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Risk capital – Morocco

Development company for small businesses

Over the past few years, the underlying economic conditions in Morocco have improved and remain on an overall upwards trajectory. Nevertheless, the economy still fluctuates heavily. Unemployment also remains high. In light of the central role assumed by small and medium enterprises (SMEs) in Morocco, improving the strength of these businesses and stimulating their growth is key to further development. To provide an impetus for these businesses, KfW has invested in a development company that provides risk capital to precisely this sector of the economy. Risk capital tends to be difficult to access in Morocco and is very rarely available to small businesses.

Current situation

In contrast to other countries in the region, Morocco's economy has generally developed well in recent years. The average growth rate was a good 3 %. However, the economy is also subject to heavy fluctuations. For example, the gross domestic product was around 1.1 % in 2016, rising to 4.2 % the following year, and then falling to 3.0 % again in 2018. Meanwhile, unemployment is still too high, at over 10 % overall and around 30 % among young people. SMEs play a major role in efforts to stabilise economic development over the long term and reduce the unemployment rate. After all, they make up 90 % of all businesses and provide almost half of all jobs. The number of SMEs has also risen significantly since the turn of the century, with around 50,000 new businesses joining the market each year.

Despite the fact there are so many of them, SMEs are currently only responsible for close to a third of all exports and contribute just one fifth of the value created in

the country. This is the result of various restrictions that prevent them from developing. One of the main problems is the lack of access to capital, including risk capital.

The Moroccan market for equity financing is under-developed and is only around half the size of the South African market, for example. Investor interest is similarly low. As a result, SMEs are unable to make the most of their growth potential and also cannot create as many jobs as possible and needed. The negative consequences of this situation primarily affect poor people, for whom SMEs are a good source of employment. What's more, small, innovative businesses could offer good prospects for the future to academics, who are disproportionately affected by unemployment. In order to

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Economic calculations. Source: KfW Group, Photographer: photothek.net

close this “financial gap”, the venture capital firm PME Croissance was set up a few years ago based on an initiative by the Moroccan government. The firm is a private public partnership (PPP) with the goal of expanding the range of venture-capital-related financing options for SMEs. PMEC is the region’s first venture capital firm to be set up by a government’s initiative, making it a pioneer in the area.

Project approach

By investing in equity capital and actively supporting managers, PME Croissance has been supporting SMEs in their growth efforts and during their transition from family-run businesses to public limited companies since 2013. PMEC is also involved in start-ups, but to a lesser extent. In general, support is provided for SMEs with an annual turnover of less than EUR 9 million at the time of the first investment. According to PMEC’s business plan, the aim is to mainly target innovative companies with a high potential for growth in their sectors, a team of well-qualified staff and sufficient management capacities. In total, by the end of the 2017 investment period, PMEC had invested in 13 SMEs, supporting them in their strategic alignment and making sure they develop properly. The individual investments ranged from between EUR 900,000 and EUR 3.6 million.

The SMEs supported by PMEC come from a range of industries: from agriculture (dairy products, organic fruit, olive farming), electronics (e.g. micro-electronic design), IT and telecommunications to health care and pharmaceuticals (production of plant-based medicines).

Working on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), KfW has contributed EUR 4 million to PMEC in the form of a fiduciary

holding. In addition to state investors in Morocco, the company is also supported by private donors, such as Société Générale Marocaine de Banques and Axa Maroc as well as international investors like the European Investment Bank (EIB) or the French financial institution Proparco. With a stake of around 10%, KfW is one of the company’s anchor investors. It is also represented on the fund’s supervisory board, which covers a wide range of expertise and plays an active role in shaping the fund. The involvement of international state donors set an important precedent for the country’s private sector and other venture capitalists.

Impact

PMEC is improving the capital resources of small and medium enterprises, thereby helping to improve their potential as a force of growth and their role as employers. At the end of the investment phase, the businesses supported by PMEC have around 30% more staff and much higher turnover. PMEC was thus able to stimulate the equity market in Morocco on a more general scale and prepare the financed companies for further growth.

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