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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

# MOROCCO PROJECT PAPER

## Microenterprise Finance Activity
## PROJECT NUMBER: 608-0218

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AGENCY FOR INTERNATIONAL DEVELOPMENT

# PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE 3

COUNTRY/ENTITY: MOROCCO

3. PROJECT NUMBER: 608-0218

4. BUREAU/OFFICE: USAID 608

5. PROJECT TITLE (maximum 40 characters): Microenterprise Finance Activity

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 03

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 95 B. Quarter 4 C. Final FY 01

8. COSTS ( $000 OR EQUIVALENT $1 = )

| A. FUNDING SOURCE | FIRST FY B. FX | C. L/C | D. Total | LIFE OF PROJECT E. FX | F. L/C | G. Total |
|---|---|---|---|---|---|---|
| AID Appropriated Total | | | | | | |
| (Grant) | ( 1,700 ) | ( 300 ) | ( 2,000 ) | ( 12,200 ) | ( 3,300 ) | ( 15,500 |
| (Loan) | ( ) | ( ) | ( ) | ( ) | ( ) | ( |
| Other U.S. 1. | | | | | | |
| Other U.S. 2. | | | | | | |
| Host Country | | 80 | 80 | | 5,167 | 5,167 |
| Other Donor(s) | | | | | | |
| TOTALS | 1,700 | 380 | 2,080 | 11,700 | 8,467 | 20,667 |

9. SCHEDULE OF AID FUNDING ($000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE 1. Grant | C. 2. Loan | D. OBLIGATIONS TO DATE 1. Grant | D. 2. Loan | E. AMOUNT APPROVED THIS ACTION 1. Grant | E. 2. Loan | F. LIFE OF PROJECT 1. Grant | F. 2. Loan |
|---|---|---|---|---|---|---|---|---|---|
| (1) | N/A | | | | | | | | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | | | | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): N/A

11. SECONDARY PURPOSE COD[E]: N/A

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code: N/A

B. Amount

13. PROJECT PURPOSE (maximum 480 characters).

The purpose of this activity is to facilitate microenterprise growth through large scale access to formal, institutionalized and self-sustainable microfinance.

14. SCHEDULED EVALUATIONS

Interim MM 09 YY 97 | MM YY | Final MM 03 YY 03

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 34 page PP Amendment.)

USAID/Morocco approves proposed methods of implementation and financing.

N. Keith Romwall

N.Keith Romwall, Controller

17. APPROVED BY

Signature: M Farbman

Title: Michael Farbman, USAID Director

Date Signed: MM 09 DD 18 YY 95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTIO[N]

MM DD YY

USAID

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**PROJECT AUTHORIZATION**

**Name of Country:** Morocco

**Name of Project/Activity:** Microenterprise Finance

**Number of Project/Activity:** 608-0218

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Microenterprise Finance Activity for Morocco ( "the Cooperating Country") with planned obligations not to exceed Fifteen Million, Five Hundred Thousand United States Dollars ($15,500,000) in grant funds over a seven year period from the date of authorization, subject to the availability of funds in accordance with the USAID Operating Yearly Budget (OYB) process, to help in financing the foreign exchange and local currency costs of the Project. The planned life of the Project is eight years from the date of initial obligation.

2. The Activity (also called the Project) is designed to expand the Moroccan base of stakeholders in the economy, targeting people of below median income. Through the Microenterprise Finance Activity, microenterprises will be strengthened through large scale access to formal, institutional, and self-sustainable microfinance.

3. The Project Agreement, which may be negotiated and executed by the Officer to whom such authority is delegated in accordance with USAID regulations and delegations of authority, shall be subject to the terms and conditions as required in the Standard Provisions and in compliance within all relevant Source and Origin of Commodities and Services regulations.

<u>Source and Origin of Commodities, Nationality of Services</u>

Commodities financed by USAID under the Project shall have their source and origin in the Cooperating Country or in the United States, except as USAID may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or the United States as their places of nationality, except as USAID may otherwise agree in writing. Ocean shipping financed by USAID under the Project shall, except as USAID may otherwise agree in writing, be financed only on flag vessels of the Unites States.

18 Sept 95

Michael Farbman
Director
USAID/Morocco

Phone : (011) 212.7.762265 Fax : (011) 212.7.707930

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## GLOSSARY

| | |
|---|---|
| AUP | Association d'utilité publique |
| AMSED | Association marocaine de solidarité et de développement |
| BCP | Banque Centrale Populaire |
| BMCE | Banque Marocaine du Commerce Extérieur |
| CEN | Caisse d'Epargne Nationale |
| COB | Close of business |
| CNCA | Caisse Nationale du Crédit Agricole |
| CRS | Catholic Relief Services |
| EG | Office of Economic Growth, USAID/Morocco |
| EU | European Union |
| DH | Dirham |
| GEMINI | Growth and Equity through Microenterprise Investments and Institutions |
| GOM | Government of Morocco |
| IMCC | Inter American Management Consulting Corp. |
| IRR | Internal rate of return |
| LOP | Life of project |
| MCIA | Ministry of Commerce, Industry and Artisanry |
| MFA | Morocco Microenterprise Finance Activity |
| MFFI | Ministry of Finance and Foreign Investment |
| MFU | Microenterprise Finance Unit |
| MIS | Management information system |
| NGO | Non-governmental organization |
| NSS | Non-structured sector |
| OFM | Office of Financial Management, USAID/Morocco |
| PACD | Project Assistance Completion Date |
| PMC | MFU branch office |
| PO | Program outcome |
| PVO | Private voluntary organization |
| RCO | Regional contracting officer |
| RFP | Request for proposals |
| SCM | Société de Cautionnement Mutuelle |
| SGMB | Société Générale Marocaine de Banque |
| SO | Strategic objective |
| TA | Technical assistance |
| UNDP | United Nations Development Program |
| USAID | U.S. Agency for International Development |
| USDH | U.S. direct hire employee |

## I. EXECUTIVE SUMMARY

The Microenterprise Finance Activity (MFA) is an eight-year, $20.667 million effort ($15.5 million in USAID funding and $5.167 million in Moroccan counterpart funding) to develop a self-sustaining institution which will provide financial services to microentrepreneurs in Morocco. As an integral part of the USAID/Morocco strategic objective to broaden the number of stakeholders in the economy, this Activity is the Mission centerpiece for increasing access to financial services by poorer segments of the population.

GEMINI and local studies have concluded that Moroccan microentrepreneurs have serious cash flow difficulties which hinder their growth, decapitalize family savings, and increase household management problems. These microentrepreneurs have no access to formal financial services (neither credit nor savings), depending entirely upon family savings and other traditional credit mechanisms. Availability of institutionalized financial services is therefore likely to have considerable impact on their ability to manage household and microenterprise cash flow more efficiently.

In the Moroccan context, providing these services is a very risky endeavor. Very little is known about the behavior of microenterprises. Interest rates are capped, and attitudes of both civil servants and politicians are strongly opposed to high rates even when necessary to recover costs. Recovery of bad debt is an arduous, time-consuming, and often arbitrary process. Dealing with this risk will be an important part of the implementation process.

The Activity consists of three elements: the first creates the institutional framework to deliver large scale credit services; the second introduces savings; and the third deepens our understanding of microenterprise finance in Morocco and indicates how its performance can be improved. The institution will be a self-sustaining, formal financial establishment which offers short-term, working capital, and, if possible, savings services on a large scale to men and women microentrepreneurs. The products will be tailored to reduce institutional risk, but will still be quick and easy to use.

In order to reduce some of the inherent lending and institutional development risks, microentrepreneurs eligible for Activity services will have to be well known in their communities. They will have been involved in a non-agricultural economic activity for at least a year, will have a fixed address, and employ no more than five persons. They will not have had previous access to bank services. The Activity will set a target of 30% women beneficiaries.

Because of incomplete knowledge about the microenterprise sector, USAID and the Moroccan counterpart ministry, the Ministry of Commerce, Industry and Artisanry, have opted for an innovative contracting process and a phased implementation that will facilitate course correction during the development of the institution and again help limit the lending and institutional development risks.

USAID will initiate a two-stage competitive selection process which will identify qualified firms experienced in delivering microfinance to prepare proposals, with a small portion of the development costs co-financed by funding from the Activity. These proposals will include a demand study (for site, services, and cost), an institutional framework (how to provide the services), and a financial plan that reaches self-sustainability before the end of the Activity.

The phased implementation will begin with an institutional development activity. During the first 18 months, working with Moroccan institutions, the American contractor will develop baseline data, establish management systems, train the staff, network with local authorities, and test a pilot microfinance activity through a Microenterprise Finance Unit (MFU), a legal entity permitted to do business in Morocco. Information and awareness activities financed by the Activity will help sensitize the public and reduce any prejudice against full cost recovery.

The second phase will last about four years and will include the provision of financial services so that operational costs are covered and that ultimately 10,000 borrowers are served at any given time. MFA will also encourage proposals for savings mobilization geared to small savers. A replication of this institution at a second site is also a desired outcome during this period. A collateral fund will serve as a guarantee against late payment, available to financial institutions providing capital. Also during this period, studies will help focus on savings, credit ratings, debt recovery policies, and the institutional framework to reduce costs and increase the efficiency of financial services for microentrepreneurs.

In a third phase of two years duration, the U.S. contractor will withdraw long-term technical assistance personnel, leaving the Moroccan institution to operate with only occasional technical assistance on specific problems. This phase will complete the development of the institutions in one or two sites, with full attention given to cost recovery (including capital cost). This phase will be marked by increased leveraging of collateral fund assets with the banks, emphasis on savings and identification of private sector partners that are interested in investing in the institutions.

The Activity will require the following resources to achieve its objective (in $,000s):

| | | |
|---|---|---|
| Institutional Contract | | $13,256 |
| Technical Assistance | $5,745 | |
| Subcontracts | 3,011 | |
| Microcredit Collateral Fund | 4,500 | |
| USAID Support | | 362 |
| Evaluations | | 619 |
| Contingency | | 1,263 |
| USAID Total | | 15,500 |
| Host Country Contributions | | 5,167 |
| **Project Total** | | **$20,667** |

At the end of the Activity, there should be up to two fully self-sufficient institutions capable of providing financial services (including savings, if possible) to microentrepreneurs. They will cover operating and capital costs, will each reach 5,000 clients each at any one time, will have a reimbursement rate of 95% or higher, and will have women as 30% of their client base.

## II. Statement of Opportunity:

Morocco's dualistic development has generated the phenomenon of low growth, low employment and low incomes for the poorer segments of the population behind its modern European-style facade. Particularly worrisome is the vulnerability of poor and marginally poor households to unforeseen sudden deterioration in living conditions.

In 1990-91, according to the World Bank, 7.6% of the urban population (or over 900,000 people) were described as being poor or very poor, earning below 2,725 dirhams per year. The numbers of urban poor and the income figures change rapidly in bad rainfall years or when some external economic shock hits the country. In terms of income level, just above the "poor" and "very poor" categories is a large segment of the population that sits precariously close to one or the other of these categories, moving into and out of poverty depending on the condition of the overall economy.

These urban poor households contain more members than the average household. Economically inactive members are more common, as such households are more susceptible to underemployment or unemployment. In fact, unemployment exceeds 30% of the active population among the urban poor. In addition, there is a good chance that they live in substandard housing and have no access to formal financial services; the literacy rate is lower; and the number of household members having completed primary school is lower. Typically, the poor who have jobs are independent workers, or low level wage earners. They tend to be associated with the informal sector and mix business and household revenues freely. The diversified, commingled revenue sources serve as a hedge against the intermittent nature of their income. In this context, household risk management becomes extremely important.

Against this backdrop, microenterprises characteristically provide the major source of employment for the poor, as well as lower priced goods and services consumed by them. Microenterprises are a critical, and growing factor in both the revenue and consumption side of urban households. The importance of this sector of the economy to urban households must not be underestimated. As the 1992 GEMINI study <u>Morocco: Assessment of Programming Options for Microenterprise Development</u> states, "Morocco has a long history of small artisanry and trade activity. The past 20 years have witnessed considerable growth of this sector in all parts of the country. The Department of Statistics ... estimates that there are over 245,000 non-structured sector (NSS) enterprises employing less than 10 persons in Morocco. They produce some DH 31 billion of goods and services per year, and DH 21 billion of value added. They employ more than 480,000 persons... These are impressive numbers, but the actual figures probably are much higher, as the government's study did not count businesses without separate, fixed premises. This omits travelling vendors and, more important, women entrepreneurs working out of their homes." This vital component of the Moroccan economy can be expected to grow more rationally, generating more jobs and income, with steady access to financial services. USAID's experience worldwide supports conclusions reached in the early design of the Morocco project that a reliable, repeat source of reasonably priced credit, principally short-term working capital, is the most critical requirement for microenterprise growth. Experience elsewhere and the research undertaken during the collaborative design process here show that there is tremendous opportunity for USAID funding to make a significant impact in this subsector in Morocco.

The IMCC report entitled Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs notes that microentrepreneurs make complex, ongoing series of financial decisions and must be sophisticated managers of their savings and cash flow. They are consequently experienced financial decision-makers, moving income between business and household, making savings decisions (how much, how long, what form), balancing consumption and longer term goals, hedging against risk, and positioning for business opportunities, etc.

Because of their lack of access to the formal financial system, such microentrepreneurs currently invest household savings in jewelry or other household assets or use family ties in order to hedge themselves against periods of inadequate income and the inevitable external shocks, such as drought, illness, recession, etc., as well as large anticipated expenditures, such as school fees, taxes, weddings, enterprise expansion. However, this means frequent liquidation of family savings to cover consumption spikes.

If such enterprises had access to a steady source of financial services as part of their risk management strategies, they would have more options to smooth out consumption spikes, to handle external shocks with less suffering, and to have a level of risk protection freeing them to make higher return investments. Targeted financial services give informal enterprises an important tool for improving their efficiency, productivity, and welfare while reducing risk. This allows for impact not only in the area of income, business growth and job creation, but also in literacy, family planning, health, and shelter.

An investment in a microenterprise activity is a good one for many reasons; it can generate immediate income, help in liquidity and household risk management, provide a reserve for contingencies, stimulate other investments, and lead to long-term improvements in health, housing and education.

## III. Activity Goal and Purpose

The goal of the activity is to expand the base of stakeholders in the economy, targeting people of below-median income. The purpose of this project is to: **facilitate microenterprise growth through large-scale access to formal, institutionalized and self-sustainable microfinance.**

As noted above, USAID and other donor worldwide experience shows that a critical factor in microenterprise growth is a reliable source of credit, principally used for short-term working capital. Because of increasing evidence that savings mobilization from microenterprises and other non-traditional sources can have an important impact on growth, and in leveraging of assets for lending, the Microenterprise Finance Activity (MFA) will focus on financial services rather than just on credit. The impact of the activity will be measured in terms of increased family income and jobs in microenterprises benefitting directly from access to microfinance. Because of the intermingling of household and microenterprise funds noted in the introduction, other broader outcomes, such as improved housing, increased literacy, and better health, may also be examined. MFA benefits will result in an expanded and strengthened group of stakeholders in the larger economy.

This activity will develop a financial services institution that is:
1) independent and legally established;
2) replicable and linked to formal financial institutions; and
3) financially self-sufficient.

This institution will deliver a product that is:
1) targeted to the poorer segments of the population;
2) quick and easy to use for both women and men in existing microenterprises;
3) available for working capital of existing microenterprises; and
4) used by a significant percentage of the poor in a given area.

USAID will select a contractor that will provide an innovative and cost- effective approach to developing this institution and its services in a flexible, phased, frequently evaluated implementation process that will put a premium on collaboration with all participants in the activity, as described below. Cooperation, evaluation, and policy/regulatory change will be important factors in minimizing the risk of the MFA.

## IV. Strategy

### A. Relationship to Strategic Objective

Over the past eight years, USAID/Morocco's program has significantly influenced the positive dynamism of the newly emerging, liberalizing Moroccan economy. The impact has come from both the policy side, where the Mission's dialogue with the private sector and the Government of Morocco (GOM) has resulted in a more open approach to and encouragement of business development and sustainability, and from the operational side where USAID-funded activities have stimulated job creation and strengthened companies. The Mission believes that a critical step in the economic growth of the country is to target the poor segments of the population -- people who may have been overlooked until now.

The economic growth Strategic Objective (SO) #3 is, "expanded base of stakeholders in the economy, targeting people of below-median income". The MFA fits squarely in the SO and will contribute significantly towards two of the Program Outcomes (PO) under this SO. They are: (3.1) "improved policies, regulation and institutions for creation and expansion of enterprises", and, (3.2) "broadened access to and use of financial resources and services, especially among micro and small enterprises."

The MFA will seize the opportunity to create and assure the sustainability of microenterprise lending and savings services. It will target below-median wage earners only; hence providing specific services to heretofore neglected and potentially dynamic participants in the economy and thereby expanding the base of stakeholders.

Concurrent with this, MFA will collaborate in the policy and regulatory arena with public and private sector counterparts --

facilitating expansion of microenterprises and access to financial services by an even larger number of microentrepreneurs than can be served by this activity. The leverage of USAID/Morocco with other donors and the GOM in this area cannot be underestimated, judging by previous experience: the Mission was the first donor to provide advisory and training services and to advance regulatory reform for small- and medium-sized enterprises. The World Bank and the European Union (EU), after observing the success of this effort, have embarked on similar initiatives. The World Bank is closely examining USAID's pioneering work in financial sector reform and privatization. In addition, the EU, United Nations Development Programme (UNDP) and France have expressed keen interest in the MFA design. Other similar examples lead us to believe that donors and the GOM will be watching this effort for lessons learned as well.

Finally, the fundamental thrust of the MFA is to broaden access to and use of financial resources and services among the poor, which specifically supports the realization of PO 3.2.

**B. Participatory Design Process**

Since 1990 USAID/Morocco has studied the micro and informal sector in the country (see Annex 8: Bibliography), discussed options with both GOM and private organizations having interest in the potential of microenterprise advocacy and work, and gotten feedback from the people engaged in microenterprise. Through the studies and collaborative process sponsored by the Mission, USAID has confirmed the interest shown in this activity by certain Ministries, local governments, financial institutions, and non-governmental organizations (NGOs), and has verified the demand of the potential beneficiaries for a microfinance activity in several potential project sites.

The process began in 1990 with a GEMINI (USAID/Washington microenterprise support project) review of existing studies of the informal sector in Morocco and accelerated in 1992 with a USAID-sponsored GEMINI Workshop to assess programming options for microenterprise development in Morocco. During this two-day workshop, GOM, Moroccan and foreign NGOs, other donors, financial institutions, Peace Corps and USAID examined current research and reflected on the sector and possible options for assistance. USAID followed this up several months later with field studies of microentrepreneurs in three potential project sites. This extensive dialogue with the proposed beneficiaries permitted USAID to understand the risks and opportunities of a microfinance activity much better. Finally, in January 1995, experts from GEMINI returned to update the earlier study and provide some basic economic and financial analyses. USAID at the same time reconfirmed GOM, local government, bank, and NGO interest in a proposed microfinance activity.

Outside of direct microenterprise studies, USAID believes that its other activities in economic growth have helped to "test the water" and prepare the way for the conscious targeting of the poor. For example:

- the New Enterprise Development Project has given the Mission a clear understanding of how small businesses are run and the constraints and opportunities in that closely related sub-sector (many of the constraints are, in fact, the same);



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- key players - such as the banks and GOM Ministries (Ministry of Commerce, Industry, and Artisanry [MCIA] and Ministry of Finance and Foreign Investment [MFFI] especially) - have a better idea of how USAID approaches private sector promotion in general and credit programs in particular, and understand what the Mission's strategic objective is; and,
- the Mission understands the regulatory environment and processes which need to be simplified and reformed.

One of the most important things that USAID has observed in its research is that, while training and technical assistance in microenterprise skills (such as blacksmithing, mechanics, welding, etc.) is supported by other donors, Moroccan institutional support to microenterprises for sustainable financial services is extremely limited. The only entity implementing such activities is Catholic Relief Service (CRS). Via its collaboration with the Moroccan NGO AMSED, CRS is implementing a successful, albeit very small program of microfinance. The EU, France and UNDP have expressed some interest in general, but are waiting to see what USAID will do.

In addition to working with the GOM and other donors, the Mission has also had in-depth discussions with NGOs, as well as associations of microentrepreneurs and individual entrepreneurs, the people who will benefit from this intervention. Two examples of NGOs interested in microfinance are the Association Fes-SAIS, a regional development association with association d'utilité publique status in Fez and the Fondation Zakoura in Casablanca, a foundation being formed by a Moroccan philanthropist.

The CRS Program deserves great credit for introducing the concept of microenterprise lending, despite the very high degree of initial skepticism expressed by Moroccan NGOs concerning the population targeted, project sustainability, high cost of lending, repayment rates, and village management. Under this activity, microentrepreneurs move through six stages of credit from four-month loans in the 500 DH range to loans of up to 4,000 DH, repaying the loans on terms that cover costs. At the same time, the client must also save at least 10% of the borrowed amount. To date the urban program has been very successful, totaling $85,000 in loans with 99% repayment and 64% participation by women. It is now serving over 430 clients in a fairly small urban area. The rural program has 100% repayment and 100% women participants. The groundbreaking work conducted by CRS and its NGO partner has shown that there is a client base for these kinds of small loans, that this type of loan allows clients to make productive investments, that clients are willing to pay the real cost of borrowing money, and that clients will repay such loans without having to pledge collateral. MFA will have to prove these same concepts to skeptical new partners in the GOM and the formal financial community, but on a much greater scale.

It is important to recognize that, because the MFA will be the first large- scale, targeted, microfinance activity in Morocco, it also entails real risks. There is little practical field experience; the target population is new to USAID/Morocco and relatively unknown; the policy, regulatory, and institutional frameworks do not favor microenterprise. Although mitigated by the extensive groundwork done by the Mission in other economic growth projects, and by studies, discussions, and analyses performed on the potential of microenterprise, the risks are nonetheless significant - and the potential impact and broad payoff large. USAID proposes an innovative implementation method that will reduce the risks to acceptable levels. This will involve a collaborative, transparent working environment, frequent dialogue on the regulatory and institutional framework, and the development of the needed services in three phases allowing regular evaluation and adjustment.

## C. Broad Institutional Setting

Financial Sector

The Moroccan financial sector, while patterned on the French model, is in many ways unique. Interest rates are capped administratively, and not much allowance is made for varying categories of product cost and risk. A high percentage of bank funds is tied up in capital reserve requirements and obligatory investment in GOM notes. The formal financial system is not very diverse; the stock market and the system of commercial bonds marketing are not highly developed and are not very active. These phenomena effectively crowd out all but the largest, most solid firms, resulting in very little credit available for medium- and small-sized firms, even when fully guaranteed. It is even more difficult for microenterprises which have smaller credit needs, more costly follow-up, and little in the way of collateral or guarantees.

The maximum current short-term interest rate at commercial banks is fixed at 11.5%, with a 3% spread allowed between preferred clients and the upper limit. CRS experience and USAID-GEMINI studies indicate that this cannot cover in a sustainable manner the costs of providing credit to microenterprises. Working with the World Bank, the GOM has a Financial Sector Reform Program which may liberalize interest rate ceilings by the end of 1995, so the context is changing rapidly. There are nonetheless institutional problems. Savings accounts, for instance, often have minimum deposits in the range of 5,000 DH, limited account access, and low rates of interest (real rates at 1-2%). The current organization of the Moroccan financial sector provides no incentive for accessible services to smaller consumers, whether small business, microenterprise or individuals.

Moreover, Morocco has a dual financial sector: a modern one based on a Franco-Moroccan model and another, non-Western model based on Islamic and Arab/Berber traditions. While there is a broad overlapping of the economic systems, financial institutions have developed corporate cultures that make access to services difficult, especially for the traditional group. Products are not designed for small or microenterprises, and such clients often feel ill at ease entering such an institution.

In short, the combination of limited financial instruments, GOM capital reserve requirements, bank obsession with guarantees, administratively determined interest rates, and the very rigid institutional context for associations and financial institutions creates a situation where significant microenterprise demand is not serviced.

Microenterprise overview

As noted, the microenterprise sector is extremely important to the Moroccan economy on a macro level. Although probably underestimated, the 1988 survey produced by the Statistics Directorate indicated that the sector accounted for 245,000 enterprises, produced 31 billion DH of goods and services annually (21 million DH of value added), and employed 480,000 persons. It is a dynamic sector, able to adapt to changing conditions. Casablanca contains the greatest concentration of microenterprises, followed by Fez and then Rabat. (See "Actors" section for a definition of microenterprises that will be eligible for assistance under MFA, and see Annex C for a detailed description of the sector.)

Microenterprise constraints

Many constraints face the microenterprise sector. As noted in the 1992 Gemini report attached as Annex C, the most important is finance. The report states, "Microentrepreneurs lack sources of financing for start-up capital, working capital, and fixed asset purchases, but working capital appears to be the most pervasive financial constraint." The MFA would demonstrate an approach to redress this problem. Two of the principal nonfinancial obstacles are shortages of management and marketing skills. The lack of managerial and bookkeeping skills is widely documented. Most microentrepreneurs do their accounting in their heads, mix household and business funds, and are unable to monitor variable and hidden costs. The flat rate tax (forfait) system recognizes that microenterprises rarely keep books. This type of taxation can penalize microentrepreneurs because it does not recognize cash flow variations, so that the individual will sometimes have to pay the flat tax based on last year's profits when current profits are down.

The GEMINI study felt the policy environment for microenterprises is "generally favorable," as registering a business, for example, is relatively easy. However, the study was clearly not referring to the broader financial sector policies and their relation to smaller clients, as noted above. The study further noted that the regulatory and tax frameworks can limit profitability of microenterprises. The forfait tax is one example, as the outside assessment of business activity in the absence of an accounting system invites rent-seeking behavior. Moreover, the problems of microenterprises are frequently similar to those of small businesses, which were examined and reported in the 1989 Ernst and Young report entitled Morocco: Constraints and Opportunities in the SME Sector.

Some constraints are specific to women entrepreneurs, such as traditional attitudes toward women, legal limitations in creating a business without a husband's permission, and widespread illiteracy and limited educational opportunities for women.

No organizations serve as effective advocacy groups for this sector. The traditional Moroccan artisanal sector used to be highly organized through a guild and apprenticeship system. While apprenticeship has survived, the guilds have disappeared. Small service cooperatives and associations have recently been organized with differing degrees of effectiveness. The Chambres de Commerce et de l'Artisanat tend to represent larger businesses, but have the potential to support microenterprises.

Concerned institutions

As noted on page 23 of the 1992 GEMINI report, the key constraint for microenterprise growth in Morocco is the shortage of short-term credit for working capital purposes. In fact, most microenterprises are owner or family financed. The Banque du Crédit Populaire (BCP) has helped in the formation of Sociétés de Cautionnement Mutuelle (SCMs) which help members guarantee loans. However, only two institutions, the BCP and the Caisse Nationale du Crédit Agricole (CNCA), lend to microenterprises. Both use subsidized interest rates. These two banks and the Caisse d'Epargne Nationale (CEN) have also initiated savings programs for the microentrepreneur (17 billion DH mobilized in 1990-91). Unfortunately, there is no financially sustainable system for delivery of financial services to microenterprises on a large scale.

There are very few international NGOs operating in Morocco. Two of these, Catholic Relief Services (CRS) and AMIDEAST, are registered U.S. PVOs, and CRS is phasing out Moroccan operations. Modern Moroccan NGOs are few and inexperienced. Most such organizations fill a social and cultural role, and only recently have some become involved in economic development. The legal framework for Moroccan NGOs is very unfavorable; in most cases they are legally limited in raising money themselves as well as in accepting grants from donors. The only ongoing activity in the country in sustainable microfinance is the CRS project, which is being implemented by the indigenous NGO AMSED under CRS supervision.

The key GOM ministries for MFA are the MCIA and the MFFI. While being supportive of the concept of financial assistance to microentrepreneurs, the MCIA is not convinced that microentrepreneurs will pay interest rates high enough to cover all charges, especially given the existence of subsidized credit programs mentioned above. MCIA is a strong technical ministry, with project management experience, a nationwide presence and a clear desire to integrate the informal sector more effectively into its activities. It will be a powerful interlocutor in the overall reform process, as it serves as secretary to the Comité de Suivi du Secteur Privé. (See the Actors section for its proposed role in the MFA.) The MFFI is a powerful complementary ministry, with the key role in reform of the financial sector. It does not have experience managing donor-financed activities.

Finally, the local government members at activity sites will be extremely important in providing appropriate support to the MFA. This will be needed from appointed officials at the top level of the wali or the governor through the mohtassib and down to the caid and from elected officials at the level of the mayors and council members down to their appointed staff. As seen in the CRS project, local governments exercise considerable autonomy and their collaboration will be critical in establishing microfinance services in an urban area. If only for the importance of intervention in debt disputes, various elements of local government rank as some of the most important collaborators the activity will require.

In interviews with USAID, many banks and finance companies have expressed interest in participating, despite the paperwork for high-volume, low-value loans which will characterize this activity. Since both the government and the banks have a lot to learn about this type of program in Morocco, MFA will feature frequent briefings, walk-throughs, training and attendance at workshops during Phase 1 of the project.

## V. Plan of Action

### A. Activity Focus

The Microenterprise Finance Activity (MFA) is an eight-year, $20.667 million project ($15.5 million from USAID and $5.167 million in host country resources) which will provide large-scale access to financial services for poorer Moroccans. It will develop a replicable system for self-sustaining savings and lending services to the urban poor, starting off with the median loan size at $300 (if confirmed by demand studies). The activity is designed to proceed in three phases to allow opportunities to step back, evaluate and adjust, thus reducing the inherent risks. USAID will develop the activity pursuant to a Project Grant Agreement to be signed with the Moroccan Ministry of Commerce, Industry and Artisanry. This ministry is directly responsible for promoting private sector development among the MFA target population of men and women microentrepreneurs. While focusing on financial services, the activity will also have an important parallel component addressing the policy environment as it affects microenterprises and the informal sector. The project will not include training or technical assistance programs for the microenterprises themselves (except for credit and savings development), but focus its primary attention on building one or more microfinance institutions which are financially viable and reaching the intended numbers of beneficiaries.

**B. Activity Description**

Based on considerable analysis already completed, including a November, 1992 GEMINI report, an August, 1993 consultant's report, and a February, 1995 GEMINI report (included as Annex B), as well as field visits to Egypt to study the successful (and in parts, transferrable) experience of USAID/Egypt in small- and microenterprise credit programs, the MFA will foster the creation of one or more microfinance institutions in Morocco. Estimates of potential demand for microcredit, as well as field investigations of potential urban areas to be served by the project, suggest that greater Casablanca, Rabat-Sale, and Fez-Meknes represent the three most likely primary urban target areas for the project (see Annex B). Benefiting from the experience in Egypt, USAID encourages, but does not require, the contractor to foster more than one microfinance unit (MFU), so as to provide for any necessary regional differentiation in implementation, potentially healthy competition in performance and impact terms, and field testing institutional replicability. The institution(s) will be independent, private entity(ies), legally established to provide or facilitate credit and savings services to microentrepreneur clients, and linked to one or more formal financial institutions following models pioneered in Egypt and elsewhere and to be adapted to the unique circumstances of Morocco. With two MFUs, when capitalized via a loan collateral (guarantee) fund at a planned equivalent of up to $2.25 million dollars, will support a minimum of 5,000 microenterprises per MFU at any given time. By the end of the activity, the institution(s) will be financially viable, with revenues exceeding all costs including the cost of funds, operating costs, inflation, provision for loan losses, and an adequate reserve.

**C. Policy and Research Element**

The MFA contractor will have resources that support a broad program of research, analysis, seminars, and policy dialogue related to the informal sector. Linked closely to the development of the MFU, this element will develop the information base for impact assessment, better targeted services, reform agenda, and support organizations. It will be a tool to develop the overall knowledge base surrounding microenterprise, up to and including concrete proposals for policy, regulatory, and institutional modifications leading to more cost-effective, targeted financial services for microentrepreneurs. More generally, policy changes undertaken based on better knowledge of the sector can be expected to have very positive indirect effects on microenterprise growth, not to mention reducing the risk and uncertainty of undertaking microfinance activities. Four broad areas requiring continuing investigation include:

- detailed microenterprise sub-sector analysis (e.g., garments/textiles, construction, transport, handicrafts, wood products, street vendors, small traders, etc.),
- analysis of regulations that affect the operation of microenterprises (e.g., business licenses, tax treatment, access to urban services, gender differences, etc.),
- financial sector reforms which will have the effect of increasing the amount of credit available for small-scale and microenterprise (e.g., new institutional forms for microfinance services, access to savings instruments for microentrepreneurs, interest rate structures, measures which increase competition among banks for new client groups, debt recovery mechanisms and enforcement, supervision of financial institutions, other measures which enhance access by government and more established private sector companies to sources of finance other than bank credit), and,
- information gaps (e.g., women's economic activities, informal finance systems, accounting methods of informal enterprises).

**D. Credit Element**

In providing a large number of small loans via a financially sustainable system, the MFU will not be able to cover its costs at the currently permitted rate of interest. (See Annex B tables and Annex G Financial Analysis.) Unless the law is changed, the MFU will need to charge the maximum legal rate (currently 11.5%) and supplement the rate with additional administrative charges covering its costs, currently a feasible option for the lender. As noted above, the Financial Sector Reform Program sponsored by the World Bank should lead to a liberalization of interest rate ceilings by the end of 1995, and, would lead to a more direct method of billing clients. Depending on the legal framework and the local political context, the MFU may choose an interest rate structure or separate fees for its individual services to microentrepreneurs (development of a credit history; assistance in cash flow management; provision of cash flow analyses) or a combination of both. Since under Moroccan law only banks can accept savings and only banks and financial institutions can lend money, most implementation scenarios will include collaboration with established banks, probably via subcontract, and consequently revenues will have to be shared to cover costs of all implementing agents. Such costs would be built into either the interest rate or the administrative charges for services rendered. MFA will work to sensitize local officials and clients to the benefits of liberalized interest rate policies.

The credit element will be developed by the institutional contractor in close collaboration with MFA actors during Phase 1 design, but USAID has identified some of the following issues that will need to be addressed in microcredit development.

<u>Eligible Participants</u>: The target group of this activity will be men and women (starting with at least 10% women and rising to at

least 30% at MFA completion) who operate existing microenterprises in the selected zone. The contractor will need to develop the basic criteria for loan eligibility in terms of residence, reputation, and type of business. One issue for consideration is whether total asset size should be a criterion for eligibility (GEMINI recommends not to do so in Annex B). Another question is whether some service assisting the enterprises in complying with annual business license formalities (patente) needs to be built in. The contractor will need to determine if men and women should have the same criteria. It will have to develop the necessary outreach mechanisms to attract increasing numbers of women borrowers. It will also have to develop a system for the MFU to identify potential clients with bad credit history from subsidized credit programs.

Loan Size: Initially at each branch of each MFU, it is expected that 50% of loans will be $300 or less, but the contractor must determine a range of loan sizes and explain how the initial median size (as determined by its demand study) will evolve as the borrowers develop a good credit history. In Annex B, the GEMINI study recommended a range between $90 (approximately 720 DH) and $3,300 (about 26,400 DH). As part of the design process, the contractor will need to verify significant demand for various sizes of loans at full cost reimbursement within the MFU outreach area, as well as balance the dynamic tension between increasing access and assuring initial small loans to new clients and improving service and providing larger loans to good borrowers. A $300 amount has been suggested to help reduce the risk of lending without collateral to borrowers with no credit history and to help target the poorest borrowers for assistance. The contractor's demand studies will not only determine the size, but also sensitize skeptical partners to microenterprise needs.

Terms: What types of loan products make the most sense in the Moroccan the context, meeting client demand, while minimizing MFU risk? In Annex B, GEMINI study has recommended a maximum duration of one year, with a majority of the loans substantially shorter; few loan types in the beginning; repayment in monthly installments; grace periods only with great caution. MFA will require no formal guarantees. However, the contractor will need to experiment with various repayment mechanisms, incentives as well as penalties (e.g., solidarity groups, other character based techniques, public announcement of default, etc.) to reduce the risk of default. The method of post-dating checks, used in the Egyptian program, is not legal in Morocco.

Purpose: In Annex B, the study recommended working capital loans and no restrictions on the use of the loan, primarily to keep lending periods short. The contractor will need to decide if providing longer-term loans for low cost plant and equipment investment is a viable option, and at what stage in the process.

Cost: Charges to the borrowers will be based on a formula which takes into account GOM interest rate regulations and MFU administrative costs, bad debt provision, inflation, and constitution of a reserve. Fees will be adjusted as needed to achieve financial self-sufficiency and to prevent decapitalization of the loan fund, while keeping costs to borrowers as low as possible. The contractor will have to develop this formula, considering how best and over what timeframe; to leverage bank financing, to improve MFU productivity in reaching the breakeven point, and to maintain the full value of the collateral fund.

## E. Savings Element

Because of its importance to household and microenterprise cash flow management, as well as its potential role in leveraging bank funds to make the microcredit element sustainable, the MFA will encourage mobilization of savings from microentrepreneurs. This priority will be developed in the first phase with market studies, followed as quickly as possible by development of activities with participating banks. The postal savings system already has small value accounts, but since it cannot lend money, leveraging the mobilized savings is not feasible. BCP and CNCA have small saver services and possibilities for leveraged lending. The MFU will work to develop several savings products appropriate for microentrepreneurs and other small savers with participating banks. While details will vary according to the Phase 1 studies, the MFU may mobilize savings initially from borrowers, perhaps by requesting them to show evidence of a passbook account as part of the process for a second or subsequent loan with the MFA. Finance officers will actively encourage savings, soliciting non-borrowers to open accounts as well. The MFA role will be extremely important in persuading banks to offer appropriate savings products to microentrepreneurs and other small savers, providing continuing feedback to banks and savers, and leveraging the savings program to extend the MFU credit coverage (see Annex B for details).

## F. Developing an Approach for Activity Implementation

The 1995 GEMINI report entitled Morocco Microenterprise Finance Concept Paper (Annex B) contains a description of how the credit operations might function. It should be noted that officials from MFFI have informally advised USAID that the private microfinance company (PMC) proposed in the GEMINI model would need to be approved by the GOM as a financial institution and that this process might take more than a year and involve substantial capitalization. The credit activities are nonetheless possible (albeit with complications in introducing and leveraging savings) by working directly with an existing finance company (one local firm has already expressed interest).

However, USAID is opening the competition for large-scale delivery of financial services to the most promising, cost-effective approach possible. The following is a discussion of this and several other potential issues for resolution by the contractor.

It is clear that the MFA Results Package is not a "blueprint design" in which USAID/Morocco provides the template for implementing the Activity. The reason is obvious: there are several possible ways of delivering the product -- microfinance. There are many contractors who are delivering microfinance through projects worldwide. USAID/Morocco plans to take advantage of the knowledge and experience of these contractors through a two-stage Request for Proposals (RFP) competitive process. Organizations submitting proposals may include consortia of PVOs and private consulting firms experienced in microfinance activities.

The first stage of the RFP will help to determine the microfinance experience, performance, and capabilities of the proposer. Based on a set of criteria which will help to determine the organization's responsibility and capability to perform, selected proposers will be invited to participate in the second stage.

In the second stage, USAID/Morocco will share the cost with the proposers of developing innovative, yet pragmatic sustainable approaches to microfinance delivery in Morocco. Each approach will include analysis of demand for the product, feasibility of implementation, institutional relationships, and a cost proposal for Phase 1. All proposers selected for cost-sharing contracts will be formally invited by USAID to participate in a pre-approach conference in Rabat, where we will share Morocco-specific information with all invitees. The resulting approaches will include innovative ways to deal with Phase 1 issues, since USAID initially will award a contract only for Phase 1 implementation to the proposer with the best approach.

USAID/Morocco recognizes that this two-stage RFP process is different from the source selection process defined in the Federal Acquisition Regulation (FAR), Part 15. However, we believe that such a process will improve contractor selection process for Activity. Therefore, the Director of USAID/Morocco will be requested to sign a deviation to the FAR, permitting this innovation.

One part of the approach to be developed will include a market study to demonstrate to the GOM, banks, and USAID that sufficient demand exists for the approach proposed by the contractor in the area selected for microfinance services. Once the area and cost structure are defined, based on the potential demand identified by the contractor, the firms/consortia will refine the institutional approach necessary for setting up the MFU. The organizations that develop the approaches will have to conduct some investigation into the institutional structure of the financial sector in Morocco and show imagination in dealing with what is admittedly a fairly rigid system.

Nonetheless, we anticipate that many of the details will be developed and finalized by the institutional contractor collaborating with USAID, GOM, participating banks, and the MFU during Phases 1 and 2. This will allow the contractor negotiating leverage and permit it to pursue a course of action based on the most recent and up-to-date information.

Several approaches are feasible, but all have drawbacks that each firm/consortium must deal with in its approach. USAID has developed the following profiles of Moroccan institutions which might play a role in a microfinance activity, and it will continue adding information to each category until the pre-initiative conference. USAID's development of this information, however, should in no way be construed as intending to limit the creativity of the proposer. While USAID/Morroco developed the following finance company model for internal administrative reasons, the proposer should feel free to design any feasible approach. The finance company model is offered only to show that microcredit delivery is technically possible in the existing institutional framework.

<u>The finance company scenario</u>

One possibility is to work directly with an <u>established finance company</u> (firm which by law can make loans but not take savings) or an affiliate created by such a company for project purposes. This type of institution can make loans directly to the clients without intermediaries, and, if properly structured, can provide the full range of MFU credit services. It also has the advantage of avoiding lengthy registration of a new firm and initial capitalization requirements in the range of five million dollars. It has the disadvantage, however, of being a very different corporate culture, unfamiliar with the MFA target population. Furthermore, the cost of funds to lend to micros is likely to be higher; the number of existing service outlets is limited; and this type of institution is not permitted to mobilize savings.

The following is an operational scenario that is possible in the Moroccan context, using an autonomous cost center within a finance company as a service provider. Again, it is not a prescriptive formula, but merely an outline of institutional feasibility.

Illustrative example: Finance company microcredit operation
The MFA contractor sets up a revolving "collateral account" (loan guarantee fund) by depositing funds in an interest-bearing time deposit at a Moroccan commercial bank to guarantee the participating finance company that its loans are covered. The interest generated on the collateral account could be automatically reinvested into the same account.

The contractor negotiates pre-authorized line of credit (overdraft) privileges on the accounts for the finance company, up to an amount equal to the initial deposit. Initially, each dollar lent by the finance company corresponds to one dollar in this time deposit.

This structure minimizes lending costs since the MFA pays preferred customer interest on bank capital to the finance company only when funds are used. Simultaneously, the credit funds delivered to clients are accruing a high rate of interest due to the charges assessed for lending the money to the microclients.

The microenterprise finance unit (MFU) can be either a division of the finance company (making this component of the USAID financed activity, in effect, a management consultancy to the Moroccan firm to help it develop its microenterprise credit product) or a separate project structure, probably via a subcontract with the collaborating finance company, that could deal with more than one financial institution. In either case, the MFU plays the role of screening and following up clients and operates as an autonomous cost center. The finance company pays out loans, takes in payments and provides tracking information to the MFU.

Clients deposit repayments at the finance company into individual loan accounts. When fully repaid, the principal plus the preferred interest rate and a negotiated margin reverts to the bank, another negotiated margin stays with the finance company, and the microfinance charges and any late penalties or MFU direct payments to the bank are credited to the MFU operating account.

As the demand expands and a given area grows to 1000 or 1500 clients, the MFU will begin to set up branches in new growth areas. Using GEMINI study recommendations, optimum size for a branch would be one manager, five financial officers handling between 200 and 300 loans each, an accountant and minimal support staff.

At first the MFU will take up to a week to assess a client's cash flow and reputation before approving a small loan. If the client repays without problems, he or she becomes eligible for a slightly larger loan, provided with less delay, say 48 hours. Repayment can take up to one year, but most will be repaid over a period of six months or less.

When a loan is approved, the MFU provides an approved chit to the borrower who takes it to the financing company to cash and open a loan account. MFU will work to simplify and reduce the time needed to accomplish this step to an absolute minimum. In the first year of Phase 2, this level of effort would be the equivalent of opening eight new loan accounts and receiving approximately 42 loan repayments per day for 1000 borrowers.

The finance company notes new accounts opened and payments made over the course of the day and faxes this information to the MFU at COB. At full operations (5,000 borrowers per MFU), this will entail a maximum of 40 new accounts and 210 loan repayments daily. MFU compares the information from the finance company with its repayment schedule to print up a list of delinquent borrowers by agent ready for each officer when the office opens the next morning. The finance officers visit all first time borrowers at least once a month, but call on delinquent clients immediately (same day as the missed payment) and follow up with them frequently (up to several times per week, as needed) in order to identify and resolve the problem.

When a payment is late, the MFU reimburses the finance company within 48 hours from its own current account. The finance officer has this period to get his client to pay up before the MFU takes action. The borrower is charged an additional fee for any missed payment that causes the MFU to cover his loan with the bank. This fee is added to the repayment schedule. When the account is closed, the finance company credits the MFU with its regular fees and charges and an adjustment for principal and interest arising from the payment MFU reimbursed directly to the finance company.

This illustrative implementation plan requires the following accounts.

**Institutional Contractor:** The contractor maintains a current account at a commercial bank to receive USAID funds, to pay expenses, to pay out to the MFU, to receive and pay out funds to the time deposit collateral funds serving to guarantee operations at the finance company. It also manages these time deposit accounts at the banks.

**MFU:** The MFU has a separate current account to receive funds from the contractor and pay expenses, with a second to receive interest on reserve funds, fees and late charges on lent funds.

**Finance Company:** The finance company has one credit line account at the commercial bank which holds the collateral fund. It establishes individual loan accounts for MFU clients based on this line of credit.

**Microentrepreneur:** The microentrepreneur has a loan account, managed by the finance company. He or she has a current account to receive the loan amount and to receive the periodic repayments, which are debited for the total amount of the loan and for each repayment. Eventually, it is hoped that he or she will also have a savings account at a participating bank.

Other possible scenarios

A second institutional possibility is to work directly with an established bank, but this would require much innovation to encourage the bank to take on high-cost, high-volume financial services, to cover its cost structure, and to limit its liability in lending to this sector. The corporate philosophy is also radically different from what a successful microfinance institution would espouse (either totally unsympathetic with microenterprises or partisans of subsidized credit for the poor).

A third possibility is to work with banks or finance companies via a financial intermediary, such as with an existing Moroccan PVO of the type association d'utilité publique (AUP), with a bank foundation (such as BCP), with a Moroccan cooperative (existing or to be created), with a Moroccan company (existing or to be created), or with some other valid project entity that can continue after completion of the activity (such as a U.S. PVO). The Foundation Zakoura, mentioned earlier, may organized as a financial institution. If successful, this organization would be able to use the GEMINI model in Annex B with very few changes.

Given the strict limitations on how Moroccan NGOs are permitted to raise money, the Association d'utilité publique (AUP) may be an important institutional concept for the MFA, as the rules for this type of NGO on generating revenue are more liberal (while AUP status is more difficult to attain). They occasionally establish not-for-profit affiliates that can generate funds for services rendered and might serve as an excellent financial intermediary to work with the microenterprise sector. However, they could not lend funds unless officially sanctioned as a finance company, a process that is becoming increasingly difficult. On a different tack, several banks have recently started foundations which might also serve a similar purpose. Such a structure would benefit from a favorable legal status and allow the activity to avoid cumbersome regulatory and fiscal requirements. It would "own" the MFU, provide tax benefits to it, and might serve as a conduit for USAID to transfer the collateral fund after activity completion. The collateral fund might be granted to the AUP or foundation as an endowment, resolving the "ownership" question. In addition, an intermediary would be able to work with a variety of existing outlets to provide services to more clients. The potential weakness is the introduction of an additional administrative layer and of a different corporate culture and philosophy (more attuned to charity than development). Registration of a U.S. PVO for microfinance work in Morocco is also an alternative, and one which would reduce the downside effects of such an approach.

A fourth possibility is the creation of a new finance company specifically for microenterprise credit. This has the advantage of providing direct services from a firm with the proper vision and philosophy to make it work. As noted above, however, it could not take savings and would require a large initial capitalization. Other disadvantages include being subject to local taxes and lack of existing multiple outlets. If registration of either a new firm or an intermediary is required as a finance company, USAID will assist in facilitating such registration with appropriate GOM authorities.

**G. Implementation Phases**

MFA will be implemented in three phases with a Life of Project (LOP) of eight years. USAID will issue the RFP and, in collaboration with the MCIA, select the institutional contractor for the project during the initial six months following the signing of the Project Agreement. USAID will award a performance-based contract which will be the vehicle for all three phases of implementation of the MFA, although a "go, no-go" decision point will precede each new phase, both for the activity as a whole and for the specific contractor. The institutional contractor will perform needed studies and policy work, possibly using a local research or consulting firm. The GOM-USAID Project Steering Committee will be constituted and begin meeting during this six-month period as well.

The phased approach has three main purposes. Firstly, a clear delineation of phased work will allow the Mission to set unambiguous, time-defined performance indicators -- those indicators that must be realized within a relatively short time period. Secondly, a phased approach allows maximum flexibility for design and implementation adjustments in order to minimize the risks inherent in the activity. Because this is a new initiative for Morocco, the Mission believes that it is in the interest of USAID, the beneficiaries, and the GOM to be able to quickly adjust to lessons learned during discrete implementation periods. Finally, a phased approach allows the Mission, in collaboration with the GOM, to cancel funding for the activity at clearly delineated times in its implementation if results are so discouraging as to preclude implementation adjustments.

**Phase 1** Institution Building

In Phase 1, lasting 18 months, the contractor will complete the organizational work necessary to:

- select the initial MFU site;
- subcontract with the MFU (including its operations manuals and management information system - MIS);
- hire and train initial staff (with special focus on women finance officers);
- prepare for start-up of savings and lending operations; and
- conduct a pilot lending effort.

Some of the initial issues that the contractor will need to address include:

**Office organization**

- types of local and expatriate technical assistance;
- how to keep operating costs as low as possible;
- staffing needs for the MFU;
- location of the first MFU;
- various operating systems needed;
- training methods for the MFU;

**Data collection**

- how to identify good clients (and bad ones) by both finance officers and MFU;
- survey of women's credit needs;
- benchmarks for measuring Phase 1 success;
- type and degree of baseline data for monitoring impact at the family and firm level;
- market development information;

**Collaboration**

- consciousness-raising activities for other actors (e.g., workshops and study tours);
- identification of policy and regulatory constraints to development of microenterprises; and
- study preparation and mobilization of GOM and USAID for policy dialogue on overcoming constraints.

Simultaneously, the institutional contractor will need to develop and produce all necessary operations manuals and the MIS after identifying and negotiating with participating financial institutions. The contractor will also need to determine what method or methods it will use to promote repayment in a timely fashion (e.g., group lending, legal recourse, etc.) and to experiment with them during the pilot testing at the end of Phase 1.

The Mission believes at this stage that a strong program of training for the MFU and sensitization about microenterprise finance for the GOM, NGOs, and banks will be a solid start for the activity. There may be frequent contacts with Egyptian microfinance institutions during this phase. The Egyptian "model" may be useful and cost effective for getting a fast start on developing the MIS and providing MFU organization and training, but only after all the Moroccan specific details have been worked out with collaborating organizations. See Annexes B and C for a description of this model. The well-trained MFU staff must include a significant percentage of women finance officers, so that there will be easy contact with women microentrepreneurs, targeted ultimately for a minimum 30% of MFU's loans.

<u>MFU Finance Officers</u>
The MFU staff is responsible for identifying good borrowers and savers in the area surrounding their branch, where they explain the program, visit potential clients, assess credit risk, and stay in touch with microentrepreneurs with solid reputations. When a potential client requests a loan, it is the finance officer's responsibility to conduct a cash flow analysis and assess knowledge of the client's reputation to see if a loan is recommended. The finance officers are the critical link in the MFA between financial institutions and microentrepreneurs. They train clients in good credit behavior, introduce sound cash flow management techniques via analysis and savings mobilization, and help clients maintain good relations with financial institutions. In addition, for first time borrowers, the MFU itself performs bank and credit checks. For this reason, the MFU must remain in close contact with local banks to get credit history information on microentrepreneurs participating in other small lending programs.

As a final step before receiving credit, first time borrowers might meet at the MFU to familiarize themselves with repayment expectations. At this group (if group credit model is retained) or individual consciousness raising meeting prior to receiving loans, the MFU would impress on borrowers the importance of credit and savings to improving living conditions, the borrower's repayment schedule, and the effects of tardy repayment or bad debt on prospects for future financial services. This is the first of regular orientation and encouragement efforts for borrowers. Such activities are continued by MFU financial officers at the client's business for as long as the microentrepreneur remains a client.

The MFU, managed by the contractor (probably under a subcontract) through Phases 1 and 2, will cover supervision of the MFU and provide for operating costs on a declining scale until the breakeven point is reached on costs and revenues. USAID envisions a "no frills" operation close to its clients, growing only in response to the demand for its services. Initially, the MFU will have a strong short-term portfolio with very small loans approved and disbursed quickly, establishing credit history for subsequent larger loans to good clients. Issues here include the following.

**MFU Organization**

- legal institutional framework for the MFU;
- qualifications, productivity and reimbursement (including incentives) of MFU personnel;

**MFU Operations**

- collateral fund operation and protection;
- line of credit account operations, individual borrower accounts or one global account;
- loan range, types, and guarantees;
- which risk reduction mechanisms to adopt;
- length of time for screening and issuing first loan;
- length of time for screening and issuing subsequent loans;
- frequency of follow up for with clients, late payments, and repeat clients;
- what tactics to use to pursue defaulters;
- length of time required for financial self-sufficiency;
- when to set up new branches (how many loans and what personnel levels, how branches are coordinated);
- how to handle value added and other taxes;
- how long to reach projected breakeven point;
- formula for calculating MFU fees;
- development and integration of the savings component; and
- exact loan repayment and late payment/default arrangements with participating banks.

Phasing in of savings operations will depend on direct negotiations with participating banks, and it is hoped that savings and credit products can be offered immediately. However, if bank cost implications for a combined product are negative, it is possible that the savings component will be initiated later than the credit service, e.g., during the middle of Phase 2. Pilot testing of credit operations might begin during the final months of Phase 1, using a very small initial capitalization fund.

Phase 1 will also be a period for organizing the baseline data needed for final site selection and for evaluation of activity success. Much more information is also needed about the microenterprise sector, especially to advance on the policy front. Some ground-breaking studies have been produced, providing indications of its size and complexity, but much more analytical work is needed. The contractor will also gather data in Phase 1 to assemble an initial agenda for policy research. In addition, all necessary studies of local demand for the savings component and systematic identification of potential savers will be completed in the first phase.

Three months before the end of the phase, a fully independent, progress and performance evaluation will help USAID and the GOM to determine what, if any, adjustments need to be made, whether to continue the project on to Phase 2, whether to extend the existing contract or to resolicit for the subsequent phases.

**Phase 2** Product Delivery

In Phase 2, lasting four years, one or more MFUs will be capitalized and lending operations will begin. **Lending** at the first MFU will begin on a serious scale, starting with a goal of 1000 loans outstanding at any given time at the end of the first year of Phase 2 and increasing to 5,000 at any given time by the final year. The institutional contractor will establish a system of revolving collateral loan guarantee funds at participating banks, with capitalization based on projected periodic needs and/or on negotiation of leveraging arrangements (quarterly, semiannually, annually, or one-time). The issues that need to be addressed by the contractor here include the following.

**Collateral fund**

- how frequently the fund is capitalized;
- how the interest is used (add to collateral or payment of operating costs);
- how and over what time period to leverage participating bank funds;
- the title to the funds (contractor, MFU or gradual phase over);

**Management**

- use of MIS for loan follow up and credit marketing;
- use of motorbikes to enhance productivity;
- how to extend to new areas in the same region (including perhaps adjacent rural zones); and
- how to replicate the system in new regions.

The MFU branch should reach the break-even point in operational costs within two to three years, and the institutional contractor's support for that branch's operating costs would therefore cease. Negotiations with banks to reduce collateral requirements from a 1:1 ratio might use various MFU performance indicators (low delinquency percentage, profitability levels) to achieve greater bank participation during this phase. Depending on the success of the original MFU, a second MFU in a different site might begin operations as early as the third year of this phase.

The collateral fund may continue to serve as a collateral fund for the MFU for three years after the Project Assistance Completion Date (PACD). If prior to the PACD, USAID and the Ministry of Commerce decide that all or part of it is no longer needed for that purpose, they will then agree upon a use or uses for those funds after PACD. If they cannot come to agreement, then USAID will apply the appropriate standard provisions.

The **savings** element and possible expansion of the model to adjacent rural areas might also be initiated during this phase. The MFU will conduct negotiations with the banks on how to implement savings services, striving to begin pilot efforts in the second year. We anticipate that by the third year of this phase, the savings component will be well advanced at all MFU sites and integrated into the credit services. Contractor innovation is sought in developing both products and benchmarks. One objective might be that by the end of this phase the amount in clients' savings accounts would equal the amount of loans outstanding. Another might be that the number of savings accounts would equal the number of new loans approved.

Also during this phase, the MFA policy element will focus on finance and regulatory issues surrounding microenterprise, especially areas which would increase access to formal services (such as savings, credit, advisory service, training, etc.), while requiring the microentrepreneurs to shoulder more responsibility (standards on accounting, taxes, labor, debt recovery, etc.). Where possible, this effort should be integrated into other GOM reform efforts (such as for small business) to maximize leverage.

At the end of this phase, a fully independently contracted progress and performance evaluation will determine if adjustments are necessary and whether to move on to Phase 3. The focus here will not only be on performance but also on the success of leveraging the collateral fund capital.

**Phase 3** Institutional Sustainability

In Phase 3, lasting 2 years, the MFU is expected to have reached a financial break-even point for all costs (including capital) and no longer require outside funding support (except for fully subscribing the collateral accounts). It will gradually cease to operate under subcontract to the MFA institutional contractor and will become an independent institution, receiving short-term technical support only from the contractor until the end of the activity.

In addition to assuring sustainability of the MFA institutions through various options such as leveraging savings or MFU performance with banks or even via a buy out by a bank or other financial institution, the contractor will work with all partners to replicate successful activities via other donors, including the NGOs, the World Bank or the EU.

## H. Financial Requirements

The Activity will require the following resources to achieve its targets. This budget is illustrative and not meant to preclude alternative approaches (see Annex G for details). MFA will benefit from an award and allocation of $500,000 from the PRIME fund (through the Global Microenterprise Innovation Project # 940-0406), transferred to and obligated through MFA. Such support will allow USAID to accelerate certain activities in training, policy analysis and public awareness. Additional awards and allocations may be available later.

| Principal Elements | | Amount (in $,000s) |
|---|---|---|
| Institutional Contract | | $13,256 |
| Technical Assistance | $5,745 | |
| Subcontracts | 3,011 | |
| Collateral Fund | 4,500 | |
| USAID Support | | 362 |
| Evaluations | | 619 |
| Contingency | | 1,263 |
| USAID Total | | 15,500 |
| Host Country Contribution | | 5,167 |
| **Project Total** | | **$20,667** |

In addition, the beneficiaries themselves will contribute $4,667,000 to the operations of the MFUs by the interest and fees that they pay for loans. This financial support will be what covers operating expenses at each branch by the third year of Phase 2. The Moroccan Government and the private sector involved in activity implementation will add another $500,000 in in-kind contributions of time and office space to monitor and advance MFA objectives. The total Moroccan contribution to the Activity will be $5,167,000. Funds will be added to the MFA according to the following schedule.

LOP OBLIGATION SCHEDULE

| Fiscal Year | Obligation ($,000's) | Fiscal Year | Obligation ($,000's) |
|---|---|---|---|
| 1995 | $2,000 | 1999 | $1,750 |
| 1996 | 3,500 | 2000 | 1,750 |
| 1997 | 3,000 | 2001 | 1,750 |
| 1998 | 1,750 | 2002 | 0 |

The table above shows the Activity obligation calendar based on current budget planning levels. However, given the probability of reductions in funding levels for USAID/Morocco over the LOP, USAID has designed the project so that the development of more than one MFU is a desired, not required, outcome of the Activity. If USAID funding is reduced drastically, this outcome would be foregone.

A USDH private enterprise officer in USAID's Division of Economic Growth will be charged with managing the activity (to be 50% of the officer's workload), assisted by a Moroccan direct-hire employee or a project-funded assistant devoting no less than 51% of his time to MFA. Other Mission staff will have critical roles to play at different junctures, particularly the Regional Contracting Officer (RCO) and Mission Controller. MFA will also finance a project assistant to coordinate and follow daily operations, a secretary to handle administrative duties, and a financial analyst in the Office of Financial Management (OFM). The RCO will perform contracting and contract administration, and OFM will provide internal financial reporting.

A minimum of 10% of the contract funds will be reserved for Gray Amendment firms.

**Methods of Implementation and Finance:**
**(in $,000's)**

| Budget Item | Method of Implementation | Method of Financing | Amount |
|---|---|---|---|
| Institutional Contract | USAID Direct Contract | Direct Payment | $13,256 |
| Evaluations | AID Direct Contracts | Direct Payments | 619 |
| USAID Support | USAID Direct Contract | Direct Payment | 362 |
| Contingency | N/A | N/A | 1,263 |

**Analysis of Audit Requirements**

It is anticipated that the prime contractor, as a U.S. firm, will be under the audit jurisdiction and responsibility of USAID/W. The contractor will provide for regular audits of the subcontractor's activities; such audits are contracted for and managed by the prime contractor and costs for these audits should be included in the prime contractor's administrative and overhead expenses. For this reason, no separate budget line item for audits is included in the activity financial plan. Because of the staged development of MFA, it is not yet known whether it will be necessary to conduct a separate audit of the Collateral Fund. If it is determined that such an audit is required (or others), funds will be programmed from the Contingency budget line item.

## VI. Activity Implementation

### A. Illustrative Implementation Calendar

<u>Contractor Mobilization</u>

| | |
|---|---|
| August 1995 | RP Authorization<br>Project Agreement signed<br>PIO/T for the RFP requesting approach and demand study<br>CBD notice submitted |
| September 1995 | Requests for Proposals issued |
| October 1995 | Receipt of capability statements<br>Select contractors and purchase orders signed |
| November 1995 | Firms design approaches |
| January 1996 | Approaches received at USAID |
| February 1996 | Evaluation finalized |
| April 1996 | Contract awarded |
| May 1996 | Institutional contractor in place<br>First Steering Committee meeting |

<u>Phase 1: Institutional Development</u>

| | |
|---|---|
| April-July 1996 | Annual workplan developed<br>Baseline data gathered and analyzed<br>Studies agenda developed |
| June-December 1996 | Development of manuals and systems<br>Initial studies conducted |
| December 1996 | Evaluation and audit year 1 |
| January-March 1997 | Training of finance officers<br>De-bugging system |
| March 1997 | Pilot lending begins |
| September 1997 | Evaluation of Phase 1 |
| December 1997 | Decision to continue<br>Audit of year 2 |

<u>Phase 2: Product Delivery</u>

| | |
|---|---|
| January 1998 | First MFU established |
| December 1998 | Evaluation and audit year 3 |
| December 1999 | Evaluation and audit year 4<br>First MFU operationally self-sufficient |
| January 2000 | Second MFU established |
| December 2000 | Evaluation and audit year 5 |
| September 2001 | Evaluation of Phase 2 |
| December 2001 | Decision to continue<br>Audit of year 6<br>Second MFU operationally self-sufficient |

Phase 3: Sustainable Results

| | |
|---|---|
| December 2002 | Evaluation and audit year 7 |
| September 2003 | Final evaluation and audit |

**B. Actors**

1. Project Steering Committee

Composed of the MCIA, the Ministry of Finance and Foreign Investment (MFFI), the Chamber of Commerce, USAID, the institutional contractor and ultimately representation from the AUP/foundation, MFU, or microentrepreneur associations (membership may be expanded if desired), the Committee will meet regularly - at least quarterly - to review activity progress and provide a forum for coordination, discuss MFA progress and impact and examine policy and regulatory issues. The Committee will establish liaison with the GOM Comité de Suivi du Secteur Privé to coordinate with the latest developments in the broader private sector. The Committee, chaired by the MCIA, will proactively coordinate strategy with the USAID Program Committee for Economic Growth.

2. USAID

Collaborating with other actors in the sector, USAID will develop the activity design, contract for institutional technical assistance from an American firm and/or PVO, approve operations and information manuals and subcontracts developed by the institutional contractor, and conduct periodic evaluations of performance and impact. There will be close coordination between the USAID Economic Growth Strategic Objective Committee and the Activity Steering Committee.

3. Ministry of Finance and Foreign Investment

This ministry will examine the activity design, as well as the operations, for conformity with existing regulations and laws. It will have a representative on the MFA Steering Committee to allow it to follow both the microfinance and policy components. Further liberalization in the financial sector is a key to increased access by small and micro enterprises, and MFFI's involvement will expedite this process.

4. Ministry of Commerce, Industry and Artisanry

This ministry will serve as the counterpart with USAID, signing the Project Agreement in the name of the Government of Morocco. The Ministry will appoint a counterpart to the USAID Project Officer who will work closely with the USAID Officer on activity management. It will chair the MFA Steering Committee and provide strategy guidance on both the microfinance and policy components. It will also coordinate the policy agenda and assure liaison with the Comité de Suivi.

5. Institutional Contractor

USAID/Morocco will select a contractor using full and open competition, and initially only Phase 1 will be implemented. At the end of Phase 1, USAID/Morocco will have the option to (1) modify the existing contract, (2) seek a new contractor, or (3) terminate the activity. During the final months of both Phase 1 and Phase 2, USAID/Morocco will evaluate the activity, and will make adjustments in areas such as fine-tuning the implementation, indicators, or other similar modifications. It will be the responsibility of the contractor to identify the kinds and duration of technical assistance needed to implement the activity. The contractor will also be responsible for conducting policy analyses, examining the effect of policy and regulatory environment on financial services for microentrepreneurs, and developing links with universities, PVOs, and professional groups to ensure that policy issues affecting finance and microentrepreneurs have the attention of decision makers.

6. Microfinance Unit(s)

Under contractual arrangement with the institutional contractor, this entity will provide or facilitate financial services at market cost for poor microentrepreneurs. It might do this directly as a registered finance company, working with banks, or it may provide only the "front office" financial services to clients, using other financial institutions for "back office" functions. Typical "front office" services include the analysis of client cash flow, reputation, and credit history, the follow up of repayment, and the promotion of savings. In any case, the MFU will strive to keep costs to borrowers as low as possible while assuring that all its own essential costs are covered. It may be either a not-for-profit subsidiary of a Moroccan NGO (AUP) or a foundation, cooperative, or affiliate of a Moroccan company (most likely a financial institution), but must be a legal entity under Moroccan law and account for its microfinance expenses and revenues separately for this Activity. The MFU may choose to subdivide (e.g., into branches) in the most cost effective manner to serve its client base. Replication of the MFU to another site (i.e., another distinct geographic area) is a desired outcome of MFA. In the case of multiple MFUs, they need not be part of the same organization. Each MFU will be guided by a Board of Directors which includes members of participating financial institutions. USAID anticipates that the MFU will be under subcontract to the institutional contractor during Phases 1 and 2, then move to control of its own Board of Directors. MFU finance officers will be on an incentive system to increase the size and quality of their portfolios. A significant proportion of the officer staff will be women trained in microfinance techniques for women.

7. Participating Financial Institutions

Linked to the MFU by a written agreement, the financial institutions may provide the "back office" financial services to the microentrepreneurs. Under the Moroccan institutional framework, these might be banks (full service, including both lending and savings), finance companies (lending but not savings), or financial intermediaries (no financial transactions, serve as go-between, putting client in touch with one of the previous two institutions). In the case of a finance company, the MFU might conduct lending activities itself or it might establish a revolving collateral fund in participating banks at an appropriate level to cover the risk anticipated. In the latter case, the bank(s) might be responsible for administrative operations connected with management of the financial operations (collateral account and movements between accounts) and handling the funds (paying out loans, receiving repayments, collecting savings). Consequently, members of the senior management of these financial institutions will be represented on the board of directors of the MFU if it is not a direct bank entity. Banks which have expressed interest include the Wafabank, Société Générale Marocaine de Banque (SGMB), BMCE, BCP, and CNCA.

8. MFU Board of Directors

Composed of parent organization (perhaps AUP, foundation or parent company) and participating financial institution members, the Board of Directors has three critical functions: to set long-term policy direction; to monitor the program to ensure that it is running smoothly; and to develop the necessary links for leveraging MFA funding. The Board will assure that collateral funds are obtained in a timely manner, examining periodic projections of loan activity from the MFU to USAID for funding. Using the parameters of this Results Package, initial policy will be set by the GOM, USAID, the participating institution, and the institutional contractor on fees, loan approval process, credit requirements, personnel, and savings. However, the Board will gradually assume these functions as the activity matures. The Board will meet on a quarterly basis to ensure that the program is running smoothly.

9. Microentrepreneurs

Men and women microentrepreneurs will make use of financial services provided under the project. For the purposes of this project, microenterprises will be non-agricultural economic activities employing up to five people. They are economic activities for which bank credit is generally not available, and whose working capital needs are in the micro loan level of $75 to $3,000. They include very small-scale practitioners of commerce, as well as very small-scale producers of goods and services (usually one person assisted perhaps by other family members). Eligible borrowers will be among the poorer microentrepreneurs with no access to credit from another formal source. The enterprises should, however, have a known address, and the entrepreneur must have a national identity card. The activity will set an initial target of 10% lending to women, increasing to a minimum of 30% by the end of the activity.

10. Women entrepreneurs

The 1992 GEMINI report commented that employment surveys did not reflect accurately the level of women's economic activities in urban areas, overestimating rural entrepreneurs and underestimating urban ones. According to the survey there are over 890,000 "active" and over 2,000,000 "inactive" urban women. MFA will gather exact data on women's participation in the informal sector, including it in the baseline for targeting this group for active participation in the activity's financial services. As noted above, MFA, by the end of Phase 3, will target a minimum of 30% of its loans to women.

As part of the development of realistic impact indicators, the contractor will conduct a baseline survey of women microentrepreneurs in two potential MFA sites. This survey will get a rough approximation of the number of women microentrepreneurs, their activities, and the potential impact of readily available financial services.

11. Other Donors

At present, the only organization engaged in sustainable microcredit is CRS. It began a program in 1992 to pioneer the delivery of microcredit in rural areas through a network of local Moroccan NGOs. CRS is structuring its program at market rates and is using a formula of interest rates plus fees acceptable to the Government. Specifically authorized and supported by local government officials, it is a village bank system, offering savings as well as credit. While in its early stages, the activity seems to be very successful.

The German Embassy has funded a variety of training and technical assistance activities which would be of use to MFA clients. In Fez, for example, a linkage project between the Chambers of Artisans in

Rhein-Main and that in Fez provided technical and management services to microentrepreneurs through the Chamber of Artisans.

The World Bank is involved in policy dialogue concerning interest rates and financial market liberalization with the Government. As noted previously, the Financial Sector Reform Program will liberalize interest rate ceilings by the end of 1995. Discussions under this and other programs will have important implications for access of microentrepreneurs to financial services and could lead to follow-on activities under IBRD sponsorship.

### C. Evaluation and Monitoring System

The evaluation and monitoring system employed will be focused on the measurement of results and impact. It will be a key factor in limiting the risk on the USAID investment. The key areas to be monitored will be; number of loans given, amounts of loans, percentage repayment, MFU productivity, the ratio of operating expenses to average loans outstanding, how savings are being encouraged, actual amounts being saved by participants, and current income of activity participants. Monitoring project impact will be an ongoing process. At any point in time USAID/Morocco and the GOM will know the current status of the activity.

Evaluations will be held periodically. In addition to full-scale evaluations held three to six months before the end of each phase to determine implementation progress, recommend changes or even cancellation, there will be annual impact and specific issue studies. These evaluations will be done by outside evaluators and will look at the information from the monitoring system and also to the extent possible try to assess whether or not, as USAID posits it will, the activity has had spread effects not planned for, such as decreased illness rates, increased school enrollments, more interest by other institutions in this type of project, increased GOM and private sector interest, and other similar impact. Recommendations that would improve operations will be factored into Annual Workplans, so that performance is enhanced. GOM will constantly be kept aware of the findings and progress of monitoring and evaluation. Because this represents the first time that this type of activity has ever been mounted in Morocco, the contractor and USAID/Morocco will also assess other donor interest in using microfinance as a way of alleviating poverty and addressing unemployment.

In Phases 1 and 2, the institutional contractor will have primary responsibility for monitoring activities. During Phase 1, this will include assuring the identification of the appropriate site for the activity, setting up and functioning of the MFU, appointment and training of finance officers, and discussions with financial institutions for their participation. Monitoring during this Phase will include regular meetings with the USAID Project Officer, and detailed quarterly reports as mandated by USAID/Morocco for all of its activities.

Quarterly progress reports from the contractor will provide detailed reporting on indicators which will be established for each phase, comparing achievement of indicators with Strategic Objective (SO) and activity level requirements, and describing in further detail activity progress, particularly pointing to problems in implementation. Quarterly reports will be the occasion for recommendations to USAID and the Steering Committee for changes in activity implementation methodology or content. Quarterly reports will be sent to members of the MFA Steering Committee in French to serve as a basis for discussion at concurrent Committee meetings.

USAID/Morocco will require detailed Annual Workplans from the contractor. The contractor will submit the final draft of its Annual Workplan for the following year to USAID six weeks before the anniversary of contract signing. Developed collaboratively with the Steering Committee, clients and USAID, this Workplan will include a detailed annual report for the previous year and the contractor's plans for the coming year. In addition, the Workplan will signal any new facts, information, or other details that may influence the planned direction of the activity, the impact the activity has on Program Outcomes and the Strategic Objective, and/or the activity indicators. Annual Progress Reports will discuss in detail how well the contractor carried out that year's Annual Workplan.

MFA will also feature frequent field visits by the USDH in charge of the activity, the Moroccan direct hire, and the MFA-financed project assistant and financial analyst. These visits will have three purposes: to view firsthand the institutional status of the MFU, to look at the operations of the participating banks, and to talk with clients of the activity.

Information from field visits, regular meetings, quarterly reports, and the Annual Workplan will be vetted in the forum of the Mission's Economic Growth Strategic Objective Committee. The Committee will examine the information from all these sources periodically and make decisions on; whether the activity is adequately supporting achievement of indicators on all levels, whether a mid-course correction should be made at a given time, and overall impact. The Committee will also determine the most efficient way to share activity results, information, and lessons learned with the GOM, the MFA Steering Committee, and other interested entities.

**D. Conditions and Covenants**

Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Government of Morocco counterpart agency, the MCIA, will, except as the USAID and the MCIA may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(a) A statement of the name of the person holding or acting in the office of the MCIA and of any additional representatives, together with a specimen signature of each person specified in such statement; and

(b) The designation of a Moroccan project manager responsible for managing the Project for the Ministry of Commerce, Industry and Artisanry.

Special covenants to be included in the Project Agreement are as follows.

(a) USAID/Morocco and the MCIE agree to establish an evaluation program as part of the Project. Except as the parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or



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constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

(b) The GOM agrees to follow policies and procedures which support the achievement of the general objectives of the Project and to advise USAID/Morocco in case any measures likely to affect Project implementation are to be taken.

(c) The GOM agrees that the collateral fund will remain available to the MFU for three years after the Project Assistance Completion Date (PACD) for the purpose of providing loan collateral, unless, prior to the PACD, USAID/Morocco and the GOM agree that all or part of the fund is no longer needed for such a purpose. In case all or part of the fund is determined to no longer be needed, the GOM and USAID shall agree on a uses to which these funds should be put after the PACD. If no agreement is reached, USAID will apply the appropriate standard provisions. In any of the above situations, the GOM agrees that sufficient funds will remain in the collateral fund after the PACD to honor all existing guarantees.

(d) No funds or other support provided hereunder may be used in a project or activity reasonably likely to involve the relocation or expansion outside the United States of an enterprise located in the United States if non-U.S. production in such relocation or expansion replaces some or all of the production of, and reduces the number of employees at, said enterprise in the United States of America.

(e) No funds or other support provided hereunder may be used in a project or activity the purpose of which is the establishment or development in a foreign country of any export processing zone of designated area where the labor, environmental, tax, tariff, and safety laws of the country would not apply, without the prior written approval of USAID.

(F) No funds provided under this Agreement will be used for the procurement or application of pesticides.

## VII. Definition of Success

This activity will be considered a success if, at the end of eight years, one or more sustainable, community-based microfinancing entity(ies) continue(s) to provide easily obtainable microcredit services on a large scale to deserving microentrepreneurs, and that there are identifiable savings activities being undertaken by the clients. This success definition will also include participation of bank(s) which provide necessary services with all costs covered to assure the sustainability of the activity. While not considered to be part of the definition of success of the activity, USAID will consider replication of the activity to a second geographic area to be an important reflection of its success. Subsumed in this definition are the assumptions that increased and more easily available credit stimulates microenterprise activity, thereby increasing incomes and savings. Hence, at the end of USAID's contribution to the activity, there will be a wider and more sustained participation of the poor (with at least 30% of the participants being women) in the broader Moroccan economy.

### A. Intended Results

By the end of this activity:

- 5,000 poor families/individuals per year (30% women in final year) per MFU will have easy access to microcredit;

- appropriate savings instruments will be in place that are relevant and useful to small savers;

- one or more self-sustaining MFU(s), capable of providing financial services to qualified clients will be located in one or more urban areas;

- at each MFU, a minimum of 20 trained local finance officers (including a significant portion of women) will be capable of assessing potential clients' ability to repay loans, determining problems in repayment and following up delinquent clients to the MFU;

- participating financial institutions will be devoting staff and resources to microentrepreneur activities,

- new policies will be in place facilitating access to microfinancial services nationwide, and,

- more poor people will be participating in the economy.

Importantly, and based on experience it has had in its long-term urban development programs, USAID/Morocco expects some secondary effects of this intervention that will impact positively on the quality of life of Morocco's poor. These secondary effects include increased rates of school enrollment, declining disease rates, declining fertility rates, and increased literacy, among others. These may be looked at as part of impact evaluations done by USAID/Morocco as an effort will be made to look into these indicators of overall project impact in addition to assessing direct impacts.

### B. Indicators for Monitoring Success

USAID/Morocco, the institutional contractor, periodic outside evaluators, and the GOM will monitor project progress. The following are illustrative indicators of success. During contract negotiations, and before each of the three phases of project implementation, new and relevant indicators will be determined by USAID, in keeping with its strategic approach.

- number of loans distributed
- value of loan portfolio (daily, monthly, yearly)
- average and median loan size
- ratio of MFU operating costs to revenue
- ratio of MFU operating costs to loans outstanding
- return on assets
- percentage of clients to total eligible population
- leveraging ratio of USAID funding
- percentage and amount of bad debt
- growth of collateral fund from non-USAID sources
- number of currently active clients
- number of women clients
- number of finance officers

- average number of clients per officer
- number of finance officers who are women
- number and types of savings instruments
- number of clients using savings instruments
- value of savings and average account balance
- number of MFUs created
- daily volume of MFUs
- necessary fee plus interest to ensure sustainability
- number of banks and financial institutions participating
- number and type of policy studies/analyses conducted under the project
- number of new policies adopted by GOM or the private sector banks regarding access to financial services by the poor

### C. Criteria for Measuring Impact on Strategic Objectives and Related Program Outcomes

Most of the data generated from this activity will have direct impact on the realization of the Mission's economic growth Strategic Objective. The numbers of participants (disaggregated by gender) in the finance activities will be tracked at least quarterly. An upward trend, which is what USAID and its partners expect, will indicate clearly that more people are participating in the economy. If median loan size stays relatively low, the program beneficiaries will likely be among the poorest microentrepreneurs. New policies and studies will indicate that USAID is still hard at work chipping away at the policy and regulatory framework in Morocco. A collateral fund growing beyond the USAID inputs, a low delinquency level, and a low ratio of operating costs to average loans outstanding will show directly that, in fact, the activity is sustainable.

### D. Key assumptions

1. Microentrepreneurs must be willing to pay the full costs of extending credit to them. They must also be willing to pay back borrowed money in a timely fashion. Experience in other countries and the CRS microfinance project indicate that they are willing and able to do this.

2. The GOM must continue to be interested in sustainable approaches to solving poverty problems, in liberalizing the financial sector, and in working with the private sector. This holds true particularly with the collaborating ministries, MCIA and MFFI. The former can help replication of the activity in other parts of the country and can facilitate potential bureaucratic problems, while latter can help assure that all activities are within the framework of Moroccan financial rules, thus assuring that this effort can be a model for Morocco.

3. Financial institutions must be willing to cooperate. Until now, as noted above, several banks have indicated interest in participating. However, there has never been a large scale microfinance program in Morocco. Hence, financial institutions have to be willing to take on the risk of high volume, small transaction services.

Constant dialogue, transparent implementation, use of a MFA Steering Committee and frequent site visits are all ways in which the Mission can assure that the above assumptions hold valid throughout and beyond the activity.

**E. Risks**

USAID/Morocco is without a doubt taking a big risk in this activity. But, the Mission believes that the intended impact -- directly on Morocco's poor -- is worth the effort. The root of the risk is that there is little understanding of microenterprise finance programs in Morocco, there is no comparable precedent locally, and until now reforms have not been targeted directly at the poor in a financially sustainable way.

However, in light of the early results of the small CRS project, showing high repayment rates, demand for small working capital loans, and significant participation of women, USAID believes that a more formal, institutionalized approach is feasible in Morocco. CRS work was also valuable in dispelling skepticism of even the NGO community surrounding provision of financial services to microentrepreneurs. As described in the section on implementation approaches, institutional mechanisms are available under the Moroccan law on financial institutions. The enthusiasm shown by Moroccan counterparts who visited the Microenterprise Credit Project in Alexandria, Egypt, the interest manifested by Moroccan financial institutions during GEMINI contacts, and USAID interviews with participants at all levels show that potential partners are out there waiting to negotiate. Development of effective microfinance institutions will not be easy, however. For that reason we have structured our implementation of this activity in such a way as to minimize the risks, placing a premium on collaboration, making effective use of studies and evaluation, and implementing in phases that allow regular adjustments.

USAID/Morocco believes that the GOM and other donors will be watching progress closely. If successful, it will serve as a model for the introduction of similar activities throughout the country.

# VIII ANNEXES

## LOGICAL FRAMEWORK
## Microenterprise Finance Activity

**ANNEX A**

| Narrative Summary | Objectively Verifiable Indicators | Means of Verification | Important assumptions |
|---|---|---|---|
| **Goal:**<br><br>To expand base of stakeholders in the economy, targeting people of below media income. | **Measures of Achievement:**<br><br>A financial services institution serving microentrepreneurs is established and is financially self-sufficient | Evaluations<br>Financial institutions's annual reports and financial statements | Moroccan economy continues to grow.<br><br>Microenterprises add employees and increase income of entrepreneurs families with access to working capital. |
| **Purpose:**<br><br>To facilitate microenterprise growth through access to a program of formal, institutionalized self-sustainable microfinance | **Results:**<br><br>A minimum of 10,000 microenterprises receiving credit by end of project.<br><br>Microcredit institution(s) exceed financial breakeven point by end of project.<br><br>Appropriate savings instruments are in place.<br><br>Participating bank(s) are devoting staff and resources to microfinance.<br>New policies are in place which facilitate nationwide access to microfinance services | Audited financial reports of institutions.<br><br>Regular institution reports on number of borrowers, amount outstanding, overdue amounts etc.<br><br>Contractor reports<br>Evaluations<br>Impact assessments | Microentrepreneurs are willing to pay interest rates which fully cover institutional operating costs, capital costs, and risk.<br><br>GOM enforces laws on debt default<br><br>Microcredit institutions can legally charge rates and fees that cover costs, capital and risk. |
| **Deliverables:**<br><br>1. Establish a microcredit institution with one or more microfiannce units (MFU)<br><br>2. Implement policy and sector level reforms related to microenterprise growth.<br><br>3. Operating manuals and trained personnel in place for system replication | **Performance Indicators:**<br><br>Number of loans made and value of portfolio<br>Positive statement with low default ratio.<br><br>Growing collateral fund from interest earning and other donor support<br><br>Value of savings and average account value<br>Number of MFUs created and operating effectively.<br>Policy studies done, policies enacted which support microfinance | Project monitoring system<br><br>Written reports on subsectors, regulations, finance.<br><br>New regulations and laws promulgated.<br><br>Impact assessment and evaluations. | Responsible GOM Ministries are capable and willing to implement reforms.<br><br>Microentrepreneurs develop some institutional voice to provide feedback to government and public.<br><br>Financial institutions are willing to adapt practices to meet the needs of microenterprises.<br><br>Business men's groups can be identified to invest substantial efforts in establishing and building microcredit institutions. |

ANNEX B

Morocco Microenterprise Finance Concept Paper

GEMINI
March 1995

# EXECUTIVE SUMMARY

The team from the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project spent four weeks in Morocco to examine the feasibility of the planned Microenterprise Finance Project (MFP). The scope of work included technical, administrative, financial, economic, and social analysis.

The major findings included in this report are as follows:

- All indications from previous reports and from research conducted on this mission lead the team to conclude that there will be a large demand for microfinance (small lending and savings services); that methods that have supported large-scale, sustainable financial services for the poor elsewhere will work in Morocco; and that legal and regulatory obstacles are not insurmountable.

- The term microfinance is preferred to microcredit. Most previous reports have emphasized the credit side heavily. Experience from around the world, however, indicates that a demand for savings instruments exists as well. The availability of such savings instruments may, in fact, be more important in the long term than the credit instruments. Because of the importance of savings, the team believes that a savings instrument must be an integral part of the project.

- The most critical element affecting the success of the project will be whether the appropriate institutional mechanisms can be designed. Based upon its discussions with banks and existing associations, the GEMINI team feels that suitable institutional mechanisms can be developed, and outlines criteria for developing this mechanism during project implementation. Because the current banking structure cannot command the interest rate structure necessary to cover all costs, the microfinance activities must be managed through another institution. It is recommended that a private microfinance company (PMC) be chosen to conduct the microfinance activities. This company will most likely be a subsidiary of an association. The bank(s) will perform back office functions, including transactions and cash management. Senior bank officials will be on the board of directors for the PMC.

- Pilot microfinance experience in Morocco shows that strong demand for these services exists among women entrepreneurs, and that methods can be developed to promote strong participation by women in microfinance programs.

- The team designed a unique model for the MFP in Morocco. This model incorporates elements of other successful microfinance programs, but its institutional and collateral fund structure have been designed specifically for the Moroccan project.

## TECHNICAL FEASIBILITY

The technical analysis portion of this report estimates that demand exists to reach at least 6,000 borrowers in each target region (Fès-Meknès, greater Casablanca, and Rabat-Salé), and in Tétouan. The team feels that the MFP should be able to reach this number of borrowers by the end of Year 4. The most likely scenario to reach 6,000 borrowers is to open 4-6 PMCs. Each PMC will have the capacity to handle 1,000-1,500 loans.

Both individual and group lending appear to be feasible in Morocco. The team recommends that the method or methods used for promoting repayment be chosen by the implementing organizations through experimentation during the pilot phase of MFP implementation. Currently, the maximum allowable interest rate that can be charged by banks is 12 percent. This is insufficient to cover all operating costs and return on capital. Initial estimates indicate that an interest rate of at least 42 percent will be required. The team recommends splitting the administrative functions of the unit into two — the financial front office functions will be handled by a bank charging 12 percent interest. The back office and loan officer functions will be handled by a second administrative unit charging administrative fees, which effectively will add another 30 percent to the loan charges.

A collateral account must be set up to ensure the participation of the legally required formal financial sector in lending and savings operations (see the administrative and institutional analyses in the report for more details). As mentioned previously, savings services should be included in the MFP. Incentive payments should be used for loan officers and PMC managers to increase portfolio size and ensure portfolio quality. The team feels that competition among PMCs will not be a constructive factor at the outset of the project, and could detract from institution building activities.

## ADMINISTRATIVE FEASIBILITY

The administrative analysis in this report presents a project structure based upon the creation of two separate administrative units:

- An independent private microfinance company; and
- A commercial bank.

The PMC will perform all the front office functions of a commercial financial institution, appraising loans, motivating repayment, and mobilizing savings. The back office functions, including loan disbursal, receipt of repayments, and management (receipt and disbursement) of savings accounts will be carried out by a commercial bank selected by the MFP.

The team advocates separating front office and back office functions in two administrative units because current legal banking regulations will not permit a bank or other financial institution to charge enough in interest to cover costs and ensure a reasonable return. In addition, it is impossible for nonfinancial institutions to perform banking functions, so that the PMC could not perform the front office functions required.

In addition to the two administrative units, it may be necessary to add a Foundation to the administrative structure to avoid cumbersome regulatory and fiscal requirements. The Foundation would be a registered Association d'Utilité Publique.

The U.S. Agency for International Development will make an endowment to the Association to cover initial capital requirements for the PMC, and to support a collateral fund to minimize risks for the bank that agrees to take on project back office duties. In the beginning of the project, the bank is likely to require $1 in this fund to secure every $1 lent, but over time it should prove possible to obtain greater leverage for the fund. The consultants feel that at least 3:1 leverage should be possible after four years of successful MFP operations.

Other critical administrative factors are:

- Developing an institutional structure that ensures substantial participation by the banking sector in capital provision, transactions management, tracking of individual clients, and strategic leadership for MFP/PMC operations;

- Taking special measures to promote women's participation in the project, including locating PMC services in medinas (closer to the places where women work), hiring as many women loan officers as possible, and building strong links to local women's associations;

- Avoiding clients who have a history of high delinquency and default (for example, delinquent clients in groups previously targeted for government-sponsored subsidized credit programs); and

- Developing a close working relationship with senior officials from a politically influential ministry, to develop a base for advocating for finance policy reforms to encourage wider dissemination of MFP-type financial services by the formal financial sector.

The team recommends the MFP begin in Fès, because of its strong microenterprise activity and superior institutional structures (to Meknès); expansion to the Rabat-Sale, Casablanca, and Tétouan areas can be considered for later years.

## FINANCIAL FEASIBILITY

The financial analysis presents an eight-year projection for PMC activities based on differing assumptions. Based on a portfolio of 1,000 loans, which is achievable in two years, and an interest rate of 42 percent, the PMC can reach self-sufficiency within three years. It can reach profitability sufficient to attract independent private sector investment in expansion (which we assume to be around 20 percent cumulative return on equity) in six years.

## ECONOMIC FEASIBILITY

The economic benefits from the MFP arise principally from increased revenue generated by firms having new access to financial services. The Egypt programs report a 36 percent average increase in total sales by borrower firms.[1] The Direction de la Statistique national survey in 1988 reported a mean annual income of $1,600 for "nonstructured" enterprises.

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[1]See Linda Oldham et al., "Measuring Socioeconomic Impact of Credit on SMI: Assessment of the Monitoring System Used by the Alexandria Businessmen's Association, Egypt," GEMINI Technical Report No. 76, Bethesda, Maryland, May 1994.

## ANNEX C

Morocco Microenterprise Sector

from
*Morocco: Assessment of Programming Options for Microenterprise Development*

GEMINI
November 1992

# PART FOUR:

# INSTITUTIONAL ANALYSIS:

# AN ASSESSMENT OF ORGANIZATIONS AND INITIATIVES TO PROMOTE MICROENTERPRISE DEVELOPMENT IN MOROCCO

## SUMMARY

This report describes the organization of the microenterprise sector, identifies and assesses organizations assisting the sector, and analyzes gaps in support for microenterprise development. It focuses on the artisanal sector, in which most microenterprises operate.

In the past, the artisanal sector was organized through a guild and an apprenticeship system. Apprenticeship has survived, providing good entry-level training and cheap labor. The guilds have disappeared, depriving small artisans of a means to defend their interests or increase efficiency. In recent years, new structures have been introduced to reorganize the sector, including small service cooperatives. SCMs, which enable members without assets to secure loans, have been formed with assistance from BCP.

Only two banks, BCP and CNCA, are active in microenterprise lending. In 1991, BCP provided DH180 million in credit to artisans, one-third through SCMs. On a limited basis, CNCA has expanded from lending to farmers to providing credit to artisans and rural women. Credit for business start-up is provided by several banks through the Jeune Promoteur program, which tends to favor SMEs. Financial assistance provided through donors, international PVOs, and NGOs traditionally has been through grants.

Numerous programs provide entry-level vocational training, including MASA and OFPPT. The Centre de Perfectionnement des Artisans provides one of the only programs for upgrading skills. A few programs provide technical assistance, almost all geared toward Jeunes Promoteurs. There is no strategy for microenterprise promotion and there are no advocacy groups to represent the interests of the sector to policy makers.

A wide range of activities supports microenterprises, but they meet the needs of a limited number of entrepreneurs. Most financial services reach small enterprises rather than microenterprises, except for BCP and CNCA. Both subsidize interest rates, which constrains expansion of lending. Most training is focused on production skills, and excludes business-skills training and upgrading for existing entrepreneurs. Management assistance focuses on new businesses, leaving gaps in help for ongoing management, technology, and marketing.

MASA is most active in microenterprise support, but government is not an effective vehicle for assisting the private sector. The Chambers of Commerce and Artisanat tend to represent larger businesses, but have potential to support microenterprises. PVOs and NGOs have the best capacity to reach marginalized groups, but have little experience with microenterprise assistance and no experience with microcredit in Morocco. All agencies are constrained by staff shortages for labor-intensive organizing activities. None of the programs are financially self-sustaining in their present form, which is based on grants, subsidized loans, or free services.

ANNEX D

Institutional Analysis

from
*Morocco: Assessment of Programming Options for Microenterprise Development*

GEMINI
November 1992

# PART THREE
# CONSTRAINTS TO MICROENTERPRISE GROWTH IN MOROCCO

## EXECUTIVE SUMMARY

The principal constraint to microenterprise development in Morocco is a shortage of credit for working capital finance. The lack of sufficient collateral for this type of credit means that any program established to address this constraint should be based on noncollateralized lending practices. A second financial constraint is the limited sources of finance for the purchase of equipment that would increase productivity or improve product quality. Finance is currently available for new business ventures under the Jeunes Promoteurs program, but only a few programs exist to finance the short-term credit needs of existing microenterprises.

Other nonfinancial constraints to microenterprise development include a lack of knowledge of basic business skills such as accounting, marketing, and general management. Although a considerable number of programs exist to impart basic production skills and (to a lesser extent) to upgrade those skills, there is a lack of institutions providing training in basic business skills to existing microenterprises. In addition, the absence of effective advocacy groups to promote microenterprise development in policy and regulatory forums leads to inequities of treatment in theses areas, particularly in tax treatment.

Constraints specific to women entrepreneurs, such as traditional attitudes toward women, legal limitations on creating a business without a husband's permission, and widespread illiteracy and limited educational opportunities for women, were mentioned in a previous USAID study of women-run enterprises. This was corroborated by key individuals providing services to enterprise development interviewed by the GEMINI team.

## FINANCIAL CONSTRAINTS

The key financial constraint for microenterprises is the same as that for SMEs in Morocco — shortage of credit for working capital. Contrary to SMEs, however, microenterprises generally have few working assets or inventories that could be used as substitutes for collateral. Therefore, the Working Asset Liquidity Facility being developed by the NED project will not be of value to most microenterprises.

Like most microenterprises worldwide, Moroccan microenterprises require noncollateralized lending for the most part (except in the case of medium-term loans when machinery or other assets can serve as collateral). The experience of the Société de Cautionnement Mutuel des Artisans de Fès (SOCAMAF), a mutual guarantee society composed of 1,500 artisans, reveals that more than 75 percent percent of the loans for which it has provided guarantees are for less than DH20,000 and are for working capital with terms of one year or less. The experience of the SCM of artisans in Marrakech has been similar.

It is clear from previous studies performed for USAID and from interviews the GEMINI team conducted with artisanal and financial institutions that demand for microenterprise credit far outstrips supply. Although some innovative schemes have recently been developed, what is needed is a delivery system that can address effectively the credit needs of microenterprises in Morocco on a large scale. Discussions with Moroccan financial institutions revealed that their main reticence to provide credit to microenterprises was caused by the high transaction costs for these relatively small loans and the consequent low profitability to the banks. Various microenterprise credit programs funded by A.I.D. and other donors in other parts of the world have shown that properly designed credit programs can meet the needs of microenterprises and lower these transaction costs so that loans to this sector can be profitable to banks. Morocco has many positive elements in its banking and microenterprise support services that could lend support to a similar program here.

## NONFINANCIAL CONSTRAINTS

### MANAGERIAL AND BOOKKEEPING SKILLS

Visits to microenterprises and with persons who know the artisan sector well revealed a lack of managerial and bookkeeping skills among microenterprises. Most microentrepreneurs only do enough financial accounting (this is frequently done in their heads and not written down) to assure themselves that they are making a profit on their activities. Their ability to recognize and monitor variable and hidden costs is extremely limited. In fact, the government employs a tax system (the *forfait* and BNR — see previous section) that recognizes that small and microenterprises rarely keep good financial books. The implementation of that law can penalize microenterprises since the *forfait* system often does not recognize that cash flows for microenterprises can vary. Consequently, a microentrepreneur will sometimes have to pay a *forfait* tax based on last year's profits when current profits are down.

Managerial skills that permit a microenterprise to recognize and overcome constraints in their own businesses is limited. Most training for artisans has concentrated on production skills rather than general business skills. This has led to a situation where the products being fabricated or services being delivered are of good quality; but the ability of the microenterprise to plan for the future and to manage its inputs (raw materials, labor, and finance) is limited.

This is clearly an area for any project that assists microenterprise development to explore. A system of providing training and technical assistance to improve the general business skills of microentrepreneurs should be included in any project designed to assist in their development. Programs can be found in other parts of the world that are making good strides toward minimizing the subsidies required for this type of assistance. Any program to deliver this type of assistance should analyze those approaches for their adaptability to the Moroccan context.

## MARKETING SKILLS AND DISTRIBUTION SYSTEM

Several persons familiar with the microenterprise sector identified both marketing skills and problems with the distribution system as potential areas for attention in a microenterprise development project.

The marketing-skills issue is easier to address than the distribution system. Although many of the artisans interviewed had a good market — in other words, had sufficient customers to keep them in business — they did not always have the wherewithal to recognize changes in the marketplace and to adapt to those changes. This ties in with the business skills training in the previous section and is typical of microenterprises in many parts of the world. Artisans tend to produce what they have always produced and are often slow to adapt to new demands. An example given the team in Fès was the failure of leather artisans to design new men's wallets that were smaller and more adapted to today's fashions. These artisans still produced wallets with larger compartments for paper money than are needed with today's smaller Dirham notes. Although competition tends to eliminate those businesses that do not adapt to the times (and this is not necessarily a bad thing), there appears to be a need for training and assistance to artisans to adapt to new market demands.

On the issue of distribution systems, various stories were related to the team regarding perceived failures in marketing of the products of microenterprises and the artisanal sector. What was not clear, however, was how these failures could be effectively overcome. For example, some persons lamented the low price paid to artisans for their products vis-a-vis the middlemen who sell to export markets and retailers. Their suggestions for short-circuiting the established systems (through the formation of cooperatives or other marketing groups) did not always recognize the need for a thorough knowledge of the market and established linkages with the buyers, particularly for export markets. Although there may be some ways of improving the distribution and marketing systems for artisanal products, more research needs to be done on a subsector basis to determine which interventions have a good chance of succeeding and which interventions might cause more harm than good. In the same breath, it is important to note that the team saw some good examples of how artisans banding together into cooperatives have actually improved their ability to compete with larger established business within the domestic Moroccan market.

## POLICY AND REGULATORY ENVIRONMENT

The policy environment for microenterprises in Morocco is generally favorable. The Government of Morocco has promoted a strong private sector for many years and recent government policies and initiatives to encourage small enterprise development should be of assistance to microenterprises as well.

The regulatory and tax environment is not as favorable and has produced some inconsistencies in the application of tax laws that can limit the profitability of microenterprises. For example, the system of estimating taxes on small businesses with limited financial accounting systems is prone to uneven assessments of business activity and to rent-seeking behavior on the part of individuals who perform these assessments. On the other hand, it is relatively easy to become registered as a business through the acquisition of a *numero de patente*. Consequently, there are relatively few unregistered microenterprises in Morocco.

The avenues for providing input on policy and, more importantly, regulatory reform are limited for microenterprises. Most trade associations are dominated by large enterprises. Even the Chamber of

**ANNEX E: Economic Analysis**

The economic analysis of the Morocco Microfinance Project (MFP) is based on the critical assumption that its activities will result in an increase in borrowers' income. This assumption is subsumed by any credit activity. Subsequent assumptions are made with regard to the average increase in borrowers' income and the mean size of microenterprises in the country. The life of project (LOP) is projected to be eight years.

**1. Assumptions:**

The mean size, in terms of income, of microenterprises was estimated at about $1,600 in 1988 (Direction de la Statistique, Enquête Nationale sur les Entreprises Non Structurées Localisées). Despite its limits, this study is the only available source on microenterprises in Morocco. The MFP is targeting almost the same population, i.e. small enterprises already established (i.e. "localisées"). In the absence of more recent data on this aspect of microenterprises, $1,600 will be used as the base case in this analysis, but its sensitivity to an increase in the average size will be discussed.

Regarding the benefits, a USAID microfinance program conducted in Egypt claimed 36% as an average increase in borrowers' income. A more conservative figure will be used in this analysis: 30% will be taken as the baseline and the impact of lower increases (e.g. 25% and 20%) will be discussed.

As mentionned in the activity description, the MFP intends to create two Microfinance Units (MFU). Each MFU will provide microcredit through several Private Microfinance Companies (PMC), for better geographical coverage. Five PMC's by MFU will be necessary to achieve the objective of a minimum of 10,000 beneficiaries. Consequently, a total of ten PMC's will be created. A timely distribution of the PMC creation, taking into account the work load and implementation lags during the initial phase of the project, is the following:

Table 1:

| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| PMC creation | 0 | 1 | 2 | 3 | 4 | 0 | 0 | 0 |
| Cumulative # | 0 | 1 | 3 | 6 | 10 | 10 | 10 | 10 |

In each PMC, five loan officers will provide services to micro-enterprises. Thus, by the end of the project, the actvity will be handled by 50 loan officers. It is reasonable to assume that their capacity of handling loans will follow a learning curve. Then, given the objective of the project to reach an average 200 loans per officer, the following assumption is made regarding the number of loans per officer, according to the length of their activity:

Table 2:

| | |
|---|---|
| First year of activity: | 100 loans |
| Second year of activity: | 200 loans |
| Third year of activity and later: | 250 loans |

A 5% inflation rate is used to calculate the net present value of costs and benefits. This percentage is the average cost of living index for the past three years. This is a conservative assumption since inflation is projected by the Government of Morocco to slow down in the coming years, as a result of the implementation of several policies, including foreign trade liberalization and financial sector reform.

**2. Analysis:**

2.1. Costs:

The total cost of the project is estimated at $15 million. This amount is split into $4.5 million as a collateral fund for the establishment of the ten PMC's, $1.0 million for MFU operating expenses, and $9.5 million in technical assistance (contract, USAID support and evaluation services). LOP disbursement requirements are summarized in table 3 below (for justification of this plan, see Financial Analysis Section).

Table 3:

| | | | | | | | ($000) | |
|---|---|---|---|---|---|---|---|---|
| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Collateral Fund | 0 | 300 | 300 | 1,000 | 1,300 | 1,300 | 300 | 0 |
| MFU Oper. Expenses | 125 | 225 | 150 | 300 | 100 | 50 | 50 | 0 |
| Technical Assistance | | 1,375 | 1,610 | 1,085 | 1,235 | 1,145 | 1,280 | 805 |
| 965 | | | | | | | | |
| Total Costs | 1,500 | 2,135 | 1,535 | 2,535 | 2,545 | 2,630 | 1,155 | 965 |

2.2. Benefits:

The distribution of loan officers according to their average number of loans (table 2) and the creation of PMC's (table 1) is infered as follows:

Table 4-a:

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| # of loan officers at: | | | | | | | | |
| - 100 loans | 0 | 5 | 10 | 15 | 20 | 0 | 0 | 0 |
| - 200 loans | 0 | 0 | 5 | 10 | 15 | 20 | 0 | 0 |
| - 250 loans | 0 | 0 | 0 | 5 | 15 | 30 | 50 | 50 |
| Total # of loan officers | | 0 | 5 | 15 | 30 | 50 | 50 | 50 |
| 50 | | | | | | | | |

However, for several reasons, it is overly optimistic to assume that *all* loan officers will achieve their individual goal of 250 loans per year and maintain it over time. Among these reasons, the uncertain nature of economic activity and differences in local conditions may influence the ability of some loan officers to achieve their individual goal. In addition, it is reasonable to suppose that PMC's staff will be subject to turnover, which implies that a few loan officers will always be in the learning curve. Consequently, a different distribution of loan officers according to the number of loans completed could be proposed, which still meets the target of 10,000 beneficiaries:

Table 4-b:

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| # of loan officers at: | | | | | | | | |
| - 100 loans | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 |
| - 200 loans | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 |
| - 250 loans | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 |
| Total # of loan officers | 0 | 5 | 15 | 30 | 50 | 50 | 50 | 50 |

Consequently, the number of loans, i.e. beneficiaries, will be the following:

Table 5:

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| Total # of beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 9,250 | 10,000 | 10,000 |

2.3. Internal Rate of Return:

Thus, based on an average sale of $1,600 and a 30% increase in borrowers' income, total benefits for the LOP will reach $21.72 million (see table 6, Base Case). Net benefits will turn positive in year five and the total net benefits will reach $7,080,000 during the LOP, representing a total Net Present Value, for an inflation rate of 5%, of nearly $4,350,000. The Internal Rate of Return (IRR) was computed at 16.1%.

**3. Sensitivity Analysis:**

The model shows a certain sensitivity to changes in basic assumptions, i.e. the size of microenterprises, in terms of total sales, and the expected increase in borrowers' income. A negligible sensitivity to inflation was also detected.

Regarding the size of microenterprises, a realistic guess would be that the average size has increased, because the Moroccan economy has also grown since 1988, the year the source survey was conducted. Then, a minimal proposition could be to convert the 1988 size into current prices, to take inflation into account. From 1989 to 1994, the inflation rate in Morocco was the following:

| | |
|---|---|
| 1989 | 3.1% |
| 1990 | 6.7% |
| 1991 | 8.2% |
| 1992 | 4.9% |
| 1993 | 5.2% |
| 1994 | 5.1% |

*Morocco Microfinance Project* **ECONOMIC ANALYSIS** Table 6

**BASE CASE:**
1 Average Total Sales: $1,600 per microenterprise
2 Increase in Income : 30%
i.e. : $480 per borrower

| YEARS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TOTAL LOP |
|---|---|---|---|---|---|---|---|---|---|
| **COSTS** | | | | | | | | | |
| Number of PMC's | 0 | 1 | 3 | 6 | 1 | 10 | 10 | 10 | 10 |
| Collateral Fund | 0 | 300,000 | 300,000 | 1,000,000 | 1,300,000 | 1,300,000 | 300,000 | 0 | 4,500,000 |
| MFU Operating Expenses | 125,000 | 225,000 | 150,000 | 300,000 | 100,000 | 50,000 | 50,000 | 0 | 1,000,000 |
| Technical Assistance | 1,375,000 | 1,610,000 | 1,085,000 | 1,235,000 | 1,145,000 | 1,280,000 | 805,000 | 965,000 | 9,500,000 |
| TOTAL COSTS | 1,500,000 | 2,135,000 | 1,535,000 | 2,535,000 | 2,545,000 | 2,630,000 | 1,155,000 | 965,000 | 15,000,000 |
| **BENEFITS** | | | | | | | | | |
| # Officers at 100 loans/year | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 | -- |
| # Officers at 200 loans/year | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 | -- |
| # Officers at 250 loans/year | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 | -- |
| Total # of Beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL BENEFITS | 0 | 240,000 | 960,000 | 2,280,000 | 4,200,000 | 4,800,000 | 4,800,000 | 4,800,000 | 22,080,000 |
| **NET BENEFITS** | -1,500,000 | -1,895,000 | -575,000 | -255,000 | 1,655,000 | 2,170,000 | 3,645,000 | 3,835,000 | 7,080,000 |
| **Net Present Value** | -1,500,000 | -1,800,250 | -518,937 | -218,631 | 1,348,008 | 1,679,105 | 2,679,410 | 2,678,124 | 4,346,828 |

*IRR = 16.1%*

*Morocco Microfinance Project* **ECONOMIC ANALYSIS** Table 7

**BEST CASE:**

| | | |
|---|---|---|
| 1 Average Total Sales: | $2,200 | per microenterprise |
| 2 Increase in Income : | 30% | |
| i.e. : | $660 | per borrower |

| YEARS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TOTAL LOP |
|---|---|---|---|---|---|---|---|---|---|
| **COSTS** | | | | | | | | | |
| Number of PMC's | 0 | 1 | 3 | 6 | 1 | 10 | 10 | 10 | 10 |
| Collateral Fund | 0 | 300,000 | 300,000 | 1,000,000 | 1,300,000 | 1,300,000 | 300,000 | 0 | 4,500,000 |
| MFU Operating Expenses | 125,000 | 225,000 | 150,000 | 300,000 | .100,000 | 50,000 | 50,000 | 0 | 1,000,000 |
| Technical Assistance | 1,375,000 | 1,610,000 | 1,085,000 | 1,235,000 | 1,145,000 | 1,280,000 | 805,000 | 965,000 | 9,500,000 |
| TOTAL COSTS | 1,500,000 | 2,135,000 | 1,535,000 | 2,535,000 | 2,545,000 | 2,630,000 | 1,155,000 | 965,000 | 15,000,000 |
| **BENEFITS** | | | | | | | | | |
| # Officers at 100 loans/year | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 | -- |
| # Officers at 200 loans/year | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 | -- |
| # Officers at 250 loans/year | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 | -- |
| Total # of Beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL BENEFITS | 0 | 330,000 | 1,320,000 | 3,135,000 | 5,775,000 | 6,600,000 | 6,600,000 | 6,600,000 | 30,360,000 |
| **NET BENEFITS** | **-1,500,000** | **-1,805,000** | **-215,000** | **600,000** | **3,230,000** | **3,970,000** | **5,445,000** | **5,635,000** | **15,360,000** |
| **Net Present Value** | **-1,500,000** | **-1,714,750** | **-194,038** | **514,425** | **2,630,855** | **3,071,910** | **4,002,575** | **3,935,131** | **10,746,109** |

*IRR = 34.5%*

*Morocco Microfinance Project* **ECONOMIC ANALYSIS** Table 8

**WORST CASE:**
1 Average Total Sales: $1,600 per microenterprise
2 Increase in Income : 20%
i.e. : $320 per borrower

| YEARS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TOTAL LOP |
|---|---|---|---|---|---|---|---|---|---|
| **COSTS** | | | | | | | | | |
| Number of PMC's | 0 | 1 | 3 | 6 | 1 | 10 | 10 | 10 | 10 |
| Collateral Fund | 0 | 300,000 | 300,000 | 1,000,000 | 1,300,000 | 1,300,000 | 300,000 | 0 | 4,500,000 |
| MFU Operating Expenses | 125,000 | 225,000 | 150,000 | 300,000 | 100,000 | 50,000 | 50,000 | 0 | 1,000,000 |
| Technical Assistance | 1,375,000 | 1,610,000 | 1,085,000 | 1,235,000 | 1,145,000 | 1,280,000 | 805,000 | 965,000 | 9,500,000 |
| TOTAL COSTS | 1,500,000 | 2,135,000 | 1,535,000 | 2,535,000 | 2,545,000 | 2,630,000 | 1,155,000 | 965,000 | 15,000,000 |
| **BENEFITS** | | | | | | | | | |
| # Officers at 100 loans/year | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 | -- |
| # Officers at 200 loans/year | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 | -- |
| # Officers at 250 loans/year | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 | -- |
| Total # of Beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL BENEFITS | 0 | 160,000 | 640,000 | 1,520,000 | 2,800,000 | 3,200,000 | 3,200,000 | 3,200,000 | 14,720,000 |
| **NET BENEFITS** | -1,500,000 | -1,975,000 | -895,000 | -1,015,000 | 255,000 | 570,000 | 2,045,000 | 2,235,000 | -280,000 |
| Net Present Value | -1,500,000 | -1,876,250 | -807,738 | -870,236 | 207,699 | 441,055 | 1,503,263 | 1,560,784 | -1,341,422 |

*IRR = -6.0%*

When applied to the average size of $1,600 in 1988, the average size in 1994 would become equal to about $2,200. Thus, this amount was taken as the best case scenario (table 7), and intermediary levels of $1,800 and $2,000 were also computed.

For the expected increase in borrower's income, the 30% retained in the base case may not be reached. Thus, lower increases were tested. The model shows that, for a gain of only 20% in borrowers' income (see Table 8, Worst Case), the IRR is negative (-6.0%). It is almost nil for an average size of $1,800 (0.3%), slightly positive for an average size of $2,000 (6.1%) and acceptable for an average size of $2,200 (11.3%).

The resulting IRR's of these different scenarios are summarized in table 9 below.

Table 9:

| | Average Total Sales | | | |
|---|---|---|---|---|
| Increase in Income | $1,600 | $1,800 | $2,000 | $2,200 |
| 20% | -6.0% | 0.3% | 6.1% | 11.3% |
| 25% | 6.1% | 12.5% | 18.4% | 23.8% |
| 30% | 16.1% | 22.7% | 28.8% | 34.5% |

For each considered sale average, the above table shows a minimum increase in income to be achieved for the viability of the microfinance activity. For instance, if further surveys of the target population show an average turnover of $1,600, the borrower must achieve an increase in income of at least 30%. If the average turnover is closer to $2,200, the required increase in income may fall somewhat below 25%.

Two "frontier cases" could be defined (double-outlined in table 9). They are represented by two variable couples [$2,200-20%] and [$1,800-25%] (see tables 10 and 11). At 11.3% and 12.5%, these two cases are very close to the opportunity cost of capital (12%) which was determined by the World Bank for project funding in Morocco.

**4. Conclusion:**

The economic analysis of the microfinance project shows, in most cases, good internal rates of return. However, the projections are highly sensitive to the average size of Moroccan microenterprises in terms of total sales, and to the expected increase in the beneficiary's income as a result of borrowing.

Specifically, the base case scenario of the economic analysis (average sales equal to $1,600 and 30% increase in borrowers' income) shows a good 16.1% internal rate of return.

Nonetheless, future data collection on target clients must be focused on their average size and the expected increase of income. If collected data show a pattern close to one of the four couples (shaded in table 9) [$1,600-20%], [$1,600-25%], [$1,800-20%] or [$2,000-20%], the Mission should reconsider the entire activity. If collected data collected are closer to the two "frontier cases", the project will still be viable, but particular attention (eventually supported by specific incentives) should be devoted to loan officers to help them achieve or even exceed their target of about 250 loans per year. This will increase the total number of beneficiaries and consequently, help to achieve a higher rate of return.

In all other cases, the economic return of this project could be considered as good to very good.

*Morocco Microfinance Project* **ECONOMIC ANALYSIS** Table 10

**FRONTIER CASE 1:**
1 Average Total Sales: $2,200 per microenterprise
2 Increase in Income : 20%
i.e. : $440 per borrower

| YEARS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TOTAL LOP |
|---|---|---|---|---|---|---|---|---|---|
| **COSTS** | | | | | | | | | |
| Number of PMC's | 0 | 1 | 3 | 6 | 1 | 10 | 10 | 10 | 10 |
| Collateral Fund | 0 | 300,000 | 300,000 | 1,000,000 | 1,300,000 | 1,300,000 | 300,000 | 0 | 4,500,000 |
| MFU Operating Expenses | 125,000 | 225,000 | 150,000 | 300,000 | 100,000 | 50,000 | 50,000 | 0 | 1,000,000 |
| Technical Assistance | 1,375,000 | 1,610,000 | 1,085,000 | 1,235,000 | 1,145,000 | 1,280,000 | 805,000 | 965,000 | 9,500,000 |
| TOTAL COSTS | 1,500,000 | 2,135,000 | 1,535,000 | 2,535,000 | 2,545,000 | 2,630,000 | 1,155,000 | 965,000 | 15,000,000 |
| **BENEFITS** | | | | | | | | | |
| # Officers at 100 loans/year | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 | -- |
| # Officers at 200 loans/year | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 | -- |
| # Officers at 250 loans/year | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 | -- |
| Total # of Beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL BENEFITS | 0 | 220,000 | 880,000 | 2,090,000 | 3,850,000 | 4,400,000 | 4,400,000 | 4,400,000 | 20,240,000 |
| **NET BENEFITS** | **-1,500,000** | **-1,915,000** | **-655,000** | **-445,000** | **1,305,000** | **1,770,000** | **3,245,000** | **3,435,000** | **5,240,000** |
| **Net Present Value** | **-1,500,000** | **-1,819,250** | **-591,138** | **-381,532** | **1,062,931** | **1,369,592** | **2,385,373** | **2,398,789** | **2,924,765** |

*IRR = 11.3%*

***Morocco Microfinance Project*** **ECONOMIC ANALYSIS** Table 11

**FRONTIER CASE 2:** 1 Average Total Sales: $1,800 per microenterprise
2 Increase in Income : 25%
i.e. : $450 per borrower

| YEARS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TOTAL LOP |
|---|---|---|---|---|---|---|---|---|---|
| **COSTS** | | | | | | | | | |
| Number of PMC's | 0 | 1 | 3 | 6 | 1 | 10 | 10 | 10 | 10 |
| Collateral Fund | 0 | 300,000 | 300,000 | 1,000,000 | 1,300,000 | 1,300,000 | 300,000 | 0 | 4,500,000 |
| MFU Operating Expenses | 125,000 | 225,000 | 150,000 | 300,000 | 100,000 | 50,000 | 50,000 | 0 | 1,000,000 |
| Technical Assistance | 1,375,000 | 1,610,000 | 1,085,000 | 1,235,000 | 1,145,000 | 1,280,000 | 805,000 | 965,000 | 9,500,000 |
| TOTAL COSTS | 1,500,000 | 2,135,000 | 1,535,000 | 2,535,000 | 2,545,000 | 2,630,000 | 1,155,000 | 965,000 | 15,000,000 |
| **BENEFITS** | | | | | | | | | |
| # Officers at 100 loans/year | 0 | 5 | 10 | 15 | 20 | 10 | 10 | 10 | -- |
| # Officers at 200 loans/year | 0 | 0 | 5 | 10 | 15 | 20 | 20 | 20 | -- |
| # Officers at 250 loans/year | 0 | 0 | 0 | 5 | 15 | 20 | 20 | 20 | -- |
| Total # of Beneficiaries | 0 | 500 | 2,000 | 4,750 | 8,750 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL BENEFITS | 0 | 225,000 | 900,000 | 2,137,500 | 3,937,500 | 4,500,000 | 4,500,000 | 4,500,000 | 20,700,000 |
| **NET BENEFITS** | **-1,500,000** | **-1,910,000** | **-635,000** | **-397,500** | **1,392,500** | **1,870,000** | **3,345,000** | **3,535,000** | **5,700,000** |
| **Net Present Value** | **-1,500,000** | **-1,814,500** | **-573,088** | **-340,807** | **1,134,200** | **1,446,970** | **2,458,882** | **2,468,622** | **3,280,281** |

***IRR = 12.5%***

**ANNEX F: Environmental analysis**

Because of the small nature of the individual loans to clients, it is expected that there will be little, if any, impact on the environment. One potential secondary impact of this activity, however, may be that, as environmental awareness grows, more microentrepreneurs may become involved in activities which alleviate environmental problems on the local level -- such as specialized garbage collection, small scale recycling, etc.

## RECORD OF CATEGORICAL EXCLUSION

| | | |
|---|---|---|
| Project Location | : | Morocco |
| Project Title and Number | : | Microenterprise Finance Project<br>Project Number 608-0218 |
| Funding | : | USAID - $15 million |
| Life of Project | : | 8 years: Fy 95 - 03 |
| Categorical Exclusion Determination Prepared by | : | Signature ____<br>Alexander Shapleigh<br>Chief, Private Sector Office |
| Environmental Action Recommended | : | Categorical Exclusion |
| Mission Environmental Officer's Concurrence | : | Signature ____<br>Rick Scott/MEO |
| Deputy Mission Director's Concurrence | : | Signature ____<br>James A. Hradsky<br>Dy Director<br>Date: 10/4/94 |
| Decision of Environmental Coordinator, Bureau for Asia/Near East | : | Approved: ____<br>Disapproved: ____<br>Date: 10/18/94 |

DATE: OCTOBER 3, 1994

FROM: Rick Scott, Mission Environmental Officer (MEO), USAID/Morocco

SUBJECT: Morocco - Micrenterprise Finance Project (608-0218) Approval of Categorical Exclusion from USAID Environmental Procedures

ISSUE

Your approval of a categorical exclusion determination for the subject project is requested.

Background

The MFP Project consists of two components. The first component is microcredit institution building and the second is microenterprise policy analysis. In the first component, USAID funds will be provided for the development of two independent, private entities, legally established to provide credit to microenterprise clients. These lending institutions will located in two different areas of the country and will be linked to commercial banks following models pioneered in Egypt and in Latin America. It is envisaged that when capitalized at a planned $8 million, a minimum of 5,000 microenterprises should be receiving support at any given time. The ultimate project objective is that these credit institutions will be financially viable, with revenues exceeding all costs with an adequate reserve (profit) remaining.

The second component will include studies, analyses, workshops, and research about the microenterprise sector in the country. These activities will lead to policy recommendations to the GOM which USAID believes will simplify access to credit for microenterprise.

Discussion:

The proposed project is entirely within one of the categories listed in paragraph (c) (1) , "Categorical Exclusions," of Section 216.2, "Applicability of Procedures," of Title 22 CFR Part 216, "AID Environmental Procedures." Pursuant to 22 CFR 216,2 (c) (3), the Chief of the Private Sector Development Office, USAID/Morocco, has determined that the proposed project is fully within the following class of actions:

> Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and

approve individual loans made by the institution. [22 CFR 216.2(c)(2)(x)]

Pursuant to 22 CFR 216.2(c)(2), the proposed project is categorically excluded from further environmental review. As per 22 CFR 216.2(c)(1), neither an initial environmental examination nor an environmental assessment is required for activities that are determined to fall within on of the categories listed in 22 CFR 216.2(c)(2).

Since, pursuant to 22 CFR 216.2(d) (2) (e), categorical exclusions under 22 CFR 216.2(c) (2) are not applicable to assistance for the procurement or use of pesticides, a covenant or condition precedent shall be included in the appropriate project agreement(s) -- i.e., the Project Agreement, grant agreement, cooperative agreement and/or loan agreement(s) -- stating clearly that USAID funds provided under this Agreement shall not be used for the procurement or use of pesticides.

AUTHORITY

AID Environmental Procedures in Procedures in 22 CFR 216.2 (c) (3) state that a categorical exclusion determination shall be reviewed by the Bureau Environmental Coordinator in the same manner as a Threshold Decision under 22 CFR 216.3 (a) (2). You may signify your concurrence with the foregoing determination by signing in the space below and on the attached Record of categorical Exclusion.

RECOMMENDATION

That you concur with determination of categorical exclusion from AID Environmental Procedures for the USAID/Morocco Microenterprise Finance Project.

APPROVED: ____________

DISAPPROVED: ____________

DATE: 10/18/99

Clearance:

- JHradsky: D/DIR
- MFarhman: DIR

## MFA ILLUSTRATIVE EXPENDITURE BUDGET (TABLE 1)
**(in $,000's)**

| ACTIVITY | FY96 | FY97 | FY98 | FY99 | FY2000 | FY2001 | FY2002 | FY2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| 1. TECHNICAL ASSISTANCE | | | | | | | | | |
| | | | | | | | | | |
| A. Long-Term TA | 200 | 420 | 441 | 463 | 486 | 511 | 268 | | 2,789 |
| B. Short-Term TA | 188 | 197 | 207 | 218 | 229 | 240 | 252 | 265 | 1,796 |
| C. Local Office Support | 45 | 95 | 100 | 105 | 110 | 116 | 61 | | 632 |
| D. Equipment | 150 | | | 87 | | | | | 237 |
| E. Training | | 53 | 55 | 58 | 61 | 64 | | | 291 |
| F. Policy Sub-Contract | | 263 | 276 | 289 | 304 | 319 | 335 | | 1,786 |
| G. MFU Sub-Contract | | 158 | 330 | 261 | 183 | 192 | 101 | | 1,225 |
| SUB-TOTAL | 583 | 1,186 | 1,409 | 1,481 | 1,373 | 1,442 | 1,017 | 265 | 8,756 |
| | | | | | | | | | |
| 2. USAID SUPPORT | 20 | 42 | 44 | 46 | 49 | 51 | 54 | 56 | 362 |
| 3. EVALUATIONS | | 67 | | | 78 | | | 90 | 235 |
| 4. AUDITS | 47 | 50 | 52 | 55 | 57 | 60 | 63 | | 384 |
| 5. MICROENTERPRISE COLLATERAL FUND | | 50 | 300 | 1,050 | 1,500 | 1,300 | 300 | | 4,500 |
| SUB-TOTAL | 650 | 1,395 | 1,805 | 2,632 | 3,057 | 2,853 | 1,434 | 411 | 14,237 |
| 6. CONTINGENCY | 58 | 124 | 160 | 233 | 271 | 253 | 127 | 37 | 1,263 |
| USAID TOTAL | 708 | 1,519 | 1,965 | 2,865 | 3,328 | 3,106 | 1,561 | 448 | 15,500 |
| 7. HOST COUNTRY CONTRIBUTION | 27 | 181 | 232 | 387 | 672 | 930 | 1,188 | 1,550 | 5,167 |
| | | | | | | | | | |
| PROJECT TOTAL | 735 | 1,700 | 2,197 | 3,252 | 4,000 | 4,036 | 2,749 | 1,998 | 20,667 |

ANNEX G.

**ANNEX G: Financial Plan:**

Illustrative Budget Notes

The following assumptions were used to develop the detailed budget shown in table 1:

1. Technical Assistance

A. Long-Term TA - Long Term TA consists of an estimated two persons at $200,000 pa each, starting half-way through FY 96 and ending half-way through FY 2002. An inflation factor of 5% compounded starting in FY 97 is applied.

B. Short-Term TA - Roughly 15 person months per year is applied, with 7.5 pm per year of local TA @$5,000 pm and 7.5 pm of third country US TA @$20,000 pm. FY 96 is therefore shown @$37,500 in local TA and @$150,000 in foreign TA. Starting in FY 97, a compounded inflation factor of 5% in applied.

C. Local Office Support - Office operations and clerical staff costs are estimated at $90,000 p.a., starting mid-FY 96 and continuing until mid-FY 2002. The inflation factor is applied.

D. Equipment - one vehicle, eleven computers and all ancillary equipment and software, office furniture, photocopy, telephone, files and such equipment needed to support long-term staff and a constant stream of consultants is estimated at $150,000 in FY 96 and roughly $75,000 in FY 99 (inflated).

E. Training - Each active year from FY 97 through FY 2001, a training budget for workshops, seminars, formal courses, member orientation, conferences, public awareness and financial/accounting systems training is budgeted at $50,000 per annum, plus inflation.

F. Policy Subcontract - The budget assumes that a policy component subcontract is funded from roughly FY 97 through FY 2002 at roughly $250,000 per annum plus inflation.

G. MFU Subcontractor(s) - Initial operating support for up to two microfinance units (MFU's) will be provided. First MFU to start in FY 97 and the second in FY 98. Support for the first two years of each will be roughly $150,000 and then $75,000 pa for three years (with inflation).

2. USAID Support - USAID support for locally hired PSC's (project assistant, secretary and financial analyst) are programmed at $40,000 annually, starting in mid-FY 96 and continuing until FY 2003 (with inflation).

3. Evaluations - Major evaluations by outside consultants are planned for FY 97, FY 2000 and FY 2003. These will each cost roughly $64,000 (with inflation). Outside the three major evaluations, additional annual impact studies are budgeted at $20,000 (from S-T TA).

4. Audits - Annual audits for the MFU should be factored into the subcontract as recipient audits. USAID will contract for annual independent audits of the collateral fund, budgeted at $15,000 each from FY 97 to FY 2002 (with inflation). Contractor will be audited in the US as part of normal business operations and is not applicable.

5. Microcredit Collateral Fund - Required resources, spread over seven years, are based on a series of assumptions - repayment rate, MFU growth, interest rate and administrative charges, operational costs. The figures shown do not include inflation and are used as loan guarantees. The amounts are $300,000 in FY 97, $300,000 in FY 98, $1,000,000 in FY 99, $1,300,000 in FY 2000, $1,300,000 in FY 2001, $300,000 in FY 2002 and nil in FY 2003 for a total of $4,500,000.

6. Contingency - A contingency factor of 9% (actually 8.87% for rounding purposes) is used on all USAID-financed costs. The contingency may be used to accelerate the lending program, to augment sub-contracts or to increase the microcredit collateral fund.

7. Host Country Contribution - These consist of in-kind contributions (estimated at $5,667,000 over the LOP), interest income (on both loans and the collateral fund) and MFU's increasing contributions to operations. The in-kind is spread out fairly equally, but interest income increases sharply as the loan portfolio grows.

TABLE 2: LOP OBLIGATION SCHEDULE

| Fiscal Year | Obligation ($,000s) | Fiscal Year | Obligation ($,000s) |
|---|---|---|---|
| 1995 | $2,000 | 1999 | $1,750 |
| 1996 | 3,500 | 2000 | 1,750 |
| 1997 | 3,000 | 2001 | 1,750 |
| 1998 | 1,750 | 2002 | 0 |

| | |
|---|---|
| Total USAID funding: | $15,500,000 |
| Host country contribution: | 5,167,000 |
| Total MFA funding: | $20,667,000 |

Financial analysis

As with any other product on the market, pricing will be very important to the demand for microfinance services. Proposers will have tested demand for the product under their approaches, but several scenarios are offered here to show both the feasibility of sustainable small loan services and the importance of leveraging. Using the hypothesis developed by GEMINI (see Annex 1) for the size of one MFU branch office, several scenarios can be developed. In the first example below, loans are kept small throughout the LOP and no leveraging is envisioned until breakeven is reached at the end of Phase 3. In the second example, average loan size grows more rapidly and leveraging begins in the fourth year of Phase 2 at 1:1.25, increasing to 1:1.5 in the next year, and reaching 1:1.75 in the final year.

The first table is based on assumptions similar to Table 3-E in the Annex 1 GEMINI report. However, several changes have been made in light of more recent information on costs and revenues. The USAID-funded collateral is fully capitalized by Year 5 ($562,500), and no bank leveraging or reinvested reserves are envisioned until after PACD. Interest on this fund at 7.5% per year is counted as revenue. An inflation provision is added back into capital at 5% per year, deducted as operating expense. Non-expendable inventory is depreciated over five years rather than three. Financial officers handle 300 loans only in the last year of phase 3. Total charges on loans equals an annual interest rate of 30%. Cost of funds is defined as inflation and capital cost. Operations include expenses, depreciation, taxes and loss provision. A company tax on profits (40%), the value added tax (7% on interest), annual operating license loans only in the last year of phase 3. Total charges on loans equals an annual interest rate of 30%. Cost of funds is defined as inflation and capital cost. Operations include expenses, depreciation, taxes and loss provision. A company tax on profits (40%), the value added tax (7% on interest), annual operating license (based on company size) and stamp taxes (by transaction and amount) have been included in the operations costs. Operational self-sufficiency is achieved in the second year of Phase 2, and breakeven is reached with operations at 19% of average loans outstanding in the last year of Phase 3.

| Year | Avg. Fin. Officer Load | Max. No. Loans Outstand. | Avg. Loan Size | Est Indiv Loan Outstand. | Avg. Total Loans Outstand |
|---|---|---|---|---|---|
| 1 | 150 | 750 | $ 375 | $ 188 | $ 140,625 |
| 2 | 200 | 1,000 | 475 | 238 | 237,500 |
| 3 | 250 | 1,250 | 575 | 288 | 359,375 |
| 4 | 275 | 1,375 | 675 | 338 | 464,063 |
| 5 | 275 | 1,375 | 775 | 388 | 532,813 |
| 6 | 300 | 1,500 | 875 | 438 | 657,000 |

Six-Year Breakeven Scenario for One MFU Branch (with declining percentage of loans at $300):

| Year | Income | Cost of Funds | Operations | Surplus | Deficit | Reserve |
|---|---|---|---|---|---|---|
| 1 | 52,688 | 23,172 | 75,571 | 0 | 46,055 | 0 |
| 2 | 89,750 | 39,663 | 86,178 | 0 | 36,091 | 0 |
| 3 | 134,764 | 59,296 | 98,745 | 0 | 23,277 | 0 |
| 4 | 175,018 | 77,233 | 109,196 | 0 | 11,411 | 0 |
| 5 | 206,620 | 92,457 | 118,387 | 0 | 4,224 | 0 |
| 6 | 246,215 | 105,633 | 127,632 | 12,950 | 0 | 12,950 |

In the second example, USAID-financed collateral for each MFU branch office is fully subscribed in the first three years of Phase 2, with subsequent leveraging as described above. Loan charges amount to an annual interest rate of 24%, with average loan size increasing from $375 in the first year to $1,550 in the sixth. Other assumptions remain as in the first scenario. Operational self-sufficiency is again reached in the second year, and breakeven is approached but not attained at the end of Phase 3 (with operations at 14% of the average of total loans outstanding).

Six-Year Breakeven Scenario for One MFU Branch (with bank leveraging by year 4):

| Year | Income | Cost of Funds | Operations | Balance | Deficit | Reserve |
|---|---|---|---|---|---|---|
| 1 | 44,250 | 23,172 | 76,695 | -55,617 | 55,617 | 0 |
| 2 | 98,025 | 51,288 | 92,358 | -45,621 | 45,621 | 0 |
| 3 | 175,114 | 92,134 | 112,346 | -29,366 | 29,366 | 0 |
| 4 | 227,557 | 117,673 | 130,238 | -20,354 | 20,354 | 0 |
| 5 | 266,985 | 136,998 | 144,045 | -14,058 | 14,058 | 0 |
| 6 | 329,778 | 167,540 | 165,089 | - 2,851 | 2,851 | 0 |

The activity must quickly cover operational costs (within two to three years of start-up) and should be very close to full self-sufficiency by Phase 3 (leveraging other funds and/or minimizing operational costs).

Disposition of the Collateral Fund at the PACD

Leveraging of the collateral fund will begin as early as feasible, using performance and/or savings to increase the ratio of bank funds to Activity collateral funds. However, it is anticipated that these funds will be needed encourage the leveraging process after the PACD. Consequently, the full amount or such part as is mutually agreed by the Ministry and USAID as necessary will remain as a collateral fund supporting this activity. Six months before the PACD, if it is agreed by both parties that all or part of the fund is no longer necessary, the Government and USAID will mutually decide on uses which are acceptable of those funds. If no use can be agreed upon, USAID will apply the appropriate Standard Provisions, including Section B.3.(A). It is anticipated however that the ownership of the funds will pass to the Government of Morocco at the PACD and that the Government will continue to permit use the collateral for the same activity.

**ANNEX H: Bibliography**

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## ANNEX I: Statutory Checklist

**MICROENTERPRISE FINANCE RESULTS PACKAGE**
**(608-0218)**
A.I.D. PROJECT STATUTORY CHECKLIST

## Introduction

The statutory checklist is divided into two parts: 5C(1) - Country Checklist; and 5C(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1995 Foreign Assistance Appropriations Act ("FY 1995 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country-specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

**5C(1) - COUNTRY CHECKLIST**

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics Certification** (FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of nonagricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1995 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries, and programs identified in section 547 of that Act and other provisions of law that have similar notwithstanding authority.) If the recipient is a "major illicit drug producing country" (defined as a country in which during a year at least 1,000 hectares of illicit opium poppy is cultivated or harvested, or at least 1,000 hectares of illicit coca is cultivated or harvested, or at least 5,000 hectares of illicit cannabis is cultivated or harvested) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with

Morocco is not an illicit drug producing country or major drug-transit country as defined under Sec.490 of the FAA the knowledge or complicity of the government):

(1) has the President in the March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 30 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance? — N/A

(2) with regard to a major illicit drug producing or drug-transit country for which the President has <u>not</u> certified on March 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification. — N/A

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? — No

3. **Seizure of U.S. Property** (Foreign Relations Authorization Act, Fiscal Years 1994 and 1995, Sec. 527): If assistance is to a government, has it (including any government agencies or instrumentalities) taken any action on or after January 1, 1956 which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without (during the period specified in subsection (c) of this section) either returning the property, providing adequate and effective compensation for the property, offering a domestic procedure providing prompt, adequate, and effective compensation for the property, or submitting the dispute to international arbitration? If the actions of the government would otherwise prohibit assistance, has the President waived this prohibition and so notified Congress that it was in the national interest to do so?

No

4. **Communist and other countries** (FAA Secs. 620(a), 620(f), 620D; FY 1995 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided directly to Cuba, Iraq, Libya, North Korea, Iran, Serbia, Sudan or Syria? Will assistance be provided indirectly to Cuba, Iraq, Libya, Iran, Syria, North Korea, or the People's Republic of China? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the

No

Soviet-controlled government of Afghanistan?

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| 5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? | No |
| 6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? | No |
| 7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? | No |
| 8. **Loan Default** (FAA Sec. 620(q); FY 1995 Appropriations Act Sec. 512 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1995 Appropriations Act appropriates funds? | No |
| 9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal | Yes, this has been taken into account by the Administrator at the time of approval of the Agency's FY 95 OYB. |

year unless significant changes in circumstances occur.)

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Morocco is up to date in its UN payments.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1995 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

(a) No

(b) No

b. **Airport Security** (ISDCA of 1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

c. **Compliance with UN Sanctions** (FY 1995 Appropriations Act Sec. 538): Is assistance being provided to a country not in compliance with UN sanctions against Iraq, Serbia, or Montenegro and, if so, has the President

No

made the necessary determinations to allow assistance to be provided?

13. **Countries that Export Lethal Military Equipment** (FY 1995 Appropriations Act Sec. 563): Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act?

No

14. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. **Nuclear Technology** (Arms Export Control Act Secs. 101, 102): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E(d) permits a special waiver of Sec. 101 for Pakistan.)

No

16. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it

Taken into account by the Administrator at the time of approval of the Agency FY 95 OYB fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

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| 17. **Military Coup** (FY 1995 Appropriations Act Sec. 508): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? | No |
| 18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? | No |
| 19. **Parking Fines** (FY 1995 Appropriations Act Sec. 564): Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of August 23, 1994? | Parking fines are automatically deducted from the USAID/Morocco OYB, done as part of B.P.C. HDV5-95-23608-KG13. |

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

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| **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? | No |

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

**Human Rights Violations** (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

N/A

**5C(2) - ASSISTANCE CHECKLIST**

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Basically, the Microenterprise Finance Activity (MFA) is designed to provide financial services to the small and poor business people through creation of linkages to the formal financial sector. Therefore, it will impact on (a), (b) and (c).

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project technical assistance will most likely be provided by U.S. firms.

3. **Congressional Notification**

a. **General requirement** (FY 1995 Appropriations Act Sec. 515; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an ain excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Congress was notified through FY 95 CP Statistical Annex.

b. **Special notification requirement** (FY 1995 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

Yes. Approval has been given.

c. **Notice of account transfer** (FY 1995 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1995 Appropriations Act Sec. 536(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes to both as part of the Results Package (RP).

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

6. **Water Resources** (FAA Sec. 611(b)): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)?

N/A

7. **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1995 Appropriations Act Sec. 536). If assistance is in the form of a cash transfer or nonproject sector assistance:

N/A

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and

Basically, the Microenterpise Finance Activity (MFA) is designed to provide Financial services to the competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

small and poor business people through creation of linkages to the formal financial sector. Therefore, it will impact on (a), (b), and (c)

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

It is likely that the technical assistance provided will be provided by U.S. firms.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Host country contributions of 25% are required. These will be used largely as loan portfolio funds. Certain in-kind contributions of human resources and office space/facilities are also expected.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1995 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

b. **Textiles (Lautenberg Amendment)** (FY 1995 Appropriations Act

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| Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? | No |
| 13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? | No |
| 14. **PVO Assistance** | |
| a. **Auditing and registration** (FY 1995 Appropriations Act Sec. 560): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? | Yes. One portion of the project may be conducted by a US, registered PVO. |
| b. **Funding sources** (FY 1995 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? | This will be a requirement if assistance is provided by a U.S. PVO. |

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This will be done when the agreement is signed.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms?

Yes

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

No bulk purchases are contemplated

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

17. **Abortions** (FAA Sec. 104(f); FY 1995 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options including abortion.) No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? N/A

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) No

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? No

**18. Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? Yes

**19. U.S.-Owned Foreign Currencies**

**a. Use of currencies** (FAA Secs. 612(b), 636(h); FY 1995 Appropriations Act Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. No

**b. Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? Yes

**20. Procurement**

**a. Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

**b. U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section? N/A

**c. Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Yes

**d. Insurance** (FY 1995 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. insurance companies have a Yes fair opportunity to bid for insurance when such insurance is necessary or appropriate?

e. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

f. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

g. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No

h. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other

Yes

The use of Federal Agencies is not contemplated.

Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

**i. U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

**j. Consulting services** (FY 1995 Appropriations Act Sec. 559): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

**k. Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? — Yes

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? — No bulk purchased are contemplated

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — Yes

**l. Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

m. **Notice Requirement** (FY 1995 Appropriations Act Sec. 568): Will project agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American-made? — Yes

21. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A

22. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

23. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, — Yes

promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

24. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

25. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

26. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

27. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

28. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

29. **Export of Nuclear Resources** (FY 1995 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology? Yes

30. **Publicity or Propaganda** (FY 1995 Appropriations Act Sec. 554): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No

31. **Exchange for Prohibited Act** (FY 1995 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No

32. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No

33. **Impact on U.S. Jobs** (FY 1995 Appropriations Act, Sec. 545):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or No designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? — No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1995 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers? — N/A

2. **Tied Aid Credits** (FY 1995 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? — No

| | |
|---|---|
| 3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? | Yes. |
| 4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. | The Project will be implemented in a collaborative, participatory fashion with the GOM and Moroccan private sector. Training is an integral component. |
| 5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? | Yes |
| 6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing | MFA is directed at assistance to the poor/small entrepreneurs and will provide credit for investment. The financial services created will be sustainable and will promote female participation in the formal economy of Morocco |

countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Yes

9. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

10. **Disadvantaged Enterprises** (FY 1995 Appropriations Act Sec. 555): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — At least 10% of institutional contract.

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient — No

| | |
|---|---|
| countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; | No |
| (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; | No |
| or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? (Note new special authority for biodiversity activities contained in section 547(b) of the FY 1995 Appropriations Act.) | No |
| 12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): | No |
| a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? | Yes |
| b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? | No |
| Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; | No |
| (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; | No |
| (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; | No |
| (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; | No |
| (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; | No |
| (6) conserve forested watersheds and rehabilitate those which have been deforested; | No |
| (7) support training, research, and other actions | No |

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation,
and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

No

No

No

No

No

No

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads

No

No

No

No

for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? — No — No

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? — N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? — Yes

13. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? — N/A

14. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) — N/A

parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

15. **Deobligation/Reobligation** (FY 1995 Appropriations Act Sec. 510): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? — N/A

16. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than — N/A

20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

**17. Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

Activities are directed at assistance to the poor, small business sector by providing access to financial services hitherto not available, thus expanding access to the economy. Microfinance units will assist borrowers with credit for productive investment, which will be spread throughout Morocco. Women entrepreneurs will be particularly targeted for assistance under the project.

**18. Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

**b. Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

**c. Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

19. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

20. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens

Activities include specific training in capital use, microfinance and small enterprise nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

management. Training will assist not only the poor microentrepreneurs but the institutions which will lend to them.

21. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

Data collection and analysis will be performed. Moroccans employed in the financial sector will be trained to lend to microenterprises

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

The principal contractor will be a private U.S. firm.

c. research into, and evaluation of, economic development processes and techniques;

N/A

| | |
|---|---|
| d. reconstruction after natural or manmade disaster and programs of disaster preparedness; | N/A |
| e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; | Yes. Work will build on the accomplishments of the New Enterprise Development Project, and Title II monetization assistance to the U.S. PVO Catholic Relief Services. |
| f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. | Yes, Financial assistance to small enterprises and the creation of financial institutions to help the urban poor participate in economic and social development lies at the heart of this project |
| 22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? | N/A |

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

| | |
|---|---|
| 1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? | N/A |

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? N/A

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).) N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).) N/A

5. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.) N/A

## ANNEX J: USAID Economic Growth Strategic Objective

## TABLE 2.: BASELINE AND PERFORMANCE TARGETS FOR STRATEGIC OBJECTIVE 3

| PERFORMANCE INDICATOR | PRECISE DEFINITION OF INDICATOR & UNIT OF MEASUREMENT | BASELINE YEAR & VALUE | PERFORMANCE TARGETS | | | | | | CRITICAL ASSUMPTIONS |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | |
| **STRATEGIC OBJECTIVE NO. 3:** Expanded Base of Stakeholders in the Economy. Targeting People of Below-Median Income | | | | | | | | | |
| **Specific Results:** | | | | | | | | | |
| **1. Increased Number of Below-Median-Income households Owning Homes (urban only, disaggregated by male/female)** | 1.a. Number of serviced plots made available through ANHI to below-median-income households | 1.a. 1993 25.500 cumulative | 33,500 | 46,800 | 58,800 | 70,800 | 82,000 | 94,000 | Financial market makes resources available for housing investment |
| | 1.b. % of plots bought by women in above category | 1.b. 1993 16% | 16% | 17% | 17% | 18% | 18% | 20% | General economy remains healthy |
| **2. Increased Number of Business Licenses Issued to Small and Medium-Sized Enterprises (disaggregated by size of firm, male/female-owned)** | 2.a. Number of SME's registered annually | 2.a. 1991 16.000 | 16,000 | 16,000 | 17,000 | 18,000 | 19,000 | 20.000 | Number of businesses created is reflected in additional sustainable employment |
| | 2.b. % of business licenses issued to women | 2.b. 1992 1% | 1% | 1% | 2% | 3% | 5 % | 7 % | |
| **3. Increased Number of Jobs for Below-Median-Income People Created Through Program Activities (disaggregated by program activity, male/female)** | 3. a. Number of net new jobs for below-median-income people generated annually through project assistance | 3. TBD [1] | | | | | | | |
| | 3.b. % of new jobs held by women | | | | | | | | |

**Comments/Notes:**

[1] Data will be assembled by projects in FY 95 and consolidated to establish baseline and performance targets.

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## .BLE 2.8: BASELINE AND PERFORMANCE TARGETS FOR PROGRAM OUTCOME 3.1

| PERFORMANCE INDICATOR | PRECISE DEFINITION OF INDICATOR & UNIT OF MEASUREMENT | BASELINE YEAR & VALUE | PERFORMANCE TARGETS | | | | | | CRITICAL ASSUMPTIONS |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | |
| **PROGRAM OUTCOME NO.: 3.1** Improved Policies. Regulations and Institutions for Creation and Expansion of Enterprises | | | | | | | | | |
| **Specific Results:** | | | | | | | | | |
| **1. Reduced Average Amount of Time Required for Small and Medium Firms to Obtain Business Licenses** | 1. Average amount of time required to obtain a business license | 1. 1993. 9 months | 9 mos | 9 mos | 9 mos | 2 mos | 2 mos | 2 mos | |
| **2. Reduced Export Surcharge on Truck Transport** | 2. Average value of risk surcharge due to administrative delays for trucks entering Morocco | 2. 1994. 18.000 FF | 18.000 FF | 18.000 FF | 14.000 FF | 10,000 FF | 10,000 FF | 10.000 FF | Ministries commit to single point of physical inspection of loads and documentary control |
| **3. Adoption/Implementation of Uniform Food Safety Regulations by the Moroccan Export Regulatory Authority.** | 3. Adoption and enforcement of food safety regulations for canned foods with greatest risks of food poisoning | 3. 1995. regulations not yet adopted. | N/A | See below[2] | See below [2] | See below [2] | com-pleted | com-pleted | |
| **4. Increased Percentage of Annual Operating Costs Recovered by the Newly Established Micro-Finance Institution** | 4. Measured as % of operating costs being recovered by the institution | 4. TBD [3] | | | | | | | U.S. and Canada remain a major focus of Moroccan export market development. |
| **5. Increased Strength of Business Associations, As Measured By Increased Number of Dues-Paying Members** | 5. Number of dues paying members of business associations | 5. TBD [1] | | | | | | | EU continues to tighten regulations on canned food imports |

**Comments/Notes:**

[1] Baseline data and performance targets to be available by May 1995.

[2] 1995: (a) Moroccan export regulatory authority (EACCE) translates relevant USFDA Code of Federal Regulations (CFRS); (b) EACCE drafts regulations and circulates.
1996: (a) Industry provides comments on regulations; (b) Food safety regulations adopted; (c) EACCE enforcement training completed.
1997: EACCE enforces regulations.

[3] Baseline data and performance targets to be established during project design, June 1995

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## BLE 2.0: BASELINE AND PERFORMANCE TARGETS FOR PROGRAM OUTCOME 3.2

| PERFORMANCE INDICATOR | PRECISE DEFINITION OF INDICATOR & UNIT OF MEASUREMENT | BASELINE YEAR & VALUE | PERFORMANCE TARGETS | | | | | | CRITICAL ASSUMPTIONS |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | |
| **PROGRAM OUTCOME 3.2:** Broadened Access to and Use of Financial Resources and Services, Especially Among Micro- and Small Enterprises | | | | | | | | | |
| **Specific Results:** | | | | | | | | | |
| **1. Increased Number of Micro-Entrepreneurs in the Formal Credit System--number (m/f/total) receiving loans worth (a) $300 or less; (b) more than $300 but less than $1500** | 1. Number of microenterprises receiving loans through the formal credit system<br>1.a. $300 or less<br>1.a.1. % female recipients<br>1.b. $301 to $1500<br>1.b.1. % female recipients | 1. 1995[2] | | | | 500 | 1,000 | 3,000 | Economic growth in Morocco and continued adherence to structural adjustment program |
| **2. Increased Number of Small and Medium Enterprises Receiving Credit or Equity Financing Through AID-Assisted Programs.** | 2. Percentage of value of total bank formal credit and equity financing to private sector that goes to SME's versus large enterprises | 2. 1992: 4.09%<br>1993: 2,6%[1] | 2.7%[1] | 5%[1] | 10%[1] | 15%[1] | 20%[1] | 30%[1] | |
| **3. Increased Financing Obtained by Private Sector for Below-Median-Income Group Housing.** | 3.a. Multiplier of private sector (including individual) financing leveraged for below-median-income housing through USAID programs (ANHI). | 3.a. 1991:<br>1.91 | 2.83 | | | 3.79 | | 5 | |
| | 3.b. Amount of financing provided by CIH to private developers and owners for below-median-income housing | 3.b.: 1993<br>152 mil. Dh. | TBD | TBD | TBD | TBD | TBD | TBD | Availability of liquidity for private investment. Sufficient interest by private sector developers in low-to-median-income housing market |

**Comments/Notes:**

[1] Data provided by the Central Bank.

[2] Baseline of Zero and performance targets are initial projections for new USAID microenterprise activity only

TABLE 2.C. (cont'd). BASELINE AND PERFORMANCE TARGETS FOR PROGRAM OUTCOME 3.3

| PERFORMANCE INDICATOR | PRECISE DEFINITION OF INDICATOR & UNIT OF MEASUREMENT | BASELINE YEAR & VALUE | PERFORMANCE TARGETS | | | | | | CRITICAL ASSUMPTIONS |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | |
| **PROGRAM OUTCOME NO.3.3:** Improved Competitiveness of Firms Which Generated Employment for Below-Median-Income People | | | | | | | | | |
| 3. New Products in USAID-Assisted Sectors and Firms: (a) Increased % of sectors' total exports attributable to new products; (b) Increased # of new value-added product introductions on the domestic or export markets; (c) Increased $ value of new products sold by firms | 3.a. Moroccan exports of new horticultural products[1] as a % of total horticultural exports.<br>3.b. Number of new horticultural, value-added product introductions on the domestic or export markets through USAID assistance.<br>3.c. Export sales of new products attributable to USAID assistance. | 3.a. TBD[2]<br>3.b. TBD[3]<br>3.c. TBD[3] | | | | | | | |
| 4. Increased Number of Firms Adopting USAID-Promoted/Introduced Production, Processing, Packaging, Transport or Management Technologies | 4. Number of firms adopting USAID-promoted or introduced technology | 4. TBD[4] | | | | | | | |
| 5. Increased Efficiency of Operations from USAID-Promoted Technology Transfers | 5. Dollar value of savings attributable to new USAID-promoted technology | 5. TBD[4] | | | | | | | |

**Comments/Notes :**

[1] A "new product" maybe globally defined as one for which Morocco has not exported more than $25,000 in any one of the three previous years.
[2] Data to be collected by MAP project by June 1995
[3] Data to be collected by MAP and AIM projects by June 1995
[4] Data to be collected by MAP, AIM and CEM (NED) projects by June 1995

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## BLE 2. c.: BASELINE AND PERFORMANCE TARGETS FOR PROGRAM OUTCOME 3.3

| PERFORMANCE INDICATOR | PRECISE DEFINITION OF INDICATOR & UNIT OF MEASUREMENT | BASELINE YEAR & VALUE | PERFORMANCE TARGETS | | | | | | CRITICAL ASSUMPTIONS |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | |
| **PROGRAM OUTCOME NO. 3.3: Improved Competitiveness of Firms Which Generated Employment for Below-Median-Income People** | | | | | | | | | |
| **Specific Results:** | | | | | | | | | |
| 1. Increased Market Share in USAID-Assisted Sectors and Firms: (a) Increased sectors' market shares, as %'s of estimated total markets (by sectors & by geographical markets); (b) Increased sales through USAID assistance. | 1.a. Moroccan horticultural exports as a % of value of these products entering: 1.a.1. North American market | 1.a.1. 1993: 2.09% | 2.15% | 2.22% | 2.28% | 2.35% | 2.42% | 2.49% | 1.a.1. Annual 3% increase. |
| | 1.a.2. EU market | 1.a.2. 1992: 3.05% | 3.24% | 3.33% | 3.43% | 3.54% | 3.65% | 3.76% | 1.a.2. Annual 3% increase |
| | 1.a.3. Other markets (total value) | 1.a.3. 1992: $21.4 mil. | $22.5 mil. | $23.6 mil. | $24.7 mil. | $26.0 mil. | $27.3 mil. | $28.67 mil. | 1.a.3. Annual 5% increase |
| | 1.b. Export sales attributable to USAID assistance | | | | | | | | |
| | 1.b.1. Horticulturally-based products | 1.b.1. TBD[1] | | | | | | | |
| | 1.b.2. Fish and artisanal products | 1.b.2. 1992: $1.72 mil. | $5.16 mil. | $6.45 mil. | $9.46 mil. | $10.75 mil. | | | |
| | 1.c. Increase in annual sales of USAID-assisted small and microenterprises (% over previous year) | 1.c TBD[2] | | | | | | | |
| 2. New Export Markets for USAID-Assisted Firms & Sectors: (a) Increased sectors' total exports to non-traditional markets, as %'s of total markets; (b) Increased $ value of firms' export sales to non-traditional markets. | 2.a. Moroccan horticultural exports to non-traditional markets,[1] as a % of total horticultural exports | 2.a. 1993: 33.4% | 34.4% | 35.4% | 36.5% | 37.6% | 38.7% | 39.9% | 2.a. Annual 3% increase |
| | 2.b. Export sales to non-traditional markets attributable to USAID assistance | | | | | | | | |
| | 2.b.1. Exports to the U.S | 2.b.1. TBD[1] | | | | | | | |
| | 2.b.2. Exports to other new markets | 2.b.2. TBD[1] | | | | | | | |

**Comments/Notes:**

1. Baseline data and performance targets to be established by June 1995, using data collected by MAP and AIM projects.
2. Baseline data and performance targets to be established by June 1995, using data collected by MAP, AIM, and CEM (NED) projects

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## ANNEX K: Request Letter

Royaume du Maroc

MINISTERE DU COMMERCE, DE L'INDUSTRIE ET DE L'ARTISANAT

DIRECTION DU COMMERCE INTERIEUR

N° 007031 DCI/SAG

Rabat, le 23 JUIL 1995

LE MINISTRE DU COMMERCE
DE L'INDUSTRIE ET DE L'ARTISANAT

A

MONSIEUR LE DIRECTEUR DE LA MISSION DE L'AGENCE AMERICAINE POUR LE DEVELOPPEMENT ( USAID )

Objet: Projet de financement de la microentreprise.

J'ai l'honneur de vous informer que dans le cadre de la coopération technique entre les gouvernements américain et marocain et suite aux différentes réunions qui ont été consacrées à l'examen des conditions de faisabilité du projet de financement des microentreprises au Maroc, il a été décidé de mettre au point un plan d'action pour la réalisation dudit projet.

A cette fin, je vous fais parvenir, ci-joint, une fiche concernant ce projet de coopération.

# FICHE DE PROJET DE COOPERATION

**DEPARTEMENT**: MINISTERE DU COMMERCE, DE L'INDUSTRIE ET DE L'ARTISANAT

**ORGANISME CONCERNE**: DIRECTION DU COMMERCE INTERIEUR

**INTITULE DU PROJET**: FINANCEMENT DE LA MICROENTREPRISE

**OBJECTIFS DU PROJET**:

- Créer un ou plusieurs établissements de financement de microentreprises.

- Elargir l'accès aux ressources et services financiers pour les microentreprises et promotion de leur croissance à travers l'accès sur une grande échelle aux services financiers formels, institutionnalisés et financièrement autonomes.

- Mener des études spécifiques sur les contraintes entravent le développement des microentreprises et formuler des recommandations pour la suppression des ces contraintes.

**METHODOLOGIE** :

1- **Phase préliminaire:** Identification des prestataires de services financiers potentiels pouvant être intéressés par le projet et sélection du contractant institutionnel qui sera chargé de mener le projet sur la base de la meilleure approche pour l'exécution de la phase 1.

2- **Phase 1:** Selon l'approche choisie, On procédera à la préparation des données de référence pour les éventuelles évaluations avant la conclusion de contrats avec les institutions marocaines pour le volet financement du projet et financement des études, l'élaboration de manuels et système de gestion , la formation du personnel devant exécuter les services de microfinance et le lancement d'une activité pilote de financement des microentreprises.

3- **Phase 2:** Mise en place progressive d'un fonds de nantissement pouvant garantir les activités de crédits et commencement des activités de prêt et d'épargne en plus du lancement des études nécessaires à une meilleure connaissance de la microentreprise marocaine et des problèmes de financement qu'elle rencontre et à la constitution d'une base de données sur la promotion de la microentreprise marocaine.

4- **Phase 3-Pérennisation des activités:** Assistance technique à l'activité pilote de financement des microentreprises pour lui permettre d'atteindre l'autosuffisance financière, transfert éventuel de l'expérience à d'autres sites et encouragement des investisseurs privés intéressés par le projet.