

Microfinance in Morocco : State of art

Bensaid Amrani Mohamed¹, Faris Hamza² and El Hachloufi Mostapha³

Abstract

Microfinance issues have aroused the interest of researchers in recent years. Indeed, the state of research testifies to the abundant studies mobilizing different methodologies and samples. This article presents a review of the literature of the microfinance sector in order to improve our understanding of the results of previous research and to analyze the evolution of the sector by presenting a description of the sector and its impact. Our research methodology is that of a theoretical exploration through articles by researchers who have been interested in the theme of microfinance, reports of the Microfinance Information Exchange (MIX), report of the Consultative Group to Assist the Poor (CGAP) The reports of the supervisory authorities, the activity reports of the AMF ... etc.

JEL classification numbers: O16, G21, D21, I32

Keywords: Microfinance, microcredit, entrepreneurship, poverty, financial exclusion, impact.

1 Introduction

As an unquestionable tool for development and the fight against poverty, microfinance enables people excluded from traditional financing systems to access financial services with the aim of initiating or developing income-generating activities and / or improve their access to basic social services.

¹PhD student in Economics, Abdelmalek Essaadi University of Tetouan, Morocco.

²PhD, Professor in Abdelmalek Essaadi University of Tetouan, Morocco.

³PhD, Professor in University of Hassan II, FSJES-Ain Sebâa, Morocco.

Numerous scientific studies have attempted to study the link between microfinance and poverty on one hand, and its impact on beneficiaries on the other. In this regard, several studies have examined the real capacity of microfinance institutions to truly lead their clients out of the poverty gap (Hume and Mosley 1996, Sebstad and Cohen 2001, Mosley and Rock 2004) and stimulate or promote the development of the nation.

The institutions of microfinance open up potentialities for precarious social categories by making it possible to meet the utilitarian needs of individuals while offering opportunities for saving. In the same way, microcredit, which is one of the main products offered by microfinance institutions, helps to promote the development of the financially excluded of the nation. Indeed, programs for national deminers continue to attract researchers and practitioners.

In the Moroccan context, this sector has grown rapidly in its appearance and its evolution over time. To this end, the central question is to understand the functionalities of the microfinance sector in Morocco and to analyze its contributions, which seek to provide sources of financing and to target the categories that remain excluded from the traditional financial system.

In order to answer the above question and ensure the logical sequence of the ideas contained in this paper our development will be divided into two parts: a first will be dedicated to the theoretical framework of microfinance, in order to better understand this concept, then the field will be cleared to apprehend this sector in Morocco via an analysis of its main indicators namely : The number of clients served, the outstanding loans and portfolio at risk (PAR > 30 J), ultimately, a presentation of its impact on the economy and the beneficiaries will take place. A final part of this paper will be devoted to a discussion and a conclusion and finally to present the future research perspectives of our study.

2 Theoretical framework of microfinance

From the beginning, microfinance was perceived as a form of solidarity between the poor excluded from the traditional banking system, and then developed into a crucial part of finance and development. Many authors (theoreticians, practitioners, and various international networks, international organizations) gave their theoretical and practical contributions on the functioning of microfinance. Thus, to better understand microfinance, we will examine the theoretical foundations through a literature review on the concept, its origin, its evolution as well as the major currents of thought that have focused on the issue of microfinance.

2.1. The emergence of microfinance

It is crucial to evoke the history of the foundations that underpin the philosophy of the concept of microfinance in order to better understand its origin. Indeed, microfinance was born as a result of increased demand for the financialization of the activities of the poorest populations, especially in the developing countries.

This sector should contribute to economic development MacKinon (1973) and Shaw (1973).

In fact, Le lart (2002) confirms that the emergence of microfinance is a reaction to the vitality of informal finance and its inclusion in development policies.

In the same direction and in order to better understand the evolution of microfinance over time since its inception, in what follows, we are going to set the stages of the expansion of microfinance which has taken off under the impulse of The Grammen bank in 1976 in Bangladesh.

The following Table summarizes its steps:

Table 1. Evolution of microfinance

<i>The first decade (1975-1985)</i>	<i>The second decade (1985-1995)</i>	<i>The third decade (1995-2005)</i>
The emergence of modern microfinance organizations such as Grameenbank.	The emergence of many of the most well-known institutions have established links with commercial banks while attaining considerable client size.	The integration of microfinance into economic development programs through the proliferation of models with high tension.

2.2. Definition of microfinance:

Since the emergence of the concept of microfinance, many researchers and practitioners have tried to define the principle, understand its mechanism and analyze its impact on economic and social development. This research has been the subject of an abundant literature which attempts to define the concept and to evaluate the role of microfinance institutions in the economic development of a nation. In fact, the concept remains new in the economic literature devoted to developing countries.

According to Jonathan Morduch, microfinance is the most effective way to fight global poverty and solve financial and banking exclusion. Indeed, microfinance institutions offer practices different from those of the traditional financial system for a so-called poor excluded population.

Faced with the precarious situation and vulnerability experienced by these social categories, microfinance is one of the privileged tools of the fight against poverty. This enthusiasm makes it possible to widen the access of the poorest categories by stimulating the diversification and the continuous increase of their sources of income. According to Brunel (2000), these people are often in a situation of renunciation.

According to CGAP, microfinance represents "the provision of a set of financial products to all those who are excluded from the traditional or formal financial system". The OECD considers that "microfinance targets access to finance for small projects carried out by marginalized people who aspire to create their own jobs, often by default from other professional perspectives and because access to

traditional sources is refused ". For its part, UNCDF (2001) explains that "The goal of microfinance is to increase income and create employment among poor people through the development of local micro-enterprises and, in this process, increase the financial well-being of borrowers, their families and their wider community".

Mia Adams 2003 defines microfinance as "giving access to finance to as many poor people as possible and enabling them to leverage their capacities for sustainable development". For the 2005 edition, microfinance is "... a small credit, of a small amount, substantially less than the credit that a business or a household can solicit from a bank. This credit is claimed by people with relatively low incomes. It is often asked to develop an activity that generates income, whether it is a former activity that one would like to extend or a news that one would like to create.

The International Labor Office (ILO) 2005 defines microfinance as "a means of action, not a panacea. Its impact is optimal when combined with other interventions such as monetary, fiscal and labor policies, market development, improvement of institutional infrastructure and human resource development ".

Servet (2006) lists three criteria for defining microfinance: "The small amount of operations, not only spatial but also mental and social proximity between the organization and its target population, and the perceived poverty of clients or members or the exclusion they suffer ".

According to Morvant (2006), microfinance is a complement to the financial market and not a substitute. Beneficiary clients often take advantage of the microfinance program offerings to better manage their cash flow and thus protect themselves from hazardous risks.

The term microfinance refers to the provision of financial services provided to low-income clients through a variety of services that typically evolve into micro-credit, micro-insurance, micro-savings and cash transfers (Van Rooyen et al., 2012).

Microfinance is a high-growth industry that will become the largest global banking market in terms of customers served (Mersland et al., 2013). According to Beisland et al., 2015, it has attracted the attention of a broad public as a contributor Essential to the strengthening and expansion of the formal financial system. This system affects sustainable development directly and indirectly (Scholtens, 2008, Busch et al., 2016).

2.3. The Fundamental Principles of Microfinance

In ten years of consultation with its members and stakeholders, the Consultative Group on Aid to the Poor (CGAP) has defined the following eleven basic principles of microfinance:

1. Low-income people need a variety of financial services, not just loans. In addition to credit, they need saving, insurance, and money transfer services.
2. Microfinance is an excellent tool for fighting poverty. Low-income families use

financial services to increase income, build assets and protect against financial shocks.

3. Microfinance means the creation of financial systems for people with modest incomes. It reaches its goal if only it is integrated into the traditional financial system of a country.

4. Microfinance can be self-financed and must have worked to reach a very large number of people with modest incomes. Unless microfinance agencies set high enough rates to recover their funds, they will still be limited by the scarcity and uncertainty of government and donor subsidies.

5. Microfinance is the creation of permanent local financial institutions that can attract family payments, re-use them as loans, and offer other financial services.

6. Micro-credit is not always the solution. Other types of support may work better for the very poor and without income or means of repayment.

7. Interest rate ceilings hurt low-income people and make access to credit difficult. Making many small loans come back more expensive than taking a few with a higher amount. Interest rate ceilings prevent microfinance agencies from recovering their financing and thus discouraging credit to the poor.

8. The authorities must consent to the establishment of financial services and not create them themselves. They often make inadequate credit plans, but they can create the environment for a support system.

9. The donor must join private capital, not compete with it. Financial support should temporarily provide a system of assistance to obtain private sources of finance, such as deposits.

10. The main difficulty lies in the lack of large institutions and administrators. The financiers must orient their aids on profitability.

11. Microfinance works best when it determines and formulates its approach. Exposing not only the aid judged in costs and profits by the depositaries, it also improves the approach. MFI must produce an accurate and comparable report on financial functioning (eg loan repayment and cost recovery) and social functioning (eg number and poverty threshold of persons assisted).

2.4. Schools of thought related to the financing of MFIs

Several associations have faced a constraining dilemma: in order to find other sources of financing that could meet the needs of the poorest categories on the one hand, and to ensure their financial sustainability on the other. In other words, the challenge is to strike a balance between: providing adequate financial services to the poor while remaining economically efficient and self-sustaining.

This situation has developed a very wide debate between researchers and practitioners and has given rise to two schools of thought: the welfarist approach and the institutionalist approach.

The table below summarizes the particularities of each approach:

Table 2. Summary of approaches to MFI financing (Berguiga, 211, P. 45)

	Welfarists	Institutionalists
Approach	Performance evaluation from a customer perspective: <ul style="list-style-type: none"> • Social Scope • Impact assessment 	Performance assessment from an institutional perspective: <ul style="list-style-type: none"> • Amplitude of the institution • Sustainability and sustainability of MFIs
Target customers	Very poor	Micro-entrepreneurs very close to the poverty line.
Type of institution	Solidarity Institutions	Business Institutions
Methodology	Use of subsidies	Financial autonomy
Reviews	<ul style="list-style-type: none"> • Problem of viability and sustainability • High costs and different methods of measuring impact • Bankruptcies of some MFIs (repayment rate <50%) 	<ul style="list-style-type: none"> • Problem of client selection (these MFIs do not reach the poorest of the poor) • High interest rate • Self-sufficiency is a long-term strategy
Goal	Poverty Reduction	Poverty Reduction

3 Status of the microfinance sector in Morocco

In Morocco, the microfinance sector is relatively young. The first small loan programs that finance the economic activities of low-income people began in 1993-1994. However, it was not until 1996 that international microfinance experience began to be known in the country.

Indeed, the sector is constantly expanding and reflecting this evolution on several aspects, namely the main indicators: the number of clients served, loan outstandings, the portfolio at risk and the size of the land.

Table 3. Evolution of the activity indicators of the 2015 report of the national federation of microcredit associations.

Indicator	Dec-13	June-14	Dec-14	June-15	Evolution Dec 2013-2014	Evolution Dec 2014- June 2015
Active clients	821 461	848 000	867 700	893 977	+5,6%	+3%
Outstanding loans	5 050 306	5 296 293	5 682 530	5 921 811	+12%	+4,2%
PAR 30D	6,74%	4,59%	3,51%	4,22%	-47%	+20%
Number of customers	6 266	6 145	6 094	6 297	+2,7%	+3,3%

The table above shows the evolution of the microcredit activity indicators in terms of active clients, outstandings and workforce.

Indeed, we see an improvement in the number of active customers between the years 2014 and 2015 of the order of 3%. In addition, outstanding loans increased by 4.2%, while the sector's workforce increased by 3.3%.

The indicators mentioned above reflect the positive development of the sector over the years. The following paragraphs will be devoted to this evolution analyzed through the main indicators, namely: the number of associations, the number of loans granted and the number of clients served.

3.1. Microfinance Associations

A Microfinance Institution is an organization that provides financial services to people excluded from the traditional banking system. Indeed, the law that governs microfinance in Morocco has introduced 13 specialized associations that represent the sector.

These include AL AMANA, ATTAWFIQ, AL BARAKA, ZAKOURA, AL KARAMA, AMSSF, ATIL, FCA, AIMC, AMOS, INMAA, AGIMCE and AMAPPE.

There is a great difference between associations in terms of size and institutional capacity today. Indeed, the state of the sector shows that the activity is driven by three big associations:

- **Al Amana:** One of the leaders of the microfinance sector in Morocco, the largest in terms of portfolio size and number of borrowers, it accounts for 42% of the turnover of the sector, the institution was created with technical assistance Of the American NGO Vita and the support of USAID.
- **Attawfiq Microfinance:** is a not-for-profit association created by the Banque Populaire group for the distribution of loans excluded from the banking system, it owns 32% of the turnover of the sector.
- **AL Baraka Foundation:** Established in 1996, (FONDEP-Salaf Albaraka), is a not-for-profit association that now finances 20% of the micro-enterprises

addressed by the sector in Morocco with a portfolio of assets of more than 20% One billion dirhams.

The structure of the microfinance sector in Morocco is illustrated in the following diagram:

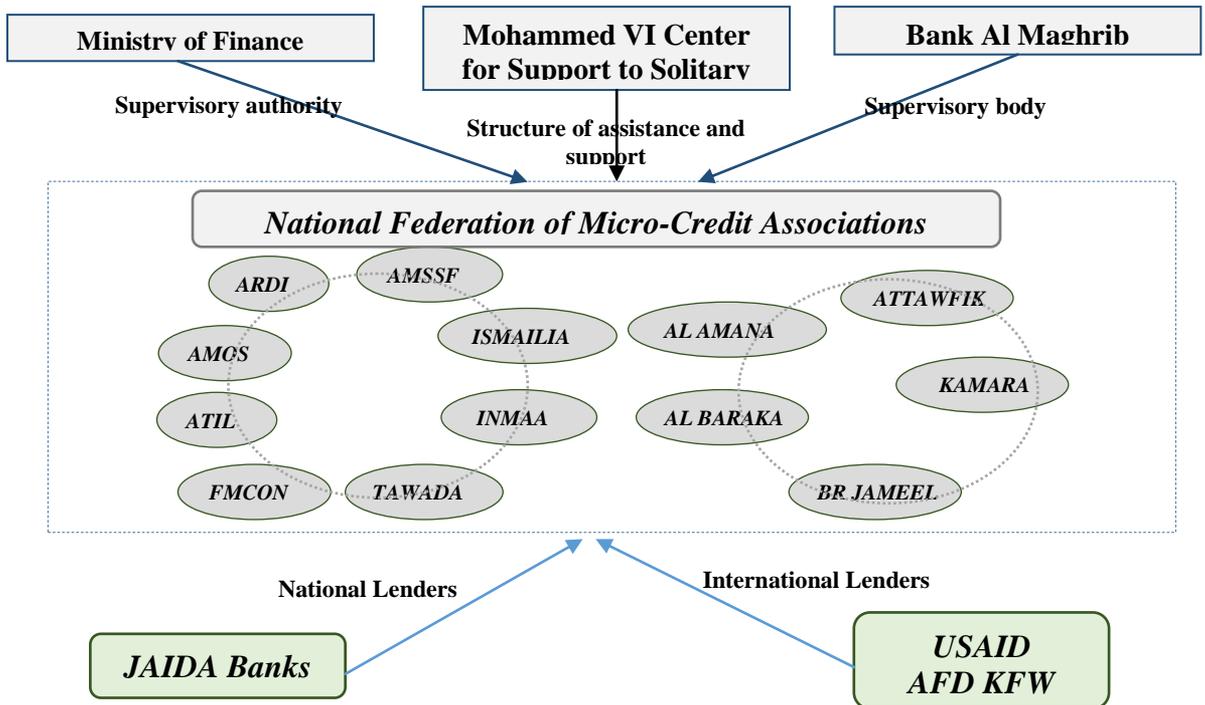


Figure 1. Structure of the microfinance sector

3.2. Number of clients served

In Morocco, a particularly flourishing microfinance sector developed. According to Xavier Reille, in December 2007, more than one million customers totaled 5.5 billion dirhams of assets, or 680 million dollars, according to a report by CGAP (Consultative Group to Assist the Poor). Microfinance). Morocco alone accounted for more than 40% of microcredit clients in the Arab world. "In 2007, the microfinance sector in Morocco was one of the most active and performing in the world. This success was made possible thanks to the support of the government, but also of the international donors.

Towards the end of 2007, a crisis was beginning to emerge, with the rise in the number of outstanding payments. According to Xavier Reille, it is explained by an uncontrolled growth of the sector: "Independently of the global financial crisis, the crisis of Moroccan microcredit has its origins in the MFIs themselves. Their institutional capacities have been surpassed by this exponential growth, resulting in lax credit policies, obsolete information and management systems, weak

internal control and weak governance. "

As of 2012, the number of active clients in the Microfinance sector has picked up. In addition, the number of active customers decreased by 1% in the last quarter of 2015 compared to the end of September of the same year. This non-significant decrease can be explained by the combination of several factors: morose economic conditions, departure of customers, weak prospecting procedures ... Compared to the end of 2014, the trend was positive, ie + 5%.

Indeed, it has increased by around 4.4% in 2015 relative to 2014, compared to a 5.6% increase between 2013 and 2014, as illustrated in the graph below:

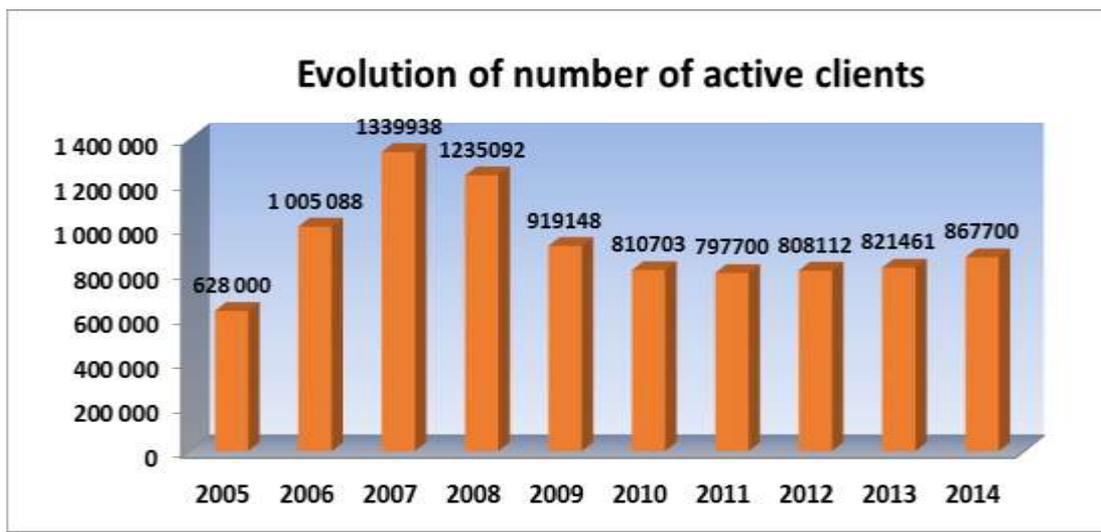


Figure 2. Evolution of the number of active customers (Source: MIX Market)

3.3. Loan Outstanding

Loans outstanding represent a key indicator of the performance of the microfinance sector and refers to the total amount of unrefunded prices at the end of the reporting period.

The outstanding loans of the microfinance sector in Morocco amounted to 5.67 billion dirhams. To this end, there is a considerable increase in the value of the portfolio, with a total of \$ 567 million in 2015, mainly allocated between Al Amana, Attawfiq Microfinance and the Al Baraka Foundation. This development is the result of an acceleration of 9.3% to 12.5% in loans to microenterprises and a 7.7% increase in loans to social housing. This improvement was accompanied by a further 8.8% decline in outstanding receivables, bringing their ratio down from 6.7% to 4.6%.

The graph below shows the evolution of outstandings between 2005 and 2015:

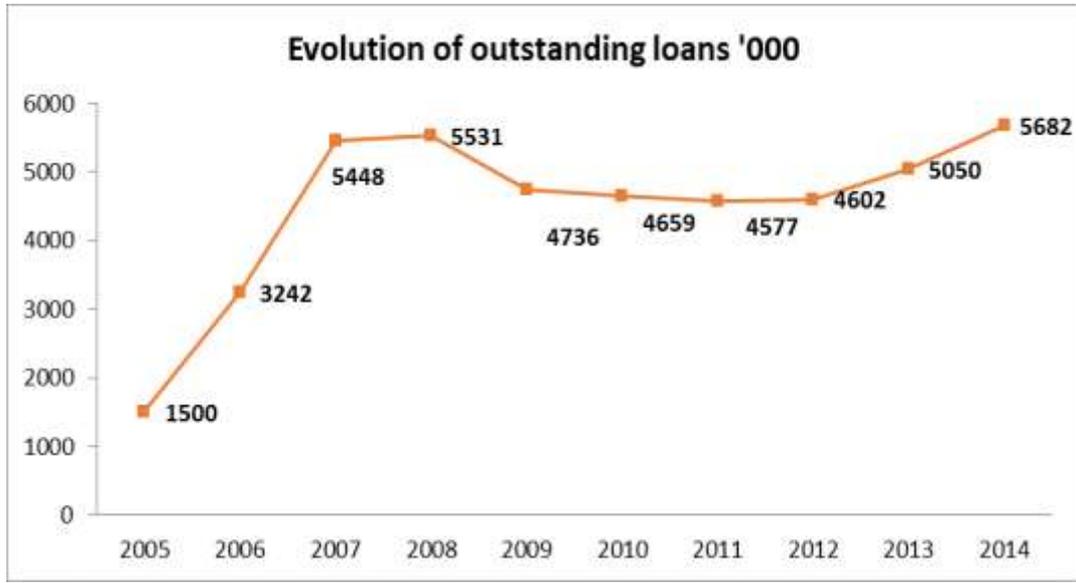


Figure 3. Trend in loans outstanding in millions of Dhs (Source: MIX Market)

3.4. Portfolio at Risk

On the portfolio at risk is the most recognized measure in MFIs. It allows the manager to measure the portion of the credit portfolio that is affected by the arrears and is at risk of not being repaid. The portfolio at risk is generally broken down into several categories according to the time elapsed since the first non-compliant maturity.

In Morocco, the portfolio at risk (PAR > 30J) decreased by 1.42 points compared to 2014. The graph below shows the evolution of PAR > 30j between the years 2007 and 2015:

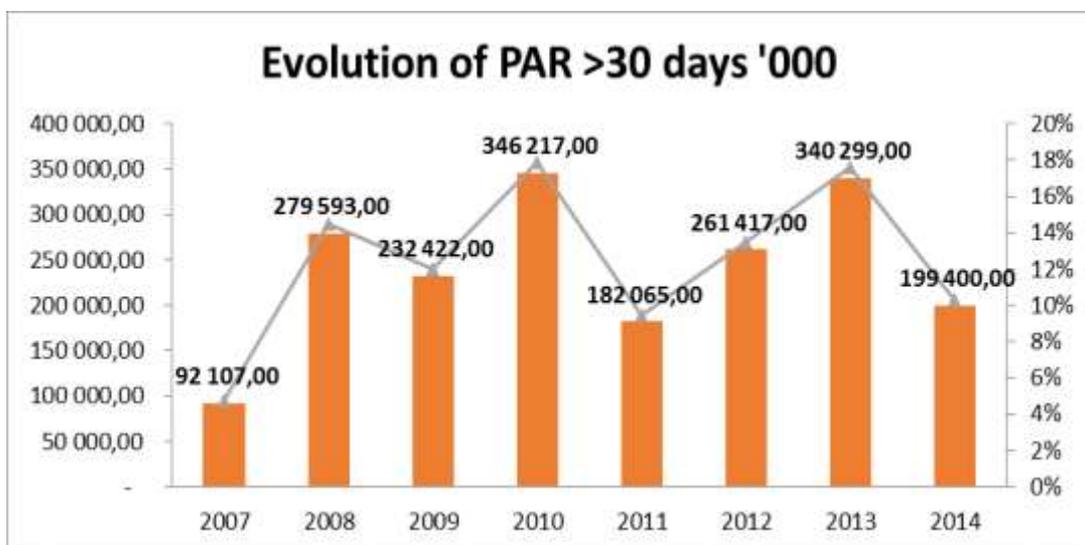


Figure 4. Evolution of PAR > 30J In thousands of Dhs (Source: MIX Market)

In order to better understand the microfinance sector in Morocco, we suggest to analyze its main strengths and weaknesses.

The following figure summarizes these strengths and weaknesses:

Table 4. Analysis of the strengths and weaknesses of the microfinance sector

Strong Points	Weak Points
<ul style="list-style-type: none"> - The abundance of the clientele to be served, since the poorest category is the most dominant; - Royal will and government support; - The legal framework that allows associations to move from association status to that of finance company; - Possibility of regrouping the small AMCs with the aim of consolidating the microfinance sector and strengthening the institutional and financial capacities of the associations. 	<ul style="list-style-type: none"> - The non-formalization of the social mission targeted by the MFI program; - The slow pace of legal proceedings in the event of unpaid payment; - Shortcomings in human resources trained and qualified to work with the microfinance target; - The very high risk of default because of the vulnerability and inadequacy of the resources of the poor; - Lack of a legal framework governing pricing.

3.5. Impact of microfinance

The impact is to understand how financial services affect the lives of the poor. To date, most impact assessments have focused on micro-credit programs instead of examining a range of financial services.

- Impact includes income growth, accumulation of assets and reduction of vulnerability.
- Impact indicators measure much more than micro-enterprise outcomes (assets, employment, incomes) to understand the multiple dimensions of poverty: overall household income, social progress for health and education, and emancipation (in terms of gains in autonomy and control of household resources for women).

In fact, the first reflections on impact assessments date back to the mid-1990s. At this stage, the ambitions are high: to prove the socio-economic impact of microcredit at different levels (micro, meso and Macro) and to show donors how much a monetary unit invested can "bring back".

In the following paragraphs, we will attempt to present a summary of the statements of the activity reports of the main MFAs as well as other actors such as the FNAM, the Mohamed VI Center for Supporting Solidarity Microfinance, the JAIDA Fund ...

➤ **On the economy**

With regard to economic activities, numerous studies have been carried out and reveal that microfinance has a positive impact on income, profits, investment and market access. Indeed, the average reported net income of micro-enterprises increased by 32% (51% for women compared to 21% for men). Microfinance thus makes it possible to turn the wheel of the economy (and to inject liquidity continuously) since the expansion of the activity of micro-entrepreneurs necessarily increases their working capital requirement: they invest more and consequently spend. Moreover, microfinance contributes greatly to job creation since the global study carried out in 2010 makes it possible to deduce (according to the first results) that the sector has succeeded in creating about 6564 direct jobs and generated a large number of indirect jobs: close to one million full-time equivalents FTE. More than 4.5 million people are affected by the sector more or less directly. Microfinance therefore remains an actor for employment in Morocco, especially in areas where poverty rates and unemployment are high. The sector is considered one of the top ten employers in the country. Studies have also shown that microfinance has saved on the cost of supplying some micro-entrepreneurs and extending the activity of others. On borrowers

➤ **On the borrowers**

The impact on the household budget and on its overall own consumption is obviously positive. Over time, the customer acquires durable goods (washing machine, television, ...) and his savings increase. On the other hand, the managerial qualities (especially in women) were improved. The financial independence of women leads to their emancipation, and a better self-esteem. The school enrollment rate also increases with the increase in personal income and is one of the strongest investments that these micro-entrepreneurs make. Finally, the health status of individuals, education and food are personal improvements noted by beneficiaries of microcredit. The impact of microcredit despite the fact that it is not always demonstrable, remains still visible: In Morocco, the situation of MFI clients has improved. However, during this decade, MFIs have faced several problems that have affected their operations, but in the long run, MFIs have contributed to the expansion and improvement of MFI activities.

As regards the industries benefiting from the financing, the activity reports on the three main MFAs dominating the market for 2015 (Al Amana, Al Baraka, Attawfik) revealed that nearly 70 % Of sector of activity financed by the sector are allocated to trade, services and crafts. Urban areas accounted for 63.6% of loans distributed, compared with 36.4% for rural areas.

4 Conclusion

The fight against poverty and exclusion in Morocco is a challenge for every nation. Indeed, the achievement of this objective requires the mobilization of sufficient resources to meet the needs of the disadvantaged groups and stimulate the wheel of the national economy. Through its various programs, microfinance provides essential financial services in order to facilitate and encourage the provision of the necessary financial resources to cope with the problem of micro-enterprise financing and to guard against poverty.

Through this paper, we have attempted to present a review of literature as well as an overview of the sector of Microfinance in Morocco. To achieve this, we first tried to define the conceptual framework in order to assess the state of art related to the subject, and then to measure and analyze the performance of the sector through its main indicators. In order to determine its impact on the economy in general, and on borrowers, according to the reports prepared by the main MFAs in Morocco, as well as the organizations that have been interested in the subject of microfinance (FNAM, Center Mohamed VI de Support for solidarity microfinance, Fonds JAIDA, etc.). It seems that the sector of microfinance is promising in Morocco given the evolution observed throughout our analysis. This reflection leads us to ask how the sector impacts the living conditions of the target populations of microfinance programs. To this end, an impact study should enable us to assess the economic and social impact of the sector on the beneficiaries and constitute the future research prospects that are the subject of our next work.

References

- [1] Berguiga. I, (2011), *la microfinance entre la performance sociale et performance financière*, Paris.
- [2] Anne-Sophie Brouillet (2004) « Microfinance et lutte contre la pauvreté : regard du Réseau Impact ».
- [3] Barry J. Barnett, Christopher B. Barrett (2008) “Poverty Traps and Index-Based Risk Transfer Products”, *World Development* Vol. 36, No. 10, pp. 1766–1785.
- [4] Brau J.C., Woller G.M. (2002), “Microfinance: A comprehensive review of the existing literature”.
- [5] C. van Rooyen, R. Stewart, T. de Wet, 2012, *The Impact of Microfinance in Sub-Saharan Africa: A Systematic Review of the Evidence*, Volume 40, Issue 11, November 2012, Pages 2249–2262.
- [6] Evers J., Jung M., Lahn S. (2007), “Status of microfinance in Western European Union- An academic review”, *European Microfinance Network*, March, Issue paper.

- [7] Guérin. I et J-M Servet : (2004), « Exclusion et Liens Financiers » Rapport du Centre Walras 2003, Paris : Economica, 693p.
- [8] I. García-Pérez ; M-J., Muñoz-Torres ; M-A., Fernández-Izquierdo, (2016), Microfinance literature: A sustainability level perspective survey, Journal of Cleaner Production, p4-6.
- [9] Jean-Marc Bigler (2006) « Sous-développement du microcrédit Suisse », Revue Economique et Sociale, pp. 83-94.
- [10] Laure Delalande (2007) « Microfinance et réduction de la vulnérabilité : le cas d'un « microbanco rural » au Mexique » Autre part N°44, pp. 27-47.
- [11] Philippe Jeannin, Mariam Sangare « La microfinance. Quels impacts économiques et sociaux ? » IUT de Tarbes – Université de Toulouse.
- [12] Mohummed Shofiullah mazumder, wencong Lu, What Impact Does Microfinance Have on Rural Livelihood? A Comparison of Governmental and Non-Governmental Microfinance Programs in Bangladesh, World Development Vol. 68, pp. 336–354, 2015.
- [13] Thankom Arun (2005) “Regulating for development: the case of microfinance”, The Quarterly Review of Economics and Finance Vol. 45 pp. 346–357.
- [14] Rapport des tendances du secteur de la microfinance au Maroc, Décembre 2015, centre Mohamed VI de soutien à la microfinance solidaire.
- [15] Rapport du CGAP concernant les directives concertées pour la microfinance, 2003.
- [16] Planet Finance, FNAM, « Evaluation de l'impact du microcrédit au Maroc », 2005.
- [17] Le livre blanc du microcrédit au Maroc janvier 2012.
- [18] Etude d'impact social de microcrédit, cas Al baraka –D- BENNANI 2015.
- [19] Rapport d'activité, Al Amana Microfinance 2015.
- [20] Rapport d'activité, Attawfiq Microfinance 2015.
- [21] Rapport annuel fonds JAIDA 2015.
- [22] FNAM, Note des tendances à fin Décembre 2015.