

Vision and Consistency: USAID Support of Al Amana and the Law on Microfinance in Morocco

by Monique Cohen with Ruth Goodwin-Groen

This case study describes how the US Agency for International Development pursued a vision for large-scale microfinance in Morocco by creating a best-practice microfinance institution and facilitating an enabling legal framework.

Overview

USAID entered the microfinance sector in Morocco in 1996 with a two pronged strategy: 1) to establish a new microfinance institution (MFI) that would become a sustainable, large-scale provider of microfinance, and 2) to help foster a policy environment favorable to the growth of a professional microfinance sector.

Al Amana was launched in 1997 with a total project budget of US \$15.5 million for eight years, although only US \$10.5 million was ultimately needed. The lion's share (two-thirds) of the budget was allocated to technical assistance. USAID also facilitated the adoption of a new microfinance law in 1999 that permitted non-governmental organizations (NGOs) to provide micro-credit services in Morocco and freed them from the interest rate caps levied on banks and financial companies.

By December 2003, at project end, Al Amana was a profitable MFI with 125 branches, over 100,000 active

clients, and an outstanding portfolio of DH 247.7 million (US \$28.1 million). Al Amana had reached operational sustainability in 2000 and financial sustainability in 2002—two years ahead of the original program schedule.

USAID's US \$10.5 million investment had resulted in nearly triple that amount in loans to poor clients, and a viable institution capable of reaching large numbers of poor people on a permanent basis. Only Fondation Zakoura, an independent Moroccan MFI, rivaled Al Amana in number of clients. USAID's commitment to long-term funding and a supportive policy framework had paid off handsomely.

Setting the Stage

USAID entered microfinance in Morocco when the sector was still young. Just a handful institutions were providing microfinance services, and most were small, multi-purpose non-governmental organizations devoted to poverty alleviation. Of these, two were the recognized leaders, AMSED and Fondation Zakoura. AMSED (established with Catholic Relief Services) had four affiliates with a few hundred clients each. Fondation Zakoura was using the Grameen Bank methodology, and had reached 2,000 clients by 1997. These microcredit providers operated informally and were unregulated, but were permitted to function.

Developing a Legal Framework for Microfinance

USAID's starting point was a bilateral agreement with the government of Morocco to undertake a microfinance project. This precipitated official interest in formulating a law to regulate the sector. The Ministry of Finance was charged with drafting a new law that would govern microfinance institutions. Over the next two years, USAID was an active supporter of the discourse between government policy makers and local microfinance



Al Amana Clients signing for a group loan disbursement in Kenitra, Morocco. (Photo: Monique Cohen, March 2004)

practitioners about the law. Such a discourse was critical for achieving consensus and was unprecedented in Morocco.

While the law was being formulated, the United Nations Development Programme (UNDP) launched a US \$1.7 million technical assistance program in Morocco that offered support services to six microfinance institutions over three years (1997–2000).

The UNDP program complemented USAID's support for sector-wide capacity building in microfinance good practices. USAID's support included funding Moroccan practitioners and government officials in international meetings and training sessions such as the Microcredit Summit in New York and the Microfinance Training Program in Boulder, Colorado; 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.

The new law, *Loi Relative au Micro-Crédit*, was officially adopted in February 1999. However, a draft of the law was recognized as early as 1997, allowing Al Amana to begin operations. Key features of the law are summarized in Box 1.

Box 1 Key Features of Moroccan Law on Microfinance (1999)

1. Created a new type of association dedicated to providing microcredit
2. Freed MFIs from interest rate caps imposed on banks and financial companies. However, Ministry of Finance retained authority to set maximum interest-rate caps for "microfinance associations"
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, i.e., microenterprise loans
7. Required microfinance programs to become financially viable in five years

Some believed the law was premature because the industry was too young to be regulated. Because loans were restricted to microenterprises, for example, it was feared that the law would impede innovations, such as demand-led product diversification. These were reasonable concerns, but because the law legitimized microfinance, it created the conditions for professional,

sustainable microfinance providers to start operations in Morocco. It led to the market entry of many new organizations, including two major players on the Moroccan market today: FONDEP (Foundation for Local Development and Partnership) and the Fondation Banque Populaire du Micro-Crédit (FBPMC), a not-for-profit offshoot of a state bank.

"The law served to set the stage for a competitive microfinance market and the provision of high-quality microcredit services."

Fouad Abdelmoumni, CEO, Al Amana

Not surprisingly, the industry's requirements grew beyond the parameters of the 1999 law. Responding to the pressures of a growing industry, the law was amended in 2003 to permit microlending for housing, including home improvements, such as water and electricity fitting/fixtures. These amendments were the result of a renewed dialogue between the practitioner community and the government, a process that was again actively supported by USAID.

Launching Al Amana

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. As the cornerstone of USAID's program, Al Amana was envisaged as a major MFI that would set the standard for good microfinance practice in Morocco. Three distinct phases of its development were anticipated:

1. Institutional development (first 18 months)
2. Product development (with targets of 5,000 clients per year for five consecutive years)
3. Institutional sustainability (by December 2003, the end of the project)

Sustained high-quality technical assistance—plus existing good communications, electricity, and transportation infra-structure—permitted Al Amana to quickly evolve into a large institution. The MFI made remarkable gains in efficiency through rigorous standardization of products and procedures; large, on-going investment in information technology; and a determination to keep administrative staff to a minimum while increasing the number of credit officers in the field. Its growth in clients and portfolio outstanding are shown in Figures 1 and 2.

By December 2003, Al Amana had become an exemplary microfinance institution. It had 101,553 clients, 421 employees (74 percent of which were productive field staff), and a portfolio-at-risk ratio (more than 30 days) of 0.2 percent. Information on its operational performance is publicly available and transparent. (See its 2003 rating conducted by Planet Finance, at www.planetfinance.org and www.themix.org). Having attained financial sustainability in 2002 (two years ahead of schedule), Al Amana is able to attract financing from a range of commercial sources, e.g., loans from Dexia Microfinance Fund, Société d'Investissement et de Développement International, and the Banque Commerciale du Maroc.

Why Were USAID's Actions Effective?

1. Unwavering commitment to its vision of financial services for large numbers of poor people. The USAID investment in Moroccan microfinance was driven by the vision of creating an institution and sector that could deliver sustainable financial services to large numbers of poor people. 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. Its financing reflected this vision.

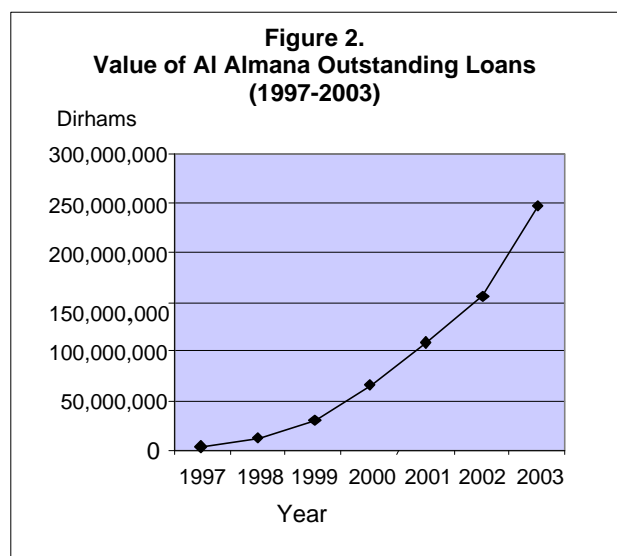
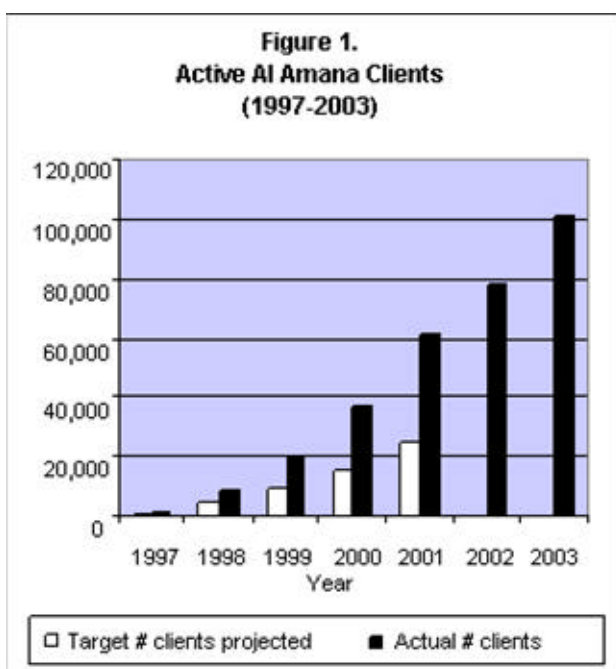
2. Technically skilled people in Al Amana and key stakeholders. The success of the project can also be attributed to several technically skilled people working for different stakeholders. Jamal Dadi, the USAID microfinance project officer in Morocco, was a well-informed advocate for microfinance and played a key

role in the adoption of the 1999 law. He was also 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) brought extensive microfinance experience to Morocco. Rippey was instrumental in recruiting the dynamic Fouad Abdelmoumni to become the director of the newly created Al Amana.

On the government side, the 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 (a former businessman who subsequently became prime minister) and Mohammed Ghazali, the ranking official charged with bringing the law to passage. Both men later served (at different times) as chairman of the board of Al Amana.

In the public domain, the chairman of Fondation Zakoura, Nouredine Ayouche, was a media executive who used his contacts to promote the sector and give microcredit visibility. Furthermore, the editor of the weekly *L'Economiste*, was on the Board of Al Amana and that magazine was an articulate exponent of microcredit.

3. Adapting its role to the sector's growth. Over the last seven years, USAID's role in Moroccan microfinance has evolved from policy advocate and direct microfinance investor, to 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 serving the interests of its diverse members.

Outlook

Morocco today has one of the most vibrant microfinance sectors in the Middle East and Northern Africa. Twelve MFIs together 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), FONDEP, and FBPMC—with the smaller MFIs serving more rural and poorer clientele. International private sector investors have increasingly joined the inter-national public donors and domestic private foundations that initially funded these MFIs.

One challenge facing microfinance in Morocco today is the conflicting role of the Ministry of Finance. The Ministry is currently charged with both regulating the microfinance sector and disbursing the \$10-million Fonds Hassan II. This is 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, so that MFIs seeking to help the poor can do so over the long term, independent of government and donor subsidies and so that a broader range of financial services are available to poor people.

Conclusion

Over the last seven years, USAID has played an important role in helping to develop a robust microfinance sector in Morocco. As an investor, USAID built a self-sustaining MFI that now operates at a scale reached by only one other MFI in the Middle East and North Africa Region. As a policy advocate, USAID facilitated the adoption of a law on microfinance and

supported subsequent amendments that permitted the sector’s continued development. Its experience in Morocco offers valuable lessons to other donors seeking to ensure that the poor have permanent access to financial services.

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Monique Cohen is President of Microfinance Opportunities and a consultant to the CGAP Donor Team. She was previously employed by the USAID Office of Microfinance Development, where she worked closely with USAID/Morocco and followed the development of Al Amana from its inception. This case study is based on a review of the documents cited above, as well as interviews with Fouad Abdelmoumni, Director, Al Amana; Jamal Dadi, Microfinance Program Officer, USAID/Morocco; Jim Bednar, Mission Director, USAID/Morocco; Kate McKee, Director, Microenterprise Division, USAID/Washington, DC; Paul Rippey, Grants Investment Manager, Uganda Financial Sector Deepening Project, and former VITA Technical Advisor to Al Amana.