

Notes from the Field: **Morocco**, Monique Cohen, Microfinance Opportunities, with Ruth Goodwin-Groen



**Al Amana clients signing for a group loan disbursement in Kenitra, Morocco.**

*“The U.S. Agency for International Development realized a vision for large-scale microfinance in Morocco by creating a best-practice microfinance institution and facilitating an enabling legal framework.” So begins an account of USAID’s microfinance work in Morocco, submitted by Monique Cohen, who worked on Morocco while a part of USAID’s Microenterprise Development Team. Dr. Cohen continues to work with microenterprise practitioners in her current capacity as President and Founder of Microfinance Opportunities.*

Dr. Cohen describes how USAID supported the development of Al Amana, a sustainable microfinance institution (MFI). By December 2003, Al Amana had 125 branches serving over 100,000 Moroccan clients and an outstanding portfolio of US \$28.1 million. Launched in 1997, Al Amana reached operational sustainability in 2000 and financial sustainability in 2002, two years ahead of schedule. In addition, USAID facilitated the dialogue between policy makers and microfinance practitioners that led to the adoption of a microfinance law in 1999. This law, in the words of Al Amana’s CEO, Fouad Abdelmoumni, “served to set the stage for a competitive microfinance market and the provision of high-quality microcredit services.” Dr. Cohen’s story holds important lessons for other donors pursuing permanent access to financial services for the poor. Some highlights:

“USAID entered microfinance in Morocco when the sector was still young. Just a handful of institutions was providing microfinance services, and most were small, multi-purpose non-governmental organizations devoted to poverty alleviation. These microcredit providers were unregulated, but were permitted to function.

“Morocco today has one of the most vibrant microfinance sectors in the Middle East and North Africa region. Twelve MFIs serve approximately 300,000 active clients (in a population of some 28 million) and manage a collective outstanding loan portfolio of an estimated US \$60 million. Four institutions dominate the market—Fondation Zakoura (103,720 clients), Al Amana (101,553 clients), Foundation for Local Development and Partnership (FONDEP), and the *Fondation Banque Populaire du Micro-Crédit* (FBPMC—a not-for-profit offshoot of a state bank) -- with the smaller MFIs serving more rural and poorer clientele. International private sector investors have increasingly joined the international public donors and domestic private foundations that initially funded these MFIs.

“USAID’s starting point in 1996 was a bilateral agreement with the government of Morocco to undertake a microfinance project. The initial total project budget was US \$15.5 million for eight years, although only US \$10.5 million was ultimately needed. This project precipitated official interest in formulating a law to regulate the sector. Over the next two years, USAID actively supported discourse between government policy makers and local microfinance practitioners

about the law. This dialogue was critical for achieving consensus and led to the new law, the Loi Relative au Micro-Crédit, which was officially adopted in February 1999. Among its achievements, the law: (1) created a new type of association dedicated to providing microcredit; (2) freed MFIs from interest rate caps imposed on banks and financial companies; (3) permitted MFIs to charge fees; (4) relieved MFIs of value-added taxes for five years; (5) required multipurpose NGOs to separate their financial from non-financial services; (6) restricted microcredit loans to productive activities; and (7) required microfinance programs to become financially viable in five years.

“These reforms legitimized microfinance, creating the conditions for new, sustainable microfinance providers to enter the market, including FONDEP and FBPMC.

“Not surprisingly, the industry’s requirements outgrew the parameters of the 1999 law. USAID-supported dialogue between the practitioner community and the government resulted in an amendment in 2003 to permit microlending for housing, including home improvements, such as water and electricity fitting/fixtures. The government recognized the fact that many poor people use their homes as business establishments, and housing improvement is therefore a ‘productive use’ of loan funds.

“Contributing to these policy successes was USAID’s support for the participation of Moroccan practitioners and government officials in international meetings and training sessions; supplying information on similar legislation in other countries; and providing the services of a legal advisor to the government, in addition to facilitating countless meetings.

“Al Amana was founded in 1997 to provide financial services to urban microentrepreneurs. It used a solidarity group lending methodology, targeted women clients, and offered six-month loans. USAID envisioned Al Amana as a major MFI that would set the standard for good microfinance practice in Morocco. Sustained, high-quality technical assistance—plus existing good communications, electricity, and transportation infrastructure—permitted Al Amana to quickly evolve into a large institution.

“By the end of USAID’s project in December 2003, Al Amana had become an exemplary microfinance institution. It had 101,553 clients, 421 employees (74 % of which were productive field staff), and a portfolio-at-risk ratio (more than 30 days) of 0.2 %. Al Amana is now able to attract financing from a range of commercial sources, such as Dexia Microfinance Fund, Societé d’Investissement et de Développement International, and the Banque Commerciale du Maroc.”

Dr. Cohen cites three key reasons for USAID’s microfinance success in Morocco:

“First, USAID was consistent and outspoken in its desire for Al Amana to be a state-of-the-art microfinance institution and for the microfinance sector to be dynamic in its delivery of financial services to large numbers of poor people. Its financing reflected this vision.

“Second, several technically skilled people in Al Amana and key stakeholders pushed the project forward and achieved results. Jamal Dadi, the USAID microfinance project officer in Morocco, played a key role in the adoption of the 1999 law and was instrumental in the discussions that led to its amendment in 2003. Paul Rippey, the chief of party for Volunteers in Technical Assistance (the US-based NGO that was awarded the contract to implement the Al Amana project) was instrumental in recruiting the dynamic Fouad Abdelmoumni to become the director of the newly created Al Amana. On the government side, the USAID-supported collaborative process of developing a new law produced champions of microfinance at the highest levels of the state,

including Minister of Finance and Commerce Dris Jetou and Mohammed Ghazali, the ranking official charged with bringing the law to passage. In the public domain, the chairman of Fondation Zakoura, Noureddine Ayouche, was a media executive who used his contacts to promote the sector and give microcredit visibility.

“Third, USAID adapted its role to the sector’s growth. Starting as a policy advocate and direct microfinance investor, USAID became a facilitator/disseminator of industry knowledge and standards. Still a significant player, USAID is now investing in smaller MFIs, particularly rural institutions seeking to serve the ‘unbanked’ population. The agency is also focusing on broader industry-building, including support of the MFI member organization of Morocco as it evolves into a representative institution.”

Dr. Cohen notes that challenges remain in Morocco’s microfinance sector. “For example, the Ministry of Finance is currently charged with both regulating the microfinance sector and disbursing the \$10-million Fonds Hassan II, a funding facility created by the government to increase the lending capital of existing MFIs. Another challenge is the continuing need to encourage a more market-oriented approach to the provision of financial services to the poor. Independent of government and donor subsidies, MFIs can provide a broader range of financial services to poor people.”

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USAID/Morocco adds that the country’s microfinance sector today is witnessing exciting changes, building on gaps identified in 2003.

USAID Morocco was planning a new industry-building microfinance initiative in 2003, the subject of a new project—Development Alternative International’s Action of Strengthening the Microfinance Association (ASMSA) project. ASMSA began building the capacity of the industry association FNAM, and working with MFIs on technology and product development. ASMSA’s work also draws upon the 2003 amendment to the 1999 microcredit law, which extended microlending to housing.

Adding a housing product to the industry, however, is not as straight forward as it might seem. Less than 3,000 loans, out of a total market of 400,000 loans, are to individuals, and all of the Moroccan MFIs offer a standardized group-based loan. Therefore, changes needed to deliver an individual loan housing product have been challenging. To date, only Al Amana (with more than 30% market share) has fully developed and begun to pilot test a housing loan.

The DCA has contributed to this effort with a loan guarantee package to allow MFIs access to commercial credit to fund their housing portfolios. Additionally, CHF International will be working with a small number of MFIs on their housing loan products, from market research to project development, costing, pricing, and staffing issues.

New developments are happening in other areas of the Moroccan microfinance sector, too. In the face of growing competition, the smaller MFIs are trying to branch out and offer more market-based products. In mid-September 2004, ASMSA will be offering the MicroSave-Africa Market Research for Microfinance qualitative research training.

Exciting things are happening in Morocco! Stay tuned for more information.

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