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

*GEMINI Technical Report No. 51a*

# **GEMINI**

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS**  
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# Morocco: Assessment of Programming Options for Microenterprise Development

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## EXECUTIVE SUMMARY

This report presents the results of the GEMINI team assessment of the microenterprise sector and microenterprise assistance programs in Morocco. The team reviewed existing data; analyzed constraints to microenterprise growth; examined institutions involved in microenterprise support; and conducted a workshop for representatives from the Moroccan mission of the U.S. Agency for International Development (USAID/M), the Government of Morocco, the private sector, private voluntary organizations and nongovernmental organizations (PVOs/NGOs), and the donor community to discuss team findings and options for USAID/M microenterprise assistance.

The team concludes that USAID/M should expand its private sector development program to include microenterprise support. This support should be based on the provision of new financial services, concentrating on working capital provision. The team lays out criteria regarding the target group for these services and institutions qualified to provide services on a sustainable basis. It lists criteria to be observed in establishing successful, sustainable financial and nonfinancial assistance within the program.

The team considers three options for microenterprise finance development: helping members of the PVO/NGO community become finance providers, encouraging formal sector financial institutions to take on this new market, or creating a new foundation dedicated to microenterprise financial services. All three options have achieved self-sustainability in other countries through USAID, ACCION, and other initiatives that have reached thousands of borrowers and covered operating costs with revenues.

The team believes the best option for USAID/M is to pursue the creation of a new foundation, preferably affiliated with one or more existing financial institutions. Despite the up-front time required to create a new institution, the advantages of being able to design personnel and procedures to maximize efficiency will enable the foundation to grow rapidly once established. The other options have less start-up costs, but the inexperience of the PVO/NGO community in microenterprises and the involvement of these organizations and formal microenterprise lenders in heavily subsidized forms of assistance will make it difficult for existing institutions to make the transition to more sustainable forms of microenterprise finance.

The team recommends that USAID/M concentrate its programming on the Fes/Meknes region, which has a large microenterprise community, active small- and micro-scale enterprise associations, a major agricultural area nearby, and little USAID/M activity. Other geographic-focus possibilities are Tanger/Tetouan, Marrakech, and Casablanca/Rabat. The key to final site selection will be where the most competent, motivated groups can be found or formed to direct the new foundation.

USAID/M is not ready to proceed with a Project Identification Document (PID) or other project document at this time, but should be able to design and implement a new project over the next 12 months. This report provides an Action Plan, detailing the tasks required for project development. The first six months will be spent determining the institutional center for the foundation, organizing a visit of likely project participants to the USAID/Egypt and Government of Indonesia programs, and producing a PID. During the second six months, USAID/M will refine the project design, select all implementing institutions, develop its conditions precedent, and fill in key information gaps.

## **BACKGROUND AND JUSTIFICATION**

USAID/Morocco (USAID/M) has three strategic objectives for its overall program for the period 1992-1995: increase employment, improve market competitiveness, and improve delivery of selected social services (child survival, family planning, and low-income housing). At the same time, the mission wishes to give special attention to three cross-cutting themes in its work: democratic pluralism, gender, and the environment.

The GEMINI team was asked to assist USAID/M by examining the microenterprise sector in Morocco, to develop different options for microenterprise programming (including the option of not programming in this area), and to recommend specific actions that would lead to the formal design of a project based on the most promising options. To accomplish this objective the team familiarized itself with documents concerning microenterprises and USAID/M strategy, and carried out a review of microenterprise data, constraints to growth, and institutions active in small- and micro-scale enterprise support. The team also ran a workshop, hosted by USAID/M, which discussed assessment findings and possible areas for new USAID/M programming. Representatives from government, the private sector, private voluntary organizations and nongovernmental organizations (PVOs/NGOs), and the donor community attended the workshop.

The team concluded that USAID/M should expand its private sector development program to include microenterprise support. The following factors justify extending USAID/M's programming into this area:<sup>1</sup>

- The Moroccan microenterprise sector plays a major role in income and employment generation, particularly among groups targeted by USAID/M in its Action Plan. The sector also plays a major part in the provision of low-income housing, also targeted in this plan, and can play an important part in the provision of other targeted services;
- The bulk of the microenterprise sector is not served by existing or planned projects and programs of USAID/M, other donors, or the Government of Morocco (GOM);
- There is strong GOM and private sector (including NGO/PVO) interest in expanding economic development work with the sector; and
- There is evidence from other countries that, following sound project development and management principles, microenterprise assistance can be both cost effective and sustainable.

In addition, the team confirmed USAID/M's hypothesis that microenterprise financial services, particularly credit, should provide the focus for new programming.

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<sup>1</sup>These factors are addressed in greater detail in the "state of the microenterprise sector" section, and in the Workshop Proceedings, Microenterprise Assessment, Constraints Analysis, and Institutional Assessment chapters of the accompanying field assessment report.

The GEMINI team used its own experience in microenterprise assistance, plus extensive interviews, data collection, and workshop discussions, to determine the criteria for shaping the new programming and the options presented for USAID/M consideration. The following sections review the major findings of the assessment, analyze the options available for new programming, and present the team's preference for program development and an action plan for developing a new project.

## **THE MICROENTERPRISE SECTOR AND EXISTING SERVICES**

The Direction Statistique of the Ministry of Planning estimates that there are over 245,000 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, and comprise 87 percent of urban employment. 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.

Casablanca contains the greatest concentration of microenterprises, with Fes second and Rabat third. Regionally, the Casa-Rabat area has the most microenterprises, followed by Fes/Meknes, Tanger-Tetouan, and Marrakech. Marrakech is by far the poorest of these regions.

### **Constraints to Microenterprise Growth**

The key constraint for microenterprises in Morocco is the shortage of short-term credit for working capital expenses. The lack of sufficient collateral for this type of credit means that any program established to address this constraint must be based on noncollateralized lending practices.<sup>2</sup> Few sources provide finance for the purchase of equipment that could increase productivity and improve product quality.

Other constraints are the low level of business and marketing skills of many microentrepreneurs. These skills need to be addressed to develop the internal capacity of microenterprises to better manage their resources. There may also be some potential for developing better and more beneficial marketing arrangements in specific subsectors.

Microenterprises face inequities in many aspects of business regulation, particularly in tax treatment. No organizations serve as effective advocacy groups for this sector.

### **Institutional Support for Microenterprises**

Traditionally the artisanal sector was highly organized through a guild and an apprenticeship system. Apprenticeship has survived, providing good entry-level training and cheap labor. The guilds have disappeared, depriving microenterprises of a collective means to defend their interests or increase efficiency. Recently, new structures have been introduced to reorganize the artisanal sector, including

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<sup>2</sup>It also means that the Working Asset Liquidity Facility being developed by the New Enterprise Development Project will not be of value to most microenterprises.

small service cooperatives and associations. Sociétés de Cautionnement Mutuelle (SCMs), which enable members without assets to secure loans, have been formed with assistance from the Banque du Crédit Populaire (BCP).

Only two institutions, the BCP and the Caisse Nationale du Crédit Agricole (CNCA), lend to microenterprises. Both use subsidized interest rates. Credit for business start-ups is provided through several banks as a part of the government's Jeune Promoteurs program, but most of this credit goes to small and medium enterprises. Some grant assistance has been provided by donors and PVO/NGOs.

In nonfinancial assistance, a wide variety of programs provide vocational training, including the Ministère d'Artisanat et Affaires Sociales (MASA) and the Office de Formation Professionnelle (OFPPT). Most programs focus on new enterprise creation rather than support to existing enterprises. Most technical assistance, too, is geared toward enterprise creation, not expansion. Almost all concentrate on production support, with little or no attention paid to business skills.

The Chambres de Commerce et de l'Artisanat tend to represent larger businesses but have potential to support microenterprises. PVOs and NGOs are in the best position to reach marginalized groups, but have little experience with microenterprise assistance and none with microenterprise credit. All agencies are constrained by staff shortages from undertaking labor-intensive organizing activities. None of their programs are financially self-sustaining, relying on grants or free services.

## **PROGRAMMING CRITERIA AND OPTIONS**

USAID/M should base its microenterprise program on the provision of new financial services to the sector. The Moroccan microenterprise community is large and diverse, but shares a common problem of working capital scarcity. The few programs that reach this sector offer mainly nonfinancial services focused on production training. USAID/M's new NED (New Enterprise Development) project, although oriented toward larger enterprises, may provide some additional nonfinancial services through its Moroccan Business Center. The major gap is the absence of credit facilities for microentrepreneurs.

### **Criteria for Successful Microenterprise Support**

The GEMINI team has developed a set of key criteria, based on lessons learned from microenterprise projects elsewhere, on observations during the first four weeks of field visits, and on contributions made by participants in the assessment workshop. The criteria cover four areas: target group, implementing institution, financial assistance, and nonfinancial assistance.

#### **Target Group**

- Existing businesses;
- 10 or fewer employees;
- Insufficient capital assets to be considered for loans through normal commercial channels;

- Any type of activity (production, service, or trade) performed, as long as operation is credit worthy; and
- Found in regions with high concentrations of microenterprises (urban/peri-urban zones).

### **Implementing Institution**

- Commitment to self-sufficiency (covering full costs of operating microenterprise credit program from revenues from loan repayments);
- Experience working with the target group;
- Capacity and commitment to manage financial services; and
- New or existing institution.

### **Financial Assistance**

- Interest and other charges reflect real operating costs and goal of self-sufficiency;
- Implementing institution capable of borrowing from banks to finance portfolio;
- Guarantee arrangement probably needed;
- Emphasis on short-term credit;
- Clients are those with demonstrated understanding of their business area, showing ability and motivation to repay;
- Larger, longer-term loans introduced only after strong short-term portfolio established; and
- New methods for credit analysis and delivery, using solidarity groups or other character-based lending techniques.

### **Nonfinancial Assistance**

- Should not be end in itself, but should develop out of credit program;
- Focus on needs of most dynamic borrowers;
- Lower costs through use of "leverage" points (for example, business groups, larger firm suppliers/buyers, and policy makers);
- Use of existing training and support institutions;
- Focus on management skills;

- Participants pay as much of costs of assistance as possible; and
- May focus on priorities of some high-growth-potential subsectors.

### **Microenterprise Programing Options**

The GEMINI team identified three main avenues through which USAID/M could promote the establishment of financial services for this sector. It could help the PVO/NGO community develop a new role as a financial service provider. It could encourage commercial banks and other financial institutions to take on this role. Or, third, it could create a new, nonprofit foundation dedicated to this task.<sup>3</sup>

#### **PVO/NGO-based Option**

This is a model that has been used by USAID and ACCION in many countries.<sup>4</sup> It is illustrated in Figure 1 below. In this option, Moroccan NGOs become the main providers of credit, technical assistance, and training to microenterprises. USAID/M furnishes capital for their loan programs, and funds a contractor or U.S. PVO to offer technical assistance to the NGOs participating in the program. An umbrella organization (indicated in dotted lines) may serve as an intermediary between USAID/M and individual NGOs, helping to identify participants and technical assistance needs.

PVOs and NGOs have a strong commitment to helping the poor microentrepreneurs that form the project's target group. They operate at the grass-roots level, with strong links to community leadership. They work in both rural and urban areas. The Moroccan PVO/NGO community possesses office space, communications networks, and other useful infrastructure. International PVOs like Catholic Relief Services (CRS) provide access to considerable experience in microenterprise credit program management.<sup>5</sup> The new Moroccan NGOs are playing an important part in the transition to a more democratic system currently promoted by His Majesty. USAID/M support for NGOs contributes to the democratization process.

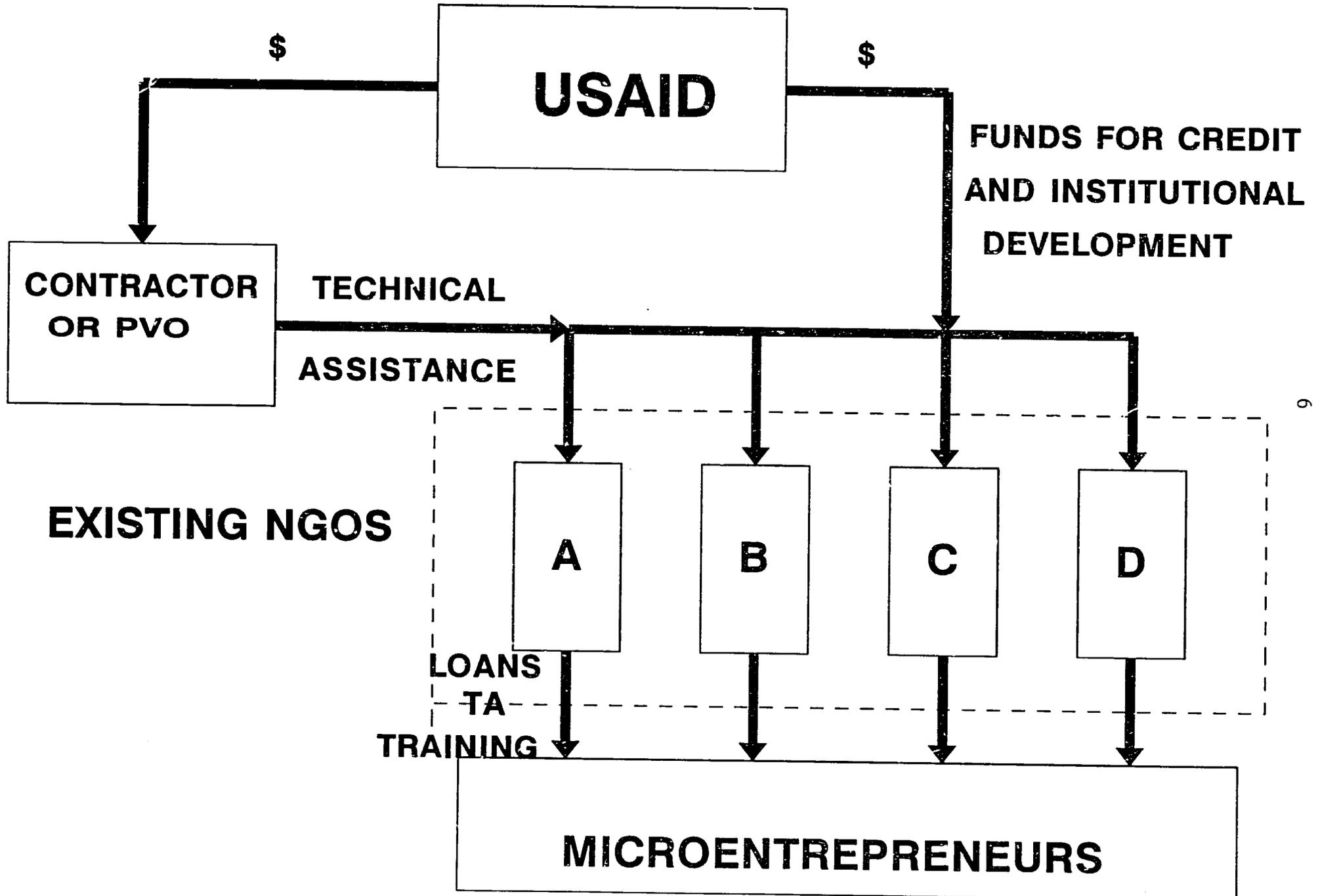
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<sup>3</sup>A fourth option would be to encourage the GOM to take a direct role in microenterprise finance. This would run contrary to USAID/M's overall strategy, and public sector institutions are not usually effective private sector promoters. The GEMINI team does not feel that this option is practical, and does not provide detailed consideration of it in this report.

<sup>4</sup>This represents the "traditional" ACCION model. The new ACCION model is the Foundation-based option, presented later. ACCION operates this NGO-based model exclusively through new NGOs, formed for the purposed of becoming an ACCION affiliate. USAID and other organizations normally operate the model with existing NGOs.

<sup>5</sup>CRS and the other international PVOs have longer operating experience than their Moroccan counterparts. CRS began work in Morocco in 1957.

FIGURE 1  
PVO/NGO-BASED OPTION



On the other hand, "modern" Moroccan NGOs are few and inexperienced.<sup>6</sup> Most organizations fill a mostly social and cultural role; only recently have some become involved in economic development matters. NGOs do not have the means or the organization necessary to work directly with USAID/M on this project. They are pursuing fairly broad community development objectives which, to date, have been based on heavily subsidized or grant forms of assistance.

The U.S. PVO community in Morocco has more general organizational experience than its Moroccan NGO counterparts, but has virtually no in-house microenterprise assistance know-how. CRS has no staff in Morocco with microcredit experience. AMIDEAST, to the best of GEMINI's knowledge, has no microcredit experience. TECHNOSERVE, which AMIDEAST has suggested might initiate operations in Morocco, has limited microcredit (as opposed to community enterprise and small enterprise credit) experience.<sup>7</sup> All PVOs in Morocco are identified with grant-based and heavily-subsidized assistance.

The overall international PVO community in Morocco is small, compared its counterparts in most other developing countries. The government had not encouraged this sort of activity in the past. Given competing demands for expanded services in other regions of the world (eastern Europe, the former Soviet Union, and poorer African countries, in particular), it is unlikely that international PVO activity in Morocco will increase substantially over the next few years, regardless of more favorable GOM policy towards these institutions.

### **Formal Sector Financial Institution (Bank)-based Option**

In this option commercial banks or other formal sector financial institutions (finance societies, insurance companies, and so forth) develop new services aimed at the needs of microentrepreneurs (Figure 2). This would involve changes to both the financial products they now offer and the methods they use for appraising loans and motivating repayments. USAID/M can provide two incentives to make these changes. It can create a guarantee fund, which reduces the banks' risk in lending to new clients. It also can provide technical assistance for the development of the new financial products and procedures that, in effect, subsidizes the banks' costs of establishing the new services.

Many formal sector financial institutions are licensed to take deposits, enabling this option to include a savings mobilization component: savings attracted from microenterprises contribute to the capital base of the program. Experience in other parts of the world indicates that, if safe and attractive savings instruments can be designed, substantial funds can be obtained from small savers.<sup>8</sup>

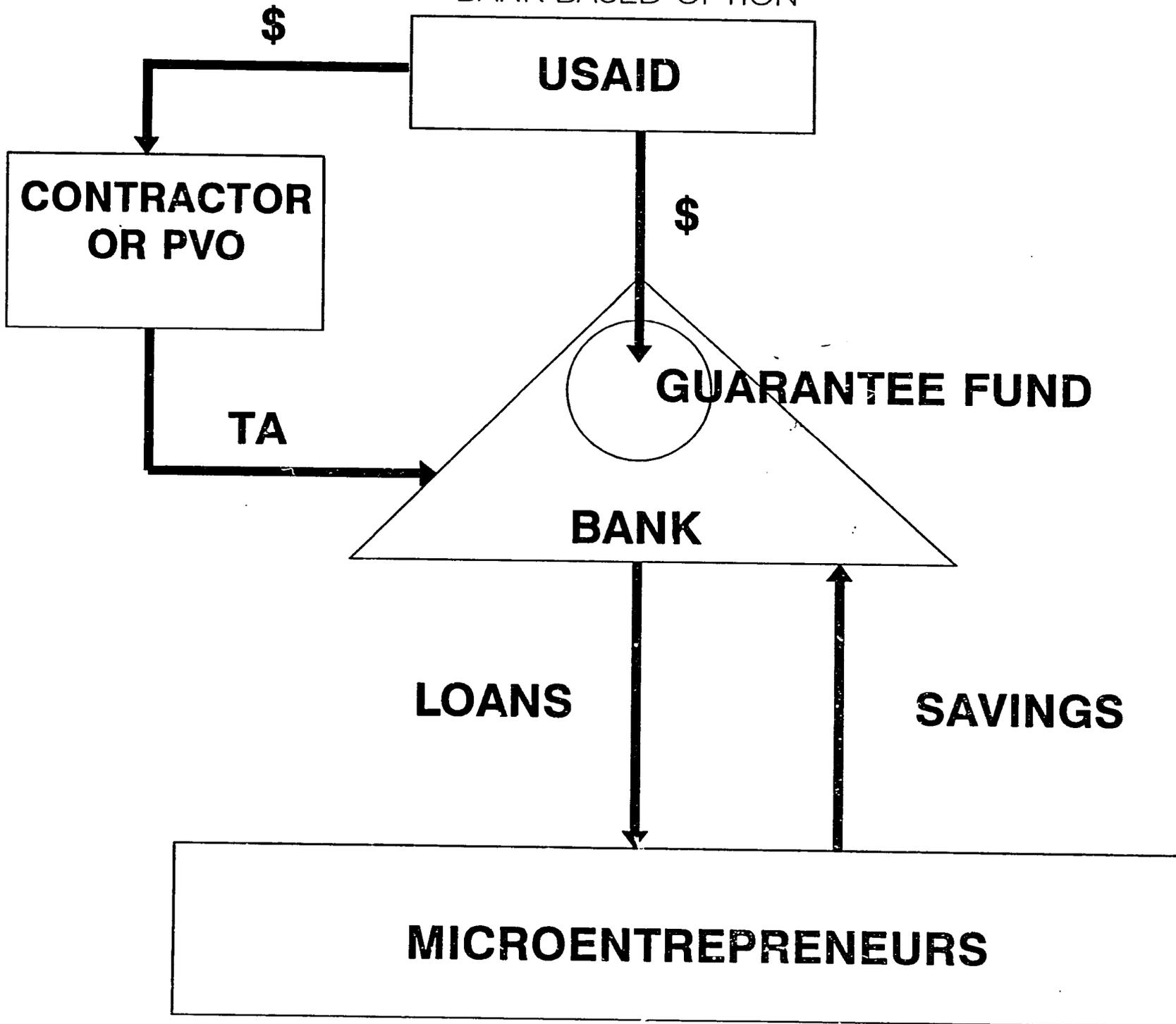
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<sup>6</sup>There are many "traditional" community-based organizations in Morocco, based around family or religious ties. Only a handful are experienced in micro-credit (such as women's revolving savings and credit groups).

<sup>7</sup>Peace Corps, suggested as an NGO partner, has no experienced volunteers in-country and will not have until at least September 1994 (and no small-enterprise APCD until at least that time).

<sup>8</sup>The Bank Rakyat Indonesia Unit Desa (People's Bank) program has attracted close to 8 million savers (as opposed to its 2 million borrowers), and can completely fund its lending program out of local savers' capital.

FIGURE 2  
BANK-BASED OPTION



Morocco has a considerable number of formal sector financial institutions. They are attractive institutions for microenterprise programming because they understand sound finance practices and are committed to self-sustainability in their operations. They are licensed to make loans and to take deposits and operate in every major population center. Their commercial financial networks give them rapid access to capital. Several of these institutions, such as BCP and CNCA, have a strong social commitment in their charters, which encourages them to take a more active role in microenterprise credit.

Unfortunately, these same institutions have ongoing programs offering heavily subsidized credit. Existing financial regulations limit the interest rates they can charge on loans, making it difficult to establish a cost structure that would permit self-sufficiency in their microcredit programs. Senior management remains preoccupied with other markets (larger borrowers) that offer safer and more rapid returns on investment.

### **New Foundation-based Option**

In this option a Moroccan group forms a nonprofit foundation dedicated to microenterprise financial services. The foundation provides loans, technical assistance, and training to microentrepreneurs. It obtains its loan capital from a local financial institution that is motivated to lend to the new body by a guarantee fund provided by USAID/M. The foundation obtains technical assistance from a contractor funded by USAID/M.

GOM regulations may preclude a foundation from taking deposits from its clients. However, if it can encourage its clients to save with its lenders, it can use client savings to leverage more resources from these institutions.

The main disadvantage of a new foundation is that it starts from ground zero. A basic charter and operating system must be developed from scratch, and GOM approvals obtained. Staff and infrastructure, too, must all be established. The foundation would start with no networks and no public awareness.

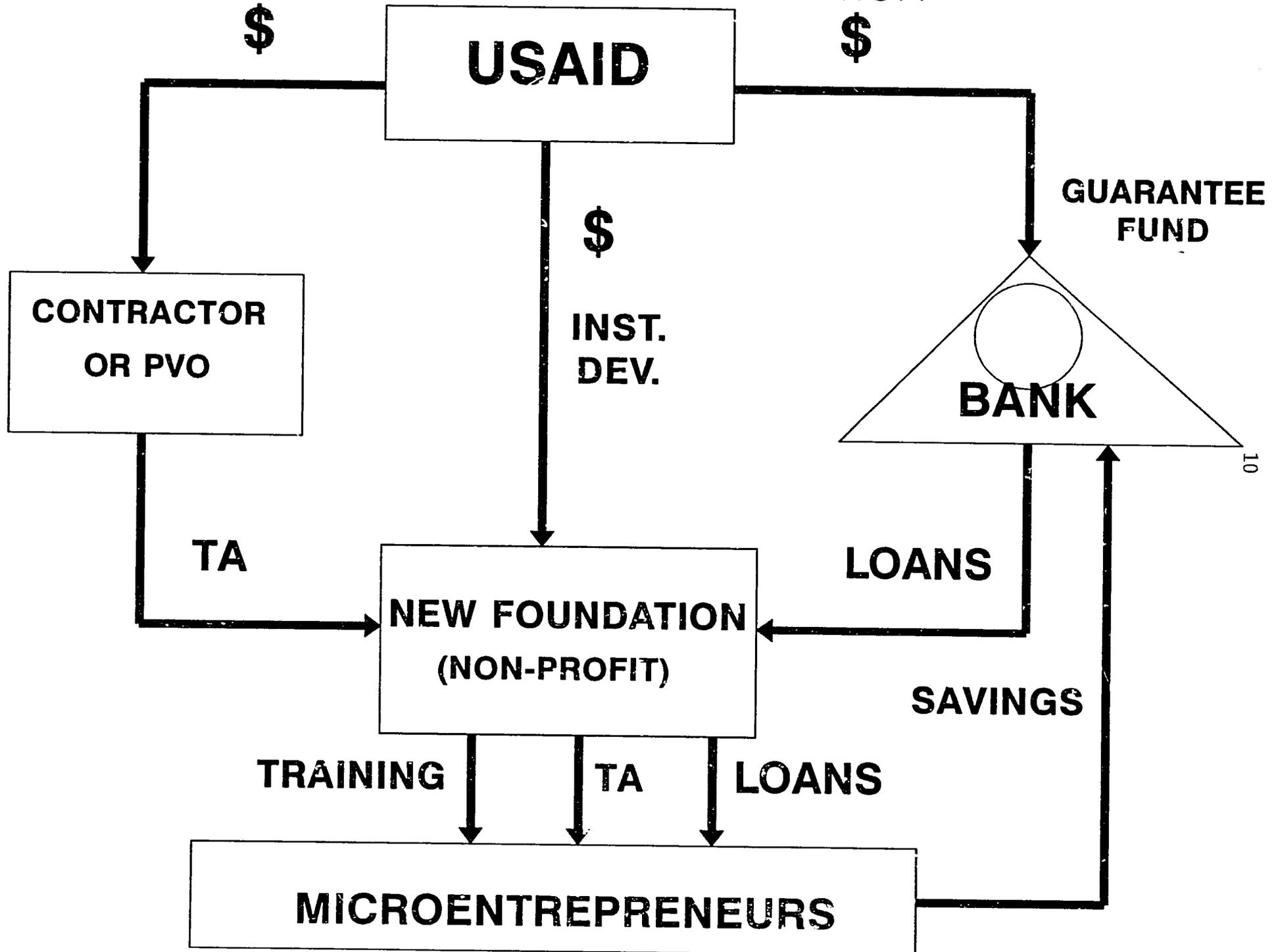
USAID/Egypt created two such foundations, one in Alexandria and one in Cairo, in its microenterprise program. ACCION uses this model in its newest programs. The advantage of a new institution is that it carries none of the baggage of prior practice, such as NGO and bank identification with subsidies. A nonprofit foundation in Morocco also could be structured to be exempt from interest controls, and could set up a cost structure for its financial services that would enable it to cover its operating costs.<sup>9</sup> Its personnel, directors, and management systems could be custom selected and tailored to the needs of the microenterprise market.

The strengths and weaknesses of the three options are summarized in Table 1.

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<sup>9</sup>The potential for establishing a foundation to operate under a similar legal status as a finance society requires further investigation. Initial enquiries led the GEMINI team to believe this will be possible without any major policy or regulatory changes.

FIGURE 3  
NEW FOUNDATION-BASED OPTION



**TABLE 1**  
**STRENGTHS AND WEAKNESSES**  
**OF THREE MICROENTERPRISE PROGRAMMING OPTIONS**

	PVO/NGO-BASED	COMMERCIAL BANK/ FINANCIAL INSTITUTION-BASED	NEW FOUNDATION-BASED
<b>STRENGTHS</b>	<ul style="list-style-type: none"> <li>● knowledge of target group</li> <li>● commitment to target group</li> <li>● network/contacts</li> <li>● contribution to democracy development</li> <li>● existing infrastructure</li> <li>● rural and urban coverage possible</li> </ul>	<ul style="list-style-type: none"> <li>● knowledge of finance basics</li> <li>● committed to self-sustainability</li> <li>● infrastructure</li> <li>● authorized to loan and take deposits</li> <li>● access to capital network</li> </ul>	<ul style="list-style-type: none"> <li>● no baggage</li> <li>● can custom-tailor to suit USAID/M and market requirements</li> <li>● can assemble competent private sector board</li> <li>● can start up using efficient techniques, properly selected and trained staff</li> <li>● can establish structure and costs tailored for self-sustainability</li> </ul>
<b>WEAKNESSES</b>	<ul style="list-style-type: none"> <li>● limited numbers of existing institutions</li> <li>● inexperience in basic management (Moroccan NGOs)</li> <li>● little experience in ME assistance</li> <li>● no experience in credit (ALL)</li> <li>● broad Missions</li> <li>● tradition of grants/subsidies</li> </ul>	<ul style="list-style-type: none"> <li>● ongoing subsidized credit programs</li> <li>● questionable senior management interest and commitment</li> <li>● competition from other financial markets with quicker/safer returns</li> <li>● GOM interest controls</li> <li>● limited interest in microenterprises</li> </ul>	<ul style="list-style-type: none"> <li>● no infrastructure</li> <li>● no charter</li> <li>● no network</li> </ul>

In principle, all three options could achieve self-sustainability (covering their operating costs with revenues from financial services) within a 2-5 year period. This would require amassing a portfolio of several thousand borrowers during this time while maintaining greater than 95 percent repayment rates.<sup>10</sup> Such results have been achieved by microenterprise finance programs operating along these generic lines in the more successful ACCION programs, in the Alexandria Businessmen's Association in Egypt, and in the Bank Rakyat Indonesia and other bank-led Indonesian programs.

The GEMINI team discussed these options with the Moroccan participants during the assessment workshop. In developing their own program models, the participants showed strong preferences for one option or another. Bankers preferred the bank route, NGOs the NGO route, and entrepreneurs the new foundation route. One working group combined two options in the spirit of compromise, but none offered an alternative to the three basic paths.

## RECOMMENDATIONS

Based on the preceding analysis, the GEMINI team offers the following recommendations.

<b>Issue:</b>	<b>Implementing Institution/Delivery Model</b>
<b>Recommendation:</b>	<b>Pursue the creation of a new foundation, preferably affiliated with one or more existing financial institutions.</b>

The GEMINI team believes that the best option for delivery of microenterprise credit in Morocco would be through a new foundation. Although creation will require considerable up-front time and effort by USAID/M and the foundation's directors, a new institution can be designed to maximize the efficiency of its microlending operations, and can price services based on the requirements of self-sufficiency. USAID/Egypt's experience indicates that, once established, a soundly managed foundation can achieve rapid results.<sup>11</sup>

A bank represents the most attractive host for a foundation. It provides an existing structure and a nationwide network, a charter, an entrée into the formal financial system, and a commitment to self-sustainability — all vital to project success. A bank also provides a direct means to integrate savings and credit. Financial institutions have lawyers and other key staff in place to take the lead in start-up efforts, existing articles of association to use for reference, and contacts in government to facilitate the approval process.

If one or more of the banks or financial institutions could be persuaded to start a foundation, USAID's start-up efforts would be reduced considerably. The GEMINI team feels this scenario is

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<sup>10</sup>These are ballpark figures, based upon calculations made by CRS. Precise calculations of minimum portfolio size to obtain self-sufficiency were not possible during the limited time available to the GEMINI team. Such work should be undertaken in follow-up project development work.

<sup>11</sup>The Alexandria Businessmen's Association, supported by USAID, reached self-sustainability in its credit program within two years of issuing its first loan.

feasible if certain obstacles are overcome.<sup>12</sup> The risks to banks are high in a time of decreasing liquidity and strong competition from safer, better-understood financial markets. A bank-based foundation can work only if the government removes controls on interest rates, allowing financial services to use prices commensurate with transaction costs.

The GEMINI workshop challenged notions that microenterprise lending cannot be profitable. But attitudes do not change rapidly; bankers will need time and exposure to profitable microlending operations, to decide how deeply their institutions should tread in these new waters. The BCP, CNCA, and BMCE have indicated sufficient interest in the project to warrant further discussion with senior management in headquarters and branches, and visits to selected regions to review their operations.

If partners in the banking and finance community cannot be found, the GEMINI team recommends creation of an independent foundation, in which financial institutions serve on the Board of Directors along with representatives from the private sector, NGOs, and the government. This alternative would place lower demands and risk on the financial institutions; the GEMINI team is confident that this level of participation can be obtained. Although this would not provide the level of start-up support available to a bank's own foundation, some resources should be leveraged through high-level, motivated Board members.

USAID should measure the interest of leading private sector representatives in directing a new foundation dedicated to microenterprise lending and other support. It should consult with representatives of business associations and with leading entrepreneurs in selected areas to find out what kinds of linkages already exist between large and microenterprises, and whether new lending initiatives directed by a larger business-led group are feasible.

**Recommendation:**     **Defer consideration of a PVO/NGO-based model until the PVO/NGO community has had time to develop its institutional capacity and a base of experience in microenterprise credit.**

Given the inexperience of the Moroccan NGO community and the complete absence of microenterprise credit knowledge and expertise, the GEMINI team believes that USAID/M would be unwise to select a project model that uses an NGO as its focal point at this time.

Although, NGOs have the potential to reach a large part of the project's potential beneficiaries, particularly women and rural entrepreneurs, neither they nor the US PVOs present in Morocco have the resources and concentration required to be the ground-breakers in this area.

Funds for technical assistance and training would greatly help CRS, but the team recommends that CRS obtain these from A.I.D.'s Bureau for Food and Voluntary Assistance, Office of Private and Voluntary Cooperation and from its other donors, not from USAID/M. CRS has a Small Enterprise Development technical assistance unit based in Baltimore, which has considerable experience in microenterprise credit, particularly the village banking model. However, the unit is small and

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<sup>12</sup>The BCP already has created two foundations, one to provide technical assistance to new entrepreneurs and one to support social programs. The BCP's recent loss of tax-free status has increased its awareness of the cost of subsidized programs, which might generate interest in transforming its small lending programs into viable operations. BCP representatives expressed considerable interest in the micro-lending models discussed at the workshop, as did CNCA and BMCE; they stated that several financial institutions might be willing to take part in such an operation.

overextended at this time. Having to raise funds in the United States will ensure that this unit devotes proper time and attention to the Morocco program.

By deferring support for CRS or other PVO/NGO efforts, USAID/M can let these institutions prove their own commitment and capabilities, for example through the implementation of CRS's pilot microcredit effort and launch of AMSED.<sup>13</sup> USAID/M should monitor this experience to gauge NGO capabilities and to learn which techniques for reducing lending costs and motivating repayment work (or do not work) in Morocco.

If USAID/M wishes to strengthen the PVO/NGO community, it might consider a separate PVO project focusing on general institution building. Umbrella projects have been used by USAID in other countries to provide funds, training, technical assistance and information. However, a recent evaluation of such projects in Africa warned against trying to push PVOs and NGOs to take on new roles too quickly, especially in economic development activities.<sup>14</sup>

**Issue:**                      **Geographic Focus**

**Recommendation:**      **Concentrate on the Fes/Meknes region**

Four population centers have the greatest concentrations of microenterprise activity and represent the best prospects for an operation seeking sufficient portfolio levels to achieve self-sufficiency: Casablanca/Rabat, Fes/Meknes, Tanger/Tetouan, and Marrakech. The GEMINI team believes that a microenterprise project that begins in the Fes/Meknes area has the greatest potential for success.

Casablanca/Rabat has the largest microenterprise community, but it also has the highest level of USAID/M and other donor private sector assistance (including the new NED project). Tanger/Tetouan has a relatively low microenterprise population but an attractive location, particularly for tourist and export products; however, large amounts of drug money discourage microcredit service development. Marrakech has the smallest microenterprise population of the four areas. It is developing new industrial zones to stimulate activities outside the tourism industry.

Fes/Meknes has the second-largest microenterprise population after Casablanca/Rabat; the area has little USAID/M activity. Fes has a very active regional office of the Ministry of Artisanat, now implementing a census and technical training program (with German assistance); it is a center of high Société de Cautionnement Mutuelle activity and active MASA support. Both towns are in the center of a major agricultural area, presenting opportunities for linking rural agricultural production with urban microenterprise activity.

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<sup>13</sup>AMSED is a Moroccan NGO being created by CRS local staff and former employees. It will manage part of CRS's project portfolio, including its new microenterprise credit program. It is designed as an umbrella NGO devoted to supporting other Moroccan NGO development.

<sup>14</sup>The study (DATEX, 1992) points out that not all PVOs and NGOs can or should grow to fill roles that USAID would like them to play. It cites credit programs as a prime example of PVO and NGO difficulties in making a transition from welfare to more facilitative tasks.

More information should be collected before a final site determination is made. The key to site selection will be competent, motivated groups that exist or can be formed and are willing to undertake the hard work required to promote new banking operations or to create and direct a new foundation.

## **ACTION PLAN**

### **Phase 1: Months 1-6**

The GEMINI team feels that USAID/M is not ready to proceed with a PID or other project document development at this time. The question of the project's institutional center needs to be resolved, at which point more formal project development can begin. To do this, the following tasks should be undertaken:

- Visit Tanger/Tetouan to research associative activity within the microenterprise community, and to visit with financial institutions and other agencies interested in microlending or other microenterprise support.
- Make follow-up visits to Marrakech and Fes/Meknes to discuss possible participation in microenterprise support with senior management of banks, NGOs, and private sector organizations.<sup>15</sup>
- Visit senior officials from BCP, CNCA, and BCME in Casablanca and Rabat to discuss possible collaboration and review their small and microenterprise credit experience in greater detail.
- Visit with finance societies operating in the four regions to understand more about their methods and potential interest in and suitability for microenterprise lending.
- Meet with Ministry of Finance officials and others to determine the regulations concerning nonprofit institutions operating lending programs.
- Select a group of persons most likely to be interested and involved in new USAID/M microenterprise assistance, and organize a visit to the Egypt and Indonesia microenterprise lending programs.
- Produce a Project Identification Document.
- Hold consultative meetings or a second workshop to discuss the project document and next steps to be taken.
- Determine foundation make-up and directorship.

### **Phase 2: Months 6-12**

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<sup>15</sup>Kheurisset, a peri-urban center where CNCA has operated pilot credit projects, might also be included in these visits.

During this time USAID/M and GOM will design the project and select its implementing institutions. The major steps to be taken will be:

- Determine GOM role in the project.
- Monitor the CRS pilot microcredit project, noting techniques chosen for lending, initial portfolio development, and repayment performance.
- Develop conditions precedent for USAID/M support to the primary implementing agency (and a structure and charter for that agency, if it is to be a new institution).
- Produce Project Paper (or equivalent document).
- Determine how technical assistance is to be provided to the implementing agency, and select an institution (or institutions) to provide this assistance.
- Fill in key information gaps through focused investigations on topics such as:
  - Credit needs of home-based women entrepreneurs;
  - Strategies used in "informal" finance;
  - Operations of informal microenterprise associations; and
  - Traditional savings practices, and other poorly understood matters which could provide useful ideas for how to efficiently manage financial services.