

»» Project Information

Implemented by:



Sustainable economic development – Morocco

Learning the lessons of the debt crisis: stepping up consumer protection and controlling

JAIDA – the Arabic word for "the prominent one". The history of microfinance funds to date, in which KfW Development Bank is involved as a trustee, does the name justice. Following the international debt crisis in 2008/09 in particular, this was of prominent importance. The refinancing fund proved a reliable financier and promoter of transparent structures and processes, making a major contribution to the consolidation of the sector. Today JAIDA is working hard to close the gaps in consumer protection and controlling that came about back then in order to ensure that the crisis is not repeated.

Context

The market for microfinance in Morocco is fundamentally sound. Roughly 800,000 men and women have taken up micro-loans for their companies. According to estimates, roughly two to three million more people require access to loans or guarantees to start up their own small business or keep commercial activities going.

Yet the rapid, uncontrolled growth in lending from 2003 to 2008 and the debt crisis that resulted in 2008 revealed one thing in particular: a good system for informing customers, responsible risk management and sufficient consumer protection are essential in times of expansion.

The turbulence on the Moroccan microfinance market came about after one of the largest microfinance organizations was taken over by another microfinance institution (MFI). Several borrowers believed they were no

longer under any obligation to repay their debts. This produced a domino effect, afflicting other parties involved. The reason here lays in the fact that many customers were indebted to several institutions, but either did not know that their main concern was capturing additional hard-fought market share – that is, customers.

The JAIDA microfinance fund, which KfW launched in 2006 by order of the German Federal Ministry for Economic Cooperation and Development (BMZ) and which began its work in 2007, proved its worth when this turbulence came about by supporting MFIs in times of crisis. The fact that it also continued to make funding

Project name	JAIDA microfinance fund
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/Region	Morocco
Lead executing agency	Caisse de Dépôt et de Gestion (CDG), Barid al Maghrib (Poste Maroc), Caisse de Dépôts et Consignations (CDC, France) and AFD





This weaving mill was established thanks to a loan from JAIDA.
Source: KfW / Bernhard Schurian

available was a signal that helped it restore the lost confidence in the microfinance industry. The fund also counters risks through extensive analysis and monitoring activities.

Project approach

KfW has put up a total of EUR 14 million to finance the fund – a cooperation with the French Development Agency (AFD) as well as two Moroccan institutions and one financial institution. The entire fund volume comes out to around EUR 60 million.

It supplies six of the twelve existing Moroccan MFIs with capital to finance their micro-loans, thus filling a gap that Morocco's few major commercial banks are not able to cover. JAIDA is active particularly in rural regions; it supports the MFI in setting up its management and finances its technical support. A newly developed information system to be used jointly for example is intended not only to lower operating costs for smaller MFIs; the programme is also compatible with the Moroccan central bank's IT system, thus providing the basis for exchanging customer data and thereby improving the risk controlling of the sector as a whole. JAIDA's aim is to have its MFI partner institutions take over this software in future.

Impact

The fund has worked intensively since the 2008 crisis to combat the causes of the debt crisis and ensure that it does not happen again. In doing so, it is mainly improving consumer protection and risk controlling at MFIs. This is because MFIs themselves were responsible for the downturn in 2008. On the booming market for micro-loans, they had not paid enough attention to how

significantly their "micro-clientele" was already indebted to other institutions. Several MFIs had failed to inform their customers of the additional costs and fees included in their loans.

For this reason, consumer protection was placed very high on JAIDA's agenda. This includes transparency first and foremost. In its co-operation with the MFI, JAIDA therefore ensures that the end customer is extensively informed of the small print, specifically regarding the interest rate, fees, additional insurance and terms of payment.

JAIDA is also looking into the desired social effectiveness of the partner institutions with the help of a questionnaire on "social performance management". This is an innovative step for microfinance. In addition to its business goals such as higher sales or returns, has the MFI in question also listed social goals? Other questions pertain to the qualification of the management, the staffing policy (key terms: rotation or frequent change in personnel) and even the institution's reporting. This evaluation serves to uncover any institutional weaknesses within an MFI, and in particular to reverse these.

Four of the six MFIs with which JAIDA works have undergone this process and are now working on fixing the weaknesses analysed. These include, for instance, selecting targeted groups that have been put at a disadvantage and offering them better support, as well as expanding the product range and clearly incorporating responsible behaviour in reference books and statutes. JAIDA wants to offer MFIs even more support in analysing and implementing their social and financial goals in future, thereby helping ensure a sustainable supply of microfinance products in Morocco.



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