
Scoping study:

Development of a financing offer relating to the green economy in Morocco

WORKSTREAM 1:

Gap analysis of the offer of and needs for green finance instruments across sectoral value chains targeting small and medium-sized enterprises (SMEs) in Morocco





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Details

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Executive Summary

Background and objectives of the study

Background. Since 2010, Morocco has been considering the green economy as a crucial complementary element to its sustainable development agenda with the potential to trigger development opportunities in various economic sectors. Morocco’s National Strategy for Sustainable Development (NSDS) and its initial and updated nationally determined contribution (NDC) set the country’s commitment to the green economy and put forward the various actions for mitigating greenhouse gas (GHG) emissions and adapting to climate change.

While the transition to a green economy concerns all actors in the economic fabric, particular attention should be paid to Morocco’s small and medium-sized enterprises (SMEs) as these businesses represent 93% of all companies in the country and employ over 46% of its workforce. However, these businesses generate only 40% of the nation’s gross domestic product (GDP) and 31% of its exports, demonstrating the growth potential of Morocco’s SMEs and the need for support with integrating into global value chains. To achieve this potential, these companies require diversified and accessible financial assistance that allows them to grow in line with Morocco’s green vision, in turn benefiting the national economy, bolstering the competitiveness of Moroccan SMEs in international markets and allowing the country to meet its climate and sustainability targets.

In order to effectively contribute to the development of green investment mechanisms for Moroccan SMEs, the Ministère de l’Economie et des Finance [Ministry of Economy and Finance] (MEF) of the Kingdom of Morocco, with support from the British Embassy in Morocco (part of the Foreign Commonwealth Development Office) and Financial Sector Deepening Africa (FSD Africa), has commissioned this scoping study. This study focuses on the provision of green finance to SMEs, helping them to both grow by offering green products and services and improve the sustainability of their own operations.

Objectives. The objectives of this study are therefore to:



While objectives 1) and 2) are covered in this report, objective 3) will be tackled in sequence and covered in a separate workstream (WS).

Mapping the green finance demand by SMEs

Demand mapping via NDC actions: Morocco’s NDC implementation action plan, or the main document guiding the climate-relevant component of the Moroccan economy, was analysed in this study as a proxy for understanding the expected demand for green financing from SMEs. In line with the updated Moroccan NDC, the planned actions in the areas of mitigation and adaptation will require USD 38.8 billion and USD 40 billion, respectively. SMEs are expected to play an important role in delivering Morocco’s NDC, with around 40% of the mitigation actions and 55% of the adaptation actions to be implemented by SMEs either directly or through subcontracting to large enterprises (LEs).

Additional green demand from governmental procurement and challenges to access faced by SMEs: the Moroccan legislative framework has recently evolved to enhance application of the green economy principles. The State Exemplarity Pact established in the implementation framework of the NSDS, designed to promote sustainable and responsible public procurement, represents another opportunity for SMEs to become further involved in the green economy. Sectors that will require sustainability-focused products and services in line with the new legislation include energy efficiency (EE), small- and medium-power renewable energy (RE) development, water saving technologies, purified water purification and reuse and green industrial zone development.

However, while government initiatives create great opportunities within the green economy for SMEs, there are still inherent challenges preventing smaller companies from becoming involved in a public procurement system which still predominantly favours LEs. This challenge should be addressed in future procurement decisions made by governmental bodies to allow SMEs to better take advantage of these emerging opportunities.

International pressure to decarbonise: in addition to the growing internal demand for Moroccan companies to get involved in greener sectors and provide more sustainable products and services, there is also a growing international pressure for decarbonisation. The European Union’s (EU) imminent Carbon Border Adjustment Mechanism (CBAM), a climate tariff requiring all EU trading partners to decarbonise or pay a fee for their exports to the EU, creates an economic incentive for Moroccan companies to decarbonise their operations via energy efficiency and low-carbon energy measures. The implementation of CBAM, while initially prioritising more energy-intensive sectors (e.g. electricity generation, cement, fertilisers, iron, steel and aluminium), will expand its coverage over time, resulting in the need for internationally trading SMEs to invest in the decarbonisation of their operations.

Analysis of the greening potential of economic sectors: the assessment of the Moroccan economy undertaken in this study helped to identify the sectors which are expected to have the highest demand for green finance. This demand is expected to stem both from Morocco’s national need for green actions and the growing international pressure for decarbonisation. The nine priority sectors identified are:

	Agriculture, forestry and fisheries		Trade and repair of motor vehicles and motorbikes		Construction
	Manufacturing industry		Extractive industries		Water production and distribution, sanitation, waste management and remediation
	Production and distribution of electricity, gas, steam and air conditioning		Human health and social work		Transport and storage

Within the above sectors, the assessment also identified subsectors with the highest scaling potential (i.e. sectors with the largest number of companies able to benefit from access to new green financing opportunities and to support the spread of green practices). These subsectors include trade (wholesale and retail), land and pipeline transport and construction (encompassing both building contraction and specialised construction work). These subsectors also tend to have large turnovers, thereby representing areas of high importance for Moroccan economic growth.

As such, it is suggested that any new green finance solution to be implemented in Morocco considers the specific financing needs and conditions of these sectors to maximise benefits for the Moroccan green transition.

Mapping the green finance offer for SMEs

Green finance offer mapping: during the last few years, several financing offers dedicated to green projects have emerged in Morocco. These have been initiated by public institutions focused on providing support to companies in Morocco, such as Maroc PME and TAMWILCOM, and by development finance institutions (DFIs) partnering with local commercial banks. These offers are primarily presented in the form of grants, debt or equity funding focusing on more innovative enterprises. Of the 13 main finance offers analysed in this study (see Figure 1), 10 provide information on USD 4.9 billion of available financing planned for distribution between 2019 and 2024.¹

Figure 1: Mapping of green finance offers for SMEs



(Source: based on authors' own research and Cluster Solaire, 2021)²

SME eligibility: unlike larger companies, SMEs are eligible for all current green offers and predominate in the projects eligible for green credit lines. However, it is mainly the largest SMEs in terms of turnover, workforce and organisational resources that have benefited from the first financing offers put on the market. This disparity highlights the importance of ensuring that very small enterprises (VSEs) also have access to green finance, given their importance to the economy and the high number of people employed by them.

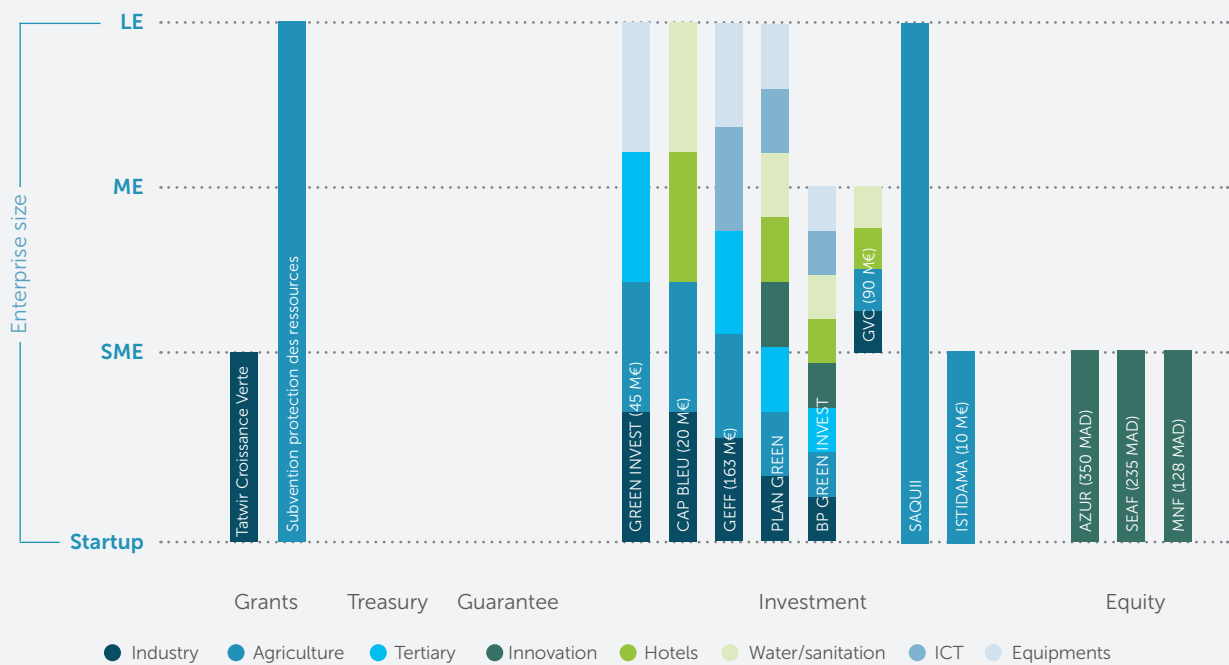
¹ Distribution timelines are programme-specific and vary among the considered programmes.

² Cluster Solaire. (2021). Décarbonation et économie verte: Guide des programmes de financement et d'appui pour les entreprises marocaines. <https://www.amee.ma/sites/default/files/inline-files/Guide%20des%20Programmes%20de%20Financement%20et%20D%27appui%20pour%20les%20Entreprises%20Marocaines.pdf>

Types of eligible projects: green credit lines currently focus primarily on financing EE and RE projects. While these are crucial for tackling climate change and are important for Morocco's international trade, there is a need to expand the current offer to cover other categories of green projects. This situation has started to change lately, with the Agence Française de Développement [French Development Agency] (AFD), for example, setting up a credit line dedicated to adaptation. Additionally, a lack of financing for working capital requirements has been identified as greenfield projects are not eligible for any analysed source of finance.

Sectoral coverage of the green finance supply: green finance is currently directed primarily towards the industrial and agricultural sectors, while other sectors with high mitigation, adaptation and wider sustainability potential (e.g. housing and fisheries) gain little to no attention (see Figure 2).

Figure 2: Sectoral analysis of green finance offerings



(Source: the authors, 2022)

Types of available finance:

- 1 **Grant financing:** grants for SMEs have recently become available and specifically cover green projects.
- 2 **Debt financing:** while there has been little take-up of the Green Invest co-financing and Tatwir Green Growth investment premium products, there has been success with the green credit lines offered by the DFIs which, in addition to credit, provide a subsidy and free technical assistance. However, these DFI-supported credit lines may disappear in the future if not sufficiently supported by local finance providers.

3

Equity financing: at present, only three equity funds devote part of their investments to green companies, mainly targeting greentech solutions and technologies. Private equity fund management companies have expressed interest in structuring green equity and mezzanine funds.

4

Stock market: green investments from individual SMEs are not large enough to be able to use green bonds as instruments for attracting institutional investors, or the main players in the stock market. An aggregation mechanism could potentially be used to structure joint issues for a pool of SME projects to achieve sufficient finance volumes for bond issuance, while credit enhancement and guarantee schemes may also reduce the barriers for SMEs.

5

Guarantees: currently, TAMWILCOM has a generic program targeting SMEs and covering credit guarantees without a particular target of green projects. The Moroccan government is currently working on the development of a guarantee instrument.

Gaps and challenges

The gap analysis undertaken within this study has been limited by the availability of existing data and information gathered through stakeholder consultations, with data being restricted enough so as to prevent a quantitative assessment of the gap in green finance for SMEs in Morocco. Still, the findings of the analysis have identified:

1. Strong and ambitious targets associated with Morocco's NDC;
2. High greening potential associated with various economic sectors;
3. Several measures promoting green activities being implemented on a national level (e.g. sustainable public procurement, a green taxation framework and a green taxonomy);
4. A systematic consideration of the greening concerns at the level of national sectoral plans; and
5. Gaps to be filled in the offer current funding for SMEs in terms of tailored green products and/ or sector coverage

Hence, the analysis demonstrated significant demand for green financing among SMEs and appreciable gaps in green finance supply, both in terms of its sectoral scope and the types of projects and financing instruments covered. With Morocco's ambitious NDC implementation plans requiring USD 78.8 billion over the next eight years and 40% of actions to be implemented by SMEs, the demand for green financing is likely to grow, particularly if awareness of green financial opportunities continues to increase. Given the specific characteristics of SMEs and green projects, the green financing option currently on offer, estimated at around USD 4.9 billion between 2019 and 2024,³ appears to be insufficient. It will therefore be necessary to increase the finance offer by strengthening existing financing programmes and implementing new instruments.

³ Of the 13 main finance offers analysed in this study, 10 provide information on over USD 4.9 billion of available financing planned for distribution between 2019 and 2024.

Box 1: Main findings of the gap analysis

Limited sectoral coverage

Agriculture and industry each have high economic value added (EVA) and greening potential, making them the safest and most obvious sectors for the provision of investment subsidies and premiums. These two sectors are also predominant in terms of the green credit lines for which they are systematically eligible, due to their economic importance and greening potential.

Some sectors with high greening potential, (e.g. transport, water and electricity production) or that are most important for the national economy (e.g. construction, trade and health) remain poorly covered by the current green finance supply. The fact that these sectors also have lower EVA has likely contributed to them being underserved by the current supply of green funding. Green finance targeted at these sectors, together with targeted public spending and fiscal incentives, can contribute to improving their competitiveness and increasing their EVA.

Limited coverage of the different green components and activities

Green finance supply is still mainly focused on EE and RE projects, whereas there is large untapped potential for greening the economy in diverse components (e.g. fisheries and sustainable housing) that are not sufficiently covered by the present supply of green finance.

Limited supply of financial instruments with a dedicated green offer

While the gap analysis undertaken focuses mostly on how the current supply (i.e. grants, credit lines and equity) addresses the different sectors and green components, a broader gap in the availability of green products has also been identified. At present, there are no insurance or guarantee products with a targeted green offer, and even the equity funds available are not exclusively dedicated to green activities but rather cover them through funding start-ups focused on the green economy.

(Source: the authors,2022)

Box 2: Barriers and challenges associated with the supply of green finance to small and medium-sized enterprises



Conditions for finance access are, in some cases, inadequate for addressing the needs of SMEs due to specific constraints faced by these companies.



Equity fund managers face issues in raising funds specifically targeted at green activities and/or SMEs.



The lack of local expertise in the green economy limits the green finance supply in Morocco.



The regulatory framework does not provide sufficient incentives to SMEs for a clean energy transition

(Source: the authors,2022)

Box 3: Barriers and challenges associated with the demand of green finance to small and medium-sized enterprises



Lack of awareness around and interest in green finance from SMEs.



Inherent characteristics of SMEs, such as a lack of solvency or undercapitalisation, contribute to creating barriers to accessing finance.



Green projects and investments tend to have higher costs in the short term and longer payback periods than ordinary investments, making them less attractive.

(Source: the authors,2022)



















Recommendations

Recommendations for taking advantage of opportunities and addressing identified barriers are presented in Table 1. These recommendations can inform the design and implementation of future government policies.

Implementation of the suggested recommendations could potentially be funded via a support mechanism for green SME financing, to be established with the support of financial partners. This could take the form of a loan to support reforms and finance the implementation of a selection of programmes addressing the barriers to green SME financing in Morocco. During consultations, selected DFIs, including the AFD, the Kreditanstalt für Wiederaufbau Development Bank (KfW) and the European Bank for Reconstruction and Development (EBRD), expressed awareness of the importance of such reforms to strengthening the green financing ecosystem and ensuring the suitability and sustainability of new and current financial offers. These DFIs have indicated their interest in potentially contributing to the financing of this support mechanism.

Table 1: Recommendations

Barriers/ challenges	Recommendations	Priority
Regulatory framework	Acceleration of the ESCO accreditation scheme.	
	Make mandatory regulatory energy audits effective.	
	Improve the framework for self-generation of electricity to allow companies to feed their production into the grid.	
	Improve the framework for public procurement (e.g. increasing the maximum duration of public procurement to match the duration of EPCs).	

Barriers/ challenges	Recommendations	Priority
	Accelerate the entry into force of the requirements of the new decree currently being drafted to address the general clauses in public contracts and replace Decree No. 2-12-349 of 2013.	
	Ease prudential regulation rules on banks in favour of financing green projects of SMEs.	
Tax framework	Restore the cost and risk balance of green projects through fiscal incentives (e.g. VAT on green equipment, customs duties, tax credits and accelerated depreciation).	
	Tax energy-intensive sectors.	
	Review the texts governing the fees related to the direct and indirect discharge of liquid effluents from industrial units into the receiving environment.	
	Adopt the decree on the discharge of industrial units into the coastline.	
	Strengthen the control and monitoring capacity of the environmental police to ensure compliance with the parameters for liquid, gaseous and solid discharges from stationary and mobile emission sources in industry.	
Green taxonomy	Accelerate the implementation of a taxonomy for green projects.	
Information/ awareness raising	Design and implement awareness campaigns for SMEs on the benefits of energy transition and information on green finance offers.	
Eligibility of SMEs	Provide targeted support to improve the structure and governance of SMEs and strengthen their equity capital.	
	Ease the conditions for access to finance in exchange for stronger monitoring mechanisms.	
	Strengthen the ecosystem around the main donors for the management of risks associated with SMEs.	
	Establish an adapted and dedicated guarantee scheme for green projects.	
Technical assistance	Provide capacity building for public and private sector actors involved in green finance.	
	Provide capacity building to address SMEs' weaknesses (e.g. lack of financial literacy and transparency, poor governance and risk management practices).	
	Build on the technical expertise of the AMEE.	
	Certify, promote and support credible local institutions that have strong capabilities in the green economy.	
	Provide capacity building for trainers and potential technical assistance providers.	

Barriers/ challenges	Recommendations	Priority
Green economy ecosystem	Promote greentech industrial sectors.	
	Create a market for certified green equipment.	
	Promote an effective involvement of the public sector in improving and disseminating knowledge and initiating the required fiscal and regulatory reforms.	

(Source: the authors, 2022)

 Low  Medium  High

Suggestions for the new financial instrument: while the development of the recommendations for the new financial instrument will be the focus of WS2 of this assignment, some findings from WS1 already provide preliminary suggestions for its design. Based on the current landscape of Moroccan green finance, the following financial instruments can be considered for introduction:

Credit guarantee facility, providing a partial guarantee for debt instruments for the broader clean technology sector. Its implementation would contribute to reducing the guarantee gap that currently exist on the market while supporting green sectors that are currently struggling to access finance.

Equity contributions to SMEs providing a first-loss provision from a proposed equity fund to catalyse and leverage commercial private equity investments in SMEs. This can be beneficial as the undercapitalisation of SMEs results in little opportunity for undertaking larger projects.

Finally, addressing the matter of limited technical capacity in Morocco is essential for the success of any instrument and for increasing SMEs access to green finance. Given the lack of sufficient technical green finance expertise in the country, both from SMEs with limited understanding and capability to pursue green finance offers and from financial institutions (FIs) with limited capacity to design and implement green finance products, the implementation of a technical assistance facility to increase local capacity in green finance is highly recommended.