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Demand for Microcredit, Informal Finance and Vulnerability in Rural Morocco[1]

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8.1 Introduction

Credit rationing has long been an implicit assumption in the microcredit industry (Stiglitz and Weiss, 1981). Up to the mid-2000s, those who promoted microcredit were not concerned with demand, as they believed that improved offers, a relaxation of collateral requirements, and a larger number of branch locations would inevitably meet unmet demand among the poor. They assumed that households facing some credit constraints would be willing to borrow money from any microcredit provider in order to make investments to start a new business, expand existing business activities, or increase spending in household assets, education, and/or health. Moreover, they argued that the need for individuals and households to cope with risk and vulnerability could affect their demand for financial services. Microfinance would thus automatically replace informal finance, considered by mainstream economics as a 'second best', and this relaxation of credit constraints would lead to a reduction of poverty and vulnerability of the targeted population.

Recent evidence, however, suggests that facilitating access to credit does not necessarily lead to user uptake, and that demand does not necessarily stem from the offer (Claessens, 2006). Some people or social groups may indeed choose not to use the offer of financial services (voluntary exclusion) or may encounter significant obstacles to accessing those services (involuntary

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exclusion). There is now growing recognition that social, moral, cultural, and political criteria also influence credit demand and usage (Lont and Hospes, 2004; Guérin et al., 2011; Johnson, 2004; Shipton, 2007). Despite these recent advances in understanding, setting up a microcredit service is still too often viewed as a technical, rational, and linear process, as reflected in guidelines for credit officers, who are viewed as simply providing services for clients, considered to be passive consumers.

This chapter examines microcredit demand and use in rural Morocco as a case study of how households *appropriate* microcredit services. By this we mean not just how they use or reject such services, but how they assimilate them in relation to their own economic, social, and cultural context.

Rural Morocco provides an interesting case study of broad trends in the microfinance industry. There has been a massive, but patchy, growth in microcredit in Morocco since the mid-1990s. Indeed, the country has long been considered the flagship of microcredit in the Arab world, both in terms of the outreach of Moroccan microcredit associations and their 'good governance'. But the industry has been facing a serious loan delinquency crisis since 2008, the year in which the Fondation Banque Populaire took over one of the biggest microfinance providers, Zakoura (including its losses). Al Amana, another of the country's biggest microcredit providers and the focus of our study, has also been facing a loan delinquency crisis since 2008. Meanwhile, microcredit providers have been trying to expand their customer base in rural Morocco. Until the mid-2000s, there was a primarily urban market for microfinance, concentrated in Casablanca, Fez, and Marrakesh (PlaNet Finance, 2006). The biggest microcredit providers are now looking to redress this urban bias and the saturation of urban markets by targeting rural areas. Al Amana began to diversify its portfolio in 2006, but rural diversification has proved a major challenge.

A randomized control trial study done by the Abdul Latif Jameel Poverty Action Lab (J-PAL) has shown that, despite specific measures to enhance take-up rates, participation rates in the sample of overall branches have been quite low, though they have varied considerably among different villages (between 0 and 80 per cent). A quantitative analysis using a Proportional Hazard Model with three different components fails to capture the determinants of participation. First, variability seems strongly related to unobserved heterogeneity (the share of the variance related to unobserved heterogeneity is 82 per cent). Second, the model cannot explain the considerable differences among the villages (Duflo et al., 2008). The findings of the J-PAL study were the starting point for our research. However, the model used had limited predictive capacities and was only capable of marginally increasing the rate of participants in the sampled population compared with the population targeted by the microcredit scheme. The French Agency for Development, which commissioned our study, asked our team to qualitatively explain why the demand for microcredit in rural areas was low and varied. The aim was to capture unobservable characteristics at both individual and village/regional levels.

At the regional and village levels, varying agroecological conditions offer an obvious explanation. Al Amana microcredit is not tailored to addressing specific agricultural and rural constraints. Much like the microcredit industry worldwide, it is unable to adapt to seasonal constraints, low profitability in agriculture, and climate-related hazards (Morvant-Roux et al., 2010). Supply is best tailored to consumption needs and to the needs of regular income households in peri-urban villages, rather than to those facing uncertainty and unpredictability. Social and cultural factors and moral values also influence microcredit take-up rates.

At the household level, our application of institutional economics and economic anthropology (Bouman, 1994; Bouman and Hospes, 1994; Servet, 1995 and 2006) indicates that microcredit demand and use is influenced by debt-related norms: households' financial strategies highlight a low propensity to incur debt, and savings in kind are very important. Cultural and religious norms, including whether it is good or bad to incur debt, are an obvious explanation for the variations in demand. While credit rationing is a very common hypothesis in economic theory, economic anthropology shows that debt is embedded in social, cultural, and religious norms that influence the status of debt in everyday life. Debt may be considered by some as a normal feature of the human condition (Malamoud, 1980) and by others as something that should be avoided (Bourdieu, 1977). In rural Morocco, many rural households are reluctant to enter into debt, including informal debt. At times of financial difficulty, be it managing cash flow, financing investments or life-cycle-related events, households prefer to resort to savings in kind, as do people who own a small business. Low demand for microcredit therefore indicates a preference for saving. Moreover, all debts are not equally perceived (Shipton, 2007) by all, and it matters how real or potential clients perceive microcredit and the organization providing it (in this case, Al Amana). Key questions include where the money comes from, whether debt is perceived as good or bad, and if it is meant to be repaid or not. In that context, norms related to debt contribute to explaining the low level of demand for microcredit (assessed by take-up rates), whereas the diversity of take-up rates can be explained by differences in agroecological conditions and households' diversification strategies.

Section 8.1 of this chapter describes the research context and methodology. Section 8.2 details our main findings, and examines attitudes to debt and how it is interpreted. It explains that rural Moroccans are reluctant to take on debt and prefer to manage their cash flows by in-kind saving. Consequently, microcredit is used mainly for consumption needs and by households with a regular income. We then show how the varying microcredit take-up rates across regions can be attributed to agro-ecological disparities. Finally, some conclusions and major implications are drawn.

8.2 Context and Methodology

8.2.1 Microcredit in Morocco

In 2009, there were twelve microcredit institutions active in Morocco, with a combined portfolio of around 4.86 billion Moroccan dirhams (US$580 million) and over 950,000 active loans. Four organizations dominated the sector: Al Amana, Zakoura, Fondation pour le Développement Local et le Partenariat (FONDEP), and Fondation Banque Populaire pour le Microcrédit (FBPMC). In May 2009, the FBPMC merged with another major institution, the Zakoura Foundation, to become FBP Zakoura. These four leaders shared 97 per cent of the sector's loan portfolio by the end of 2009, and ranked among North Africa's biggest microcredit institutions. Al Amana accounted for 45 per cent of all the active loans issued. When it first began operations, this organization focused mainly on urban and peri-urban areas, but in 2005 it decided to expand into rural areas, creating new branches there. The expansion was swift: as early as 2007, rural areas accounted for 49 per cent of Al Amana's portfolio, which has since held stable (47 per cent in August 2010). Al Amana's strategy is for its operations to cover the whole of Morocco.

Al Amana offers solidarity group and individual loans. Solidarity group loans are provided for a three- to eighteen-month period, and their amounts can vary from 1,000 to 30,000 dirhams (US$120 to US$3,500). These are repayable in weekly, bimonthly, or monthly instalments, and amounted to 45 per cent of the loans Al Amana issued in 2010. Al Amana's individual loans are issued to clients who have previously borrowed as part of a solidarity group. These credits target investment in existing economic activities or housing, and are issued for six months to five years (or up to seven years for housing loans). Individual loan amounts vary from 1,000 to 50,000 dirhams, and account for 55 per cent of all loans. Al Amana does not provide savings services due to legislative restrictions.

8.2.2 Research Methodology

As mentioned earlier, our research used the results of a randomized trial evaluation as its starting point. Two striking findings emerged from that study: a low average take-up rate and significant disparities across and within regions (Crépon et al., 2011). Our research sought to better understand these findings.

Table 8.1 Take-up rate variation across regions

Take-up rates (wave 2, 37 branches, Dec. 2009)	% of branches (regions)
0 to 9%	47%
10 to 19%	19%
20 to 29%	19%
Over 30%	16%

Source: Al Amana and J-Pal follow up of take-up rates.

Table 8.1 shows the variations in the provision of loans by Al Amana's branches that reach several villages belonging to different municipalities but that exhibit common features in terms of socio-economic and agro-ecological context. Out of the regions covered by wave 2[2] in the J-PAL study (treatment groups) almost half (47 per cent) showed a participation rate of below 10 per cent, while 16 per cent showed a take-up rate of over 16 per cent. Measuring take-up was quite challenging, but the survey data indicated that total participation was 11 per cent, on average, and 13 per cent among the twenty-five households per village with the largest propensity to borrow (Crépon et al., 2011).

We found a variation of participation rates not just at the branch level, but also between villages that are reached by the same branches. At this level it is difficult to provide general figures, because the sub-samples of villages per branch vary from one to four or five villages. As noted in Duflo et al. (2008: 23) concerning the 'observable characteristics determining participation... There are also considerable differences among villages... Unfortunately we do not have enough villages here to try to disentangle the various possible effects.'

8.2.2.1 DATA COLLECTION AND SAMPLING

For our research project we used a qualitative approach, following specific criteria. Size and representativeness were of minimal importance for our sample, whereas diversity of situation and data saturation (when any additional interview doesn't bring new result) were much more important. The reliability and consistency of interpretation of our results were validated through contextualization (by information collection, learning about people's experiences, and analysis of events), and by cross-checking information sources. In qualitative analysis, data interpretations are validated by using

[2] J-PAL divided the regions where Al Amana planned to introduce its services into four zones where credit services developed progressively (called waves): wave 1, then wave 2, and so on. J-PAL's investigations followed this progressive set-up. To prevent hindering the development of the impact study, our study focused on the areas and branches covered by wave 2 of the J-PAL investigation. Wave 2 comprised 37 branches, most of which were opened in 2008.

different techniques, analysis levels, and, where possible, different researchers and informants in order to verify and cross-check information, and reveal significant and telling differences among the study sample.

The interviews were semi-directive, and followed outlines tailored to each category of actors to facilitate open and spontaneous discussion. In qualitative analysis, spontaneity is an essential element for ensuring interview quality, as the ultimate objective is to go beyond expected responses. Open-ended questions were used to encourage people to speak about events or subjects of importance to them. With both clients and non-clients of Al Amana, the approach used was to encourage them to narrate their life stories, in order to establish the main stages of interviewees' lives and the financial and economic implications. Table 8.2 gives a detailed sample of the interviews conducted.

8.2.2.2 SAMPLE

The team selected four study areas where the thirty-seven branches of the wave 2 sample operate (see footnote 2). We chose branches with a steadily increasing take-up rate, but which were also experiencing disparities in clients' borrowing rates between villages (*douars*), and on the request of Al Amana we also included a branch that was experiencing a high loan delinquency rate.

For each branch, our aim was to conduct interviews in villages where take-up rate profiles differed. The branches included in the sample and their profile in terms of take-up rate are described in Table 8.3.

Table 8.2 Interviews: detailed sample

Clients	36
Non-clients	23
Imams	6
Shop keepers	9
Credit officers	5
Total	79

Table 8.3 Branches included in the sample and take-up rates

Branch Name	Take-up rate (Dec. 2009)
CV Tighdouine	6%
MG My Abdellah Ben Driss	19.6%
AW Moulay Yacoub	27%
LJ Brachoua	1%

Source: Al Amana and J-Pal follow up of take-up rates.

8.3 Norms for Debt and Savings

Looking at how people perceive finance in their daily lives, whether in the context of credit, savings, or risk management, allows us to better understand how people appropriate financial services offered by outsiders, and in particular by microfinance institutions (Guérin et al., 2011). In the context of rural Morocco, a study of households' financial strategies indicates that there is a low propensity to take on debt, and that savings in kind are very important.

8.3.1 Low Propensity for Indebtedness

Various recent studies show that the analysis of informal finance can help to understand how people perceive microcredit (Collins et al., 2009; Guérin et al., 2012). In comparison to other rural contexts,[3] the informal credit offer in rural Morocco is rather low. According to J-PAL's data (Crépon et al., 2011: 8), before Al Amana reached the treatment villages there was little use of formal and informal credit. Only 26 per cent of households had some form of active loan and just 6 per cent of households used informal credit (grocers, neighbours, friends, etc.). These rates are much lower than those observed in other contexts (Collins et al., 2009; Guérin et al., 2012). This could lead to the conclusion, as did the J-PAL team, that households are highly credit constrained, and that there is strong potential for the development of microcredit (Crépon et al., 2011). But testimony from borrowers reveals that demand for credit is weak, simply because households are reluctant to borrow.

This reluctance appears to derive from local cultural and religious norms. Religion is often overlooked in development studies, although it clearly plays an important role (Deneulin and Rakodi, 2011). In Morocco, most people declare themselves to be practising Muslims. Therefore, in theory, the Islamic norm (*sharia*) which considers *riba* (i.e. interest) to be reprehensible and even illegal (*haram*) prevails. Its prohibitions apply to both creditors and debtors (Tripp, 2006). However, the testimonies of villagers—both potential microcredit clients and Imams—indicate that interest rates are not a particularly strong factor underlying the reticence to borrow. In order to conform to Islamic norms, Al Amana presents interest rates as an administrative fee or a payment for the credit agents' work, which most clients highlighted.[4] Some clients mentioned interest rates as posing a problem, but more in terms of

[3] See case studies in rural Mexico (Morvant, 2009; Villarreal, 2009), rural India, and rural Kenya (Johnson, 2004; Shipton, 2007).

[4] As stated by Ait Ali, a non-client in Izrafene (Zone 1, Branch CV), 'It is not *riba*, it is to pay the organization's fees.'

cost than their prohibition in Islam. Although the Islamic norm is acknowledged and is relatively clear, in most cases pragmatism and household need seem to prevail.

Beyond the issue of interest rates, there is a general reluctance to take on debt, regardless of the cost. Debt is often considered a disgrace and a question of 'pride' ('*makayr daouach*'). In Algeria in the 1950s, Pierre Bourdieu, investigating households' resistance to debt, observed that indebtedness implied that the head of a household had failed to meet his family's material needs (Bourdieu, 1977). Similar norms seem to prevail also in contemporary rural Morocco. Comments made during our interviews illustrate the negative moral connotations of debt: 'My pride will not allow me to go into debt,'[5] or as an elderly person whose son is an Al Amana client stated, 'If you were a man, you would not take out a loan.'[6] Another interviewee acknowledged having contracted a loan (farming credit) when he was young, but his children, who have a higher level of education, reacted to this negatively: 'When my sons learned that I had taken out a loan, they got angry and told me that if I needed money, all I had to do was ask them. They would have helped me.'[7] Another said, 'I want to be in charge of my life,'[8] which is also how other non-clients justify their position.[9]

Most shopkeepers we met were also reticent about debt, as the following examples illustrate. A shopkeeper who regularly gives credit to his clients, but does not borrow from his own suppliers as he is against taking on debt, stated: 'I need to feel free.'[10] Similar comments were made by another grocer, who is the biggest in a village of around 200 families, and who gradually set up his shop with the help of his father who has also worked as a shopkeeper for the past few decades. This grocer grants credit to most of his clients, but stated that he does not buy on credit from his suppliers because: 'I want to sleep soundly.'[11] A farmer and livestock seller looking to increase his number of calves but without taking on debt voiced a similar view: 'It would be a loss of freedom.'[12]

Islam's disapproval of charging interest is therefore not a major impediment to taking out a loan, but indebtedness in general is limited to matters

[5] Bricklayer/mason, Aitboujraf Douar, client, Zone 2, Branch MG.
[6] Farmer, Sidi Bengalssen Douar, client, Zone 3, LJ branch.
[7] Farmer, Tamrat Douar, client, Zone 2, AW Branch.
[8] Farmer, Sidi Bengalssen Douar, non-client, Zone 3, LJ Branch.
[9] This was analysed notably by sociologist Pierre Bourdieu during his investigations in mountain villages in Kabylie,Algeria (but also in the gatherings and slums around Algiers) in the 1950s (Bourdieu, 1977).
[10] Shopkeeper, Ait Abbas Douar, non-client, Zone 2, Branch MG.
[11] Grocer, Mchaa Krim Douar, non-client, Zone 2, Branch AW.
[12] Farmer and livestock seller, non-client, Ait Abbas Douar, Zone 2, Branch MG.

of survival and simple socio-economic reproduction. This conflicts with Al Amana's aim to provide microcredits for expanding economic activities.

8.3.2 *The Importance of Savings in Kind*

While households show a low propensity for indebtedness, the practice of saving is more widespread, particularly in terms of saving in kind.[13] There is considerable evidence of the prevalence of saving in kind among the poor, whether for the purpose of making ends meet, consuming or preparing important life-cycle events (ceremonies, social and religious rituals), and sometimes for investing in and managing non-agricultural economic activities (Collins et al., 2009; Guérin et al., 2011; Lont and Hospes, 2004; Shipton, 2007; Villareal, 2004).

In rural Morocco, savings in kind are used mainly to smooth over discrepancies between income and expenditure, and are topped up again as soon as resources permit. Informal credit is used only in case of necessity over a very short period of time. The most common forms of in-kind savings are sheep and cereals: families use one or both resources to juggle between their needs and market prices. Livestock and cereals are mobilized to meet unpredictable events, such as health problems, to prepare for annual religious festivals and life-cycle events, and to manage business cash flows. Indeed, the J-PAL study highlights the importance of such savings. According to their data, 50 per cent of households have sheep and/or goats, and 46 per cent have cattle that can be used in case of necessity. Thus about half of the households save in this way (Crépon et al., 2011).

The importance of savings in kind has strong implications for the demand for microcredit. Some households prefer to sell an animal rather than keep it and resort to debt. As one bricklayer put it, 'If you have a herd, you have no need to borrow.'[14] Other people juggle between livestock and credit. If they use credit to purchase an animal, this is often to maintain or restore the size of their savings in the form of herds. They decide whether to purchase livestock or other goods according to market prices and their needs. This is confirmed by the J-PAL study, which states: 'Microcredit serves, with agriculture, to generate supplementary income and, for livestock breeding, to constitute savings in kind' (Crépon et al., 2010: 19–20).

One such example is that of a regular client of Fondation Banque Populaire pour le Microcrédit who was interviewed. He had engaged in five loan transactions that were used mainly to renovate and extend his house, but if the

[13] In the areas studied, it seems that there are few Roscas (rotating savings and credit associations) which are more of an urban phenomenon in Morocco.

[14] Bricklayer/mason, Boulajrouf Douar (migrant), client, Zone 2, Branch MG.

loan came through at a time when he had no immediate needs, he would buy a sheep to sell it at a later date.

Microcredit can also prevent a reduction of capital, as explained by one interviewee: '*The others already have a herd so they take a loan to cover daily expenses... it comes to the same thing.*'[15] Livestock can also serve as a collateral for the loan and thus brings security for loan repayment. Both credit officers and clients view livestock as capital, with the potential to be used in the event of repayment difficulties. Clients are usually well aware that credit agents grant loans more readily to 'livestock businesses'. Owning a herd facilitates and justifies a demand for credit; animals are presented at inspections, but part or all of a loan is in fact often used for other purposes.[16]

It is worth pointing out that even shopkeepers sell their livestock rather than take out loans when buying goods to sell to villagers.

8.3.3 Widespread Use of Microcredit for Consumer Spending

Al Amana microcredit is in theory intended for 'productive' purposes, in order to generate direct income. Many microfinance institutions (MFIs) apply this rule with a view to encouraging their clients to initiate or expand income-generating activities in order to escape from poverty. Yet a number of recent studies show that in many regions of the world, microcredit is quite frequently used for activities that do not directly generate income (Collins et al., 2009).

According to Al Amana's figures (taken from forms filled out for its credit agents), 82.1 per cent of its microcredit was used to develop activities related to animal rearing, 15.1 per cent for shopkeeping and services, and 2.8 per cent for agriculture. Our own observations, alongside credit agents' testimonials in the zones studied, indicate that 60–80 per cent of loans are in fact devoted to consumer spending. It involves mostly everyday and home-related expenditures, including home improvements such as room or floor extension projects, home decorating, building a new house for newlyweds, and durable goods such as television sets, furniture, and mopeds. Between 10 and 30 per cent of loans are used for animal-rearing, while non-agricultural economic activities, such as small shopkeeping or offering services, make up at most 10 per cent. Such microcredit use places a considerable burden on those who draw on it: clients must have a regular, stable income in order to make repayments. However, as discussed below, this varies according to local contexts.

The loan officers interviewed during this study were perfectly aware of this situation. Most of them confirmed our estimated figures. Some try to monitor credit use and do not hesitate to ask neighbours questions. Others are

[15] Farmer-breeder, Ait Abass Douar, client, Zone 2, Branch MG.

[16] The J-PAL study introduced owning livestock in their model for loan forecasts.

not concerned about it, as their clients are well aware. For example, a client who has been loyal to Al Amana over several years regularly takes out a group loan (being unable to obtain an individual loan) for repairing or renovating his house. He always claims he is borrowing in order to rear animals, even though he has none, and the agent does not check if this is indeed the case. As stated by the client: 'They're perfectly aware it's for my house, but they don't say anything. I make my repayments, and they leave me alone.'[17] Another client mentioned that the agent 'took a quick look at the herd, which could have belonged to one of my neighbours'.[18]

This initial study allows us to better understand the profile of the current clientele: it is composed of households with relatively regular incomes who wish to make use of the loans for consumer spending, or for maintaining their livestock as savings, and, for a minority, for investing or taking advantage of market opportunities. This has several major implications at this preliminary stage. First, credit institutions' (or Al Amana's) loan conditions are poorly tailored to local needs and the rural context, which is a major cause of the low rates of borrowing. However, it is not the only reason why local populations generally do not seem particularly inclined to take on debt, preferring instead to save, especially in kind.

Another means of understanding the profile of the clientele is by analysing the use of loans. Insofar as most of the loans are used for consumer expenditure, participation is determined far less by the availability of economic opportunities than by households' capacity to have regular incomes that enable them to make repayments.

These initial general observations call for a further analysis of disparities in regional participation: such differences depend on type of income (non-agricultural regular income as opposed to income from agriculture and migration), consumer demand, the potential for expanding animal-rearing, and, to a certain extent, the existence of local economic opportunities.

8.4 Regional Disparities: The Role of Vulnerability Assessed by Regularity of Income

Using the criteria of agroecological landscape, livelihood opportunities and remoteness, we established three broad categories of area: (i) mountain areas, (ii) peri-urban areas, and (iii) extensive farming areas. These differences have a considerable impact on credit demand and on access to/use of Al Amana's microcredit services.

[17] Builder, Thratia douar, client, zone 2, branch AW.

[18] Farmer/animal-rearer, Ait Abbas douar, group credit, zone 2, branch MG.

Type 1 areas are mountainous regions with small agricultural plots that support subsistence agriculture. Local markets are extremely limited, incomes are low and irregular, and there are virtually no opportunities for non-farm work. Consequently, a large number of men migrate to the cities for work. From an economic perspective, households have neither the means nor the desire to borrow, as their needs are limited.

Type 2 'peri-urban' areas are where the village is close enough to a city, town, industrial, or artisanal area to permit daily commuting to and from the city for work. Such proximity to centres of activity provides opportunities to earn a regular wage income. In this type of area, demand for microcredit is higher, on average, both because households have higher and more regular earnings and because they have greater needs (daily consumption, housing, and for some, business investment). In our sample, the take-up reaches 19.6 per cent in the peri-urban area, and 27 per cent in the area combining peri-urban and extensive farming (see Table 8.4).

Type 3 areas cover fertile, relatively flat lands better suited to mechanized farming operations. Larger farms exist side by side with small, unsustainable farms. Households in these areas do need credit, but most require large amounts for agricultural use. Al Amana's loan conditions poorly match their needs, as its loans are too small, and regular instalments are demanded in the repayment schedule. As a result, participation rates in these areas on average are rather low (Table 8.4).

Each Al Amana branch in our study can be broadly situated within one of these area categories.

These differences by agroecological area considerably help to explain the variations in take-up across regions and branches (in line with Bouman, 1994). It should also be stressed that there is little overall potential for non-agricultural self-employment, despite disparities across areas. The potential is very weak in mountainous zones and large-scale farming zones, and somewhat greater in zones closer to centres of activity, notwithstanding competition from migration dynamics.

Table 8.4 Typology of visited branches according to eco-type systems

Branch	Eco type system	Take-up (Dec. 2009)	Portfolio at risk (30 days) 2010
CV Tighdouine	Type 1: Mountain area	6%	0.18%
MG My Abdellah Ben Driss	Type 2: Peri-urban area	19.6%	0.85%
AW Moulay Yacoub	Type 2 et 3: Peri-urban and extensive farming area	27%	37.4%
LJ Brachoua	Type 3: Extensive farming area	1%	22%

Source: Al Amana and J-Pal follow-up of take-up rates and and Al Amana's reporting of repayment defaults.

All things considered, animal-rearing seems to be the economic activity which Al Amana most frequently finances. The organization estimates that 82 per cent of its loans are allocated to activities related to animal-rearing. However, our observations and those of credit agents estimated this figure to be between 10 and 30 per cent. In reality, animal-rearing is stymied by various factors, although significant differences are observable across the zones. Three major factors limit the development potential of animal-rearing: scarcity of pastures and/or difficulty of access to them, shortage of winter fodder, and a lack of manpower. Here too, there are big differences across zones. In the mountainous zone, three types of limitations arise, while for the two other zones there are only one or two types of limitation. Moreover, families adopt a range of economic strategies for animal-rearing, which influence both its potential and development. Thus in mountainous zones, cattle are most commonly viewed as a form of saving, while in outer-urban and large-scale farming zones, farmers are driven more by profit-making motivations (as is confirmed by the data from J-PAL, 2008).

These agro-ecological differences greatly help to explain take-up heterogeneity across branches. Of course other factors, such as the perception of sanctions in case of default and the 'social life' of microcredit, namely, how local social actors, not least credit officers and local leaders, engage with microcredit, is also instrumental in shaping the demand for microcredit, and the ways it is used and appropriated (Morvant-Roux et al., forthcoming).

8.5 Conclusions

Our analysis sheds light on different factors behind microcredit take-up rates: social norms related to debt and resort to informal financing systems, agroecological conditions, and the vulnerability of households due mainly to irregular incomes.

From a theoretical perspective, our findings indicate that microcredit markets are not based on simple supply and demand factors, but rather, they emerge as a historically and socially produced, instituted process. Local perceptions of debt are fundamental to this process. In general, we found that there was a reluctance to take on debt, while savings in kind were a much more common and accepted cash-flow management strategy, including for small businesses. Understanding perceptions of specific forms of debt and of creditors (in this case the microcredit association of Al Amana) are also vitally important.

With regard to policy, our findings help to explain the challenges facing institutions that wish to offer access to microcredit in rural areas. Apart from our case study, the current repayment crisis in microfinance highlights the limitations of high levels of standardization and use of a one-size fits-all approach.

Microfinance institutions should adapt to local economic, social, and political contexts. This is not to argue that microfinance should tailor products to the requirements and characteristics of every kind of client. But our results highlight the fact that the success of a microcredit scheme partly depends on the local context in terms of labour markets, and, more broadly, of existing economic activities and opportunities for expanding those markets. Microfinance institutions need to better adapt their financial products to the differences across rural settings. Our study reveals that there is potential for developing loans for households in type 2 zones, and not for households in type 3 zones. For households living in mountainous regions, microfinance institutions could decide not to extend their activities to this type of area, or they could limit their offers of credit to housing expenses or investment in livestock as a way of helping to promote savings in kind in order to secure local livelihoods. Our study offers fresh evidence that not all the rural poor need microcredit. However, in a context of growing financialization of everyday life, including in remote areas of the developing world, the poor do need access to adequate financial services. To be effective and legitimate, such supply must be grounded both in people's financial needs and constraints, and in local economies (Shipton, 2010).

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