

CIH BANK, MOROCCO – DOWNSCALING TO TARGET SMALL ENTERPRISES

1. DEVELOPMENT RELEVANCE

Economic and poverty context: Morocco has capitalised on its proximity to Europe and relatively low labour costs to build a diverse, open, market-oriented economy. Since taking the throne in 1999, King Mohammed VI has presided over a stable economy marked by steady growth, low inflation, and gradually falling unemployment, although poor harvests and economic difficulties in Europe have contributed to an economic slowdown. To boost exports, Morocco entered into a bilateral free trade agreement with the USA in 2006 and an advanced status agreement with the European Union in 2008. Although Morocco's sustained growth has contributed to reducing poverty rates

Population and economic indicators ¹	
Population (in millions) (2015)	34.38
GDP growth (2015)	4.4%
Inflation (2015)	1.5%
Economic Freedom Index ² (Rank among 186 countries) (2016)	85
Poverty indicators	
GDP per capita (USD) (2015)	2,871.5
Gini Index (0= equality 100= inequality)	n/a
International, national and rural poverty rate (at USD 1.90/day)	n/a

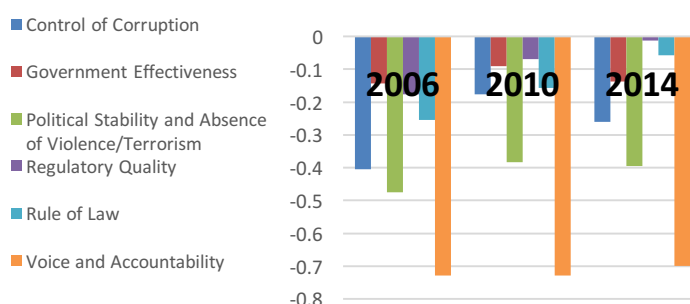
(a fall from 16.3% to 8.9% in the poverty headcount rate at the national

poverty threshold between 1998 and 2007³), unequal wealth distribution between the regions and pockets of poverty persist. The key economic challenges for Morocco include reforming the education and judicial systems and also effectively reducing poverty, while increasing the competitiveness of the private sector⁴.



Financial sector context: Morocco's financial sector has been significantly reformed. Today, it is relatively well integrated into the global financial market, and has proven resilient to the crisis. The central bank has strengthened regulation and supervision in line with international standards. Morocco has a modern payment system and its Credit Bureau has also included microfinance since 2011. By 2015, the banking sector comprised 19 banks with more than 5,000 branches across the country. The three largest banks account for two thirds of the sector. Despite significant progress with savings, only a small section of the economy has access to loans. These are mostly larger enterprises, although only approximately 10% can provide sufficient collateral. Moroccan authorities are actively engaging in reform to further expand access to financial services, for small enterprises in particular, and to promote financial inclusion.

Governance indicators, Morocco (2006-2014)



Partner financial institution: CIH Bank⁵ was established in 1920 as a public office specialised in real estate financing. In 1988, it became a licensed bank controlled by the state-run Caisse de Dépôts et de Gestion (CDG). Retail and corporate banking were introduced in 2001, and ten years later the retail banking division

¹ The World Bank Group (2016). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed 8 September 2016.

² Heritage Foundation, (2016) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed 8 September 2016.

³ Percentage of the population living below the national poverty line. Source: <http://data.worldbank.org/country/morocco>

⁴ CIA, The World Fact Book: <https://www.cia.gov/library/publications/the-world-factbook/geos/mo.html>

⁵ Previously named "Crédit Immobilier et Hôtelier", rebranded "CIH Bank" in 2014

was split between individuals and professionals. CIH Bank has been listed on the stock exchange (with a 17% float) since 1967. Otherwise, the shares are split between CDG Group, which holds 74%, and insurance companies, with the remaining 9%.

CIH Bank offers savings and loan products to private and business clients. However, with the real estate sector accounting for 77% of lending, it is very keen to diversify its activities. With that in mind, in 2011 the bank acquired 34% of Maroc Leasing and 46% of SOFAC, which specialised in consumer lending.

CIH Bank is a small bank which currently serves around 500,000 clients through 225 branches. Its market share of deposits increased from 11% in 2010 to 13% in 2011, while its share of the lending business remained stable at 4%.

At the start of the project, CIH Bank had limited market share in the small business segment, with an estimated portfolio of 5,000 customers.



A CIH Bank branch in Casablanca, Morocco

2. INTERVENTION APPROACH

GIZ⁶ has supported the downscaling of Moroccan financial institutions since October 2010. In the first phase, up to September 2013, the focus was on more general support for the Moroccan banking sector, such as market studies, the development of products specifically for small businesses and pilot testing, capacity building and financial literacy. Only those financial institutions which showed a high level of commitment were selected for the second phase. These were Banque Centrale Populaire and CIH Bank. While Banque Centrale Populaire had already received support in the first phase, CIH Bank was completely new to downscaling. Technical assistance was funded jointly by GIZ and SCBF, with GIZ supporting Banque Centrale Populaire and SCBF CIH Bank.

The aim of the intervention was to enable CIH Bank to reach small businesses which could not be served by other Moroccan banks. Small businesses would benefit from better access to finance as soon as CIH Bank began downscaling its lending activities. These businesses would also profit from increased competition and more appropriate credit products at affordable rates. The bank was therefore to contribute to reducing the financing gap. By doing so, it would also improve the livelihoods of its small business clients, as well as their employees and the employees' families.



Meeting with CIH top management

CIH Bank defined ambitious objectives for the project, based on a business plan drafted with the consultant. The target was to finance up to 400 small businesses in 18 months, as defined in the technical assistance agreement. The objective for the six-month pilot phase was more modest: 72 loans from six branches. The full-scale roll-out of the new strategy would be considered only if the pilot phase was successful.

CIH's top management showed genuine interest in the approach proposed by GIZ and SCBF. The methodology and tools were adapted to CIH's needs in workshops, and validated by the project steering committee in April 2014.

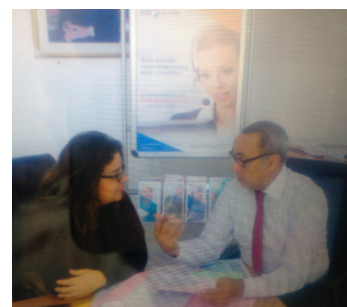
Process review: The scoping phase (October 2013 – May 2014) focused on the credit appraisal process and the lending capacity assessment. In addition, a complete process review was conducted to better understand the institution's approach and evaluate its accuracy.

New product development: To better serve the target group, a business plan was developed, introducing a new product for professionals and small businesses.

Review of collected data for analysis and rating: Reviewing collected data helped to define a new loan application form to improve customer knowledge, including the calculation of an average cash flow which reflects the economic reality of the entrepreneur. In parallel, a rating system was defined to support the credit analysis.

⁶ Deutsche Gesellschaft für internationale Zusammenarbeit

Human resources: During the scoping phase, qualified staff were selected and a training plan for the pilot phase prepared. Six client officers (nominated as deputy branch managers) in charge of developing the small business market segment in the branches were recruited and participated in the pilot phase. This started in May 2014 with the first training course for two groups of about 12 people, including six client officers, six branch managers, three regional risk managers, three regional sales managers and six central risk or sales staff. The CIH Bank project team was strongly committed, and participated actively in designing new processes, tools and approaches, as well as the new product.



Coaching session in a branch (May 2014)

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

In December 2014, CIH Bank decided to continue the pilot project up to June 2015, because of unsatisfactory results in terms of the credit lines that had been put in place. The extension also took into account the human resources difficulties experienced by the branches, which had limited the availability of the client officers. Ultimately, 21 loans out of the targeted 72 were disbursed as part of the project. This figure includes SMEs, which explains the relatively high average loan amount.

Credit Type	# customers	Total loan outstanding in MAD	Average loan amount in MAD
Leasing	4	3 660 600	915 150
Working capital	14	40 040 000	2 860 000
Investment	3	33 800 000	11 266 667
TOTAL	21	77 500 600	3 690 505

At the client level, the following qualitative results can be underlined:

- The branches involved in the pilot project developed a positive commercial and organisational attitude toward this new segment of entrepreneurs;
- The client officers have a better understanding of the small business ("professionals/small businesses") customer environment, and are able to use a more direct commercial approach.
- The client officers have strengthened their ability to present the bank to an entrepreneur and the small business market segment;
- The client officers are able to collect more precise customer information, while learning about the client's business.

This new approach led to good client satisfaction levels overall. During the coaching sessions, several clients gave positive feedback on the new approach proposed by CIH Bank, explaining that they were impressed to have a client officer who could understand their business.

BLUE LEMON Sarl professional – graphics and advertising

Mr Ait (35) graduated in communications and computer graphics, and founded his company in 2010 after six years as an employee in the same field. His father lent him a large workshop. Mr Ait has proven real management skills and today employs six people. With MAD 300,000 in equity, he invested in three professional printers, three computers and professional software.

Operating in a highly competitive market, Blue Lemon managed to diversify its customer base and secure a good profit margin. CIH Bank helped the company by financing diversification into new products (vehicle-design prints and printing on clothes) with a loan of MAD 50,000.

Turnover (MAD)	2013	1,334,000	2014	1,474,000
Net profit (MAD)		31,882		45,050
Global cashflow (MAD)				26,574
Adjusted global cashflow (MAD)				22,574
Final rating				8.3 / 10
Collateral	<div>- Business pledge</div> <div>- Central Guarantee Fund</div> <div>- Personal guarantee</div> <div>- Insurance</div>			

SHAREM SARL AU – industrial sandblasting and painting

Mr. Rqiba is 45 years old, married with two children and an industrial paint technician by profession.

After 12 years as supervisor at various companies, Mr. Rqiba set up SHAREM SARL with equity of MAD 500,000. The portfolio of clients is diversified, featuring mostly large and medium companies. The industrial paint market is very competitive and suffers from informal competition. Sharem SARL's professionalism, quality, good organisation and competitiveness have allowed the business to evolve steadily with relatively comfortable cashflow and profitability.

CIH Bank granted Mr Rqiba a loan of MAD 100,000 to expand his business.

Turnover (MAD)	2013	4,524,000	2014	5,068,000
Net profit (MAD)		82,674		130,920
Global cashflow (MAD)	62,488			
Adjusted global cashflow (MAD)	62,488			
Final rating	8.4 / 10			
Collateral	<div>- Business pledge</div> <div>- Central Guarantee Fund</div> <div>- Personal guarantee</div> <div>- Insurance</div>			

Partner financial institution level

CIH Bank is a recent entrant into the professional and small business market, launching its Small Business Department only in 2012. As at June 2015, CIH Bank had a total of approximately 6,700 small business accounts, but only 109 used some kind of credit (mostly overdrafts and letters of credit).

CIH Bank took advantage of the project supported by SCBF to challenge its strategic views, but was not really ready to invest in the additional human resources needed. The business and organisational models for the small business segment, which is not yet considered strategic, must still be validated. CIH Bank was managing other (more) important challenges during the same period, such as considerable investment in the retail segment, the opening of new branches, and preparations for an Islamic banking unit within the group.

However, throughout the project top management showed strong interest in the global approach based on good client and business knowledge, cashflow-based credit analysis, and results-based sales management. CIH Bank concluded that these were essential to the small business market, and that branch managers must be trained to be able to serve their existing customers.



Knowledge transfer - one of the key results of the project

Stronger loan application process: The review of the loan application process, along with the design of a new product, the definition of monitoring tools, and talent recruitment and training have strengthened CIH Bank's approach to granting loans. Having improved its customer knowledge, the bank is now able to address the small business segment more efficiently.

Enriched human capital: Throughout the intervention, there was regular knowledge transfer to CIH Bank teams and management by means of workshops and steering committee meetings, which were organised regularly during the first phase of the project. Almost all of the recruited client officers were later promoted to branch manager.

Financial sector level

The CIH downscaling experience was discussed several times in committees on small business lending or on training organised by the *Groupeement Professionnel des Banques Marocaines* (Moroccan Banking Association).

Regular meetings with the various stakeholders helped to outline new opportunities for banks in their credit methodology or sales organisation, in the interests of better contact between banks and their business customers.

However, despite substantial government support for the GIZ sector-wide downscaling programme, CIH and Banque Centrale Populaire had a very limited demonstration effect in the banking sector in terms of loans outstanding.

In the long run, benchmarking and greater awareness of small business potential may lead to an important payoff.

4. RECOMMENDATIONS FOR OTHER SIMILAR INTERVENTIONS

Technical assistance for Moroccan banks, which are quite mature and well organised, has not always been identified as strategic and critical to their development, especially in cases in which the assistance is not linked to a credit line. In practice, it has primarily been used by GIZ and SCBF partners as an additional resource to explore a new domain, with relatively limited internal investment in time and money.

It would seem that sharing the cost of technical assistance should be a condition for working with this type of institution. This approach was applied in this specific case, and the bank displayed a commitment to involve the small business sector. Lending to small businesses was nonetheless considered risky. In this specific case it would have helped for CIH Bank to have accepted the following issues more fully:

- Investment in capacity building;
- Implementation of an incentive system;
- Full allocation of resources to pilot projects (officers should be replaced promptly, to avoid conflicting priorities);
- Monitoring capacity (systems and dashboards);
- Evaluation of project after 6 to 12 months to assess when breakeven can be reached;
- Specific credit committee during the pilot phase (never accepted, despite pressure from the project);
- Address the collateral policy early in the process (this point was initially put aside in the GIZ project to avoid long discussions with risk departments, but it became a stumbling block when disbursing the first loans).

When the diagnostic phase reveals a need for improvement in too many areas, clear negotiations must be held with top management on the conditions that must be in place before a pilot project is launched. This was the case with CIH Bank, but the outcome was hard to implement, especially in terms of human resource capacity.

An evaluation of the pilot project results for the six branches, which was presented to CIH Bank management on 30 June 2015, ten months after operations started, highlighted a number of different aspects:

- There had been some interesting commercial achievements, especially through the opening of new small business bank accounts thanks to the commercial action undertaken during the pilot project.
- Results failed to meet the set goals: 30 loan applications were analysed and only 21 were effectively disbursed (including 11 transferred to the small business market segment). This was below the target of 72 loans for the initial six-month pilot phase.
- Change management difficulties were not addressed quickly enough by the bank:
 - The necessary sales effort was not always sufficiently supported by local management (while the existing portfolio of small business accounts was still limited);
 - The availability of client officers in the small business segment was below expectations (on average tending to be 50% than 75% of their time), mainly because of their role as deputy branch managers in their respective branches;
 - The credit decision process remained quite long, and did not respect the maximum 30-day limit validated in the new credit procedure;
 - Collateral assessments remained quite conservative, and the proposal to adapt evaluation rules was not validated by CIH Bank's steering committee.

The embedded downscaling model, in which an expert is placed almost full time within the partner institution in charge of the project for a set period, might have been more appropriate in this particular case. This would have helped to streamline relations with the partner bank and identify the real bottlenecks more effectively. For example, it would have allowed the consultant to sit on credit committees or to be more regularly involved in the decision process. This model would need a much larger technical assistance budget, however.

The experience with Banque Centrale Populaire and CIH Bank shows, that in order to be successful, an investment in capacity building must be aligned with other projects such as information systems, human resources incentive systems, stronger marketing, and also a new market approach to the assessment of collateral.