
# An innovative microcredit for sustainable local development in Morocco

*Ms. Benedetta FERRARO, Mr. Hammou MOUSTAIN, Ms. Katia RAGUZZONI, Mr. Giampietro PIZZO*
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## Microcredit sector in Morocco: the current situation

Microcredit is an essential vehicle for **socio-economic development**. It promotes financial inclusion and consequently social inclusion of those underprivileged segments of the population financially excluded for several reasons.

Since 1990s microcredit sector in Morocco has continued to evolve, working for achieving its mission of social and financial inclusion of individuals excluded from the traditional financial sector, financing income generating activities (IGA) and contributing to the creation of stable and decent jobs. Despite the crisis that hit the sector between 2008 and 2011, microcredit has always pursued its goal of sustainable development accelerant in the Reign of Morocco. Furthermore, Moroccan sector is one of the most advanced and mature in the MENA Region, counting twelve Microcredit Associations (AMC) of different size, and three of them detain more than 90% of the entire market.

Globally speaking, microcredit clients in Morocco are 878,818 at the end of 2020.

## Microcredit as a tool to promote inclusion of the rural world?

If we define it as one of the methods for supporting economic and personal growth of the individuals, as a matter of fact microcredit in Morocco has gradually lost its status of promoter of such evolution and progress of the rural world. In order to achieve the majority of Moroccan population resides in urban areas - more than 60% now and this percentage is bound to increase in the near future - and microcredit records there 70% of its clients, microfinance has had no choice but to serve clients in urban areas, whereas the most vulnerable and the most disadvantaged segments of the population are mostly in rural and remote areas/regions.

According to the latest available data published by the World Bank based on the survey of Haut-Commissariat au Plan (2020), the **poverty rate** at national level in 2014 was 7.3%, being this figure the percentage of household individuals whose annual expense pro capita was lower than 4,667 DH in urban areas, and 4,312 DH in rural areas.

In 2014 almost 1.6 millions people are living below the poverty line and 79.4% among them live in **rural areas**, being this datum reinforced by the significant impact of poverty in these regions (9.5%) whereas in urban areas the rate decreases to 1.6%. The most affected regions are Drâa-Tafilalet, Béni-Mellal-Khénifra, Fès-Meknès and Sous-Massa, which count 74% of the global poor population in Morocco.

As a consequence of Covid-19 pandemic situation, in 2020 the extreme poverty line (international poverty line 1.90 USD in PPA) is about to slightly increase, but it will remain below 1% while the proportion of the so-called vulnerable population, i.e. those that are likely to fall into poverty, will increase from 24% to 27%.

> The support to the rural world is essential for its major role in the development of the Country

This given, the support to the rural world, and more specifically to the agricultural sector, is essential not only as it represents the majority of poor population within the Country, but also because of its major role in its development, being considered that primary sector represents 13.9% of national GDP, and ensures food security and safety, providing food for national and international markets. However in terms of development indicators, rural areas show extreme weaknesses when dealing with infrastructures, a poor access to basic services, precarious life and work, and a high illiteracy rate; furthermore, other to those structural weaknesses, poverty and drought are hitting harder and harder the Country and have contributed to increasingly rapid urbanization and rural exodus. In 1956 Moroccans living in rural areas represented 70% of the total population, while in 2014 this figure decreased to less than 40%[1].

In this context characterized by **strong vulnerability to poverty** and **social precariousness**, especially for women and young people, Moroccan microcredit sector seems to have lost its leading role as leader of the development and of the support to the most disadvantaged sections of the population. Microcredit should not be focused only on fighting against poverty, but it should also try to reach **higher financial inclusion**, and consequently social inclusion, of those segments of the population more exposed to fall into poverty, as well as to support **agricultural development.** This would ease the attraction of public and private investments and try to bridge the gap and lack of basic health and education services, thanks to the activation of superior quality value chains in national and international markets.

However, according to the latest available data[2], an opposite trend can be observed: other to the loss of clients in rural areas, decreasing from 323,358 rural clients in 2016 to 283,380 in 2020, a slow but constant loss of female clients has been recorded as well: they do represent 48% of total clients while they represented 75% in 2005, showing steep declines in the last years and transitioning to more structure entrepreneurial activities, namely Micro, Small and Medium Enterpises (MSMEs).

Thus in conclusion women, rural world and especially agricultural activities, and the most vulnerable happen to be less targeted by microcredit, which seems to turn towards a more and more commercial and urban strategy.

[1] https://www.cfcim.org/magazine/21834

[2] Centre Mohammed VI pour la Microfinance Solidaire

## The role of Microcredit Associations

As previously stated, in Morocco twelve Microcredit Associations (AMC) are to be found, covering all regions of the Country, even though they mostly focus on towns and urban areas. Here clients having a limited risk profile and more stable revenues are recorded, which would let them gain higher profits, putting in the back the social mission, i.e. the support to the vulnerable categories through the supply of community-based microfinance.

In this context of constant decrease of targeted disadvantaged in their portfolios, and the progressive and inevitable market saturation, small- and medium-sized AMC may take the lead exploring **new market niches** with new tools for better targeting agricultural activites, enterprises (or start-up) with a strong social mission and consequently all those investments which may foster a positive impact on communities and territories, especially through the promotion of sustainable and environmentally friendly activities.

To the current state, these latter ones are economic activities considered as very risky for different reasons – spanning from instability of market conditions to the negative climate events for agricultural activities, to the lack of experience and means of young business promoters, to the lack of competencies or knowledge, and an innovative culture for those so-called ‘green’ entrepreneurs.

However, were these institutions correctly equipped with adapted tools and competencies, and were they provided with a strategy aiming at serving the ‘real’ vulnerable segments through the support of innovative investments projects and in the rural sector, they would be certainly able to meet the needs of this new demand. Indeed these institutions can benefit from a wide network in remote areas, as well as a strong relationship with their clients, based on trust and first-hand knowledge, which would bring an added value to their daily work.

## The support to Microcredit Associations

In order to achieve the social mission which integrates elements such as fighting against poverty, sustainable and local development, social and financial inclusion, undoubtedly it will be fundamental to assist the development and organsations of these institutions. In this sense, Microfinanza belives it is essential to provide a **dedicated technical assistance.**

- First of all, it is necessary to support the definition of a **strategy** and a long-term **vision** in order to promote a sustainable and innovative development.

- Secondly it is necessaty/vital to set up a **technical support** on the development of financial and non-financial products adapted to meet clients' needs, as well as to offer a risk management framework which would take into consideration not only financial and operational risks, but climate and environmental ones, too. Additionally risks linked to new green technology as solar pump, ecologic oven and hydroponic culture, should be considered as well.

It appears fundamental to support the development and organisation of these institusions keen to take part to this new approach.

AMC support, but also the set up of relations do not need only a technical with public and private social investors sustaining this change process. One possible solution could be the creation of an initial **capitalization fund** dedicated to green microfinance, which will bridge the difficulties in accessing finance, for reasons to be reconducted to the risk profile in the transformation phase, and the credit lines.

- Additionnaly, it is firmly believed that the spread of a rural green microfinance based on the engagement and coordination of national microcredit and financial inclusion stakeholders, will lead to product and process innovation.

## Conclusions

As mentioned in the previous paragraphs, at the end of 2020 microcredit clients were 878,818 while in 2017 a study defined the projections of the sector horizon 2022 to 1.6 million of active clients, with a growth rate of 80% over 5 years[3].

According to this study, the potential microcredit market for the financing of Income Generating Activities (IGA) rises to 2 milllion of borrowers, including AMC clients (815,391), non-clients carrying out income generating activities that may be captured (712,847) and non-clients belonging to categories such as "inactive housewifes" or "unemployed" (474,102). To be noticed that 55% of this potential is located in rural areas, where microcredit is about to leave.

One of the main causes of the non-achievement of the goal can be attributed to the Covid-19 pandemic, however despite it, the stagnation of which Moroccan microfinance sector is suffering cannot be only explained as lack of potential demand from the excluded population, but rather as a the lack of financial and social innovation.

This new perspective should be concretely transformed into the development of financial products adapted to the rural and agricultural world: it is in this part of the Country – up to present too neglected – that the future of Morocco, of its population, of its communities and of its environment will take place.

[3] Nevolys, Etude sur le potentiel du marché de la Microfinance au Maroc (Septembre 2017)