

## Threshold of Micro - Financing in Morocco

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### Abstract

*This study examines the historical portfolio of Micro – Finance in Morocco. The microfinance sector in Morocco relies on continued support from its Government through the legal framework. Their aim was to improve access for low-income micro entrepreneurs to financial services and help them to broaden their businesses, raise their income and increase employment. Moreover it was intended to strengthen the capacities of local associations to grant microcredit services. The ideal of microfinance was conceived as a process that seeks sustainability of its actions and synergy with all the policies of national and sectorial development. MFIs focused on individual and small business lending and could so increase loan sizes by 132 % between 2002 and 2008. Morocco seems to be aware of the importance of microfinance and puts a lot of effort into the development of the sector. The country's success will depend on how it deals with future challenges. As long as the focus does not lie solely on profits, but accommodates sustainable growth and poor clients, Morocco will be able to continue its success story further.*

**Keywords:** low-income micro entrepreneurs, portfolio, microcredit, financial services.

### Introduction

The microfinance sector in Morocco is still young. In 1992 microcredits were first mentioned at a conference about the desertification of Morocco organized by l'Ecole Nationale pour l'Agriculture de Meknès (Heddad, 2006, p. 2). The first small credits were granted in 1993-1994. But it wasn't until 1996 that microcredits became known throughout the country. In 1997 the first specialized organization on microcredit, Al-Amana, was founded. In the same year consultations about the pilot project Microstart au Maroc started, which was finally launched in February 1998 by the Moroccan Government and the UNDP. Their aim was to improve access for low-income micro entrepreneurs to financial services and help them to broaden their businesses, raise their income and increase employment. Moreover it was intended to strengthen the capacities of local associations to grant microcredit services on a sustainable basis (Duval, 2001, p. 4f). In 1999 the Government introduced the law on microcredit N° 18-97, regulating and securing the microfinance sector (Heddad, 2006, p. 2).

The law requires, among other factors, the separation and specialization in microcredit programs for NGOs. It had been modified and adapted further in the following years (more information about the legal framework see section 3.3. laws, regulation and supervision). In 2000 the Government Fund Hassan II with subsidies of 100 million MDH (about 9 million Euros) was created. It mainly helped to finance the two leading MFIs Al-Amana and Zakoura. The Fédération des Associations de Micro Crédit (FNAM) was created in 2001 with the aim of coordinating the microfinance activities and acting as a spokesman of the whole sector to better adapt to the needs as well as the requirements of the fund (Heddad, 2006, p. 2). The microfinance sector in Morocco experienced one of the biggest growths from the year 2003 on, and has been recognized as regional best practice in the Middle East and North Africa (MENA) for many years.

Moreover Al-Amana and Zakoura have been awarded by MIX with the world's best performing MFI prize for microfinance (Reille, 2009, p. 1). "This growth was fuelled by a strong demand for financial services to the unbanked, dissatisfaction of conventional financial systems, and the existence of informal income generating activities with a high need of funding and technical assistance" (Grameen-Jameel, 2012, p. 1). In 2005, 31 the international year of microfinance, the first Forum of Microfinance took place in Morocco to paint a picture of the achievements of the sector and to plan future developments. The ideal was conceived as a process that seeks sustainability of its actions and synergy with all the policies of national and sectorial development (FNAM, 2005).

In the Forbes ranking of the 50 Top Microfinance Institutions from 2007, four MFIs are located in Morocco: Fondep (5), Al-Amana (8), FBPMC (12) and Zakoura (27), which is remarkable compared with other MENA

countries. Only Tunisia (36) and Egypt (28) appear on the list with one MFI (Forbes, 2007). Moroccan MFIs accounted for 85% of gross loan portfolios and had 70% of all borrowers in North Africa. Morocco was a surprise; it does not a priori make one think of microfinance penetration. Nevertheless, half of the microfinance beneficiaries in the Mediterranean region are found in Morocco (Allaire et al, 2009).

The microfinance sector in Morocco relies on continued support from its Government through the legal framework and the Hassan II fund as well as the funding from international donors and local banks. This is seen as one reason for its high growth and great success. Loan portfolios and client outreach multiplied rapidly, driven by the four biggest MFIs in Morocco accounting for 90% of client outreach (Reille, 2009, p. 1). This high level of funding permitted MFIs to grow at a fast pace and with great confidence. At the end of 2008 85% of microfinance assets were financed by loans from commercial banks. MFIs focused on individual and small business lending and could so increase loan sizes by 132 % between 2002 and 2008 (Chen et al., 2010).

After several years of growth, the microfinance sector in Morocco began to experience some problems. "Signs of industry stress were reported among industry players in 2007, but delinquency problems did not appear in MFI reports until early 2008 (Chen et al., 2010, p. 4). The microcredit crisis in Morocco started with the crash of one of the largest MFIs, Zakoura, and jeopardized the whole system. The main reasons given for the microfinance crisis in Morocco are:

1. Unsustainable growth of the microfinance sector
2. Market concentration of MFIs and multiple indebtedness
3. Lack of controls and monitoring systems
4. Nonperforming loans, delinquency (erosion of repayment culture and lending discipline)
5. Local resistance and opposition

The global financial crisis, starting at the same time, had no direct effect on the microcredit crisis in Morocco, nevertheless poor people suffered from increasing food prices. "It is primarily a crisis of the MFIs themselves" (Reille, 2009). With performance ratings of A, Zakoura was seen as a strong and leading MFI. They reported a portfolio at risk (PAR) of 2%, and expanded rapidly without previous market studies or profitability analysis. Moreover, their focus shifted toward more individual loans with larger credit amounts. In May 2008 it turned out that PAR 1 lay at over 30% and outstanding portfolios and the number of active clients were decreasing dramatically.

Its public image as a social MFI was harmed and caused a revolt of its customers (Grameen-Jameel, 2012). The IFC Report from early 2009 (quoted by Benmansour/Harmak, 2009) states that the MFI Zakoura showed the highest rate of non-payments, endangering its solvency. They had a low risk management and the least successful collecting processes. Clients seemed to believe that the non-payment of Zakoura is less severe than the non-payment of other institutions. With a PAR 30 of 11.6% (123 million MDH) outstanding payments at the end of October 2008, rising in May 2009 to over 30%, Zakoura faced serious repayment problems. As they were among the leading MFIs in Morocco, contagion of the sector was feared (Benmansour/Harmak, 2009). This is seen as the main reason why Zakoura had to merge with FBPMC. The merger and acquisition contract was signed in front of the Ministry of Finance on 5 May 2009, handing over the entire activity to the FBPMC.

This strategic operation, called Project de Fusion-Absorption, was intended to reintroduce trust to the microfinance sector and support its further development (FBPMC, 2009, p. 22). The reasons and causes Zakoura faced are identical to these observed in the whole microfinance sector unsustainable growth with insufficient capacity and infrastructure to monitor a portfolio that size; lack of internal controls, having in place very lax policies which were not well coordinated across the branches and decentralized. The absence of proper MIS on the portfolio quality, and absence of coordination at sector level, prevented the institutions from detecting the problem sooner (Grameen-Jameel, 2012, p. 6).

Zakoura is therefore seen as the trigger of the microfinance crisis in Morocco, making the problems of the sector public and actors aware of the problems. Going into detail, Reille (2009) makes unsustainable growth mainly responsible for the crisis. From 2004 until 2008 MFIs considerably increased their outreach driven by the success of international recognition. Their mission to provide services to the poor coupled with strong demand to accelerate the growth of Moroccan MFIs. MFIs increased their loan sizes by 132% between 2002 and 2008. In 2006 they grew by 150% but at the same time started to relax on customer selection criteria. Loan portfolios were augmented annually by 59% between 2004 and 2008 (Chen et al., 2010, p. 2). "Loan officers were forced to race for new customers to maintain their performance and bonuses" (Grameen-Jameel, 2012, p. 2). Solidarity-group credits dominated the markets at that time, but with the fast growth, a shift towards individual lending was observed. Individual lending increased its share from 21% in 2006 to 40% in 2008 (BAM, 2008, p. 84) To meet the rising demand, MFIs not only diversified their customers and lending methodologies, but also their products, trying to fill open market niches.

In addition, donors provided more and more funds amounting to 10 billion USD by 2008 of cross-border investments in microfinance, which contributed to the growth of the sector and its MFIs. The increase in size was backed in debt capital mainly from local banks. With the increasing outreach, more loan officers were needed. Nearly 40% new staff was recruited each year, however in many cases they lacked training and were poorly prepared to meet the demands and requirements of the sector (Chen et al., 2010, p. 3). Besides the fast and striking growth of loan portfolios, MFIs started to concentrate in urban areas and the big cities such as Casablanca and Marrakesh as a result of similar strategies.

These included targeting the same geographic regions, preferring markets with a high population density and greater economic activity, which allows them to lower their client acquisition costs and profit from economies of scale (Chen et al., 2010, p. 7). The increased market competition allowed borrowers to get multiple loans driving them into cross indebtedness, meaning that customers had several credits from different MFIs (Grameen-Jameel, 2012). Estimations state that 40% of the borrowers in urban areas had multiple debts in 2008 (Reille, 2009, p. 2). Chen et al. (2010) report in their case study that such a concentration may diminish incentives for customers to repay. They add that the credit amount may change market dynamics and increase credit risks. Although the increased supply of microcredits renders customers less dependent on a single MFI, it may on the other hand lead more easily to cross debts. Customers are also able to obtain larger loans, often beyond their financial means.

Further reasons given for the crisis were missing controls and regulation, the inadequate system for monitoring loan files (leading to cross-lending), and the lack of provision of accompanying support to clients. Credit histories and negative data about customers were not exchanged, neither officially or informally, among MFIs, meaning that reliable, comparable and timely reporting was impossible. The factors explaining the high cross debt ratios<sup>16</sup> are the lack of clear criteria for denying a microcredit to a person already in debt to another MFI (Jaida, 2011, p. 19). In addition, not even internal supervision and substandard governance took place. Managers and loan officers were hired too fast and therefore lacked adequate education and expertise. The missing internal controls therefore caused misleading reports (Chen et al., 2010, p. 9ff). "MFI managers, funders, and even rating agencies were complacent and did not see the looming delinquency crisis coming" (Reille, 2009, p. 2).

In early 2007 delinquency was significant, but due to the high growth rates it remained unnoticed. A strong increase in nonperforming loans started in 2008. PAR 30 increased (table 2) from a very low level of 0.42% in 2003 to 10% in 2009 (world average lays at 2.7%). However PAR 30 differed among MFIs, with Al-Amana reporting 3.73% and Zakoura reporting over 30% in May 2009 (Reille, 2009, p. 2 and Atallah and El Hyani, 2009, p. 48).

**Table 2: Portfolio at risk greater than 30 days (in percent)**

PAR 30	2003	2004	2007	2008	2009	2010	2011
Morocco	0,42	0,50	1,50	5,00	10,00	5,72	5,70

Source: (Ammor/El Jaafari, 2009; Grameen-Jameel, 2012; Jaida 2009; Reille, 2009).

Customer loans, representing 80% of total assets, experienced limited growth of 3% in 2008, against increases of 125% and 58% respectively in 2006 and 2007. The slowdown is related mainly to the rise of portfolio risk and prompted organizations to reduce their activity. Outstanding claims increased by 131% with a share in total loans increasing from 2.4% to 5.3%. Weak controls and information systems, cross-indebtedness and changes in the composition of the portfolios are main reasons for this decline (BAM, 2008, p. 84). Write offs became a mayor problem for MFIs and their profitability. All 12 MFIs were experiencing more and more delinquency problems mainly due to changes in loan 16 more information about over-indebtedness may be found in Schicks and Rosenberg, 2011. 17 Data sometimes rounded (or average given) as there are different numbers in several sources. Moreover, as noted by Schicks and Rosenberg (2011, p. 12), MFIs published unreliable repayment statistics. 35 methodology (increased loan size, shift to individual lending, less installment frequency and new products). Moreover MFIs started to offer more microcredits to individuals and focused less on groups. The shift required a different analysis of potential customers, which challenged MFIs, who relaxed on lending discipline to reach the desired increase in volume and customers (Chen et al., 2010, p. 10 Reille, 2009, p. 2). Furthermore there were incentives for MFIs to grow fast in terms of total clients, in order to get subsidies from the government and international donors (Atallah/ El Hyami, 2009, p. 49). This also provoked a focus shift from female clients to more male borrowers with the beginning of the crisis. Local resistance and critical voices became louder with the increasing outreach of microfinance throughout Morocco. “The local events influenced the crisis and the public dialogue about the crises, but they were symptoms of underlying vulnerabilities within the microfinance industry itself and not root causes of the crisis” (Chen et al., 2010, p. 6).

In Morocco, especially in the region of Ouarzazate, anti-microcredit movements like the group of women called “Victims of Microcredit” (Grameen-Jameel, 2012, p. 9), were rising and provoked further repayment problems as they encouraged women not to repay their loans. In case of such troubles, customers in Morocco are still not protected by any regulatory system or mechanism for dispute resolution<sup>18</sup> (Economist Intelligence Unit, 2012, p. 53).

High interest rates also play a major role in the argumentation of opponents. As regulated in microfinance law, the government is allowed to stipulate interest rate ceilings, but did not establish any restrictions until now (Reille and Lyman, 2005, p. 8). Rates varied among MFIs, Al- Amana presented with 15% one of the lowest rates, whereas ARDI with 21-24% one of the highest (dates from 2008). This is partially influenced by the geographical location of their operational area (ARDI targets rural areas, whereas Al-Amana and Zakoura were leaders in total number of clients but with a weak presence in rural areas) but also due to finance structure and subsidies (e.g. ARDI or AMOS) relied on. Some MFIs also profit from economies of scale and are able to offer lower interest rates (Atallah and El Hyami, 2009, p. 56). The overall level of interest rates in Morocco only changed slightly over the years and remains quite low at a level between 13-15%, compared with many other countries (Martin, 2012).

The crisis damaged the image of the microfinance sector and the trust of its funders and clients was shrinking. The number of active clients declined by 59% from its 2007 peak until 2011 (FNAM, 2012). As a result, different recovery plans were rapidly put into place to bring the microfinance sector back on track. Initial reactions to the delinquency crisis were observed in 2008 and 2009. The main actors of the market, the government, the BAM and the FNAM, cooperated and collectively formulated new common guidelines, directives and plans to consolidate the sector. One conclusion was that actors had to pay more attention to the growth pattern of microfinance. The focus should no longer lie on access only, providing as much microcredit

to as many clients as possible, but priority should rather be placed on sustainable growth with lasting client satisfaction. This should be obtained through balanced growth objectives of MFIs in order to improve the quality of their services (Chen et al., 2010, p. 14). The first reaction to the delinquency problems was that MFIs tried to prevent contamination of the whole sector. This was among the leading MFIs the case of Zakoura, as described before, which merged with FBPMC to consolidate the sector. The many small MFIs affiliated with ARDI and created the "Microfinance Solidarity Network" (Grameen-Jameel, 2012, p. 7).

In addition, MFIs in Morocco developed new microfinance products to meet the different needs of poor people and fill in market niches. Al-Amana and Attawfiq, for example, have provided money transfers since 2012, as the importance of remittances has been discovered and micro insurances have been added (Martin, 2012). Among the new products, micro insurances were part of a system of medical coverage containing basic health insurance, complementary and complete insurance. The service was introduced in partnership with the Moroccan Central Mutual Insurance (MCMA). Customers contribute at different levels depending on their means, and will therefore be reimbursed a percentage of their loan in case of illness, disability or death. However, these products are still poorly developed and further efforts and extensions have to be made to raise awareness of the importance of medical coverage (Atallah/El Hyami, 2009, p. 42).

The Moroccan Government, as a main actor in the microfinance sector since the beginning, introduced a reaction plan with four pillars:

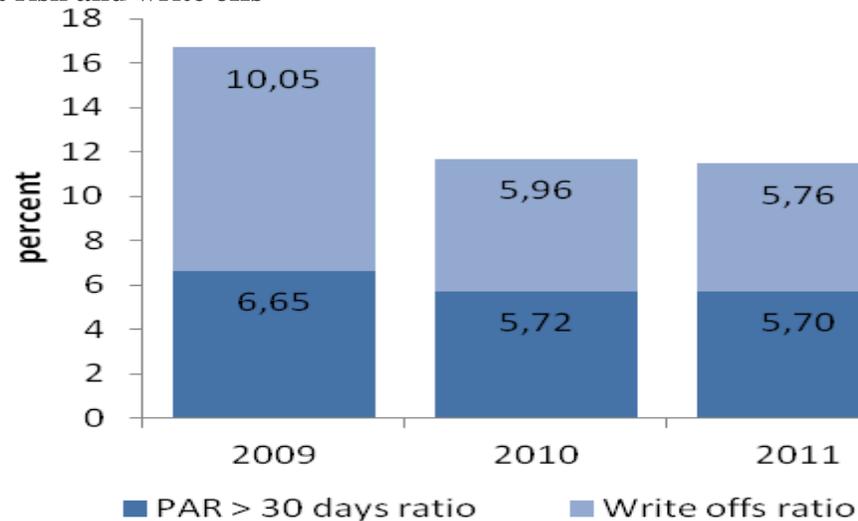
1. Strengthening the sector again and investing 46 million USD from the Millennium Challenge Account to recapitalize MFIs. Moreover they formulated a system of internal controls in order to improve transparency of the microfinance market.
2. Preventing cross- and over-indebtedness. A credit bureau was set up to improve credit analysis.
3. Helping to secure liquidity for the sector (which should come mainly from banks).
4. Focusing on an improved regulatory framework (Reille, 2009, p. 3).

The government also improved and modified the microcredit law to help the sector to recover fast in order to provide better possibilities for MFIs to operate in the future and support the growth and advancement of the entire Moroccan economy. Before the crisis, the involvement of the Bank Al-Maghrib (BAM) in the microfinance sector was quite limited. This, however, changed in 2008/2009. A diagnosis made by the BAM established that after its remarkable growth, the sector needed to develop a new vision, overhauling its governance practices and strengthening its risk management devices (BAM, 2008, p. 5). The BAM therefore established new directives to strengthen governance and to improve transparency. Since 2008 they have regularly published circulars with guidelines regarding non-performing loans, internal controls or governance, placing more attention on a better methodology and client screening. Furthermore, they have initiated collaboration with the FNAM to consolidate the sector. Since 2010 the BAM has integrated the microfinance sector in their national credit bureau, which most MFIs joined by 2011 to be able to better exchange information among MFIs (Grameen-Jameel, 2012, p. 7).

The FNAM as coordinator of the microfinance sector improved its working methodologies too, overcoming internal problems. In April 2008 a new CEO was appointed who strengthened its governance (Grameen-Jameel, 2012, p. 8). In October 2012 during the first symposium international de la Microfinance at Skhirat, a new industry code of ethics was implemented. The 2022 strategy's (sometimes also called 2020 strategy) goal is to reach three million microcredit clients in the next 10 years, creating two million additional full-time jobs in the sector. The government supports this strategy which would bring Morocco closer to international benchmarks. This would mean that by 2020 microfinance could contribute to 0.6 - 1.8% of GDP. In addition to the above-mentioned goals, in its white paper, MFIs together with the Centre Mohammed VI and the Ministry formulated the following strategic projections: to keep the operating ratio at Best Practices (65%), reducing PAR 30 below the world average (3.1%) and guaranteeing financial viability ensuring profitability of IMFs at the world average of 17% (Livre blanc, 2012, p. 20).

To improve the functioning of the microfinance sector further, a recommendation to introduce a financial access mapping was made, identifying regions with a lack or a saturation of MFIs providing microfinance products and services in specific geographical areas (Chen et al., 2010, p. 14). Competing MFIs in the same location should be alerted to over-indebted clients and hence prevent cross indebtedness. The cartography was put in place notwithstanding that results are still incomplete. The web page of the Centre Mohammed VI (2013) with the interactive map is currently unavailable (last attempt July 2013), Morocco's leading MFI Al-Amana (2013b) however, provides a good picture of all agents and branches on its web page.

**Graph 1: Portfolio at risk and write offs**

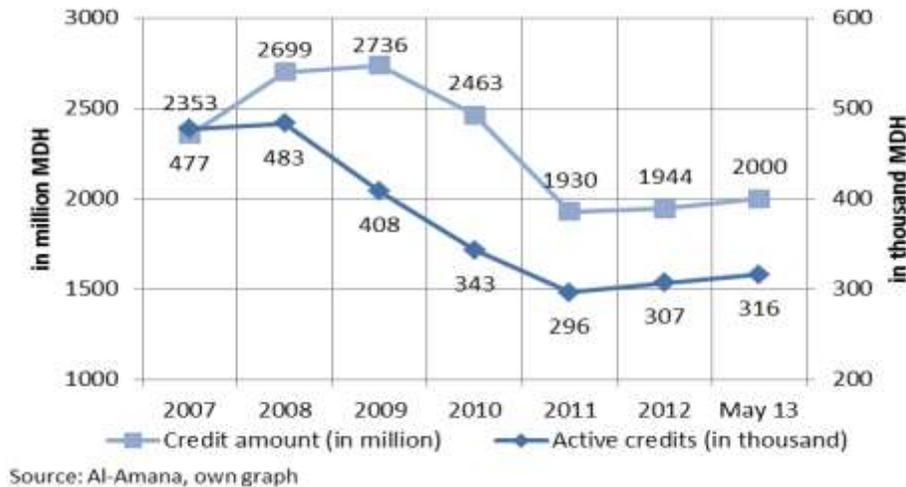


Source: Grameen-Jameel, own graph

Before the crisis, the average PAR 30 and write offs were below 3% in Morocco. The decline and stabilization of the microfinance market is reflected in the declining risks as shown in graph 719 (Grameen-Jameel, 2012, p. 4). Mix Markets reported a PAR 30 for 2012 of 2.86% (MIX, 2013b). Regarding Al-Amana's 20 credit risk, there has also been a decline since the 7% peak in 2007 to 3% until May 2013 (Al-Amana, 2013c). 19 More data about the development of PAR 30 from 2003 until 2011 may be found in Table 2.20 Note: I will take Al-Amana as an example of the sectors' developments as they present current data, latest update May 2013.

The increase of delinquency in so little time (Table 2) was influenced by several factors including crossed indebtedness, the excessive loan growth and the contagion effect. As we see now in graph 1, the microfinance sector in Morocco was able to address these problems and PAR declined in the years following the crisis. Moroccan microcredit sector had experienced one of the highest growths ever observed in microfinance in the world (Livre Blanc, 2012, p. 13). The number of active clients reached its summit in 2007 at 1.3 million and total credits peaked at almost 5.7 billion MDH in 2008. Since 2009 numbers have declined but stabilized, still at a high level, since 2010 (FNAM, 2010). The year 2011 marked the return of growth and stabilization of the microfinance sector in Morocco.

The profits earned in previous years helped sustain the institutions during the difficult period in 2009-2010 (Grameen-Jameel, 2012, p. 11). The microfinance sector has overcome the crisis and is growing again. Al-Amana, the largest MFI, presented prospering numbers at the end of 2012. Compared with 2011, Al-Amana increased their share of active clients by 4% to a total of 316,000 clients of which 41% are women. They widened their operational field and increased their service points to 501 in 2012. Total loans increased for the first time since 2009 to two billion Dirhams, and after several years of decline they have reached almost 2010 levels again as shown in graph 2 (Al-Amana, 2013). Both curves show similar developments, except during the years 2007-2009, where the total credit amount increased to a greater extent than the number of credits due to larger loans.

**Graph 2: Al-Amana's credit development**

The lessons learned from the crisis, identified by Grameen-Jameel (2012) were: “Back to the Basics”, growing sustainably in line with the microfinance vision of the MFI, where clients are the focus. This implies constant communication between the MFI and the customer as well as a coordinated exchange of information about borrowers among MFIs to prevent cross indebtedness. Through more supervision, a framework for internal controls and an emergency plan, MFIs should be able to meet upcoming challenges and provide sustainable microfinance services in the long term. The positive development can be seen as the fruit of the swift reaction of the Moroccan government and main actors in the microfinance sector. The measures taken helped to bring back the confidence and strengthen MFIs (FBPMC, 2011, p. 17).

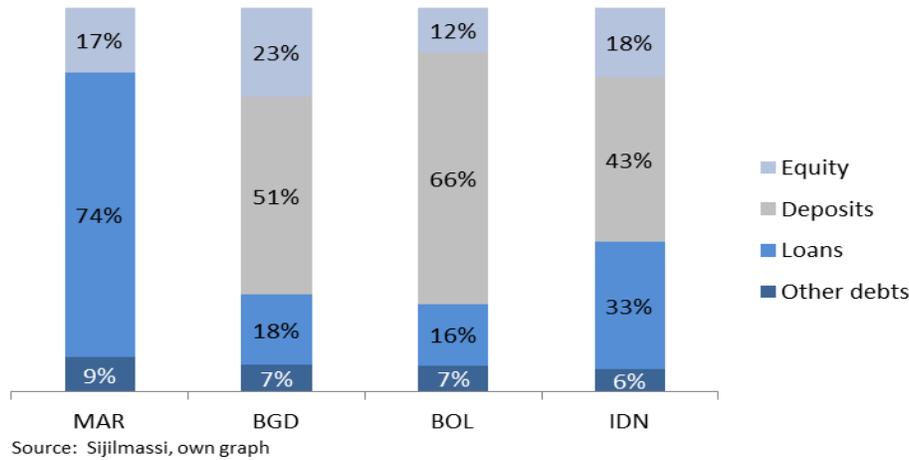
Morocco seems to be positive about the future of its microfinance sector. “A great deal was learned from this crisis and the MFIs today are a lot stronger than they were during the growth period” (Grameen-Jameel, 2012, p. 14). Figures reveal that despite a slowdown of microfinance in the world, the year 2012 marks the recovery of the Moroccan microfinance industry. Due to its dynamism the sector could conduct restructuring projects so that in 2012 the period of consolidation was ended. Moreover, the first International Symposium on Microfinance in October 2012 helped to reveal the outline of the sectorial strategy and accelerated the adoption of a new regulatory framework. The trends in microfinance in Morocco provide a strong business development in 2013 (Al-Amana 2013).

*“Despite the challenges faced in 2008-2009, the Moroccan microcredit sector has shown to be very resilient. The institutions worked more collectively and individually to address the issues faced in 2010-2011 to strengthen their operational infrastructure. Given the repayment crisis affected the sector as a whole in Morocco, the response had to be coordinated to ensure the sector survives and flourishes again. New systems, policies, procedures were introduced and reinforced, solid risk management practices, including disbursement, collection and recovery were implemented, and exchange of information between MFIs and good governance practices were introduced. Methodologies were revised, staff was trained and most importantly communication and relationship with clients was restored. One of the key elements that were quickly discovered by MFIs was the need to go back to the basics of microfinance and revisit the main principles of operating in this sector. While efforts continue and challenges remain, all efforts conducted were vital to setting the road to recovery for the sector, which demonstrates why Morocco continues to be a leading MF sector in the region” (Grameen-Jameel, 2012, p. 8).*

However, the microfinance sector in Morocco still faces some limitations. The legal framework in particular sometimes seems to hinder the development of the market. There is a strong focus on microcredits. Even if their product range has been diversified, their adaption is still limited through the microcredit law, prohibiting MFIs

to take deposits. The status of MFIs is limited regarding their ability to mobilize financial resources according to the president of the FNAM. The microcredit law and the regulation which does not allow the mobilization of micro savings as a stable and low-cost resource, as in other developing countries, raises concerns. As shown in graph 9, in other countries such as Bangladesh, Bolivia or Indonesia, where microfinance has reached a penetration rate of a significant part of the population, deposits are an important part of the composition of liabilities of MFIs (Sijilmassi, 2012, p. 9).

**Graph 3: Composition of liabilities of MFIs 2009/2010**



Moreover, the loan cap of 50,000 MAD seems sometimes to be too low and hampers growth, especially that of micro entrepreneurs. This plays an important role for senior clients after several years who have outgrown the microcredit ceiling and need to receive larger loans but which are still too small for commercial banks (FBPMC, 2011, p. 17). The support of small and medium-sized enterprises (SME) is one mayor concern of the Morocco government, as they are essential for the entire economy and are seen as an engine of growth contributing to 38% of GDP. In 2002, SMEs accounted for almost 93% of all registered businesses and 46% of employment. Still their overall contribution in terms of added value to the economy represents only 20%, due mainly to lack of financing (Wibme, 2012). This however will be changed soon according to the Ministry of Industry, Commerce and New Technologies. Finally, there are no regulations for MFIs regarding the acceptance of clients. They may still accept already indebted clients or clients having a credit with another MFI (Atallah and El Hyami, 2009, p. 61). Depending on the urge to increase in market share, MFIs may be tempted to relax on customer screening again. Estimates show that there are potential 5-8 million customers, mainly in rural areas, still lacking financial access (FBPMC, 2011, p. 17).

### Possible Effects of Microfinance

Even if it is very difficult to measure the impact of microfinance, some studies tried to identify the reasons and show some effects the implementation had on poor people. There are several factors which strongly influence the microfinance sector and its performance. Vanroose (2008) identifies in a cross-country analysis which macro factors play a role in why MFIs are successful in some countries and not others.

Especially in the MENA region, Morocco is frequently an outlier, as its developments often differ from the other countries. Some of the following factors could explain the success of its microfinance sector – at least to some extent. Vanroose suggests that the microfinance sector is more present in richer countries of the developing world and it also reaches more clients in countries that receive more international support, both of which are the case for Morocco. Moreover, population density plays a positive role (due to better developed infrastructure, electricity and shorter or improved communication ways which may lower the costs for MFIs).

Furthermore, microfinance may influence the economy of a whole country as well as its MFIs and their customer's lives. Regarding economic activities, studies show that microfinance has a positive impact on income, profits, investment and market access (Atallah/El Hyami, 2009, p. 45).

Additionally, microfinance creates employment opportunities. Microfinance beneficiaries in Morocco are employed 40% in artisan craftwork, 33% in commerce and services and 27% in agriculture. The objective in Morocco is to create 2 million jobs by 2020; so far they have reached 6,000 jobs directly with MFIs and almost one million indirect jobs. The sector continues to invest in capacity-building to raise its microfinance industry practices to the best international standards. To this end it invested over 50 million MDH in 2012 and 2013 in different projects (Sijilmassi, 2012, p. 4).

### **Conclusion**

Due to informational asymmetries, traditional financial markets fail or reach their limits, causing the exclusion of poor people. Microfinance offers the possibility for excluded households to obtain access to financial products, even if they lack collateral. Microfinance is able to overcome many problems traditional finance institutions face and is therefore seen as a tool to reduce poverty in the world and diminish vulnerabilities of the poor. Its roots go far back in history; however, its celebrity only came with Muhammad Yunus in the 1970s. Around the world NGOs and governments have since followed his example, offering different microfinance products and services. 2005 was declared the International Year of Microcredit as its sector grew further and gained importance. Today MFIs appear in many different forms such as governmental or non-governmental organizations, as credit cooperatives, as private credit institutes, self-help groups or bank-near financial service providers. Moreover it is no longer just NGOs who develop into financial intermediaries, but also the other way round: banks are showing more and more interest in becoming microfinance service providers.

With the time institutions have changed, and there has been a shift in their product range too. The need for a variety of financial services beyond credits has been recognized. Today a variety of financial products and services such as savings and deposits, micro insurance, pension funds, remittances services, and non-financial services such as skills training and education are offered. The focus hereby lies on the group-lending methodology, characterized by its joint liability, where all members are commonly responsible for the repayment of the loan.

Moreover the focus on female clients is an additional important feature of microfinance. The focus shift to women was a response to experiences gathered. Women are considered as better borrowers as they are more reliable, present high repayment rates and tend to be less risky with their investments. In the Kingdom of Morocco, first microcredits were granted at the beginning of the 1990s. Their growth story was one of the most impressive in the world. Between 2003 and 2007 client outreach and loan portfolios multiplied by several times. Morocco became the leader in microfinance in the MENA region. International recognition and several prizes completed the success. MFIs operate under the supervision and monitoring of the state and the central bank. The microfinance sector relies on a strong support, not only financially, from the government. A microcredit law was adopted in 1999 which has been modified several times since. It regulates the sector and gives a framework for development. The maximum credit ceiling and restrictions on taking deposits particularly differentiate Morocco from other countries.

From very few MFIs operating in the early 1990s there are today 12 MFIs in Morocco. The microfinance market is very concentrated, and clients are mainly allocated among the four biggest MFIs accounting for over 90% of client outreach. From 2003 the amount of active clients rose from almost 308,000 clients to 1,353,000 clients in 2007. After several years of growth, the microfinance sector in Morocco began to experience some problems in 2008. The crisis in Morocco started with the crash of one of the largest MFIs and jeopardized the whole system. Reasons given for the crisis were mainly the unsustainable growth of the sector, but also the high market concentration of MFIs, multiple indebtedness, the lack of controls and monitoring systems, nonperforming loans and delinquency problems. The crisis damaged the image of the microfinance sector and the trust of its funders and clients was shrinking. As a result, different recovery plans were rapidly put into place

to bring the microfinance sector back on track. The government, the BAM and the FNAM, main actors of the market, cooperated and collectively formulated new guidelines, directives and plans to consolidate the sector. One conclusion reached was that actors had to divert more attention to the growth model of microfinance. The focus should no longer lie on the increase of market shares but priority should rather be on sustainable growth with lasting client satisfaction.

The growth projections in the 2020 strategy could be viewed as especially critically as the formulated goals seem to be too high. Today, the declining portfolio at risk percentages and the increasing number of clients show that the microfinance sector in Morocco is back on track and ready to continue its success. However it is difficult to make a detailed evaluation regarding how much has been learnt during the crisis due to the lack of detailed and current data. There are many well formulated visions and guidelines regarding the future of microfinance in Morocco with a lot of projects to conduct over the next few years. Many improvements were promised, especially regarding the concentration problem of MFIs; an interactive map about the field of operation of the different MFIs was assured but it seems not to work correctly yet. Continued timelines are also missing, and web pages are rarely updated. Especially from the FNAM I expected to find a better data overview. The latest numbers from the FNAM were published a year ago in June 2012. Unfortunately, many statements are given without any date or year indication. Moreover it was striking that in publications from 2010 the variety of data was reasonable (more than 10 different data including percentage shares etc.) but diminished until 2012 to only five totals.

### Conclusion

Today, the declining portfolio at risk percentages and the increasing number of clients show that the microfinance sector in Morocco is back on track and ready to continue its success. However it is difficult to make a detailed evaluation regarding how much has been learn during the crisis due to the lack of detailed and current data. There are many well formulated visions and guidelines regarding the future of microfinance in Morocco with a lot of projects to conduct over the next few years. Many improvements were promised, especially regarding the concentration problem of MFIs; an interactive map about the field of operation of the different MFIs was assured but it seems not to work correctly yet. Continued timelines are also missing, and web pages are rarely updated. Especially from the FNAM I expected to find a better data overview. The latest numbers from the FNAM were published a year ago in June 2012. Unfortunately, many statements are given without any date or year indication. Moreover it was striking that in publications from 2010 the variety of data was reasonable (more than 10 different data including percentage shares etc.) but diminished until 2012 to only five totals. Morocco seems to be aware of the importance of microfinance and puts a lot of effort into the development of the sector. The country's success will depend on how it deals with future challenges. As long as the focus does not lie solely on profits, but accommodates sustainable growth and poor clients, Morocco will be able to continue its success story further.

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