

The Impact of Micro Finance Institutions on Economic Growth of Morocco

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Abstract

The Moroccan banking system is characterized by great diversity and is largely modeled on the French banking system. It includes banks and other institutions working in specialized areas such as, agriculture. At the end of 2011, the banking sector comprised eighty five institutions, with the Bank Al Maghrib (BAM) as its central state institution. This system includes nineteen banks, thirty five finance companies, six offshore banks, thirteen Micro Finance Institutions and twelve other institutions. The total number of banks has not changed since 2009, whereas the number of finance companies has declined. In contrast, the area of microcredit was reinforced. After several years of growth, the microfinance sector in Morocco began to experience some problems in 2008. The crisis in Morocco started with the crash of one of the largest MFIs and jeopardized the whole system. Reasons given for the crisis were mainly the unsustainable growth of the sector, but also the high market concentration of MFIs, multiple indebtedness, the lack of controls and monitoring systems, nonperforming loans and delinquency problems. The microfinance market is very concentrated, and clients are mainly allocated among the four biggest MFIs accounting for over 90% of client outreach. From 2003 the amount of active clients rose from almost 308,000 clients to 1,353,000 clients in 2007.

Keywords: Diversity; Unsustainable growth; Financial monitoring systems

Introduction

Morocco's trade balance is traditionally negative, as it has no significant natural resources to export except phosphate which is Morocco's main export good. The country possesses 80% of the world's reserves. Fuels are nearly entirely imported and subsidized by the government, deepening the deficit further [1]. The main trade partner for imports and exports is the EU, accounting for 70% of the total trade volume [2]. Bound to a currency basket of 80% EUR and 20% USD, its local currency, the Moroccan Dirham (MDH), is stable. Since 2009, inflation has decreased to 0.9% in 2011. However, the IMF predicts inflation in the long term of over 2.5%. Despite Morocco's positive economic developments, the country suffers from different problems. According to the World Bank definition, Morocco remains a developing country (lower middle income country) mainly due to the high unemployment, poverty, and illiteracy rates [3].

In 2012 Morocco had a population of 32.5 million inhabitants (81.25 habitants / km) with a growth rate of 1.1%. Especially high social inequalities persist between the big economic and touristic centers (like Casablanca, Agadir or Marrakech) and rural areas. The official unemployment rate has been below 10% since 2006. In 2012 unemployment totaled 9.5%. About 50% of the working population is employed in the formal sector. However, young academics bear the brunt of unemployment, with 41% being out of work [4]. Morocco additionally has a high illiteracy rate, particularly in rural areas, accounting for 43.9% in 2009. Regarding poverty in the Kingdom, the CIA estimates that 15% of the population is living below the poverty line. In the UNDP-HDI ranking, Morocco takes place in the last third on place 130 out of 186 behind Algeria (93) and Tunisia (94). "Key economic challenges for Morocco include fighting corruption and reforming the education system, the judiciary, and the government's costly subsidy program".

The Moroccan banking sector is highly concentrated, as the first three banks (Attijariwafa Bank, Banque Populaire, BMCE Bank)

account for almost 50% of the market share. Despite less favorable economic conditions, the Moroccan banking system continued to develop its network as well as diversifying its activities during 2011. 'Although Morocco's rate of banking is among the highest in the MENA region, 71% of the active population is still unbanked.

The Financial Inclusion Data shows a slightly lower percentage, reporting that 39% of the adults older than 15 years have a bank account in Morocco in 2011. Unbanked adults therefore rely on alternative financial services such as microfinance or the informal sector MS Shabbir [5]. In Morocco access to credit remains very difficult for large segments of the population with low or unstable incomes. They have been neglected by the banking system over a long time as no bank targeted the poor. Therefore Credit Agricole and Banques Populaire have created two MFIs (ARDI and FBPMC respectively) to provide microcredits in Morocco. Credit demand is far from being met in Morocco. The demand for microcredits was estimated to be between 500.000 and 1.2 million in 2000, which means that all MFIs serve only 10 – 25% of the potential market. In 2012 the supply remains limited, with an access rate of 16% [6]. According to the Index of Financial Inclusion (IFI), Morocco ranks 37th out of 100, and is therewith placed first in Africa. Access to credit has increased in recent years, but plenty of credit offers are only available to the middle class represented by officials and employees in the private sector with a stable income.

Different measures exist to estimate the quality of banking services. The most frequently applied indicator used to evaluate the

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quality of a portfolio is the portfolio at risk (PAR), which measures the proportion of the portfolio affected by arrears as a percentage of the total portfolio. The PAR 30 is the most commonly used indicator, stating the percentage of all outstanding loans with defaults exceeding 30 days. This indicator is therefore often cited in microcredit reports from different institutions. In the microfinance sector, the financial situation of MFIs is observed carefully in order to ensure the viability of the institution and its ability to cover its debts. MFIs face special difficulties regarding recovery ratios, as most microcredits are rarely backed by collateral. However the risks MFIs face are diverse: in some cases institutional or financial risks are significant (e.g. dependence on subsidies), whereas in others risks may be operational in nature or stem from external factors like regulations MS Shabbir [5]. Islamic Banking plays an important role in most Arab countries, although in Morocco there exists no Islamic Bank or Islamic Microfinance Institution so far. Despite the strong demand for Islamic products, their success has been very limited, mainly due to the strong opposition from local banks and due to their price, which is on average 36% more expensive than similar conventional banking products.

Literature Review

Laws, regulation and supervision

Microfinance activities in Morocco are regulated under the Loi relative au Microcrédit N° 18-97 of 1 April 1999 and its modification of 6 Mai 2004, the Loi N° 58-03. MFIs operate in Morocco as NGOs under the corporate law of Dahir N° 1-58-376 from 3 jourmada 1378 (15th November 1958) accredited by the Ministry of Finance. Besides Morocco, there is only Tunisia in the MENA region which has special microfinance laws and regulations. The law defines that microcredits are considered as any loan granted to help people with limited economic resources to set up and develop their own production or service activity, with the aim of ensuring their economic viability [7].

The modification of Article 2 of 2004 adds that these microcredits could be used to buy, build or renovate housing and to make electric installations or to ensure the supply of drinking water in homes [8]. Regarding the credit amount, a limit of 50,000 MDH (ca. 4.500 Euro) is set [8]. Moreover, Morocco has regulated that MFIs may charge interest rates for their credits [9]. Currently the interest rate lies at 14.19% in Morocco (for comparison, the interest rate of Bangladesh lies around 40%). Article 3 defines the range of microfinance products and services, as it prohibits MFIs from taking any deposits. The development of micro savings – as observed in other countries – is therefore still missing in Morocco. Furthermore, the law prescribes that financial projections of all Moroccan MFIs have to be sustainable and viable after a period not exceeding five years from the date of authorization. Article 6 also stipulates the social and financial orientation of MFIs, as long as they are not against national programs of economic integration.

The law clearly prohibits any labor union or political action from MFIs. The Moroccan Government plays an important role in the microcredit sector, both through the law and in terms of important financial support. The government fund Hassan II facilitates the funding of many MFIs in addition to international donor support such as from USAID, the European Commission or the KfW. MFIs and their activities are monitored by the Ministry of Finance, responsible of the promulgation of necessary decrees. The central bank, the Bank Al-Maghrib (BAM), has supervised the sector since 2007. “A unique characteristic of the Moroccan microcredit sector is the commitment of local banks: Commercial banks are important backers of the industry, having created two of the largest MFIs and funding 85% of the sector’s

assets in 2008” [10]. MFIs are obliged to adhere to regular accounting practices and to conduct a yearly external audit, reporting its outcomes to the Ministry of Finance. In addition it is mandatory to have also internal committee monitoring the activities and being responsible for the annual report of the MFI. This should increase the transparency of the sector. Furthermore since 2006, MFIs are allowed to grant credits, but in contrast to traditional financial institutions, these exclude VAT (Article 17 of the microcredit law) in order to support the development of the sector and to create new jobs. Another important part of the microfinance sector in Morocco is the Conseil Consultatif du Microcrédit (advisory council), established under the law N°18-97, Article 19 and 20 which has to be consulted on all matters related to the provision and development of microcredits.

The law had been adapted further according to developments of the microfinance sector. The most important modifications in the law took place in 2003’s alterations regarding the purpose of the loan (e.g. for housing), in 2007 through the introduction of micro insurance products, and in 2011 due to additional changes in the legal form of MFIs which allowed them to convert into limited liability companies. Since 2012 MFIs may also operate as for profit non-banking financial institutions.

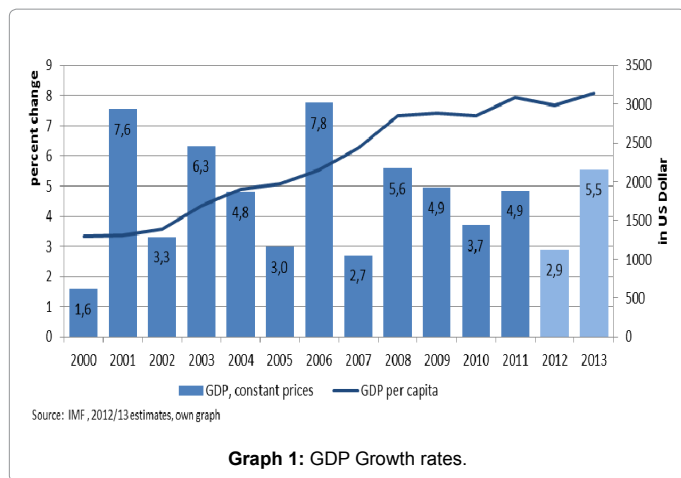
Since 2001 the Fédération Nationale des Associations de Microcrédit (FNAM) has played a major role in the microfinance sector in Morocco. MFIs are required to join the FNAM [7], who is responsible for the coordination of the microfinance sector. Further objects of the FNAM following Article 5 of its Constitution are:

- Establishing rules of conduct related to any microcredit activity and submission for approval by the Minister of Finance
- Ensuring compliance of the microcredit law and rules of conduct by its members as well as informing the Ministry of Finance of any breach
- Proposing to the Ministry of Finance any action to promote the development of microcredit
- Creating and managing any common service and conducive to the development of microcredit’s [8].

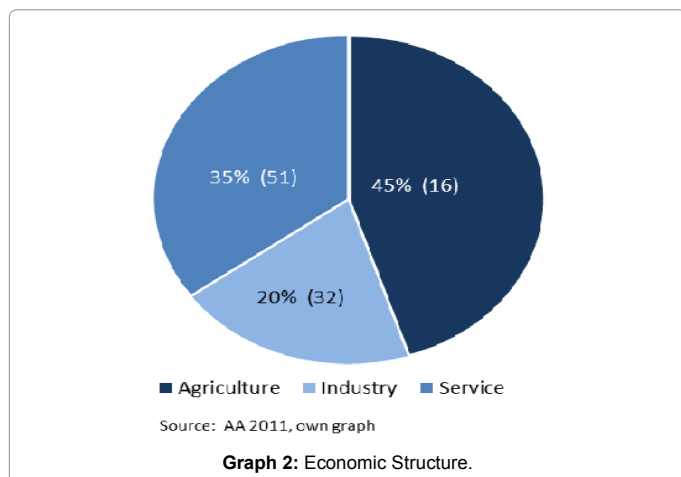
The FNAM has however faced internal problems and limited resources. Especially during the crisis, they were not successful in representing the microfinance market and its MFIs [11].

Methodology

Microfinance programs have been introduced in order to fight poverty in the World. The following part will provide an overview of the economy of the country and its financial sector as well as legal frameworks and main characteristics of the microfinance sector. The Kingdom of Morocco is located in the north east of the African continent, bordering in the north with the Mediterranean Sea, in the south with the Atlantic and in the east with Algeria. Morocco, a constitutional monarchy with an elected parliament, has its political capital in Rabat and has been independent from France and Spain since 1956. The main religion is Islam. The economic situation has been evaluated by the German Chamber of Industry and Commerce in Morocco as cautious positive. Morocco has a stable political situation [2], although still much influenced by economic interests of the royal family. Corruption remains a major challenge for the kingdom. On the Corruption Perception Index Morocco takes rank 88 out of 176 countries with a score of 37 (1 is very clean and 100 is highly corrupt) Graph 1.



Graph 1: GDP Growth rates.



Graph 2: Economic Structure.

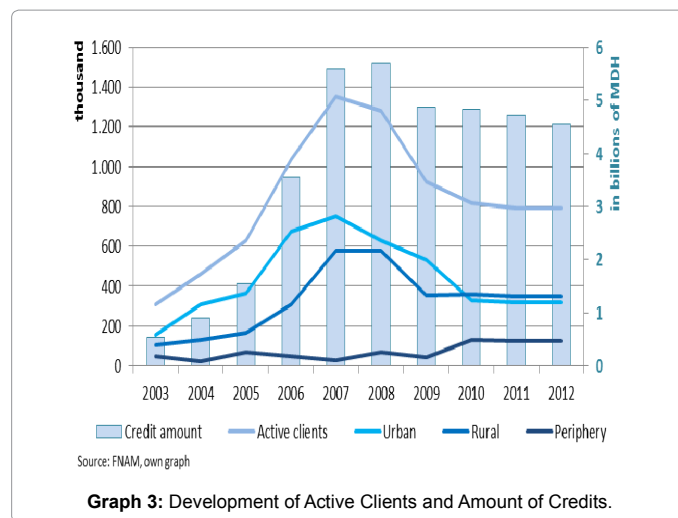
After a declining economic growth rate in 2012 (2.9% estimated) when the agricultural production dropped due to a drought, Morocco anticipates an economic growth rate of 5.5% for 2013 as illustrated in Graph 2. GDP per capita rose over the last years to almost 3,000 USD. Regarding the economic structure as shown in Graph 3 (contribution to GDP in parenthesis), Morocco's economy has not changed much over the last 20 years. The agricultural sector dominates at 45%, although it only contributes for 16% to GDP, whereas the service industry has a share of 35% but accounts for 51% of GDP. However, Morocco is trying to reduce the dependency of its economy on agricultural production, which is highly variable and unpredictable due to the climate. The segment of the urban micro entrepreneurs has experienced saturation, as the majority of active clients are located in urban areas. This is due to the concentration of MFIs mainly in medium-sized cities like Meknès, Fès and Tétouan. Only two MFIs (FONDEP and AMOS) mainly operate in rural areas. Therefore rural clients only accounted for 15% of total active clients in 2000.

This concentration changed over the years as shown in Graph 4. The distribution of active clients is today 40% in urban, 16% in the suburban (periphery) and 44% in rural areas (FNAM:total active clients in light blue, the three lower curves indicate their share divided by areas. Numbers of clients by area for the years 2011 and 2012 are extrapolated) [12]. Regarding the total number of active clients, a very fast growth can be observed, peaking in 2007. From 2003 the amount rose from almost 308,000 clients to 1,353,000 clients in 2007 and fell

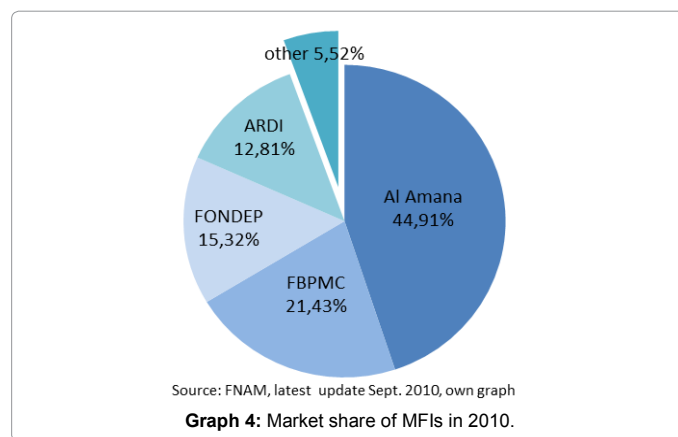
back to 794,000 active clients in 2012, where it seems to have stabilized since 2009 [12]. Regarding the curve of total credit amount (indicated in Graph 4 at the right ordinate), it correlates with the active clients curve. However, due to larger loans its development rises further in 2008 – in contrast to the total clients – reaching its peak in 2007. The total credit amount reaches 5.7 billion MDH in 2008. Total credits amounted to 4.5 billion MDH in 2012.

From very few MFIs operating in the early 1990s there are now 12 MFIs in Morocco. Table 1 contains all currently listed members of the FNAM (mandatory under Moroccan law N° 18-97 Article 21 in order to operate as MFI with their respective number of active clients and the resulting market share (latest available data regarding market shares is from 2010). The microcredit market in Morocco is very concentrated, and clients are mainly allocated among the four biggest MFIs (Al-Amana, FBPMC/Attawfiq, FONDEP and ARDI) who account for over 90% of client outreach as shown in Graph 4. (Zakoura only played a major role in the sector until 2009; its share now belongs to FBPMC).

Al-Amana is one of the leading microfinance providers in Morocco. It was founded as an NGO in 1997 and approved as an MFI by the Ministry of Finance in 2000. At the end of 2012 they served 1,278,000 clients, of these more than 40% in rural areas. Al-Amana has a strong presence in rural areas with nearly 120 points of service. Its aim is to be an important player in the economic and human development of Morocco with a strong social impact, supporting financial inclusion



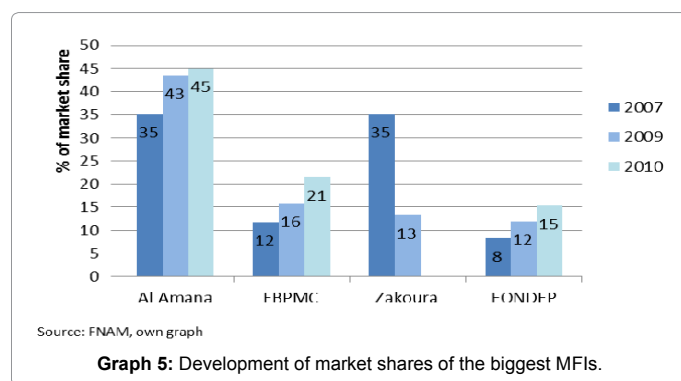
Graph 3: Development of Active Clients and Amount of Credits.



Graph 4: Market share of MFIs in 2010.

Microfinance Institutions	Active clients	Market share	Operating since
Al-Amama	346.929	44.91%	1997
Zakoura*	ND	ND	1995
FBPMC/Attawfiq	174.103	21.43%	1998
FONDEP	124.508	15.32%	1996
Fondation ARDI	104.080	12.81%	2001
Fonation Al Karama de Micro Crédit	16.223	2.00%	1999
AMSSF/MC	15.951	1.96%	1995
INMAA	5.836	0.72%	1999
Oued Srou (AMOS)	2.781	0.34%	2000
Fondation Micro-crédit du Nord	1.254	0.15%	2003
Association Ismaïlia de Micro Crédit (AIMC)	1.040	0.13%	1997
Association TAWADA pour le Micro-Crédit	921	0.11%	2007
Atil Micro Credit	874	0.11%	2001

Table 1: Moroccan Microfinance Institutions. Source: FNAM (latest update Sept. 2010), Heddad (2006) and resp. MFIs web pages (2013), own presentation. *Zakoura was absorbed by FBPMC in 2010.



by offering a wide range of products. They provide financial services such as individual and solidarity credits, housing credits and since 2012 money transfers and micro insurances. Moreover they offer non-financial services like customer support and assistance, training in financial education, job training and assistance in developing the social capital of their clients [13].

The Fondation Banque Populaire pour le Micro-Crédit (FBPMC) – recently renamed in Attawfiq Micro-Finance – is the social branch of the Banque Populaire and the government’s main policy instrument in the fight against poverty and unemployment. Founded in 2000, Attawfiq is today one of the largest microcredit providers in Morocco with almost 222,000 active clients. Their main aim is the economic integration of low-income people by distributing microcredits to create or expand production activities or services. Their range of financial products includes individual and solidarity loans, housing loans as well a LIB service (low-income banking) which promotes banking services to low-income populations. Furthermore they offer non-financial services including training, consulting and technical assistance.

Zakoura, founded in 1995, was one of the leading MFIs in Morocco with a market share of 35% in 2007 and 13% in 2009 of active clients [14]. Zakoura foundation specialized in two areas: microcredit and education, and was therefore split up in two institutions in 1999. Zakoura Micro Crédit was oriented towards the poorest households, mainly women (96% in 2003), in urban and suburban areas, granting loans with an average size of 170 USD. In the growth years between 2005 and 2007 Zakoura increased its number of active clients from

almost 198,000 to 443,000, with a portfolio at risk (PAR) 30 of only 2%. During this period Zakoura received repeated accolades including recognition from the United Nations in New York in 2005 as part of the Year of Microcredit, a certificate of merit awarded for financial transparency in 2006 and a first place global ranking from MIX Market in 2007 [15]. Zakoura grew considerably, like the whole microfinance sector, but could not keep pace with their main competitor Al-Amama and started to face repayment problems in 2008. As a result, in 2009 Zakoura and FBPMC merged. The fusion resulted in the transfer of Zakoura’s entire activity to the FBPMC.

The growth of the microfinance sector is also reflected in the constant increase of the MFIs market shares as shown in Graph 5. The growth is explained by the new and increased access to financing, including from Moroccan banks, allowing MFIs to expand the number of clients while increasing the amount of loans (Table 1). Jaida conducted a field survey¹ with the following outcomes: it appears that microcredit is perceived by customers as being a very useful tool compared to a conventional loan [16]. The latter is considered inaccessible due to customer’s creditworthiness Shahzad and Rehman [17]. It appears from the field survey that the motivations encouraging clients to obtain microcredits differ from one beneficiary to another. 44% used it as an income generating activity, approximately 27% of beneficiaries consider microcredit as a factor enabling them to increase their capital, and only 10% use their microcredit for consumption [16].

Moreover, the survey showed the rise of individual loans in the sector. The year 2010 was characterized by a trend towards the commercialization of individual loans, mainly due to strong demand from beneficiaries and the implementation of development strategies by MFIs in order to meet the specific needs of their customers [18-23]. Nearly 70% of those who contracted a solidarity loan would have preferred an individual loan. It turns out that 46% of surveyed customers who contracted an individual loan wanted to escape the problems (e.g. diverging ambitions of group members) caused by the conditions of solidarity loans. However, 31% of them were refused the individual loan because of the lack of collateral. Nevertheless, the survey also revealed that the solidarity group loan continues to be attractive to beneficiaries but still needs to be reviewed and improved. Most customers prefer individual loans, as they do not want to be obligated to others when moving forward and due to the reputation of the solidarity group lending approach (e.g. bearing the responsibility for others, social sanctions, frustration due to too many meetings, or dealing with sanction for save borrowers who happen to be in risky or bad groups) [24-28]. However IMF’s also have a share of responsibility for the abandonment to some extent: in times of crisis they have strongly encouraged the development of the individual loans and relaxed on customer screening. IMF’s are aware of the need to involve a better and detailed analysis. With the shift, the qualifications of loan officers also need to be adapted and must improve further to meet the requirements of their new individual clients [16].

Conclusion

In the Kingdom of Morocco, first microcredits were granted at the beginning of the 1990s. Their growth story was one of the most impressive in the world. Between 2003 and 2007 client outreach and loan portfolios multiplied by several times. Morocco became the leader in microfinance in the MENA region. International recognition and several prizes completed the success. MFIs operate under the

¹Jaida is a fund for MFIs in Morocco, operating as NGO. For their sectorial investigation they surveyed 100 microfinance customers in 6 different regions in Morocco with a questionnaire between July and October

supervision and monitoring of the state and the central bank. The microfinance sector relies on a strong support, not only financially, from the government. A microcredit law was adopted in 1999 which has been modified several times since. It regulates the sector and gives a framework for development. The maximum credit ceiling and restrictions on taking deposits particularly differentiate Morocco from other countries. From very few MFIs operating in the early 1990s there are today 12 MFIs in Morocco. The microfinance market is very concentrated, and clients are mainly allocated among the four biggest MFIs accounting for over 90% of client outreach. From 2003 the amount of active clients rose from almost 308,000 clients to 1,353,000 clients in 2007 [29-33].

After several years of growth, the microfinance sector in Morocco began to experience some problems in 2008. The crisis in Morocco started with the crash of one of the largest MFIs and jeopardized the whole system. Reasons given for the crisis were mainly the unsustainable growth of the sector, but also the high market concentration of MFIs, multiple indebtedness, the lack of controls and monitoring systems, nonperforming loans and delinquency problems. The crisis damaged the image of the microfinance sector and the trust of its funders and clients was shrinking. As a result, different recovery plans were rapidly put into place to bring the microfinance sector back on track. The government, the BAM and the FNAM, main actors of the market, cooperated and collectively formulated new guidelines, directives and plans to consolidate the sector. One conclusion reached was that actors had to divert more attention to the growth model of microfinance [34-36]. The focus should no longer lie on the increase of market shares but priority should rather be on sustainable growth with lasting client satisfaction. The growth projections in the 2020 strategy could be viewed as especially critically, as the formulated goals seem to be too high.

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