

# MicroStart Morocco

## Case Study for Midterm Evaluation

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### I. Main Features of MicroStart Morocco

MicroStart Morocco began as the first worldwide MicroStart program in early 1998, after a year of preparation. It was an experiment within an experiment.

Because it was the first program, it fit mainly within the original framework envisioned for MicroStart: ITSP, LTSP, an advisory board, and a group of small, young MFIs to receive support. Save the Children (SCF), the ITSP, was selected from among the pre-qualified list in part because it was one of the few TSPs with experience in the Middle East. SCF contracted a local organization, International and Domestic Services, as LTSP. These decisions were made in conjunction with an advisory board (the Supervisory Committee) made up of representatives from UNDP, government, and the private sector.

Yet even at that early stage, there were already adaptations to fit the local scene. Because Morocco had such a small and young microfinance sector, the number of retail MFIs selected initially – five – was at the low end of the envisioned range, below the target of seven. In addition, one “apex” MFI (AMSED) was included to provide technical assistance to other MFIs. Finally, one of the retail MFIs (Zakoura) was expected to be a technical assistance provider for another retail MFI (Ismailia).

The preparatory work for MicroStart Morocco took place during 1997, including the initial assessment, selection of SCF as the TSP, SCF’s selection of the MFIs, and development of proposals for each. At the start, three retail MFIs were included (ACAET/AMAL, Zakoura, and AMSSF) together with one second tier organization (AMSED). Subsequently, two other MFIs were added (Ismailia and FONDEP), and AMSED was suspended.

<b>Microstart Morocco: Timeline</b>	
Assessment	1997
TSP selected	October 1997
Workplan approved	December 1997
MFIs selected	December 1997
First workshop	February 1998
Study tour to Lebanon	December 1998
Seventh workshop	September 1999
End of Program	November 2000

Program implementation began in early 1998, with the first workshop, on Best Practices in Microfinance. As of October, 1999, SCF had presented seven workshops, two study tours (to Bolivia and to SCF’s affiliate in Lebanon), and numerous on-site visits.

The program will soon enter its final year, and is starting to look more seriously at how to complete its work and leave behind a sustainable legacy.

## II. Microcredit in Morocco

Microcredit is a very recent phenomenon in Morocco. The oldest programs started lending in 1993-94. Not until 1995-96 did international experience on how to do microcredit effectively begin to become known within the country. The earliest international contacts were CRS, through AMSED and its affiliates and French expert Maria Nowak, who worked with Zakoura Foundation. At the time MicroStart was designed, only a handful of microcredit providers in Morocco were making loans on a systematic basis. The organizations selected for MicroStart together served no more than 3,000-4,000 clients, and there were no other significant providers.<sup>1</sup> Thus, Morocco represents the type of country for which MicroStart was especially created – a genuine start-up setting.

A brief visit to Morocco revealed that it is fertile ground for the development of microfinance, with dense urban markets for starting programs and reaching scale, a culture that supports group solidarity and good loan repayment, and the human resources needed to build strong microfinance institutions.

Because microfinance is so new in Morocco, a major challenge for MicroStart and other actors in the field is to develop an understanding about basic concepts. Prevailing ideas about credit for the poor reflect pre-microfinance conventional wisdom: poor people are risky; they need training with their loans; they need low interest rates; they won't work in groups; this kind of activity must be done as a charity – or at least a quasi-charity.

Interest rates are a particular hurdle, because of Islamic strictures against usury. At this stage, two years into MicroStart, none of the organizations visited were fully prepared to charge interest rates sufficient to yield unsubsidized profitability. However, it is clear that the MicroStart organizations have come a long way. All are charging rates that provide a basis for operational self-sufficiency, and for the most part these rates (between 1.5 and 2.5 percent per month) are substantially higher than those they charged at first. Nevertheless, it is difficult to assess interest rates in Morocco because programs feel the need to disguise interest charges by calling them charges for administrative costs, and structuring them so that it is difficult to calculate effective rates. This lack of transparency probably postpones the day when organizations and their supporters can set interest rates in relation to genuine profitability, simply because it keeps many of those people in the dark about what the rates actually are and retains an aura of the forbidden around them.

One factor retarding the development of microfinance in Morocco had been the provision in Morocco's banking legislation that reserved the right to make loans exclusively to supervised financial institutions. Because of this law, the banking authorities found it necessary to become involved in setting the legal context for microfinance even when the "industry" was embryonic. After a period of study and discussion, the law was passed in April of 1999. It requires all microcredit programs to obtain a license from the Ministry

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<sup>1</sup> One other significant provider, Al Amana, started a few months before MicroStart.

of Finance within one year after the passage of the law. Each microcredit organization is required to be a distinct organization exclusively devoted to financial services. Thus, microcredit programs lodged in multipurpose organizations must separate themselves from their parent organization. The law further requires that the microcredit programs must become financially viable within five years. These two provisions are likely to have a strong effect toward modernizing the microfinance sector quickly. People contemplating setting up a credit program will have to think seriously about what it takes to create a viable institution before proceeding. The law also gives the Ministry of Finance the right to set maximum interest rates, though it leaves the door open wide enough for organizations to circumvent the maximum by charging fees. This provision shows that the government authorities recognize the need for commercial operations, but must still show the public that they are sticking to Islamic banking principles.

To date the initiative to launch microfinance programs has come mainly from small, multipurpose NGOs, known in Morocco as associations. Most of the organizations themselves are quite new, having started in the early 1990s. Some have religious affiliations, while others are associated with prominent businessmen and others with political leaders. These organizations are characterized by:

- Formation as multipurpose organizations to combat poverty rather than specifically as microfinance organizations
- Lack of clear understanding of how to run a professional organization, including appropriate governance and staffing structures (e.g., lack of recognition of need for professional management separate from but accountable to the governing body)
- Lack of knowledge of microfinance credit methodologies
- Lack of prior training and experience of staff in business and financial management.

Although there is a substantial amount of energy and good will involved in these institutions, it is difficult to change organizations such as these into top-notch microfinance institutions. The transformations involved frequently prove too much, especially if they involve changes in key people and in basic objectives, as they usually do. Of the organizations in MicroStart, only one, Zakoura seems to have got substantially beyond these limitations, though it is still struggling with some of the issues.

Two initiatives outside MicroStart came from more commercially-oriented sources. The larger of these is Al Amana, a USAID-sponsored start-up operation of the American NGO VITA. It is following generally accepted best practices and is developing into a large and seemingly strong institution. The Banque Populaire has also started a microfinance program through its Foundation. This program has the advantages of banking expertise and institutional support. However, it was designed to operate on a quasi-charitable basis and has only partially incorporated the basic concepts that would enable it to become a major service provider.

Who will be the main microfinance providers in Morocco in ten years? Among existing institutions, only two – Zakoura and Al Amana – are likely to be major providers. One or at best two of the other MicroStart organizations may become solid small providers but are not likely to be leading institutions. Thus, it is likely that the main providers in ten years time will include entrants that do not now exist. It is hoped that a second generation of entrants will start up with higher potential to become sustainable microfinance organizations. They will have Zakoura and Al Amana setting a competitive standard and offering an example to learn from, and they will be guided by the new law's requirements for independence and financial viability.

### III. TSP Performance

#### *A. Strategy for Delivery of Technical Assistance*

Save the Children was selected as TSP in part because of its focus on making very small loans to women and in part because it was one of the few TSPs with experience in the Middle East. The choice of SCF was a good fit to the situation in Morocco.

SCF's strategy for implementing MicroStart Morocco has been dominated by the constraints of the budget. As a U.S.-based organization, SCF faces the relatively high salaries of U.S. experts, in addition to the travel costs of transporting people from the U.S. to Morocco. From SCF's point of view, budget constraints have forced it to make some sacrifices in the way the program is implemented. From UNDP Morocco's point of view, SCF is too expensive. Either way, it is clear that cost-effectiveness is a crucial consideration in the strategy for delivering assistance.

SCF's strategy has been to pursue cost-effectiveness by the use of workshops that reach all the participants at once, followed by on-site visits to tailor assistance to each specific case. It has mounted a series of 2-3 day workshops on progressively advanced topics. After the workshops the expert trainers have made brief on-site visits to each MFI. During the periods between workshops, the LTSP conducts monitoring and follow-up visits. This strategy was seen as more cost-effective than placing a full-time expatriate in Morocco, which alone would have used up the major part of the budget. In addition to this basic outline of activities, SCF has conducted two study tours, one for the leaders of the organizations to Bolivia to help them develop a long range vision for microfinance, and the other for staff and managers to its affiliate organization in Lebanon to gain more practical near-term knowledge. It has also conducted risk assessments of two MFIs.

#### **Workshop Topics**

1. Best Practices in Microfinance
2. Business Planning for MFIs
3. Group Dynamics and Preparation of Performance Reports
4. Marketing Strategies
5. Human Resources and Growth Management
6. MIS
7. Accounting and Financial Management

Apparently, the initial workshops were perceived as too basic, even though they treated issues which several of the NGOs are

still struggling to master. Nevertheless, SCF adjusted the level, and the MFIs seem to be more satisfied with later workshops. It has been difficult to pitch the messages at the right level, because of the disparity of understanding among the various organizations in the program. An increase in the emphasis of immediate on-site visits by the workshop providers has increased MFI satisfaction and understanding of how to implement the lessons presented. Organizations say the combination of workshops and continuous availability is necessary in order to effect change, ensuring that the content of the workshops is actually implemented

SCF has also gone beyond its own staff to bring in high quality experts for the workshops. Surprisingly, however, given the emphasis on its regional experience and the cost effectiveness issues, SCF has not involved any of its regional staff or local affiliate staff in the project. Although this had been envisioned, in practice it proved difficult to release key MFI operational staff in those affiliates from their duties. Only once was a regional person, the executive director of SCF's Lebanese affiliate, brought in for a short consultancy. SCF's Microfinance Director Mark Edington and staff member Kim Alter have acted as the point people for the project, conducting most of the assessments, maintaining the relationships with each MFI (together with DIS as LTSP), shaping the overall content of the workshops, and carrying out risk assessments of two of the MFIs. Together, they are responsible for much if not most of the assistance SCF has provided.

In addition to the workshops MFIs cited the continuity provided by the LTSP and the study tours as particularly valuable aspects of the program. With respect to the LTSP, Zakoura staff described it as crucial that they could discuss issues with Prof. Mourji as they arose in the doing, rather than on a pre-determined workshop schedule. One of the benefits of MicroStart Morocco has been the increased capacity of DIS in the area of microfinance, making it one of the few local sources of such expertise.

The study tour to Lebanon gave organizations very practical lessons and allowed them to talk directly to other people at their level. The fact that the Lebanese organization had experienced initial problems and had solved them provided the Moroccan MFIs with a boost in their own confidence.

## ***B. Areas of Focus***

As TSP, SCF brings to the table knowledge in several major areas: the general principles of microfinance (best practices), its own group lending methodology, institution-building, financial management, and information management. The choice of focus within these areas is dictated by the needs and absorptive capacity of the MFIs. SCF's approach has been to start with the more basic elements and build logically through a sequence of topics, cycling back on topics that require gradually more sophisticated understanding, such as financial reporting and analysis. It has attempted to cover a wide span of topics from all the areas mentioned above.

A significant issue involves the definition of best practices and its relationship to SCF's GGLS methodology. The early signals coming from MicroStart New York, as interpreted by UNDP Morocco, suggested that MicroStart was aimed at making very small loans to women

A major effect of Microstart is the introduction of rigor and accountability into the relationships between the organizations and donors and within the organizations themselves.

*Fouzi Mourji, DIS -- LTSP*

through solidarity groups. Moreover, this was in line with SCF's own methodology. Several of the MFIs in MicroStart Morocco were using different methodologies, including lending to both men and women and making individual loans. With the exception of Zakoura's methodology, shaped by technical assistance from Maria Nowak and visits to Grameen Bank, these methodologies did not incorporate best practice principles of microfinance, and were producing poor results. Thus, a number of factors accumulated to suggest that an early emphasis in the project should be methodology reform:

- MicroStart's perceived mandate for small group loans to women
- SCF's own GGLS methodology
- The poorly performing methodologies used by the MFIs

All the organizations have now switched to a women-only group methodology, and all appear to have had more success with the new approach. Care should be taken, however, to ensure that the organizations understand the difference between mandated requirements of the program (i.e., reaching the poor with an emphasis on women, if that was, indeed, a mandate), basic principles of microcredit (such as ensuring that groups are well-formed), and specific tactics or techniques that vary from program to program (such as group size or frequency of repayment). Among participants in MicroStart Morocco a tendency was observed of treating the specifics of SCF's group lending methodology as invariable best practices or even as requirements of MicroStart. Moreover, it is important that MicroStart not give the message that group lending to women is equivalent to microfinance best practice, thereby implicitly excluding from the definition of microfinance programs that lend to men or make individual loans.

## **IV. Impact of MicroStart on MFIs**

### ***A. Choice of MFIs***

Looking at MicroStart Morocco as it starts its third year, it is possible to second-guess the choices made at the beginning, observing that while all the organizations have benefited from their participation, some of have limited potential to become sound microfinance providers or to profit fully from the technical assistance. As the following discussion of the individual organizations shows, with the benefit of hindsight, there are reasons to question whether four of the six participants should have been in the program. It is impossible to conclude whether current difficulties with some of the MFIs stem from the selection process or from the implementation phase. However, it is clear that two factors kept the selection process from focusing exclusively on selecting the best organizations

and developing sound agreements and relationships with them. These factors were the requirement to identify five or more organizations and the short time allotted for selection.

MicroStart Morocco, as the test case, applied the MicroStart framework faithfully as set out. The number of MFIs to be included in the program was expected to be between five and ten, with the prodoc citing a target of seven. The short supply of MFIs in Morocco made it difficult to identify so many organizations with good potential. SCF reviewed eight or nine organizations, quickly eliminating some as unsuitable. It launched the program with four (including one apex), and it added two more after six months. Had the pressure to get the number above five not existed, SCF would probably not have included all the organizations. One important reason for the attempting to find a minimum number of organizations was budgetary. The project was fully funded, with \$1.1 million in capital meant for MFIs, but with a ceiling of \$150,000 for each MFI. Thus, in order to spend all the money, a minimum number of organizations had to be found.

SCF was given a little over a month between its notification of selection as TSP and the deadline set by UNDP Morocco for approval of the selection and workplans by the Supervisory Committee. This unfortunate time pressure arose because the country office was under pressure to meet expenditure targets before the end of the fiscal year in order to ensure access to future funding (TRAC II). Meanwhile, several months had been used in project processing inside UNDP, eating into the time that should have been available to the implementing organization.

As the following discussion shows, each of the organizations has made important improvements as a result of its participation in MicroStart. With the benefit of a look at each case we will return to the question of whether all the organizations should have been included in the program.

## ***B. Impact of MicroStart on MFIs in the Program<sup>2</sup>***

### **1. Zakoura**

At the time MicroStart began Zakoura was perhaps the leading microcredit organization in Morocco, though it had only about 2,000 clients and was still very new, having started its first microfinance experiments in 1995. Zakoura had already been through an important learning process with respect to its lending methodology. After an unsuccessful start with larger, individual loans to men, it had completely changed its focus and was making group loans to women. These changes resulted from an informal technical assistance relationship with Maria Nowak and her colleagues and from a visit by Zakoura's founder to Grameen Bank. Zakoura had already reconciled itself to the

The workshops are helping us learn to manage our numbers better, so that we have better planning and can keep costs down.

*Aziz Benmaazouz, Zakoura*

<sup>2</sup> There is no commentary on AMAL, as it was not visited during the evaluation.

need for interest rates that would cover costs. Its commitments to best practices and to becoming a major service provider were well established before MicroStart began.

Zakoura needed second-stage assistance from MicroStart, in operating systems, financial analysis, and institutional development. At first, Zakoura found the messages of the MicroStart workshops too simple, pitched as they were to the average level of participating NGOs, where basic principles of credit delivery were still not well understood. At this stage in the project, staff resisted advice from SCF, concluding, perhaps that they already knew what SCF had to teach, and regarding SCF as an agent of control. Over time, however, a positive working relationship has developed with SCF and DIS, and the evidence of MicroStart influence is abundant in visits to headquarters and branches:

- Change in management reports from forms measuring data cumulatively which gave little useful information, to forms with current information. A branch manager expressed excitement about the relevance of the information to his job.
- Standardization of policy throughout the organization. “Now a loan officer can go to any Zakoura branch and know exactly how everything works.”
- A change being implemented from accrual to cash accounting.
- Use of financial ratio analysis.
- SCF advice has been sought on specific issues such as incentive system design and interest rates.
- SCF carried out a risk assessment of Zakoura, in response to Zakoura’s concerns about the supervision and internal control at the credit officer level. The fact that it did this very sensitive task shows the level of trust that has developed.

In general, SCF and DIS have helped Zakoura become more structured and systematic in the application of the principles it had accepted but not fully applied.

## **2. AMSSF**

At the time MicroStart began, AMSSF had been through two rounds of unsuccessful microlending and desperately wanted to learn how to lend effectively. It was not a strong candidate for MicroStart, given its past record and its lack of professional management (It relied heavily on its volunteer founders.). It was chosen largely because there were few alternatives in Morocco at the time, and because the founders, though volunteers and lacking in business background, were dynamic leaders with a will to build their organization and a very positive attitude toward working with SCF and DIS.

AMSSF remains a borderline case. It has adopted a more effective methodology and is improving its management systems. It has expanded its outreach from a negligible 24 clients to 988. However, it still has major problems: it still lacks a professional executive director, and it continues to have unsustainable levels of delinquency. At best, AMSSF may turn out to be a modest success, if it can consolidate and stabilize its operation, but even this level of success remains at risk.

It is clear that AMSSF has learned a great deal from MicroStart. It credits SCF with teaching it almost everything it now knows about microfinance management and is particularly appreciative of the continuity provided through DIS, which has assisted it to apply the ideas of the workshops concretely. In retrospect, it appears that MicroStart should have addressed the management issue from the beginning, seeing that a full time, professional executive director would be a key prerequisite for significant expansion of the program.

### **3. Ismailia**

Ismailia's participation in MicroStart has been troubled from the start. SCF did not include Ismailia in the initial round of grantees. It included it later, in part with the understanding that Zakoura would provide some technical assistance. And Ismailia loan officers did spend a month interning with Zakoura. However, Zakoura was not in a position to deal with the many-faceted needs Ismailia presented, and these tasks fell to SCF and DIS.

Ismailia's microfinance program barely existed when it joined MicroStart. Save the Children provided it with a new lending methodology, which Ismailia is now using to expand its client base. There is less success on the institutional front, however. SCF has been trying to convince Ismailia to install basic institutional building blocks like an organigram with clearly demarcated responsibilities, a chart of accounts, and a loan tracking system. Ismailia has been very slow to move, and has generally viewed suggestions as hurdles it must jump over in order to receive loan funding rather than significant pieces of its own growth.

In frustration, SCF and DIS recommended withholding a portion of Ismailia's funding, a step approved by the Supervisory Committee. This move proved untenable, however, as the terms for withholding funding had not been spelled out in the original agreements, and Ismailia claimed it had fulfilled all the steps listed in its workplan. The withholding of funding has not achieved the objective of improving Ismailia's application of suggestions (In fact, it has probably damaged the ability of SCF and Ismailia to work together). Nor has it succeeded in getting a low-performing organization out of the program (because the proper groundwork had not been laid in original agreements).

### **4. FONDEP**

FONDEP is a relationship that looked promising but has gone sour. FONDEP has capable leadership and qualified staff. When it entered MicroStart, it seemed also to agree with the vision of microfinance that MicroStart embodied. And, in fact, FONDEP has made very important changes as a result of its participation, including switching to group lending aimed at women and increasing its interest rate. However, FONDEP has grown increasingly reluctant to share information with SCF, and has not participated in some of the key workshops, including a workshop held on its own premises.

The problems seem to come from FONDEP's centralized, control-oriented leadership style, which SCF and DIS have challenged, and from basic differences in view about microfinance best practices. At this point, SCF and DIS question the validity of

FONDEP's responses to such simple questions as the number of active clients and number of loan officers, saying that FONDEP appears to be trying to prevent MicroStart from obtaining accurate information. Any attempt to examine portfolio quality is rebuffed. As a result of the lack of willingness to share information, SCF recommended withholding of funding. Although the Supervisory Committee initially agreed to do this, FONDEP has now succeeded in getting its funds released, on the basis that the initial agreements did not provide a basis for withholding of funds for the reasons that had been given. This episode, plus the perceived intrusiveness of a risk assessment SCF carried out, have resulted in shutting down constructive technical assistance exchanges between SCF, DIS and FONDEP.

### ***C. AMSED, Zakoura and the Apex Concept***

MicroStart Morocco in its early stages included the idea that participating organizations would act as apexes, that is, technical assistance providers to weaker organizations. AMSED, which was an apex already, was expected to support AMSSF, AMAL and FONDEP, while Zakoura was to support Ismailia. In the Zakoura/Ismailia case, expectations should always have been very limited. Zakoura did allow Ismailia's staff to come into its offices for extended on-the-job exposure, but as a rapidly growing organization, it did not have the free staff time to provide technical assistance on a regular basis, and as a young organization it did not have the depth of experience to be able to support another organization, especially one using a different system and methodology from its own. While the link between Zakoura and Ismailia was positive, it should not have been seen as a cornerstone of the MicroStart program.

The case of AMSED is more complicated. AMSED was already an apex, affiliated loosely with Catholic Relief Services. However, rather than being treated as an LTSP, AMSED received a grant and participated in the MicroStart training in the same way as the other MFIs. MicroStart did not guide AMSED in building its capacity as a technical assistance provider or in carrying out specific support activities for the participating MFIs. SCF came to view AMSED as a poor performer. It suggested dropping AMSED from MicroStart, with the proviso that it could reapply if it decided to become a retail provider (something AMSED was considering). The Supervisory Committee approved this decision, and AMSED no longer receives money or participates in training.

At this point, the apex concept has largely disappeared from MicroStart Morocco. The experience of the project shows the need for hard-nosed thinking about how and whether such apex relationships will work. It is not enough to have a general belief that it is good for organizations to help each other.

### ***D. Value of Funding***

Most of the organizations in MicroStart Morocco have raised funds privately within the country, mainly through founders. Some have had access to interest-free bank loans as well as private donations. There are only a few examples of small grants from external donors. For the smaller organizations, MicroStart represents a significant addition to available funds, while for Zakoura (with a portfolio approaching \$2 million) it is not particularly important. Even for the smaller organizations, however, the MicroStart

funding is only enough to meet needs for a short time. In every case, the value of the funding appears less than the value of the technical services the organizations are receiving.

All the participating organizations appear hopeful that MicroStart will provide them with a kind of certification for and perhaps introduction to mainstream official donors. This would be a shame, given that they have until now been relatively donor independent. The idea the MFIs should find local, preferably commercial, funding sources rather than relying on donors is not well-understood in Morocco. It does not appear to be part of the overall concept of financial viability. Microfinance organizations are beginning to lobby government to create a standing microfinance fund.

To attempt to channel the drive for funding into more sustainable directions, it may be important for MicroStart in its last year to focus on the topics of financial viability and long run funding strategies, pointedly explaining how the two elements are closely interconnected. Each organization could be charged to develop a long range funding plan, based on a transition to commercial sources.

## V. Reflections on Capacity Building Relationships

MicroStart Morocco illustrates that what MicroStart should be about is better thought of as the creation of effective capacity building relationships, rather than delivery of technical assistance. What is the difference? Technical assistance implies the provision of specific advice on limited technical subjects. Capacity building relationships involve the exchange of ideas on a wider variety of topics, including leadership and management, and they are not limited to specific events or occasions. Technical assistance is concerned with what the organization does, while capacity building also encompasses what the organization is.

At first we were reluctant to receive advice, but little by little we gained acceptance (of the advice) as the relationship developed. We had to go through relationship-building to get to real information exchange. At first we felt like we were being controlled, but now there is a spirit of building something together. *Aziz Benmaazouz, Zakoura (paraphrased)*

SCF and DIS have succeeded in providing valuable technical assistance to all the organizations in MicroStart Morocco, particularly regarding lending methodologies. Further, it has established an effective capacity building relationship with two organizations, AMSSF and Zakoura.<sup>3</sup> In order to do so, it had to create trust in the organizations regarding its ability to offer advice and its motives for doing so. The organizations, on their part, had to have enough self-confidence to be able to take responsibility for their own development and to be willing to share information openly.

In other cases, such effective relationships have not developed. In these instances it was obvious that the MFIs lacked this self-confidence. However, it is also clear that the TSP's function of policing performance under the grant was detrimental, particularly when SCF

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<sup>3</sup> We cannot comment on the relationship with AMAL, as we did not have any contact with it.

suggested withholding funding. Given the small amount of MicroStart grants, withholding does not appear to be an effective tool for the TSP. It does not cause the organization to turn around its behavior, but it does undermine the capacity building relationship. Thus, a suggestion emerging from the MicroStart Morocco experience is to protect the TSP from fights over funding. One way to do this would be to make continued funding contingent on more objective performance criteria.

## **VI. Policy Level Effects**

Morocco had already begun the process of developing a law on microcredit when MicroStart began, and the basic elements of the law had been sketched out. It has since been passed. MicroStart's main government liaison, who sits on -- and in effect leads -- the Supervisory Committee, is the head of the unit in charge of developing and administering this law within the Ministry of Finance. The Supervisory Committee has been an active group, which has taken its decisions seriously.

Through this government participation on the steering committee, MicroStart has been able to influence the final shape of the law to some degree, and to a greater degree, its implementation. MicroStart serves as a kind of learning laboratory for the government regulators of microfinance, a first chance to become involved deeply with the practical issues. Through interaction with UNDP and SCF key government officials had ample chance to debate best practice concepts such as interest rates and financial viability, and through interaction with the MFIs, they had a chance to see how organizations actually operate and to understand the problems they face. For example, the Ministry of Finance understands the need for cost-recovery interest rates, and although it must bow deeply to the Islamic disapproval of high rates, it will leave the door open for organizations to charge fees of various kinds. While it might have come to the same conclusions without MicroStart, MicroStart has been a vehicle for coming to terms with these issues. MicroStart also held a workshop on the microfinance law for the MFIs, thereby assisting the government in disseminating information to its intended audience.

## **VII. Suggestions for the Future**

MicroStart has one more year to run in Morocco. The following two suggestions are ideas for the end of the project and beyond

### ***A. Focus for Final Year on Financial Viability***

As noted above, most of the organizations in MicroStart have come from a history of raising funds locally, but are starting to develop hopes about accessing larger amounts of external donor funding or convincing government to initiate funding programs. Meanwhile, SCF has emphasized financial viability in its work with the MFIs. There is a disconnect between these donor hopes and plans for financial viability that SCF should try to bridge during the last year. It needs to get across the concept that the purpose of building financial viability is to be able to restructure funding sources. Only financially viable institutions can be independent from donors and governments, and can access commercial funding sources. But the path through which MFIs would begin obtaining

commercial funds is not obvious to the players in Morocco. SCF should generate a dialogue on this issue within the Supervisory Committee and with each MFI. Ideally, each MFI should develop a long range funding plan of its own.

### ***B. Extension Possibility***

MicroStart has helped create positive working relationships between SCF, DIS and at least two of the MFIs, Zakoura and AMSSF. However, both organizations have a long agenda of challenges ahead, and remain somewhat fragile. They could benefit from an additional year or two of support from SCF. Thus, the suggestion is that UNDP fund an extension of MicroStart into a second phase. Under such an extension, SCF would be able to concentrate its resources productively as it would work only with organizations that have shown themselves willing and able to progress and be receptive to its assistance. If desired, a new organization could also enter the program at that time, as a second generation Moroccan microfinance program.

## Annex 1. Persons Interviewed

Mr. Jaouad Alami  
Director  
FONDEP

Ms. Bechar Badiia  
DIS

Ms. Bachari Baitioc  
Microcredit Program Director  
AMSED

Mr. Mouatassim Belghazi  
President  
FONDEP

Mr. Aziz Benmaazouz  
Director of Microcredit Program  
Zakoura Foundation

Mr. Mustapha Bidouj  
Secretary General  
Foundation Banque Populaire  
(member of the supervisory committee)

Mr. Mohammed Bouassami  
Assistant Resident Representative  
UNDP Morocco

Mr. Hassam El Basri  
Chief, Division of Credit Institutions  
Ministry of Finance

Mr. Omar Khadra  
Credit Officer, Sefrou Branch  
FONDEP

Mr. Mark Edington  
Save the Children

Ms. Khaddouj Gharbi  
President  
AMSSF Microcredit

Mr. Aziz Heddad  
Credit Director  
Zakoura Foundation

Ms. Hamae Kandri  
Financial Manager  
AMSSF Microcredit

Mr. Abdelhafid Lamrani  
Credit Program Director  
Ismailia

Ms. Benchekroun Malak  
Director  
AMSED

Mr. Movfid Mohammed  
Credit Officer, Fes  
AMSSF Microcredit

Mr. Fouzi Mourji  
Professor of Econometrics  
University Hassan II  
and DIS

Ms. Tone Skaug  
Program Officer  
UNDP Morocco

Ms. Aouatif Slaoui  
Accountant  
Ismailia

Ms. Cihan Sultanoglu  
Deputy Resident Representative  
UNDP Morocco

## **Annex 2. Summary on Microfinance Institutions Reviewed**

### **AMSSF (Moroccan Association for Solidarity without Borders)**

AMSSF was founded in 1994 as a multipurpose NGO promoting literacy and assisting women and children in the urban center of Fes. The current board of eleven members includes teachers, bankers and business owners. The two key founders, though dynamic individuals, had no training or experience in business or finance. The microcredit program began in 1995, when AMSSF succeeded in acquiring a small fund for loan capital from AMSED. It relied also on AMSED as its source of technical know-how. The first loan cycle offered loans to 20 women, and by the end of 1996 AMSSF was lending to more than 200 people. This first experience with credit was unsuccessful; internal controls, fear for the security of credit agents who carried around large sums of money, poorly formed solidarity groups and the resulting repayment problems led AMSSF to close down the program at the end of 1996. It was time for some serious reflection.

Throughout 1997, AMSSF sought to learn about credit systems and training credit agents, through technical support from AMSED, and to some extent from CRS. However, this exercise did not have access to wider, international knowledge regarding microcredit. Nonetheless, in late 1997 AMSSF re-launched the microcredit component—and started making some of the same mistakes again. Solidarity groups were still not properly formed and repayment problems were not addressed swiftly enough.

In January 1998, AMSSF became one of the MFIs supported by MicroStart through AMSED. A contract was signed to provide AMSSF with a \$150,000 grant and technical assistance from the international and local TSPs. Suddenly, according to founder Mme. Gharbi, “the doors were flung open,” and AMSSF began learning in earnest about best practices in loan methodology, business planning, marketing and financial management. Since starting with MicroStart, AMSSF has grown from 24 to 988 clients.

AMSSF’s current program borrows heavily from a SCF’s affiliate institution in Lebanon, which several MicroStart participants visited in 1998. This program uses the solidarity group lending methodology, requiring a minimum of five people in a group (84 percent women). Loan terms vary according to cycle; starting at 500DH (\$53) over four months and going up to 4,000DH (\$421) over eight months. The interest rate is 3 percent per month, flat. Repayment schedules have been in flux as AMSSF experimented with various scenarios, including a weekly schedule; currently clients pay back every two weeks.

After groups are registered, credit agents visit each member to ensure that the information received during registration is accurate, that the potential client does have a business activity and that s/he has good standing in their community. AMSSF also requires that groups attend four ½ hour training sessions before loans are disbursed.

AMSSF uses the postal system as its bank, issuing one check to each group and going with the group to the post office to witness and verify that each member receives the amount due. The group leader must collect weekly repayments and bring them to the post office and then bring the receipt to the office as proof. The six credit agents work out of small offices in four centers in Fes. Future plans are to have two agents in each center. The average number of clients per agent is 122; agents say that they could handle between 260 to 300 clients.

Thanks largely to their participation in MicroStart, the association's management feels that it firmly grasps the principles underlying microfinance. Carrying them out, they've discovered, is an entirely different matter. Loan repayment and monitoring the performance of credit agents continues to be AMSSF's major problems. Currently, portfolio at risk over 30 days is 23 percent.

The biggest threat to AMSSF's future is the lack of a permanent project manager. Currently, the two founding members of AMSSF form a committee that is responsible for the microcredit program. Although they act in effect as CEOs, they are volunteers and have other work. This arrangement is not sustainable if AMSSF wishes to grow.

## **Zakoura Foundation**

Zakoura was created by a well-established businessman in the public relations field who used his own money to launch the association and continues to fund it. Zakoura is a multipurpose organization with activities in literacy and education. It started microcredit in 1995.

At first, Zakoura was not a successful microlender, but it gradually changed its methods, based on external influences. Maria Nowak worked directly with Zakoura to improve its credit methodology, introducing it to some of the fundamental best practices in microfinance. Also, Zakoura's founder visited Grameen Bank and came back convinced to adopt the Grameen methodology and focus exclusively on women. Zakoura now makes loans ranging from \$150 to \$500 to its all-women clientele through 13 branches.

Zakoura has developed significant institutional depth. Although it continues to depend heavily on its founder, its board of directors has recently been expanded to include three additional businessmen, with the intent of reducing the organization's strong dependence on its founder. These new members are also expected to draw in additional bank funding. It has a strong director for the microcredit program, which it has placed into a distinct organization, in response to the new microcredit law. Moreover, it believes that separation is necessary in order to achieve its goals of scale and sustainability. Zakoura

is missing a financial manager, having just said goodbye to an expatriate supplied by Oxfam. The staff now numbers 86, and a well-designed staff incentive program is operating.

Zakoura is running a close second to the much better-funded Al Amana in terms of client numbers, but is more self-reliant, with to date little dependence on donor money. Most of its funding has come either from private donations or from commercial banks, who provide interest-free loans. In addition to client growth, Zakoura has made significant progress toward financial viability. In 1998 its income represented 75 percent of its administrative costs and loan loss expenses. It claims that it will be covering all costs by the end of 1999.

Despite Zakoura's institutional progress and aggressive growth targets (to double clients every year), it retains a fundamentally NGO-based vision. Although it aims to be financially viable, it also plans to continue to receive subsidized sources of funds as long as possible, does not want to become a financial institution, and is hesitant to charge the interest rates necessary for profitability. Although it is very hard to determine Zakoura's effective rate (interest being expressed in lump sums, not rates), it appears to be in the range of 27 to 34%. However, Zakoura's managers feel uncomfortable with these rates.

At the beginning of MicroStart, Zakoura had already become comfortable with its version of the Grameen methodology, and was well advanced in separation of credit from other activities. However, it was not managing its operations well. The type of assistance Zakoura needed from MicroStart was second stage: that is, management – operating systems, financial analysis, institutional development, and reduction of vulnerabilities. It has made substantial improvements in all these areas, but still has many areas in which to improve.

#### **INCOME STATEMENT, 1998**

<b>OPERATING INCOME</b>	
Interest and fee income from loans	2,191,917
<b>Total Operating Income</b>	<b>2,191,917</b>
<b>OPERATING EXPENSE</b>	
Interest and fee expense	0
Loan loss provision expense	389,097
Administrative expense — Personnel	1,835,918
Other Administrative Expense	703,939
<b>Total Operating Expense</b>	<b>2,928,954</b>
<b>NET OPERATING PROFIT (LOSS)</b>	<b>(737,037)</b>
<b>NON-OPERATIONAL INCOME:</b>	
Donation: PNUD	475,000
Donation: Founder	542,322
Govt. Labor Subsidy	105,600

<b>BALANCE SHEET</b>	
<b>ASSETS</b>	
Cash and due from banks	4,637,045
Total loan portfolio	8,837,017
(Loan loss reserve)	(253,792)
Other short-term assets	415,750
Net fixed assets	349,892
<b>TOTAL ASSETS</b>	<b>13,985,912</b>
<b>LIABILITIES</b>	
Short term bank loans	7,271,165
Subsidized term loans	2,900,000
<b>TOTAL LIABILITIES</b>	<b>10,171,165</b>
Donated equity	3,824,102
<b>TOTAL EQUITY</b>	<b>3,814,747</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13,985,912</b>

## Ismailia

Ismailia is a young, association, founded in 1986 as a multipurpose NGO, with programs in literacy and other areas. It operates as four separate organizations in different regions. MicroStart deals with the Ismailia for the regional center of Meknes. The founding of Ismailia was led by one of the original leaders of the 1950s independence movement, who has long been a prominent politician. He and other political and intellectual leaders mobilized a large number of people (around 400) with ties to their local areas to found the organization. Some of the motivation seems to have come from a general campaign by the king to encourage the creation of charitable organizations. With this background, Ismailia seems to be more a movement than an organization. This is evident from the heavy involvement of founding members in day-to-day tasks.

When Ismailia started with MicroStart in the second round (March 1998), it had 25 individual loan clients, paying an annual interest rate of 8 percent. Through its contact with MicroStart, Ismailia changed to solidarity group lending, using the SCF methodology, and revised its interest rate to 2 percent monthly. It now has almost 500 clients.

In keeping with the new law, Ismailia has created a separate organization to house its microcredit program, distinct from its activities in literacy and other areas. Nevertheless, its financial management and institutional development lags far behind. A significant accomplishment is the recent adoption of a chart of accounts. Prior to this Ismailia did not produce financial statements. It still has no regular tracking system to measure portfolio quality, but must tally each loan by hand when it wishes to get a picture of the overall portfolio. The responsibilities and lines of authority of people within the program are not

clear. Board members are overly involved in operations, and the senior managers lack a relevant background for the tasks they are performing. Nevertheless, it has achieved a surprising level of cost recovery (surprising for a program so small and new), with interest income covering 38 percent of total costs.

Ismailia has apparently not yet decided it will run a serious microfinance program, which would require it to make investments in staff and systems well beyond those it has made to date. Given the large number and prominence of its founding members, Ismailia should have access to the resources it needs to begin creating a professional operation, once it makes a decision to do so.

## **FONDEP**

FONDEP, the Foundation for Local Development and Partnership, was founded in 1996 by a group of businessmen, lawyers and other professionals, led by one very active founder, now President. It was created as a multipurpose organization with the theme of partnership, which meant that it would carry out its work jointly with other elements of society, including the private sector and government. For example, its training and literacy programs are carried out under an agreement with the Ministry of Labor, while its fishing and agriculture program attempts to supplement what government extension agents can do. Its original microcredit program, started in 1996, involved an agreement with the Prime Minister, in which local government officials would act as credit agents.

As a result of participation in MicroStart, FONDEP has switched from individual to group lending (which probably also means switching from an ad-hoc kind of methodology to a more systematic one), increased its interest rate to a level that is probably sufficient to cover costs (effective rate is said to be 55 percent), and increased the training levels of its microfinance staff.

FONDEP is a professional organization with a well-qualified staff, and apparent access to resources and influence. It has the potential to grow as an organization. Its potential as a microfinance program depends, however, on its willingness to change some of its basic strategies, which hampered its operation from the beginning, including extreme centralization and the use of government officials as quasi-staff. These issues, in turn, depend on questions of leadership style and philosophy towards microfinance.

During the past year the relationships with MicroStart have not been very productive. FONDEP is resistant to SCF's messages, for reasons that are not entirely clear, and SCF is frustrated by FONDEP's lack of willingness to share information.