Banking in Maghreb, still a long way to go

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In Morocco, only 45 percent of the population has access to the most basic financial services. A new study finds out why.

IESE Prof. Javier Santomá and researcher Francesc Prior have been studying banking cultures in the developing world for some time. They know that financial institutions play a fundamental role in the development of any country, and that, if banks do not fulfill their role, things will barely improve.

Having previously analyzed the situation in sub-Saharan Africa, Santomá and Prior turn their attention to the Maghreb region. While the financial culture there is more widespread than in the majority of Africa, it is still a long way from the saturation found in the developed world. There remains much to do, as the study “Acceso a servicios financieros en el Magreb” (“Access to Financial Services in Maghreb”) demonstrates.

What first catches the eye is the problem in Tunisia and Morocco of regulation. Both countries impose a maximum interest rate on credit given by official entities. The intention may be noble, but in practice it diminishes potential take-up because many service providers would never cover their expenses.

At the other end of the spectrum are Moroccan associations that grant microcredits at rates of between 20 percent and 30 percent, yet this has not reduced demand. What's more, there has even been some development. But continuity is not guaranteed, given that they are not allowed to receive deposits.

The situation in Tunisia is worse, where microcredits are controlled by a maximum interest rate of 5 percent. In addition, the sector is the exclusive preserve of Banque Tunisienne de la

Solidarité.

In 2001, Algeria and Egypt chose to eliminate capped valuations, but they have other problems.

There is something, however, that unites the four countries: none protects creditors' rights. In this respect, the World Bank gives Algeria, Tunisia and Morocco a rating of 3 out of 10, and Egypt a dismal 1 out of 10. The OECD average is 6.3. Clearly, this is not the best incentive for authorizing loans.

The limited level of access to credit in Maghreb can also be explained by a question of method. Banking entities study risk in a way that is unsuitable for the informal character of the economies in which they operate, since they only take into account documented income.

Moreover, there are no head offices to compile all the risk information about individuals' and companies' credit records, and only major operations are archived. In practice, only 0.2 percent of the population in Algeria, 1.5 percent in Egypt, 2.3 percent in Morocco and 11.6 percent in Tunisia have credit records in the public head offices of these countries.

Letters of hope

Another problem is the lack of distribution network capillarity. Even in the best of cases, there are fewer than 10 offices and eight cashiers for every 100,000 people. It is here, then, that the postal service - an inheritance of Maghreb's French colonial past - can play its part. It is the widest-reaching network of any kind that exists in these countries. In all the countries studied, the postal service is the leader in savings deposits and remittance distribution.

Unfortunately, its enormous potential is being wasted. Postal entities do not have the legal status to issue loans, so microcredits cannot be generated. Prior and Santomá believe that if this problem were solved, it would be a giant step toward developing a banking culture in Maghreb. The postal service is in direct contact with one of the most stable sources of income that these countries have: remittances and money transfers.

The phenomenon of remittances is one of the factors that has most contributed to the economic development of the region, and in many cases accounts for GNP growth. In 2004, Morocco received approximately $4.2 million, 8.4 percent of its GDP; Egypt was next with $3.3 million, representing 4.19 percent of its GDP. Remittances also positively affect checking and current accounts and interest rat
es, contributing to Maghreb's macroeconomic stabilization.

The impact of money transfers stands out even more when measured in relation to citizens' income, and in particular, to the revenue per capita among the most disadvantaged classes. In Morocco, remittances represent more than 27 percent of the income of the poorest members of society; in Tunisia it is almost 18 percent; in Algeria and Egypt this percentage approaches 10 percent.

Based on this, the authors implore financial entities to include remittances when analyzing the risk associated with possible credit. Just like any other revenue that comes from the so-called informal economy, it is a part of any individual's payment capacity.

The road to liberalization

Maghreb's official financial sectors are characterized by low profitability and high rates of capitalization, liquidity and bad debt. All the countries have started privatizing the relevant entities.

The latest country to follow this route, Algeria, still has a public banking system that controls more than 90 percent of assets and bank deposits.

Egypt privatized the Bank of Alexandria in 2006, and now the public sector controls “only” 43.7 percent of the country's bank assets. Nevertheless, Egyptian authorities feel obliged to rescue it: at the moment, bank profits are extremely low (ROA 0.2 percent) as a result of too high a rate of delinquency (24.2 percent), often caused by corruption.

Tunisia began privatization in 2001, and private banking has already overtaken public banking. However, its commercial banking system also suffers from low profitability (ROA 0.6 percent) and high delinquency (20 percent). Four years after the crisis of 2002, reforms were adopted to try to strengthen control of the risks associated with credit.

Finally, Morocco has advanced most along the road to liberalization. Its financial system scarcely has any public participation. That said, it is also true that the Moroccan royal family has shares in the leading private bank in the country, ATW, which controls the biggest cooperative bank of Morocco.

Better practices

The authors believe that, of all the models in the four countries, Morocco's microcrediting is the best. The sector is highly specialized and also collaborates with the official financial sector.

However, as has been said, microfinancers cannot receive deposits. There is a lot still to be done.

Prior and Santomá believe that the solution is a joint model of microcredit distribution and microdeposits based on electronic means of payment. This way, a synergy would be promoted between microfinancers and banking institutions.

The former would have access to an infrastructure powerful enough to create a risk head office, improving product ranges and managing remittances better. The banking institutions would gain access to a much wider client base, improving levels of remittance and deposit receipt. It would be a win-win situation, which would ultimately benefit the countries, improving levels of banking penetration and the financial culture, say the authors.

Perhaps then the banks would genuinely fulfill their role. The high levels of liquidity - which at present are not transformed into credit, one of the biggest obstacles to economic growth in Maghreb - would finally be history.

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