

Sustainable Microfinance and Global Performance Proposal for a Decision-Making Support Tool

By Siham Hamdani¹, Abdelmajid Ibenrissoul¹

Abstract

Outreach and financial sustainability are “the two basic drivers” of the microfinance industry. These two missions seem contradictory and their complementarity is the main challenge of microfinance institutions (MFIs) around the world. A challenge that is still current and in the center of debates between two opposing theoretical visions; the social welfare approach and the institutionalist approach, which Morduch refers to as the “schism of microfinance”. In other words, MFIs are exposed to trade-offs between their two objectives, with the risk of prioritizing sustainability, which may be at the cost of outreach; their reason for being. Whence, the central question of this research: Is a balance between outreach and sustainability possible? The objective of this paper is to study, both theoretically and empirically, MFIs’ performances in terms of outreach and sustainability, as well as the trade-offs that may exist between them, with the aim of finding answers to this issue of balance between social and commercial missions, still unresolved. Thus, the ultimate contribution of this research is the “Global Performance Indicator”; a decision-making support tool that measures MFIs’ performances with regard to outreach and sustainability, as well as the interaction of these two variables, and consequently orients the decision-makers towards the actions to be taken in order to balance social and commercial objectives. To answer the research problem, we studied the case of two large nationwide microcredit associations in Morocco (AMCs) serving those excluded from the traditional banking system, and two small AMCs targeting mainly very low-income populations. This study supports the hypothesis concerning the positive links and complementarity between outreach and sustainability, while relying on governance as a strategic and decisive stake in the effectiveness of an institution.

Keywords: microfinance, sustainability, outreach, global performance

1. Introduction

Microfinance institutions (MFIs) around the world have a double mission: outreach and sustainability. According to Navajas et al. (2000), outreach can be defined in terms of six aspects: breadth (total number of customers served), depth (their poverty level), worth (offering products and services meeting customer needs), cost (availability of affordable products and services), length (offering products and services for an indefinite period), and scope (offering diverse products and services). Outreach refers actually to MFIs social mission consisting of providing financial services to as many people with very low incomes in order to improve their living conditions.

As for sustainability, it represents the business mission involving profitability and achieving financial self-sufficiency, which will enable MFIs to provide their financial services to a large number of poor people in a sustainable manner. This sustainability involves an effective governance system. In fact, the governance structure ensures that the MFI uses its resources to achieve its social objectives, but also that it is profitable enough to at least cover its costs (Lapie and Urgeghe, 2009). Therefore, sustainability

consists of financial sustainability, whose ultimate step is profitability, as well as effective governance ((Boyé et al. (2009), Lapenu and Pierret (2005)).

These two missions seem contradictory and their complementarity is the main challenge of MFIs around the world. They are actually exposed to trade-offs between their two objectives, at the risk of prioritizing sustainability, which may be at the cost of outreach; their reason for being. Whence the central question of this study: is a balance between outreach and sustainability possible? How can this balance be explicitly measured?

The purpose of this paper is to study, both theoretically and empirically, MFIs' performances in terms of outreach and sustainability, as well as the trade-offs existing between them, with the aim of finding answers to this issue of balance between social and business missions, still unresolved. Thus, the ultimate contribution of this research is the "Global Performance Indicator" (IPG); a decision support tool that measures MFIs' performances with regard to outreach and sustainability, as well as the interaction of these two variables, and consequently orients the decision-makers towards the actions to be taken in order to balance social and business goals.

First of all, we will look in the literature for factors explaining these trade-offs and the ensuing mission drift, as well as MFIs performance indicators in terms of outreach, sustainability, and indicators grouping these two dimensions. Next, we will present our proposal to measure MFIs global performance through the study of four Moroccan microcredit associations (AMCs). We will also present the research approach and methods used to collect primary and secondary data, the IPG composition, as well as the methods used for data analysis. Finally, we will come up with conclusions and recommendations about the decisions to be taken in order to balance social and business goals of studied AMCs.

2. Literature Review

2.1 Microfinance between outreach and sustainability

The microfinance institution is a unique firm because of its double mission: access its financial services to poor people excluded from the traditional banking system, while being profitable ((Boyé et al. (2009), Ngendahayo (2008)). The major challenge for MFIs around the world is therefore combining their social and business goals. A challenge that is still current and at the center of debates between two opposing theoretical visions; the welfarist approach and the institutionalist approach, which Morduch (2000) refers to as "the microfinance schism."

Institutionalists represent the "sustainability camp" and argue that MFIs operating in good banking practices are also those that reduce poverty the most. As for the welfarists, they represent the "poverty camp" and according to them, the pursuit of profitability and self-sufficiency would lead to the poorest exclusion from MFIs services ((Morduch (2000), Ghosh and Van Tassel (2008), Ayayi and Noël (2007)). This "microfinance schism" refers to the tensions between the outreach of financial services to the poorest and the sustainability of microfinance institutions. In other words, MFIs are exposed to trade-offs between these two objectives, which could lead to mission drift. Cull et al. (2007) defined mission drift as a change in the composition of MFIs new customers, or a shift from the poorest borrowers towards the least poor or relatively better off

borrowers¹. This shift or reorientation is linked to the pursuit of financial sustainability. The most common sign of mission drift is the increase in the average loan size. As small loans are better suited to the poorest, this sign indicates that MFIs have shifted to a more affluent clientele (Mersland and Strom, 2010).

Our literature review on possible trade-offs between outreach and sustainability shows that factors explaining these trade-offs are mainly cost differentials between poorer and relatively wealthier borrowers, interest rates, the influence of donors, and the institutional transformation of MFIs ((Cull et al. (2009), Cull et al. (2007), Ghosh and Van Tassel (2008), (Wagenaar (2012)). The outcome can be either mission drift, cross-subsidizing between clients, or targeting the poorest populations but in limited numbers depending on the generosity of socially-committed donors. This is well illustrated in the model of Armendariz and Szafarz (2009). These authors argue that a MFI ends up having a mixed portfolio composed of the poorest and wealthiest borrowers due to the high costs of small loans. In this case, wealthier clients have a positive external effect on the poorest. Otherwise, the MFI chooses not to worry about deviating from its objectives in terms of depth and reaching its services to the poorest, involving a mission drift.

In order to limit such mission drift, Pierret and Doliguez (2005) focused on the implementation of an effective governance system, which is not limited to the proper functioning of the board of directors, or to the relations between managers and owners, but takes into account all actors involved, such as employees, customers, investors and public authorities. According to these authors, governance represents a strategic stake in achieving a balance between MFIs social and business missions. In other words, the governance structure ensures that the MFI uses its resources to achieve its social goals, but also that it is profitable enough to at least cover its costs. Moreover, depending on a MFI's stated mission (reaching the greatest number of micro-entrepreneurs, empowering women, serving rural areas that are difficult to reach, etc.), the objectives governance will have to control are different (Lapie and Urgeghe (2009); (Boyé et al. (2009); Lapenu and Pierret (2005)). In short, effective governance is identified in literature as an indispensable asset in improving MFIs financial performances and outreach.

In sum, we noted that not only the number of empirical and rigorous researches having explored the explicit relationship between the depth of outreach and financial sustainability, or trade-offs existing between them to confirm or not a mission drift, is limited in the academic literature, but also the results of these researches are generally mixed. Whence the central question of this study: is a balance between outreach and sustainability possible? How can this balance be explicitly measured? This question involves also the exploration of literature on performance assessment of MFIs in terms of outreach, sustainability and global performance.

2.2 Performance assessment of MFIs

As for outreach assessment, we could identify two approaches in literature complementing the different aspects of outreach (breadth, depth, worth, length, scope and cost): client-centered impact analysis and institution-based social performance

¹The term "poorest" is used to refer to the poorest customers among all potential customers of microfinance programs (Dubford, 2006).

measurement. At the impact assessment level, we identified and selected three indicators: improvement of incomes and living conditions; impact on microenterprise; and social capital empowerment. These indicators are increasingly used in a new generation of impact studies aimed at improving MFIs services. These studies have crowded out those intended for proving impact, due to their high costs and complexity (Boyé et al. (2009), Berguiga (2007), CERISE (2005), AIMS (2001), Creusot (2006), Dunford (2006), Hashemi et al. (2007)).

Concerning social performance measurement, we noted that it is increasingly at the center of studies and tools assessing MFIs outreach, as it integrates its aspects cited above, as well as impact assessment indicators. On the one hand, the SPTF² and the MIX Market have developed eleven categories of indicators which currently represent the most successful practices for measuring social performance. These indicators involve the process, internal procedures and routine operations of MFIs, and results and outputs. On the other hand, the Social Performance Indicators (SPI) tool developed by CERISE (2005) is cited in literature as one of the most advanced and comprehensive tools. It is based on four categories of indicators or dimensions of social performance: targeting the poor and excluded, adapting products and services to targeted customers, empowering beneficiaries' social capital, and social responsibility of MFIs (Hashemi et al. (2007), Boyé et al. (2009), CERISE (2005), Ledgerwood (1999), Boyé et al. (2009)). In sum, we were able to identify seven dimensions of outreach: intention, breadth, depth, scope, quality, cost, and impact (appendix).

In terms of sustainability assessment, as for financial sustainability, we looked for indicators with regard to self-sufficiency (operational and financial), profitability, portfolio quality, efficiency, and productivity (Ledgerwood (1999), Boyé et al. (2009)) (appendix). Concerning good governance indicators, we mainly used the "Operational Guide to Governance Analysis of a Microfinance Institution" developed by Lapenu and Pierret (2005), as it can support a MFI governance system assessment whatever its structure, while considering the diversity of governance models. According to this guide, for good governance, MFIs must ensure that the "common foundation of governance" is properly implemented. This foundation represents criteria for evaluating MFIs governance and consists of six axes: shared strategic vision; reliable and fast information system; clear decision-making process; qualified staff; effective control system and ability to overcome internal and external crises (Lapenu and Pierret, 2005). Based on these axes, we could determine good governance indicators. They are structured around three main indicators: adaptation to legal status; clear shared vision and strategic (social and financial) objectives; and transparent and efficient organization (appendix).

Then, we sought to explain and assess the convergence between outreach, financial sustainability, and governance; in other words, the global performance of MFIs. Our literature review has revealed that studies or tools analyzing and measuring the interaction between sustainability and outreach are sorely lacking, which brings us back to the central question of this research: is a balance between outreach and sustainability possible? How can this balance be explicitly measured? Or what about a device or tool assessing the degree to which a MFI is achieving its double mission?

² Social Performance Task Force

Such a tool represents the contribution of this research: the Global Performance Indicator (IPG). Based on the concept of global corporate performance³, we define MFIs global performance as the aggregation of performance in terms of outreach (PA), financial sustainability (PF), and governance (PG): $IPG = PA + PF + PG$. Thus, the IPG aims to analyze the performance of MFIs in terms of outreach, sustainability, and governance system; identify and analyze the consequences of trade-offs: win-win outcome or mission drift; and guide decision-makers towards the actions to be taken in order to balance the two missions.

3. Research Hypothesis

In the search for elements of answer to this question of balance, we turned to theoretical and empirical studies that analyzed the trade-offs between outreach and sustainability. Indeed, our hypotheses are based on the work of Preston and O'Bannon (1997), whose purpose is to theorize the different hypotheses on possible relations between the social dimension and the financial dimension. These relationships may indicate a positive, negative, or neutral relationship. Our hypotheses are also supported by the results of researches discussed in the literature review. The first hypothesis assumes positive links or complementarity between sustainability and outreach; win-win outcome (Zeller and Meyer (2002), Lapenu and Pierret (2005), Cull et al (2007), Armendariz and Szafarz (2009), and Labie and Urgeghe (2009) And Labie and Périlleux (2009)). The second hypothesis assumes negative links between these two dimensions; mission drift ((Ghull and Van Tassel (2008), Cull et al (2009) and Wagenaar (2012)). The last hypothesis assumes a neutral relationship between outreach and sustainability; no positive or negative relationship between these two dimensions (Berguiga, 2007).

4. The Case Study Method: Choice of Four AMCs in Morocco

For the operationalization of our study, we adopted a qualitative method based on the case study. Our choice of AMCs in Morocco as an object of analysis is justified by the fact that the microfinance sector in Morocco is a relatively young sector which has experienced a unique development between exponential growth, crisis and recovery (Chen et al. (2010), Reille (2009), Chehade and Nègre (2013)). The microfinance sector in Morocco has more than 800,000 active clients with a total outstanding amount of about 5 billion dirhams and is relatively diversified with 13 AMCs: 3 large national AMCs dominating the sector (Al Amana , Attawfiq, FONDEP); 3 medium-sized AMCs with regional coverage (AMSSF Attadamoune, Inmaa and Al Karama); 5 AMCs are local associations (FondationMicrocrédit du Nord , ATIL, Ismailia, Tawada and AMOS); and an AMC whose activities started in 2010 (Bab RizkJameel). Overall, the microfinance sector in Morocco has so far served more than 4.5 million beneficiaries, of which more than 50% are women (Attawfiq, 2013).

We selected four AMCs to apply the IPG and test the research hypotheses: Al Amana, Attawfiq, Al Karama, and Inmaa. This choice is justified by the similarities between large AMCs (Al Amana and Attawfiq) and small AMCs (Al Karama and Inmaa) with regard to

³It is defined as the aggregation of economic, social, environmental performances (Dohou and Berland, 2007)

their performances and the trade-offs they face. Our choice is also justified by the differences between these two categories. Large AMCs are nationwide, self-sufficient, serving those excluded from the traditional banking system, and have the necessary foundations to transform, while small AMCs have regional coverage, targeting mainly very low income populations, and their limited funding sources and financial difficulties are slowing their growth.

5. Data Collection

To work out our research, we developed two questionnaires, one for AMCs managers and the other for their clients. Each questionnaire is subdivided into different sections and is generated based on research objectives, its hypotheses and, above all, dimensions assessing the global performance of these AMCs.

5.1 Data Collection at the AMC level

The AMCs managers' questionnaire consists of five sections: "AMC profile", "governance", "outreach to target customers", "products and services quality", and "changing economic conditions of clients". More specifically, the questions are directly related to each indicator, constituting the PA and PG dimensions of the IPG. We also looked for secondary data. These are mainly activity reports, rating reports (financial and social), and financial statements. Internal data analysis represents a basis for comparison and verification of the collected primary data. Furthermore, financial statements represent the basic data for measuring AMCs financial performance.

5.2 Data Collection at the Client Level

The main purpose of this questionnaire is to collect clients' opinions on the products and services offered by AMCs, information on the evolution of their living conditions, and their strategies for using credit. These data have enabled us to determine mainly the satisfaction rate with regard to products and services provided and the percentage of clients whose living conditions have improved while considering whether or not credit was used in an income generating activity (IGA). Consequently, these results are complementary to IPG results. The clients questionnaire consists of four sections: "client profile", "satisfaction", "use of loans and changes in socio-economic status", and "involvement in the AMC".

We administered the questionnaire to a mixed urban and rural population located in different regions of the country. Data were collected from 273 clients in six cities: Casablanca, Rabat, Settat, Berrechid, Marrakech and Meknes, as shown in table 1.

Table1: Distribution of surveyed clients by city

	Al Amana	Attawfiq	Al Karama	Inmaa	Total	%
Casablanca	20	10	30	0	60	22%
Rabat	16	10	0	10	36	13%
Berrechid	22	11	0	0	33	12%
Settat	12	20	0	20	52	19%
Marrakech	25	27	0	0	52	19%
Meknes	20	20	0	0	40	15%
Total	115	98	30	30	273	

To have a representative sample per AMC and city, we used the quota method. The distribution of clients by city was complex because of the heterogeneity of the base population. Indeed, AMCs chosen in the context of our research are not present in all regions with the same weight. In order to avoid having very small samples in some cities or in small AMCs (Al Karama and Inmaa), we targeted cities with the largest number of active clients. In that, to have representative samples in small AMCs (a size greater than or equal to 30), we included the numbers of the excluded regions in the selected ones. We used four sample criteria: gender (female, male), type of loan (individual, collective), client seniority (incoming, renewing), and area (urban, rural). We also used the quota method to ensure sample representativeness with respect to these criteria while the draw of interviewed clients was random.

6. Analysis Approach

The global performance of selected AMCs is determined through the assessment of three dimensions as set out in the literature review: outreach, governance, and financial sustainability. Thus, indicators and criteria making up each of these dimensions should be identified first, that is, the composition of IPG. Then, we present the rating methodology.

6.1 Composition of the Global Performance Indicator (IPG)

We defined MFIs global performance as the aggregation of a MFI's performance in terms of outreach (PA), governance (PG), and financial sustainability (PF): $IPG = PA + PG + PF$. Each dimension consists of several indicators, which in turn consist of one or more criteria, that can also be declined into one or more sub-criteria. The IPG consists of 77 criteria distributed as follows (appendix):

Table 2: Global Performance Indicator (IPG)

Outreach (PA)	Governance (PG)	Financial Sustainability (PF)
• Intention	• Adaptation to legal status	• Self-sufficiency
• Breadth	• Clear and shared vision and strategic (social and financial) objectives	• Profitability
• Depth	• Transparent and efficient organisation	• Portfolio quality
• Scope		• Efficiency
• Quality		• Productivity
• Cost		
• Impact		
39 criteria/sub-criteria	28 criteria/sub-criteria	10 criteria
77 criteria/sub-criteria analysed		

6.2 Scoring Methodology

The interest of IPG is to be standardized, and therefore adapted to a wide universe of MFIs. In this context, we adopted a quantitative rating approach. Each sub-criterion consists of question(s). By “questions” we refer not only to the managers' questionnaire content, but also to criteria based on secondary data (financial sustainability indicators or the PF dimension), which we transformed into questions and

answers. Overall, the rating methodology used to calculate each AMC's IPG is based on the following principles⁴:

- The score is equally weighted and each question is rated from “0” to “2”;
- An unspecified question is marked “0”;
- The score per sub-criterion is the average of all questions;
- The score per criterion is the average of all questions and not the average of sub-criteria;
- The score per indicator is the average of all questions, not the average of criteria, and is represented as a percentage;
- The score per dimension is the average of all questions, not the average of indicators, and is represented as a percentage;
- The global score is the average of all questions, not the average of dimensions, and is represented as a percentage.

The calculation of each AMC's IPG makes it possible to compare their performances and to classify them according to, for example, the number of active clients. In addition, the IPG can be calculated at the sector or regional level. In this case, it is weighted according to the number of active clients for outreach (PA); the number of employees for governance (PG); and microcredit revenues for financial sustainability (PF). Finally, for IPG calculation, we developed an application where we parameterized the set of questions, the elements of answers, as well as the rating system⁵.

7. Data Analysis and Results

The sector's⁶ IPG is 82.7%. This good performance is justified by its performance in terms of outreach (72.4%), governance (90.0%), and financial sustainability (83.3%). The response rate is 94%, i.e. 87% for outreach and 98% for governance. The sector's performance is also influenced by large AMCs, namely Al Amana and Attawfiq, whose IPG is 83.3% and 83.1%, respectively, as shown in Figure 1 (appendix). Al Amana leads the ranking, followed by Attawfiq, then Al Karama (71.2%), and finally Inmaa (57.6%):

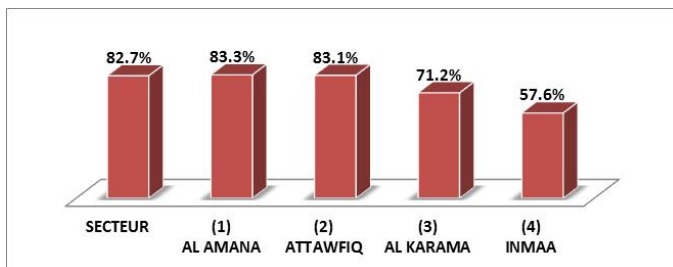


Figure 1: AMCs Global Performance Indicator

⁴ We used the Gaïa Index's rating system, which specializes in the quantitative non-financial analysis of listed and non-listed intermediate-sized French companies (STIs).

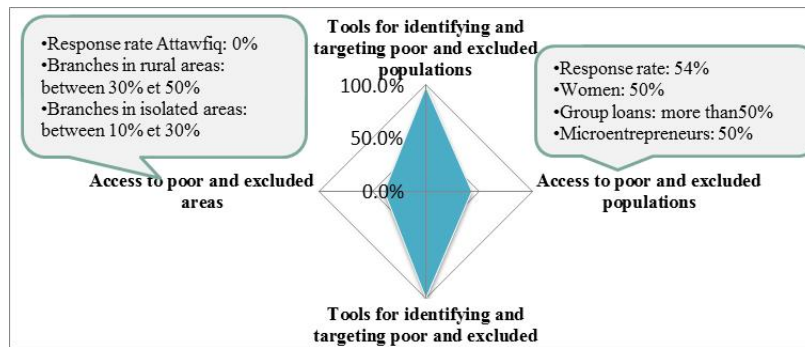
⁵ Indicators, criteria, sub-criteria, questions, and elements of answers are justified in the literature on MFIs performance assessment.

⁶ We estimate that the four AMCs studied are representative of the microfinance sector in Morocco.

Table 3: AMC's IPG (results by dimension)

	PA	PG	PF
AI AMANA	76%	89%	80%
ATTAWFIQ	70%	91%	90%
AL KARAMA	59%	88%	30%
INMAA	41%	77%	20%

In terms of outreach, Al Amana ranks first with a score of 75.7%, followed by Attawfiq (69.6%), Al Karama (59.5%), and Inmaa (40.5%) as shown in table 3. We noted an average performance in terms of depth (59%), mainly due to limited access to poor and excluded populations (42.5%) and areas (39.5%), as shown in figure 2. In addition, following results among surveyed populations (particularly the income level), we could deduce that borrowers in our sample are not among the poorest (figure 3). This is consistent with large AMCs social mission, as they do not specifically target low-income populations. They are intended to be nationwide targeting excluded populations from credit outreach. Moreover, the average loan size is 6,140 DH in Al Amana and 7,700 DH in Attawfiq. It is much above the threshold of 5,959 DH (20% of GDP per capita) which can also be considered as the poverty line.

*Figure 2: Depth assessment at the sector level (results by criterion)*

At first glance, mission drift seems obvious. However, we favor the fact that these AMCs tend to cross-subsidize the poorest and the less poor clients rather than derive from their social mission. We refer to the model of Armendáriz and Szafarz (2009), which suggests that by cross-subsidizing the poorest and relatively wealthier clients, a MFI is able to target a “profitable” clientele while reaching a large number of poorest borrowers. It can both increase its growth and target isolated areas and populations, which is the case of Al Amana and Attawfiq. By maintaining good levels of profitability, they could strengthen their capital base as well as access financing from commercial banks. In that, they could grow their customer base while investing in low-cost ATMs and a network of mobile outlets capable of intervening in remote areas. Thus, based on the good performance of these AMCs in terms of profitability and governance, we suggest that they should be able to improve their depth indicators, in particular outreach poor and excluded populations: low-income beneficiaries’ access to small loans, proportion of female clients, and clients in rural and remote areas.

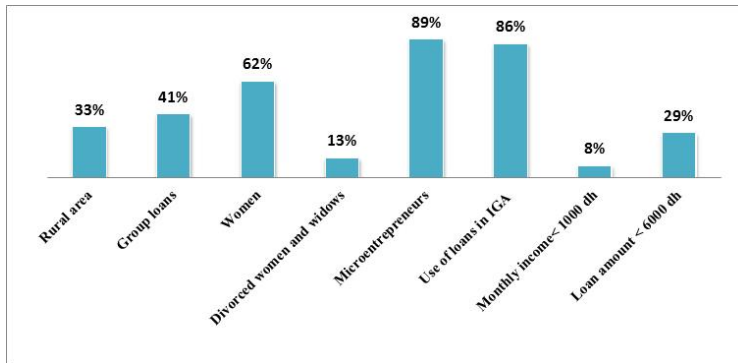


Figure 3: Distribution of surveyed clients (overall sample) according to depth criteria

Unlike depth, we noted an excellent performance with regard to cost. We found that large AMC's do not apply excessive pricing. The portfolio return, which reflects the effective interest rate paid by clients, is 26.27% in Al Amana and 26.77% in Attawfiq, do not exceed excessively the cost of portfolio (figure 4), which is very advantageous in terms of accessibility.

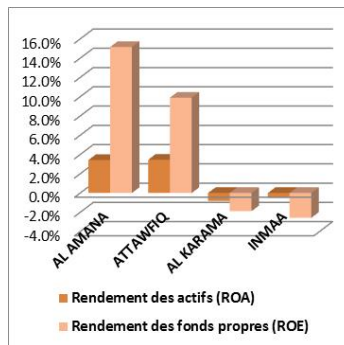


Figure 3: ROE and ROA

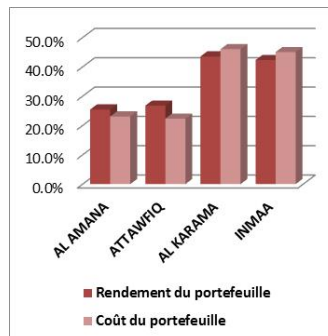


Figure 4: Portfolio return vs portfolio cost

In addition, it is important to note that 37% of surveyed clients believe that interest rates are fair and that for 50% of borrowers, it is the access to credit that imports and are completely indifferent to interest rates. In all cases, these AMC's efficiency and expenses

control allow them to offer competitive interest rates and affordable products, resulting in more customers and improved outreach without compromising profitability.

This is not the case for small AMCs. If they offer small loans (the average loan size is 2,261 DH in Al Karama and 3,587 in Inmaa), which is below the threshold of 5,959 DH (20% of GDP per capita), they apply very high interest rates. The portfolio yield in Al Karama is 43.55%, and 42.33% in Inmaa, which is about 60% higher than the large AMC (figure 4). Yet, this situation does not present a trade-off. This is due to those AMCs low efficiency and productivity. Small loans involve higher costs. The smaller the loan amounts, the higher the transaction costs. However, despite charging high interest rates, small AMCs are in deficit. A situation complicating fund raising and debt repayment, and impacting not only their growth and breath, but also their depth.

In fact, survey results show that these AMCs clients are not among the poorest (figure 3). We then conclude that the average loan size does not really reflect borrowers' level of poverty. On the other hand, these results are not consistent with small AMCs social missions, assuming that their main target is low-income populations (micro-entrepreneurs, rural areas, and women). Therefore, small AMCs face mission drift and a shift towards wealthier borrowers, which is explained by the high cost associated with poorest clients. Lack of control of these costs resulted in poor financial performance, which in turn influenced their depth. However, we suggest that, based on good governance performance, if these AMCs are able to control their expenses and be profitable, they should also be able to improve their outreach indicators in general, not only their depth; that is a balance between outreach and sustainability is not impossible.

In addition, we refer to the microfinance triangle suggested by Zeller and Meyer (2002) to explain the synergies that can exist between three objectives: outreach, financial sustainability, and impact. More specifically, continued financial sustainability encourages MFIs to be more responsive to their clients and invest in improving their products, operations, and outreach of their services. Thus, more economic advantage is generated for customers. In return, more positive impact allows MFIs to not only achieve good reimbursement rates but also attract new clients, thereby improving both outreach and financial sustainability. That is, improved financial performance translates into improved social performance and better social performance leads to improved financial performance.

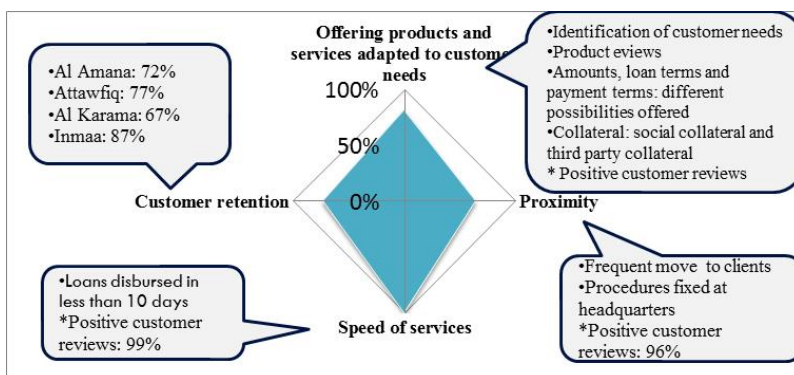


Figure 5: *Quality assessment at the sector level (results by criterion)*

Results also show that large AMC's perform better than small AMC's in terms of products and services quality (figure 5). However, survey results are generally positive. 73% of borrowers surveyed are satisfied with the amounts and loans terms, while more than 90% are satisfied with repayment amounts and payment terms frequency. 97% of clients are satisfied with the form of collateral and loans disbursement procedure (99%). 96% are satisfied with loan officers' efforts to adapt services to their needs, particularly the tolerated flexibility with regard to repayment terms. Finally, customer retention rates are average for large AMC's (72% in Al Amana and 77% in Attawfiq). It is low in Al Karama (67%); on the other hand, it is 87% in Inmaa, the highest rate. In terms of transparency, for more than 95% of borrowers, pricing information and recovery practices are clear and well explained. Similarly, as for over-indebtedness prevention, 85% of our total sample assured they had no difficulty in repaying their loans.

Concerning products and services diversity, the four AMC's performance is average (60.3%) mainly due to the lack of access to savings considered as an alternative service to credit. 80% of surveyed clients expressed their need for this type of service. It is nevertheless important to note that savings were only authorized from December 2012, and that this service is in the launch phase at Attawfiq. As for non-financial products offered by the AMC's, we could deduce that if they are sufficiently diversified, they are inaccessible (figure 6).

With regard to innovative products, we noted the efforts of the large AMC's to introduce money transfer, micro-assistance, domestic services and Low Income Banking services⁷, which resulted in good outcomes in terms of outreach and financial sustainability. On the other hand, our survey showed that these services must be supported by more appropriate and effective means to better explain and inform beneficiaries. For small AMC's, they do not offer this type of products. In sum, and given the good performance of large AMC's in terms of profitability, we once again suggest that they should be able to overcome these weaknesses by offering savings services tailored to the needs of their clients, as well as improving their non-financial and innovative services outreach.

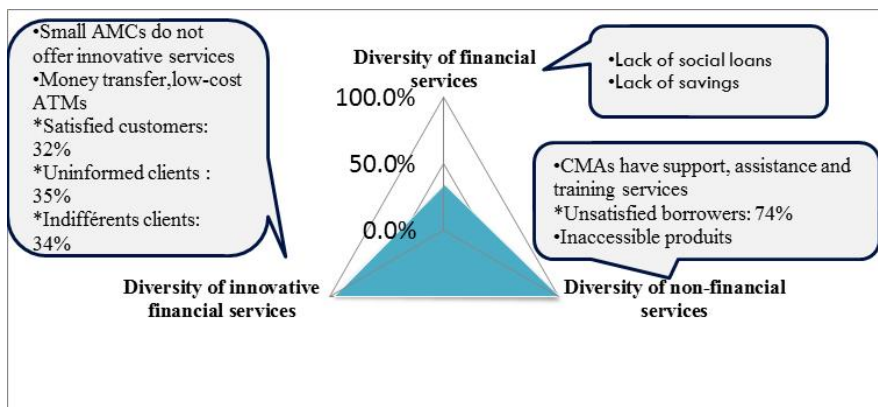


Figure 6: Scope assessment at the sector level (results by criterion)

⁷ LIB is an exclusive offer by Attawfiq. It is a package of banking products covering all basic services: account opening, secure electronic card, withdrawal and deposit without limitation for a flat cost of 5 DH.

Finally, we refer to governance of MFIs as a strategic stake in achieving a balance between the social mission and the business mission of MFIs. The effectiveness of a MFI lies in the effectiveness of its governance system, particularly in terms of strategic vision and objectives, operations procedures (lending and recovery), staff training and levels of competence, control and information system, and the ability to prevent and overcome crises. This is precisely what the loan delinquency crisis in Morocco has taught us. AMCs suffered from unsustainable growth due to poor governance systems, impacting their social and financial performance (Reille, 2009). They were able to cope with this crisis and strengthen their internal capacities, which resulted in a growth recovery in 2013 and an improvement in the quality of their portfolios.

8. Conclusion

Following this analysis, we could deduce that if large AMCs are more efficient in terms of sustainability, the balance between outreach and sustainability is not impossible. As for small AMCs, we found that they face a mission drift which is explained by the high cost associated with the poorest clients. However, a win-win outcome is not impossible, given the good performance of these AMCs in terms of governance. Therefore, the first hypothesis of our research is confirmed: positive links between PA, PF and PG; complementarity between outreach and sustainability.

However, legal and socio-economic environments and the level of poverty of each country represent an important issue in achieving outreach and sustainability. As a result, although the data set of the four studied AMCs provide a representative picture of the microfinance sector in Morocco, the results cannot be generalized to other contexts. The model of Armendáriz and Szafarz (2009) showed that there is a very fine line between mission drift and cross-subsidizing, which complicates the identification of a mission drift or a win-win outcome. Country-specific studies could therefore be useful to better understand the links between outreach and sustainability as well as the phenomenon of mission drift. Whence the interest of IPG to be standardized in order to allow its application in different contexts. However, the choice of indicators and criteria from the literature limits the elements of analysis. We realized that the discussions with AMCs managers and loan officers provided explanatory factors that enriched analysis. In addition, the clients' survey was necessary for a relevant study of the four AMCs. These limitations represent areas for improvement of IPG in order to obtain more complete and consistent results.

In sum, based on literature review, this study also finds that the high cost associated with the poorest clients can be a cause of mission drift and that the poorest tend to pay the most for credit outreach. This is what we noted in small AMCs as they charge very high interest rates, while income levels of surveyed borrowers indicate that they are not among the poorest, involving a shift towards wealthier clients. However, we suggest that mission drift does not represent a relevant concern in the case of these AMCs given their good performance in terms of governance. Improving profitability through cost reduction can help them reach the poorest people.

This study also supports the fact that the least socially engaged, regulated, or transformed MFIs can offset limited depth (client poverty level) with a large breadth (the total number

of clients served), a sustained length (offering services for an indefinite period), and a large scope (offering diversified products and services). This is the case for large AMCs which fulfill practically all prerequisites for their institutional transformation. However, we suggest that a win-win outcome is possible. The internal capacities of these AMCs, as well as their good financial performance, will allow them to improve their depth by investing more in remote areas. Thus, the possibility of serving large numbers of poor people through financially self-sustaining and profitable institutions should be supported rather than rejected. It should not be forgotten that the least poor (or wealthier) clients are as much excluded from the traditional banking sector as the poorest borrowers, and therefore targeting them is also important.

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Appendix

Outreach assessment

Outreach indicators	Score (%)				
	SECTOR	AL AMANA	ATTAWFIQ	AL KARAMA	INMAA
Intention	100	100	100	100	100
Explicit and well-defined mission	100	100	100	100	100
Breadth	98	100	100	50	25
Number of active clients	98	100	100	50	25
Depth	59	63	54	60	25
Tools for identifying and targeting poor and excluded populations	99	100	100	100	0
Criteria for identifying the level of poverty of clients	99	100	100	100	0
Targeting devices used to identify clients' poverty levels	99	100	100	100	0
Access to poor and excluded populations	42	38	50	33	13
Borrowers living with less than 10,492 DH / d (poverty line)	0	0	0	0	0
Female borrowers	71	50	100	100	50
Socially marginalized borrowers	0	0	0	0	0
Microentrepreneurs	96	100	100	0	0
Emprunteurs with group loans	71	50	100	100	25
Loans amounts < 6000 MAD	14	25	0	0	0
Tools for identifying and targeting poor and excluded areas	99	100	100	100	25
Criteria for identifying the level of poverty in the area of intervention (rural or urban)	99	100	100	100	0
Targeting devices used to verify the level of poverty in the area of intervention (rural or urban)	99	100	100	100	50
Access to poor and excluded areas	40	67	0	58	67
Borrowers in rural areas	57	100	0	25	50
Branches in rural areas	30	50	0	50	50
Branches in isolated areas (urban and rural)	32	50	0	100	100
Scope	60	55	70	35	30
Diversity (number and types) of financial services offered	35	25	50	25	17
Diversity (number and types) of financial services offered	100	100	100	100	100
Diversity (number and types) of innovative financial services	96	100	100	0	0
Quality	80	85	75	54	62
Products and services tailored to customer needs	83	88	78	56	56
Identification of customer needs	66	100	25	0	25
Customer reviews on products and services	99	100	100	100	25
Emergency loans	56	100	0	0	0
Deposit amounts	40	0	100	0	0
Amounts and terms of loans	100	100	100	100	100
Frequency and amounts of repayments	100	100	100	100	100
Form of collateral	99	100	100	75	100

Proximity	64	75	50	50	50
Speed of services	100	100	100	100	100
Customer retention	74	75	75	25	75
Customer retention rate	49	50	50	0	100
Identification of client exit reasons	98	100	100	50	50
Cost	100	100	100	100	100
Interest rate	100	100	100	100	100
Impact	92	100	83	100	0
Changing income and living conditions	99	100	100	100	0
Impact on microenterprises	99	100	100	100	0
Social capital empowerment	79	100	50	100	0
GLOBAL SCORE	72	76	70	59	41

Governance assessment

Governance Indicators	Score (%)				
	SECTEUR	AL AMANA	ATTAWFIQ	AL KARAMA	INMAA
Adaptation to legal status	98	100	100	50	50
Coherence between legal status and governance	98	100	100	50	50
Clear and shared vision and strategic (social and financial) objectives	95	100	88	100	88
Clear and explicit vision and strategic objectives	100	100	100	100	100
Vision and strategic objectives known and shared by all stakeholders	78	100	50	100	50
Formalization of the strategic vision in the statutes and the business plan	100	100	100	100	100
Transparent and efficient organization	89	88	91	87	77
Transparent and structured decision-making process	83	77	91	77	66
Implementation of structured HRM	83	83	83	85	79
Rules of Procedure	100	100	100	100	100
Recruitment process	100	100	100	100	75
Training plan	91	83	100	100	83
Staff assessment process / tool	100	100	100	100	100
Employee motivation tools	75	75	75	88	75
Staff turnover rate	16	25	0	25	100
Monitoring Employee Satisfaction	68	75	63	50	38
Implementation of structured financial management	92	93	93	86	71
Accounting procedures Manual	100	100	100	100	100
Cash Management Procedures	100	100	100	100	100
Purchasing Procedures	98	100	100	85	0
Management Control Procedures	75	75	75	65	100
Implementation of efficient lending and recovery operations	97	97	97	97	86
Lending Process	100	100	100	100	100
Repayment Terms	100	100	100	100	100
Recovery Practices	100	100	100	100	100
Claims Procedure	98	100	100	100	0
Transparency of product prices and conditions	88	88	88	88	88

Measures against over-indebtedness of customers	100	100	100	100	100
Effective control system	100	100	100	100	100
Chain of control clearly defined in the manual of procedures	100	100	100	100	100
Existence of an independent, competent, regular control service	100	100	100	100	100
Accessibility to reports (written documents following control)	100	100	100	100	100
Ability to prevent and overcome crises	100	100	100	100	100
Reliable and fast information system	99	100	100	88	38
Accessibility to reliable information	98	100	100	100	0
Quick access to comprehensive information at all levels of the institution	99	100	100	75	75
GLOBAL SCORE	90	89	91	88	77

Financial sustainability assessment

Financial sustainability indicators	Score (%)				
	SECTEUR	AL AMANA	ATTAWFIQ	AL KARAMA	INMAA
Self-sufficiency	98	100	100	50	0
Operational Self-Sufficiency Rate (OSS)	99	100	100	100	0
Financial self-sufficiency rate (FSS)	98	100	100	0	0
Profitability	90	100	83	0	0
Return on assets (ROA)	98	100	100	0	0
Return on equity (ROE)	75	100	50	0	0
Portfolio Returns	98	100	100	0	0
Portfolio Quality	65	33	100	67	67
Risk Portfolio PAR (30d)	100	100	100	100	100
Loan write-off ratio	46	0	100	0	0
Provisions ratio	48	0	100	100	100
Efficiency Indicators	98	100	100	0	0
Operating expenses ratio	98	100	100	0	0
Productivity Indicators	75	100	50	0	0
Loans by Credit Officer	75	100	50	0	0
GLOBAL SCORE	83	80	90	30	20