFC and other DFIs.** They are un-served by commercial banks as they cannot put up collateral or show steady revenue needed to obtain credit. Hence, these firms typically seek risk capital funding to grow and access markets.

4. **The CCG (national credit guarantee agency) established in 1949 has a variety of credit and equity guarantee tools.** Regardless of ticket size, however, the guarantees support mostly established enterprises (age three years old and above) with a proven track record (table 5.1). Since firms have to be reviewed and recommended by commercial banks before they can apply for a guarantee, these tools inherently favor and target more established SMEs.

Table 5.1. CCG Active Guarantee Programs (2009–2016)

Active Programs CCG	Number of Firms Receiving Financing by Category				
	US$50,000	US$50,000–US$100,000	US$100,000–US$750,000	US$750,000–US$2 million	US$2 million+
Damane Development credit guarantee for mature SMEs	7,929	2,454	2,578	1,584	1,349
Damane Creation (start-up)	880	1,010	852	218	69
Damane Istimrar debt consolidation guarantee for mature SMEs			117	48	11

Active Programs CCG	Number of Firms Receiving Financing by Category				
	US$50,000	**US$50,000–US$100,000**	**US$100,000–US$750,000**	**US$750,000–US$2 million**	**US$2 million+**
Cautionnement Export Guarantees for export goods - mature companies (2013–2016)		3	13	3	1
Damane Export guarantee for exporting SMEs (2013–2016)			82	107	48
Ilayki investment guarantee for women (2013–2016)	275	85			
Total	9,084	3,552	3,642	1,960	1,478

Source: CCG

PE and Financing for High-Risk Young Companies

5. **PE is relatively well developed in Morocco.** According to AMIC, there are 21 fund management companies, half of which are located in Morocco, operating with an average ticket size per transaction of US$4 million (2014). The participation of international DFIs (EBRD, EIB, KfW) has increased significantly with 3rd generation funds. For example, 55 percent of the raised capital of funds is foreign-sourced, and 66 percent of it comes from European Union (EU) DFIs. At end of 2014, the funds using the S.A/*Société par Actions Simplifiée* (SAS) legal form are 50 percent of the total. The average PE fund size has almost doubled from US$29 million in 2010 to US$56.7 million in 2013, showing a healthy fund raising and PE sector. Most of the growth benefited trans-regional funds (65 percent) compared to country-wide funds.

6. **Government initiatives targeting SMEs established public-private funds after 2010 (capitalized with a minimum of US$11 million) in specific industries such as agriculture and green energy (table 5.2).** Banks and large corporations supported these initiatives with new funds, but their approach was (and remains) very risk averse, and therefore target stable growth and mature companies, leveraging PE fund structures. This therefore has not created a true VC economy.

Table 5.2. Financing Programs for Start-ups and High-Risk SMEs*

Active Programs/Funds	Less Than US$50,000 (number of beneficiaries)	Angel/Seed US$50,000–US$100,000 (number of beneficiaries)	Early-Stage US$100,000–US$750,000 (number of investments)	Pre-Early Venture US$750,000–US$2 million (number of investments)
PME Croissance (partnership CCG with banks and insurance companies)				5
3PFund (partnership CCG with Investment Banks)				3
Afoulki Invest Fund (private)			9	
RMIE - Grants and Incubation	data n.a			
IMTIAZ grant for women entrep.	data n.a			

Active Programs/Funds	Less Than US$50,000 (number of beneficiaries)	Angel/Seed US$50,000–US$100,000 (number of beneficiaries)	Early-Stage US$100,000–US$750,000 (number of investments)	Pre-Early Venture US$750,000–US$2 million (number of investments)
Damane Capital Risque Investment guarantee (CCG)			15	
Self-employment project (co-financing and guarantee for young MSMEs) (CCG)	2,067			
MNF (equity co-financing for ICT companies) closing seeking second round			5	10
Intilak loan for companies less than 2 yrs			36	
Total innovative SMEs and startups	2,067	0	65	18

Source: Information collected by World Bank Group staff.
Note: MNF = Maroc Numeric Fund. *Existing Programs and Number of Deals per Category to Date: Applicable for Startups and High Risk SMEs

Private Funds

7. **There are a few private actors in this VC space for start-ups.** Sherpa is a € 5 million fund initiated by a private group called Saham in 2008 to support early-stage entrepreneurs both financially and managerially (through Sherpa club). MITC CAPITAL, a € 10 million fund launched in 2010, is hosted at Casablanca Technopark, and exclusively targets IT start-ups. Dayam, established in 2008 by the Groupe Saham, has capital of MAD 50 million, and the average size of its deals is MAD 3 million. Although the fund has assisted 50 companies, it has invested in only five. Investment criteria include innovation activity and capabilities of the company, its growth potential, and likelihood of entering into international markets. Afric-Invest, another group that has invested part of its capital in early-stages, has capital of 150 million euros, and it has financed three early-stage companies that have achieved successful growth. Afoulki Invest, a fund created in 2009 with a capital of MAD 30 million that provides capital for company creation and development. The size of a ticket ranges between MAD 1–6 million. The fund focuses mainly in three sectors: agricultural raw materials, health and nutrition, and natural and organic cosmetics. Techfinance also provides technical and financial support to start-ups. The firm targets innovative companies, with high growth potential and good management quality. The investment ticket oscillates between US$100,000 and US$1 million. Its exit strategy usually takes one of the following three forms: (a) sale back to the promoter or manager, (b) strategic sale, and (c) sale to an investment fund. The firm has in plans to collaborate with the OCP Group, and plans to assist five start-ups during its first year, and nine start-ups during its second year.

Public Private Funds

8. **The GOM in partnership with large banks and insurance companies created two public-private early-stage funds with a capitalization of US$5 million each:** Dayam and MNF. Dayam, had a capital of MAD 48 million, to provide financial support to start-ups. The average

ticket of an investment per company was MAD 3 million. The MNF was designed to foster the new ICT sector by funding innovative products or high-growth services. It had US$12 million of capital under management, only 20 percent of which came from the government. The objective of the Dayam and MNF funds was to invest in start-up and early-stage companies. The funds made initial investments and closed their rounds, but they lacked adequate capital to do follow-on investing to help their companies achieve scale.[29] Both funds also had some risk-averse IC members (bankers and representatives from the insurance companies representing the shareholders). As a result, many of their promising start-ups perished in the 'valley of death' (the space between where the entrepreneur's own resources from family and friends is depleted and the stage when the company is financially viable to attract later-stage investment available in the market).

9. **MNF.** The MNF was once the only VC fund investing in innovative early-stage technology startups in Morocco. Created in 2010 as a public-private partnership under the government's *Maroc Numeric* 2013 program, it was designed to foster the new ICT sector by funding innovative products or high-growth services. It had US$12 million under management, only 20 percent of which came from the government. Fund partners included Casablanca Technopark, the BMCE, the Banque Populaire, Attijariwafabank and Asset Management Company (*Caisse des Dépôts et de Gestion*, CDG) Développement. The fund was lauded for its efficient, private sector mindset, and by May 2012, it had invested in seven early-stage startups but acknowledged that these companies needed mentoring on all levels to meet their objectives. Since then, the MNF has pivoted its strategy to only invest in growing-stage startups, increasing its ticket size from US$100,000–US$500,000 to US$500,000–US$1 million. The official justification for the shift is that new financing tools launched by the Centre Marocain d'Innovation (CMI) or REM are more fit for small tickets than the MNF. However, these two organizations are not investment funds, but provide rate-free loans for smaller amounts, ranging from US$6,000–US$100,000. Feedback from early-stage investees interviewed reveals that MNF support is limited helping get appointments with major stakeholders and organizing monthly reunions to help with legal, administrative and financial aspects.

10. **The OCP Innovation Fund for Agriculture is also another actor of the ecosystem.** The fund has a capital of MAD 200 million to promote innovation and entrepreneurship in the agriculture and agro-business sectors. This investment fund is open to any entrepreneur with an innovative project. The fund invests in early-stages and development, with investments of about MAD 2.510 million. The fund has a capital of MAD 200 million. It also provides incubation support. The Fund provides strategic, financial and operational guidance, and technical assistance to the projects in which it invests.

[29] In most early-stage and VC funds, between 15 percent and 20 percent of capital can be set aside for follow-on investing, with limitations as to the number of times and amounts reinvested in each company. The Dayam Fund and the MNF, seeking to meet demand, invested all their capital in new companies, thinking that they would be able to help the companies get later-stage equity capital from PE funds (ticket sizes between US$1 million to US$2 million). The Moroccan PE market's minimum investment ticket size, however, was US$2 million and above.

Emergence Invest

11. **Emergence Invest is a public fund of funds initiative created as part of the "Pacte National pour l'Emergence Industrielle". It is managed by the CCG who made investments in two funds:**

(a) **3PFund.** 3PFund, includes a partnership between the CCG, Axa Assurance Maroc, Wafa Assurances, Caisse Interprofessionnelle Marocaine de Retraite (CIMR), Mutuelle Agricole Marocaine d'Assurance (MAMDA), Mutuelle Centrale Marocaine d'Assurance (MCMA), CNIA SAADA Assurance/Saham, Attijariwafa bank, Chaâbi Capital Investissement. After a call for proposals, 3P Fund's management was given to Enterprise Partners, a consortium of two PE funds, Attijari Invest and Atlamed. The size of the fund is MAD 400 million, with a public contribution of MAD 175 million and a private contribution of MAD 225 million. The Fund focuses on companies in the development and transmission stages (up to 45 percent of the funds allocated to each of those stages) with a minor percentage of 10 percent allocated to the creation stage.

(b) **PME Croissance.** PME croissance, is structured very similarly to 3PFund, with the following partners: Banque Européenne d'Investissement (BEI), Averroès Finance II, Proparco, Société Générale Marocaine de Banques, CNIA SAADA Assurance, Caisse Marocaine des Retraites (CMR), KFW Entwicklungsbank. Following a call for proposals, PME Croissance's management was given to « Private Equity Initiatives » a subsidiary of Maroc Invest. The size of the fund is MAD 452 million, with a public contribution of MAD 175 million and a private contribution of MAD 277 million. Although the fund focuses, primarily, on companies in the development and transmission stages (up to 40 percent of the funds allocated to each of those stages) it assigns a minor percentage of up to 20 percent for the creation stage.

Business Angels

12. **In many countries the informal VC market is composed of wealthy individuals, called "business angels", who seek to invest their own capital in young, unquoted firms.** Business angels do not have familial or institutional connections with the firms they finance. Rather, they are generally successful business people and entrepreneurs who look for attractive investment opportunities in a segment of the market that is not covered by institutional investors. They are accountable only to themselves because they invest their own money, and therefore have strong incentives to undertake thorough due diligence before investment. They invest small amounts compared to VC, but they invest in a much wider range of businesses.

13. **There are very few business angels in Morocco.** A business angel network created in 2008 in the framework of the Medibtikar[30] program has no more than 20 people, and although its existence is acknowledged by stakeholders, there is no investment track record available. Interviews with members of the network reveal that business angels have typically three motivations: (a) obtaining financial returns, (b) participating in the development process of the

[30] Financed by EU, and based in Egypt.

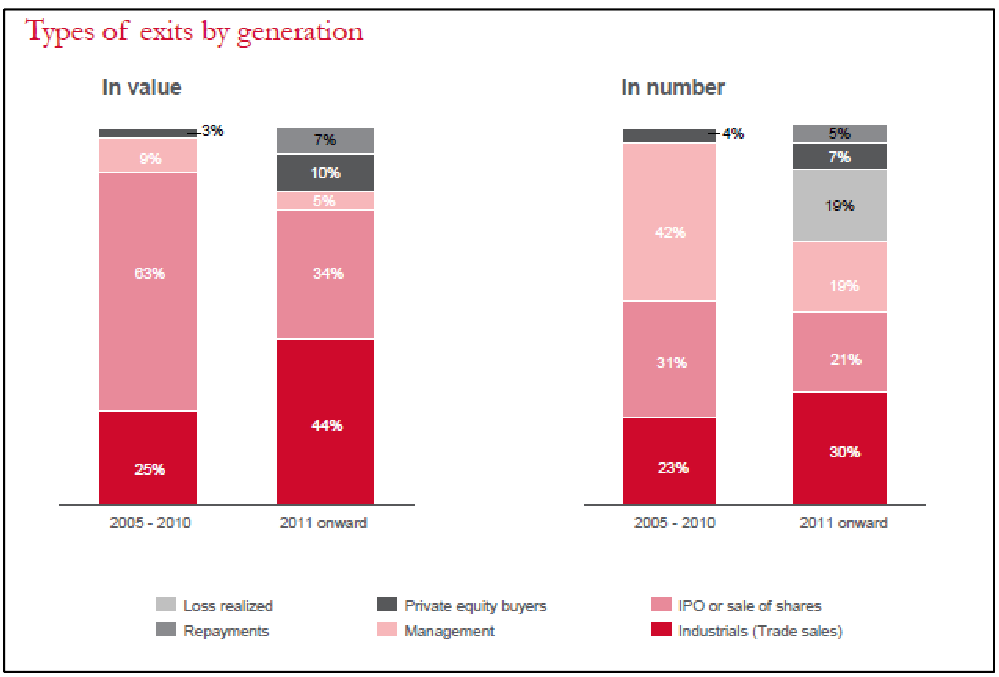
ventures they finance, and (c) satisfying altruistic feelings by, for example, transferring experience and knowledge to entrepreneurs. Financial considerations are not always the top priority since business angels often enjoy hands-on participation in the projects they finance and helping their local economies to grow. In addition, they can provide mentoring and advisory services, as they often have deep knowledge of the markets in which they invest. According to interviews, business angel activity in Morocco is constrained by several factors. This includes the lack of a specific legal framework that supports their activities and opens doors into more established business networks.

Exits

14. **Exit is a constraint common to PE/VC funds in developing countries, and Morocco is no exception.** IPOs are typically not a viable exit strategy in most emerging economies with underdeveloped capital markets; thus PE/VC funds tend to rely on sales to strategic and financial sponsors, and self-liquidating instruments to facilitate exit (although utilizing such structures would require a revision to the current legislation to allow debt transactions). There is a small secondary market for exits.

15. **While IPO or sales of shares were the most prevalent way to exit during the period 2005–2010, accounting for 63 percent of exit value, the trend shifted toward Trade Sales as the dominant form of exit, making up 44 percent of exit value since 2011.** An increase in the losses after 2011 is an indication of higher acceptance of risk in the market.

Figure 5.1. Exits by Type



The Business Enabling Environment: General Considerations

The Business Environment

16. **In assessing the overall business environment, it is important to consider a number of institutional and procedural realities that can serve as either enablers or barriers to growth.** These factors include institutional integrity, both real and perceived. Such a notion is most closely tied to the relative degree with which corruption is present or absent, as corruption can be a major barrier to entry for both local and foreign businesses. It can also serve as a major drain on companies' resources and can limit their overall market efficiency. In turn, corruption can play a key role in shaping decisions, with regard to the opportunities and strategies that are ostensibly viable for firms to pursue.

17. **With regards to corruption, Morocco ranks ahead of Africa as a whole, with a ranking of 88 and a score of 36, versus an overall score on the continent of 33 and a country average ranking of 105.** Still, the country remains far behind Europe, where the average ranking in 2015 was 29 and the average score was 66. Downstream from institutional integrity—though not exclusively its product—is institutional efficacy, or the ease with which businesses can get off the ground and grow. In this vein, Morocco in the DB 2017 performs relatively well in some categories (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and enforcing contracts).**,**

Table 5.3. Corruption Perception Index Performance (2015)

`	Rank (2015)	Score (2015)
Morocco	**88**	36
Europe	**29**	66
Africa	**105**	33

Source: Transparency International.

Public Capital Markets Overview

18. **The CSE is the fourth largest exchange on the African continent by size, behind the Johannesburg, Egyptian, and Nigerian markets.** As of early February 2016 there were 75 companies listed on the equity market of the CSE, with total market capitalization standing at US$45.9 billion. There is also a local bond market, although it is much smaller than the equity market. As of February 2015, 47 corporate bonds were listed on the CSE debt market, with a combined value of MAD 12.2. billion (US$1.2 billion).

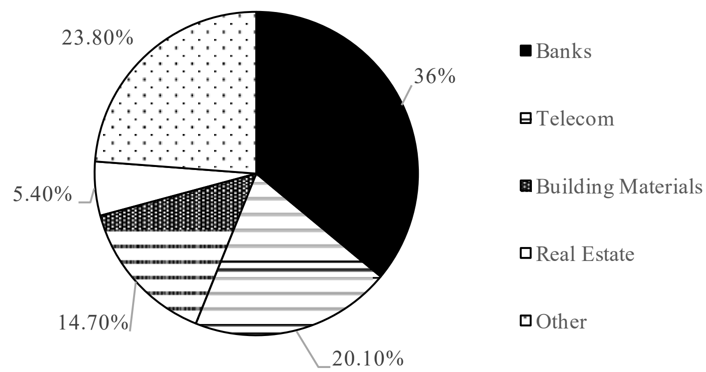
Table 5.4. Ranking of African Stock Market by Capitalization

Market Capitalization (US$MM)	December 2015
Johannesburg Stock Exchange	735,945.2
Egyptian Exchange	55,191.9
Nigerian Stock Exchange	49,973.9
Bourse de Casablanca	***45,927.9***

Source: World Federation of Exchanges.

19. **The overall value of the exchange is highly concentrated, with the ten largest companies accounting for nearly three-quarters of total market capitalization.** Presently, the largest listed firm on the exchange is telecoms operator Maroc Telecom (MT), with a capitalization of MAD 103.9 billion (US$10.6 billion), followed by Attijariwafa Bank, Banque Populaire (BCP) and BMCE Bank. Of the ten largest firms by value, three are banks, while the remainder are firms in the building materials, insurance, energy, real estate, and a consumer goods sectors.

Figure 5.2. Composition of the Casablanca Stock Market by Industry, February 2016



Source: Bourse de Casablanca.

20. **Over the past five years, the benchmark Moroccan All Shares Index (MASI) declined in excess of 20 percent due to the combined effects of two factors: poor liquidity and a paucity of new listings.** First, the secondary market suffers from a relative lack of liquidity, as institutional investors tend to buy and hold securities, rather than trading them. This is driven by the lack of other investment alternatives for both institutional and retail investors in the local market – as a result of prevailing capital controls, investors cannot easily access investments abroad. Thus, they opt to place their capital in the Bourse, as it is the best local alternative for investors seeking long-term options. Paradoxically, although there is little liquidity in the market, the outside demand from domestic investors means that the valuations of securities on the exchange are high relative to international benchmarks. This classifies equities in Morocco as "expensive," with an overall PE for the exchange of 20x forward earnings versus an average forward PE of approximately 14 across all emerging market exchanges.[31]

21. **As shown in table 5.4, the Bourse allows for three types of listings: large companies, medium companies, and high growth companies.** Given this structure, companies raising as little as US$1 million can theoretically seek to access the capital markets.

[31] http://www.starcapital.de/research/stockmarketvaluation

Table 5.5.Listing Requirements for the Bourse

	Large Companies	Medium Companies	High Growth Companies
Minimum shareholders' equity			
MAD millions	50 Million	No fixed limit	No fixed limit
US$ millions	4.9 million	No fixed limit	No fixed limit
Minimum Revenues			
MAD millions	No fixed limit	50 million	No fixed limit
US$ millions	No fixed limit	4.9 million	No fixed limit
Number of Certified Rinancial Periods	3	2	1
Consolidated Financial Statements	Yes	Optional	Optional
Minimum # of Shares Issued	250,000	100,000	30,000
Minimum Amount Issued			
MAD millions	75 million	25 million	10 million
US$ millions	7.4 million	2.5 million	1 million

Source: Bourse de Casablanca.

22. **Despite the levels of flexibility granted by the listing requirements, few companies have opted to avail themselves of the IPO process.** There have been a handful of IPOs over the last few years, but the total number of listings on the exchange has been stagnant due to various de-listings. Companies have chosen to leave the exchange due to lack of activity, or in one case, a violation of exchange rules. Still, despite the shortage of IPOs, the lack of other alternatives for local investors means that there is pent-up demand for quality shares when they are offered. For example, when Total Maroc floated 15 percent of its capital in May 2015, the IPO was nearly seven times oversubscribed.

Table 5.6. Historical Overview of the Bourse de Casablanca

MAD MMs	2010	2011	2012	2013	2014	2015	*2015 vs 2010*
Market Capitalization (MAD)	577,039.8	515,037.3	443,969.0	439,377.1	478,044.3	452,146.6	*-21.6%*
% Change		-10.7%	-13.8%	-1.0%	8.8%	-5.4%	
Total Listing	74	76	77	76	75	75	*1.4%*
Domestic Listings	73	75	76	75	74	74	*1.4%*
Foreign Listings	1	1	1	1	1	1	-

Source: World Federation of Exchanges.

23. **Given the myriad challenges, market authorities are working on the launch of a range of reforms and new products that they hope will reinvigorate activity on the exchange.** The thrust of these changes focuses on (a) demutualization, (b) creation of a junior exchange, and (c) a technological upgrade along with regional expansion.

- **Demutualization.** To date, the Bourse has traditionally been structured as a member-owned S.A., or corporation. Specifically, it is owned by a group of seventeen partners, including pension funds and leading financial sector players including Banque Marocaine du Commerce Extérieure and Attijari Intermediation, a brokerage firm. This model was adopted in the 1990s, when most stock exchanges across the globe were mutually owned. In recent years, however, exchanges around the world have opened up to private investors, hoping to increase competition and drive down transaction costs. To capture the benefits of such changes, the Bourse completed the process of demutualization in May 2016. The objective of this process was to allow for new shareholders, such as international strategic players, and to raise capital that could be used to upgrade technology and to forge ties with other regional exchanges. Further down the line, the exchange itself could also seek a public listing.

- **SME Board (Junior Exchange).** This reform would encourage new entrants to the market by relaxing reporting requirements for smaller and more innovative companies to create a junior exchange, or SME board. The timing for any listings that result from this initiative is uncertain, but the Bourse continues to work on the required infrastructure.

- **Technological Upgrade and Regional Expansion.** In June 2014 the Bourse and the London Stock Exchange Group (LSEG) signed a strategic partnership which included the acquisition by the CSE of a new trading and market monitoring platform provided by MillenniumIT, a subsidiary of the LSEG. This platform will allow the Bourse to offer a range of new products such as exchange traded funds and will also form a cornerstone toward creating a regional partnership with the stock exchanges in Johannesburg, Lagos, and Nairobi. In October 2014 LSEG also signed an agreement with Moroccan securities depository Maroclear to provide it with access to European securities settlement systems.

24. **It is also worth noting that as of July 2016, there is a new legal framework as well as associated regulations to govern the Bourse.** Bill No. 19-14 replaced Dahir enacting Law No. 1-93-211 of 21st September 1993, which had governed the operations of the stock exchange for over 20 years. The objectives of this reform are twofold: to modernize the legal framework that regulates the stock exchange and to create new markets, grow listings, and increase liquidity.

Morocco's Regional Aspirations: Casablanca Finance City

25. **The Moroccan government established the CFC in December 2010 to position Casablanca as a financial hub for Francophone Africa.** Specifically, the government hopes that by becoming a regional financial hub, it can position Casablanca as a stepping stone for outside actors to access North, West and Central Africa. It also intends to use CFC to align the country's business and finance capabilities (including capital markets) with global standards, for DB in Morocco and in Africa according to legal, regulatory, tax and accounting best practice. Given this mandate, the CFC exclusively targets financial institutions (investment banks, asset management firms, PE firms, insurance companies), multinational regional headquarters, and professional services firms (consulting, law, audit, appraisal, valuation, rating). To attract these types of firms to choose Morocco, CFC status confers advantages such as tax incentives, streamlined visa and work permit application processes, and free management of assets in foreign currencies from foreign sources. CFC status is conferred on companies that export services, regional or international headquarters, and the employees of any such businesses.

26. **Unlike financial centers, such as Dubai, Qatar or Mauritius, CFC does not have a special regulatory status.** All financial businesses registered at CFC are instead subject to the existing Moroccan financial authorities. However, the authorities are flexible in accommodating the needs of specific activities. For example, they have a specific law for Africa50, a new infrastructure investment platform owned by African Governments and the African Development Bank, which held its Constitutive General Assembly there in July 2015.

27. **Since its launch, the CFC has attracted over 100 companies, including well-known names such as BNP Paribas, AIG and Boston Consulting Group.** In excess of twenty asset managers have also gained CFC status, including Invest AD, Onyx Wealth Management and Silk Invest. They have been attracted by the ease with which they can target Francophone north and West Africa from Casablanca combined with the favorable domicile and the infrastructure offered by the CFC.

The Business Enabling Environment: PE

28. **When seeking to raise and invest funds in Morocco, fund managers report that the investment environment remains challenging, especially with respect to generating deal flow.** Finding and closing attractive investments is complicated by a very nascent equity culture. Companies are not well acquainted with the value proposition of PE as an asset class. Moreover, they are not accustomed to working with external partners and are unconvinced with respect to the benefits of opening their operations to external influences and accepting enhanced corporate governance. Fund managers also report that it's difficult to raise capital because the region remains unfamiliar to many investors. As the asset class gains traction, however, this problem will be addressed as fund managers are able to generate attractive returns vis-à-vis the macroeconomic and execution risks inherent in the region.

29. **When it comes to structuring transactions, investors must live within the realities of local securities law, with all of its limitations.** For example, as is common in many emerging market nations, Moroccan corporate law does not allow investors to include concepts like preferred shares in the capital structure of a company. Moreover, market and regulatory forces make it difficult to structure leveraged deals. There is no tax consolidation allowed, meaning that fund managers cannot offset the cost of interest on debt against the profits of a target company, which is one of the main tax advantages in a buyout transaction. Moreover, even if such consolidation were allowed, the paucity of debt to purchase companies means that LBOs would still be highly unlikely. As a result, investors are limited to equity only transactions with a restricted set of shareholder structures for the time being.

30. **Fundraising is another constraint.** Although PE and VC are not new investment classes in Morocco, most funds—with exception of pan-regional funds like Abraaj—are still backed by DFIs and local institutional investors. While this reality is not unusual for first time fund managers across emerging markets, even successful Moroccan funds – such as those who are on their second or third funds – have struggled to attract interest from international investors that are entirely commercial in nature. This challenge is a reflection of a varied challenges discussed above, as well as the difficulty of Moroccan managers to build long standing relationships with the management teams of the myriad pools of international capital that could back Moroccan funds.

31. **Also, performance has been disappointing for the PE industry as a whole.** It has generated IRR of 15 percent, well below the average investment returns for emerging markets PE firms across the world, which IFC estimated at 25 percent as of 2012.[32]

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[32]http://www.ifc.org/wps/wcm/connect/36162e004e5d11a9bd25bdfce4951bf6/TheCaseforEM+PE+FINAL+Jan18+2013.pdf?MOD=AJPERES

Legal and Regulatory Framework for Funds[33]

32. **The PE industry first set down roots in Morocco 15 years ago.** Since that time, and despite notable growth in fundraising volume and investment activity, the regulatory framework for the industry has played "catch up" with the needs of investors. In fact, for the initial generation of PE funds, there was little in the way of tailored law and regulations that defined and applied corporate law to the alternative investment industry. Rather, funds operated under existing corporate laws that were more appropriate for operating companies and banks than investment funds.

33. **In 2006, with the advent of a second generation of funds and overall industry funds under management reaching MAD 4 billion, the government unveiled its first concerted efforts to craft a meaningful legal and regulatory framework.** This second generation of funds marks a turning point for the industry. Between 2000 and 2005, 57 percent of funds operating in the market were domiciled offshore and were considered to be "foreign" funds. In contrast, over the second half of the decade, local funds accounted for 64 percent of the industry and investors chose a greater diversity of fund structures, branching out from Limited Share Partnership (*Société en Commandite par Actions,* SCAs) that were *de rigueur* in the period 2000–2005 to S.A and SAS structures (see table 5.7 below for definitions of fund types employed in the Moroccan alternative investments industry).

Table 5.7. PE and VC Fund Types

Fund Types Chosen by Alternative Investment Funds Operating in Morocco		
	Domestic Fund Structures	**International Equivalent**
SCA	Société en Commandite par Actions	Limited Share Partnership
OCPR	Organisme de Placement en Capital Risque	
OPCC	Organisme de Placement Collectif en Capital	
SAS	Société par Actions Simplifiée	LLC
S.A	*Société Anonyme*	Corporation
	Foreign (Offshore) Fund Structures	
GP/LP	Limited Partnership, mangers by a General Partner (GP) as typical in the United States	
LLC	Limited Liability Company (LLC)	

Source: AMIC.

34. **While these structures certainly "worked" and allowed for the initial emergence and growth of the PE and VC industry in Morocco, they also came with a series of limitations.** Most importantly, investors who deployed (and continue to deploy) capital through SCA, SAS, or SA structures, continue to operate under the tax structure of a company, rather than a typical PE fund structure. Thus, gains are taxed at the company level, rather than passed (dividends) to the investors in a fund. This tax structure placed Morocco at a distinct disadvantage to other markets

[33] Source: Project background paper 'Survey of the Moroccan Private Equity and Venture Capital Landscape'; The World Bank Group Finance and Markets Global Practice, 2016.

where investors could avail themselves of the tax-efficient structures that are standard in the fund management industry, both in developed markets and in many emerging markets. Moreover, Moroccan investors, whether institutional or individual, were forced to make the choice between investing in an offshore entity or investing in tax inefficient local entities.

35. **To date, the legal and tax shortcomings of the Moroccan industry have disproportionately affected local investors. Offshore entities—namely Luxembourg or Mauritius-domiciled fund structures—were (and are) regularly used to accommodate non-Moroccan investors.** These funds, whether onshore or offshore, are then typically operated by a Moroccan management company. For Moroccan investors, however, such offshore entities are often off-limits, in terms of the practical application of the law. First, any state funds dedicated to PE must be invested locally. Thus, while private pension funds may invest a portion of their assets abroad, a public fund such as the Caisse Marocaine de Retraites, must invest its capital entirely within the country. Second, exchange rate controls make it cumbersome to go offshore. For entities that are permitted to invest outside of the country, permission is required to invest more than MAD 30 million overseas. As a result, Moroccan investors opt to invest in locally domiciled entities while offshore investors enjoyed the tax and structuring advantages typical of offshore PE and VC fund structures.

36. **As noted, a legal and regulatory structure for the alternative asset fund management industry was introduced in 2006.** This effort sought to address this concern and create a fund structure that would be transparent (tax efficient) in nature for investors in a Morocco-domiciled fund. At the same time, lawmakers and regulators also sought to create a dedicated Moroccan system for fund formation. The 2006 legislation, known as Law 41-05, introduced for the first time, a concept of corporate investment vehicles—also known as OPCR—in the Moroccan regulatory environment. Specifically, the law created two types of OPCR vehicles:

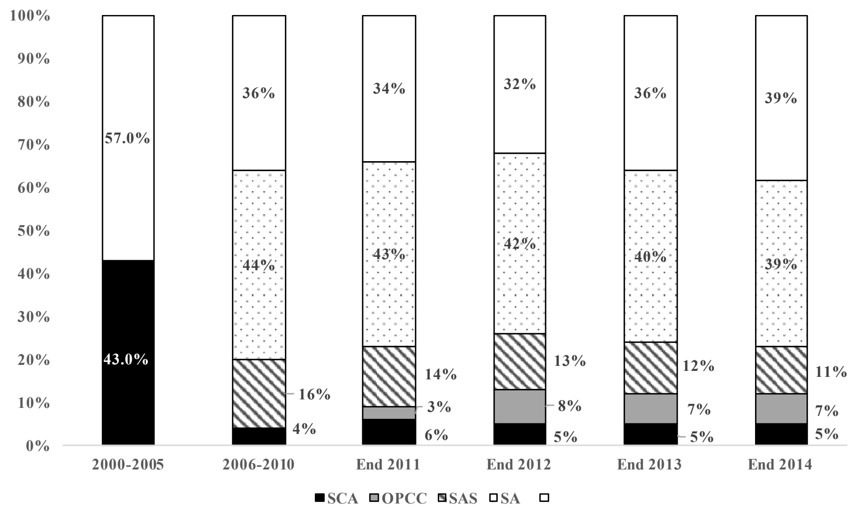
- Société de Capital Risque (SCR) or VC Corporation
- Fonds Commun de Placement à Risque (FCPR) or Mutual Venture Investment Fund

37. **Under Law 41-05-14, SCRs are legal entities, which may be incorporated as a corporation or as a company limited by shares.** In contrast, FCPRs are entities of common ownership of movable titles and assets. FCPRs do not have legal entity as such and therefore the shares in the common ownership may be issued and/or transferred in accordance with the conditions set out by the managing regulations (such as a partnership agreement or "règlement de gestion"). While these two types of vehicles were designed with the intention of creating attractive structures for PE investors, one fundamental element of their design proved to be highly limiting when it came to actual adoption: the law required that an OPCR must invest a minimum of 50 percent of its capital in SME shares, convertible bonds or other financing to SMEs. Moreover, the law stipulated a number of restrictions, including a requirement that such SMEs should have no more than 200 employees, revenues of less than MAD 75 million, and asset of less than MAD 50 million.

38. **As a result of the strict SME thresholds the OPCR never achieved wide acceptance or adoption despite its clear tax advantages.** Given the strict SME threshold requirements, very few funds opted for OPCRs. Put simply, the law set too strict a hurdle for investors in a market

that requires greater flexibility with regards to portfolio composition. As a result, as of the end of 2010, no funds had registered under the OPCR structure (see Figure 5.3). While a small number of funds did, in fact, structure OPCR funds in the ensuing years, less than 5 percent did so. Moreover, those funds that did opt for the OPCR structure largely did so as a requirement of accessing public investment funds from the Moroccan government.

Figure 5.3. Distribution of Funds by Legal Form



Source: AMIC.

39. **Even if funds did create OPCRs, they also maintained offshore vehicles to accommodate investors, such as foreign investors, who did not want to operate within the confines of the OPCRs.** This dual fund structure had an added benefit: fund managers were able to increase their overall flexibility by managing part of their capital in more fund structures that were exempt from the SME threshold. For example, Moroccan fund CDG, opted for a local S.A. structure for Moroccan investors coupled with an offshore entity for international investors.

40. **Given the poor adoption of the OPCR law, a broad coalition of players in the PE ecosystem – from investment firms to government regulators – collaborated to develop a series of amendments that would transform the local legal and regulatory environment into a more user friendly and commercially viable regime.** This coalition included AMIC, active funds operating in the country, as well as the Moroccan Treasury (the DTFE) and the capital markets regulator (Conseil Déontologique des Valeurs Mobilières or CDVM) which has now been transformed into an independent regulator, the Moroccan Capital Market Authority (Autorité Marocaine du Marché des Capitaux, AMMC).

41. **In 2015, a full nine years after Parliament passed Law 41-05, and nearly 7 years after reform discussions started, the law was amended, in what represents a very significant leap forward.** The 2015 amendments to the law—known as Law 18-14—have the following characteristics:

- OPCRs were replaced by OPCCs, and similarly SCRs and FCPRs became SPCCs and FPCCs (See table 5.9 for a summary of these acronyms).

- Funds with compartments are now permitted.

- The requirement to hold 50 percent of investments in shares of SMEs was removed. Instead, funds were now required to hold a minimum of 50 percent of funds in non-publicly traded companies, independent of their size.

- OPCCs retained tax transparency.

42. **The current OPCC law however, in its current form, contains two statutes that limit the flexibility of OPCCs to operate.** These limitations will also impede the growth of the industry from its present collection of PE and VC funds into new areas such as private debt and infrastructure financing:

- Article 8 of the law requires that at least 50 percent of an OPCC's investments correspond to permitted investments (specified in Article 6 below) by the end of the second year of its operations. If these conditions are not met, the OPCC will have a six-month cure period to remedy the situation before which it will lose its standing.

- Article 6 specifies the types of investments that are permitted for a fund and which will count toward the calculation of the 50 percent minimum investment test included in Article 8. In this article, debt is specifically excluded from the calculation for permitted investments.

43. **The two articles place undue limitations on fund managers and limit flexibility, especially in a market that experiences ongoing variability with regards to deal flow and market conditions.** When investors are forced to invest capital along a short and regimented timeline in order to meet specific allocation requirements, they may be forced make poor decisions or invest in sub-par assets. Second, the law limits the possibility for private debt funds to take hold in the Moroccan market. This is of critical concern since debt funds have become an increasingly important player in the global investment landscape, especially where they can serve as an alternative to banks and other traditional sources of capital.

44. **Beyond the reforms enacted in Law 18-14, structural reforms within the government with respect to the role of the CDVM, the industry's primary regulator should also serve to buttress the reforms codified in the law.** Specifically, the AMMC (formerly CDVM) have achieved strategic status within the Moroccan government, thus giving it an independent standing as well as a direct reporting relationship with the Crown.

45. **Given this greater independence and new leadership, observers are anticipating continued orientation toward market-friendly policies as well as a nimbler decision-making process.** Additionally, the AMMC will have the opportunity to craft holistic policies for the Moroccan capital markets, whether private or public, in nature, since the AMMC also regulates the CSE (the Bourse).

Legal and Regulatory Framework for Institutional Investors

46. **Local institutional investors are subject to prudential rules with regards to their investments, as specified below. Below are the main features of such rules with the relevant restrictions on alternatives investments.**

- **Undertakings of Collective Investment in Transferable Securities (UCITS).** The assets of UCITS must be composed of listed securities, shares or units issued by other UCITS, shares or units issued by PE funds (OPCC), securities or units issues by securitization vehicle, certain tradable debt securities and securities issued or guaranteed by the State. Certain restrictions apply to certain investments ('alternative' investments), such as the prohibition that UCITS may not invest more than 20 percent of their assets in certain tradable debt securities issued by non-listed companies, units or shares issued by PE vehicles (OPCC) and units or shares issued by securitization vehicles.

- **Banks.** Banks are subject to certain restrictions when investing in companies. Such restrictions apply only if the investment consists in securities representing at least 10 percent of the share capital and voting rights of the issuing company. These investments must not exceed, in aggregate, 60 percent of the equity (*fonds propres*) of the bank. Additionally, restrictions apply when banks invest in companies other than banks, investment firms, insurance companies, VC companies, and so on ('alternative' investments). Such investments may not exceed:

    - 15 percent of the equity (*fonds propres*) of the bank for each participation;

    - 30 percent of the share capital and voting rights of the issuing company.

- **Insurance companies.** When an insurance company invests in a given instrument, that instrument is factored into the calculation of its technical reserves. This determination must reflect quality of the issuer, whether the instrument is listed or non-listed or whether the instrument has been issued through a public offering or a private placement.

47. **One of the key challenges in the insurance space concerns the considerable exposure of companies' investment portfolios to financial markets.** According to law firm Linklaters, local insurers currently have invested approximately 40 percent of their assets in the CSE. This level of exposure is high, especially when compared to similar levels in European jurisdictions (for example, 6.6 percent of the assets of French insurance companies were invested in listed and non-listed equity securities at the end of 2012 according to the French central bank).[34] The regulator is willing to adopt more developed solvency/capital resources regulations (adapted to the local market) but this may take several years to implement given the heavy exposure of the local insurers on the Casablanca stock market: they will either have to reduce such exposure or increase

[34] http://www.linklaters.com/Insights/Publication1386Newsletter/Insurance-Update-January-2014/Pages/The-Insurance-Industry-Morocco.aspx#sthash.jnsRFi0N.dpuf

the level of net assets, but the central government is reluctant for insurers to sell their shares in Casablanca listed companies and increasing net assets will require time. **Taxes,**

Exchange Controls and Private Placement Regulations

48. **As noted, relative to the standard corporate taxes paid by investment funds who choose to structure themselves as S.A.'s or other existing corporate entities., the OPCC tax regime offers clear tax advantages.** Most importantly, profits are exempt from tax and interests are exempt from capital gains. Still, all types of investment vehicles are subject to a series of "stamp taxes" on acquisition of shares, equity investments, and changes in capital.

Table 5.8. Tax Treatment of Investment Vehicles

	Traditional Vehicles			
Inestment Vehicle	**SA**	**SAS**	**LP**	**OPCR/ OPCC**
Registration fees on investing equity capital	3%	3%	3%	3%
Registration fees on acquisition of shares	3%	3%	3%	3%
Registration fees on capital changes	1%	1%	1%	0%
Contributions to current accounts	3.44%	3.44%	3.44%	3.44%
Capital gain from sale of shares	30%	30%	30%	0%

Source: UNCTAD and AMIC.

49. **Investors in the Moroccan ecosystem note that there are other complicating administrative factors with which they must contend, notable capital controls.** Purchases of foreign equity and debt securities by residents are subject to authorization by the Office des Changes. Authorized banks may transfer funds for the purchase of debt securities listed or traded on regulated markets in OECD, EU, or AMU member countries, on their own behalf or on behalf of (a) insurance and reinsurance companies for up to 5 percent of technical reserves, (b) pension funds for up to 5 percent of assets under management, or (c) UCITS for up to 10 percent of assets under management.. While investors report that permission is given as long as they comply with the regulations set by the office, the process is bureaucratic. Foreign investors are not generally subject to capital controls, however, foreign investors in an OPCC, which is itself a Moroccan entity, are subject to such controls, which creates a disincentive to invest in such entities.

50. **Local Moroccan funds with ambitions to act on a pan-regional basis are also exposed to foreign exchange controls (unless they have CFC status).** At present, Moroccan companies and investment funds are increasingly looking to take a leading role across the continent. For the financial services sector, especially for a PE fund, that ambition requires the flexibility to invest in companies domiciled in other parts of the MENA region or across Africa. Exchange rate controls, even if they are surmountable with appropriate paperwork, serve as a barrier to such a strategy and also complicate fundraising from sophisticated investors who may concerned that this lack of flexibility will show up in fund investment performance. They will also create a meaningful barrier to the creation of the Morocco Strategic Investment Fund, which has ambitions to invest on a pan-regional basis.

Entrepreneurship Ecosystem

51. **In Morocco, entrepreneurship support programs have largely been led by the public sector.** National Government Strategies are being implemented on the one hand through national instruments replicated in the various regions of the countries such as the RMIE or the Innovation Cities and Clusters, and on the other hand regional development agencies, with the belief that if the infrastructure and public incentives are in place, the private sector will follow. The RMIE comprises 12 university-based incubators that receive financial support from the National Center for Scientific and Technical Research (*Centre National de la Recherche Scientifique et Technique*, CNRST). Interviews indicated that the public business incubation system is not viewed positively by growth-oriented entrepreneurs, and the cases of financiers having financed enterprises that graduated from the business incubation system are rare. The business incubators focus on R&D, and use patents (as opposed to commercial success) as the primary indicator of success for their "business incubation" support, no performance and impact M&E system appear to be used.

52. **CRNST supports the business incubators by channeling funds through the business incubators to aspiring entrepreneurs (students and faculty) for the purpose of prototype development and proof-of-concept.** The incubators get a percentage of this funding to cover their business support expenses. This funding is not sufficient to cover the level of business support required by the entrepreneurs, though. The incubators often also struggle with university rules limiting the flexibility and agility of the incubators' operations. Despite the difficulties, a handful of the RMIE business incubators show promise due to the mindset and commitment of their leadership, notably the Inmaa business incubator in Marrakech. However they themselves acknowledge the limited capacity of the incubators' staff, that is, university employees and professors, to provide adequate business development support when they themselves lack private sector business experience and incentives to optimize the growth of the enterprises, hence limiting the support provided to office space and "business training".

53. **Recent public programs and initiatives have embodied lessons learned from past experiences and evaluations.** The OCP Foundation was created in 2015 to support social corporate responsibility of the State Owned OCP Groupe. Through its Entrepreneurship Network OCP aims to promote and foster the entrepreneurial ecosystem by focusing on key areas of entrepreneurial development. L'Agence Nationale pour la Promotion de la PME (ANPME) under the patronage of the Ministry of Industry Commerce Investment and Digital Economy (MICNT) has a new identity and vision. It is now called Maroc PME and its new vision 2020 is focused on the development of a competitive national ecosystem through the creation of sustainable employment, development of a growth oriented ecosystem and the promotion of a favorable environment for entrepreneurship.

54. **The GOM has also developed programs that would leverage the diaspora.** The Forum Internationale des Competences Marocaines à l'Etranger (FINCOME) program is an initiative supervised by the Office of the Prime Minister. FINCOME's objective is to facilitate the contribution of Moroccans living abroad to national development. Another platform « Maghribcom » launched by the Ministry in Charge of Moroccans Residing Abroad is an official site that provides information on; business opportunities, partnerships, investments, or employment with the aim of fostering linkages between the diaspora and universities, R&D centers and businesses.

Table 5.9. Public Incubators

Incubator	Acronym	Host
Centre d'Innovation Technologique	CIT	EMI[35]
Centre d'Incubation et d'accueil des entreprises innovantes	CIAEA	ENIM[36]
Incubateur RESIN	RESIN	INPT[37]/ENSIAS[38]
Incubateur Universitaire de Marrakech	INMA	Université Cadi Ayyad
Centre Universitaire Doukkala Incubation	CUDI	Faculté des Sciences d'El Jadida
Incubateur Régional Interuniversitaire du Sud	IRIS	Université Ibn Zohr
Incubateur Dynamique Est	—	Oujda
Incubateur du Technopark de Casablanca	—	Technopark Casablanca
Incubateur du groupe ISIAM	—	Agadir
Centre d'Incubation et de Formation à l'esprit Entrepreneurial de la Chaouia-Ouardigha	CIFECO	Settat
Pépinière « Maroc Incubation »	—	CNRST

Source: RMIE September 2011.

55. **With regard to the other publicly run programs available, Four Innovation Cities, (linked to universities) have been/are currently being set up in Fez, Marrakech, Rabat and Casablanca.** Their mandate is to promote R&D, innovation and technology transfer within companies; to promote innovation through the use of intellectual property, including patents; to bridge the gap between academia and the private sector; to foster the creation of innovative companies through the commercialization of research and the incubation process; and to contribute to the development of a market for innovation and technology transfer by encouraging service companies in R&D and innovation. Their operations have barely started, so it is too early to tell whether or not these Innovation Cities will contribute to the growth of innovative enterprises.

56. **The results of the innovation cluster approach have been limited.** A 2013 study from the ANIMA Investment Network (a cooperation platform for economic development in the Mediterranean) revealed that out of the 14 clusters established since 2001, only Casa Technopark gathering 180 innovative companies and the Maroc Numeric Cluster (MNC) hosted by Casa Technopark and counting 42 start-ups have shown some significant achievements. Similarly, the initiative Maroc Innovation adopted in 2009 aimed to foster the creation of 200 start-ups and the submission of 1000 patents by 2014, and the first assessments record that these goals will not be achieved.[39]

57. **There are also a handful of very recently established programs.** These are CEED (the non-profit arm of the Small Enterprise Assistance Fund (SEAF) and Endeavor. CEED started activities in Morocco in 2013. The program aims at developing, connecting and mentoring entrepreneurs to strengthen their businesses so they can create jobs and in turn accelerate economic prosperity while building a community of entrepreneurs. Through an intensive support combining #1 training (on BP, business model, sales, communications, marketing, financing, HR and pitch), #2 mentoring (provided by entrepreneurs and existing/aspirational angel investors) and #3

35 Ecole Mohammadia d'ingénieurs.
[36] Ecole Nacionale de l'Industrie Minérale.
[37] L'Institut des Postes et Télécommunications.
[38] L'Ecole Nationale Supérieure d'Informatique et d'Analyse des Systèmes.
[39] http://www.usinenouvelle.com/article/maroc-pourquoi-les-clusters-ne-decollent-pas-encore.N206787

networking opportunities (through events and linking with SEAF financing opportunities), the program includes 3 sub-programs targeting enterprises at their different stage of development, namely (a) GO TO MARKET, helping start-ups to build strong business model and business plan and to pitch their business to investors; (b) CEED GROW, which focuses on increasing the business' sales and to prepare the staff to be able to manage the additional revenues and growth hence generated; (c) CEED PRO (to be launched in 2015), that supports more mature companies in professionalizing their operations and supporting them as they engage on a new growth cycle.

58. **New Work Lab and StartupYourLife are among new promising organizations that aim to raise entrepreneurship awareness and facilitate peer-to-peer exchange and learning.** New Work Lab is a co-working space in Casablanca that also provides entrepreneurship awareness raising and many networking activities through the seminars, events, trainings, and other innovative initiatives they lead. StartupYourLife brings together a community of about 80 Moroccan and foreign entrepreneurs to facilitate peer-to-peer mentoring and peer-to-peer learning and networking opportunities through seminars and events organized under themes relevant to Moroccan early-stage entrepreneurs.

59. **Endeavor operates at the high end of the spectrum with entrepreneurs that are already quite established, but have the potential to be truly transformational.** They aim to support 21 "high impact companies" (selected from 500+ applicants). The support to be provided over the next 36 months will focus on facilitating access to smart capital, accompanying the companies along their growth path so they efficiently manage their growth and facilitate exchanges with other entrepreneurs and local stakeholders to demonstrate the transformative effect successful companies can have on the ecosystem, notably with regard to job creation, and generate a catalytic effect to foster growth-oriented entrepreneurship in the country.

60. **Réseau Entreprendre started in 2005 as the Moroccan chapter of an international network gathering CEOs aiming to support new entrepreneurs in setting up or buying an enterprise.** The support provided by Réseau Entreprendre combines an interest free loan for 5 years (usually in the range of US$6,000 and US$10,000) provided by partner banks and guaranteed by the "Caisse de Garantie", with coaching support provided by an experienced entrepreneur that provides support on a voluntary basis. The graduates from the program meet monthly for discussion and training on topics such as finance, marketing, prospects, relationships with banks, and so on. Between 2006 and 2012, 56 companies were supported by the network, and some of the coaches have also invested in the companies.

61. **A few organizations aim at facilitating awareness raising, peer-to-peer exchange and learning.** The AFEM, established in 2000—operates three working spaces for women entrepreneurs in Casablanca (40 spaces), Rabat (10 spaces), and Agadir (20 spaces) and is currently in the process of establishing additional spaces in Fez, Tangier, and possibly Marrakech. The AFEM supports the development of business plans of business ideas led by women entrepreneurs (hosted in the working spaces) through an 18-month support program. The graduates then become members of the women CEOs network which currently gathers 300+ members which plays an important advocacy and lobbying role as well as facilitating peer-to-peer learning among them. From 2006–2012, 70 enterprises were created. Seventy-six enterprises were receiving pre-incubation support through the AFEM in November 2012.

62. **The Women Mentoring Association established in 2010 gathers 300+ women business leaders providing mentoring support to other women entrepreneurs through a one year support program.** The network works closely with similar organizations around the world, notably from the MENA region and provides training for mentors to be. New Work Lab is a co-working space in Casablanca that also provides entrepreneurship awareness raising and many networking activities through the seminars, events, trainings and other innovative initiatives they lead. StartUpYourLife brings together a community of about 80 Moroccan and foreign entrepreneurs to facilitate peer-to-peer mentoring and peer-to-peer learning and networking opportunities through seminars and events organized under themes relevant to Moroccan early-stage entrepreneurs.

63. **Evaluations of most of the programs highlight several areas of weaknesses in the current ecosystem: Entrepreneurship spirit or risk culture,** lack of accelerators and challenges faced by start-ups in accessing markets or getting their first contract. The Centre Marocain de l'Innovation [CMI] — is an incubator recently created (integrated as part of Maroc PME) incubates and supports start-ups across Morocco. The CMI's TAMKEEN Initiative, funded by the OCP Foundation, works to build entrepreneurship awareness and capacity of students in high schools and universities the program trains students, administrators and teachers in the area of critical thinking and problem solving and how to commercialize an idea. PME Maroc, CEED, and the OCP Foundation support programs like injaz—a regional platform—and Entrepreneurship Action US (ENACTUS) which is to offer training and small grants to university students seeking to establish a company.

Annex 6: Project Stakeholder Consultations

MOROCCO: Financing Innovative Startups and SMEs Project

Table 6.1. Project Stakeholder Consultations List and Summary

NOM	ORGANISATION
M. Badie El Hirache	AL AMANA Microfinance
Mme Françoise Giraudon De Donder	AMIC
Mme Najate Berrada	AMIC
M. Tarik Haddi	Azur Partners
M. Othman Alaoui	Brookstone Partners
Mme Touria Lahrach	CCG
M. Rachid Bourazza	CCG
M. Taoufiq Lahrach	CCG
M. Amal Sahban	CCG
M. Hicham Maarouf	CDG Capital PE
M. Hassan Laaziri	CDG Capital PE
Mme. Leila Mikou	CDG Capital PE
Mme Meriem Zairi	CGEM
Mme Meryem Gam	CGEM
Mme Malika Laassri Lahlou	CGEM
Mme Khawla Riffai	CGEM
M. Ilyas Azzioui	CNRST
M. Brahim Bouali	Fondation Création d'Entreprise Groupe Banque Populaire
M. Khalil Azzouzi	Fonds Dayam et Media Network
M. Hassan Charraf	FCE
M. Samir El Aichaoui	Happy Venture
M. William C. Fellows	Lixia Capsia Gestionis LLC
M. Omar El Hyani	MNF
Mme Dounia Boumehdi	MNFd
M. Mokhtar Tazi	Maroc Numeric Cluster
M. Hicham Bouzekri	MASCIR
Mme. Nawal Chraibi	MASCIR
M. Abdelhaq Ammani	MASCIR
M. Mohammed Benmbarek	MASCIR
M. Ali Guedira	MASEN
M. Obaid Amrane	MASEN
M. Mohamed Bernannoli	MASEN/Cluster MCIC
M. Hicham Talby	MEF/DTFE
Mme Lala Aicha El Bouaanani	MEF/DTFE
M. Abdessamad Farah	MEF/DTFE
Mme Fatima Lamhadri	MEF/DTFE
Mme Smahane Amrani	MEF/DTFE

NOM	ORGANISATION
M. Mouad Jermouni	MEF/DTFE
M. Benhida Touhami	Ministère des Affaires Générales et de la Gouvernance
M. Omar El Hyani	MITC Capital
M. Mohamed Smani	R&D Maroc
M. Abdelhak Chraibi	R&D Maroc
Mme. Fadwa Ettalbi	R&D Maroc
Mme Asma Azeddou	REM
Mme. Naoufal Chama	Start up Maroc
Mme Najate Berrada	TechFinance
M. Abdelaziz Benjouad	UIR
M. Mounir Ghogho	UIR
M. Halloum Movrad	UPLINE Investments
M. Adil Rzal	UPLINE Investments
M. Karim Benjelloun	Viveris Istithmar/AMIC
Mme Nawal Filali	Banque mondiale
Philippe de Meneval	Banque mondiale

1. During spring 2016, the World Bank and the Ministry of Finance undertook a series of stakeholder workshops and consultations in Morocco to discuss the project concept and solicit feedback. The main discussion points are summarized below:

(a) **Structure of the investment component.** The current structure of the Investment component provides for one single Investment Fund with three different financing windows (seed, early-stage, and VC). Several stakeholders noted the current structure of the Investment component might suffer from lack of private sector co-investors at the seed and early stages. An alternative model proposed would be the creation of separate funds, managed by different managers, addressing the various stages (seed, early-stage, and VC). The mission noted that if the investment component were separated in this alternative way, it would be easier to attract proper Fund managers to run the early-stage/VC funds.

(b) **Legal Framework for angel investments.** There are legal issues concerning the rules governing S.A.) and Société à Responsabilité Limitée (SARL) that could constitute a binding constraint to investments for the seed and early stages (especially for firms younger than three years). Stakeholders noted the difficulty of investing if you are not a majority investor and the lack of ability to take a number of critical risk sharing (equity-side) actions may create challenges in targeting seed stage investments.

(c) **Investment targets.** Several stakeholders noted that the target for the project to provide investment capital to 200 firms (total, all stages) was ambitious given the current seed/early-stage/VC environment currently in Morocco. In addition, some stakeholders questioned whether setting leverage targets for each funding category would impose a constraint on the funds.

(d) **Life span of the fund.** Several stakeholders posed questions regarding the timeline of the Fund, given the World Bank loan life of six years. They noted that this was not enough time for the project to achieve its targets given the investment community in Morocco generally operates on a notional 12-year cycle (around six years for investment, and six years for exit

(e) **Technical assistance.** A critical element to the project's success will be the support provided by the technical assistance component.