



Microfinance Index of Market Outreach and Saturation

Morocco

January 2018

Special thanks to CreditInfo who provided key data for this report.

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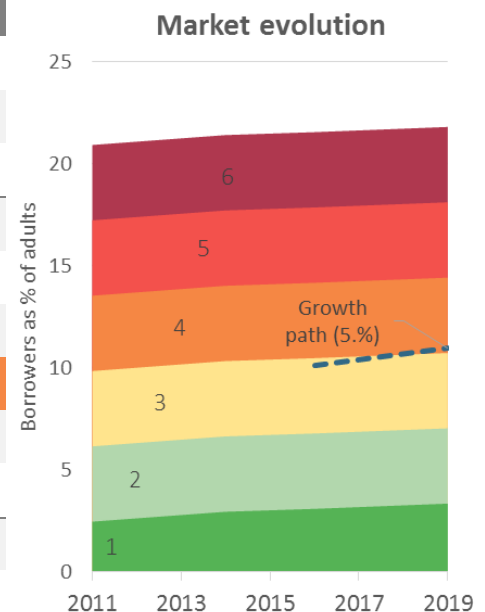
The MIMOSA score for Morocco is 3 – a market that is at the upper end of its normal capacity range, and where risks of over-indebtedness in the microfinance sector are limited. Moreover, sufficiently-developed preventive mechanisms (credit bureau, consumer protection guidelines and practices) suggest that Morocco can sustainably support higher levels of credit penetration, especially for microfinance, than is currently the case. And yet, demand for the current product range and commercial offer of MFIs remains limited, demonstrated by the low growth rates posted by the sector for the past few years.

The MIMOSA score for Morocco is based on a **credit penetration of 10.1%** of adults as of March 2017.¹ However, this overall penetration figure obscures a more complex picture. Unlike many countries at its level of development, the financial sector in Morocco consists of two almost entirely separate market segments, with very different borrowing patterns.

The 5-million salaried Moroccans and their spouses (in all, we estimate around 7.5 million adults²) represent 75% of retail borrowers and are served by banks and non-MFI Financial Institutions (“établissements de crédit”), further referred to collectively as “mainstream financial institutions”. They have borrowing patterns that are quite close to that of developed countries, with mortgages accounting for a large portion of the loans and multiple borrowing being quite common (25% of the borrowers have more than 2 loans and 8% have more than 3).³ Borrowing rates in that segment of the population stands at an estimated 30%.

On the other hand, the self-employed and unemployed adults, who together with their spouses represent approximately 15 million individuals, have much lower borrowing rates (5-7%) and are served almost exclusively by microfinance institutions (MFIs). Multiple borrowing in this segment is extremely low (1.5% of borrowers with 2+ loans), and both credit bureau data and interviews with MFI managers clearly demonstrate that almost all of these multiple borrowers are borrowing exclusively from MFIs.

	2011	2014	2016	2019
HDI	0.623	0.645	0.647	0.654
Population density per km ²	61.9	65.0	66.2	70.3
Credit Bureau Score	24.3	35.1	41.0	49.2
Loan capacity	6.2	6.6	6.8	7.0
Borrowers per adult	~8.5-9.5	~8.5-9.5	10.1	11.0
Microfinance loans per adult	3.5	3.6	3.7	4.0
MIMOSA Score	3	3	3	4
Credit card users per adult	0.4	1.7	-	-
MIMOSA CC penetration score	Normal	Normal	-	-
GDP per capita (current \$)	3,149	3,312	3,063	3,370
CAGR GDP, past 3 years (constant LCU)	4.4%	4.3%	2.8%	4.1%



¹ The 2015 MIMOSA Morocco report found a penetration rate of 4.4% borrowers per adult for year-end 2014. This was based on data from Centre Mohammed VI for the microfinance sector, which was further augmented by an estimate derived from the 2011 Findex survey to capture bank penetration. At the time the MIMOSA project had no access to data from the CreditInfo credit bureau, to which the MFIs only started reporting in 2014. Based on the enhanced data now available, we have updated the penetration rate and scores for 2014 and 2011. For a variety of methodological reasons, deviations of the Findex survey from actual borrowing data are not uncommon, and are described in the MIMOSA White Paper.

² 7.5 million includes a mix of households with 2 salaried adults and 1 salaried adult. Most salaried adults are assumed to be part of a household. We consider non-salaried person married to a salaried person to be part of the target clientele of banks.

³ Rapport de stabilité financière 2016, Bank Al Maghrib

With the two segments almost entirely separate and served by different institutions, any analysis of credit capacity and penetration in Morocco has to acknowledge this distinction and treat these markets accordingly. In this report, we focus primarily on the microfinance segment that serves the self-employed.

In terms of borrowing capacity, we continue to consider that the calculated borrowing capacity for Morocco is reduced due to religious and cultural factors, and we maintain the 30% discount that we applied in the 2015 report, thus reducing it from 9.7% to 6.8% nationally (see Special Discussion below).

This very moderate appetite for credit among the MFI target population, coupled with a risk-averse stance of the MFIs, in place since the 2008-2010 crisis, has led to a very slow growth of the number of microfinance borrowers over the 2013-2016 period (4% annually).

This trend of slow growth is likely to continue, with most MFIs reporting 10% target growth rate but indicating that they would be content if they achieve 5% growth. The retail loan portfolio for mainstream financial institutions has also grown by 5% per year over the 2013-2016 period, with a decelerating trend. When assuming a 5% growth rate for the coming 3 years, our projections point to a likely MIMOSA score of 4 for 2019..

With low to moderate growth rates, a reasonable level of transparency, and moderate competition (the top 3 MFIs continue to represent roughly 80% of the market in terms of borrowers and there are no significant new

Category	Rating	Indicator	2014	2016
Saturation	3	Loan penetration over capacity	2.8%	2.8%
	n.a.	Credit card penetration	1.7%	n.a.
Regulation	●	Overall quality of regulation	52/100	55/100
	●	Supervision of Over-Indebtedness	3/3	2/2
	●	Appropriate collections	0/2	*
	●	Quality of credit bureau & credit reporting	67/100	67/100
Competition /overheating	●	Level of competition (HHI)	2,423	2,582
	●	% Borrowers with 3+ loans	1.1%**	5.6%**
	●	MF Loan portfolio CAGR in value past 3 years vs. GDP growth	8% vs. 3.2%	8% vs. 3.5%
	●	MF Loan portfolio growth in value expected next 12 months vs. Expected GDP growth	11% vs. 4.9%	5% vs. 4-5%
Maturity of microfinance institutions	●	% clients at MFIs <10y or >20y old	0% <10y old & 0% >20y	38% with MFIs >=20y of exp.
	●	Experienced crisis in past 15 years	Crisis in 2008-10	Crisis in 2008-10
Transparency / Data availability	●	Composite transparency score	2.4	2.3
	●	% MFIs with ratings in past 2 years	100%	25%
Other risks	●	FX exposure	0%	0%
	●	Interest rate level	38%	37%

* We consider this factor to be a mitigant despite the very low score given by Microscope on that indicator. Our opinion is based on the fact that 3 large Moroccan MFI recently received a Smart Campaign Certification ** The figure for 2014 comes from a study commissioned by IFC in 2014, and relates only to microcredits and not to all types of loans. The 2016 figure is for the whole market.

entrants⁴), the organization of the credit market in Morocco does not show major factors of risks. The transparency of MFIs could however be enhanced with more systematic availability of audited financial statements or ratings on their websites and more frequent publication of aggregated statistics by the Centre Mohammed VI (whose website is currently being revamped). Transparency on the outreach of mainstream financial institutions could also be enhanced even if the annual Rapport de Stabilité Financière published by Bank Al Maghrib provides useful analytics.

Finally, when it comes to consumer protection regulations, Morocco has made quite a lot of progress in the past few years to build a good regulatory framework that contributes to prevent of over-indebtedness. The Law for the Protection of Consumers (n°31-08) issued in 2011 is being gradually implemented. It notably contains instructions relative to the transparency of credit services, prohibits the use of abusive clauses in contracts, defines the types of assets that cannot be seized because they would deprive the borrower of its basic subsistence means (house, bed, clothes, kitchen appliances and utensils, etc.). In 2016, several new decrees were issued notably regarding complaints mechanisms. Microcredit associations are subject to most of these regulations. Reporting to the national Credit Bureau became mandatory for microcredit institutions since 2014, and CreditInfo now has a good coverage of the microcredit borrowers. Recent client protection certifications conducted by Microfinanza Rating in Morocco⁵ indicate that the microcredit associations make good use of the credit bureau information in their lending and in most cases also have procedures that are likely to prevent the use of inappropriate collection practices by their employees.

MIMOSA Scores by Region

Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity
National (local data)	34,487	0.647	66	3	6.8	10.1	3.3
Grand Casablanca	4,411	0.781	600	4.5	10.9	18.4	7.5
Sous-Massa-Daräa	3,677	0.619	52	3	6.4	6.7	0.3
Marrakech-Tensift-Al Haouz	3,647	0.602	117	3	6.4	8.3	1.8
Tanger-Tetouan	3,237	0.629	280	2	7.5	6.3	-1.2
Rabat-Salé-Zemmour-Zaer	2,735	0.719	286	3.4	8.7	15.3	6.6
Meknès-Tafilalet	2,352	0.632	30	4	6.4	10.3	3.9
Doukala-Abda	2,196	0.606	165	3	6.7	8.2	1.6
Oriental	2,134	0.638	26	3	6.5	9.0	2.5
Gharb - Chrarda - Beni -Hssen	1,934	0.613	220	3	7.0	8.7	1.7
Chaouia-Ourdigha	1,924	0.646	115	3	7.0	7.8	0.8
Fés-Boulemane	1,848	0.650	91	4	6.9	11.0	4.1
Taza-Al Hoceima-Taounate	1,795	0.535	74	3	5.3	5.7	0.4
Tadla-Azilal	1,627	0.581	95	3	6.0	7.8	1.8
Régions du Sud	972	0.679	2	4	6.9	11.1	4.2

⁴ Bab Rizq Jameel, the MFI founded by a Saudi NGO in 2011 seems to have a modest outreach even if precise figures are not available publicly.

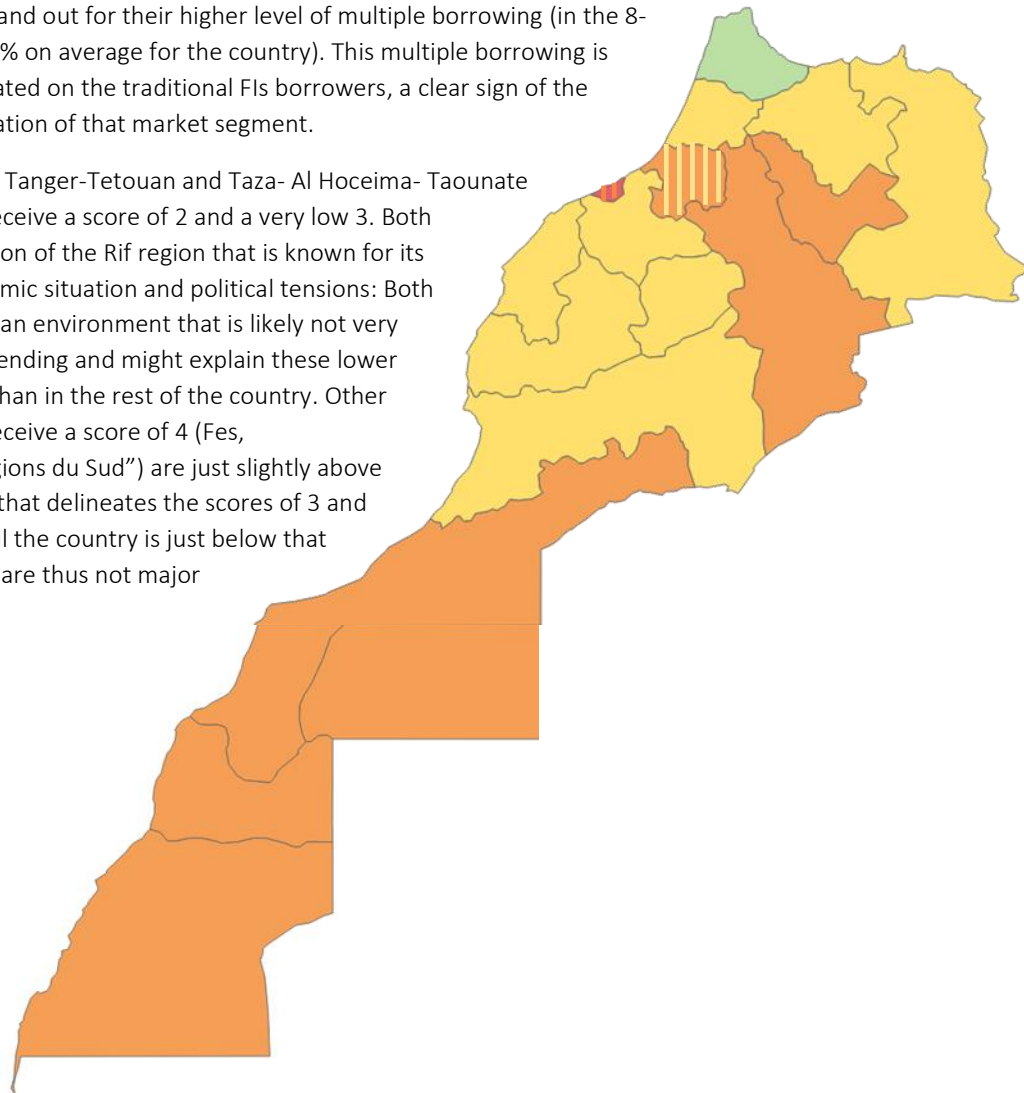
⁵ Client protection certifications : Al Amana, Jan. 2017 ; Attawfiq, Jan. 2017, Fondation Credit Agricole (Tamwil El Fellah), May 2016 – Social Rating: Al Amana, Nov. 2016; Microfinance Institutional Rating: Attadamoune, Jul. 2017

The regional penetration rates are mostly in line with our estimated capacity, resulting in scores of 3 for most regions, with some notable exceptions.

The regions of Casablanca and Rabat are clear outliers both in terms of retail credit penetration and in terms of level of development (with a HDI of 0.781, the region of Casablanca is actually quite close to a “High Human Development”). These two economic hubs of Morocco also concentrate a large portion of the salaried population and, as a result, of loans from mainstream financial institutions that actually represent 85-90% of loans outstanding in these two regions. For this market segment, our 30% discount on capacity for “cultural/religious factors” is likely excessive, thus overestimating the level of saturation. We show ranges of scores for these two regions to reflect this greater uncertainty (4-5 for Casablanca and 3-4 for Rabat).

Casablanca and the two regions that circle the Casablanca and Rabat (Chaouia-Ourdigha and Gharb-Chrardra-Beni Hssen) stand out for their higher level of multiple borrowing (in the 8-9% range vs. 5% on average for the country). This multiple borrowing is fully concentrated on the traditional FIs borrowers, a clear sign of the growing saturation of that market segment.

The regions of Tanger-Tetouan and Taza- Al Hoceima- Taounate respectively receive a score of 2 and a very low 3. Both include a portion of the Rif region that is known for its difficult economic situation and political tensions: Both factors create an environment that is likely not very conducive to lending and might explain these lower penetrations than in the rest of the country. Other regions that receive a score of 4 (Fes, Mekhnes, “Regions du Sud”) are just slightly above the threshold that delineates the scores of 3 and 4, while overall the country is just below that threshold and are thus not major outliers.



Special Discussion: Religion and the tale of two markets

This year's MIMOSA field survey again showed that a large percentage of the population cites "personal convictions" or "religious beliefs" as key reasons not to borrow⁶. Follow up discussions with respondents to our surveys pointed more generally to a negative connotation of credit that is associated to "being in need" rather to positive risk-taking or investment. Such negative connotation of credit has been documented by various research papers and is particularly well described in chapter 6 of the book *Microfinance in Crisis*⁷.

The fear of the consequences of non-payment or delayed payment also acts as a strong deterrent to borrowing, and even more so to borrowing in a group, with quite a few respondents indicating having heard of borrowers being sent to jail or being threatened to be sent to jail for defaulting on a loan or for being part of a group where a member defaulted. It is difficult to know what belongs to pure rumors and what is rooted in actual threats formulated by Loan Officers during the recovery process. However, given the relatively low base salary of loan officers, and strong impact of PAR on their bonuses back in 2008-2009, it is likely that at that time, Loan Officers, that had not been much trained on collection practices given the very low rates of defaults of prior years, experimented various collection strategy including potential counterproductive ones such as threats of jail sentences⁸.

Our surveys also show that the target borrower population often associate the Microfinance Associations with the Mekhzen (the central authority, the King), an entity which can be seen as intimidating, especially for people with relatively low education levels, little knowledge of their rights and difficulty understanding the contracts they sign. An important fact to note is that, despite its Medium Human Development score on the HDI scale (123rd/188 countries), Morocco's performance on education – one of the components in the HDI – is actually in line with countries ranked in the "Low Human Development" category: with the average adult having had just 5 years of schooling, Morocco stands 155th out of 188 countries. It is likely that this low education level that is especially prevalent among target microfinance clients is further reinforcing the cultural distrust of credit. Even if MFIs cannot fully compensate for the shortcomings of Morocco's education system, a higher focus on financial education and practical trainings could be an avenue to explore to increase the appetite for credit among MFI's target population.

The high borrowing rates among the target clientele of traditional FIs might indeed indicate that the cultural inhibitions towards credit mentioned above are less prevalent among the more educated and more affluent Moroccans that have a more secular outlook towards credit, as well higher awareness of their rights as consumers.

Unlike the microfinance segment, the salaried borrower segment is even showing signs of saturation, with slowing growth, relatively high PAR and much higher levels of multiple borrowing. Despite those concerns in the mainstream retail credit market, the risks of potential spillover effects to the microcredit market are low. The near-complete separation of the two segments, along with an interest rate cap in place in Morocco for non-MFIs (currently at 14%) make it unlikely that mainstream Financial Institutions will enter the microcredit segment as a response to the slower growth of their usual target clientele.

⁶ 24% of respondents in the MIMOSA survey this year. 32% in our 2015 survey. These results are actually consistent with other surveys conducted in Morocco and with the experiment conducted in Jordan by Dean Karlan that demonstrated a 20% higher take up for Shariah-compliant loan products than for conventional loan products. <https://www.cgap.org/sites/default/files/Brief-Understanding-Demand-for-Sharia-Compliant-Loans-March-2016.pdf>

⁷ Guérin I., Labie, M. and Servet J.-M. (2015) The crises of microcredit, Zed Books, London, 288 p.: Chapter 6. The social credibility of microcredit in Morocco after the default crisis – Morvant-Roux Solène and Roesch Marc. This chapter is mostly based on a article that is available online: Solène Morvant-Roux, Isabelle Guérin, Marc Roesch, Jean-Yves Moissoner. Adding value to randomization with qualitative analysis: the case of microcredit in rural Morocco. World Development, <http://hal.ird.fr/ird-01471911>

⁸ For examples of the types of anecdotes being told: <http://attacmaroc.org/fr/wp-content/uploads/2016/06/Brochure-FRdef-1.pdf>.

User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA whitepaper.

The MIMOSA index consists of several measures. The primary score evaluates the degree to which the level of penetration exceeds estimated market capacity. The score levels and their interpretation is shown in the below table.

MIMOSA Score	Penetration over/ under capacity		
	Percentage points	Standard Deviations	Market status
6	>11.1%	3+	Saturated
5	7.4-11.1%	2 to 3	
4	3.7-7.4%	1 to 2	
3	0-3.7%	0 to 1	Normal
2	-3.7 - 0%	-1 to 0	
1	< -3.7%	< -1	Underserved

In addition to the score, we include the component metrics underlying the capacity and penetration calculations:

Human Development Index (HDI): developed by UNDP to assess the level of development, comprising GNI per capita, life expectancy, and education metrics. The scale ranges from 0-1.

Population density per km²: standard measure retrieved from country statistical bureaus.

Credit Bureau Score: derived from the Getting Credit measures in the World Bank Doing Business report. We include the level of coverage, and amount of information (both repayment history and debt outstanding) provided. The scale ranges from 0-400.

Borrowing Capacity: % of adults expected to be active borrowers, based on the MIMOSA model.

Borrowers per adult: derived from multiple sources, including the World Bank Findex survey, central bank reports, credit bureaus, and MIMOSA field surveys.

Microfinance borrowers (% of loans): number of active loans of microfinance institutions. Usually defined either by institutional registration with the regulator or membership in the microfinance association. Multiple loans held with the same institution are counted once.

Credit card borrowers (% of adults): number of adults with an outstanding credit card balance. Figure from Global Findex.

Credit card score: level of penetration vs. capacity. Graded on a three-point scale, indicating a market whose credit card demand is under-served, appropriately served, or over-saturated.

GDP 3-year CAGR (current \$): three year cumulative growth rate of GDP. Figure from IMF WEO.

GDP per capita (constant LCU): figure from IMF WEO.

In addition, we include a list of indicators that serve as additional risks or mitigants that in aggregate may increase or reduce the country's ability to manage increased levels of penetration:

Category	Indicator	Indicator	Mitigant 	Neutral 	Risk 
Regulation	Overall quality of regulation	Overall microscope score (0-100)	≥ 75	50-75	< 50
	Consumer protection (OID)	Microscope score 4.2.1	3	2	0 or 1
	Consumer protection (Collections)	Microscope score 11.3.2	2	1	0
	Credit bureau, credit reporting	Microscope score 10	≥ 75	50-75	< 50
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	$HHI > 3,000$	$1,500 < HHI < 3,000$	$HHI < 1,500$
	Multiple borrowing	% borrowers with 3+ loans	$< 5\%$	5-15%	$> 15\%$
	Prior growth	Loan portfolio 3-year CAGR	$< 2x$ GDP growth	2-3x GDP growth	$\geq 3x$ GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	$< 2x$ GDP growth forecast	2-3x GDP growth forecast	$\geq 3x$ GDP growth forecast
Maturity of microfinance institutions	Age of FIs	% clients of MFIs $> 20y$ or $< 10y$ old	$> 65\%$ of the borrowers are clients of MFIs > 20 years old	Other	$> 65\%$ of the borrowers clients of MFIs < 10 years old
	Prior crisis experience	Date of previous crisis	Market experienced crisis in past 15 years	no crisis experience	
Transparency	Composite score	See Transparency worksheet	≥ 3		< 1.5
	Ratings	% leading MFIs rated in past 2 years	≥ 75	50-75	< 50
Other risks	FX exposure	% of loans in foreign currency	< 10	10-25	≥ 25
	Interest rate level	Average Full APR, weighed by number of borrowers	$< 30\%$	30-60%	$> 60\%$