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PRACTICAL GUIDE FOR HOUSING MICROFINANCE IN MOROCCO

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EXECUTIVE SUMMARY

Housing microfinance is defined as the provision of loans to construct and purchase homes, buy land, improve existing structures, install utilities and other basic services, and complete titling processes. Although relatively new in Morocco, housing microfinance has a long history in many countries where an increasing set of "best practices" is emerging. In this report, CHF International outlines key results from a quantitative survey it conducted in six Moroccan cities and provides guidelines on housing finance for microfinance institutions (MFIs). CHF International has over twenty years' experience in designing and developing financial services throughout the world. The organization currently oversees 12 microfinance programs in 11 countries (Iraq, Jordan, Lebanon, West Bank/ Gaza, Afghanistan, Bosnia, Romania, Colombia, Honduras, Mexico, and Peru), monitoring and managing over US$49 million of microfinance assets with a global portfolio at risk (PAR > 30 days) of 2%.

Housing finance products, due to the higher loan size and thus greater risk involved, require more serious consideration of collateral such as mortgages. Housing loans are most often provided on an individual basis and require well-trained personnel and an evaluation methodology that accurately calculates a client's repayment capacity. In addition, some MFIs choose to offer technical assistance to clients as part of the credit delivery. Reasons for including technical assistance include risk management through a careful budgeting analysis of the costs of construction, institutional reputation (ensuring high-quality construction design and building materials), and the provision of a value-added service that promotes greater client satisfaction. Alliances with the government, developers, construction firms and cement companies can help an MFI achieve a greater scale of outreach and/or funding for housing loans.

Currently three MFIs (Al Amana, FONDEP and Zakoura) implement housing loan programs, though these products are not yet offered in all branches. The Association Maroccaine de Solidarité Sans Frontières (AMSSF) intends to launch a pilot housing product in May 2005. The Fondation Banque Populaire pour le Microcrédit has defined a housing loan for launch later this year, and several other institutions have expressed interest. Current products offered focus on home improvement rather than construction or home purchase.

In late 2004, CHF developed a quantitative survey to obtain baseline data on urban low-income entrepreneurs and salaried earners in order to gauge potential demand for various types of housing loan products in Morocco. The survey paid particular attention to household characteristics, sources and amounts of income, use of formal and informal financial services, desire for a home improvement loan and home construction/purchase, and the perceived costs of major projects.

A quantitative market study was conducted in six Moroccan cities in late 2004 and early 2005, with a sample of 2,000 people. The survey results indicated a significant portion of the respondents belonged to a socio-economic level above current MFI clients in Morocco. MFIs who wish to service current target clients with housing loans should pay attention to the lowest two quartiles in the survey; while MFIs considering a move up market may be interested in the results of the two higher income quartiles.

Most respondents had undertaken at least one home improvement in the past five years, which cost an average of DH 9,239 ($1,064). Only 5% of improvements were financed by loans; and 43% of the respondents said they were interested in obtaining a loan to improve their home. The average respondent mentioned plans for 2.1 improvements, showing they have several projects he/she may wish to finance.

The typical loan desired by respondents was for DH 25,799 ($2,972), with a term of 50 months and a payment of DH 576 per month, which implies an effective annual interest rate of 5.3% on the declining balance. However, this indicates that respondents may not have an accurate picture of the real costs of projects, or have considered the option of breaking them down into more affordable steps. If loan amounts are reduced to DH 10,000, interest rates raised to 24% per year on the declining balance, and payments set at DH 500 a month, the loan term would be 26 months.

Thus, to confront a desire for large loans and long terms, MFIs should consider progressive building. This approach provides a series of short-term loans, often 12 to 18 months each, keeping terms and payments manageable, while allowing clients to complete their improvements over several cycles. MFIs should promote progressive housing loans so their clients can build in stages, based on their household's repayment capacity. As loan sizes increase, institutions should examine their guarantee policies to lower their risks from default by using a type of collateral that can be easily seized in case of non-payment.

Based on the local context, survey results and current supply of housing finance, six specific housing loan products are proposed:

- Minor home improvements
- Major home improvements
- Connection to basic services
- Employer-based loan products
- Land acquisition
- House purchase

Not all of these products may be applicable to all institutions and are for illustrative purposes to promote further discussion.

Generic financial projections for a single housing product to finance minor home improvements are also included in the annexes. The projections indicate that loan officer productivity has the greatest impact on the product's profitability, followed by loan size and then interest rate. With the given cost structure, the product can reach break-even in less than a year if loan officers make ten new loans a month, when the average loan size is DH 10,000 ($1,156)and the interest rate is 2.5% per month (30% per year) on the declining balance. If loan officers make five new loans per month, with an average size of DH 7,500, and interest rates of 2.5% per month, the breakeven point will be in the last quarter of year three.

In summary, the main conclusions about housing finance in Morocco are:

Progressive building is well suited for Morocco, where clients desire larger loan amounts and longer terms than MFIs may be willing to provide. A series of incremental loans allow clients to complete their improvements over several cycles.

Physical collateral is useful in minimizing defaults for larger and long term loans. MFIs should carefully assess the costs and benefits of various types of guarantees to provide a housing loan product that is both affordable for the poor and minimizes risk to the institution.

Technical assistance should be carefully assessed by each MFI and tailored to market realities based on the institution's local operating context.

Price lists showing the costs of common construction projects prepared by each institution are a good way to help loan officers determine loan amounts required for clients to complete their projects and to help clients better understand competitive supplier costs of materials needed for their desired home improvement.

Pilot tests should be performed on all new products, including housing, to ensure that the housing product is accepted in the marketplace and that the MFI has the resources and systems required to manage it before rolling out to a larger scale. A pilot testing framework is included in this document.

Housing loans allow microfinance institutions to reduce their risks from business loan funds being applied to housing, maintain low delinquency rates and expand their markets. Such products also meet client demand and strengthen links between an association and its borrowers, factors which make the institution better able to face growing competition. Housing loans should be part of a Moroccan MFI's long term strategy in order to continue its growth and viability.

CHF will work with institutions who have launched, or are about to begin, housing loans, to ensure these are best adapted to borrowers and institutions. CHF also plans to disseminate key findings from the pilots, in order to promote more housing lending in Morocco. If MFIs commit to providing housing finance, as a key part of their product mix and business strategy, then such loans can fulfill their potential to improve the lives of hundreds of thousands of Moroccan families.

I. Background

A. Macroeconomic Indicators

Morocco has a population of thirty million people and a per capita national income of US $1,310, making the kingdom a middle-income country.[1] As in many other developing countries, the urban population has increased rapidly over the past forty years, from 29% in 1960 to 57% of the population in 2002,[2] contributing to a high demand for urban housing.

Poverty rates have increased during the 1990s, from 13% to 19% of the population. Much of this increase originated from rural areas, where 27% of the population was poor in 2001; the corresponding figure is 12% for urban areas. The poverty line in Morocco in 2002 was defined as DH 3,922[3] (US $452) per capita per year in urban areas, and DH 3,037 (US $350) in rural areas. The monthly minimum wage (SMIG) of DH 1826 per month allows a single employee to keep a typical urban family of 5.5 people just above the poverty line. Mean monthly salaries in urban areas are DH 2,867.

B. Housing Information

Home ownership rates increased in Morocco during the 1990s, from 65% in 1995 to 74% in 2001, reflecting greater urban home ownership, which increased from 53% in 1995 to 62% in 2001. Nearly all households in rural areas own their homes.[4]

Urban dwellings have access to better infrastructure than rural ones -- 94% of urban homes have running water and 85% have sewage connections, compared to 20% and 2% respectively in rural areas. In cities, 92% of homes have electricity. National figures show houses have an average of three rooms, with 1.9 people per room.

A recent study by PlaNet Finance[5] considered the impact of microfinance on clients. Among persons who had been active in MFIs for more than three years, 51% said their housing conditions had improved over the past two years. By comparison, among people who had been with MFIs for less than six months, 46% of them reported better housing over the past two years. The small difference between older clients and newer ones shows that enterprise loans do not appear to be diverted to housing on a large scale, and microfinance appears to have a small, positive impact on housing in Morocco.

C. Microfinance Sector

[1] Figures are from 2003, found in World Bank, World Development Indicators 2005.
[2] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002.
[3] The exchange rate in April 2005 was 8.682 Moroccan dirhams (DH) to the US dollar.
[4] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002.
[5] PlaNet Finance, Évaluation de l'impact du microcrédit au Maroc, (Evaluation of the Impact of Microcredit in Morocco), 2004.

Microfinance institutions were authorized in Morocco by law in 2000. Their activities were limited to lending for income generating activities run by the economically vulnerable. Housing loans were not permitted, except to expand a lodging that was also used to operate an enterprise. In 2002, the microfinance law was changed to allow borrowers to use loans to buy, build or improve their houses, or to add electricity or water to their dwellings. Microfinance loans cannot exceed DH 30,000 ($3,456).

Microfinance institutions must operate as non-profit associations, but this legal form has not prevented most associations from becoming financially sustainable. They are required to be members of the National Federation of Microfinance Associations (FNAM), which represents the sector. MFIs cannot mobilize deposits directly from the public. The Finance Ministry, working with the National Microcredit Consultative Council, supervises microfinance institutions in Morocco.

Over the past five years, microfinance has grown rapidly in Morocco. FNAM has 12 member institutions serving 403,950 active loan clients as of September 2004.[6] The largest institutions, Zakoura and Al Amana, each have more than 100,000 active loan clients. The sector has grown rapidly because it addresses the financial needs of large numbers of micro entrepreneurs who have been excluded from the formal financial system.

More than 95% of outstanding loans are backed by solidarity group guarantees. Larger institutions -- particularly Al Amana, Zakoura and the Fondation Banque Populaire (FBP) -- have developed individual lending programs. Institutions that have housing loan products are Al Amana, Zakoura, Fondation pour le Développement Local et le Partenariat (FONDEP), Association Marocaine de Solidarité sans Frontière (AMSSF) and FBP. A recent impact study[7] found 68% of loan clients were women, but five associations (Al Karama, Ismaila, Amos, AMSSF and Zakoura) target women almost exclusively. For the remaining associations, 49% of their clients are female.

II. Main Issues in Housing Microfinance

Although new in Morocco, housing microfinance has a long history. Housing microfinance is defined as the provision of loans to construct and purchase homes, buy land, improve existing structures, install utilities and other basic services, and complete titling processes. Loans to purchase moveable assets, such as furniture and appliances, are considered as consumer loans rather than housing microfinance.

As with the introduction of any new product, institutions must know their markets and legal contexts well before launching housing finance programs -- particularly when dealing with guarantees such as mortgages and foreclosures -- since legal and regulatory factors often vary among regions, countries, and even within countries.

A. Guarantees

[6] FNAM website, www.fnam.ma
[7] PlaNet Finance, Évaluation de l’impact du microcrédit au Maroc, 2004.

All institutions providing housing microfinance require some form of guarantee, which may include collateral. Smaller individual loans may be backed by guarantors, household goods, forced savings, or a combination thereof. In Morocco, guarantors and promissory notes (*reconnaissance de dette*) are the most common types of individual loan guarantees. As loans become larger, institutions often need to reduce their risks by taking goods and/or property as collateral. For whole house financing, MFIs should consider mortgage-backed lending. However, foreclosures may be costly or even impossible to pursue. Local circumstances are also important; for instance, PRODEM in Bolivia offers house purchase loans backed by mortgages. If the borrower defaults on his/her home mortgage, the institution arranges a private sale of the client's house so that the MFI can recover delinquent amounts without recourse to courts. Developing innovative ways to enforce guarantees in the absence of an efficient legal system requires deep knowledge of local markets. Institutions with no previous experience in mortgage financing should undertake exhaustive analysis of the legal framework, the enforceability of mortgages and the costs of using such guarantees, before taking mortgages as collateral. The same considerations apply when considering the legal options for enforcement of the guarantees provided on any type of delinquent loan.

B. Operations

Before introducing a housing loan product, institutions should focus on operational issues such as offering group versus individual loans, adjustments to loan appraisal methodology, post-loan monitoring, staffing required and current staff capacity, incentive systems, the place of housing loans within the organizational structure and MIS.

Based on experience to date, almost all housing loans are made on an individual basis. People's attachment to their homes may make them more likely to repay housing loans, but relatively larger loan sizes can make them reluctant to cover a group member. Institutions need to have a well-functioning individual loan appraisal methodology that measures borrower repayment capacity carefully before issuing housing loans.

Given the longer loan terms and higher amounts, many institutions that offer housing in addition to other products charge lower interest rates on housing loans. As a result, some clients may be tempted to apply for a housing loan to take advantage of a lower cost, and then apply the funds to another purpose. Although fund diversion from housing loans is less common than diversion of enterprise loans, MFIs often send a loan officer to visit the client's house four to six weeks after disbursement to verify loan usage. If the loan is not used for housing, the institution can write into the loan contract that a higher interest rate will be charged. These visits can also be used to remind clients of repayments and gather information about construction costs and client satisfaction.

With regards to human resources, the profile of loan officers, the way in which they are supervised, and the design of incentive systems are all important. MFIs with loan officers who have mastered individual enterprise lending often use multi-product loan officers, selling both business and housing loans. This strengthens the relationship between the loan officer and the client, and lowers the cost of introducing housing loans. However, if multi-product officers focus mainly on enterprise lending, they may not promote housing more actively unless an incentive system that specifies targets for housing and enterprise loans is in place.

If the MFI has little experience with individual lending, it should consider hiring new housing officers and training them. Group loan officers often lack the financial and analytical skills needed to assess a client's business. Stationing them at a central point, such as a large office in a city, allows for more management attention to them -- as long as distances do not require significant time spent traveling to visit clients. If these officers are posted in branches, their managers must give them sufficient support and supervision.

Within the MFI, housing needs a well-defined product champion responsible for the product at the head office. In larger MFIs, the champion can be a full-time staff person, but for smaller institutions an existing staff person can assume this role part-time. If loan officers manage a single product, they should report to the product champion.

Incentive systems must be designed in a way to encourage growth of the housing loan product, especially since placing a housing loan may be more labor intensive, particularly during a pilot phase. This is particularly important for multi-product loan officers and branch managers. For instance, FAMA in Nicaragua gave loan officers a cash bonus, larger than their usual incentive payment, for each new housing loan they disbursed during the product's first six months.

C. Technical Assistance

Some MFIs choose to offer technical assistance (such as construction assistance) to client as part of the credit delivery. Some reasons for including technical assistance include risk management through careful budgeting analysis of costs of construction, institutional reputation (ensuring high-quality construction design and building materials), and the provision of a value-added service to promote greater client satisfaction. Technical assistance falls within two main categories: *Pre-loan assistance*, which often includes construction design, budget development, client education (guidance on which materials to use, where to purchase them, labor needed, training on self-help construction, and how to

Text Box 1: Housing Technical Assistance

> CHF's microfinance subsidiary Fundacion Vivienda Progressivo (FVP) in Nuevo Laredo, Mexico employs one architect in its office to support loan officers by approximating costs of construction and providing advice to clients who wish to do extensive home improvements (such as adding a room or other structural changes to a house). In this way, the client benefits from an expert's view of changes to be made, costs associated, and avoids any structural damage to the safety of the house. Assuming the applicant is eligible and all documentation is in order, the client deposits a $20 architect fee to the bank, after which the architect makes an on-site visit to work with the client. Working on a contractual basis with FVP, the architect assesses architectural needs, designs the improvements, and uses a software program to determine the necessary budget.

achieve their construction goals through an incremental (progressive) building approach); and *post-loan assistance*, which includes construction follow-up or purchase of construction materials (for example, through a voucher system rather than cash loan disbursement.) Worldwide experience in housing loans indicates that MFIs should assess carefully the pros and cons of offering technical assistance and should tailor their assistance to market realities based on their local operating context.

The key to offering technical assistance, if built into the product, is ensuring cost-effectiveness. For example, instead of hiring full-time construction engineers or architects, many MFIs train loan officers in basic principles of construction. Others may add a staff engineer to verify construction plans for large projects or contract an architect rather than offering full-time employment. Regardless of the approach, such assistance should be kept as simple as possible to maintain institutional efficiency without jeopardizing the client's well-being.[8]

D. Management Information Systems (MIS)

MFIs should verify that their MIS can handle a new product, use differing repayment schedules such as weekly versus monthly, service clients with more than one loan outstanding at any one time, and handle longer loan terms. Some clients may want to reduce their payments in "slow business" periods when their incomes are lower; however few systems are able to handle variable payments. If an MFI has serious problems with its existing MIS and product mix, it should not add a new housing product until these issues are resolved, as the MIS will also be necessary to monitor the pilot test and housing product in a timely and accurate manner.

E. Financing

<u>Progressive Building</u>: Housing microfinance loan terms are typically between 12 and 24 months, with a maximum of three years. Longer loan terms result in greater financial implications for the MFI, particularly for purchase or construction of an entire house that often requires terms of five or more years. Many MFIs face difficulties in accessing liabilities with terms greater than two years to fund housing portfolios. To address this problem, most MFIs break the initial amount a client may want into several steps through a progressive building approach, which makes financing more affordable to both MFIs and their clients. A series of incremental loans to clients keeps terms manageable, while allowing clients to complete their improvements over several cycles. For larger loans that are needed for housing purchase or construction, public authorities may have funding sources available that could be used to complement MFI financing. In Morocco, larger MFIs have access to commercial bank financing with terms up to seven years, so their liability term structures are not a major concern.

F. Alliances

[8] More detail on technical assistance for housing loans can be found in Kimberly Tilock's article in *Housing Microfinance*, Daphnis & Ferguson, eds., 2004.

Alliances with the government, developers, construction firms and cement companies can help an MFI achieve greater scale of outreach and/or funding for housing loans. Builders often focus on homes for the wealthy, but government social housing programs may encourage new construction for some low-income groups. However, many government programs target only the "upper poor," and exclude self-employed entrepreneurs. MFIs that know their markets well could provide referrals for their clients to access government financing assistance for new home purchase or construction, provided government programs will accept MFI clients. Several institutions with successful housing finance programs, such as Mibanco in Peru, have developed such alliances, most often after the initial loans have been made. This type of collaboration is a medium to long term opportunity for growth that institutions should consider pursuing.

Text Box 2: Housing microfinance and the growth of the construction industry

CHF's microfinance organization in Peru, PROGRESSO, provides micro credits to households in urban-marginal sectors of Cajamarca and Baños del Inca to start housing construction or to improve, enlarge and/or finish their homes. PROGRESSO was established with initial start-up capital from a mining company with the idea of improving or constructing homes for the company's employees and their families. Built into the product is a technical assistance component that consists of designing and prioritizing --- together with all family members --- the construction of new housing, or enlargements, improvements and finishing thereto, according to their needs. This assistance also includes the preparation of budgets and plans.

PROGRESSO staff members also provide assistance to clients in the selection of materials to be used, emphasizing the quality of products, competitive prices and timely deliveries based on their in-depth knowledge of the construction market.

Thus, a secondary benefit of PROGRESSO's strategy, and part of its mission, is generating a local construction industry capable of implementing, in agreement with appropriate quality and performance standards, housing construction and improvement activities. Technical assistance and credit availability constitute the needed factors to put forth a viable and competitive local construction industry, which further contributes to economic development of the region.

Four types of alliances are:

- Down payment loans, whereby institutions provide clients with loans to make down payments on new homes offered by social housing programs.
- Social housing programs are often aimed at poor salaried employees, excluding microentrepreneurs. With their experience in working with the self-employed and in evaluating their creditworthiness, MFIs can work with governments to ensure their clients benefit from new housing.
- MFIs can also work with local utilities to expand access to electricity, running water and sewage. The institution can provide funds to the utility to cover the cost of a new installation, a deposit or both. The client repays the MFI, and not the utility, for this loan. Al Amana and Zakoura already use this type of loan.
- Home improvement loans with construction companies or hardware stores (*quincailleries*) can increase sales for private businesses. A construction

company can agree to provide material for a basic improvement, such as a 9m2 room, at a discount for selected MFI clients. The company increases its cash sales, while the institution gains a new client. The client receives his/her materials at a discount. Using a specific company should never be made a condition for receiving a home improvement loan; rather, if the MFI and company are both well respected in the market, and work well together, they can provide an attractive option for their clients. Institutions should contact several companies to find ones that are most committed such partnerships.

Text Box 3: Vouchers to purchase construction materials

CHF's microfinance partner in Juarez, Mexico, FUNHAVI, uses a voucher system for clients to purchase construction materials from specific suppliers. (As a loan-promotion incentive, suppliers who had originally referred the client to FUNHAVI are awarded by being the exclusive seller of materials to that client.) FUNHAVI has an arrangement with suppliers whereby FUNHAVI purchases in bulk at low wholesale prices, but sells these materials to FUNHAVI's clients at retail market prices. By requiring that clients purchase from specific suppliers, FUNHAVI is able to generate additional, non-interest income that accounts for 11 percent of its total revenue, and has some assurance that clients are using quality building materials.

However, MFIs wishing to explore this system should research extensively; in FUNHAVI's experience, clients preferred to buy their own materials from their chosen supplier rather than be restricted to vouchers that specified a supplier. It is also important to keep up with competition for such materials, as prices often change and can actually put both the institution and the client at a disadvantage.

G. Illegal Settlements

MFIs can lend to people living in illegal settlements if the institution knows the local context well and is confident that homes will not be destroyed. They must also verify that homeowners have some documented right to their dwelling, even if this is not a full land title. In some countries, people living in illegal settlements may have *de facto* protection from eviction, or some right to their homes, and they can thus be eligible for housing loans. In Morocco, where *bidonvilles* are slated for eradication, lending to improve houses in slums would not be advisable. Loans made to improve homes in illegal settlements, or in dwellings not owned by the borrowers, could create social and legal problems for the institution.

III. Housing Finance Market Survey

In late 2004, CHF developed a quantitative survey based on a standardized methodology previously used in several countries to obtain baseline data on urban low-income entrepreneurs and salaried earners in order to gauge potential demand for housing loan products in Morocco. The survey paid particular attention to household characteristics, sources and amounts of income, use of formal and informal financial services, desire for a home improvement loan, completed and planned home improvements, and the perceived costs of major projects.

A sample size of 2,000 was used to ensure data was representative of the target population. The sample was divided among the six principal urban areas in Morocco with high concentrations of microfinance institutions: Casablanca (30%), Rabat (25%), Marrakech (15%), Fez (15%), Benguerrir (7.5%) and Azrou (7.5%). Survey subjects were selected using a random walk approach within parameters selected for each town. Economic sectors and gender considerations were taken into account in the sample selection process. While participating microfinance institutions collaborated with the survey team in sample selection, the associations did not provide specific information, such as client lists, that would ensure specific individuals were surveyed.

The survey was carried out between the last week of December, 2004 and February 28, 2005. Twenty-one enumerators were used.[9] All were university graduates and received four days of training before beginning the survey. An additional day of training was provided to each group at the work site. During the training the survey was pre-tested, resulting in some minor changes in the wording of some questions.

IV. Survey Results

A. Sample Characteristics

The survey sampled 2,000 adults aged between 21 and 68 in six cities: Casablanca (30%), Rabat (25%), Marrakech (15%), Fez (15%), Benguerrir (7.5%) and Azrou (7.5%). Of the sample, 53% were salaried employees, 47% were entrepreneurs, and 0.3% were both. Men made up 66% of the respondents.

Just over a third of the respondents said they owned their homes. 30% said they lived rent free; assuming these people lived with a family member who owned their home, this gives a home ownership rate of 64%, close to 62% reported for urban areas in the government’s 2001 statistics. A bare majority of home owners (51%) reported having a registered title deed, 28% a registered sales contract, while 21% said they did not have any ownership documents. Of the remainder of the sample, 25% were renters, 11% renters with a security deposit, and 4% were living in a slum area. According to the results, 37% of women reported they were homeowners compared to 32% of men – which suggests that MFIs that target women should not have difficulty servicing current or potential women clients with housing loans.

The sample for this survey reported higher education levels than found in other surveys or among current MFI clients.[10] Only 9% of the sample, and 13% of the women, said they were illiterate or only knew numbers. Official statistics state 46% of urban women, and 21% of urban men over the age of ten are illiterate. PlaNet Finance found illiteracy rates of 45% among microfinance clients in 2002.[11]

[9] Nine in Casablanca, three in Rabat, two in Fes, two in Marrakech, three in Benguerrir and two in Azrou.

[10] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002, and PlaNet Finance, Évaluation de l’impact du microcrédit au Maroc, 2004.

[11] PlaNet Finance, Évaluation de l’impact du microcrédit au Maroc, 2004.

For household income, the sample roughly coincides with a profile for urban Morocco. Most of the sample group reported higher incomes than typical MFI clients.[12] The survey exhibited a mean monthly income from all sources of DH 4,502, including DH 2,989 from the principal income source. The median total monthly income was DH 4,100. The mean monthly salary in Morocco was DH 2,867 in 2002.[13] The Moroccan Statistics Office does not report average incomes, but declared urban household monthly expenditures in 1998 to be DH 4,732. The survey found mean annual household expenses to be DH 3,552.

The survey was divided into total monthly income quartiles to better understand potential market segments. The first (lowest) quartile ranged from DH 700 to DH 3,000, the second from DH 3,001 to DH 4,100, the third from DH 4,101 to DH 5,500 and the fourth from DH 5,501 to DH 32,000. The total range in the sample was DH 700 to DH 32,000.

Table 1: Distribution of sample by monthly income

Source of Income	Income Quartiles			
Means in DH/Month	First	Second	Third	Fourth
Main enterprise or employment	2022	2810	3045	4164
Other income	100	222	334	514
Spouse's income	87	340	827	1743
Other sources of income	99	272	604	1034
Total income	2309	3643	4810	7445

The bottom quartile, with incomes ranging between DH 700 and DH 3,000 per month, has a mean monthly income of DH 2,309, which is above the poverty line of DH 1,798 per month.[14] On the expense side, the sample median of 3,318 DH per month is higher than the figure reported by PlaNet Finance for MFI clients of DH 2,500. This sample is, on average, less poor than typical loan clients as reported by PlaNet Finance.

It is important to note that a large portion of the survey respondents belong to a socio-economic level above current MFI clients in Morocco, as a result of the data collected via the random walk approach, and survey results should be considered with this in mind. MFIs who wish to service current target clients with housing loans should pay closer attention to the lowest two quartiles analyzed in the survey; while MFIs that may wish to move up market slightly may be interested in comparing results with the two higher income quartiles.

Table 2: Distribution of sample group by mean household monthly expenses

	Income Quartiles			
Source of Expenses	First	Second	Third	Fourth
Rent or Mortgage	460	604	792	1075

[12] According to PlaNet Finance, these are around DH 2,500 per month.
[13] Royaume du Maroc, 2002, op. cit.
[14] The 1998 urban poverty line was defined as the amount of money required to cover basic necessities, including 2,000 calories per day. It was DH 3,922 per person per year. Multiplying by 5.5 persons per household, the household poverty level is DH 21,571 per year, or DH 1,789 per month.

Electricity, water and telephone	166	243	259	351
Transportation	66	147	211	373
Food	1031	1378	1754	1979
Clothing	114	217	296	366
School and university fees	63	96	168	408
Medical expenses	60	96	139	190
Contribution to other family members	51	88	102	219
Installment on outstanding debt	148	373	381	505
Other expenses	140	222	301	623
Total expenses	1919	3020	3924	5472
Net household income	390	622	887	1975
Repayment capacity (25% of total income)	577	911	1201	1862
Repayment capacity (80% of net income)	312	504	706	1396

In this survey, those who had housing expenses said they spent an average of 21% of household expenditures on housing. This is the same percentage reported in national surveys.[15] The lowest quartile devotes 24% of spending to housing, while the upper quarter allocates an average of only 20% of their income on housing.[16]

B. Demand for Loans

The survey shows a high demand for and use of informal and formal credit. Entrepreneurs reported using the following informal sources: friends (38%), family (38%), colleagues (21%) and money lenders (3%). Only 0.7% of those surveyed reported being rejected from an informal loan. The average loan amount was DH 3,423, with a term of 115 days, and interest charges at 0.5% of the value of the loan, meaning most of these credits bore no interest.

Nearly one third of the respondents reported requesting a loan from a formal source (MFI/association,[17] bank, consumer credit company, or NGO) with slightly more women than men (34% vs. 33%) applying for such credit. The main reasons for not applying for a loan were the availability of other sources of finance, mentioned by 20% of those who did not apply. Other important reasons were lack of collateral (18%), fear of inability to repay (17%), lack of bank relations (14%) and high interest and fees (12%). 56 respondents said formal institutions had rejected their loan requests for the following reasons: lack of collateral (54%), poor credit history (13%), lack of bank relationships (9%) and lack of financial documents (7%).

[15] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002..
[16] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002.
[17] Microfinance institutions in Morocco are registered as associations, and are often known as such in the market. In this document, the terms “association” and “MFI” are used interchangeably.

Breaking down the sample, women were more likely than men to cite lack of collateral, availability of other means of financing, fear of inability to repay and lack of bank relations. By income levels, the poorer quartiles cited lack of collateral, fear of inability to repay and difficult procedures more often than the average. Predictably, wealthier potential clients cited other sources of finance and high costs as obstacles to applying for loans.

Table 3: Reasons for not applying for formal loans

Characteristic	**Total**	First Quartile	Second Quartile	Third Quartile	Fourth Quartile
Other credit sources available	**20%**	17%	20%	21%	23%
Lack of collateral	**18%**	21%	17%	16%	18%
Fear of inability to repay the loan	**17%**	19%	18%	16%	13%
Lack of bank relations	**14%**	16%	15%	14%	13%
High interest and fees	**12%**	10%	12%	12%	14%
Religious beliefs	**9%**	8%	12%	8%	9%
Difficult and lengthy procedures	**6%**	7%	3%	6%	7%
Lack of financial documents	**3%**	2%	4%	5%	2%
Other	**1%**	1%	1%	1%	2%

As for loans outstanding, the most common source overall was a bank (42%), followed by associations (30%), consumer credit companies (23%) and NGOs (5%). Looking at the income breakdown, associations are more commonly used by the lowest income quartile, at 41% compared to 36% for banks. However, banks and consumer credit companies become more popular as incomes rise.

Table 4: Sources of loans by income quartile

Source of loan	Income Quartiles			
	First	Second	Third	Fourth
Associations (MFIs)	41%	28%	28%	28%
Bank	36%	48%	40%	42%
Consumer Credit Company	19%	20%	26%	24%
NGO	4%	4%	5%	6%

As expected, formal loans received were larger than the short-term working capital loans made by MFIs. Average loan size received was DH 29,687 with a term of 39 months and an average monthly payment of DH 987, which gives an annual effective interest rate of 16.4%. The loans were backed by several forms of collateral, mainly bank accounts (43%), guarantors (15%), a business license (6%), and land (5%). The average collateral value was about 54% of the value of the loan. Loans were mainly used for consumption, (64%), followed by working capital (25%), and fixed assets (11%). Seventy percent of loans were made on an individual basis. When asked if they would be interested in an individual loan, 53% of the sample group responded affirmatively. Only 12% of the sample group said they would consider a group loan, or 88% of those questioned were not interested in a group loan.

1. Completed home improvements

With respect to home improvements, most respondents reported undertaking at least one during the past five years. Home owners were most likely, at 61%, to have done so, but surprisingly 57% of renters, and 59% of renters with security deposits, said they had undertaken improvements over the past five years as well. The owners spent more on their average improvements than renters, at DH 10,874 compared to DH 7,948.

Table 5: Home improvements made in the past five years, by home ownership status

	All	Owner	Rent	Rent with security deposit	Free of charge
Undertook a home improvement	58%	62%	57%	59%	54%
Type of improvement					
Painting	69%	68%	71%	70%	68%
Fixing the floor and walls	27%	31%	25%	24%	26%
Windows	27%	30%	26%	26%	26%
Water installations	27%	28%	25%	28%	26%
Doors	26%	29%	25%	28%	22%
Electricity installations	20%	21%	20%	21%	17%
Fixing the ceiling	14%	16%	15%	12%	11%
Extra room	13%	15%	12%	12%	10%
Building a bathroom	12%	12%	9%	8%	15%
Building a kitchen	6%	8%	5%	2%	6%
Extra apartment	2%	3%	3%	1%	2%
Building a home	2%	2%	1%	1%	1%
Average improvement cost (DH)	9,239	10,874	7,948	7,143	9,071

The most common improvement made was painting the house, followed by fixing the floor, windows, and water installations. There were no major differences in preferences among tenancy categories, though renters with deposits were slightly more likely to improve water installations and doors. Relatively few people added rooms or apartments -- only 15% of those surveyed -- which may indicate that these improvements are too expensive.

Table 6: Source of Funds for Past Home Improvements

	All	Owner	Rent	Rent with security deposit	Free of charge
Savings	59%	59%	58%	68%	55%

Informal loan	2%	2%	4%	0%	2%
Formal loan	3%	4%	3%	2%	2%
Family help	5%	5%	6%	5%	0%
More than one source	31%	30%	30%	26%	37%

The above table demonstrates that loans are rarely used to finance home improvements in Morocco. Nearly three-fifths of those who completed a home improvement relied exclusively on savings to complete their projects. Only 5% used loans from either informal or formal sources. This shows a large gap in housing finance that microfinance associations can fill. In addition, some clients are already saving for home improvements. For those with savings, a home improvement loan could be offered for less than the total cost of the project.

2. Planned home improvements

Only 43% of the sample said they were interested in obtaining a loan to improve their homes, a low figure compared to similar surveys.[18] Less than half of all home owners were interested in such a loan, but it is interesting to note that 43% of renters, and 36% of renters with security deposit, were interested in a home improvement loan.

A list of specified desired improvements is detailed in Table 6. The main improvement desired is to purchase furniture and household appliances, which are usually considered a consumption, not home improvement, loan.[19] Other projects are painting, fixing the floor and walls, and improving a room. In addition, the survey shows that 15% of the owners, but only 10% of renters and 7% of renters with security deposit, are interested in adding a room. By looking at the estimated costs of improvements, the less expensive projects, such as fixing walls and ceilings, are more popular.

The survey allowed respondents to mention more than one improvement. The average respondent referred to 2.1 improvements, indicating that people often have several projects they may wish to finance.

Table 7: Interest in specific home improvements, by ownership

Characteristics	Owner	Free of charge	Rent	Rent with security deposit
Interested in an home improvement loan	48%	38%	43%	36%
Furniture and household appliances	42%	44%	47%	32%
Painting	28%	27%	25%	21%
Fixing the floor and walls	27%	15%	19%	22%

[18] Response rates to this question in the author's experience range from 75% to 90% for home owners in Latin America and Africa.
[19] Such loans may not be legal for MFIs under current law which limits loans to income generating activities or home improvements.

Improving a room	17%	14%	13%	11%
Extra room	15%	12%	10%	7%
Building a home	14%	16%	26%	20
Fixing the ceiling	14%	7%	9%	10
Doors	12%	13%	14%	10
Windows	12%	12%	13%	7%
Electricity installations	10%	9%	15%	7%
Home registration	10%	8%	9%	11%
Water installations	9%	9%	14%	6%
Extra apartment	7%	6%	4%	6%
Building a bathroom	5%	4%	5%	7%
Building a kitchen	2%	4%	2%	1%

The survey also examined the costs of home improvements. The average amount spent for changes made in the past five years was DH 9,239, with home owners spending, on average, DH 10,874. When asked about desired improvements, respondents demonstrated that the average amount required to cover labor and materials was DH 29,520, showing a desire to spend more on future changes than previous ones.

Looking at specific loan uses, according to the perceptions of the sample group, the average amount required to complete a home improvement was DH 22,189, although past projects were completed for a good deal less at DH 9,239. Some of the more popular desired changes -- notably fixing the ceiling and repairing walls and floor, and improving a room -- are less costly, averaging DH 14,367 and DH 12,606 respectively. The survey reported that people had a mean savings of DH 3,721 to contribute to their projects; thus some of the smaller projects could be completed for loans of DH 8,885 to DH 10,646 according to the respondents' estimate of the costs.

The relatively high costs of improvements as expressed by the sample group suggest that MFIs should have a basic price list for the most common types of projects in their area.[20] These lists should be based on estimated actual costs as informed by local experts in basic construction and can be used by loan officers to determine the realistic value of a client's planned improvement. Loan staff can also explain how progressive loans work; for instance the loan officer can explain to a client who wants one larger loan to fix his/her roof and install electricity that with one loan at a time he/she can fix the roof initially, then have electricity installed with a subsequent loan.

The mean loan term demanded by respondents was 50 months. This varied by income, from 44 months for the lowest quartile to 55 for the third quartile and 49 months for the fourth. Interestingly, average monthly payments did not increase drastically among income groups. When asked how much they were willing to pay per month for a housing loan, the mean response from the survey was DH 576. The lowest quartile was willing to

[20] Al Amana, Zakoura, FONDEP and AMSSF have already developed price lists for common improvements and materials, in order for their credit staff to assess client budgets.

pay DH 505 per month, or 22% of income, while the highest quartile wanted an average monthly payment of DH 623, or 8% of income.

The survey did not specifically ask for desired costs of loans. However, assuming a mean loan of DH 25,799 (DH 29,520 cost of the project less DH 3,721 in savings), over 50 months, a monthly payment of DH 576, and no fees, the effective annual interest rate is 5.3%, much lower than those currently used by MFIs and commercial banks in Morocco.

Although estimates of total potential demand for housing finance (or microfinance in general) are not often reliable, some orders of magnitude can be calculated. Based on official statistics, there are 3,181,000 urban households in Morocco.[21] Assuming half of them are in the MFI target group, and 43% of this half (21.5% of the total) are interested in obtaining a housing loan, then 683,915 people are potential MFI housing loan clients. This number is 1.7 times the number of active MFI loan clients in Morocco, indicating a potential for MFIs to provide housing loans to the working poor who do not want, or are ineligible for, a business loan.

C. Summary of Desired Loan Characteristics

Eligibility	Adults, owners and renters Main improvements: furniture, painting, fixing floors and walls, some for house construction
Amount	DH 20,000 to 30,000. Some improvements for DH 9,000 to 12,500
Term	Average 50 months
Interest Rate / fees	5.3% APR
Appraisal technique	Individual
Repayment frequency	Monthly
Guarantees	Guarantor, buildings, combination of several types

D. Affordability Analysis

Housing loans, like any loan product, must be affordable. Focusing on the two lowest income quartiles, two main segments can be identified: those with mean monthly household incomes of DH 2,300 (with a range between DH 700 and DH 3,000) and those with mean incomes of DH 3,600 (with a range between DH 3,001 and 4,100). Assuming a maximum monthly payment of 25% of household income, maximum payments are DH 575 and DH 900 respectively. Analyzing survey results for net household income (total income less main expenditures), the lowest quartile has a net income of DH 390 and the second lowest a net income of DH 622. Assuming a maximum payment of 80% net household income, the maximum payments are DH 312 and DH 504 respectively.

[21] Royaume du Maroc, Haut Commisariat du Plan, Direction de la Statistique, Indicateurs Sociaux 2002.

In cases where clients have other outstanding debts, total monthly loan payments can be up to 40% of monthly income. According to the survey, mean debt payments are 7.75% of mean household income. This shows that a family paying a quarter of their income on a housing loan will not face unsustainable debt burdens.

For interest rates, three scenarios are used: 3% per month flat, often used in Morocco for group loans; 2% per month flat, used for some individual loans, and 1% per month flat, as a lower interest rate. Some institutions, such as Al Amana, are charging interest based on the declining balance for housing loans. Using the declining balance method reduces loan terms, assuming payments are constant. The loan amount is DH 25,799, the mean desired amount in the survey.

Table 8: Loan terms in years for DH 25,799 loan at varying monthly interest rates

	1% Flat	1% DB	2% Flat	2% DB	3% Flat	3% DB
Payment						
312	39.8	14.7	*	*	*	*
504	8.8	6.0	*	*	*	*
575	6.8	5.0	36.4	9.6	*	*
900	3.4	2.8	5.6	3.6	17.1	5.5

* Loan payment does not cover interest charges.

First, with a 2% flat interest rate, the interest charges alone are DH 516, so those paying DH 312 or DH 504 per month will never cover the interest charges under the flat method, or make their first month's payment under declining balance. If the interest rate increases to 3% per month, higher than typical rates in Morocco, only those paying DH 900 a month will be eligible for loans. Under the flat method, it would take more than 17 years to pay off the loan if the client pays DH 900 a month. If interest is calculated on a declining balance, the loan term for the same payment is only 5.5 years. If the interest rates are lowered to 1% per month flat, the loan term of DH 25,799 ranges from 3.4 years to almost 40 years, depending on the installment amount.

This exercise shows that loan amounts desired by the sample group, along with interest rates practiced by MFIs, lead to monthly payments that are unaffordable for existing target market segments. Even better-off clients require terms longer than those currently practiced.

The average respondent mentioned 2.1 improvements per loan, showing demand for progressive loans, where an MFI makes a first credit to complete a single improvement. If the first loan is repaid on time, the MFI makes a subsequent loan until the improvements are finished. This lowers the average loan amount, making payments more affordable over shorter terms than larger loans. Assuming a loan of DH 10,000, which would cover the average cost of past home improvements, at various interest rates and payments, required loan terms are:

Table 9: Loan terms in years for DH 10,000 at varying monthly interest rates

	1% Flat	1% DB	2% Flat	2% DB	3% Flat	3% DB
Payment						
312	4.0	3.2	7.5	4.3	69.5	9.2
504	2.1	1.9	2.8	2.1	4.2	2.5
575	1.8	1.6	2.3	1.8	3.1	2.1
900	1.1	1.0	1.3	1.1	1.4	1.1

Table 9 shows that a DH 10,000 home improvement loan for a relatively poor microfinance client is accessible only at a relatively low interest rate. Even at 2% per month flat, this family will need 7 ½ years to pay back their loan. If the interest is charged on the declining balance (*degressif*), it will take more than four years to repay. A more typical client, paying DH 504 per month, can repay the loan in 2.8 years (flat) or 2.1 years (declining).

V. Supply of Housing Finance

The following table shows the main characteristics of housing loan products in Morocco, using information supplied by MFIs in May.

Table 10: Housing Loans among Selected MFIs

	Al Amana	Zakoura	FONDEP	AMSSF-MC	FBPMC
Status	Pilot launched July 04, 16 branches Casa	Improvement pilot launched 9/04	Launched 3/05, 4 branches	40 applications, disbursement planned May	Pilot planned for end of May
Purpose of loan	Improvements, purchase	Improvements, add utilities, rural construction, social housing purchase	Improvements, purchase	Improvements, purchase	Improvements, purchase
Active Loans (April 05)	876 (300 Fez)	400 improvements, 1,000 utilities, 97 rural construction, 30 purchase	20 (est.)	0	0
Portfolio	7.5 M DH	6,000,000 DH (est.) 1.6 M purchase, 800 K improvement, 1.3 rural, 2.3 W & E	Awaiting results	0	0
Amounts	3,000 – 30,000 DH	2,000 – 5,000 DH; water & electricity up to 10,000 DH; purchase up to 30,000 DH	3,000 – 30,000 DH	3,000 – 30,000 DH	3,000 DH - 30,000 DH improvement; up to 50,000 purchase
Avg. Amount	10,500 DH	4,050 DH improvements, 2,300 DH utility, 13,412 DH rural, 26,833 DH purchase	Awaiting results	10,000 DH requested	0
Term	6 – 36 Mos	Improvement: 6 – 18 Mos; utility up to 36 Mos; Purchase up to 60 Mos	6 – 24 Mos	6 – 24 Mos	6 – 36 months improvements, up to 60 months purchase
Repayment frequency	28 days; 14 days	Monthly	Monthly	30 days	28 days
Interest Rate	29% DB <6000; 27% DB > 6000	18% flat improvements and utility up to 5,000	24% improvements, 20% extension, 15%	18 – 24% flat	14.4% flat improvements, or 12%

	Al Amana	Zakoura	FONDEP	AMSSF-MC	FBPMC
		DH, others 12% flat	purchase, flat		DB purchase
Commissions	2% guarantee fund, 150 DH fee, 20 DH new clients	None	TBD	TBD	2.5% guarantee fund, 20 DH fee
Guarantees	Contract, promissory note, *billet d'ordre* (claim on bank account); NFDC (lien on business) or mortgage for entrepreneurs > 6,000	Contract, promissory note, no guarantor	Guarantor, promissory note, mortgage if purchase	Cosigner, spouse or family member. Up to 3 guarantors, *billet d'ordre* (claim on bank account)	Promissory note, letter of engagement
Current/New clients	Both (at present 75% are new)	Current clients, at least 2-3 cycles, utility can be new clients	Both	Both	Both, focus on existing
Loan Officers	Started with 4 new housing officers and 3 existing Los.; average 4-5 new loans per week	Same as SG. Considering individual LOs in branches w/high demand	1 per branch, specialized, hired from existing LOs	1 specialized, new hire; think of training existing group ones	Plan multi product
TA to clients	Budget Verification , price list	Budget Verification , price list	Budget Verification, price list	Budget Verification, price list	Budget Verification
Amt. financed	80% if < 10,000 DH; 70% if > 10,000 DH	100%	90%	90 – 95%	80% improvements, 90% purchase

The housing loan products among institutions have many similarities. All of them offer, or plan to have, a relatively short-term home improvement product. Zakoura has lowest maximum loan amount of DH 5,000. Loan terms can be up to 18 month for Zakoura, 36 months at Al Amana and 24 months for the other MFIs. Collateral will not be required for home improvement loans, though Al Amana requires a *nantissement sur le fonds de commerce* (lien on the business) for loans above 6,000 DH to entrepreneurs. All institutions, except Zakoura, require the client to contribute 10% to 20% of the cost of the improvement, whether in cash, in kind, or in donated labor. Zakoura will finance the entire project cost, provided the client meets all other requirements.

A key difference among associations is the use of loan officers to make housing loans. Al Amana uses a combination of new hires and current staff, FONDEP has selected existing staff and given them extra training in housing, AMSSF has hired a specialized loan officer who will also work on individual lending. In Zakoura, even though the housing loans are made on an individual basis, they use existing solidarity group loan officers to promote housing. All MFIs have developed price lists to aid loan officers in evaluating project budgets.

All institutions have home improvement loans. Al Amana and Zakoura operate nationwide and have active housing loan programs, though these products are not yet offered in all branches. AMSFF is mainly in Fez and FONDEP focuses on the center and north of Morocco. Only Zakoura excludes new clients from their basic home improvement loan product, though both FBPMC and AMSSF will focus on existing clients, at least in the pilot phase.

VI. Main Loan Characteristics

Comparing the main results from the survey with products offered or planned by the MFIs, the main characteristics of housing loans become apparent.

A. Eligibility

The most common loan uses mentioned in the survey were home improvements, with building a house mentioned less often. Al Amana does not offer construction loans, and AMSFF does not plan to do so. However, survey results confirm that these MFIs are not excluding a significant part of the market.

B. Amount

In the survey, average amounts preferred by respondents ranged from DH 20,000 to 30,000, higher than average loan amounts offered by all associations. For associations with the most mature pilots, improvement loans average 10,000 DH for Al Amana and 5,000 DH for Zakoura. The Al Amana loan amounts are similar to those predicted in the above affordability analysis. All MFIs have taken client incomes and repayment capacities into account in their product design.

In other microfinance surveys, loan amounts desired by the respondents are often higher than what they can afford, so they will often accept lower loan amounts. However, the final loan amount disbursed must at least cover the minimum cost of the initial home improvement desired; otherwise client dissatisfaction and/or multiple borrowing from MFIs (and hence overindebtness) may result. MFIs should have a basic price list for the most common types of projects in their area so loan amounts can cover these project costs. Also, the affordability analysis shows that typical microfinance clients can afford such large loans only at very low interest rates, long terms, or a combination of both.

People surveyed may also be interested in large loans to finish multiple improvements, so progressive loans of around DH 10,000 to DH 15,000 each would allow them to make tangible changes to their homes. Institutions will need to market progressive lending so that clients can build their homes in phases according to their household repayment capacity.

C. Term

Microfinance, whether for business or housing, typically involves shorter loan terms than other financial products. In this survey, the mean loan term requested by the sample group was 50 months, and the longest terms for home improvements on offer are from Zakoura and Al Amana, at 36 months each. Generally, loan amounts are much more important to potential clients than terms, and people who want large loan amounts desire longer terms to make payments more affordable. MFIs worldwide, as well as in Morocco, are constrained from making long term loans by asset-liability mismatches, the challenges of strong loan appraisal methodologies and limited guarantees available.

Adding housing loans to an MFI portfolio dominated by working capital credit leads to larger average loan sizes and terms. This situation becomes more acute as the MFI disburses more housing loans. Progressive home improvement loans typically have terms of between 12 and 18 months. MFIs have the funding resources and appraisal methodologies to meet these loan terms, but not for longer ones.

All financial institutions must ensure that the terms of their loans (assets) match the terms of their funding sources (liabilities). An institution that needs to cover short-term liabilities with long-term loans will be unable to meet its obligations and will collapse. This is not a major issue in Morocco, even though associations can not mobilize savings, because they can access longer term loans from commercial banks, either on their own or through the USAID Development Credit Authority (DCA).[22]

The second concern with longer loan terms is using an evaluation methodology that ensures the client's ability to make regular loan payments. This is even more challenging when working with entrepreneurs who have variable incomes. Microentrepreneurs often

[22] The DCA allows USAID to issue partial guarantees of up to 50% for development purposes. DCA by mobilizes private capital in developing countries for sustainable development projects, and have proven to be especially effective in stimulating economic growth and agricultural development.

change sectors and locations, and a poor business decision would reduce their income and increase the risk of default. Current methodologies have proven to be suitable for loan terms of up to three years, but longer loans are riskier.

D. Interest Rates

The survey did not specifically ask for desired loan costs. The average demanded interest rate of 5.3% per year on a declining balance was inferred from desired loan amounts, terms and monthly payments, and cannot necessarily be considered a reliable indicator of client demand.

Associations have set interest rates to be equal to, or slightly below, those charged on short term working capital loans. The motivation has been to ensure these loans are affordable for clients. Most institutions do not have experience in product costing, because they operate with a single core product and lack the accounting systems required to generate necessary information. Estimates of housing product profitability should be conducted after a year to assess the loan's viability.

In many microfinance markets, interest rates become more salient as clients and institutions become more sophisticated. As microfinance enters a market, clients tend to value access to loans, large amounts, and rapid disbursements more than the cost of credit. Few clients have a choice among institutions in their area. As the sector grows, price becomes a more important factor. Institutions reaching economies of scale are also able to lower their interest rates and remain profitable. Current interest rate policies in Morocco have not constrained the rapid growth of this sector over the past decade, and are not expected to constrain housing loans. For current microfinance clients, costs of loans are not likely to be a major factor. However, MFIs who wish to reach better-off clients will face heavy price competition from commercial banks and consumer credit companies. The survey shows these are already important sources of finance.

Costing and pricing loans are among the biggest challenges microfinance institutions face. MFIs need to set their interest rates and fees for a housing product based on detailed analyses of their financial position, existing and planned cost structure, and expected profitability of the product. Interest rates for new products must also consider costs of existing products, prices charged by formal and informal competitor sources of finance, and the impact on affordability. Several methods for costing financial services, such as Microfin and toolkits from Microsave, are available.

E. Appraisal Technique

The survey found much higher demand for individual loans than for group loans. All four main institutions offer, or plan to offer, housing loans on an individual basis, though AMSFF will have optional group loans available.

F. Repayment Frequency

Currently, all four MFIs offer monthly repayments, which were most preferred among the sample; and Al Amana clients may opt for twice-monthly payments in addition to monthly payments. Some institutions offer repayments every 28 days, which may lead to difficulties for salaried earners who would be forced to make two payments in a calendar month, on the 2nd and 30th, for instance.

G. Guarantees

The main guarantee demanded was a guarantor, followed by a building and several forms of collateral. All institutions except Zakoura use guarantors as guarantees. FONDEP and Zakoura also use promissory notes to help guarantee these loans, though these have no resale value. In the survey, "lack of collateral" was a factor in discouraging some clients, particularly women, from asking for a formal loan.

None of the MFIs in Morocco undertake mortgage financing because foreclosure procedures are often long and costly. Few clients own their homes and have full legal title over them; only 18.6% of those surveyed said they owned their homes and possessed full legal title. Requiring a mortgage for all types of housing loans will greatly limit the potential market for these products in Morocco.

Al Amana requires a lien on the business (*natissement sur le fonds de commerce),* for larger loans, which implies some additional time and legal costs for clients. Al Amana targets higher ends of the microfinance market. Based on the survey, the guarantee policies practiced by MFIs do not have a major conflict with those demanded by the urban population of Morocco. Microfinance institutions in Morocco have excellent repayment rates. They use social pressure to ensure loans are repaid on time. By developing strong individual loan evaluation methodologies, maintaining their intolerance of arrears, and using social pressure, even in individual loans, associations should be able to maintain their portfolio quality without recourse to collateral. However, as associations consider new products and evaluate existing ones, they should carefully assess the costs and benefits of various types of guarantees to provide a housing loan product that reaches the poor and contributes to low default rates.

There are two main principles of guarantees in microfinance:

1. The best guarantee of repayment is an appraisal methodology that bases credit decisions on a client's capacity and willingness to repay the loan. If clients have loans they can and will repay, delinquency, and thus recourse to collateral, will be limited. For existing clients, their credit history demonstrates their ability to repay loans. For new clients, a rigorous evaluation is much more important.

2. Guarantees are used to increase pressure on clients to repay, not as a secondary source to cover delinquent loan amounts. Few financial institutions earn a profit on foreclosures, taking into account recovery efforts and legal fees. Assets sold after foreclosures often receive less than their fair market value, limiting recovery by the institution.

Text Box 4: Adapting collateral to housing loans

CHF's housing finance program in Palestine, known as the Palestinian Economic Opportunity Program for Lending and Economic Development [PEOPLED], is one of its largest. With $9.6 million USAID support to the Home Improvement Loan Program (HILP) and its expansions, CHF has disbursed more than $30.5 million in loans to 6,600 low-income families in the West Bank and Gaza (WBG), maintaining a 98% repayment rate. PEOPLED aims to increase the accessibility of home improvement loans for low- and median-income Palestinians living in targeted areas. Because many families cannot provide two guarantors, the modified home improvement loan product requires only one guarantor with a salary transfer to one of the participating banks.

- Given the demonstrated need for larger loan amounts, the maximum loan term is extended from 36 to 42 months, consequently raising the affordable loan amount by approximately 17%. If the loan term is set at 36 months, the loan amount will be 10 times the loan recipient's salary; if the loan term is set at 42 months, the loan amount will be 11.7 times the salary
- The maximum loan amount is $15,000, thereby making loans more accessible to families in a slightly higher income bracket who also need to make basic improvements to their homes.
- Key eligibility criteria, such as proof of home ownership and repayment capacity based on current total family income, will be similar to the current PEOPLED product.

A secondary but important achievement of PEOPLED is the strong partnerships created with the Palestinian private banking sector. The program works in partnership with several major commercial banks operating in the WBG, catalyzing them to provide, on average, 25% of the value of each individual loan and assuming full risk on their share. Furthermore, the local banks have benefited from CHF's extensive international and local experience in this field. One of CHF's main objectives is to transfer know-how to local banks' staff through training, micro-finance products, and operation systems development.

VII. Housing Microfinance Loan Products

Based on information from the Moroccan context, the market survey and the supply of housing finance, six specific housing loan products are proposed. They are:

- Minor home improvements
- Major home improvements
- Connection to basic services
- Employer-based loan products
- Land acquisition
- House purchase

Note that not all of these products may be applicable to all institutions and are for illustrative purposes in this report to promote further discussion. Al Amana, Zakoura, and FONDEP already offer loans for minor home improvements. The last two products are not currently offered by Moroccan institutions.

A. Minor Home Improvements

Minor home improvement loans will likely be the most popular loan since the amounts, terms and interest rates lead to relatively affordable payments. By not requiring physical collateral, this product should be accessible to most of the poor. The products offered by the five associations are similar to this generic service.

Eligibility

- Adults with income, either from business, employment or both. Zakoura will only lend to current clients with excellent repayment histories.
- Owners of homes with documentation (title, registered sales contract, sales contract) or, for those who do not live in legal settlements, proof of stability in their residence.
- The loan will finance any improvements to the structure of the home, including but not limited to adding rooms, installing utilities, painting, repairing walls, ceiling or floors, and roof replacement.

Amount

- Based on the clients' willingness and capacity to pay the loan, as determined during the appraisal, as well as the estimated cost of the desired improvement or project.
- Minimum of DH 3,000 to a maximum of DH 20,000, with expected averages of DH 10,000. Zakoura's maximum loan amount is DH 5,000.

Term

- Minimum of six months and a maximum of two years, with average terms targeted between 12 and 18 months.

Interest Rates

- Costs will be set by each institution after an analysis of their financial position, cost structure, expected profitability of the product, costs of current products, and the competition.
- If a client takes a housing loan whose costs are lower than other loans offered by the MFI, and the client does not apply loan funds to their house, the institution reserves the right to charge the higher loan interest rate.

Appraisal Technique

- An individual loan, based on demonstrated capacity and willingness to repay as determined by a detailed analysis of the client's financial situation. This evaluation must include at a minimum the following components:

    - Business information, including time in operation, location, ownership, background of owner, sales, expenses, cash flow, seasonality, inventory, assets, liabilities, situation of credit sales, and competition.

- Repayment capacity, including all household income by source, amount, and frequency, stability of income sources, and household expenses.
- Commitment, including plans for the use of loan proceeds, cooperation with the loan officer and openness in providing information.
- Character, including references from neighbors, clients and suppliers.
- Collateral, including proof of ownership of goods or property pledged for the loan, guarantor's repayment capacity, character and relationship to the client, and proof that the guarantor owns any assets pledged to the institutions.

Disbursement

- Direct to client.

Repayment Frequency

- Every month, or twice a month, depending on client choice.

Collateral and Guarantees

- Backed by a combination of promissory notes (*reconnaissance de dette*). guarantors, and blocked accounts in banks.
- MFIs to assess use of physical collateral (goods).

Human Resources

- Experienced individual loan officers need to be trained in housing loans, particularly any technical or construction assistance provided. Loan officers need to be trained in estimating construction costs based on prevailing local prices. A format is found in Annex A.
- Individual loan officers should be separate from those in group loans. MFIs without individual loan officers can train them, using some new staff and some existing group loan officers who demonstrate excellent financial analysis skills.
- If construction assistance is provided, the institution will need a technical engineer to ensure the proposed improvement meets prevailing standards of livability and safety. The engineer may train and supervise credit staff to carry out basic engineering analyses of loan requests.

Simultaneous Loans

- Clients can have a housing loan and another loan, provided that payments of all loans do not exceed 40% of household income.[23]
- Such cases will require a more detailed analysis of income sources, the business and character.
- Institutions may limit simultaneous loans to clients who have proven excellent repayment histories.

MIS

[23] The 40% total dept repayment to household income ratio is based on CHF's extensive experience. See CHF International, *So You Want to Do Housing Microfinance*, for more details

- Each MFI should verify that its MIS can handle multiple products, longer term loans and clients with multiple loans. The MIS department must be involved in the project development process and pilot testing phase.

B. Major Improvements

This loan provides larger amounts, and longer terms, to clients with an exemplary credit history with the institution. Loan amounts can average around DH 25,000. MFIs should require some physical collateral to protect them from default even if, realistically, it is only for psychological pressure. Most institutions intend to make larger loans under a broad home improvement product, though FBPMC is planning a sub-product for larger construction products.

Eligibility

- Same as for minor improvements, except all clients must have at least a one-year credit history of no late payments with the MFI.

Amount

- Based on the clients' willingness and capacity to pay the loan, as determined during the appraisal, and the estimated cost of the desired improvement or project.
- Minimum of DH 15,000 to a maximum of DH 30,000, with expected averages of DH 25,000.

Term

- Minimum of six months and a maximum of 36 months, with average terms targeted to be 24 months.

Interest Rates

- Slightly lower than for minor improvements, based on detailed costing analysis.
- Commission as required to cover collateral registration and engineer costs.
- If loan funds are misused, the institution reserves the right to charge the higher loan interest rate.

Appraisal Technique

- Individual loan appraisal.

Disbursement

- Direct to client.

Repayment Frequency

- Monthly.

Collateral and Guarantees

- Backed by a combination of promissory notes (*reconnaissance de dette*), guarantors, blocked accounts in banks and collateral.

- Physical collateral, backed by a mortgage or lien on goods, will be required to protect the institution from default on higher loan amounts.

Human Resources

- Same as for minor improvements, except that construction plans must be approved by an engineer chosen by the institution. This person may be a contractor or an employee.
- An engineer will provide advice on project budget and construction quality as required.

Simultaneous Loans

- Same as for minor improvements.

MIS

- Each MFI should verify that its MIS can handle multiple products, longer term loans and clients with multiple loans. The MIS department must be involved in the project development process and pilot testing phase.

C. Connection to Basic Services

This product is allowed only for installing basic services. The utility will determine the price of these connections, and install them, so no technical assistance by the MFI is required. The loan is disbursed to the utility. Zakoura has designed a specific loan for this service, implemented in conjunction with the local water and electricity companies.

Eligibility

- Adults with income, either from business, employment or both.
- Owners of homes with documentation (title, registered sales contract, sales contract) or proof of stability in their residence, excluding those who live in illegal settlements.
- The loan will finance installation of water, electricity or sewage in the client's home.
- The house must be located in an area served by a public utility.

Amount

- Based on the clients' willingness and capacity to pay the loan, as determined during the appraisal.
- Up to 80% of the cost of installing the service, plus any deposit required by the utility.

Term

- Six to 18 months, with average terms targeted at 12 months.

Interest Rates

- Same as for minor improvements.

Appraisal Technique

- Same as for minor improvements.

Disbursement

- Direct to the utility company, in the name of the client.

Repayment Frequency

- Monthly or twice monthly, depending on client choice.

Collateral and Guarantees

- Combination of promissory notes (*reconnaissance de dette*), guarantors, and blocked accounts in banks.
- MFIs to assess use of physical collateral (goods).

Human Resources

- Same as minor improvements, except no special construction or budget assistance will be required.

Simultaneous Loans

- Same as for minor improvements.

D. Employer-based Loan

This new product is similar to a minor improvement loan, but repayment is guaranteed by direct discounts from the client's salary. Before making these loans, the institution needs an agreement with the employer to deduct loan payments from salaries, send these funds to the MFI, and use the employee's severance due to him/her as a partial guarantee. The loan appraisal is simpler; since the loan officer needs to confirm the salary, wherein the maximum monthly payment should be 25% of that salary, there s no need to assess a business. There is a great deal of competition in Morocco for loans to salaried people, especially at the higher end of the market. However, it appears that lower level civil servants are not well served by existing credit companies. Such workers may be a promising market for housing loans.

Eligibility

- Employees of private companies with large numbers of employees,[24] recognized financial stability, and a signed agreement with the MFI to deduct loan payments from salaries.
- Employees must have been employed with the company for more than one year.
- Clients must also be home owners.
- The loan will finance any improvements to the structure of the home, including but not limited to adding rooms, installing utilities, painting, repairing walls, ceiling or floors, and roof replacement.

Amount

[24] In Latin America, large companies are defined as those with more than 500 employees.

- Minimum of DH 3,000 to a maximum of DH 20,000, with expected averages of DH 10,000.
- Loan payment up to 25% of client's net salary.

Term
- Minimum of six months and a maximum of 24 months, with average terms targeted between 12 and 18 months.

Interest Rates
- Same or less than minor improvements, depending on costing analysis.

Appraisal Technique
Individual loan, based on analysis of employer and client's tenure as an employee. This is a simpler appraisal than the one proposed for home improvements.

Disbursement
- Direct to client.

Repayment Frequency
- Monthly, deducted from salary.

Collateral and Guarantees
- Employee salary.
- Secondary guarantees are severance payments due to borrower, and a guarantor in the same company.

Human Resources
- Employer-based loan officer, working in MFI HQ or regional office, responsible for relationships with employers.

Simultaneous Loans
- Not permitted.

MIS
- Each MFI should verify that its MIS can handle multiple products, longer term loans and clients with multiple loans. The MIS department must be involved in the project development process and pilot testing phase.

E. Land Acquisition

If plots can be purchased for less than DH 30,000, and the plots can serve as collateral, these large loans would provide the poor with the first step to building a home. Once they have paid off the land loan, the clients can then apply for a progressive improvement loan to begin building their home. Loan funds are disbursed to the plot seller. The client will need a down payment, here suggested to be 30% of the purchase price.

Eligibility
- Adults with income, either from business, employment or both.
- Written sales offer from seller.

Amount
- Up to 70% of the lower of the cost or value of the lot.
- Up to DH 30,000.

Term
- One to five years.

Interest Rates
- Similar to major improvements.

Appraisal Technique
- An individual loan, based on demonstrated capacity and willingness to repay as determined by a detailed analysis of the client's financial situation.

Disbursement
- Loan goes to seller.

Repayment Frequency
- Monthly.

Collateral and Guarantees
- Registered mortgage on the plot in question.

Human Resources
- Individual loan officers to conduct appraisal.
- Institutions will need an independent appraiser to assess the value of the plot, and legal staff to ensure the mortgage is registered.

Simultaneous Loans
- Total loan payments cannot exceed 40% of household income.

F. House Purchase

It will be impossible for microfinance institutions in Morocco to make loans for whole house financing, including house construction and purchase. Basic new homes in Morocco cost DH 150,000 to DH 200,000, far above the maximum loan amount of DH 30,000 permitted by microfinance law. Institutions will also have to develop clear procedures on collateral, foreclosures, and the ability to evaluate clients over the long term. Zakoura has made loans to clients to purchase low-income housing (*logements sociales*), for less than 30,000 DH, but this would be a special case that can not be generalized for the rest of Morocco.

G. Alliances

MFIs should also consider forming alliances with other partners, as described in section II. F. on page 6. These arrangements are particularly effective as a product leaves the pilot phase and begins to grow.

VIII. Pilot Testing

Before launching any new product, institutions should conduct a pilot test to ensure it is accepted in the marketplace and that the MFI has the resources and systems required to manage it. Pilot tests are important to avoid making the costly mistake of spending money and time on launching a product throughout the MFI offices only to have it fail.[25]

Pilot tests are conducted in limited areas, often in two or three branches. Various aspects of the product's performance, including financial and human resources, are monitored, measured and analyzed. Any necessary changes to the product can be easily made. Pilot tests for housing loans should run for a minimum of six months, to ensure the product is accepted in the market and operates within the institution.[26]

MicroSave has broken down pilot testing into ten steps that minimize the probability of losing control of the test and provide information to improve the product. If these steps are followed, the MFI will be able to make a successful decision about the roll out of the new product. If the pilot test does not meet expectations, the MFI can change the product, extend the test, or even abandon the product.

The ten steps are:

1. Composing the Pilot Test Team
2. Developing the Testing Protocol
3. Preparing All Systems
4. Modeling the Financial Projections
5. Formalizing the Objectives
6. Documenting the Product Definitions and Procedures
7. Training the Relevant Staff
8. Developing Customer Marketing Materials
9. Commencing the Pilot Test
10. Evaluating the Test

IX. Illustrative Generic Financial Projections

Based on key results from the survey, some initial generic financial projections are included in this report. These are designed for a "typical" MFI and to illustrate stylized

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[25] The following paragraphs draw heavily on MicroSave, Introduction to Toolkit for Planning, Conducting and Monitoring Pilot-Tests for MFIs, available in English and French at www.microsave.org.

[26] Some pilot tests run for two complete loan cycles, but for housing loans with terms of 12 to 18 months this would lead to a two or three year pilot phase, which is far too long.

facts about a potential housing microfinance program. These results are at best indicative. Each institution offering or planning to offer housing loans should perform its own financial analysis.

Main assumptions were that loan officers would be those currently offering individual loans, and they would spend 20% of their time on housing. Productivity varied from five new loans per full time loan officer per month to ten new loans per full time loan officer per month. The average loan size was either DH 10,000 or DH 7,500, with a term averaging 15 months. Interest rates were tested under three scenarios: 2% per month flat, 2.5% per month flat and 3% per month flat.

Key cost assumptions were loan officer salaries of DH 2,500 per month, plus 25% of salary in incentives. Branch managers earned DH 4,500 per month plus 15% of their salary in incentives. Each branch had five loan officers, one manager, and an administrator who earned DH 2,000 per month. The housing loan was introduced in two branches in the pilot, followed by five branches after six months (the roll out).

On the financial side, the weighted average cost of capital was assumed to be 6%, and loan losses were 1% of portfolio, slightly higher than current delinquency rates.

Results cover nine scenarios based on interest rates (2%, 2.5% and 3% per month), loan size (DH 10,000 or DH 7,500) and loan officer productivity (10 new loans per month or five new loans per loan officer per month). Obviously, the higher interest, higher loan size and higher productivity scenario is the most profitable for the MFI, with the new product breaking even in the seventh month and achieving financial self sufficiency of 245% in the third year. The lower interest, lower loan size and lower productivity case does not show profitability even in the third year, with a financial self sufficiency of only 79%. However, in these brief calculations, loan size and staff productivity are much more important than interest rates. Reducing the loan size from DH 10,000 to DH 7,500 lowers financial self sufficiency in Year 3 from 245% to 202%. Even at higher interest rates, with low productivity and low loan sizes, the product barely breaks even in the third year, covering 118% of its total costs.

A more detailed summary of the projections is in Annex B.

Months to reach the break-even point for the various scenarios are shown in the following table:

Table 11: Break-even points, in months, for housing loan product

Interest/Mo	Loan Size DH	Loans/LO/Mo	Operational Breakeven	Financial Breakeven
2.0%	10,000	10	7	8
2.5%	10,000	10	6	7
3.0%	10,000	10	4	7
2.0%	7,500	10	8	10
2.5%	7,500	10	7	8

3.0%	7,500	10	7	8
2.0%	7,500	5	53	-
2.5%	7,500	5	16	33
3.0%	7,500	5	13	15

If productivity is higher, at ten loans per officer per month, breakeven for this loan product occurs during the first year regardless of the loan size and interest rate. If productivity is lower, at only five loans per officers, breakeven occurs early in the second year if interest rates are 3% per month flat. If the rate is 2%, the product covers its operational costs after four and half years, and does not cover its financial costs during the first five years of operation. Thus, staff capacity to bring in new housing clients will be an essential element of a profitable housing loan program.

These projections look at housings loans disbursed, and not necessarily new clients for the institution. If an institution makes housing loans only to its current clients, this product will not contribute to increasing total client numbers. Housing finance is an opportunity for institutions to lend to those who do not demand, or are ineligible for, enterprise loans, thus increasing their client base.

X. Perspectives for the Future

Housing loans allow microfinance institutions to reduce their risks from financing housing through a microenterprise product, maintain low delinquency rates and expand their markets. Such products also meet client demand and strengthen links between the association and its borrowers, factors which make the institution better able to face growing competition. Housing loans should be part of a Moroccan MFI’s long term strategy to continue their growth and viability

Based on the results of the market survey and analysis of the loan products currently offered and planned, housing finance in Morocco has started on the right track. It has the potential to improve the living conditions of thousands of families. The survey found high demand in all cities, and among all socio-economic groups, for housing loans. Progressive building approaches are suitable for the Moroccan context.

Meeting this demand will be a challenge for Moroccan MFIs, who will need to innovate and adapt their services to better meet their clients’ needs. Housing loans also allow MFIs to expand their markets away from entrepreneurs to salaried workers, further diversifying their client base. These points will become more important as competition within microfinance becomes more acute. MFIs that can successfully launch a new housing product will have greater capacity to expand their offerings to cover products such as individual lending, fixed asset loans, equipment credit, and investment finance. As the policy environment changes, associations may be able to expand into leasing, insurance, and even savings mobilization. New products will help MFIs better serve their clients.

The three largest associations in Morocco are among the leaders in housing finance. They may be more likely to have the funding, MIS, staff, and management structures required to launch new products. Before considering new products, all MFIs should make sure they have financial viability, a functioning MIS, and well managed and motivated staff. Smaller MFIs can use their specialized knowledge of a local area, or specific market niche, to make loans that are more attractive than those offered by the competition.

Adding or changing a product may imply some risk of failure, but if an MFI monitors the product and makes appropriate modifications, then these risks can be avoided. Pilot testing is an essential part of product development. CHF plans to work with all institutions to monitor their pilots and provide remote assistance on an as-needed basis. The results from the pilot phases will be analyzed and presented to the institutions later in 2005.

So far, housing loans are projected to be relatively small parts of MFI portfolios. For instance, Al Amana plans to have 11,000 housing loans by the end of the year, totaling about 5% of their loan clients. While a good start, a low number of loans will not have a significant impact on the quality of life for Morocco's urban poor as a whole. Results from the pilot phase should demonstrate there is a large, profitable market for housing loans. CHF will disseminate results from initial experiences to encourage all MFIs in Morocco to make housing loans important elements of their portfolios and strategic plans. If associations commit themselves to housing microfinance, then such products can fulfill their potential to improve the lives of hundreds of thousands of Moroccan families.

XI. Conclusions

Main conclusions about housing finance in Morocco are:

Progressive building is well suited to Morocco, where clients desire larger loan amounts and longer terms than MFIs may be willing to provide. A series of incremental loans allows clients to complete their improvements over several cycles.

Physical collateral is useful in minimizing default for larger and long term loans. MFIs should carefully assess the costs and benefits of types of guarantees to provide a housing loan product that reaches the poor and contributes to low default rates.

Technical assistance should be carefully assessed by each MFI, and should be tailored to market realities based on the institution's local operating context.

Price lists showing the costs of common construction projects should be prepared by each institution. These will help loan officers determine the loan amounts clients require to complete their projects.

Pilot tests should be performed on all new products, including housing, to ensure they are accepted in the marketplace and that the MFI has the resources and systems required to manage it.

Housing loans allow microfinance institutions to reduce their risks from financing housing through a microenterprise product, maintain low delinquency rates and expand their markets. Such products also meet client demand and strengthen links between the association and its borrowers, factors which make the institution better able to face growing competition. Housing loans should be part of a Moroccan MFI's long term strategy in order to continue its growth and viability.

CHF will work with institutions who have launched, or are about to begin, housing loans, to ensure they are best adapted to borrowers and institutions. CHF also plans to disseminate key findings from the pilots in order to promote more housing lending in Morocco. If MFIs commit to providing housing finance, as a key part of their product mix and business strategy, then such loans can fulfill their potential to improve the lives of hundreds of thousands of Moroccan families.

About CHF

CHF International has over 20 years experience in designing and delivering financial services in transition and post-conflict environments. Operating out of its Office of Development Finance (ODF), CHF currently oversees 12 microfinance programs in 11 countries (Iraq, Jordan, Lebanon, West Bank/ Gaza, Afghanistan, Bosnia, Romania, Colombia, Honduras, Mexico, and Peru), monitoring and managing over US$49 million of microfinance assets with a global portfolio at risk (PAR > 30 days) of 2%. Five CHF programs have been transformed into local subsidiaries (two for-profit and three not-for-profit) Development Finance Institutions (DFIs) that provide a mix of micro and small/medium business, housing, and consumer loans. In addition to the DFIs, CHF has provided technical assistance in the development and management of both housing and enterprise finance products to over 200 local credit unions, MFIs, cooperatives, non-government organizations, and commercial banks. CHF's technical team (both at headquarters and in the field) is comprised of 24 senior microfinance experts who are deployed for various assignments throughout the world, as well as 10 long-term consultants it draws upon to complement CHF's in-house expertise.

ANNEX A: MATERIALS PRICE LIST

ASSOCIATION DE MICROFINANCE

Crédit Logement
Liste des Prix des Matériaux

	Matériel	Unité	Prix DH
Murs, blocs			
	Bloc de ciment, 150 mm	M2	85
	Bloc de ciment, 230	M2	150
	Brique	M2	45
	Barre de fer		
Toit			
	Ciment	M2	
	Plafond	M2	
	Tuile	M2	
	Barre de fer		
Portes			
	2.1 x 0.9 M, extérieur, métallique	Unité	
	2.1 x 0.9 M extérieur, bois	Unité	
	2.1 x 0.9 M intérieur, bois	Unité	
	Cadre	Unité	
	Serrure	Unité	
Cadres de fenêtres			
	1.08 m2 bois	Unité	
	1.47 m2 bois	Unité	
	2.16 m2 bois	Unité	
	1.08 m2 fer	Unité	
	1.47 m2 fer	Unité	
	2.16 m2 fer	Unité	
Fenêtres			
	Verre	M2	
	Fer	M2	
	Bois	M2	
Sol			
	Ciment	M2	
	Carreau	SM	
	Carreau B		
Peinture			

	Qualité A	M2	
	Qualité B	M2	
Cuisine			
	Évier	Unité	
	Tuyaux A	M	
	Tuyaux B	M	
Salle de bains			
	Toilette	Unité	
	Bain	Unité	
	Douche	Unité	
	Évier	Unité	
	Tuyaux A	M	
	Tuyaux B	M	
Installation d'eau			
	Branchement	Unité	
	Tuyaux A	M	
	Tuyaux B	M	
Installation d'égouts		Unité	
	Branchement	M	
	Tuyaux A	M	
	Tuyaux B		
Installation électricité			
	Branchement	Unité	
	Contacteur	Unité	
	Fil	Unité	
Main d'oeuvre		25% coût matériaux	
Transport		5% coût matériaux	

ANNEX B: SUMMARY OF FINANCIAL PROJECTIONS

Low interest, high loan size, high productivity

Interest	2.0%	month	Avg Loan	10,000	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	60	90	150	150	450	694	801
Amount Disbursed	600,000	900,000	1,500,000	1,515,000	4,515,000	7,556,376	9,740,398
Loans outstanding	60	150	300	450	450	844	999
Amount outstanding	476,754	1,101,920	2,284,329	3,191,700	3,191,700	5,348,545	6,805,386
Op self sufficiency	38%	73%	101%	159%	110%	226%	251%
Fin self sufficiency	36%	60%	79%	115%	85%	153%	165%

Medium interest, high loan size, high productivity

Interest	2.5%	month	Avg Loan	10,000	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	30	45	75	75	225	347	403
Amount Disbursed	225,000	337,500	562,500	568,125	1,693,125	2,833,641	3,675,964
Loans outstanding	30	75	150	225	225	422	502
Amount outstanding	179,375	416,493	865,701	1,214,623	1,214,623	2,044,636	2,625,363
Op self sufficiency	22%	41%	57%	89%	62%	127%	141%
Fin self sufficiency	21%	38%	51%	78%	56%	107%	118%

High interest, high loan size, high productivity

Interest	3.0%	month	Avg Loan	10,000	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	60	90	150	150	450	694	801
Amount Disbursed	600,000	900,000	1,500,000	1,515,000	4,515,000	7,556,376	9,740,398
Loans outstanding	60	150	300	450	450	844	999
Amount outstanding	478,332	1,110,647	2,308,535	3,238,994	3,238,994	5,452,363	6,947,393
Op self sufficiency	58%	110%	151%	238%	165%	339%	376%
Fin self sufficiency	54%	89%	118%	171%	127%	228%	245%

Low interest, low loan size, high productivity

Interest	2.0%	month	Avg Loan	7,500	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	60	90	150	150	450	694	801
Amount Disbursed	450,000	675,000	1,125,000	1,136,250	3,386,250	5,667,282	7,305,299
Loans outstanding	60	150	300	450	450	844	999
Amount outstanding	357,566	826,440	1,713,247	2,393,775	2,393,775	4,011,409	5,104,039
Op self sufficiency	29%	55%	76%	119%	82%	170%	188%
Fin self sufficiency	27%	47%	63%	92%	67%	125%	135%

Medium interest, low loan size, high productivity

Interest	2.5%	month	Avg Loan	7,500	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	60	90	150	150	450	694	801

Amount Disbursed	450,000	675,000	1,125,000	1,136,250	3,386,250	5,667,282	7,305,299
Loans outstanding	60	150	300	450	450	844	999
Amount outstanding	358,166	829,748	1,722,406	2,411,638	2,411,638	4,050,511	5,157,504
Op self sufficiency	36%	69%	95%	149%	103%	212%	235%
Fin self sufficiency	34%	59%	78%	115%	84%	155%	168%

High interest, low loan size, high productivity

Interest	3.0%	month	Avg Loan	7,500	New Loans/LO/Mo		10
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	60	90	150	150	450	694	801
Amount Disbursed	450,000	675,000	1,125,000	1,136,250	3,386,250	5,667,282	7,305,299
Loans outstanding	60	150	300	450	450	844	999
Amount outstanding	358,749	832,985	1,731,401	2,429,245	2,429,245	4,089,272	5,210,545
Op self sufficiency	43%	82%	114%	179%	123%	254%	282%
Fin self sufficiency	41%	70%	94%	138%	101%	186%	202%

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Low interest, low loan size, low productivity

Interest	2.0%	month	Avg Loan	7,500	New Loans/LO/Mo		5
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	30	45	75	75	225	347	403
Amount Disbursed	225,000	337,500	562,500	568,125	1,693,125	2,833,641	3,675,964
Loans outstanding	30	75	150	225	225	422	502
Amount outstanding	178,783	413,220	856,623	1,196,887	1,196,887	2,005,704	2,571,908
Op self sufficiency	14%	27%	38%	60%	41%	85%	94%
Fin self sufficiency	14%	25%	34%	52%	37%	72%	79%

Medium interest, low loan size, low productivity

Interest	2.5%	month	Avg Loan	7,500	New Loans/LO/Mo		5
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	30	45	75	75	225	347	403
Amount Disbursed	225,000	337,500	562,500	568,125	1,693,125	2,833,641	3,675,964
Loans outstanding	30	75	150	225	225	422	502
Amount outstanding	179,083	414,874	861,203	1,205,819	1,205,819	2,025,255	2,598,743
Op self sufficiency	18%	34%	47%	74%	51%	106%	118%
Fin self sufficiency	17%	32%	43%	65%	46%	90%	98%

High interest, low loan size, low productivity

Interest	3.0%	month	Avg Loan	7,500	New Loans/LO/Mo		5
	Q1	Q2	Q3	Q4	Y1	Y2	Y3
Loans Disbursed	30	45	75	75	225	347	403
Amount Disbursed	225,000	337,500	562,500	568,125	1,693,125	2,833,641	3,675,964
Loans outstanding	30	75	150	225	225	422	502
Amount outstanding	179,375	416,493	865,701	1,214,623	1,214,623	2,044,636	2,625,363
Op self sufficiency	22%	41%	57%	89%	62%	127%	141%
Fin self sufficiency	21%	38%	51%	78%	56%	107%	118%