

**Diagnostic Report
on the Legal and Regulatory Environment
for Microfinance in Morocco**

By Xavier Reille and Timothy R. Lyman

June 2005

DIAGNOSTIC REPORT ON THE LEGAL AND REGULATORY ENVIRONMENT FOR MICROFINANCE IN MOROCCO

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I. OVERVIEW

Morocco has emerged in recent years as a regional leader in the development of microfinance, with approximately 42% of the active borrowers of the entire Middle East/North Africa region (MENA) as of the end of 2003, as reflected in *Microfinance in the Arab States*.² Even measured in global terms, the development of the sector during its relatively short existence is quite exceptional. A specialized law adopted in 1999 granting explicit authority and certain privileges for microlending by nonprofit associations has been a significant factor in the growth of the sector, as has a highly enlightened and supportive attitude on the part of financial sector policymakers and regulators. Of equal (or even greater) significance to the microfinance-specific legal and regulatory policy picture in Morocco, however, have been the general liberalization and rationalization of the rules governing the financial sector that have taken place over the last two decades in the Kingdom, which have left the country with a generally modern and functional regulatory system governing banking and other forms of financial service providers, highly qualified regulatory authorities and many healthy mainstream financial institutions.³

This Report outlines the findings of a week-long diagnostic mission by CGAP's Xavier Reille and Timothy Lyman,⁴ as well as the preparatory and follow-up research conducted by the authors with the assistance of local legal counsel⁵ in Morocco. Part II provides an

¹ Xavier Reille is the director of the MENA initiative at CGAP and Tim Lyman is CGAP's policy advisor. Country-specific legal and regulatory diagnostics are a key component of the CGAP MENA initiative, which was launched in October 2004 to accelerate the provision of microfinance services within the Middle East/North Africa region. This diagnostic was carried out in partnership with SANABEL, the network of MFIs in the Arab world, and the Rockdale Foundation. The Rockdale Foundation underwrote Mr. Lyman's research expenses, for which the authors express their gratitude. The authors also acknowledge the contribution of CGAP intern Anne Baverel, who conducted significant desk research and AL AMANA and FNAM that provided logistic support. CGAP has retained information concerning the sources of the information and statistics cited in this Report. In-country research for this Report was conducted in September 2004.

² Judith Brandsma and Deena Bujorjee, *Microfinance in the Arab States- Building inclusive financial sectors*, September 2004

³ Banque Al-Maghrib, Annual Report, 2003.

⁴ The persons consulted during the mission are listed in Appendix A. The authors are grateful to these persons for sharing their time and insights.

⁵ Mr. Hicham Naciri, Mr. Richard Cantin and Ms. H  l  ne Pancrazi, all of Naciri & Associ  s (which serves as the Casablanca office of the law firm of Gide Loyrette Nouel) served as local legal counsel in the preparation of this Report.

overview of the financial system and a general description of the current state of development of the microfinance sector in Morocco. Part III describes the current legal and regulatory environment. Part IV provides a summary of some current policy-related obstacles to the development of microfinance. Part V concludes this Summary Report with CGAP's recommendations as to microfinance policy-related interventions worthy of consideration, whether to be undertaken by CGAP or other actors.

II. STATE OF DEVELOPMENT OF THE MICROFINANCE SECTOR IN MOROCCO

*Overview of the financial system.*⁶ Morocco has a relatively well-developed financial system by regional standards. However, financial institutions remain concentrated in the urban areas and the government retains significant influence over a large number of financial institutions.

The Moroccan banking system has many similarities with the French system, with which it has an historical connection. There is no Islamic banking in Morocco. As of 2004, 17 commercial banks were licensed to operate. Commercial banking is dominated by a few large players. Three banks – BCME, Attijari Wafa (after the merger of BMC and Wafa Bank), and Banques Populaires – collectively account for 52.8% of the commercial banking sector. In addition, there are five government-owned specialized financial institutions, and 44 nonbank finance companies⁷ (all formed as fixed capital limited liability companies), of which 23 are consumer finance companies, 9 are leasing companies and 12 are other forms of specialized nonbank financial institution. There are also two offshore banks in Tangiers. Several commercial banks are partially owned by foreign firms, and several are state-owned banks; the remainder are entirely Moroccan privately owned banks. Specialized and state-owned institutions control approximately 43% of the banking sector's assets.

The cooperative banking sector, formerly a distinctive feature of the Moroccan financial system, has experienced a trend toward de-emphasis or termination of its cooperative aspects. For example, the enormous size of the network of 16 regional cooperative banks known as the Banques Populaires, and the strong role played by the centralized apex institution (which has been transformed into a fixed capital limited liability company) tend to minimize the significance of the membership aspect of the retail institutions.

The banking sector is regulated by Banque Al-Maghrib (the Central Bank). None of the organizations under the supervision of Banque Al-Maghrib targets the poor explicitly and none makes any significant volume of very small loans, due to the economic constraints imposed by currently applicable interest rate caps and related loan price controls, discussed below. Of significant theoretical interest to microfinance clients, all citizens are legally guaranteed access to current accounts through the Central Bank (Banque Al-Maghrib or BAM) if refused an account at a commercial bank. However, this service is

⁶ This overview relies on information from the website of FIRST Initiative (www.firstinitiative.org), except when otherwise mentioned.

⁷ Banque Al-Maghrib, Annual Report, 2003.

apparently not used much in practice because of factors such as the lack of information by potential poor beneficiaries: only 25% of Moroccans have a bank account. Other aspects of the Moroccan financial system of potential interest for the development of microfinance in Morocco include: (1) the insurance sector (which accounts for about 11% of the financial system and is supervised by the Ministry of Finance); (2) the public Caisse des Dépôts et de Gestion (Deposit and Management Fund) (which accounts for over 6% of the financial system and manages the assets of various institutions in the country, such as the National Social Security Fund and the National Savings Bank); (3) a postal savings system with national coverage, even in remote rural areas, through the post office branching structure;⁸ and finally (4) the Casablanca Stock Exchange (CSE), one of the oldest exchanges on the continent.

Types of institutions engaged in microfinance. Twelve indigenous nonprofit associations currently hold permits to operate as microlenders in Morocco under the 1999 Microcredit Associations Law, although only eleven are active. Under the Microcredit Associations Law, all must be registered as associations. These are effectively the only players in the microcredit market currently, as the other available legal forms are not able to operate sustainable microlending portfolios due to interest rate caps and related loan pricing controls, as discussed further below. (There are no branch operations of foreign NGOs carrying out lending activities directly since the adoption of the Microcredit Associations Law.)

Commercial banks have established close links with the microcredit associations. For example, the third largest of the microcredit associations described above, Fondation Banque Populaire Pour le Micro-Credit (FBP), was formed and initially capitalized by the Banques Populaires and enjoys strong ongoing support (in kind, expertise and loan capital) from its founder and its founder's President, although the staffing and office space of the two institutions are separate. The vision of Banques Populaires is for FBP to contribute to economic development but also to create a new stream of clients for the bank. The Banques Populaires also serves as a source of debt financing for onlending by several other microcredit associations, in addition to FBP, as do other Moroccan commercial banks.

Operational Situation of Significant Players. The 11 currently active microcredit associations find themselves in radically different situations in terms of their size, growth patterns and markets served, as well as increasingly also their methodology and product offerings. Three organizations accounted for approximately 90% of active clients, of the number of loans outstanding and of the total portfolio outstanding as of December 31, 2003.⁹ These organizations are also more national in their reach, more heavily concentrated in urban and peri-urban areas and are branching rapidly into new product

⁸ Barid-al-Maghrib, the 100% state-owned postal monopoly in Morocco, provides a wider range of financial services than some other MENA countries. In addition to postal savings, payment services and remittances, it also offers life insurance, pensions and mutual funds. Barid-al-Maghrib reaches out to approximately 10% of the adult population.

⁹ Judith Brandsma and Deena Bujorjee, *Microfinance in the Arab States - Building inclusive financial sectors*, September 2004.

offerings made possible by a recent change in the Microcredit Associations Law. All three have already accessed considerable amounts of commercial debt financing (although for the most part at below the market rate), and expect to borrow more to finance their ongoing rapid growth.

The heterogeneity among the remaining microcredit associations is greater than among the ‘big three.’ Some have a profile more similar to that of the ‘big three’ in terms of their geographic reach (or aspirations), product offerings, balance sheet structure and concerns for the future. Others have chosen specific hard-to-serve geographic or sectoral markets and are pursuing these markets with specially designed products and lending methodologies, such as Fondation de Crédit Agricole, which works exclusively with farm families in remote rural areas and combines agricultural lending with artisanal lending to access more cash flow for debt service. There are also among them organizations that remain very small and lag behind the others on most performance measures, whose continued separate existence will require significant ongoing donor funds. (There is no talk of mergers yet among Moroccan microcredit associations, although the subject will likely be considered if ongoing donor funds to subsidize the very small associations do not materialize.)

Table 1: Basic Figures on the Five Largest Moroccan Microcredit Associations (by number of active borrowers)

Dec. 2004	Active Borrowers	Gross Loan Portfolio	PAR>30d	OSS	ROE*
Al Amana	160,238	49.6M	0.12%	134.00%	10.1%
Zakoura	174,480	23.8M	0.42%	172.50%	4.8%
FBP	70,112	24.8M	0%	183%	5.9%
Fondep	20,485	3.8M	0.61%	131.00%	-0.8%
Amsff	9,301	1.9M	0.15%	130.24%	13.5%

Source: MFIs. The figures are in US dollars. Dh: US\$=8,21775 in 2004. PAR stands for portfolio at risk ratio and OSS for operational self-sustainability. A complete list of active Moroccan microcredit associations appears in Appendix C.

* Data as of 31 December 2003

At the launching of the NGO-based microcredit movement in Morocco, group lending dominated, although many microcredit associations moved relatively quickly also into individual loan products. Until recently, the Microcredit Associations Law permitted only microlending for business purposes, but has now been liberalized to include in addition certain types of housing and infrastructure lending (domestic water and electricity), as well as certain lending linked to tourism promotion. The faster-growing microcredit associations are all presently piloting loan products in these new areas.

Because the Microcredit Associations Law permits only lending activities and related technical assistance, none of the organizations currently offers savings, transfer or insurance services, although several organizations have pioneered partnering relationships with mainstream financial institutions to introduce their clients to these services through other providers.

The blurring of the line between consumer finance offered by mainstream finance companies and NGO microlending that is seen in many countries throughout the world is not happening to any significant extent in Morocco. The main reason is that Moroccan finance companies – like the commercial banks – are extremely hard-pressed to maintain their profitability even serving a relatively affluent market with larger loans because the allowable spread between their cost of funds and their income from lending or leasing activities, given applicable pricing caps (discussed below), is insufficient. No banks are lending directly to a micro-clientele because the currently applicable pricing caps prevent them from doing so profitably, and because the abundant availability of partnering arrangements with microcredit associations offers them interesting and profitable ways to access these markets indirectly. These partnering arrangements, notably the decision by Banques Populaires and Crédit Agricole to set up affiliated microcredit associations that bear their brand, suggest a high level of awareness of the potential market that low-income Moroccans represent (as well as a consciousness of the freedom to manoeuvre to serve this market when operating through a form of institution not constrained by loan price caps).

Table 2: Bank Lending to MFIs¹⁰

<i>in millions of dirhams</i>		Entire Sector	Al Amana		Zakoura	
<i>cumulative data</i>		1993-2003	2004 Sept	2003	2004 Sept	2003
Bank lending	Foreign banks	174.2	65.3	55.1	47.16	
	Local banks	127.4	55.3	10	10.16	4.16
Overdraft		n/a	30.4	15	43.8	43.6

Sources: Al Amana, Fondation Zakoura, FNAM

Fédération Nationale des Associations de Microcrédit. The Microcredit Associations Law requires all permit-holding microcredit associations to be members of an association. Its role is to be the representative of the associations in dealings with relevant public authorities, to support the development of the sector, and to develop a code of conduct and other standards and resources for the sector. (The Moroccan Banking and Credit Institutions Law of 1993 requires two similar associations to represent commercial banks and finance companies, respectively.) The Fédération Nationale des Associations de Microcrédit (FNAM) has a relatively short institutional history, marked by disagreements among its heterogeneous membership. Despite technical assistance from two donor-funded initiatives (Planet Finance and USAID’s Action for Strengthening Microfinance Associations (ASMA)), FNAM itself is extremely thinly staffed, with just one staff position (a Déléguée Générale), which was vacant as of the date of this Report and a very active and entrepreneurial chairman. On many issues of governance – particularly the issue of whether voting and dues assessments should be proportionate to the size of the organization in question – the 7 smaller members have voted as a block, leaving the four largest members effectively disenfranchised.

¹⁰ Appendix B summarizes funding to the Moroccan microcredit sector from all sources for the 10 years from 1993 through 2003.

This schism is also reflected at least to a certain extent in the current views of the members on the subject of possible changes to the legal and regulatory framework applicable to microcredit associations and particularly the question of opening an opportunity for microcredit associations to ‘transform’ institutionally through the formation of affiliated commercial legal entities. .

FNAM has begun the process of attempting to launch a microfinance investment fund with the assistance of CDG (caisse de depots et de gestion) that would be funded by a consortium of Moroccan banks and the government and would lend funds to microcredit associations for onlending. Potential backers of the fund have been convened by FNAM and are studying issues related to the optimal design and financial feasibility of the plan.

III. CURRENT LEGAL AND REGULATORY FRAMEWORK FOR MICROFINANCE ACTIVITIES IN MOROCCO

Currently Available Legal Forms. As mentioned above, the only legally and economically feasible vehicle for carrying out potentially sustainable microfinance activities in Morocco currently is the microcredit association, provided for under the Microcredit Associations Law adopted in 1999. This law calls for provisions of the 1958 Law on Associations to apply to the basic structure and organization of microcredit associations, with certain important exceptions and special additional requirements added.

Microcredit associations are required to seek an operating permit from the Ministry of Finance, for which one of the prerequisites is a detailed 5-year financial plan to lead the applicant to operational sustainability. Permit-holding associations are allowed to raise capital from donations and any form of borrowing except deposits from the general public. For a period of five years following the receipt of a permit, a microcredit association is entitled to a variety of fiscal privileges, including exemption from the principal forms of taxation.

The activities of a microcredit association are restricted under the law to microlending and related business advice (as well as other activities necessary to carry out microlending activities). The law limits microcredits to a maximum of 50,000 Dirhams (approximately US\$ 5,885 as of the date of this Report); however, the Ministry of Finance has exercised its power to set a lower limit (by decree), setting the currently applicable limit at 30,000 Dirhams, or approximately US\$ 3,530). As mentioned, initially the law required all microcredits to be extended for business purposes, but has now been liberalized to include also certain types of housing and infrastructure lending (domestic water and electricity), as well as certain lending linked to tourism promotion.

Although the Microcredit Associations Law gives the Ministry of Finance the power to impose a ceiling on an association’s interest rates and other commissions and fees, to date the Ministry has not exercised this right, as discussed further below. The draft Finance Law for 2005 mentions a bill, expected to be passed imminently, that expands the Central Bank’s oversight jurisdiction to *all* financial institutions, including the few types – such

as microcredit associations – that are not already subject to the Banque Al-Maghrib’s oversight. If enacted as anticipated, this law will move regulatory oversight of microcredit associations to the Banque Al-Maghrib, while leaving basic rule-making authority in the hands of the Ministry of Finance.

Feasibility of ‘Transformations.’ Under many countries’ laws, there is not a completely clear legal path for an NGO MFI to form a commercial affiliate and ‘transform’ by exchanging its portfolio and other property in return for shares in the new company. In Morocco, this is also the case. The Microcredit Associations Law can be interpreted to permit the basic exchange transaction that lies at the heart of such a ‘transformation.’ However, the law prohibits a microcredit association to exist for any purpose other than disbursing microcredits and related business advice, meaning that a post-‘transformation’ association would still need to engage in at least nominal microlending. Moreover, the newly created commercial company would be subject to the same regulatory regime as all other credit institutions – including the interest caps that make it unprofitable for banks and other credit institutions to loan directly to a micro-clientele. Associations are not explicitly prohibited from becoming shareholders of a bank or any other financial institution, but Banque Al-Maghrib would certainly have grounds to refuse an application for a license with an association as a substantial shareholder, owing to possible difficulties in the association’s fiscal and also perhaps practical capacity to respond to a capital call.

Interest Rate Policies. Banks and other licensed credit institutions are prohibited from charging interest and other loan charges in excess of a usury ceiling calculated every six months by the Banque Al-Maghrib. The formula used in calculating the ceiling works from data that the regulated institutions supply concerning the volume of their lending in various categories and the respective rates charged during the previous six months. Based on these figures, a weighted average interest rate is calculated. The ceiling for the next six months is 160% of the weighted average for the previous six months. For the period October 2004-March 2005, the interest rate ceiling was set at 13.57%. Banks are obliged to keep all loan-related charges (including interest, fees, commissions and all other charges to customers) within the ceiling, as are non-bank credit institutions (except for a very modest application fee – up to 150 Dihrams or approximately US\$ 18 as of the date of this Report – that non-bank credit institutions may add in the case of consumer credits).

Although the Microcredit Associations Law gives the Ministry of Finance authority to impose an interest rate ceiling on permit-holding microcredit associations, the Ministry has not exercised this power. This has been an extremely significant factor, not only in the rapid growth of the microcredit sector, but also in the interest of Moroccan banks to lend to microcredit associations for onlending (as this can be done profitably within the applicable ceiling).

Tax Issues. The 5-year period following the receipt of an operating permit during which microcredit associations enjoy tax privileges under the Microcredit Associations Law (i.e., during which (i) donations to a microcredit association are deductible to the donor

and not taxed to the association, (ii) no profit tax is paid on net revenues from lending activities, (iii) microcredits are not subject to VAT and (iv) imported goods are free from duties) is already coming to an end for many microcredit associations. Several organizations are already reserving against the possible application of the various otherwise applicable taxes and duties.

Credit Information Services. Although repayment rates among microcredit associations operating in already competitive local markets do not give any hint of a looming over-indebtedness crisis, the microcredit associations (and donors) are nonetheless keenly aware of the risk to portfolio quality potentially posed by the practice of borrowing from multiple microlenders.

There is no general credit information services market currently functioning in Morocco. Various attempts have been made to organize a limited credit information database for commercial banks, for finance companies and even for the microcredit associations. Significant consideration has also been given to the creation of a private sector credit bureau that would mobilize data from a wide array of payment history information sources besides just lending institutions.

The banking sector has thus far not publicly shown much interest in a banks-only database, presumably out of concern for sharing client information with competitors.¹¹ The Association of Finance Companies has already created a ‘negative data-only’ system for its members in which the large majority of its members are already voluntarily participating.

Both Planet Finance and USAID’s ASMA project had been working with FNAM on a ‘microcredit association-only’ credit information database, which was projected to be launched on a pilot basis in spring of 2005. Meanwhile, the three largest microcredit associations have been discussing sharing active client lists to limit the possibility of inadvertent cross-lending to each other’s clients. (Although the Association of Finance Companies would be open to the idea of the larger microcredit associations paying to use its database, there is little interest among the large microcredit associations, because it is a ‘negative data-only’ system which is of no use in preventing cross-lending to clients who are not in default.)

On the subject of a private sector credit bureau with comprehensive positive and negative payment history information from a wide variety of sources, IFC has commissioned legal feasibility research by a respected Casablanca law firm. The results, though not yet finalized, indicate that there are no significant data accuracy or client privacy legal protections currently in place that would substantially affect the commercial or legal feasibility of such a broad-based system (although banks are apparently prohibited from sharing information on their customers even with the customers’ specific consent).

¹¹ The authors were made aware of a project of the professional association of Moroccan banks to create a broad-based ‘banks-only’ data base, although details were not available. In addition, the Banque Al-Maghrib maintains a variety of payment history data for the banking sector, available only to banks, but the data are reported not to be reliably current or much used by banks.

USAID has also included work on such a broad-based system as a component of a planned business environment improvement project.

Foreign Investment and Foreign Exchange Issues. The Moroccan Dirham is not fully convertible, and a system of exchange controls aims at helping the country to maintain the stability of its quasi-fixed exchange rate by tightly managing the foreign currency reserves. Thus, to borrow in hard currency for onlending, any financial institution – including the microcredit associations – needs the prior agreement of the Foreign Exchange Office located within the Ministry of Finance. The criteria for approval or denial are not published or clear, but anecdotal evidence suggests permission will not be granted for foreign loans with interest rates considered by the Foreign Exchange Office to be too high.

IV. SUMMARY OF POLICY-RELATED OBSTACLES

The following represents a general summary of significant policy-related obstacles observed by the authors during the in-country research mission for this Report that face microfinance in Morocco given the current state of the legal and regulatory framework, or that appear likely to become important relatively imminently:

Sunset of fiscal privileges for microcredit associations. Several microcredit associations are already at the end of the 5-year period during which they are exempt under the Microcredit Associations Law from all significant taxes.

Possible exercise by Ministry of Finance of its power to set loan pricing caps for microcredit associations. Freedom to set their own interest rates has been fundamental to the growth and success of the microcredit associations (and to their attractiveness as borrowers from Moroccan banks).

Lack of legal capacity to mobilize equity from shareholders. At least some of the most successful microcredit associations have already leveraged their existing equity with almost as much commercial borrowing as lenders are likely to tolerate. Although this situation may be mitigated by a newly approved USAID development credit authority guaranty program for Morocco, legally viable access to private equity markets will ultimately be needed to sustain their projected growth.

Legal barriers to ‘transformations’ of successful microcredit associations. Although the Microcredit Associations Law can be interpreted to permit a microcredit association to ‘transform’ by forming a commercial company and exchanging its portfolio and other property for shares in the new company, the restrictions applicable to banks and other credit institutions (particularly the applicable interest cap) would not permit the new organization to lend profitably to the targeted clientele.

Lack of credit information services industry. As the microcredit market saturates in an increasing number of areas of the country, over-indebtedness will become a problem. A private credit bureau with a broad base of both positive and negative credit and payment

histories could address this problem. The obstacles to the creation of such a credit bureau appear to be economic and political rather than legal or regulatory constraints.

Constraint on foreign investment due to foreign exchange policy. In the current situation, where every foreign currency loan must be first approved by the Foreign Exchange Office, without clear criteria for approval or denial, Moroccan MFIs face difficulties tapping the burgeoning international market in debt financing for MFI onlending.

Inability of banks and finance companies to participate directly in microlending due to interest rate caps. This critical barrier is preventing Morocco from joining the growing ranks of countries such as Egypt where conventional financial institutions are learning to extend services profitably to poor clients. As observed, it is also a constraint to ‘transformation’ of the most successful microcredit associations.

V. GENERAL RECOMMENDATIONS FOR POLICY-RELATED ACTIVITIES IN MOROCCO

The following recommendations would not tackle all of the obstacles identified in this Report. Rather, they focus on interventions that CGAP or specific CGAP member donors or partners – or the domestic microfinance sector itself – appear to have a clear comparative advantage to address.

Transparency-driven regulation of microcredit associations. Morocco has the chance to develop a ‘state of the art’ system of transparency-driven oversight over non-depository MFIs. This would involve ‘merging’ CGAP’s work on the appropriate regulatory treatment of non-depository institutions with the CGAP’s and the MIX’s work on disclosure and transparency. The Banque Al-Maghrib, expected shortly to take over regulatory oversight of the Moroccan microcredit associations, could provide a suitable laboratory for this effort, through technical assistance from CGAP and the MIX.

Extension of tax privileges of microcredit associations. Members of the Moroccan microfinance sector, including both FNAM and Morocco’s ‘big three’ MFIs, with their excellent connections with the Ministry of Finance, are in a good position to pursue the extension of these benefits for themselves. CGAP and its member donors could support this with evidence that the original decision to subsidize the development of microlending has already paid off for Morocco and why another period of such subsidy will be beneficial to reaching hard-to-serve markets (and may actually stimulate more vibrant competition among microlenders by offering the smaller organizations and those targeting hard-to-reach populations a longer lead time to demonstrate their potential).

Conditional technical assistance to FNAM. FNAM in its current state represents a largely unrealized opportunity for there to be a powerful voice for all microcredit associations in all decision making regarding the development of microfinance in Morocco. However, further technical assistance to FNAM would require that the association develop its governance structure to be representative of all of the organizations required by law to be its members.

Credit reference services. CGAP member donor IFC has already invested in the development of exactly the type of private credit bureau that could attract a sufficiently broad base of positive and negative data about all potential Moroccan credit customers to be truly useful as a tool against over-indebtedness. The chances of this coming to pass are enhanced by USAID's inclusion of further work on this front in its planned business environment improvement project.

Introduction of amendments to permit 'transformations' of microcredit associations. The primary barrier to 'transformations' of the top-performing microcredit associations appears to be the interest rate caps they would face as licensed credit institutions. There is potentially a role for CGAP to play to encourage at least a period of experimentation, during which alternative strategies (such as stringent transparent loan cost disclosure requirements and financial literacy training for clients) would be tested in lieu of interest rate caps.

Technical assistance to shepherd 'transforming' microcredit associations. Experience from other parts of the world suggests that an NGO-to-commercial microlender 'transformation' presents more than just legal and regulatory obstacles. CGAP member donor IFC has supported a number of such 'transformations' with technical assistance as well as investment.

APPENDIX A – PERSONS CONSULTED¹²

Abeldmoumni, Mr. Fouad – Director General, Association Al Amana pour la promotion des microentreprises, SANABEL chairman (September 19, 2004)

Asri, Mr. Mohamed – Director of Development and Resource Center, Planet Finance Morocco (September 21, 2004)

Bayali, Mr. Hicham – Financial Director, Fondation Zakoura micro-credit (September 22, 2004)

Bazalgette, Ms. Delphine – Head of Projects, Planet Finance Morocco (September 21, 2004)

Belghazi, Mr. Mouatassim – President, Fondation pour le développement local et partenariat (FONDEP) (September 22, 2004)

Belhal, Mr. Ferid – Head of Office, World Bank Office for Morocco, the Middle East and North Africa Region (September 21, 2004)

Benarbet, Ms. Fatim-Zahra – Executive Director, Fédération Nationale des Associations de Microcrédit (September 20, 2004)

Benmaazouz, Mr. Aziz – Director General, Fondation Zakoura micro-credit (September 21, 2004)

Bidouj, Mr. Mustapha – Secretary General, Fondation Banque Populaire (September 21, 2004)

Bodach, Ms. Malika – Responsible for Operations and Development, Fondation Crédit Agricole pour le microcrédit (September 20, 2004)

Cantin, Mr. Richard – Attorney, Naciri & Associés in collaboration with Gide Loyrette Nouel (September 20, 2004)

Cherkaoui, Mr. Mehdi – Business Development Analyst, International Finance Corporation (September 20, 2004)

Dadi, Mr. Jamal – Program Development Specialist, United States Agency for International Development Morocco (September 22, 2004)

Duquet, Mr. Sébastien – Director, Planet Finance Morocco (September 21, 2004)

¹² The date listed for persons with whom the authors met more than once is the date of the first meeting during the September 2004 mission.

Errami, Mr. Youssef – Director of Public Relations and External Communication, Fondation Banque Populaire pour le microcrédit (September 20, 2004)

Gharbi, Ms. Khaddouj – President and Founder, Association marocaine Solidarité sans frontières microcrédit (September 20, 2004)

Ghazali, Mr. Ahmed – President, Association Al Amana pour la promotion des microentreprises (September 19, 2004)

Greathouse, Ms. Greta – Chief of Party, Action for Strengthening Microfinance Associations (ASMA) (September 21, 2004)

Heinemeyer, Mr. Friedrich – Director of Projects and Programs, European Union Delegation of the European Commission in Morocco (September 22, 2004)

Johnson, Ms. Catherine – Home Office Technical Backstop, Action for Strengthening Microfinance Associations (ASMA) (September 21, 2004)

Lamrini, Mr. Reda – President, Federation Nationale des Associations de Microcrédit (September 20, 2004)

Mourji, Mr. Fouzi – Consultant, Advisor to Banque Al-Maghrib (September 20, 2004)

Pancrazi, Ms. Hélène – Attorney, Naciri & Associés in collaboration with Gide Loyrette Nouel (September 20, 2004)

Rouini, Mr. Abdelhamid – Head of Development Department, Fondation Banque Populaire (September 21, 2004)

APPENDIX B¹³

SOURCES OF FINANCING OF THE MICROFINANCE SECTOR IN MOROCCO
(from January 1993 through December 2003; all figures in 1,000 Dirhams)

Moroccan Sources of Financing

Source	Subsidy : Loans	Loans	Subsidy : Operations	Subsidy : IT	Total in thousands
Morocco					
Hassan II Fund	100 000				100 000
Foundation Mohamed V	2 500				2 500
Private Subsidies	6 576				6 576
AMSED : NGO	1 597		348		1 945
Agence de Développement Social		2 523	100	100	2 723
Agence de Développement Province du Nord		7 500			7 500
Sub-total, Government or Others	110 672	10 023	448	100	121 243
Interest rate : 0% to 8%					
Long-Term Revolving					
Banque Centrale Populaire	147 607	27 650	9 134		184 391
BCM		20 000			20 000
SGMB		20 000			20 000
BMCE		18 000			18 000
Crédit Agricole		10 000	1 300		11 300
BMCI		10 000			10 000
Wafabank		6 000			6 000
CIH		1 000			1 000
Crédit du Maroc		1 000			1 000
Other Moroccan banks		3 757			3 757
Sub-total for Banks	147 607	117 407	10 434		275 448
Total : Moroccan Sources of Financing	258 279	127 430	10 882	100	396 691

¹³ Source: FNAM

Foreign Sources of Financing :
Subsidies

Sources	Subsidy : Loans	Subsidy : Operations	Subsidy : IT	Subsidy : Formations	Technical Assistance	Total in thousands
UNDP - Micro Start	3 608	2 041	629	302	639	7 219
USAID	61 570	82 494	89		10 000	204 153
CODESPA	15 623	2 995				18 618
FADES	12 107	148	279			12 533
European Union	5 400				2 160	7 560
CIDEAL	4 947					4 947
COSPE	2 050					2 050
Italian Government	1 073	2 320				3 393
Louvain Développement	1 400	1 200				2 600
Other Governments	4 534					4 534
CGAP	2 310					2 310
AGFUND	814	519	387	176		1 896
CAFAMERICA	1 000					1 000
GTZ/AEDRA		222				222
Swiss Embassy	120					120
CRS		25				25
Sub-Total, Donors	116 556	91 964	1 384	478	12 799	273 181

Loans/Guaranties

Sources	Loans	Guaranties
EIB	96 250	
AECI	63 900	
Blue Orchard	7 500	
SIDI	5 087	
Other Foreign Banks	1 079	
PlaNet Finance	210	
Africa 70 and Foundation Moulay Slimane	168	
USAID		50 000
Sub-total, Banks/Investors	174 194	50 000

APPENDIX C

MICROCREDIT ASSOCIATIONS ACTIVE IN MOROCCO
(as of February 2005)

Microcredit Associations	Number of Active Borrowers*	Outstanding Portfolio* (in Million US\$)
AIMC	2,602	.7
Al Amana	160,238	49.6
Al Karama	4119	1.1
AMOS	5,154	.6
AMSSF	9,301	1.9
ATIL Microcredit	1,444	.4
FBPMC	70,112	24.8
Fondation Credit Agricole	6,951	.7
FONDEP Microcredit	20,485	3.8
INMAA	4,877	.8
Zakoura	174,480	23.8

* Data as of 31 December 2004

Dh: US\$ =8,21775 in 2004

Source: FNAM website (www.microfinanceaumaroc.com/cartographie)