

# The Microfinance Sector in Morocco

## Investment opportunities after the crisis

### Rationale

Morocco microfinance sector is among the most developed in the MENA Region, accounting for about 64% of the total outstanding portfolio in the Region.

[MicroFinanza Rating](#) would like to share some of the results arising from the Country Study recently carried out in Morocco, with a particular focus on the repayment crisis that affected the Country and highlighting the main opportunities and threats for investments in the microfinance sector after the crisis.

### Source of information

Source of this insight: Country Screening conducted by MicroFinanza Rating in May 2013

The [Country Screening](#) (CS) is an **in-depth analysis of the microfinance sector in the country**, focusing on the political-economic and legal framework in which MFIs operate. In particular, it assesses **the development of the microfinance sector and identifies the opportunities, threats, obstacles and facilities for foreign investors to enter this market**. Secondly, the study **identifies the main MFIs, which could offer good potential investment opportunities**.

The CS represents an important base tool for Investors, donors and other stakeholders investigating opportunities to enter into local country microfinance markets, either through single or multiple institution investment.

### Country Screening Structure:

1. Political and Socio-Economic Context

2. Main Characteristics of the Financial System

3. Structure and Dynamics of the Microfinance Sector

4. Legal and Fiscal Context of Foreign Investment in the Microfinance Sector and Foreign Investment Opportunities

5. Directory of the Main Microfinance Institutions in the Country

## Overview of the Microfinance Sector in Morocco

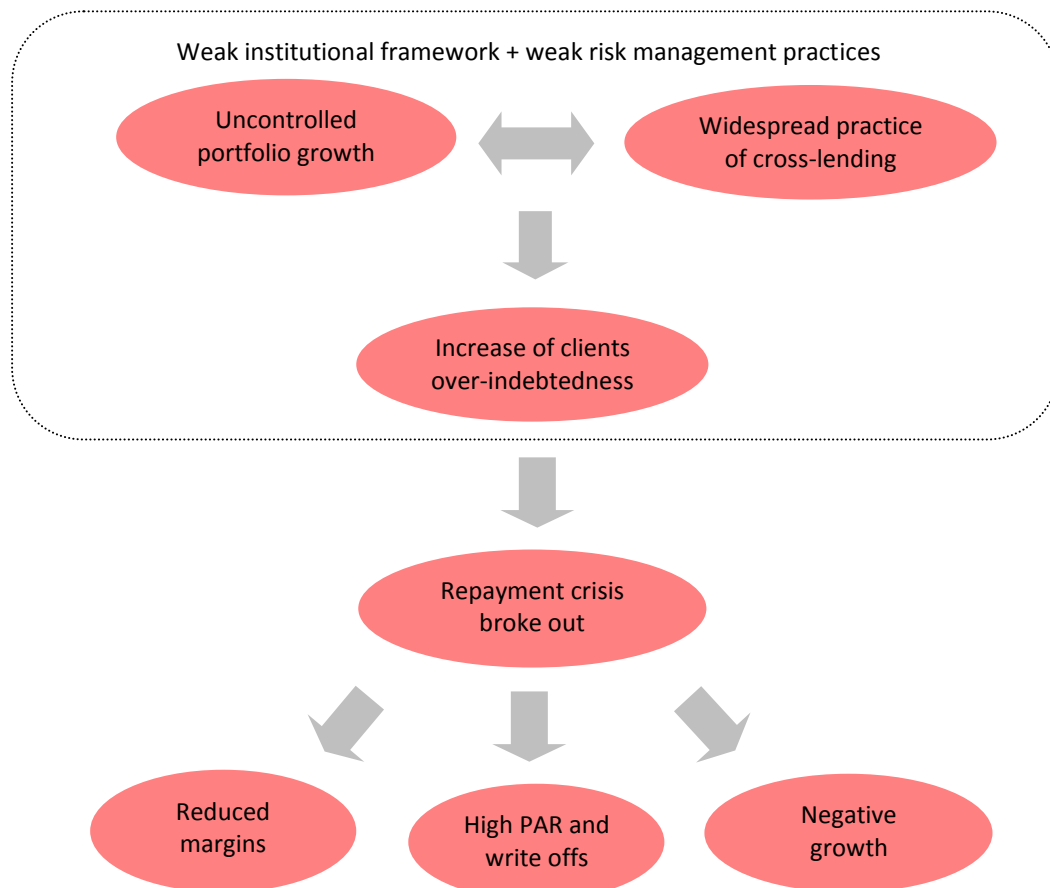
In the early 1990's, the Catholic Relief Service started microfinance activities in Morocco in a joint partnership with the Moroccan Association for Solidarity and Development (AMSED) that initiated an experiment of group lending in the rural area nearby Khenifra (in the mountainous Middle Atlas area) with the help of Oued Srou, a local association. The positive outcome of this initiative was followed by a decade of development of the newborn microfinance sector with the inception of several microcredit associations.

As of March 2013, the Moroccan microfinance sector is comprised of 12 licensed microfinance associations, conventionally gathered into two different groups according to their size. The market is currently highly concentrated, as three microfinance associations (Al Amana, Fondation Banque Populaire – Attawfiq, FONDEP) account for a rough 90% of market share. Differentiation in terms of product offer is still limited, but the recent amendments to the law are expected to change the situation. As above mentioned, deposit-taking is not expected to be allowed in the medium term.

The 3 largest associations have all expressed their intention to transform into limited liability companies, as soon as the implementing decrees are published. Small and medium sized associations are currently standardizing and streamlining their operations in the framework of the RMS project (Réseau de la Microfinance Solidaire).

## A growing sector hit by a severe crisis

In the past decade, boosted by large-scale support from both domestic and international stakeholders, the Moroccan microfinance sector turned to be among the most rapidly developing in the MENA region and Africa. **However, this growth proved to be unsustainable as the sector lacked a solid institutional framework and sound risk management practices.** Since the end of 2007, a sharp portfolio growth, mainly attributed to the widespread and uncontrolled practice of multiple loans, resulting in an increased level of over indebtedness, lead to a severe repayment crisis. Portfolio quality has been seriously impacted and margins have dramatically dropped.



The quality of the portfolio, profitability and solvency ratios started displaying alarming trends. Non-performing loans increased significantly from 0.42% in 2003 to 1.9% in 2007. PAR 30 increased significantly to 5% by the end of 2008, reaching an alarming 10% by June 2009. Write-offs also increased dramatically with a negative impact on MFI profitability and solvency. In May 2009, Zakoura, one of Morocco's flagship MFIs, reported a PAR 30 of over 30% and ultimately merged with Fondation Banque Populaire, a large MFI backed by a solid state bank.

### The reactions to the crisis

The various stakeholders of the Moroccan microfinance sector collaborated in an effective way in order to restore confidence on the market. Structural changes on the sector have contributed in the turning around the ratios and allowing the market to display its first evidence of recovery.

<b>Microfinance Institutions</b>	
<ul style="list-style-type: none"> <li>• Put a strong focus on improving the quality of their portfolio</li> <li>• Chose to significantly lower their growth by reducing their assets and increasing their level of liquidity</li> <li>• Implemented aggressive recovery plans by tightening credit processes, developing teams dedicated to loan recovery and taking judicial action against delinquent borrowers.</li> <li>• Started to exchange credit information regularly to control cross-lending.</li> </ul>	
<p style="text-align: center;"><b>Government</b></p> <ul style="list-style-type: none"> <li>• organized the merger of Zakoura and Fondation Banque Populaire</li> <li>• further developed a plan in collaboration with Bank Al-Maghrib (BAM) and the Federation of MFIs (FNAM) to consolidate the microfinance sector, with four priorities:                             <ol style="list-style-type: none"> <li>i. strengthen MFIs,</li> <li>ii. control multiple lending and prevent over-indebtedness,</li> <li>iii. secure liquidity for the sector going forward</li> <li>iv. improve the regulatory framework.</li> </ol> </li> </ul>	<p style="text-align: center;"><b>Local Commercial Banks</b></p> <ul style="list-style-type: none"> <li>• maintained credit allocations</li> <li>• Development Finance institutions (DFIs) did not call their loans.</li> </ul>

### After the crisis: Strengths and Weaknesses of the Moroccan Microfinance Sector

The microfinance crisis has left the microfinance market with a significantly reduced size both in terms of clients served and size of portfolio. Since 2010, all microfinance associations have applied the strategy of focusing on portfolio quality instead of growth. Nevertheless, 2012 has finally brought evidence of recovery and microfinance associations are now focusing again on growth.

Growth rates	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
<b>Outstanding loan portfolio</b>	0.40%	-13.30%	-2.6%	-2.0%	0.5%
<b>Active borrowers</b>	-6.5%	-25.3%	-4.2%	-9.4%	1.3%



Strenghts and  
Opportunities

- amendments of the microfinance law authorizing microfinance associations to transform into limited liability companies
  - most of the supervision powers transferred from the Ministry of Finance to the Central Bank
  - pooling of resources and streamlining of processes for greater efficiency in the framework of the RMS network
  - improving quality of the overall portfolio and of cross-indebtedness indicators
  - establishment of Credit Bureaus (banking sector and microfinance one) and tangible efforts to unify data by allowing access of microfinance providers to the main Credit Bureau
  - significant support from the World Bank to strengthen the FNAM
  - investors can invest and transfer capital and profits outside Morocco
  - transformation of microfinance associations creates opportunities for equity participation
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- non-access of microfinance providers to deposit resources
  - drafted interest rate regulation likely to increase reputational risk of microfinance providers that will become comparable with banks
  - mandatory full price transparency on the market entails risk of competitiveness loss for smaller and less effective microfinance associations
  - application of a 10% (+VAT) withholding tax on profits generated by lending activities
  - lack of transparency on the criteria based on which the Office des Changes approves hard currency lending contracts
  - worsening of delays in the approval process by the Office des Changes and tightening of conditions



Weaknesses and  
Threats

## Conclusion

Although the Moroccan microfinance sector has been recently affected by the consequences of prior unsustainable growth, evidence of recovery, especially in terms of portfolio quality, is now tangible. Microfinance associations are investing in the soundness of their risk management processes and information exchange among loan providers has improved. Even though some constraints still remain at the level of currency flows control in and out of the country, the regulation has recently opened the way for transformation of microfinance associations into limited liability companies, offering new opportunities for investors and potential shareholders.