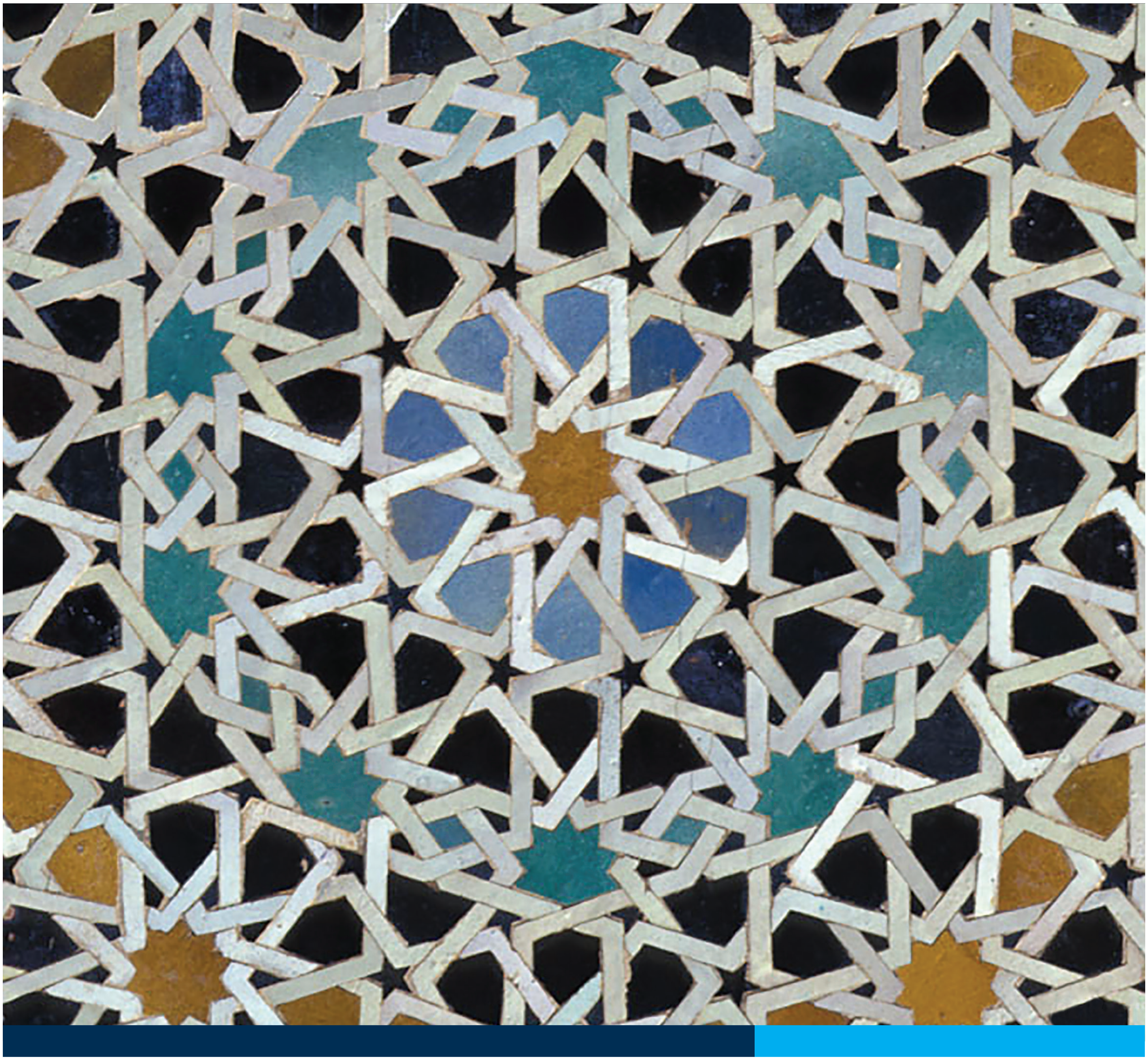

Supply Chain Finance in Morocco: Preparing for the Future

Market Study

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Executive Summary

OBJECTIVES AND METHODOLOGY

This report provides an assessment of the Supply Chain Finance (SCF) environment in Morocco, examining supply, demand and potential opportunity of SCF and identifying ways to build scale for SCF programs, accelerate its adoption, and ultimately contribute to the economic development of the country. The report also presents an overview of market practice, SCF solutions and processes, as well as an analysis of the SCF legal and regulatory framework in Morocco.

The findings of the report are based on qualitative research, and face-to-face interviews and focus groups, with corporate anchors, banks, regulators, small-medium enterprises (SMEs) and other market players. The lessons learned from SCF practitioners are utterly relevant in the current global economical situation. As much as SCF practices and instruments grew in relevance and attention during the post-financial 2008/9 crisis, we can only expect that in a post-COVID 19 world companies of any size (especially SMEs) will desperately seek for liquidity, and cash will be more than ever king. Working capital represents a source of liquidity, and SCF instruments allow corporate treasurers to optimize it in a sustainable way.

SMEs in Morocco still face critical issues even though they represent over 95 percent of all companies in the country and are a major source of employment and wealth

MAIN FINDINGS

Morocco is a leading economy in the continent, but its enterprises still face systemic challenges. Morocco is the 5th largest economy in Africa in terms of GDP (as of 2018). It is considered as regional economic and financial hub, having a well-diversified economy and characterized by a dynamic banking and financial sector with a positive economic outlook. Key economic sectors such as Services (accounting 57 percent of GDP), Industries (29 percent of GDP), and Agriculture (14 percent of GDP), have been stimulated by reforms in the country's legislative, regulatory, and institutional frameworks. These reforms have substantially improved the country's ease of doing business rankings, which has helped encourage foreign direct investment and stimulated the business climate in general. Nonetheless, the Moroccan economy and businesses operating in Morocco face several challenges; SMEs in Morocco still face critical issues even though they represent over 95 percent of all companies in the country and are a major source of employment and wealth.

The Moroccan government and Central Bank have initiated many programs aiming to enhance financial inclusion and promote SMEs. They united to launch the National Strategy for Financial Inclusion, involving both public and private actors in the effort to develop models of financial inclusion, improve access to financing for small businesses, enhance financial awareness, and develop digital payment systems. A robust enabling environment is being established that includes a wide variety of support mechanisms for SMEs in Morocco.

Moroccan SMEs financing gap is estimated to be $37 billion. SMEs have limited access to the short-term working capital financing needed to develop and grow, as 84 percent of bank loans require collateral. SMEs are also suffering from long payment delays from their clients (private and public). SMEs find that their top clients (also known as "Anchors") benefit from having financial and market leverage in deal negotiations. Interviewed Anchors admit using payment terms as an adjustment variable to increase their cash flow, at the expense of the viability and longevity of their SME suppliers and threatening the SMEs' overall economic output. Given that financially instable suppliers may directly threaten the Anchor's own business (as in many cases SMEs provide strategic supplies), SCF schemes are grabbing the Anchors' attention as an interesting option to improve their SME suppliers' liquidity, sustainability and future economic growth. Moreover, there is a strong market opportunity to adopt and build scale for SCF in Morocco, as market stakeholders express a real need and eagerness for SCF, especially given that the economic context is deeply impacted by severe payment delays which put under pressure both Anchors and suppliers.

Most market players, including Anchors, are aware of the importance of SMEs in maintaining market sustainability. Corporate Anchors confirm to be increasingly concerned about the importance of securing their supply chain and are therefore willing to consider new approaches to support their SME trading partners. Banks, from their side, are attracted by the SME market, and are therefore interested in further developing financial and non-financial solutions and services to help SMEs to invest, grow, and expand, while keeping risk under control.

Stakeholders stand to benefit greatly from supply chain finance solutions. The most important SCF instruments are categorized as Supplier Finance and Buyer Finance. In the first category are instruments that finance the procurement processes of the Anchor. The second category comprises financing instruments for the Anchors' clients and distributors. The market opportunity potentially financeable through SCF solutions in Morocco is estimated at MAD 80 billion, using a sampling of largest Moroccan Anchors and including both Supplier Finance and Buyer Finance SCF categories for each eligible industry sector.

Several sectors have the prerequisite critical mass to successfully implement Supplier Finance and Buyer Finance schemes. Supplier Finance represents 75 percent of the opportunity, making it a much bigger opportunity than Buyer Finance. Furthermore, the report findings confirm that SCF solutions can effectively address the financing challenges of Moroccan SMEs. The market players interviewed agree on the relevance of Supplier Finance to address the needs of SMEs to optimize their working capital. The prerequisites for a successful implementation of any SCF program require thorough review of the legal, regulatory, and accounting frameworks in place in the country.

The market opportunity potentially financeable through SCF solutions in Morocco is estimated at MAD 80 billion

Launching SCF programs on a large scale might face some obstacles that must be resolved before they represent a serious threat. Morocco's incomplete regulatory framework and lack of systematic enforcement for a rather new business discipline as SCF is posing major issues to banks and companies. In addition, the current Moroccan legislation suffers from slow enforcement, and the legislative framework expects to be modified especially with regards to innovative financial instruments. Obstacles to SCF not only come from the enabling environment. The unwillingness of certain operators to share key data, such as client lists and billing volumes, adds a burden to the already uneven itinerary of SCF programs in the country.

MAIN RECOMMENDATIONS

Improve and enforce the legal and regulatory framework

In Morocco, the length of payment terms has been growing since 2000, reaching 99 days in 2017. While several reforms to shorten payment terms have been made to the legal and regulatory environments, there are still gaps that impact the free flow of capital and prevent a more widespread adoption of alternate financing options, such as supply chain finance.

The government should enforce the law related to limiting payment periods to 60 days and should define penalties for late payers. Doing so would put pressure on large Anchors that may see their brand reputation put at risk as "late payers" or "SME starvers". Aside from putting pressure on reluctant Anchors, regulators should also pursue the initiative related to the Observatory of Payment Terms and the reform of the legal framework on securities over movable assets so that tangible and intangible assets can be used as a security of repayment against bank financing. This innovation would mostly benefit SMEs that are now required to present physical collateral.

The legal and regulatory framework needs to be aligned with SCF pre-requisites, especially by ensuring the application of laws related to dematerialization for digital invoicing, signatures and accounting. The regulation related to transfer of assignments, pledges and subrogation must also be clarified.

The public entities as well as private sector leads should play the role of raising the awareness among market players about SCF

Improve market readiness and maturity

Currently, most market players are still relatively unfamiliar with SCF, except for one of its instruments, Factoring, which has been in place for over 20 years in Morocco. And even though another SCF instrument- Reverse Factoring- is known by banks and by most Anchors, it is still unknown by the vast majority of Moroccan SMEs. For that reason, the government as well as private sector leads should play the role of raising the awareness among market players (public sector, financial institutions, corporates and SMEs) about SCF and about operational solutions to tackle and reduce late payments and long payment terms.

Financial institutions, domestic and international platform providers, and enabling organizations should participate by providing tailor-made training and support to improve knowledge on cash flow management and working capital optimization. They should also explain how to onboard new Anchors and SMEs on SCF information programs. Government agencies with a significant number of SMEs suppliers could be suitable targets for pilot project implementations.

Develop and implement SCF solutions

In order to foster an appropriate enabling environment for supply chain finance schemes, key stakeholders need to build dedicated and well-tailored SCF solutions, starting by (i) defining a robust Business Model that offers lower costs than traditional financing schemes, and (ii) setting up a well-established methodology for recruiting and training specialized and qualified staff, in order to design, implement and manage supply chain finance programs.

Align the accounting framework

The accounting framework is a global question, not specific to Morocco. Although currently there are thousands of SCF programs in place worldwide, a standard framework to harmonize domestic and regional accounting practices for supply chain finance products is still missing. Whether a scheme is a trade payable or financial debt, it can have an important effect on several key financial ratios, including leverage, gearing, the current ratio and the quick ratio, as well as the cash flow statement. This has implications for financial analysis and assessment of the enterprise's performance, in particular by rating agencies.

In the absence of a dedicated global SCF accounting framework, International Financial Reporting Standards (IFRS) are recognized as the de-facto reference to activate when implementing supply chain financing programs.

Address technological considerations

Technology is a key enabler for supply chain finance programs: SCF transactions rely on the exchange of electronic invoices between trading partners and financial providers. The most appropriate technological architecture is an exchange platform on which all trading parties can operate. In the majority of cases it is a financial institution (FI)- or a group of FIs united in a syndicated pool- that orchestrates and manages the operations of the platform. It becomes, therefore, very critical that the FI select the most appropriate platform structure to deploy. The best practice structures to consider are: i) one single platform used by all participating FIs, developed and monitored by a third-party provider; ii) individual FI level platforms, either internally developed by the FI or a white label platform (purchased from one of the multiple market providers); or iii) a hybrid strategy combining both concepts. In any case, given the number of parties engaged, measures to safeguard the confidentiality of data need to be implemented to instil confidence in the system.

The selection of the technology platform requires attention to four important factors: sustainability, automation, simplicity, and scalability. Indeed, technology should offer many advantages in the SCF space, including more efficient invoice processing, real-time validation of invoices, irreversible transactions, and simple and intuitive onboarding processes for both Anchors and SMEs, with a one-click-through experience. Among these benefits, the efficiency of electronic invoice processing is considered to be the most important, since it directly determines how fast the creditor can expose the electronic invoice in the platform to have it approved by the buyer and- hence- use the receivable (i.e., the approved invoice) as security of repayment to the financing party (typically a bank). The faster the process, the faster the creditor (i.e., the supplier) receives financial support to unlock its working capital. The implementation of the SCF platform must take into account that some jurisdictions still require the use of paper-based invoices and stamps. This demands a proper integration of innovative technology SCF applications with existing legacy software at the Anchors, the SMEs, and the banks.

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January 2020

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