REVIEW OF DCA CREDIT GUARANTEES FOR MFI ACCESS TO COMMERCIAL CREDIT IN MOROCCO

microREPORT #67

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FOREWORD

The purpose of this review, funded by USAID's Office of Microenterprise Development under the DAI, Accelerated Microenterprise Advancement Project (AMAP) Financial Services Knowledge Generation Task Order, was to:

- Assess the utility of USAID's Development Credit Authority (DCA) credit guarantee mechanism as a programming tool to help microfinance institutions (MFIs) formally integrate into financial systems; and
- Document observations that will assist USAID missions improve future wholesale MFI DCA guarantees.

This review was conducted in cooperation with a review of DCA Loan Portfolio Guarantees by the USAID Office of Development Credit as well as a concurrent research effort led by The Consultative Group to Assist the Poor, which is analyzing credit guarantee schemes used for loans to MFIs. A desk review, followed by a site visit to Rabat and Casablanca in February 2006, formed the basis of this report. Primary and secondary sources of information were used as well as interviews with representatives from MFIs, commercial banks, the Féderation National Des Associations de Microfinance, USAID, and other donor programs.

The Office of Microenterprise Development is supporting additional site-visit reviews of DCA guarantees to complement this review. All reports will ultimately serve as inputs into a 'best practices' guide for USAID missions. The objective of the guide is to inform and assist missions when designing and managing DCA guarantees for MFIs seeking access to commercial funding sources and capital markets.

AMAP is a four-year contracting facility that USAID/Washington and missions can use to acquire technical services to design, implement, or evaluate microenterprise development, which is an important tool for economic growth and poverty alleviation.

For more information on AMAP and related publications, please visit www.microLINKS.org.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY **VII**

1. OVERVIEW OF MFI CAPITAL MARKET DYNAMICS IN MOROCCO 1
1.1 MFI Transition from Donor Funding 2
1.2 MFI Transition to Commercial Credit.....3
1.3 MFI Transition to Savings.....3
1.4 MFI Transition to Equity (Grants and Commercial Investment) 3

2. USAID SUPPORT OF MICROFINANCE 5
2.1 USAID/Morocco DCA LPG and PG/LGs 6
2.2 Other Donors and Guarantees 8

3. DCA IMPACT ON MFIS 9
3.1 DCA Impact on Al Amana.....9
3.2 DCA Impact on Zakoura 12
3.3 DCA Impact on FONDEP.....14
3.4 DCA Impact on INMAA.....16
3.5 DCA Impact on AMSSF, Al Karama, and Al ATIL 17

4. CONCLUSIONS AND RECOMMENDATIONS 19
PG/LG Impact 19
LPG Impact 19

LIST OF TABLES AND FIGURES

Table

1 DCA Guarantees in Morocco.....VIII
2 DCA Guarantees in Morocco.....6
3 Loan Guarantee Relationships and Amounts – Microhousing Loan Funds 7
4 Loan Guarantee Relationships and Amounts – Microenterprise Loan Funds 7
5 USAID SGMB LPG Guarantee – Coverage Breakdown 8
6 Al Amana DCA Loan Guarantee Relationships 10
7 Al Amana Financial Liabilities – As of December 31, 2005.....11
8 Zakoura DCA Loan Guarantee Relationships 13
9 Zakoura Financial Liabilities 14
10 FONDEP DCA Loan Guarantee Relationships 16
11 DCA LPG Detail AMSSF, Al Karama, and Al ATIL 18
12 DCA LPG Guaranteed Loan as % of MFI Gross Loan Portfolio 20

Figure

1 Moroccan MFIs: Expected Loan Portfolio Growth 1
2 Moroccan MFIs: Expected Financial Resource Mobilization 2
3 Al Amana – Gross Loan Portfolio 9
4 Al Amana Funding Structure: Breakdown of Financial Liabilities and Equity.....10
5 Zakoura: Gross Loan Portfolio 12
6 Zakoura Funding Structure: Breakdown of Financial Liabilities and Equity.....13
7 FONDEP: Gross Loan Portfolio 15
8 FONDEP Funding Structure: Breakdown of Financial Liabilities and Equity.....15
9 INMAA: Gross Loan Portfolio 16
10 INMAA Funding Structure: Breakdown of Financial Liabilities and Equity.....17

EXECUTIVE SUMMARY

Significant market opportunities exist for Moroccan microfinance institutions (MFIs) to offer larger and longer-term loans, loans for housing and rural electrification, and products and services for rural areas, as well as to utilize different lending methodologies. The largest impediment to increasing coverage and offering new products is the MFIs' limited ability to attract new sources of funding. By law, MFIs are not able to intermediate deposits, nor are commercial investors able to make and later liquidate equity investments. Thus, Moroccan MFIs increasingly rely on commercial credit as a source of financing to fund rapidly growing portfolios.

However, despite 10 years of financial sector liberalization, Moroccan banks remain highly liquid, are heavily invested in Moroccan treasury issues, and lend primarily to clients who are wealthy, well established, and able to meet high collateral requirements—often more than 100 percent of loan value. No significant changes are expected to occur in the near future that will allow for financial intermediation or the change in status of MFIs to encourage equity investment. Thus, wholesale bank lending remains a sole option for MFIs to fund portfolio growth.

This paper reviews USAID/Morocco's experience using Development Credit Authority (DCA) Portable and Loan Portfolio Guarantee structures to catalyze wholesale funds available to MFIs. The DCA guarantee experience has elicited some success and has defined key lessons learned and guidelines for other missions to consider when designing similar guarantee structures.

In 2002, USAID/Morocco hosted a DCA training workshop funded by USAID's Office of Development Credit (ODC) that led the way to the creation of several credit guarantees. The majority of the guarantees were structured to stimulate wholesale capital lending to MFIs. USAID/Morocco has used two DCA structures to catalyze such lending: a portable guarantee/loan guarantee (PG/LG) structure and later a loan portfolio guarantee (LPG). The PG/LG structures were negotiated with Al Amana and Zakoura, the largest of the Moroccan MFIs. USAID/Morocco later designed the LPG with Société Générale Marocaine de Banques (SGMB) to cover wholesale lending to several MFIs.

USAID/Morocco's use of two DCA structures is attributed to the evolution of its relationship with MFIs and banks. USAID/Morocco had a long history of providing technical assistance and training to Moroccan MFIs, particularly Al Amana and Zakoura, but the Mission had not worked as closely with the commercial banks. The use of the PG/LG structure acknowledged the Mission's commitment to Al Amana and Zakoura and served as a step toward honing relationships with the Moroccan commercial banks.

USAID/Morocco structured two PGs with each MFI (see details in Table 1). The first PG structures were specifically designed to increase the capital available to the MFIs to introduce micro housing loans. As USAID/Morocco's technical assistance support and direct funding of MFI microenterprise lending operations began to decline, it decided to structure the additional PGs with Al Amana and Zakoura. The second PGs were more flexible than the housing-focused guarantees—they did not specify how the loan proceeds had to be used by the MFIs—and they increased available funding as they expanded their loan portfolios into peri-urban and rural areas. The PGs signed with Al Amana and Zakoura did not limit the guarantee to only one lender. Instead, the MFIs could shop around to and formalize an LG agreement with several institutions. It was part of each MFI's strategy to market the portable guarantee to as many institutions as possible and diversify its financial sector relationships.

TABLE 1: DCA GUARANTEES IN MOROCCO

Guarantee Structure	Sector	Partner Institution	Guarantee Term	Maximum Cumulative Disbursement (MCD)
PG/LG	Microfinance (enterprise)	Al Amana MFI	8/2002–8/2007	$5,000,000*
PG/LG	Microfinance (enterprise)	Zakoura MFI	8/2002–8/2007	$5,000,000*
PG/LG	Microfinance (housing)	Al Amana MFI	8/2002–8/2006	$5,000,000
PG/LG	Microfinance (housing)	Zakoura MFI	8/2002–8/2006	$2,000,000
LPG	Infrastructure	Dar Ad Damane	8/2002–8/2022	$3,000,000
LPG	Infrastructure	Fonds d'Equipment Communal	5/2003–4/2008	$4,696,000
LPG	Microfinance	SGMB	9/2004–9/2009	$10,000,000

* The original MCD was $4 million and $1 million for Al Amana and Zakoura, respectively. A deal modification increased the MCD to $5 million for each MFI.

As USAID/Morocco became more comfortable with the commercial banks and vice-versa, it successfully structured an LPG with SGMB. The origination of the LPG was also driven by MFIs' lack of commercial sources of financing, despite being financially viable institutions. This is a constraint for all Moroccan MFIs, particularly for those smaller MFIs that have less access to commercial lenders. Larger MFIs, such as Al Amana and Zakoura, have successfully borrowed from commercial banks (mostly under guarantee), while none of the smaller MFIs had ever had a private credit transaction. Therefore, USAID/Morocco specified individual wholesale loan amounts for several MFI borrowers that could be placed under the LPG. The guaranteed loan amounts were decided in tandem with SGMB and the ODC, and responded to the needs and individual risk profiles of the MFIs.

Key elements of the structures and relationships that led to the guarantees' impact include:

- **Focused involvement of lending institution:** SGMB involvement, particularly during the structuring and borrower analysis phase of the LPG deal origination, allowed for realistic deal parameters to be set, particularly on specific loan amounts to a variety of institutions.
- **Increased market competition:** USAID/Morocco, through other DCA mechanisms and organization of financial sector-wide events, encouraged other banks to enter the MFI wholesale market.
- **Focused deal design:** The LPG structure, which indicated loan size amounts for several MFIs of varying size, encouraged immediate lending to variety of Moroccan MFIs and broadened the size of the MFI wholesale lending market. The broadened market promoted increased coverage and competition among financial institutions in the MFI wholesaling market.
- **Prior USAID/Morocco support:** A long history and momentum of USAID/Morocco-supported microfinance initiatives, particularly financial support and technical assistance—created strong and creditworthy borrower MFIs.

- **Commitment to financial institution relationships:** USAID/Morocco carefully honed relationships between Moroccan commercial banks and MFIs through roundtable events, individual meetings, and direct communication.

- **Dedicated USAID/Morocco staff:** The individual attention to monitor utilization and facilitate communication between SGMB and borrower institutions appears to be a significant factor in the use and impact of the LPG.

Factors that hindered the impact of the guarantees:

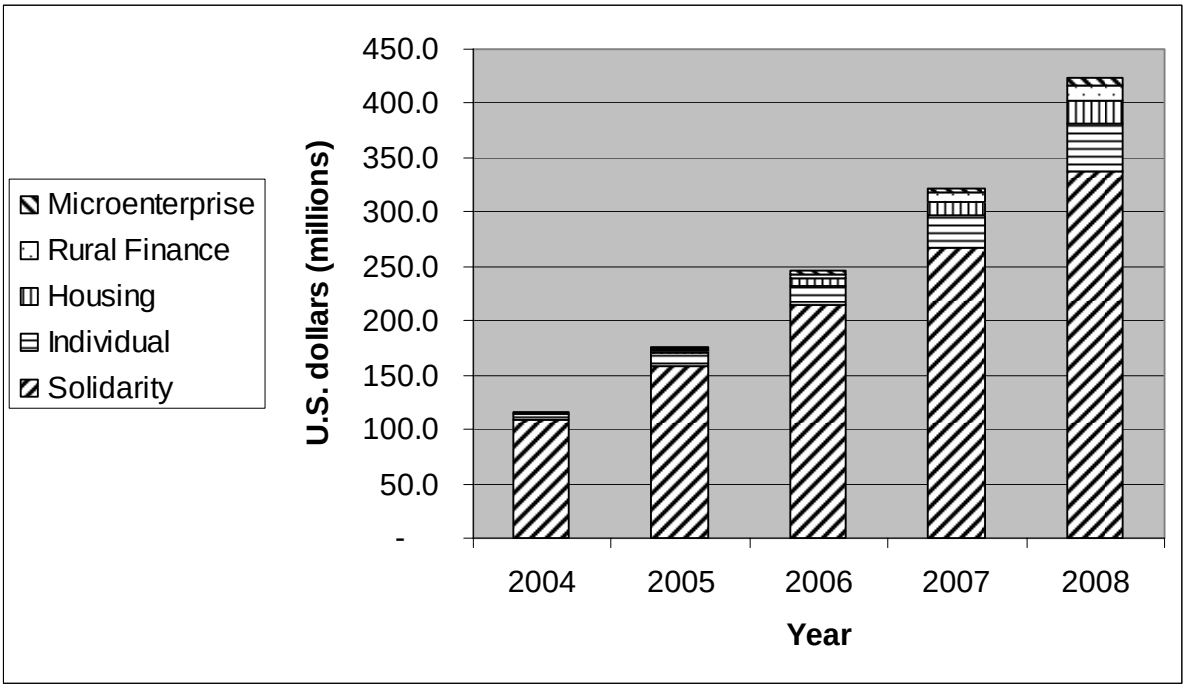
- **Small loan sizes not a catalytic force to change lending financial institution behavior toward borrower sector.** While the PG/LG structure allowed each MFI to shop around at various banks and to access commercial financing successfully, in some cases the ensuing loan was quite small in proportion to the lending bank's portfolio. Hence, it neither necessitated changes to the lending banks' policies and procedures nor created a volume of business significant enough to receive bank management attention. Over time, it is hoped that the lending banks will change their practices toward the new sector (that is, accept MFI loan portfolio as collateral and offer better terms and/or less paperwork).

- **Confused activity and economic description and analysis for the microhousing PG/LG.** It appears that the main intention of the PG/LG for microhousing was to increase the amount of housing financial services to the economically poor. While the PG/LGs availed resources to MFIs to offer such financial services, the impact of the microhousing PG/LGs may have been greater if USAID/Morocco had focused on changing the partner banks' behavior toward lending to the microfinance sector. The focus would more likely lead to more sustainable sources of finance to fund various growth and expansion efforts of Moroccan MFIs, including microhousing new product offerings.

1. OVERVIEW OF MFI CAPITAL MARKET DYNAMICS IN MOROCCO

Since the creation of Morocco's first microfinance institution (MFI) in 1996, the industry has grown significantly, and the Microfinance law signed in January 2000 established an industry framework. Currently, 12 specialized MFIs in Morocco reach around 600,000 clients (nearly 75 percent of them women). However, the microfinance market remains highly concentrated in urban and peri-urban areas and loans are mainly small, short-term, and extended through solidarity groups. Significant market opportunities exist for larger and longer-term loans, different lending methodologies, loans for housing and rural electrification, and products and services for rural areas. As presented in Figure 1 below, Moroccan MFI portfolios are increasing and products are diversifying—a trend that is expected to continue.

FIGURE 1: MOROCCAN MFIS: EXPECTED LOAN PORTFOLIO GROWTH



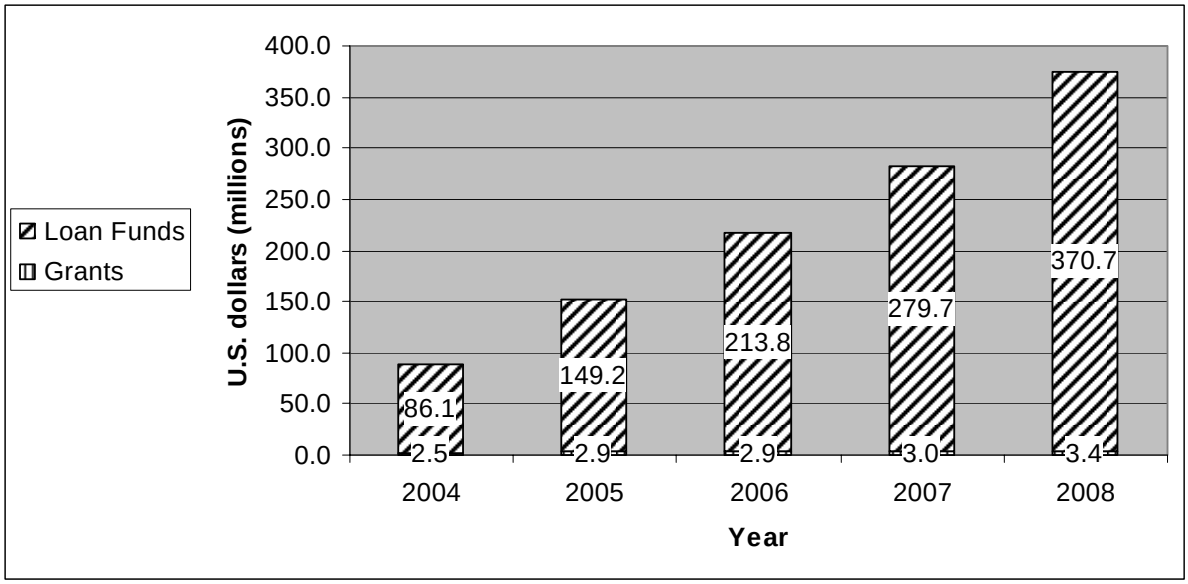
Source: PlanetFinance, Evaluation of the Impact of Microcredit in Morocco, 2006. (Numbers extrapolated from MFI management information system reporting.)

Note: All numbers converted from Moroccan dirhams to U.S. dollars using average interbank exchange rate as of June 30, 2006

The largest impediment to increasing coverage and offering new products is the MFIs' limited ability to attract new sources of funding. By law, MFIs are not able to intermediate deposits, nor are commercial investors able to make and later liquidate equity investments. In addition, donor support, particularly from USAID, is dwindling. Thus, Moroccan MFIs increasingly rely on commercial credit as a source of financing to fund portfolio growth. As shown in Figure 2, to increase portfolio growth MFIs will necessitate significant sources of loan funds. While the increase in commercial sources of funding is a positive trend, MFIs are becoming increasingly overleveraged, which has been noted by the commercial banks. Thus, future MFI portfolio growth will be reliant on accessing various sources of funding, including savings and equity investments. Donors, including USAID, have been

supporting to MFI sector in promoting policy dialogue to encourage changes in current law to allow MFI intermediation of deposits and to define MFIs under a legal status that will encourage private equity investments.

FIGURE 2: MOROCCAN MFIs: EXPECTED FINANCIAL RESOURCE MOBILIZATION



Source: PlanetFinance, Evaluation of the Impact of Microcredit in Morocco, 2006.

Note: All numbers converted from Moroccan dirhams to U.S. dollars using average interbank exchange rate as of June 30, 2006.

Despite 10 years of financial sector liberalization, Moroccan banks remain highly liquid, are heavily invested in Moroccan treasury issues, and lend primarily to clients who are wealthy, well established, and able to provide sufficient collateral—often more than 100 percent of loan value. Banks are unwilling to lend to MFIs mainly due to highly conservative lending practices. Banks also lack understanding of the environment in which MFIs operate, which is perpetuated by the absence of a centralized credit bureau to provide full disclosure on current indebtedness, the absence of data on payment histories, and limited interaction between MFIs and commercial banks. Thus, the costs and risks of serving new market segments are daunting.

This paper reviews USAID/Morocco's experience using various Development Credit Authority (DCA) guarantee structures to catalyze wholesale funds available to MFIs. The DCA guarantee experience has elicited some success and has defined key lessons learned and guidelines for other missions to consider when designing similar guarantee structures.

1.1 MFI TRANSITION FROM DONOR FUNDING

Since 1995, USAID has implemented several microfinance activities aimed at increasing credit to Moroccan micro and small enterprises. The largest portion of USAID resources was directed toward the creation of a self-sustaining local MFI called Al Amana. Resources were also used to bolster the microfinance industry, including strengthening the microfinance association, Fédération Nationale

des Institutions de Microfinance (FNAM). As the market for microfinance services became more competitive, MFIs faced greater pressure to expand their services by identifying new clients and offering new financial products. In response, USAID/Morocco assisted selected MFIs to help them develop new housing-related products. The Mission also sought to encourage MFIs to expand outreach into rural areas.

However, since the early 1990s, USAID funding to Morocco has been on a steady decline, from an annual average of $100 million in 1991 to around $7 million annually since 2003. USAID/Morocco has had to find ways to implement its programming with fewer resources, including promoting strategic linkages with government, banks, private businesses, and foundations, as well as coordinating with and seeking links to centrally funded USAID programs and the State Department's Middle East Partnership Initiative.

Moroccan MFIs have had to become more aggressive in pursuing commercial sources of financing, and they have started to focus, through FNAM, on legal reforms to allow for the intermediation of deposits and to attract both local and international equity investors.

1.2 MFI TRANSITION TO COMMERCIAL CREDIT

Currently, commercial credit is the only viable source of loan funding for Moroccan MFIs; and in large part, access to commercial capital has been catalyzed through various donor guarantees. USAID's DCA guarantee has supported the greatest amount of commercial capital.

Funds for MFIs have been, and continue to be, available from government programs and international organizations. The rates are typically concessional, and in some cases have zero percent interest rates. Nonetheless, the amount of concessional funds has not been enough to cover the demand and commercial banks have increasingly filled the gap.

1.3 MFI TRANSITION TO SAVINGS

Deposit taking is an unlikely source of loan funding for MFIs in the near future. Under Moroccan law, MFIs are required to register as nonprofit associations, and can only provide credit products. Therefore, MFIs cannot source funding through deposit services. Neither the Ministry of Finance nor the Banque Al-Maghreb (the Moroccan central bank) sees a need for MFIs to become depositories as the postal Caisse d'Epargne is available throughout the country. In addition, they do not believe there are unmet product needs that MFIs are most appropriate to satisfy, or that MFIs lack access to finance because of their legal form. Last, the Ministry of Finance and Banque Al-Maghreb believe that MFIs, which have been given grants and tax/interest rate privileges, should not turn state subsidy into privately owned, profit-making institutions.

1.4 MFI TRANSITION TO EQUITY (GRANTS AND COMMERCIAL INVESTMENT)

MFIs have difficulty raising private equity financing due to the lack of clear ownership as associations under Moroccan law. Under current regulations, if an MFI is dissolved all assets automatically transfer to state ownership. For equity to be a viable funding mechanism for MFIs, a new legal form for MFIs must address current regulations that govern dissolution of a nonprofit association.

2. USAID SUPPORT OF MICROFINANCE

Under its economic growth and private sector development activities, USAID/Morocco included a focus on improving financial services for poor Moroccans. The Mission has focused on improving public understanding and acceptance of microfinance, improving the policy and regulatory environment, and promoting best practices through support to leading Moroccan MFIs.

USAID Morocco's microfinance programs included:

- **Microenterprise Finance Activity (MFA).** The MFA project agreement with the Moroccan Ministry of Industry, Commerce, and Handicrafts was signed in September 1995. Its purpose was to create the legal framework for an independent, self-sustaining institution to provide financial services to microentrepreneurs in Morocco. USAID contracted Volunteers in Technical Assistance to help create Association Al Amana on February 13, 1997. The program was responsible for recruiting senior staff, designing internal training, developing initial financial products and accounting systems, managing donor and partner relations, and providing general management and governance functions during start-up phase. Al Amana made its first loans in March 1997. The target group of Al Amana consists of male and female microentrepreneurs who are unable to access more formal sources of credit.

- **Morocco Action for Strengthening Microfinance Associations (ASMA).** USAID designed the ASMA project, which was implemented by DAI from 2003 to 2005, to strengthen Morocco's domestic microfinance sector. The project collaborated with FNAM and individual MFIs to identify priorities and design, and implement technical assistance, training, and capacity building projects that respond to the needs of the sector. Specifically, the project provided training in market research methodologies that enable MFIs to design, test, and launch new products that meet market demand; reinforce the governance and management structures of Moroccan MFIs and of FNAM; and manage the implementation of management information systems for small MFIs.

- **Improving Business Climate in Morocco (IBCM).** The mandate of the IBCM project (2005–2009), currently being implemented by DAI, is to assist the Government of Morocco's efforts to forge a legal and regulatory framework and build the institutions necessary to promote the growth of competitive businesses and accelerate the pace of job creation. Through IBCM, USAID/Morocco is particularly interested in realizing the economic benefits of the recently signed free trade agreements with the United States. The project includes support for a systematic approach to the full implementation of regulatory reform to enhance the competitiveness of the country's economy, build the regulatory and judiciary systems and capabilities needed, improve the workings of the financial system, and remedy features of the tax system that keep many businesses from competing openly in the formal sector.

Concurrently with the microfinance programming, USAID/Morocco—through the Economic Growth, Agriculture and Trade Bureau's "Making Cities Work" program—targeted the rapidly growing problems of Morocco's urban poor. The intention of the program was to build and sustain partnerships that result in scaling-up housing programs at local and national levels to improve quality of life for the urban poor. USAID provided technical assistance, training, and exchange of information, and promoted public-private partnerships that enabled national governments and local authorities to manage the urbanization process successfully. As part of this program, USAID/Morocco identified a serious lack in finance for building or improving urban infrastructure.

2.1 USAID/MOROCCO DCA LOAN PORTFOLIO GUARANTEES (LPGs) AND PORTABLE GUARANTEE/LOAN GUARANTEES (PG/LGs)

In 2002, USAID/Morocco hosted a DCA training workshop funded by USAID's Office of Development Credit (ODC) that led the way to the creation of several credit guarantees, as listed in Table 2. The majority of the guarantees were structured to stimulate wholesale capital lending to MFIs. USAID/Morocco has used two DCA structures to catalyze such lending: a portable guarantee/loan guarantee (PG/LG) structure and, later, a loan portfolio guarantee (LPG). The PG/LG structures were negotiated with Al Amana and Zakoura, the largest of the Moroccan MFIs. USAID/Morocco later designed the LPG with Société Générale Marocaine de Banques (SGMB) to cover wholesale lending to several MFIs.

TABLE 2: DCA GUARANTEES IN MOROCCO

Guarantee Structure	Sector	Partner Institution	Guarantee Term	Maximum Cumulative Disbursement (MCD)
PG/LG	Microfinance (enterprise)	Al Amana MFI	8/2002–8/2007	$5,000,000*
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LPG	Infrastructure	Dar Ad Damane	8/2002–8/2022	$3,000,000
LPG	Infrastructure	Fonds d'Equipment Communal	5/2003–4/2008	$4,696,000
LPG	Microfinance	SGMB	9/2004–9/2009	$10,000,000

* The original MCD was $4 million and $1 million for Al Amana and Zakoura, respectively. A deal modification increased the MCD to $5 million for each MFI.

USAID/Morocco's use of two DCA structures is attributed to the evolution of its relationship with MFIs and banks. USAID/Morocco had a long history of providing technical assistance and training to Moroccan MFIs, particularly Al Amana and Zakoura, but the Mission had not worked as closely with the commercial banks. The use of the PG/LG structure acknowledged the Mission's commitment to Al Amana and Zakoura and served as a step toward honing relationships with the Moroccan commercial banks.

USAID/Morocco structured two PGs with each MFI. The first PG structures were specifically designed to increase the capital available to the MFIs for micro housing loans. The second PG structures were intended to increase the capital available to the MFIs for use in microenterprise lending more broadly. USAID/Morocco's decision to structure the first PGs to focus on micro housing loans was largely driven by:

- An objective to stimulate housing for the poor through the Making Cities Work initiative and other USAID/Morocco urban development activities.

- Subsidy cost shared between Mission funds and appropriated funds earmarked for urban environmental activities, which reduced the financial burden on the Mission.
- Ongoing Mission support (technical assistance and direct funding) of Al Amana's and Zakoura's traditional microenterprise lending, which did not justify further funding.

As USAID/Morocco's technical assistance support and direct funding of MFI microenterprise lending operations began to decline, it decided to structure the additional PGs with Al Amana and Zakoura. The second PGs were more flexible—they did not specify how the loan proceeds had to be used by the MFIs—and they increased available funding as the MFIs expanded their loan portfolios into peri-urban and rural areas.

The PGs signed with Al Amana and Zakoura did not limit the guarantee to only one lender. Instead, the MFIs could shop around and formalize an LG agreement with several institutions. It was part of each MFI's strategy to market the portable guarantee to as many institutions as possible and diversify its financial sector relationships.

Tables 3 and 4 detail with what banks Al Amana and Zakoura were able to negotiate loans with under each DCA PG/LG:

TABLE 3: LOAN GUARANTEE RELATIONSHIPS AND AMOUNTS – MICROHOUSING LOAN FUNDS

Borrower – MFI	Lender – Financial Institution	Loan Amount	Utilization Rate
Al Amana	Banque Populaire (BP)	$4,000,000	100%
	TBD	$1,000,000	-
Zakoura	SGMB	$2,000,000	100%

TABLE 4: LOAN GUARANTEE RELATIONSHIPS AND AMOUNTS – MICROENTERPRISE LOAN FUNDS

Borrower – MFI	Lender – Financial Institution	Loan Amount	Utilization Rates
Al Amana	Banque Marocaine Commerciale d'Investissement (BMCI)	$1,000,000	100%
	SGMB	$3,000,000	100%
	SGMB	$1,000,000	100%
Zakoura	Wafa	$600,000	100%
	SGMB	$400,000	100%
	SGMB	$1,000,000	100%
	SGMB	$3,000,000	100%

As USAID/Morocco became more comfortable with the commercial banks and vice-versa, it successfully structured an LPG with SGMB. SGMB is the most active lending institution to the microfinance sector. SGMB considers MFIs a "good risk" and has also benefited from the Agence

Francaise de Développement (AFD) guarantee tool to encourage microfinance wholesale lending. The terms and conditions of the individual guarantees have been similar to the DCA LPG, but the DCA LPG covers the largest single amount of total lending.

The origination of the LPG was also driven by MFIs' lack of commercial sources of financing, despite being financially viable institutions. This is a constraint for all Moroccan MFIs, particularly for those smaller MFIs that have less access to commercial lenders. Larger MFIs, such as Al Amana and Zakoura, have successfully borrowed from commercial banks (mostly under guarantee), while none of the smaller MFIs had ever had a private credit transaction. Therefore, to encourage wholesale lending to MFIs of all size, USAID/Morocco specified individual wholesale loan amounts for several MFI borrowers that could be placed under SGMB's LPG coverage. The guaranteed loan amounts were decided in tandem with SGMB and the ODC, and responded to the needs and individual risk profiles of the MFIs. Table 5 details the LPG's limits.

TABLE 5: USAID SGMB LPG GUARANTEE – COVERAGE BREAKDOWN

MFI Recipient	Loan Amount Available	Guaranteed Amount
Al Amana	$2,000,000	$1,000,000
FONDEP*	$3,000,000	$1,500,000
INMAA	$750,000	$375,000
AMSSF**	$1,250,000	$625,000
Zakoura	$2,000,000	$1,000,000
Al Karama	$300,000	$150,000
Al ATIL***	$100,000	$50,000
Others	$600,000	$300,000
TOTAL	$10,000,000	$5,000,000

* Fondation pour le Développement Local et le Partenariat (FONDEP)
** Association Marocaine Solidarité Sans Frontières (AMSSF)
*** Association Tétouanaise de l'Initiative Laborale (Al ATIL)

2.2 OTHER DONORS AND GUARANTEES

While USAID has played the most active microfinance donor role in Morocco, there are several other government agencies (international and Moroccan) that have provided technical assistance, guarantees, and funds to MFIs. None of the programs seems to have had a negative impact on the DCA portfolio. In large part, the wholesale funds demanded by the MFIs far exceed the supply of funding available through subsidized loan or grant programs.

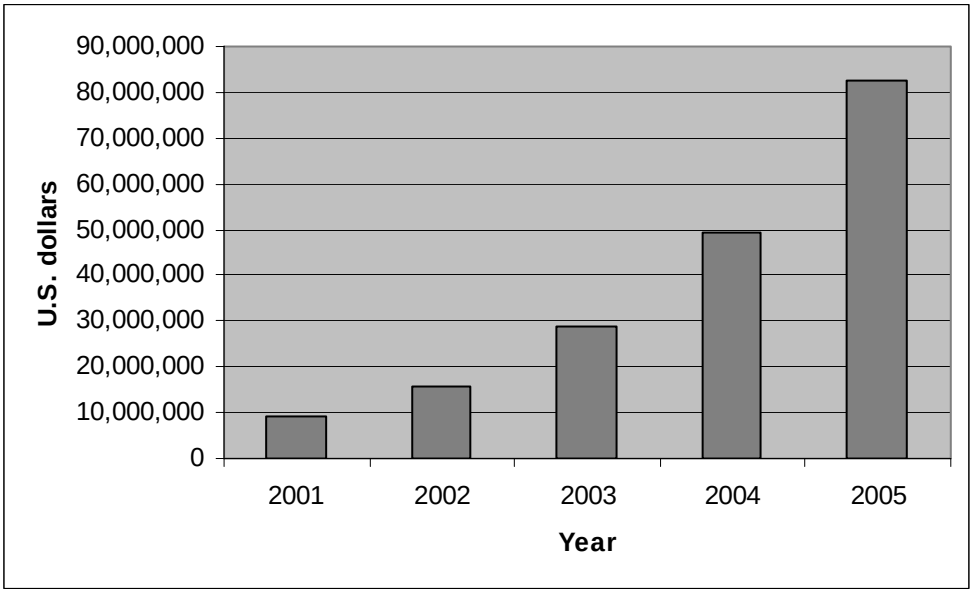
AFD also has a guarantee mechanism active in Morocco. Typically, the instrument covers 50 percent of bank risk, but can be increased to 60 percent if the partner MFI receives a sufficient 'rating' and adheres to international microfinance best practices. The Moroccan Government's Fond Hassan II has supported Al Amana, Al Karama-MC, FONDEP, the Fondation Banque Populaire pour le Micro-Credit, AIMGC, AMSSF, and Zakoura with subsidized funds. There has been some direct support of MFIs from the Belgian government. In addition, PlanetFinance is contemplating its own guarantee structure, the details of which are not currently available.

3. DCA IMPACT ON MFIS

3.1 DCA IMPACT ON AL AMANA

Al Amana, the largest Moroccan MFI, started operations in 1997. Its mission is to promote microenterprise by making credit available to commercial microentrepreneurs excluded from traditional financial systems. Since its founding, Al Amana has increased significantly in size and in service offerings. From December 1997 to December 2004, active clients have increased from 1,495 to 160,610 and its loan portfolio has increased significantly (see Figure 3), a trend that is expected to continue.

FIGURE 3: AL AMANA – GROSS LOAN PORTFOLIO

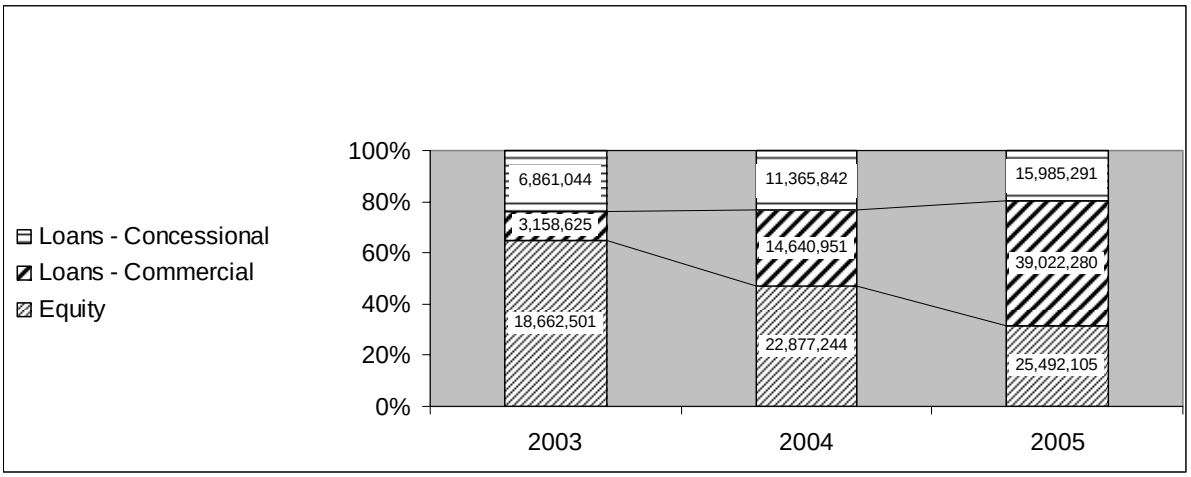


Source: The Mix Market.

Al Amana was created with USAID funds and technical assistance, and over the past several years it has benefited from various subsidized capital funds, including additional financial investment from USAID. As donor funding continues to decrease, Al Amana has increasingly looked for commercial funding.

As demonstrated in Figure 4, Al Amana has increased its loan liabilities as a total percentage of equity and liabilities. Over two years, it has significantly increased its total loan liabilities from $10 million to $54.9 million, with the largest increase in commercial loans.

FIGURE 4: AL AMANA FUNDING STRUCTURE: BREAKDOWN OF FINANCIAL LIABILITIES AND EQUITY (IN USD)



Source: Al Amana management and financial statements. Moroccan dirham/U.S. dollar conversion rates from the Mix Market.

Al Amana has received the greatest total amount of DCA guaranteed loans. As listed in the Table 6, Al Amana has received six separate DCA guaranteed loans totaling $12 million. As noted, the largest level of funding has been from SGMB, but Al Amana was able to diversify its financial sector relationships with additional loans from BP and BMCI.

TABLE 6: AL AMANA DCA LOAN GUARANTEE RELATIONSHIPS

Lender – Financial Institution	DCA Guarantee	Term	Effective Rate	Loan Amount
BP	PG/LG (microhousing)	2005–2007	7.31%	$4,000,000
TBD	PG/LG (microhousing)	TBD	TBD	$1,000,000
MCI	PG/LG (microenterprise)	2004–2008	7.33%	$1,000,000
SGMB	PG/LG (microenterprise)	2004–2008	7.31%	$3,000,000
SGMB	PG/LG (microenterprise)	2004–2008	7.31%	$1,000,000
SGMB	LPG	2004–2009	7.31%	$2,000,000
TOTAL				**$12,000,000**

As of December 31, 2005, Al Amana's DCA guaranteed loans represented 63.6 percent of its total locally sourced loans (that is, not including internationally sourced loans) and 20 percent of its total loan liabilities. Further, its DCA-guaranteed loan liabilities represent 22.25 percent of its loan portfolio growth from 2003 to 2005. These ratios indicate the significant impact of the DCA guaranteed loans on Al Amana's lending operations. Not only have they increased access to locally sourced commercial capital, they have also driven part of its portfolio growth as the largest microfinance lender in Morocco. The ability to access new funds has also enabled Al Amana to offer

new products. While it is too early to determine the impact of its new housing loan product, its offering is a positive outcome that can be directly attributed to the DCA guarantee.

Al Amana provided detail on its loan liabilities, which is presented in Table 7. Al Amana has been the most successful MFI in obtaining sources of financing, and has been able to diversify its financing sources. However, SGMB management noted that all Moroccan MFIs, particularly Al Amana, are becoming increasingly leveraged. SGMB expressed concern over the increased risk and was dubious if it would ever extend loans to Moroccan MFIs without some sort of guarantee.

TABLE 7: AL AMANA FINANCIAL LIABILITIES – AS OF DECEMBER 31, 2005

Financial Institution	Financial Institution Type	Amount (Moroccan dirham)	Currency	Start Date	Tenor (years)	Effective Interest Rate (%)	Guarantee
EIB*	International	55,065,000	Euro	12/2003	10	5.37	No
EIB	International	2,192,400	Euro	6/2004	10	5.12	No
EIB	International	33,210,000	Euro	4/2005	10	4.85	No
EIB	International	21,746,000	Euro	11/2005	10	4.74	No
SIDI**	International	2,274,503	Euro	8/2002	4	5.94	No
Cordaid	International	7,696,500	Euro	8/2004	5	6.00	No
ICO	International	66,531,600	Euro	10/2004	10	4.37	No
Agence du Nord	Local	1,500,000	MAD	9/2000	5	–	No
Agence du Nord	Local	3,000,000	MAD	4/2002	n/a	–	No
BMCI	Local	10,000,000	MAD	5/2003	4	7.33	DCA
BMCI	Local	15,000,000	MAD	10/2005	5	6.96	No
SGMB	Local	27,000,000	MAD	5/2004	5	7.31	DCA
SGMB	Local	9,000,000	MAD	12/2004	5	7.31	DCA
SGMB	Local	18,000,000	MAD	1/2005	5	7.31	DCA
BP	Local	20,000,000	MAD	8/2004	10	7.88	AFD
BP	Local	40,000,000	MAD	1/2005	5	7.31	DCA
Arab Bank	Local	20,000,000	MAD	6/2005	5	7.49	No

* European Investment Bank (EIB)
** Solidarité Internationale pour le Développement et l'Investissement (SIDI)

From the detail on its loan liabilities it can be noted that:

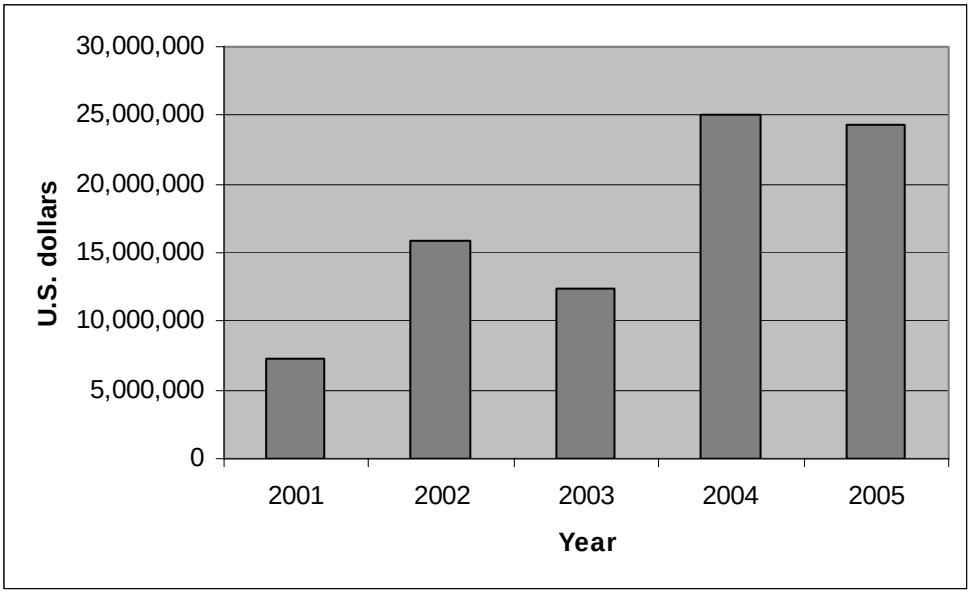
- Al Amana was able to negotiate an additional nonguaranteed loan with a lower interest rate and longer term from BMCI after the DCA-guaranteed loan;
- Although all guaranteed, Al Amana has successfully increased the amount of lending from SGMB;

- Al Amana was able to negotiate a lower interest rate from BP on the DCA guaranteed loan than on a previous loan (which was guaranteed by AFD);
- Al Amana has been able to diversify its lending relationships through DCA guaranteed loans; and
- Al Amana has had a significant increase in locally sourced loans.

3.2 DCA IMPACT ON ZAKOURA

Zakoura, the second largest Moroccan MFI, started microcredit operations in 1997. It focuses on the poorest Moroccans in urban and rural environments, particularly women, who do not benefit from other assistance programs or do not have access to traditional sources of financing. Zakoura provides microcredit services as well as training and support for sustainable development of income-generating activities. Zakoura has increased significantly in size and in service offerings—from December 1997 to December 2004, the number of active clients has increased from 2,270 to 174,480 and its gross loan portfolio has increased significantly, as shown in Figure 5.

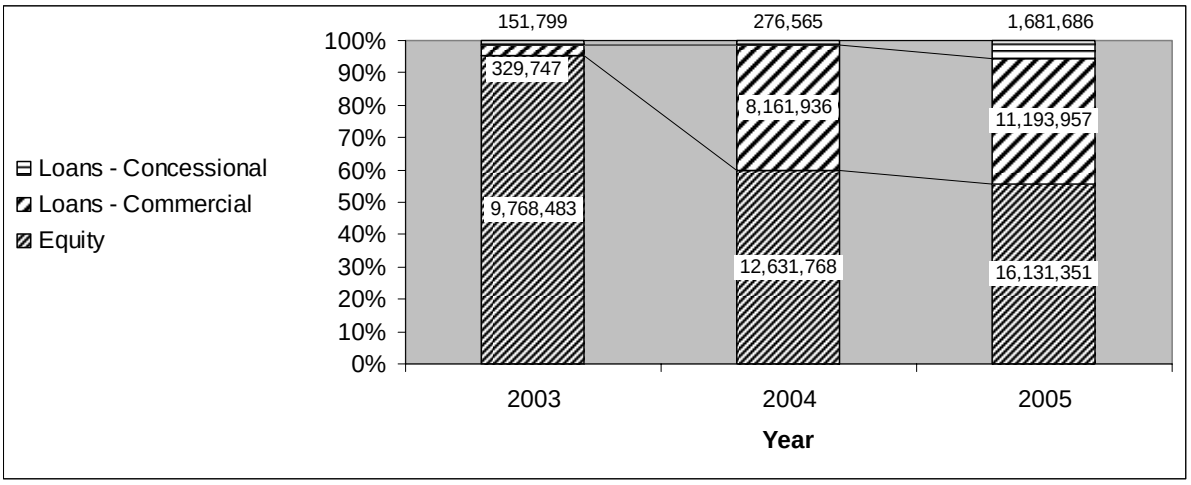
FIGURE 5: ZAKOURA: GROSS LOAN PORTFOLIO



Source: The Mix Market.

Over the past several years, Zakoura has benefited from various subsidized capital funds, including financial investment through USAID (although not as significant as Al Amana). As donor funding continues to decrease, however, Zakoura has been forced to seek private capital from the capital markets. As demonstrated in the Figure 6, Zakoura has increased its loan liabilities in real terms—from US$0.48 million to US$12.9 million—and as a total percentage of equity and liabilities.

FIGURE 6: ZAKOURA FUNDING STRUCTURE: BREAKDOWN OF FINANCIAL LIABILITIES AND EQUITY (IN USD)



Source: Zakoura management and financial statements. Moroccan dirham/U.S. dollar conversion rates from the Mix Market.

Zakoura has received the second largest total amount of DCA guaranteed loans. As listed in Table 8, Zakoura has received six separate DCA guaranteed loans totaling USD $9 million. The largest level of funding has been from SGMB, but Zakoura was able to diversify its financial sector relationships with a loan from Wafabank.

TABLE 8: ZAKOURA DCA LOAN GUARANTEE RELATIONSHIPS

Lender – Financial Institution	DCA Guarantee	Term	Interest Rate	Loan Amount
TBD	PG/LG (microhousing)	TBD	TBD	$2,000,000
Wafa	PG/LG (microenterprise)	2004–2007	5.5%	$600,000
SGMB	PG/LG (microenterprise)	2004–2007	6.5%	$400,000
SGMB	PG/LG (microenterprise)	2004–2008	6.5%	$1,000,000
SGMB	PG/LG (microenterprise)	2005–2008	6.5%	$3,000,000
SGMB	LPG	2005–2009	6.5%	$2,000,000
TOTAL				**$9,000,000**

As of December 31, 2005, Zakoura's DCA guaranteed loans represent 81 percent of its total locally sourced loans (i.e., excluding internationally sourced loans) and 50 percent of its total loan liabilities. Further, its DCA guaranteed loan liabilities represent 76 percent of its 2003-2005 loan portfolio growth. These ratios indicate a significant impact of the DCA guaranteed loans on Zakoura's lending operations. The ability to access new funds has also enabled Zakoura to offer new products. While it is too early to determine the impact of its new housing loan product, its offering is a positive outcome that can be directly attributed to the DCA guarantee.

Zakoura provided detail on its loan liabilities, which is presented in Table 9.

TABLE 9: ZAKOURA FINANCIAL LIABILITIES

Financial Institution	FI Type	Amount (MAD)	Currency	Start Date	Tenor (years)	Effective Interest Rate (%)	Guarantee
EIB	International	47,138,320	MAD***	n/a	10	5.21	No
EIB	International	16,365,150	MAD	n/a	10	4.75	No
SGMB	Local	14,000,000	MAD	10/2004	3	5.00	DCA
SGMB	Local	17,000,000	MAD	5/2004	5	6.00	DCA
Wafabank	Local	6,000,000	MAD	1/2004	3	5.00	DCA
Wafabank	Local	10,000,000	MAD	n/a	5	5.00	AFD
ADPN*	Local	950,325	MAD	n/a	3	-	No
Banque Centrale Populaire	Local	1,710,000	MAD	n/a	5	-	No
Planet Finance	International	259,788	MAD	n/a	3	-	No
MBCI	Local	10,000,000	MAD	n/a	3	-	No
Cooperazione Internazionale	Local	140,000	MAD	n/a	3	-	No
CIMR**	Local	50,000	MAD	n/a	n/a	-	No

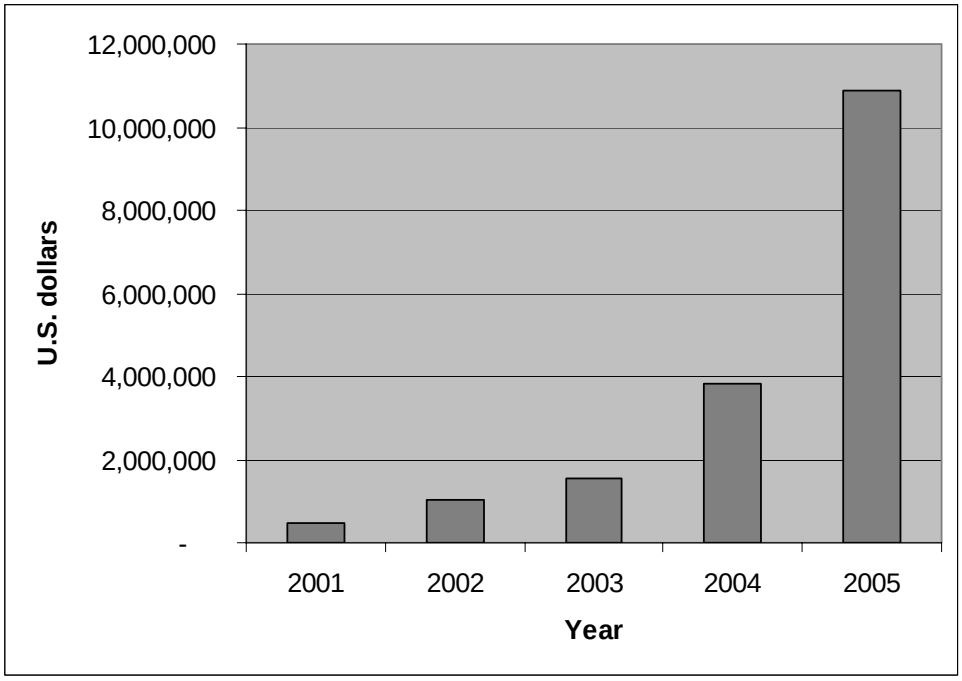
* Agency for the Development of Northern Provinces (ADPN)
** Interprofessionnelle Marocaine de Retraites (CIMR)
***Moroccan dirham (MAD)

From the detail provided, the majority of its loans appears to be concessional loans or guaranteed, which does not demonstrate an obvious impact of the DCA guarantee in facilitating access to unguaranteed commercial finance. However, Zakoura has been able to diversify its lending relationships due to the DCA guarantee.

3.3 DCA IMPACT ON FONDEP

FONDEP, established in 1996, is a medium-sized MFI in Morocco. It largely serves women in order to help them generate their own business or financial income. FONDEP has benefited from the support of many international and national organizations, which have contributed largely to its equity base. FONDEP has increased significantly in size—from December 2001 to December 2005, the number of active clients has increased from 6,950 to 43,897—and its gross loan portfolio has increased considerably, as shown in Figure 7.

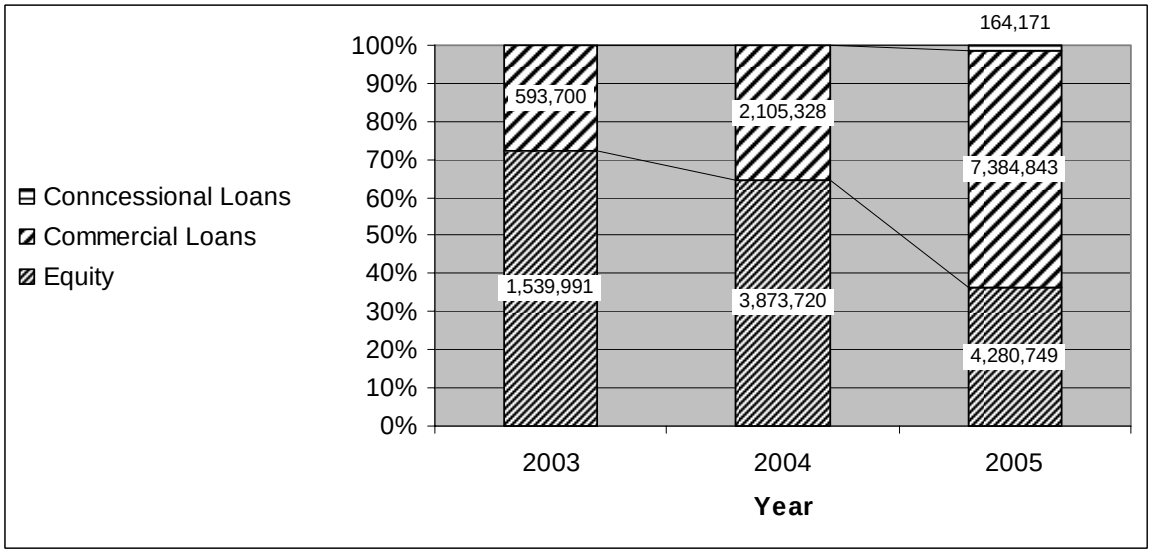
FIGURE 7: FONDEP: GROSS LOAN PORTFOLIO



Source: The Mix Market

As demonstrated in the Figure 8, FONDEP has significantly increased its equity base in real terms, but equity has decreased considerably as a percentage of its overall funding structure due to FONDEP's ability to source commercial loans.

FIGURE 8: FONDEP FUNDING STRUCTURE: BREAKDOWN OF FINANCIAL LIABILITIES AND EQUITY (IN USD)



Source: FONDEP management and financial statements. Moroccan dirham/U.S. dollar conversion rates from the Mix Market.

As listed in the Table 10, FONDEP has received three DCA guaranteed loans totaling US$3 million. The LPG was structured so that FONDEP would receive a total of $3 million in DCA guaranteed loans. SGMB's decision to break the total amount into three loan tranches more than likely indicates SGMB's tempered approach to lending to the new client. As time went on, and comfort level increased, SGMB loaned out the total $3 million.

TABLE 10: FONDEP DCA LOAN GUARANTEE RELATIONSHIPS

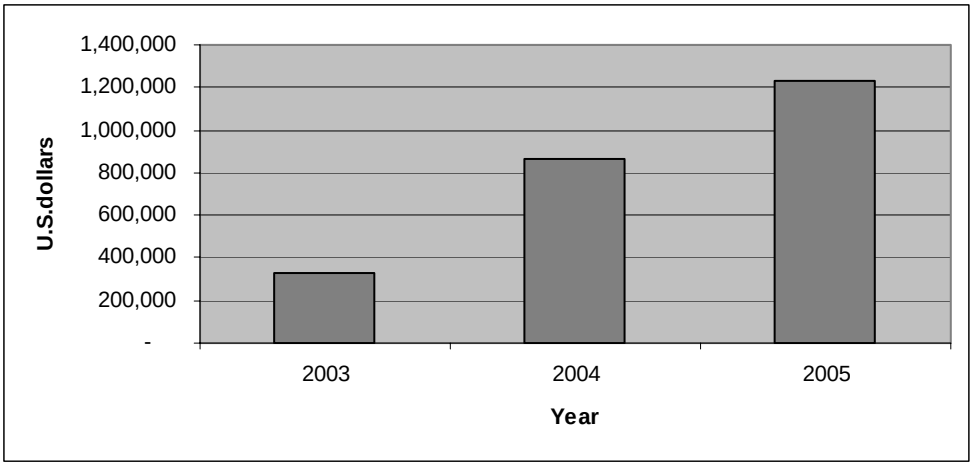
Lender – Financial Institution	DCA Guarantee	Term	Interest Rate	Loan Amount
SGMB	LPG	2004–2009	Not available	1,000,000
		2005–2009	Not available	1,000,000
		2005–2009	Not available	1,000,000
TOTAL				**$3,000,000**

FONDEP management was not comfortable providing details on its loan liabilities. Thus, it is unclear what impact, if any, the DCA had on increasing availability to locally sourced, nonguaranteed loans. However, the DCA guaranteed loans represent 39.75 percent of its total loan liabilities and 32 percent of its total 2003 to 2005 portfolio growth.

3.4 DCA IMPACT ON INMAA

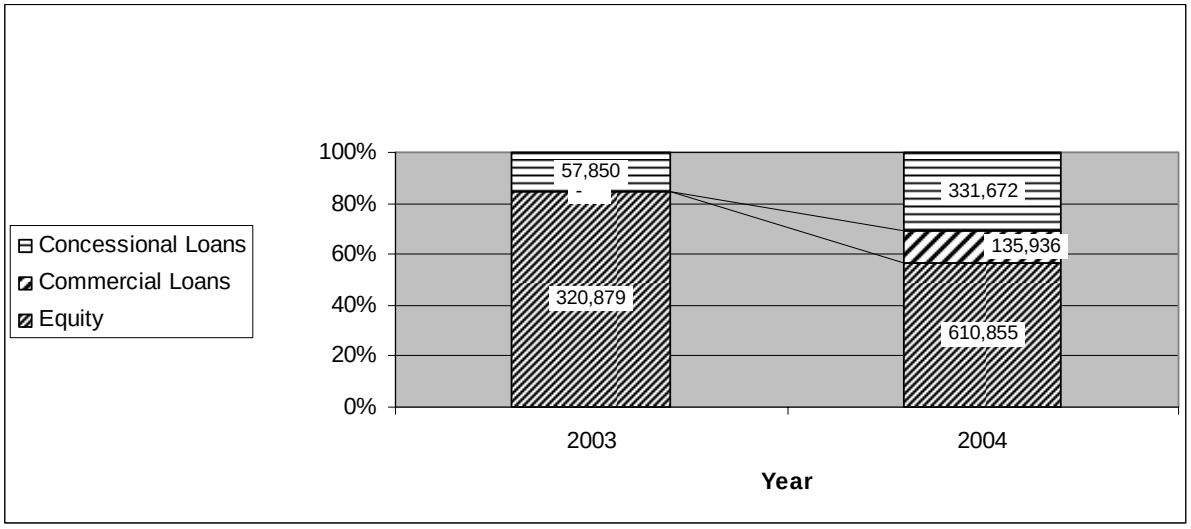
INMAA, founded in 1999, focuses on women clients and rural populations. INMAA largely offers a solidarity group lending product, but has created new products to match client needs. As part of its strategy, INMAA also collaborates with professional associations to identify and provide nonfinancial services to its clientele. INMAA currently serves 6,472 clients. As demonstrated in Figure 9, its loan portfolio has witnessed impressive growth.

FIGURE 9: INMAA: GROSS LOAN PORTFOLIO



While data were not available for 2005, INMAA has shown a transition to loan capital to fund its growth. Based on data shown in Figure 10, INMAA has mostly accessed funds from several agencies providing loans at concessional rates. However, it was able to negotiate a €50,000 loan from Alterfin with a three-year tenor. The interest rate on the loan is Euro Interbank Offered Rate (EURIBOR) plus 1.5 percent. Although complete data are not available, it appears that the positive trend in loan liabilities is continuing. In 2005, INMAA received a US$335,000 DCA guaranteed loan from SGMB and has a US$415,000 tranche available to it, assuming it can successfully negotiate with SGMB.

FIGURE 10: INMAA FUNDING STRUCTURE: BREAKDOWN OF FINANCIAL LIABILITIES AND EQUITY (IN USD)



Source: The Mix Market. Data for 2005 were not available

While complete detail was not available on its loan liabilities, it is clear that the DCA guarantee was a determining factor for INMAA's ability to negotiate with SGMB. At this point, it is unclear if SGMB will continue to lend to INMAA or whether the relationship with SGMB can be leveraged into financial relationships with other financial institutions.

3.5 DCA IMPACT ON AMSSF, AL KARAMA, AND AL ATIL

Based on USAID/Morocco's request, AMSSF, Al Karama, and Al ATIL were not interviewed for this review and therefore limited information on their financial liabilities is available. Table 11 provides some detail on the SGMB guaranteed loans. The LPG was designed to make wholesale funds available to smaller MFIs, which seems to have been successful. There is additional loan ceiling available for AMSSF and Al Karama, and future funds are available for other institutions as identified (listed as 'other' below). The ceiling of the guarantee facility has not been reached. The limited activity is due to SGMB's reluctance to lend to institutions with no sound credit history. SGMB preferred to provide wholesale funds in tranches, amounts smaller than the loan amounts that would use the whole facility at one time. It is unclear if SGMB will use the remaining guarantee capacity. SGMB was also clear that it would not lend to these institutions in the future without a guarantee.

TABLE 11: DCA LPG DETAIL AMSSF, AL KARAMA, AND AL ATIL

MFI Recipient	Gross Loan Portfolio at 12/2004	DCA Guaranteed Loan Amount Available	% of Total Portfolio	Loan Amount Extended by SGMB (3/2006)
AMSSF	$1,885,498	$1,250,000	66%	$625,000
Al Karama	$658,060	$300,000	46%	$170,000
ATIL	n/a	$100,000	n/a	$100,000
Others	n/a	$600,000	n/a	$0

4. CONCLUSIONS AND RECOMMENDATIONS

It is clear that the DCA guarantees did have an impact on increasing the availability of wholesale funds to MFIs, which have had a profound effect on their ability to increase their gross loan portfolios. However, it is less clear to what extent this availability of wholesale funds will continue to grow in the long term on an unguaranteed basis—the growth may be driven only by the availability of guarantee mechanisms.

PG/LG IMPACT

There are several factors that hindered the impact of the PG/LGs:

- **Small loan sizes not a catalytic force to change financial institution behavior toward borrower sector.** While the PG/LG structure allowed for each MFI to shop around to various banks and to successfully access commercial financing, in some cases the ensuing loan was quite small in proportion to the lending bank's portfolio. Hence it neither necessitated changes to the lending banks' policies and procedures nor created a volume of business significant enough to receive bank management attention. Over time, it is hoped that the lending banks will change their practices toward the new sector (such as accept MFI loan portfolio as collateral and offer better terms and/or less paperwork).
- **Confused activity and economic description and analysis for the microhousing PG/LG.** It appears that the main intention of the PG/LG for microhousing was to increase the amount of housing financial services to the economically poor. While the PG/LGs availed resources to MFIs to offer such financial services, the impact of the microhousing PG/LGs may have been greater if USAID/Morocco had focused on changing the partner banks' behavior toward lending to the microfinance sector. The focus would more likely lead to more sustainable sources of finance to fund various growth and expansion efforts of Moroccan MFIs, including new product offerings for microhousing.

However, the PG/LG did allow Al Amana and Zakoura to shop around and create relationships with numerous banks. The PG/LG structure may have caused some competition in the market for MFI wholesaling that had not existed before the guarantees.

LPG IMPACT

To demonstrate the impact of the LPG at the institutional level, Table 12 relates the DCA guaranteed loan to each institution's gross loan total portfolio. As shown, to many of the MFIs, the impact of the DCA guaranteed loan on their operations is significant.

TABLE 12: DCA LPG GUARANTEED LOAN AS % OF MFI GROSS LOAN PORTFOLIO

MFI Recipient	Gross Loan Portfolio at 12/2004	DCA Guaranteed Loan Amount Available	% of Total Portfolio
Al Amana	$49,262,294	$2,000,000	4%
FONDEP	$3,927,995	$3,000,000	76%
INMAA	$861,255	$750,000	87%
AMSSF	$1,885,498	$1,250,000	66%
Zakoura	$25,027,207	$2,000,000	8%
Al Karama	$658,060	$300,000	46%
Al ATIL	n/a	$100,000	n/a
Others	n/a	$600,000	n/a

The true impact of the LPG will only be determined once the guarantee has expired, assuming there are no similar follow-on guarantees from USAID or other donors. At this point, SGMB does not seem interested in pursuing loans to MFIs without guarantee, which raises doubt over the impact of the guarantee. Nonetheless, the guarantee does not expire until 2009, giving USAID/Morocco sufficient time to continue to hone the relationships between SGMB and the MFIs. There are also other commercial banks lending to the MFIs (most under donor-supported guarantees, including other DCA guarantees), which increases competition in the market.

Key elements of the LPG structure and relationships that led to its impact include:

- **Focused involvement of lending institution:** SGMB's involvement, particularly during the structuring and borrower analysis phase of the deal origination, allowed for realistic deal parameters to be set, particularly on specific loan amounts to a wide variety of institutions.
- **Increased market competition:** USAID/Morocco, through other DCA mechanisms and organization of financial sector-wide events, encouraged other banks to enter the MFI wholesale market.
- **Focused deal design:** The LPG structure, which indicated loan size amounts for several MFIs of varying size, encouraged immediate lending to variety of Moroccan MFIs and broadened the size of the MFI wholesale lending market. The broadened market promoted increased coverage and competition among financial institutions in the MFI wholesaling market.

Interest in providing competition in the market may prove to be the determining factor for commercial banks' continued access to commercial sources of financing. However, as SGMB officials have commented, the increasing leverage of MFI balance sheets will eventually limit the MFIs' ability to grow through reliance on commercial bank debt. Thus, the MFIs' future access to loan-portfolio growth funding relies just as much on the ability for the MFIs to intermediate deposits and to attract private equity investment as it does on accessing commercial sources of bank financing.

The overall DCA portfolio has demonstrated impressive utilization and has some initial indication of impact. The success of the guarantee is largely attributable to:

- **Prior USAID/Morocco support:** A long history and momentum of USAID/Morocco-supported microfinance initiatives, particularly financial support and technical assistance, created strong and creditworthy borrower MFIs.
- **Commitment to financial institution relationships:** USAID/Morocco carefully honed relationships between Moroccan commercial banks and MFIs through roundtable events, individual meetings, and direct communication.
- **Dedicated USAID/Morocco staff:** The individual attention to monitor use and facilitate communication between SGMB and borrower institutions appears to be a significant factor in use and impact of the LPG.