Tailored Microcredit in Rural Morocco

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: Morocco

Target group: Rural population

Outcome of interest: Earnings and income Credit balance/repayment

Intervention type: Credit

AEA RCT registration number: AEARCTR-0002618

Partner organization(s): Al Amana Microfinance

Recent evidence has demonstrated the difficulty of stimulating entrepreneurship and reducing poverty through microcredit. In rural Morocco, where microcredit take-up is relatively low, researchers are conducting a randomized evaluation to test the impact of improved microcredit loan design on its take-up, as well as the welfare and business conditions of borrowers.

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Recent evidence has demonstrated the difficulty of stimulating entrepreneurship and reducing poverty through microcredit. A number of factors may affect both the demand for microcredit and its impact, including the design of microcredit products. Rural borrowers may be unable to begin repaying loans immediately following disbursement and their future cash flows may not match a standard loan-repayment schedule. These terms might discourage potential clients from taking out a loan in the first place. Can addressing flaws in the design of microcredit loan products and tailoring them to more closely match the needs of borrowers improve microcredit take-up and impact?

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Rural Morocco is characterized by both a relatively low take-up of microcredit at 13 percent, and by limited entrepreneurial and employment activities. Al Amana, the partner microfinance institution of this evaluation, has the largest network of microcredit branches across the country. The intervention is being implemented in 40 of their 301 rural branches.



Woman works on textiles in small shop in Morocco.

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Researchers are conducting a randomized evaluation to test the impact of improved microcredit loan design on the take-up of microcredit, as well as the welfare and business conditions of borrowers. Al Amana will offer potential borrowers one of two improved credit products or their standard loan contract.

Tailored loan: Under this more flexible credit product, the repayment schedule is split into three equal periods. The borrower and loan officer jointly decide on the constant monthly amount to be repaid in each period to more closely match the borrower's expected cash flows.

Grace period loan: This credit product delays repayment of the loan balance. For the first five months, borrowers pay only the monthly interest due. After this time, the borrower must make constant monthly payments covering the loan balance as well as the monthly interest.

The product ordinarily offered by Al Amana (with fixed monthly or bimonthly installments) will serve as the comparison.

Researchers will conduct three randomized evaluations to measure the impact on borrower welfare and on demand for credit:

Part I – Individual-level randomization: Researchers will test the impact of loan flexibility on borrower welfare among individuals who willingly demonstrate a desire to take out a standard microcredit loan by visiting one of the 40 Al Amana branches participating in the evaluation. For the duration of the intervention, each visiting potential borrower will be randomly assigned at the time of the visit to receive an offer for either a tailored loan (treatment I), a grace period loan (treatment II), or a comparison standard loan (comparison).

Part II – Village-level randomization: Researchers will also measure how offering flexible loans affects demand for microcredit among households in villages identified as having a significant number of potential borrowers. Six villages in the catchment area of each of the 40 participating Al Amana branches' catchment areas will be randomly assigned to receive an offer for either a tailored loan (treatment I), a grace period loan (treatment II), or a comparison standard loan (comparison). Every three weeks, a loan officer from Al Amana will visit each village to promote its assigned loan offer for the duration of the intervention. Two additional villages will be assigned to receive an offer of the standard loan but with no specific promotional activities (pure comparison).

Part III – Branch-level randomization: Researchers will then measure how offering the additional flexible loans affects demand for microcredit at most of the remaining rural branches not participating in the first two parts of the study. Each branch will be randomly assigned to either have access to the two new flexible loans—in addition to its existing portfolio of financial products and services (treatment) or not (comparison).

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Study ongoing; results forthcoming.