

Title: Impact of microcredit in rural areas of Morocco: Evidence from a Randomized Evaluation

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Policy motivation. Despite claims that microcredit is one of the most powerful tools to alleviate poverty, the evidence on its impact remains scarce, and there is considerable debate on its impacts: does it help the poor or does it hurt them by trapping them in cycles of indebtedness? This study is the first randomized evaluation of a microcredit program conducted in a rural area where there is almost no other credit access (two other recent randomized evaluations provide evidence in dense urban settings where households had access to other sources of credit). Microcredit expanded in Morocco during the second half of the 90s, and today Morocco is one of the countries with the highest number of clients in the North Africa and Middle East region. Al Amana expansion to non-densely populated areas gives the opportunity to analyze the impact of microcredit basic product, the group-liability loan first introduced by Grameen Bank, in a context in which microcredit was almost inexistent and the use of both formal and informal lending was very low.

Policy Impact/Audience. This study targets policy-makers, in particular regulators of the sector, and MFIs as well as international organizations, NGOs and academics whose work is related to the sector.

Policy decisions on the regulation of microfinance sector need evidence on the effect of microcredit. Regulation on the type of services MFIs can offer as well as on the sector recovery policies could be influenced by its findings. The lack of clear data on impact was a hindrance in the debate that took place in India for example, after the crisis in Andhra Pradesh: Outlandish claims on the deleterious or beneficial impacts of microcredit could not be countered with solid evidence. Moreover, MFIs could explore variations in the design of their current products in order to adapt them to the specific financing needs of the rural areas.

Results and Policy Implications

- **In rural areas with low use of both formal and informal lending, microcredit constitutes a powerful intervention to increase access to credit.** In Morocco, the expansion of the Al Amana to non-densely populated areas shows that use of credit almost doubled after two years of intervention (the fraction of households with any loans increased from 10% to 23%).
- **Understanding the causes of a fairly low demand of microcredit remains a key issue for the sector expansion in rural areas.** Although the effect on credit access is positive, the demand of microcredit remains fairly limited. There are many possible reasons. One of them could be that the product offered is not the best adapted to the financing of activities in rural areas.
- **Access to microcredit leads to an expansion in the scale of existing self-employment activities as well as in savings.** Contrary to the fears that microcredit leads to a cycle of debt and poverty, we see that households who have access to credit actually *expand* existing self-employment activities (of

both non-livestock agriculture and livestock activities) and *increase* their savings (notably, in the form of livestock), compared to households who do not.

- **Microcredit eligibility criteria need to be taken in account when the goal of the intervention is to encourage the creation of new businesses.** Our study finds that access to microcredit did not increase the number of households that decided to start a new activity. One possible reason is that Al Amana requests a track record of running an activity before giving out the credit and, therefore, credit officers did not particularly encourage the start of new activities.
- **While our study suggests that microcredit should not be conceived as a short-term poverty alleviation intervention, longer term effects cannot be ruled out.** Since households compensated the increase in business from own activities by working less outside their homes, and also saved more, we find no effect on per capita consumption in the short term (two years) for the average households. In fact, there was even a significant decline in consumption among households that already had a self-employment activity at baseline. These households save and expand their own activities. To the extent that these activities are indeed profitable, increases in their standard of living (as measured by consumption, education, health, etc.) may be realized in the longer run, when household feel they have reached an optimal scale and stop saving to expand further.

Implementation. The microfinance sector is vibrant in Morocco, and the sector will take the lead in expansion. Microcredit practitioners have access to a wide range of tools and technical assistance to run their activity. Two examples of institutions that actively provide technical assistance to the sector are CGAP and PlanetFinance. These results suggest that, prior to expanding further, microfinance agencies may need to understand better the determinants of demand in rural area, and possibly experiment with new products that are better suited to the needs of rural businesses, or with different eligibility criteria to have a product that is more conducive to the creation of non-agricultural businesses.

Dissemination:

Morocco: MFIs (Al Amana, Fondation Chaabi, ARDI and FONDEP), Central Bank of Morocco, and Minister of Finance.

South Asia, Europe: Op ed in Indian Express, Financial Time, Le Monde

“Help Microfinance, don’t kill it” <http://www.indianexpress.com/news/help-microfinance-dont-kill-it/716105/>

Further Readings:

Abhijit Banerjee and Esther Duflo *Poor economics: A Radical Rethinking of the Fight Against Poverty PublicAffairs, April 2006 (Chapter 7 on credit, and chapter 9 on entrepreneurship, discuss this evaluation)*

Banerjee, A., E. Duflo, R. Glennerster and C. Kinnan (2010, June). The miracle of microfinance? Evidence from a randomized evaluation. MIT working paper.