

Impact Analyses Series

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ExPost

Analysis of the Determinants of the Demand for Financial Services in Rural Morocco

Summary Report

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Objectives

This study has been designed to be complementary to the work carried out by the IPA (*Innovations for Poverty Action*) / J-PAL (*The Abdul Latif Jameel Poverty Action Lab*) team. The IPA/J-PAL study, which began in 2006, capitalised on the start of Al Amana's activities in rural areas and aimed to quantitatively measure the economic impacts of microcredit in remote rural areas. The initial results of this study showed, on the one hand, that the borrowing rate (or take-up rate) amongst the target population was lower than expected,

meaning the IPA/J-PAL team had to adapt its sampling strategy and, on the other hand, that there were considerable variations in borrowing rates between villages (from 0% to over 80%), whereas the type of credit offered is the same everywhere. As this study is intended to be complementary, it aims to use a qualitative approach in order to identify the different factors that foster (or do not foster) take-up of Al Amana's microcredit by rural communities.

Method

The approach used is both socioeconomic and comprehensive. It aims to analyse local modes of perception of financial services and of financial practices, with a specific focus on the inter-linkages between economic activities and social, cultural, religious and political life and the numerous interactions between these different dimensions of human activity. The socioeconomic approach also pays special attention to institutions, rules and regulations, by assuming their constant dialectic with individual actions.

An initial mission was conducted in December 2009 and, combined with a review of the literature, made it possible to list a set of highly diverse hypotheses. On the one hand, we considered the take-up of microcredit as being a complex process, underpinned by a multiplicity of factors (economic, social, cultural, political and religious). On the other hand, we assumed that this process combines the specificities of local communities and areas and the specificities of provision, including the credit officers and the way in which they adapt provision, which is theoretically similar to local specificities. We also assumed that this process required the involvement of several types of actors, including individual clients, households, solidarity groups, local leaders, credit officers and several levels: individuals, households and micro-local and regional areas. The proposed list of hypotheses was intentionally broad,

since the interest of a socioeconomic approach lies in not excluding *a priori* any avenues worth exploring.

The J-PAL data (J-PAL, 2008) allowed us to compare a number of variables (migration, income levels, remoteness and irrigation of land). However, these analyses did not show any correlation. In order to identify the variables that explain the heterogeneity of take-up, it therefore seems necessary to conduct detailed qualitative analyses based on a thorough identification of the mechanisms involved (and of the corresponding variables), which can then be statistically tested. The particular aim of this study is, on the basis of a qualitative analysis, to ascertain the factors that explain the heterogeneity of take-up. Several ways in which this may be articulated with the quantitative and statistical analysis are mentioned in the final proposals.

A second mission conducted in March 2010 aimed to identify the most plausible hypotheses. A team of five researchers with complementary areas of expertise carried out eighty semi-direct and in-depth interviews with different categories of actors (clients, non-clients, credit officers and resource persons). This dual diversity (of both interviewers and interviewees) allows information to be cross-checked and triangulated, as well as interpretations that ensure rigour in the

qualitative analysis. However, this study does not claim in any way to be exhaustive, due both to the short amount of time devoted to the investigations and to the limited number of branches and villages visited (4 branches were visited out of a total of 435 branches and agencies).

Our analysis largely confirms the complexity of the determinants of take-up: it is not the result of an abstract comparison between supply and demand; it is the fruit of a social construction that involves a multiplicity of factors that interrelate unevenly across regions.

Take-up low and partly oriented towards consumption

To understand the diversity of take-up, it is first of all necessary to analyse the nature of this take-up. In the areas covered by the J-PAL survey, the take-up rate is, on average, low (J-PAL, 2008), just as the renewal rates are not very high (close to half of the clients do not renew their loan). The qualitative analysis shows that, generally speaking, and probably for socio-cultural and religious reasons, the population has a low propensity to borrow. Indeed, informal borrowing practices seem to be more limited than in other contexts. Whilst borrowing is not at all widespread, savings in kind (cereals and livestock) play a central role in smoothing family and professional cash-flow and in preparing events related to the life cycle. Generally speaking, non-take-up is indicative of a preference for savings-related practices and this is also the case amongst certain small entrepreneurs. However, one should not overlook another situation: some clients see Al Amana's microcredit as a loan that does not need to be paid back and it is this very prospect of not repaying the loan that encourages them to seek access to microcredit.

Lending methods are also poorly adapted to rural specificities, particularly the principle of monthly repayments, and group loans are often perceived to be a constraint, although this does not appear to be the main obstacle to take-up. The diversification of microcredit towards individual loans

has consequently not improved take-up: in the branches that give priority to individual loans, take-up rates vary as much as in the branches that prioritise group loans.

Finally, we have observed that the use of loans is generally oriented towards consumption (consumable commodities and housing). According to our estimates and those of the credit officers, consumption represents 60% to 80% of the use made of microcredit, whereas loans are officially designed to be used for "investments that are profitable in the short-term". Although housing loans do exist, they are not particularly well developed in rural areas. Livestock farming represents 10% to 30% of the use made of microcredit (compared to the 80% estimated by Al Amana).

This initial analysis enabled us to gain a better understanding of the current client base, which is composed of households that have a relatively regular income and wish to consume, keep their livestock savings and, in a minority of cases, take advantage of market opportunities.

We then observed two levels of diversity: the regional level, which mainly depends on agro-ecological and economic factors, and the local level (one or several douars), which combines economic, social, cultural and political factors.

Agro-ecological and economic factors and regional diversity

Three main zone profiles have been identified on the basis of economic and agro-ecological criteria and activity systems (sources, amount and regularity of income). This typology provides an initial insight into the disparities in take-up between the various branch offices.

- The typology of the activity systems is as follows:
 - The first category (type 1) groups together mountainous areas of micro-plots. Households' activity systems are a combination of subsistence level farming and male migration, often for unskilled jobs, leading to low and irregular incomes and a low level of monetisation. Generally speaking, the demand for financing (microcredit or other forms) is particularly low. Given the irregularity of income, monthly repayment methods for microcredit are unsuitable and the take-up rate of AI Amana's microcredit therefore remains low;
 - The second category (type 2) groups together the villages located near the centres of activity, which are

characterised by the predominance of non-agricultural income mainly from local employment and, to a certain extent, from migration. Very often this employment is precarious (often daily workers, for example in the construction sector), although it does ensure a relatively regular income. The demand for financing is generally higher, and the income cycles are relatively well adapted to AI Amana's monthly repayment requirements. The highest take-up rate is to be found in these areas;

- The third category (type 3) groups together major crop-growing agricultural areas where communities are dependent on agricultural income and, to a certain degree, migration. There is a strong demand for financing in these areas, but it tends to mainly focus on seasonal loans. AI Amana offers few such loans, which explains why the take-up of AI Amana's microcredit remains low.

Each branch of the AI Amana network roughly corresponds to one category (with the exception of AW, which combines two categories).

Typology of the branches visited

Branch	Type of area	Take-up rate
CV Branch - Tighdouine	Mountainous area (type 1)	6.0%
MG Branch - My Abdellah Ben Driss	Peri-urban area (type 2)	19.6%
AW Branch - Moulay Yacoub	Peri-urban and major crop-growing area (types 2 and 3)	27.0%
LJ Branch - Brachoua	Major crop-growing area (type 3)	1.0%

Source: elaborated by the authors on the basis of field observations.

- A potential for self-employment that is both low and uneven

Non-agricultural economic activities, such as small businesses or services, account for 10%, at most, of the use of microcredit. There is a simple explanation for this weak demand for “economic” loans and there is nothing exceptional about the case of rural Morocco in this respect. Indeed, local, non-agricultural self-employment activities are limited to a minority of the community simply due to the lack of local demand. However, people do try to diversify their livelihoods and only very few farms are entirely dependent on agriculture. This diversification takes the form of salaried non-agricultural employment either locally, for the villages located close to urban centres (the construction sector), or at the regional level (large Moroccan villages), or even at the European level for the most “fortunate” (since emigration is often perceived to be the ultimate achievement, regardless of the conditions attached to it).

The potential for non-agricultural self-employment is therefore generally low, although there are disparities between areas: it is extremely low in mountainous areas and major crop-growing areas and slightly higher in the areas located close to centres of activity, where it is nevertheless in competition with migration dynamics.

- An uneven potential for livestock development

The potential for livestock development is limited by three main factors: the shortage of abundant and accessible pasture land, problems regarding the availability of fodder in the winter and the lack of labour force. Significant differences are also observed across areas. All three of the limitations are present in mountainous areas, whilst only one or two are found in the other two areas. Furthermore, the role of livestock farming in family economic strategies tends to vary and this has implications in terms of development potential. Consequently,

livestock is mostly considered to be a form of savings in mountainous areas, whilst in peri-urban and major crop-growing areas, livestock farmers are more inclined to adopt an approach that is geared towards accumulation (and this is confirmed by the J-PAL data, 2008).

- An uneven participation of women and young men

The highly unequal role of youth and women in the management of family budgets and farms, which is something that we have been able to highlight through our observations, seems to have implications for take-up. Mountainous and major crop-growing areas are characterised by a highly patriarchal form of management of family budgets and farms, with the domination of men over women and of the elderly over the young. In peri-urban areas, the patriarchal constraints appear to be more limited, probably as a result of the dislocation of families and the proximity of towns.

The economic and financial role of women is extremely limited and local social customs prevent them from having access to microcredit, as confirmed by the quantitative data. The participation of women (in both number and percentage figures) is substantially higher in peri-urban areas than in mountainous areas.

In terms of young men, who have more room for manoeuvre than women, we can see that in areas 1 and 3 microcredit represents an escape route from the domination of their father. It either allows them to gain their independence in terms of their living arrangements (by building a few additional rooms in the family home or in another home) or, for those who have a small business or production activity, to free themselves from the authority of their father. By assuming responsibility for a loan, it is easier for them to keep the income generated by the activities they have financed.

Micro-local factors of diversity

In addition to agro-ecological and economic factors, a multiplicity of micro-local factors also have an impact at the level of one or several douars:

- The degree of competition between credit institutions, which is apparent in part at the local level to the extent that it is not only related to the services on offer, but also to the proximity between the lender and the borrower. There are several factors at play here, including the physical distance between the branch and the douar and the personalisation of the relations with the credit officer. The establishment of the credit bureau has strongly limited crossed indebtedness and has, as a result, lowered the take-up rate;¹
- The perception of Al Amana and the relationship to politics and authority, which fluctuate between fear and apprehension on the one hand and a feeling of impunity on the other, with significant impacts on self-exclusion behaviours and repayment incentives. This perception depends on both individual characteristics and local social traditions (varying degrees of corruption amongst leaders and authorities), the position of the credit officers, the messages that they convey and their social

integration at the local level. It is also dependent on phenomena related to imitation and learning, particularly those generated by the local leaders. It therefore has a certain territorial homogeneity;

- Credit officers' ability to form good community relations, which depends as much on whether they come from the area in which they are working as it does on the remoteness of the villages;
- The phenomena of imitation and learning, which can be a dual-edged sword by favouring the legitimisation of Al Amana or its rejection. The latter can lead to non-take-up or even to a succession of payment defaults. In certain places, these phenomena of emulation are caused by the local leaders, who are often perceived to be role models.

These different factors are in part interdependent and interrelate in a very uneven manner across regions. It is difficult to establish a hierarchy of these factors and they evolve over time. Ultimately, it is difficult to predict the take-up rate, which continues to be highly contingent on specific local conditions.

¹ A first "informal" credit bureau, *i.e.* following an agreement between the four main microcredit associations (which hold 95% of the market), was set up. Another "external" credit rating bureau was also set up at the end of 2009 (under a contract between Bank Al-Maghrib and Experian Services). The credit bureau has its head office in Casablanca and only became operational at the beginning of 2010.

Proposals

It goes without saying that these proposals are expensive and some of them would probably be difficult to reconcile with Al Amana's financial management requirements.

However, we do feel that they are worthy of further study and discussion in the interests of long-term sustainability.

Regionalising services and identifying emerging markets

Currently, Al Amana's loan allocation policy officially focusses on supporting the development of economic activities, notably non-agricultural self-employment at the local level. Yet we have observed that the development of this type of activity only concerns a limited proportion of people and that the majority of families prefer to diversify their livelihoods through salaried employment, even when it is precarious.

This population, which requires loans, continues to be dependent on the local market. It is therefore by developing the local market that local self-employment will be able to develop. For example, craftsmen (builders, painters, joiners) are dependent on local demand for construction, particularly in the housing sector. In the livestock farming sector, loans can provide the additional amount required to rapidly replenish on-the-hoof savings or develop sheep-fattening activities.

Loans must therefore be developed in a regionalised manner, on the basis of an analysis of the sectors that have a real potential for development and by identifying the professions and services that are required for their expansion. Al Amana's support could therefore be provided, first and

foremost, to those who are already engaged in these professions and services. We propose a regionalisation of services on the basis of a prospective analysis of the emerging markets:

- In the major crop-growing areas, the potential would appear to be very limited in that it involves conventional agricultural demand;
- In mountainous areas, the potential is limited, although it does exist, but it focusses on creating or maintaining livestock savings and on consumption, particularly in housing;
- The potential is highest in peri-urban areas, where there is both a consumption demand and a potential for self-employment activities at the local level.

Since our study has no claims to be exhaustive, it must be completed by a broader analysis of regional diversities and of the sectors in which a potential exists (tourism and small craft activities, market gardening, etc.).

Diversifying credit services

- **Consumer credit under surveillance:** a substantial amount of loans are spent on consumption. This should be supported through appropriate measures rather than being prohibited. Not only is the demand high, but consumer loans may be a driver for the creation of new activities at the local level. Room constructions, home improvements and consumer product purchases can all serve to create jobs. However, there is a need to ensure that the clients can repay these loans in order to avoid the risk of over-indebtedness, for example, by securing this type of loan against physical collateral (livestock) or the paid activities of a migrant family member. The risks of over-indebtedness are limited for the time being, since the population does not appear to be particularly inclined to borrow. However, behavioural patterns can change quickly and there is a legitimate fear

that the portfolio constraints faced by credit officers may force them to adopt an aggressive commercial policy that does not grant due consideration to the well-being of their clients (although this does not currently appear to be the case).

- **Short cycle agricultural production:** given the presence of the Crédit Agricole, it would not be appropriate for AI Amana to propose traditional seasonal loans. However, there is probably potential to be explored in certain low-risk and short-cycle agricultural production, such as livestock fattening and certain types of market gardening carried out on smallholdings. In this context, there are lessons to be learned from innovations tested in other countries (storage loans, fattening loans, etc.).

Diversifying the customer base by favouring women and youth

Our observations indicate that there is an untapped potential, which varies across regions, related to women and youth. A first step would be to learn more about AI Amana's customer base by analysing it according to age and gender. The second

stage would seek to identify the specificities of their demand, as well as the nature of the competition (some microfinance associations specifically target women, for example) in order to design appropriate services.

Defining AI Amana's social integration strategy

Our observations highlight the central importance of the social integration of AI Amana within the local areas. This integration, which has an impact on both take-up and repayment, stems from a complex process that depends on both the positioning of the credit officer and the local

specificities (social traditions, history of credit policy, etc.). Rather than focussing on a spontaneous integration, we feel that it would be more appropriate for AI Amana to place the question of its social integration at the centre of its strategy to develop the institution in rural areas.

Identifying risk areas

The study has highlighted the fact that, in certain places, the sense of impunity (combined with the phenomenon of imitation) may create a climate that could encourage widespread non-payment. These areas must be identified with

the help of the credit officers so that Al Amana can then decide to either exclude them or to run major awareness-raising campaigns in them. It is absolutely essential to identify these areas given the scale of the phenomena of non-repayment.

What demand for savings?

Since Al Amana is currently looking at the possibility of changing its status with a view to also mobilising savings, it is appropriate to look at the potential for mobilising savings. This study can provide some insight, even though it was not designed to address this issue. In particular, it highlights the

importance of savings in kind, which currently offers a number of advantages. Consequently, it is absolutely crucial for any attempt to offer savings services to consider the complementarity and comparative advantages of monetary savings.

Proposals for research and qualitative/quantitative articulation (J-PAL)

- Qualitative/quantitative articulation

In addition to the qualitative research, which was undertaken in order to gain a better understanding of the mainsprings of take-up by households living in rural Morocco, the Agence Française de Développement project was also designed to stimulate a methodological reflection with the aim of combining quantitative and qualitative data collection and analysis tools.

At the same time, through the Rume project, which includes this “Morocco” study, the IRD-Cirad team adopted a clear position on this coupling and wishes to effectively articulate the qualitative results with the quantitative analyses, particularly the data from the J-PAL impact study.

The approach adopted in carrying out this research work is somewhat different to the process established at the outset of the project in the three countries covered by the Rume project (India, Madagascar and Mexico): in these three countries, the qualitative approach was adopted from the very beginning, not only with the aim of conducting complementary analyses of the same research topic, but also in order to jointly construct a common analysis framework (see Box p. 16). The study concerning the “Analysis of the Determinants of the Demand for Financial Services in Rural Morocco” has been conducted following the quantitative evaluation and has focussed on an issue that was not in line with the initial objective, but which has proved to be essential during the course of the impact study.

Constructing a data collection tool on the basis of qualitative work

The construction of a common research topic and a common method, as implemented in the three countries covered by the Rume project, had the following objectives:

- Firstly, on the basis of anthropology, to identify the “indigenous” categories of perception of reality and to adopt an inductive approach: this aims to return the focus to data collected in the field in order to define an analysis framework that does not simply confine them to the validation of behavioural hypotheses defined *a priori*;
- Secondly, by using economic tools, particularly econometrics, to quantify the phenomena/categories identified through anthropology and to identify any correlations (definition of a quantitative questionnaire);
- Thirdly, by using the qualitative and anthropological approach to interpret the results, to explain the observed correlations and to identify the causal mechanisms.

It is in this context that we are seeking to make some proposals that will allow this study to be articulated with a database developed prior to the qualitative work.

- Proposals *ex post* to data collection

The analysis of the determinants of demand for microcredit was not one of the prime objectives of the impact study. In order to address concerns regarding the construction of the treatment sample (households that had become AI Amana clients between the initial and final survey), the J-PAL team established a lightweight survey protocol, based on the survey results obtained during wave one. This analysis identified the variables to be taken into account in order to pinpoint the families that had a high probability of becoming clients over the course of the period.

In this context, the results of the qualitative work may be used to construct a credit demand model and to quantitatively test the factors that do, or do not, play a significant role.

Certain factors which, in light of the qualitative work, would appear to play a role in AI Amana take-up, do not emerge clearly in the information collected by the J-PAL study. There

is therefore a need, first of all, to reflect upon how to construct certain subjective (proxy) information and then to carry out a large-scale complementary survey (for example, at the level of the douars) in order to characterise the areas on the basis of the following criteria:

- The presence of a local leadership that is either positive or negative for AI Amana;
- The relationship with the central authority and, consequently, with all the institutions associated with it;
- The integration of the credit officer in the local environment and/or how local communities perceive the credit officer;
- The place of women and youth at the local level. The avenues to be explored are:
 1. For women, whether or not they have an “independent” activity;
 2. For youth, the presence of several generations within the household or the presence of youngsters of an age at which they are able to become independent;

- The potential for livestock growth (to be evaluated): the availability of pasture land and workforce (linked to migration dynamics);
- The differences between areas. Several characteristics could be targeted in order to construct a variable that makes it possible to distinguish them:
 1. The size of the farms;
 2. The size of the herds;
 3. The type of area: urban, touristic or close to decentralised industries, etc. This variable would also make it possible to capture the impact of proximity and the interactions with a dynamic area that creates both employment and activities.

This could be the subject of future research work.

In view of this, on the basis of the available data and in light of the variables taken into account in the mini-survey, we believe that it would be worthwhile, first of all, to quantitatively test certain variables available in the J-PAL databases in order to establish an *ex post* understanding of the determinants of the demand for microcredit. The following analyses could be envisaged:

- To test the role of migration, which seems to be ambiguous in the light of the qualitative work, across the entire sample of households. Although it can act as a facilitator, since

it generates an income which leads the household to think that it will be able to repay the debt, it can also have the opposite effect and be a barrier to the constitution of solidarity groups. We should emphasise the fact that the statistical analyses conducted on the data obtained during the second wave (capture one) lead us to believe that the phenomenon is relatively underestimated. There is a need to ascertain if this is effectively due to the data capture;

- To establish the distance to the souk in terms of travel time, rather than in kilometres;
- To include a variable that makes it possible to capture information on the regularity of non-agricultural income;
- To include a variable on savings practices and on savings in kind in particular.

Finally, we believe that it would be interesting to add a (formal or informal) credit demand model to the microcredit demand model.

The team is open to the possibility of discussing avenues of collaboration with the IPA/J-PAL team.