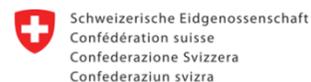


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BANK AL - MAGHRIB

Enhancing Financial Capability and Inclusion in Morocco

A Demand-Side Assessment

December 2014



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Abbreviations and Acronyms

ABB	Al Barid Bank
AFI	Alliance for Financial Inclusion
BAM	Bank Al-Maghrib
CAPI	Computer-Assisted Personal Interview
CGAP	Consultative Group to Assist the Poor
EA	Enumeration Areas
EEC	Étude Économique Conseil
FCP	Fond Commun De Placement
FCS	Financial Capability Survey
HCP	National Statistics Office
MAD	Moroccan Dirham
MENA	Middle East and North Africa Region
MFI s	Microfinance Organizations
OECD	Organisation for Economic Co-operation and Development
OPCVM	Organisme de Placement Collectif en Valeurs Mobilières
PCA	Principal Component Analysis
PPS	Probability Proportional to Size
PSUs	Primary Sampling Units
RTF	Russian Financial Literacy and Education Trust Fund
SICAV	Société D'Investissement à Capital Variable

Preface

Financial capability, as defined by the World Bank and in this report, is the internal capacity to act in one's best financial interest, given socioeconomic and environmental conditions. It encompasses knowledge (literacy), attitudes, skills and behavior of consumers with respect to understanding, selecting, and using financial services, and the ability to access financial services that fit their needs (World Bank 2013d).

Financial capability has become a policy priority for policy makers seeking to promote beneficial financial inclusion and to ensure financial stability and functioning financial markets. Today people are required to take increasing responsibility for managing a variety of risks over the life cycle. People who make sound financial decisions and who effectively interact with financial service providers are more likely to achieve their financial goals, hedge against financial and economic risks, improve their household's welfare, and support economic growth. Boosting financial capability has therefore emerged as a policy objective that complements governments' financial inclusion and consumer protection agendas. To this end, policy makers are increasingly using surveys as diagnostic tools to identify financial capability areas that need improvement and vulnerable segments of the population which could be targeted with specific interventions.

In response to a request of the Bank Al Maghrib (BAM), the World Bank has implemented a financial capability survey. Financial inclusion, financial literacy and consumer protection are high on the agenda of the BAM and the Ministry of Finance. The BAM has in particular implemented many initiatives in this area in recent years (from the promotion of a modern credit bureau helping prevent over-indebtedness to specific measures designed to promote transparency in bank services, e.g. minimum disclosure requirements following standardized templates); BAM is keen to initiate the preparation of a national financial capability strategy (an initiative also supported by the Ministry of Finance). The proposed survey constitutes a key diagnostic tool to prepare such a strategy, to set quantifiable and concrete targets, and to assess the effectiveness of future financial capability enhancing programs. So far, no financial capability surveys have been conducted in Morocco and it is one of the very first such experiences in the Middle East and North Africa (MENA) region.

The key findings and recommendations presented in this report cover 4 main areas: 1. Financial Inclusion, 2. Financial Capability, 3. Relationship between Financial Inclusion and Capability, and 4. Financial Consumer Protection. The remaining chapters are structured as follows. Chapter 1 explores the financial inclusion landscape in Morocco. Chapter 2 gives an overview of Moroccans' levels of financial capability, in particular about their financial knowledge, attitudes and behaviors. The relationship between financial capability and inclusion is discussed in chapter 3. The last chapter investigates if the products which financially included individuals use are effectively meeting their needs.

Key Findings

How Financially Included are Moroccans?



41% of Moroccan adults have never used any formal financial products or services.

Adults without a formal account report lack of money, lack of need, and accounts being expensive as the main reasons.



53% adults living in urban areas report using a formal financial product compared to 19% of their rural counterparts. Men are 20 percentage points more likely than women to be financial included.



53% of Moroccan adults have used banking products, 41% have used insurance products, 18% Islamic finance products, and 13% products from microfinance institutions – MFIs.



How Financially Capable are Moroccans?

On average, adults correctly answered 3 out of 7 questions assessing their basic numeracy skills and knowledge of financial concepts.



On average, adults are familiar with 4.3 different financial products.



SIMPLE DIVISION



90% were able to perform simple divisions, and 51% understand the purpose of insurance. Only 19% are familiar with the concept of risk diversification.

INSURANCE



Respondents know about products offered by banks (90%), by savings and credit self-help groups (89%), MFIs (68%), insurers (45%), and brokerage houses (16%).

Respondents scored low in behaviours related to long-term financial decision-making, and showed strengths in other areas:

- Choosing financial products (89)
- Farsightedness (78)
- Coping with unexpected shocks (67)
- Living within means (57)
- Monitoring expenses (54)
- Not overspending (38)
- Budgeting (38)
- Providing for old age expenses (6)

How Financially Protected are Moroccans?

25% of respondents experienced a conflict with a financial service provider. Less than half of them (43%) took actions to try to solve it.



To redress a dispute, regulators and legal courts were barely sought.

- "I don't know who I can approach for help"
- "Government authorities do not work properly"
- "Financial organizations are too powerful"

The main three causes for inertia are related to the perception that financial providers are too powerful (69%), that government authorities do not work properly (62%) or the lack of awareness of the authorities to approach (52%).

Summary of Key Recommendations

	Recommendations	Responsible	Term ²
Financial Inclusion	Continue to encourage competition among financial service providers and lower barriers for new players to enter the market	BAM	MT
	Assess the effectiveness of requiring banks to introduce no-frills accounts	BAM	ST
	Promote the sustainable provision of a wide range of financial services for the poor	BAM	MT
	Allowing and advocating for branchless banking	BAM	LT
Financial Capability	Refine the financial education strategy and action plan to address the key challenges revealed by this financial capability survey	Foundation for Financial Education	ST
	Use a wide range of programs, including mass media, comic books, trusted intermediaries, etc., to enhance financial knowledge, financial product awareness, and change attitudes and behavior	BAM, Foundation for Financial Education, Ministry of Economy and Finance, industry associations, consumer associations, and other stakeholders	MT
	Combine financial capability-enhancing programs with available financial products, which most people can access, to promote responsible participations in the financial markets	BAM, industry associations, market participants	MT
	Share this survey's results with financial institutions to develop products with design features tailored to help their clients to meet their long-term savings goals	BAM	ST
	Explore opportunities for school-based financial education	BAM, Ministry of Education, Ministry of Economy and Finance, Foundation for Financial Education	LT
Financial Consumer Protection	Require Key Fact Statements for financial products and test consumer understanding of disclosure material	BAM	ST
	Require financial institutions to disclose in all pre-contractual and contractual disclosure formats detailed information on the internal as well as relevant external dispute resolution mechanisms	BAM	ST
	Analyze data on consumer complaints submitted by financial institutions periodically and use this information as input to supervisory and regulatory activities	BAM	ST
	Revisit the existing formal system of redress in order to quickly and effectively resolve disputes unsolved by financial providers through internal complaint procedures	BAM	MT

² ST, short term, indicates action can be undertaken in 0-6 months. MT, medium term, indicates 6 months-1 year. LT, long term, indicates 1+ years

Executive Summary

Financial Inclusion

Approximately 41 percent of Moroccan adults use a formal financial product or service. This places Morocco well above the average level of financial inclusion in the Middle East and North Africa, as well as above the average level in lower middle income countries (18 percent and 28 percent, respectively). However, within Morocco there are sharp variations in the use of formal financial services across different population segments. Men are twenty percentage points more likely than women to report using a formal financial product, and while 61 percent of adults in the top quartile of the income distribution are financially included, just 25 percent of those in the bottom quartile percent fall into the same category. Moroccans living in urban areas are also significantly more likely to be financially included: 53 percent of these adults report using a formal financial product, compared to 19 percent of their rural counterparts.

Bank accounts are the most commonly used financial product, with 28 percent of adults reporting having a deposit or checking account. However, among women this value falls to 21 percent and among rural residents and those in lowest quartile of the income distribution just 10 percent have a bank account.

Just over one in ten Moroccan adults reports having formal credit from a bank, credit card company or consumer credit and a similar proportion report using money transfer services. Fewer than three percent of Moroccans report having a mortgage or using an investment or pension product. As with overall patterns of financial inclusion, men, richer adults, and those living in urban areas report higher usage of these products.

Microfinance institutions (MFIs) currently reach about five percent of the adult population, a finding consistent with supply-side data. Despite this relatively low penetration rate, there is high awareness of microfinance institutions: 68 percent of Moroccans report being familiar with services offered by MFIs. Unlike credit from banks, lower-income adults are more likely than their higher-income counterparts to report having credit from an MFI. Clients of MFIs are also unlikely to use banks. Just one percent of adults with an outstanding loan from a MFI report also having credit from a bank, and only eight percent of these adults have a savings or deposit account with a bank.

Insurance is used by around 24 percent of the adult population in Morocco which is mainly due to mandatory insurance classes. The vast majority of insurance holders (over 90 percent) report using a form of mandatory insurance including motor third party liability. Just two percent of the adult population reports using self-initiative take up types of insurance, such as private health or life insurance.

18 percent of Moroccan adults report that they use a Shari’ah compliant³ financial product with murabaha being the most commonly cited product. The popularity of the Murabaha product in Morocco is consistent with research that estimates that 70 to 80 percent of commercial Islamic lending products are Murabaha -based. Those not using Shari’ah compliant financial products generally cite lack of need, access, and knowledge as the main reasons. Doubts about authenticity do not appear to be a main obstacle to use of Shari’ah compliant financial products, with only 10 percent of non-users citing this reason.

The approximately 13 million financially excluded adults – those who use no formal financial products or services - in Morocco are disproportionately female, poor, and living in rural areas. Among these adults, the most commonly reported obstacle to formal account ownership is lack of enough money to use one (37 percent), followed by a lack of need for a formal account (27 percent), and the high costs associated with owning and using a formal account (24 percent). Many adults – particularly those not participating in the formal financial system – using informal methods to save and borrow: 33 percent of adults report using only informal methods to save, and 10 percent of adults rely exclusively on informal lenders (such as moneylenders, family, or friends) to borrow. However, 49 percent of adults do not save at all and 72 percent of adults do not borrow.

Recommendations

In light of 24 percent of the unbanked citing high costs as main reason for not having a bank account, BAM should continue to encourage competition among financial service providers and lower barriers for new players to enter the market. Recent research indicates that high costs of opening and maintaining accounts are associated with a lack of competition (Demirguc-Kunt and Klapper 2012) Allowing for robust competition among financial service providers enables the potential of innovative technologies to expand the range of available products and lower their cost.

Research should be conducted to understand the effectiveness of BAM’s efforts to require banks to offer cheap and convenient no-frills accounts and other basic financial services. Twenty-four percent of unbanked respondents report that high costs are a main barrier to formal accounts, suggesting that the costs associated with these accounts remain prohibitively high for a significant portion of the population or that the availability of no-frills accounts are not widely known. International experience in countries such as India or the Philippines shows that the introduction of no-frills accounts must be complemented with public awareness campaigns to mitigate the risk that the uptake of these products may be very low. These financial education initiatives must be aimed at fostering the understanding and the demand for such

³ Due to a number of caveats the measured penetration rate of Islamic Finance products should be considered as an upper bound estimate for the proportion of Moroccan adults who are using a Shari’ah compliant product.

fundamental financial products, in particular among the poorest segments of the population including women and rural dwellers. Given that empirical evidence provides robust justification for policies that encourage the provision of basic accounts for savings and payments, it would be worthwhile to conduct research in order to understand the effectiveness of this policy in Morocco and the degree to which it has lowered barriers to access for underserved populations.

Promote the sustainable provision of a wide range of financial services for the poor, rural dwellers, and women which have been identified through this survey as underserved segments of the population. Despite banks' efforts to extend products and services to low-income clients, the survey data indicates a lack of suitable products addressing the needs of large parts of the population. Given that insurance is a useful instrument to smooth seasonal income fluctuations faced by a substantial fraction of rural residents, consideration could be given to promoting innovation in the development of micro-insurance products, such as those aimed at rural and agricultural sectors (e.g. combined weather and area yield indexed crop insurance). With only two percent of the adult population using self-initiative take up types of insurance and one third living in rural areas, an enormous business potential remains to be tapped by the insurers and other providers. Other products whose provision should be promoted are savings products which help Moroccans to reduce their vulnerability to periodic economic and social shocks. While the private sector is likely to play a key role in developing more suited products for larger parts of the population, the government's role would be to promote innovations through incentives and developing the enabling regulatory framework.

Allowing, and advocating for branchless banking offers the potential to further expand the coverage of financial services and to reach the poor, rural dwellers, and women. Mobile or agent banking can dramatically reduce the costs of delivering financial services, in particular in low-density and remote areas. Moreover, it can not only reduce explicit costs for those 24 percent of the financially excluded adults who reported not having an account because they are too expensive but also implicit costs such as the opportunity cost of time lost to traveling and waiting for those 37 percent of the adult population who indicated lack of sufficient income as a main barrier to use a formal account. Policies fostering the further development of these low-cost technologies such as the development of an enabling regulatory framework appear to be a promising policy response to lift barriers in accessing formal financial services for people living on low incomes and in rural and remote locations, as well as for women who tend to be more adoptive to technology than their male counterparts as shown by international evidence.

Moreover, initiatives to bring women into the financial sector need to reveal and take into account, the substantial differences which can exist between men and women in their access, needs and preferences of financial services. For instance, evidence from Indonesia shows that even though men and women are equally likely to have savings accounts, males are more likely to be motivated to have an account in order to obtain a formal loan, whereas women are more likely to be motivated to have an account to save for future needs. In relation to insurance, Indonesian women are shown to purchase more often education insurance as compared to their male counterparts who prefer life insurance, and to a less degree, asset insurance.

Financial Capability

The survey results suggest that knowledge levels of basic financial concepts are a challenge in Morocco, as well as in many countries across different income levels. On average, Moroccan respondents were able to correctly answer 3 out of 7 questions on financial literacy. While 90 percent of the sample was able to perform simple divisions, around 40 percent of the survey participants understand how inflation affects their savings, and a fifth seems to be comfortable in solving slightly more difficult numeracy tasks in order to identify better bargains. Compared to respondents from 22 countries, for most financial literacy measures survey participants in Morocco perform near the middle of the pack, except in terms of their understanding of what inflation is, an area in which they lack behind respondents of most other countries. Vulnerable groups who provided 2 or less correct responses to the financial literacy questions are more likely to live on the lowest incomes, to have low educational attainment, and they are less likely to be formally employed.

As far as the average number of financial products known is concerned, respondents are familiar with products provided by 4.3 different types of providers. The main products Moroccans are familiar with are offered by banks (90 percent), followed by products offered by savings and credit self-help groups (89 percent), MFIs (68 percent), and money transfer operators (65 percent). Insurance products are known by less than half of the sample (45 percent). Respondents who are only aware of two or less providers and their products tend to be young, never finished primary school, and are out of the labor force. For instance, while those with highest educational attainment indicated to be familiar with 4.5 providers and their products, those with no schooling demonstrated awareness of 3.5 providers and the products they offer. A more concerning finding is, that only 20 percent of Moroccans living in rural areas are familiar with the services offered by insurance companies, although insurance is a useful instrument to smooth seasonal income fluctuations faced by a substantial proportion of rural residents.

An international comparison shows that Moroccans are mastering the task of choosing financial products and tend to be far-sighted, but they are among the most challenged with respect to managing their day-to-day finances and providing for old age expenses. Moroccans outperform respondents from seven other countries in their propensity to think about the future and in the area of choosing financial products. However, in light of the aforementioned difficulties respondents faced in solving simple numeracy tasks in order to identify better bargains, it may be questionable if people end up selecting those products which meet their needs best. The comparison to survey participants in other countries further shows, that Moroccans struggle with their daily money management and achieve lower scores for their attitudes towards savings. The most concerning finding is, however, that Moroccans' farsightedness does not translate into proper action and that they lack far behind survey participants in other countries in their ability to make provisions

for old age expenses.

Important characteristics which are found to be strongly associated with lower scores in a number of financial capability areas are living on low incomes and in rural environments, as well as not having learned sound financial habits from a young age. Compared to urban dwellers, respondents who live in rural habitats tend to be more challenged in terms of budgeting, refraining from overspending, and monitoring their expenses. Low income populations, on the other hand, seem to have less financial control and struggle more than high income earners in setting up a budget and sticking to it and in their ability to cope with unforeseen events, resulting in a difference of 35 and 15 points in their budgeting and planning for unexpected events scores. Moreover, starting early pays off since having saved as a child correlates with a higher ability to budget, to live within means, to refrain from overspending, and to cover for unexpected expenses.

Recommendations

It is suggested to refine the financial education strategy and action plan developed by the newly established 'foundation for financial education' to address the challenges listed in this report. In order to ensure that scarce resources are used in the most efficient way, prioritization of certain financial capability enhancing programs is essential. Such priorities could be based on a number of criteria, including i) the need, ii) desired and expected impacts, iii) costs, iv) opportunities to scale up and v) leverage on existing programs.

In light of overall low financial knowledge and product awareness levels, harnessing the potential of mass media campaigns to provide information about basic financial concepts and key features of financial products may be an effective means to target least financially literate and hard-to-reach populations. The survey results suggest that in Morocco TV usage is almost universal, even among those at the bottom of the pyramid. As a result TV is appears to be an effective channel to reach out to remote populations and those who are the least familiar with financial concepts and products (see Box 2). Particular areas of focus for public awareness campaigns include: (i) the meaning of simple and compound interest, (ii) the key benefits, features, and risks of basic retail products such as (no-frills) savings accounts, consumer loans, and mortgages. Awareness campaigns can also be used to (iii) raise rural dwellers' awareness of the purpose of insurance products which would allow them to smooth their seasonal income fluctuations.

In order to reach the adult target audience and to boost their ability to manage day-to-day finances and to ensure that their far-sightedness translates into proper long-term actions, innovative and interactive measures, and edutainment in particular, should be considered. The field of behavioral economics has documented a plethora of behavioral biases which can prevent people from translating their knowledge into action. For instance, people tend to be biased towards the status quo and to choose the

default option. They may also suffer from self-control issues, procrastination, overconfidence, or systematically underestimate the time to complete tasks (Buehler et al 2002). These biases may explain why Moroccans' farsightedness does not translate into proper long-term decisions-making and why they are more challenged in providing for old age expenses than survey participants in other countries. Recent research has shown that innovation on delivery matters for inducing and sustaining behavioral change. Conveying financial messages through innovative ways such as using popular TV soap operas, films, videos or radio programs can be quite effective, not only in improving knowledge but also in altering behavior (Berg and Zia 2013, Di Maro et al 2014). Edutainment programs are also presumed to be much more effective if messages are delivered in an engaging and entertaining manner through appealing stories that stick to memories, and if they are repeated and reinforced over time. For instance, in Kenya, a popular television drama, 'Makutano Junction', incorporated financial education messages into some of its stories. These messages aim to encourage people to save regularly or to open a bank account, rather than to keep money under a mattress. Other examples of the use of entertainment education for finance are 'Scandal!' in South Africa or 'Mucho Corazon' in Mexico. As with other soap operas, people watch these edutainment dramas because they identify with the characters and enjoy the stories; but in the course of watching the shows, they benefit from the financial capability enhancing messages.

Integrating financial capability-enhancing initiatives into existing programs in Morocco that offer cash incomes could provide a huge opportunity for improving long-term financial behaviors of beneficiaries, in particular as the duration of these programs increases. Around the world conditional cash transfers have been shown to affect people's investments in health and education (see Benhassine et al. 2014). The scaling-up of social cash transfers in Morocco such as, for instance the Tayssir⁴ program, may therefore provide a good opportunity for enhancing the ability of beneficiaries and their families to manage their daily finances and to make provisions for old age expenses, if financial education can be integrated. As the duration of these programs increases the more promising their impact may be in terms of sustaining long-term behavioral change. Likewise, public works programs that are implemented by the Moroccan government may provide another excellent avenue for reaching out to vulnerable groups identified in this report and to close financial knowledge gaps and promote desired behaviors.

In the medium to long-term the provision of financial education from an early age should be encouraged as the survey results suggest that starting early can have value. Opportunities of school-based financial education programs need to be explored, as basic principles of financial capability such as budgeting, separating needs from wants to be able to refrain from overspending, as well as savings or making provisions for old age should be acquired at a young age. If people form sound habits on how to manage their money from a young age, they are more likely to adhere to them throughout their lives. Even though mixed international evidence exists on the effectiveness of school-based financial education programs on changing student's behaviors, there are lessons learned from other countries which have implemented such programs. Success has been observed, when providing financial education in ways

⁴ The Tayssir cash transfer program is a two year pilot designed to increase student participation in primary school.

which students find relevant to their lives either currently or in the near future, and if it is interactive. High-quality material or textbooks are therefore required, and teachers need to be well-trained on the content and techniques. In addition, as existing curricula are already saturated, it is advisable to integrate financial education into a variety of existing subjects including math, economics, or social studies rather than adding a new subject into the curriculum. In case resources to train teachers and to develop and provide teaching materials are scarce, it may be best to focus, at least at the onset, on incorporating financial education into one or two subjects over three or four consecutive academic semesters.

Relationship between Financial Inclusion and Capability

Moroccans who save and borrow from formal sources are more aware of various financial institutions and their products than those who tap into informal sources, or those who do not save or borrow at all. If formal financial providers offer services of higher quality, this pattern may suggest that Moroccan respondents with more information about the financial sector, select better products and institutions than those with less information.

Whereas Moroccans without formal financial products are less likely to know about the services offered by formal financial institutions, their awareness levels of financial concepts are comparable to those of users of financial products and services. On the one hand, this result suggests that a substantial proportion of Moroccans that is not being reached by financial products has a similar understanding of financial concepts as respondents with established relations with financial institutions. On the other hand, it suggests that both financially excluded Moroccans as well as those who are included deserve policy attention. In order for financial products to provide maximum benefits, their users need to know and understand how to use them which suggests a stronger role for financial institutions in providing financial education programs to their clients.

In contrast to the patterns observed for financial awareness, in Morocco there are no substantial differences in financial behaviors and attitudes of respondents with and without formal financial products. This finding suggests that both formally included and excluded segments experience difficulties with respect to managing their day-to-day finances and planning for old age expenses.

Recommendations

In order to enable financially included Moroccans to benefit from the products they use, financial knowledge and capability-enhancing programs could be combined with available financial products that most people can access. Financial education programs could be tied to existing formal financial products most people can access and use such as at the time when they open a bank account, take out a loan, or conclude a mandatory insurance policy such as a motor third party liability. Moments like these are further examples of so called teachable moments, which are times in people's life when they are more likely to be receptive to new information. These programs should not only help to close existing gaps in their customers' understanding of financial concepts but inform about the need to build up savings cushions for unexpected financial shocks and old age expenses. Rural and low income populations could in addition be informed about how to best set up a budget and to monitor their expenses and could potentially be

provided with mobile phones based personal finance tools, such as 'Juntos Finanzas'. It needs to be ensured, however, that all educational materials be informative, clear, impartial, and free from marketing.

BAM may consider sharing the results of this survey widely with different financial service providers to potentially develop products with design features tailored to help their clients and underserved segments of the population to meet their long-term savings goals. Since the large majority of the population seems to struggle with daily budget management and long-term financial planning, it could make good business sense for financial service providers to develop products which meet the needs of their clients and underserved populations. For instance, they could develop micro-pension products or savings products with design features that help people to meet their long-term savings goals, such as commitment savings account or labeled accounts. The former consists of accounts where a certain amount of funds is deposited and access to cash is relinquished for a period of time or until a goal has been achieved. The latter describes accounts created with explicit savings goals, such as the establishment or expansion of a business, a car purchase, housing, or education (World Bank 2013a).

Financial Consumer Protection

The survey results suggest that banks and their products are less able to meet the needs of their clients as compared to six other types of providers and the products they offer. When respondents were asked if they are satisfied with the financial products they use, the highest satisfaction rates are achieved by savings and credit self-help groups, money transfer operators, money exchange offices, and MFIs, which are viewed as meeting the needs of around 70 percent of their client base. Only 43 percent of banks' clients reported that they were satisfied with their products which is a concerning finding given that bank products are the most commonly used products.

Although a substantial proportion of respondents (25 percent) experienced a financial service provider conflict, the majority did not try to solve perceived conflicts they encountered. The incidence rate of reported conflicts with financial institutions is much higher in Morocco than in the few countries for which a comparable indicator is available. Nevertheless, less than half of those Moroccans who faced a dispute (43 percent) took actions to try to solve it. Women and rural dwellers were more likely than the rest of the population to have faced a financial service provider conflict.

In terms of actions taken in the event of a dispute, redress systems such as the respective regulatory government agency or legal courts were not sought at all by those who experienced a dispute. The most common actions taken to try to resolve disputes were to approach the service provider through friends and family (69 percent), to stop using the services before the contract expired (50 percent), or to approach the service provider through community elders (35 percent). The appropriate government authority and legal courts were only sought as redress systems in 1 percent of all conflict cases. More than two thirds of those who did not take any actions to solve a dispute reported as main reason for their inertia that they perceived financial institutions as being too powerful. Around 62 percent indicated that they think the government authorities do not work properly, followed by 52 percent who were not aware of any government agencies they can approach for help.

Recommendations

These findings highlight that financial education efforts need to be complemented by measures to strengthen the financial consumer protection framework, including regulations in the area of consumer disclosure. Such measures would serve to level the playing field between suppliers and consumers of financial services. It needs to be ensured that consumers are provided with sufficient information to allow them to select financial products that are the most affordable and suitable. In line with the recommendations of the World Bank's Good Practices for Financial Consumer Protection, financial

service providers should therefore be required to provide a standardized 'key fact statement' that explains in plain language the key terms and conditions for each product (see World Bank 2012). Despite providing information on the effective annual percentage rate, monthly installments, the commission fee, etc., the key fact statement could also include options and contacts for dispute resolution. Prior to its launch, it would be beneficial to undertake consumer testing of key fact statements in order to ensure that the presented information is properly understood by consumers and that the format entails all required information.

Moreover, financial service providers should be required to inform their clients about their right to complain and about their complaints handling procedures. Legal or regulatory provisions should require financial institutions to provide customers with information on internal complaints handling procedures (including contact information and time limits). This information should not only be disclosed in their products' terms and conditions but also be visibly posted in branches and online. In addition, customers should be informed about formal redress systems such as BAM or legal courts to increase low awareness levels of government agencies which can be approached for help in the event of a dispute with a financial service provider.

Given the high rate of reported conflicts with financial institutions, BAM should analyze consumer complaints statistics submitted by banks and other financial service providers and use this information as inputs to their supervisory and regulatory activities. All financial institutions and banks in particular, should be obliged to share their complaints data with BAM. Based on the analysis of the consumer complaints and inquiries, BAM could propose guidelines, instructions or conduct public awareness campaigns that address the main problems identified in such analysis. For instance, BAM may issue case studies based on real complaints that would explain in plain language particular complaints, how they were dealt with and why. Such case studies might be published on BAM's website, in local newspapers and/or disseminated through different alternative channels including local government structures and communities.

To gain additional insights into why banks and their products seem to satisfy their clientele less than other type of providers it is suggested to conduct further research. Mystery shopping can be a very powerful tool to determine the quality and quantity of information consumers receive, and if both vary pending on the perceptions sales staff have of different types of consumers. Focus group discussions with consumers of bank services are another effective research technique which helps to delineate attitudes, motivations, and opinions of the participants regarding the most important issues and concerns they have with bank services and products.

It is further recommended that BAM considers re-visiting its existing formal system of redress in order to quickly and effectively resolve disputes that are not resolved by financial providers' internal complaints procedures. Given the fact that more than 60 percent of those who reportedly encountered a conflict did not try to solve it because they think the government agencies do not function properly, it appears to be critical to make formal redress systems more user-friendly and relevant for those clients who experienced a conflict with a financial service provider. It is also crucial to explain the role BAM plays in market conduct supervision and consumer protection.

Background on the Morocco Survey

The financial capability questionnaire used for this survey has been extensively tested in the context of low- and middle income countries. The survey instrument used is based on a questionnaire developed with support by the Russia Financial Literacy and Education Trust Fund (RTF) and is tailored to measure financial capability in low and middle income countries, although it can also be used in high income countries. Extensive qualitative research techniques were used to develop this survey instrument, including about 70 focus groups and more than 200 cognitive interviews in eight countries to identify the concepts that are relevant in low- and middle-income settings, and to test and adapt the questions to ensure that they are well understood and meaningful across income and education levels. The instrument is currently used or planned to be used in 14 countries in Latin America, Africa, Middle East and East Asia and the Pacific.

The survey instrument used allows financial capability, financial inclusion, and consumer protection issues to be assessed and measured. Financial capability is measured by knowledge of financial concepts and products, and by attitudes, skills and behavior related to day-to-day money management, planning for the future, choosing financial products and staying informed. In order to jointly analyze financial capability and inclusion, the survey instrument captures information on usage of different kind of financial products and providers. The financial consumer protection section gathers information on incidence of conflicts with financial service providers and levels of satisfaction with financial products offered by different financial institutions. The survey instrument has been further customized to the policy priorities of BAM, through adding specific questions, for example relating to usage of Shari'ah compliant financial products and services and deposit insurance awareness.

The Morocco survey is nationally representative of the financially active population and comprises a total sample of 3,000 adults. To fulfill the requirement of a scientifically sound survey which allows inferences to the whole universe of financially active adults in Morocco, probability sampling techniques were used to select a sample of 3,000 adults. Thereby, the most recent 2004 Morocco Census of Population and Housing, kindly provided by the national statistics office (HCP), was used as a sampling frame. The population was divided into strata based on area (urban/rural) with urban areas further subdivided by housing type. The resulting 5 strata are rural, and the 4 different urban housing types - luxurious housing, old medina housing, social and economic housing, precarious and clandestine housing.⁵

The sample was selected through a three stage cluster sampling. The primary sampling units (PSUs) selected at the first stage were enumeration areas (EA) delineated for the 2004 Morocco census. In total

⁵ Urban areas are designated one of four housing categories. If an area contains multiple housing types, it is categorized by the most common type in the area. Luxurious housing has large gardens located in areas with very high standards of living. Old medina locates in the part of town where the different aspects of traditional life and old urbanization dominated. Social and economic type of housing is occupied by middle class population in the former slums or areas with the small presence of traders and no industrial activities. Precarious and clandestine housing is very basic and lacks sanitary accommodations, such as water and electricity.

200 PSUs were selected with probability proportional to size (PPS). The measure of size for each EA was based on the number of households in the sampling frame. Following the first stage selection of EAs, a household listing was conducted in the chosen EAs. In each selected PSUE, a sample of 20 households was selected from this list at the second stage, out of which 15 were targeted for surveying and 5 were reserve households for replacement purpose only. Finally, within each selected household, eligible adults either responsible for personal or household finances were randomly drawn by means of the Kish grid. Proper individual weights were calculated and used in the following analysis to adjust for varying probabilities of selection (design weights).

Between September and December 2013, a Canadian survey firm implemented the survey using computer-assisted personal interview methods (CAPI). Étude Économique Conseil (EEC) Canada, a Montreal based survey firm, was hired to conduct the Financial Capability in Morocco. To ensure highest data quality and avoid common errors associated with paper-and-pencil surveys, an electronic version of the questionnaire including consistency were programmed and the survey was administered from tablet computers. Due to extensive efforts and different strategies used (e.g. training of enumerators on refusal conversion strategies, letters which were in advance to inform respondents about the surveys' objectives, 5 contact attempts, etc.) the total non-response rate was less than 15 percent of the total targeted households.

The adult population to which the results of this survey are meant to extrapolate has the following key characteristics: Two thirds of the population lives in urban areas, while the remaining 34 percent live in rural environments (see Figure 32). Slightly less than half of the population is woman (45 percent, see Figure 34). Ranking all individuals by their reported household income and dividing them into 4 groups, 24 percent of the population fall in the lowest income segment (less than 3600 MAD per month), 23 percent in the second lowest (between 3601 MAD and 6900 MAD), 25 percent in the second highest (between 6901 MAD and 9100 MAD), and 28 percent in the highest income group (more than 9100 MAD, see Figure 33). Forty-five percent of the population is younger than 35, 35 percent ages from 35 to 55, and 20 percent of the population is older than 55 (see Figure 35). In terms of the education attained, 4 percent of the population has some or completed tertiary education including university, college, technical and vocational school education; 46 percent has some or completed secondary schooling, which includes lower and higher secondary degrees; 21 percent has completed primary schooling, while around one third of the population has no schooling (see Figure 36). 83 percent of the population is characterized as earning stable income, while the remaining 17 percent is facing irregular and uncertain income flows (see Figure 37). The average number of adults per household is 5, whereas an average sized household comprises 7 people. As shown see Figure 38 in Appendix, 42 percent of the respondents live in households with 4 to 6 members, 50 percent in households comprising 7 or more members.

1. Financial Inclusion

1.1 Introduction/Overview

As in many countries, increasing the access to and quality of financial products and services has become a policy priority in Morocco. Over the past several years, considerable efforts have been made to ensure that the inclusiveness of Morocco's financial sector matches its relatively advanced depth and diversification. In line with its Strategic Plan 2013-2015, Morocco's Central Bank, Bank Al-Maghrib (BAM), has developed an Inclusion Action Plan which sets a target of 67% financial inclusion by the end of 2014 and outlines reforms for improving financial education, expanding branchless banking, and promoting consumer choice and product quality.

BAM's vision for expanding financial inclusion incorporates conventional commercial banks, microfinance institutions, the postal bank, and Islamic banks. In recognition that improved financial access cannot be achieved without the support of the dominant banking sector, BAM has asked banks to develop products for low-income clients, and since 2012, has issued requirements mandating that banks offer more than a dozen different free services, including zero-cost saving accounts. BAM has also introduced new bank reporting requirements in order to measure (i) the access to financial services, (ii) the use of these services and (iii) the efficiency of financial inclusion strategies and policies. Another prong in Morocco's efforts to expand financial inclusion is the 2010 launch of a postal bank (Al Barid). The bank, which now has over 1,800 branches and offers financial services previously offered by the postal network, is estimated to reach about five million customers in areas where brick-and-mortar banks have traditionally been scarce. Having moved past its early focus on basic savings and payment products, ABB now offers overdraft products and mortgage lending, though it maintains its mission to serve low-income borrowers. And while several banks in Morocco do offer Shari'ah compliant financial products, efforts are also underway to create a framework for Islamic banking to further expand the range of affordable and appropriate financial products for unbanked adults who may prefer wholly Shari'ah compliant financial institutions to conventional banks.⁶ Finally, BAM has taken important steps in improving the enabling environment for financial inclusion, including establishing a foundation to coordinate financial education activities and promote best practices, establishing a banking ombudsman to strengthen third-party dispute resolution systems, and establishing a secured transaction framework, which is done in collaboration with the Ministry of Economy and Finance.

The Moroccan microfinance sector also maintains a strong presence despite its crisis in 2009 and an evolution away from viewing financial inclusion through the lens of microcredit. According to latest available data, there are approximately 800,000 active microfinance clients representing US\$ 540 million in loans outstanding. And the industry has set ambitious goals for itself, recently issuing a white

⁶ The phrase 'unbanked' is used interchangeably with financial exclusion in this report, and refers to usage of formal financial products and services generally, not just those offered by banks.

paper that set a target of reaching 3.2 million borrowers by 2020, a four-fold increase from current levels. The government supports an expanded microfinance sector and in 2012 amended the 1999 MFI law to institutionalize a framework for the resolution of weak associations through take-overs or mergers and allow MFIs to transform into finance companies.

According to this 2013 Financial Capability Survey, the relative depth of the Moroccan financial sector and efforts to expand financial access are indeed associated with broad-based usage of financial services among Moroccan adults. As compared to other North African and Middle Eastern economies, Morocco has a relatively high rate of financial inclusion. Data from the 2013 Financial Capabilities Survey shows that 41 percent of Moroccan adults use a formal financial product or service.^{7,8} In comparison, according to 2011 Global Findex data, 18 percent of adults throughout the entire MENA region report owning a formal account, as do 28 percent of adults living in lower-middle income countries, the group that includes Morocco according to World Bank classifications. This relatively high rate of financial inclusion is in line with data that shows Morocco also having above-average bank branch penetration and credit to GDP ratio when lined up against comparator countries (Table 1).

Table 1. Measures of Financial Inclusion and Development across Economies

	Financial Inclusion (% of adults)	Commercial bank branches (per 100,000 adults)	Firms using banks to finance investment (% of firms)	Domestic credit provided by banking sector (% of GDP)	GDP per capita (constant 2005 US\$)
Morocco	41	23.4	12.3	115.4	2,516
Egypt	10	4.7	5.6	77.7	1,560
Jordan	25	19.8	8.7	114.2	2,839
Lebanon	37	29.3	23.8	176.4	7,079
Tunisia	32	17.7	-	82.3	3,783
All lower-middle income	28	7.7	-	62.2	1,221
MENA (developing)	18	11.7	-	50.0	-

Source: Data on formal account ownership is drawn from 2013 Financial Capabilities Survey (Morocco) and 2011 Global Findex (other economies); data on commercial bank branch penetration is drawn from the IMF FAS database (2012); data on firm finance is drawn from Enterprise Survey data (latest available year by country); data on domestic credit to GDP and GDP per capita are drawn from the World Development Indicators (2012).

Yet there are nontrivial variations across socioeconomic and demographic categories – particularly gender, income, and urban/rural residence - in this broad measure of financial inclusion. Men are twenty percentage points more likely than women to be financially included, a difference that remains statistically significant even after controlling for income, education, and a range of other individual characteristics. The gender differential varies little across income levels, with approximately the same gender gap among the bottom 25 percent and top 25 percent of the income distribution. There is also stark inequality of financial inclusion across urban and rural lines. The gap between the poor and the rich is larger still, accordingly to regression analysis (see Table 4). While 61 percent of those in the top quartile of the income distribution use a formal financial product, just 25 percent of those in the bottom quartile percent

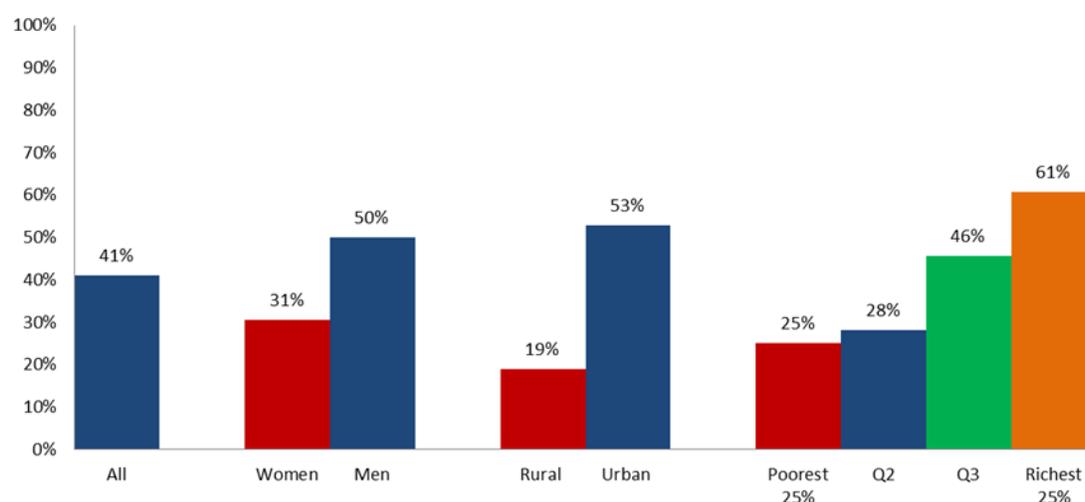
⁷ This includes deposit and checking accounts, credit from banks, payment services such as internet banking and Western Union, microfinance institutions and credit cards, insurance products, and investment and pension products.

⁸ Global Findex data indicates that 39 percent of Moroccan adults used a formal financial product or service in 2011.

report the same. Simple averages also show variation across education and employment categories and these differences are statistically significant even when controlling for a range of other demographic and socioeconomic characteristics in regression analysis (see Table 4).

There is significant variation in financial inclusion across regions and rural/urban lines within Morocco. While approximately 60 percent of adults living in the Casablanca (city) and Rabat-Sale-Mennour-Zaer region report using a formal financial product or service, only about 25 percent of adults in Gharb-Chrarda-Beni-Hssen and Chaouia-Ouardigha do the same.⁹ More generally, Moroccans living in urban areas are significantly more likely to be financially included: 52 percent of these adults report using a formal financial product compared to 19 percent of their rural counterparts.

Figure 1. Financial Inclusion by Gender, Urban/ Rural, and Income



Source: WB Financial Capability Survey, Morocco 2013

The next sections dig deeper into the types of institutions and specific products used by Moroccan adults, both within and outside the formal financial system. The analysis is organized by type of financial institution. Each section first documents overall awareness of a given institution (banks, for example) among respondents, then explores patterns of historical usage, i.e. whether a respondent has ever used that institution, and finally the analysis looks at variations in *current* usage of range of products for that institution (a bank account or bank loan, for example). The analysis begins with banks and details the degree to which Moroccans are aware of, have ever used, and currently use banking products and services. This is followed by a subsection on the usage of Shari’ah compliant products offered by banks. Next, the microfinance institutions and insurance companies are discussed.

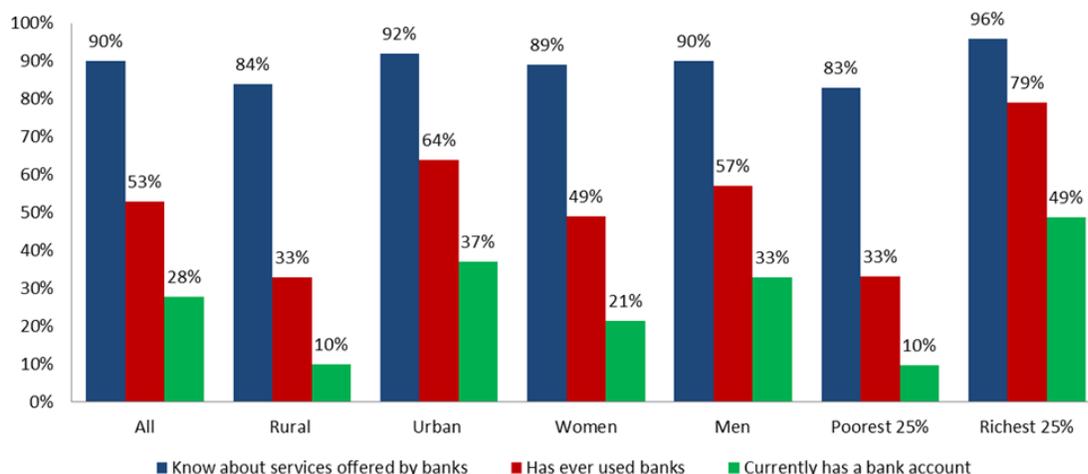
⁹ Due to low population and therefore low sample sizes, it is not possible to present statistically robust financial inclusion estimates for every region.

1.2 Banks

The strength of Morocco's banking sector is matched by high awareness of these institutions among Moroccan adults.¹⁰ The banking sector dominates Morocco's financial system and is one of the largest in the region, with domestic credit providing by the banking sector reaching 115% of GDP. Not unsurprisingly then, approximately 90 percent of adults report being familiar with the products offered by banks. While awareness of banks is relatively high among the poorest segment of the population (83 percent), it is essentially universal among the richest quartile of adults (96 percent). Similarly, only about three in four adults with little or no schooling report being familiar with the services offered by banks but awareness increases with each successive level of education. Each of these differences is statistically significant even when controlling for a range of other demographic and socioeconomic characteristics in regression analysis (see Table 5).

While nine in ten adults reports being aware of banks, data on the *usage* of bank products tells a markedly different story: only 53 percent of Moroccan adults report ever having used a bank product or service, a value which varies widely across different segments of the population. Although there is no statistically significant gender gap in awareness of banks, men are eight percentage points more likely than women to report having patronized a bank, a difference that is statistically significant even after controlling for a range of other individual and regional characteristics in multivariate regression analysis (figure 2; Table 5). Usage of bank products also varies widely by income: while 79 percent of adults in the richest 25 percent of the income distribution report having used a bank product, just 33 percent of the poorest 25 percent of adults report the same. Adults to who live in urban areas are also significantly more likely than their rural counterparts to have used a product from a bank.

Figure 2. Knowledge and Usage of Commercial Banks by Individual Characteristics



Source: WB Financial Capability Survey, Morocco 2013

¹⁰ The survey does not distinguish between private commercial banks and Al Barid Bank, a bank that is fully owned by Poste Maroc.

A deeper exploration into the type of bank services that Moroccans currently use reveals that the most common product are bank accounts, followed by money transfer services, loans and mortgages. Approximately 28 percent of Moroccans report currently using a deposit or checking account. Regression analysis again reveals nontrivial disparities in the usage of bank accounts across individual and regional characteristics (see Table 5). Men are more than 12 percent more likely than women to use a bank account (33 percent vs. 21 percent), a difference that holds even after controlling for other socioeconomic and demographic characteristics. Income is another important determinant of bank account usage: the rich are more than five times as likely as the poor to have an account at a bank. Where adults live is also significantly associated with their likelihood to have an account. Those living in urban areas are more likely to use a bank account: 37 percent of urban residents have an account compared to just 10 percent of adults living in rural areas.

Approximately 12 percent of Moroccan adults report using a money transfer service, a category that includes some non-bank services. Internet banking, debit cards, and Western Union-type services are all ways to transfer money more efficiently and safely than cash. This data is consistent with results from the 2011 Global Findex survey which showed that 14 percent of adults in Morocco use a formal financial institution to send money to or receive money from family living elsewhere. Supply-side data indicates that ABB (the postal bank) has been particularly successful in offering payment services, capturing approximately 80 percent of the domestic transfer market (CGAP 2012). These services are not used equally among different segments of the population however: 30 percent of adults in the richest quartile of the income distribution report using money transfer services, but just 3 percent of those in the poorest quartile do.

11 percent of adults report having formal credit from a bank, credit card, or through consumer credit, with men, the wealthy, and urban residents again being particularly likely to report doing so. This value is on par with data from other developing countries: 2011 Global Findex data reveals that eight percent of adults in the developing world report having borrowed from a formal financial institution in the past year.¹¹ In Morocco, Approximately 13 percent of men report currently having formal credit, compared to 10 percent of women. The rich are also more than five times likely as the poor to report having formal credit: 19 percent of the richest quartile of adults report having formal credit, as compared to 3 percent among the poorest quartile.

Though above-average for the region, housing finance remains a relatively underdeveloped sector in Morocco with only three percent of adults currently having a mortgage product. With the introduction of some mortgage lending by the postal bank in 2012, this sector may increase in future years. Similarly, investments (such as stocks, bonds, FCP, OPCVM, SICAV, etc.) and private pension products are reported by less than three percent of the population each.

¹¹ The 2011 Global Findex value for formal credit for Morocco was 4 percent though it did not explicitly include credit cards or consumer credit.

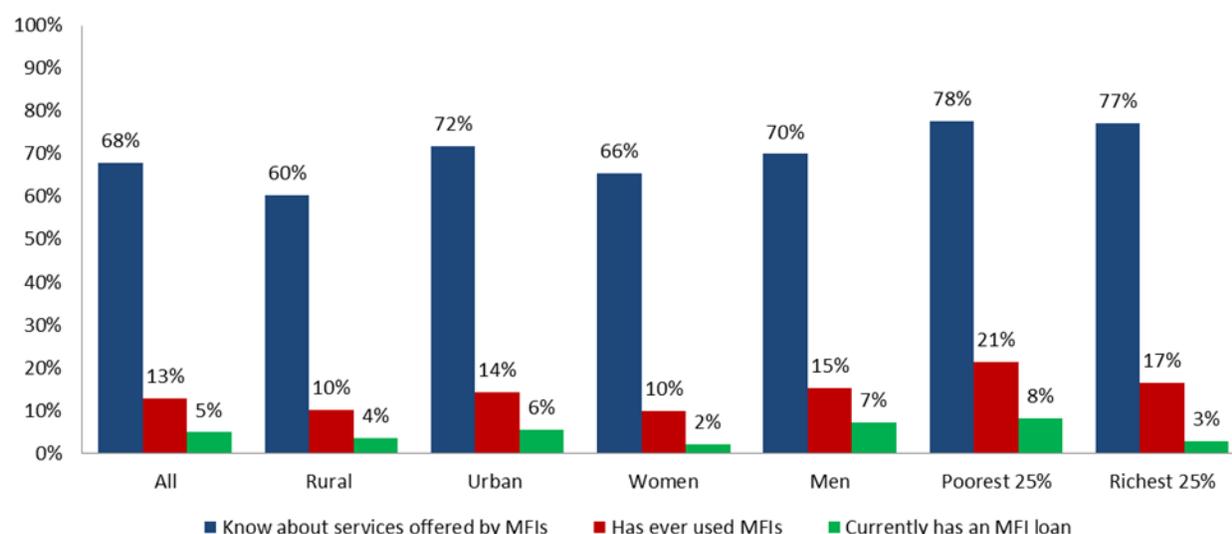
1.3 Usage of Products from Other Financial Institutions

1.3.1 Microfinance Institutions

The microfinance sector has grown quickly in Morocco and remains large despite a recent crisis. For several decades the concept of financial inclusion in Morocco was viewed almost entirely through the lens of microcredit. Indeed, from its inception in the early 1990s through the mid-2000s, Morocco's microcredit sector was considered an international model for its high penetration and low sector-wide credit risk. By late 2007, the sector's portfolio totaled US\$ 733 million with 1.35 million loans outstanding. Yet in retrospect there is little doubt that the sector grew too far too fast. Beginning in 2007, it became clear that the credit risk had been underestimated and by 2009 it was valued at 14 percent nation-wide, up from estimates of 0.4 percent in 2005. This was largely due to levels of multiple borrowing, with an estimated 40 percent of clients holding multiple loans in 2007. Following concerted efforts to reign in excesses by a range of public and private stakeholders, multiple lending had fallen to 15 percent by 2012 yet credit risk remained high at 9.6 percent. The crisis and still-fragile recovery demonstrate that high growth in the microcredit sector can come with high risk and that contagion dynamics cannot be ignored. As well as the value of strong governance, well-developed market infrastructure such as a credit information sharing platform, made it clear that market-wide risk can be nontrivial especially when rates of multiple lending are high. There are now approximately 800,000 active clients representing US\$ 540 million in loans outstanding.

There is strong awareness of microfinance institutions in Morocco though only about one in ten adults report having ever used a microfinance product or service. 68 percent of adults report knowing about MFIs, perhaps reflecting the large amounts of attention given to the industry during its fluctuations over the past several years. Yet only 13 percent of adults report ever having used these institutions. Given the traditional focus of MFIs on poor clients, it is not surprising that those in the lower quartiles of the income distribution of Morocco are significantly more likely to have used a microfinance product in the past. Approximately 16 percent of those in the poorest two income quintiles report having used a microfinance product as compared to 11 percent among the rest of the population, a difference that remains significant even after controlling for other individual characteristics. Adults living in urban areas are also more likely to have used a microfinance product in the past.

Figure 3. Knowledge and Usage of Microfinance Institutions by Individual Characteristics

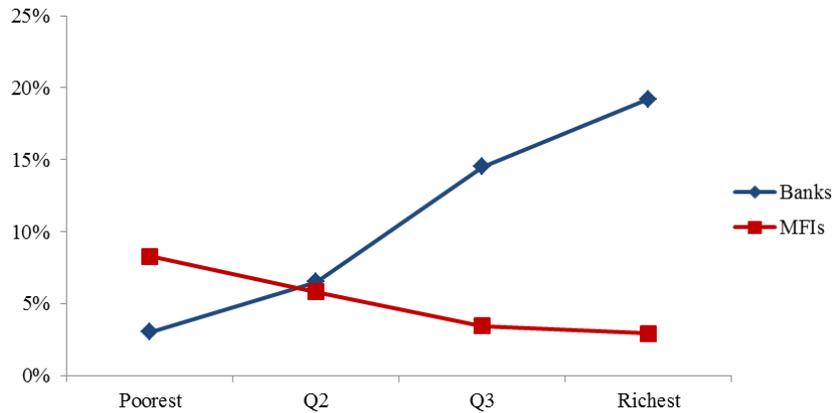


Source: WB Financial Capability Survey, Morocco 2013

Current usage of microfinance products is significantly lower, consistent with the recent shrinking of the industry to more sustainable levels. Five percent of adults report having credit from a microfinance institution, consistent with supply-side data that estimates 800,000 active clients in the microcredit sector. Women are significantly less likely than men to report having a loan outstanding from an microfinance institution (2 percent vs. 7 percent), even after controlling for other individual characteristics. As with patterns of historical usage, poorer Moroccans and those living in urban areas are most likely to have a current loan from an MFI.

It is clear from the data that MFIs target a different set of clients than do banks or other providers of formal credit. Figure 5 illustrates the differences in profiles between these two set of clients along income lines. With respect to banks, the wealthiest Moroccans are more than five times as likely as the poorest Moroccans to have credit from banks or credit card companies, yet credit from microfinance institutions is most commonly reported among the poor, and quite rarely among the rich. Yet the higher levels of microcredit among poorer Moroccans is driven almost entirely by men: only about 3 percent of women report having a microfinance loan across all income quartiles, while the value rises dramatically for men towards the lower end of the income scale. Clients of microfinance institutions are also unlikely to also patronize banks. Just two percent of adults with an outstanding loan from a MFI report also having credit from a bank, and only eight percent of these adults have a savings or deposit account with a bank.

Figure 4. Usage of bank credit and microcredit, by income quintiles



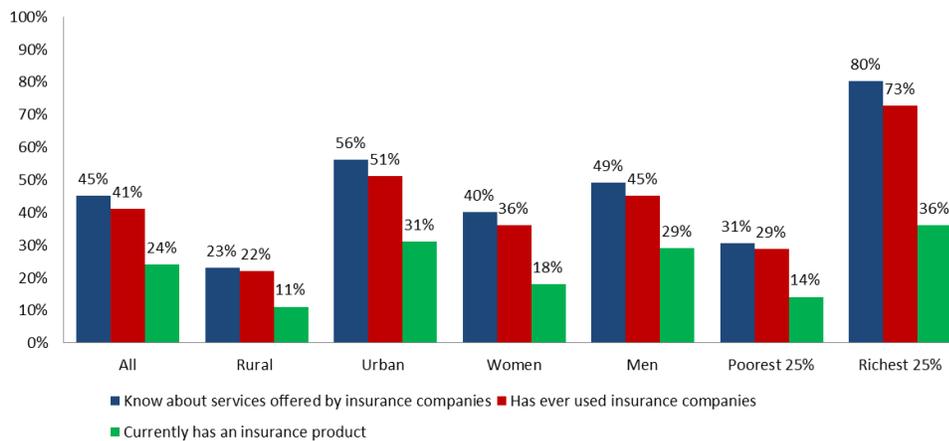
Source: WB Financial Capability Survey, Morocco 2013

Recent evidence from a randomized-controlled trial in rural Morocco suggests nontrivial benefits of expanded access to microfinance institutions. Examining the effects of the expansion of Al Amana, the country’s largest microfinance institution, researchers found that the main effect of improved access to credit was the expansion of self-employment activities of households, including both keeping livestock and agricultural activities. This leads to increases in sales among both livestock-rearing households and agricultural households, as well as an increase in profits for the latter (Crepon et al. 2013).

1.3.2 Insurance

Just under half of Moroccan adults report being aware of the services offered by insurance companies. Unlike banks and microfinance institutions, awareness is closely linked to usage: 45 percent of Moroccans are familiar with insurance companies and 41 percent have used an insurance product at some point (figure 6). Historical usage of an insurance product varies mostly sharply along gender, urban/rural, and income dimensions, similar to patterns observed for usage of banks and microfinance institutions.

Figure 5. Knowledge and Usage of Insurance Companies by Individual Characteristics



Source: WB Financial Capability Survey, Morocco 2013

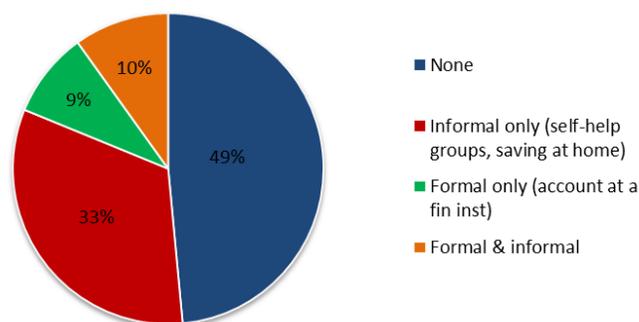
Insurance is relatively common in Morocco which is mainly due to mandatory insurance classes.

Around 24 percent of adults report currently having an insurance product. This is consistent with supply-side data that suggests the Moroccan insurance market is the third largest within the Arab world.¹² Data from the Financial Capabilities Survey suggests that the vast majority of insurance holders (over 90 percent) report using a form of general insurance such as car, property, or building insurance. Just two percent of the adult population reports using self-initiative take up types of insurance, such as private health or life insurance. According to the data, insurance remains a product used mostly by wealthier, urban Moroccans: among the poorest 20 percent and those living in rural areas, only 13 percent and 11 percent report using an insurance product, respectively. Supply-side data indicates that with 17 licensed insurance companies, the Moroccan market spent over US\$ 3 billion on premiums in 2013, with approximately a third associated with car insurance premiums and a third associated with life insurance.¹³ The government has also shown interest in supporting the development of the insurance sector under its 2011 'Contrat Programme' initiative which sought to introduce compulsory natural catastrophe risk insurance and set targets for insurance take-up among several subpopulations.

1.3.3 Patterns of Formality and Informality in Savings and Credit

Moroccan adults frequently use informal systems to save in addition to or instead of the formal financial system. 14 percent of adults report using community savings and credit self-help groups such as “daret”¹⁴ to save, and 33 percent of adults report saving at home. There is considerable variation in the degree to which Moroccans merge formal and informal savings methods or whether they save at all. Just under half of adults report using neither informal or formal methods to save, about a third saving using informal methods only, ten percent use formal methods only, and another ten percent mix informal and formal methods.

Figure 6. Formal and informal savings



Source: WB Financial Capability Survey, Morocco 2013

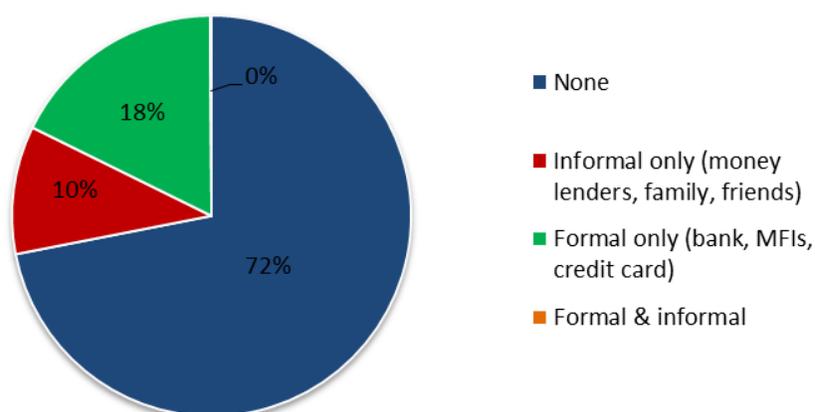
¹² After the United Arab Emirates and Saudi Arabia.

¹³ <http://www.linklaters.com/Publications/Publication1386Newsletter/Insurance-Update-January-2014/Pages/The-Insurance-Industry-Morocco.aspx>

¹⁴ A Moroccan version of a global phenomenon better known as the rotating savings and credit association (ROSCA), where each member contributes the same amount of money at each meeting and one member takes the whole sum once.

Moroccans also use a range of formal and informal systems to borrow, though virtually no one mixes the two and the vast majority do not borrow at all. 18 percent of adults use some type of formal credit product (bank loan, microfinance loan, credit card, mortgage, etc.) and 8 percent of adults report borrowing from an informal source such as a money lender, family member, or friend. Yet, fewer than one percent of adults report both types of borrowing, suggesting that those who can get formal credit see little benefit in also borrowing from informal sources. However, almost three quarters of adults do not report using any of these sources.

Figure 7. Formal and informal credit



Source: WB Financial Capability Survey, Morocco 2013

1.4 Islamic Finance

Long dormant in Morocco and other North African countries, Islamic finance – the provision of financial products and services that comply with Shari’ah law – has begun to develop. In 2007, BAM began to allow lenders and insurers to offer three Islamic products¹⁵ and in January of 2014 Morocco’s cabinet approved a draft Islamic finance bill which would facilitate the establishment of full-fledged Islamic banks. Though it appears that few Moroccans exclude themselves from the formal financial sector in Morocco because of religious reasons, the further development of Shari-ah compliant financial industry and the establishment of Islamic banks may indeed broaden the range and quality of financial products for the country’s overwhelmingly Muslim population.

When asked if they use any Islamic financial products, 18 percent of Moroccans report that they do. While there is generally little meaningful variation across individual characteristics in reported use of Islamic financial products, an exception is that between urban and rural residents. Twenty-one percent of urban residents report using an Islamic financial product and just 12 percent of those in rural areas do the same,

¹⁵ Murabaha, Ijara, and Musharaka.

a difference that is statistically significant even after accounting for a range of other demographic and socioeconomic characteristics. Of course, self-reported data on the use of Islamic banking products is inherently difficult to analyze given the social biases involved, and inability for interviewers to verify whether the banking products used by a respondent are truly Shari'ah compliant.¹⁶ Indeed, this is further compounded by the fact that many adults are not familiar with the specifics of Islamic finance principles.¹⁷ In practice, the processes by which a product is deemed Shari'ah compliant can vary widely across institutions.¹⁸

Seventy-nine percent of those who report using a Shari'ah compliant financial product report using a *murabaha* product. A *murabaha* product is a partnership asset financing arrangement wherein the financial institution purchases the desired good for the client and then sells it to the client in monthly installments at the original price plus an agreed mark-up. In contrast to a conventional interest payment, the monthly installments remain fixed at the initial amount even in the case of delayed payment. The popularity of the *Murabaha* product in Morocco is consistent with research that estimates that 70 to 80 percent of commercial Islamic lending products are *Murabaha* -based. Other Islamic financial products, such as *Ijara* and a *moucharaka*, are hardly used at all.

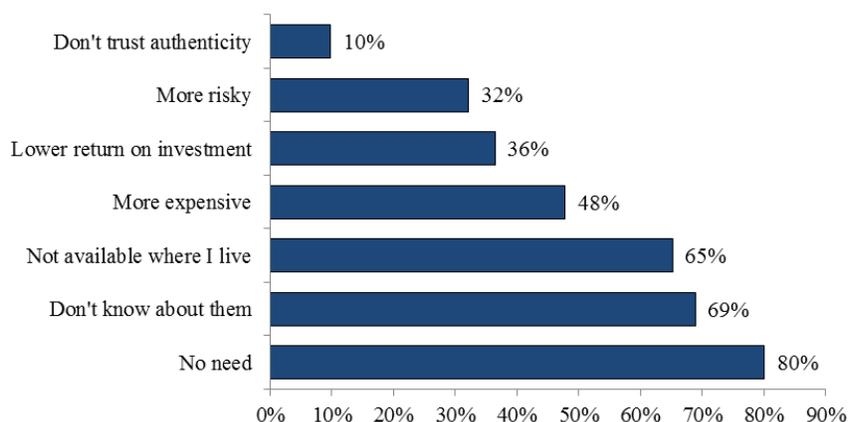
Lack of demand for, knowledge about, and local availability of Shari'ah compliant financial products are the most commonly reported reasons for not using them. 80 percent of Moroccan adults who do not use an Islamic banking product report not doing so because they have no need for one. Interestingly, this value is higher among those who don't use banks of any kind (84 percent), suggesting that it could also apply to financial services more broadly. The second most commonly reported reason for not using a Shari'ah compliant product is lack of knowledge: 69 percent of non-users report that they don't know about Islamic products. Sixty-five percent of those who don't use Shari-ah compliant banking products report that they do not do so because these products are not available where they live. Concerns about the products themselves also appear to be a nontrivial barrier to usage. Forty-eight percent of non-users say they that Islamic products are more expensive than conventional ones, thirty-six percent say that these products give a lower return on investment, and thirty-two percent say that these products are risky as a reason for not using them. Doubts about the authenticity of Shari'ah compliant financial products do not appear to be a major constraint, with only one in ten non-users identifying this as a reason for not using them.

¹⁶ It is possible that practicing Muslims would be reluctant to state that the financial services they use do not comply with Shari'ah, particularly if the interview is conducted in the presence of family members or friends. Therefore, the measured penetration rate of Islamic Finance products should be considered as an upper bound estimate for the proportion of Moroccans who are using a Shari'ah compliant product.

¹⁷ Naser et al. (1999) found a high level of ignorance among Muslim respondents in Jordan with regard to what constitutes acceptable Islamic finance principles.

¹⁸ El-Zoghbi and Tarazi (2013) note that the relationship between a given method of Sharia certification and customer perceptions and uptake of a product is an almost completely unresearched area

Figure 8. Reasons for not Using Shari’ah-compliant financial products

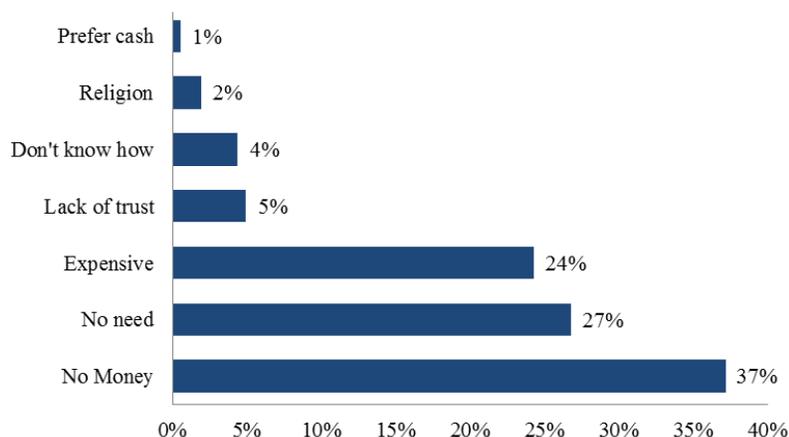


Source: WB Financial Capability Survey, Morocco 2013

1.5 The Unbanked & Barriers to Owning a formal account

The approximately 13 million financially excluded adults – those who use no formal financial products or services - in Morocco are disproportionately female, poor, and living in rural areas. 69 percent of Moroccan women do not currently use a formal financial product or service. Nor do 75 percent of the poorest quartile of Moroccan adults, or 81 percent of adults living in rural areas. Yet, as stated in the Global Financial Development Report 2014 (World Bank, 2013a), lack of usage of financial products does not necessarily mean lack of access. While some people may have access to financial services at affordable prices and may decide not to use them, others may lack access because of constraints such as excessively high costs, or unavailability of the services due to regulatory barriers or other factors. The Financial Capability Survey asked respondents who do not have a formal account to report why.

Figure 9. Reasons for not having a formal account (% of unbanked Moroccans)



Source: WB Financial Capability Survey, Morocco 2013

The most commonly reported obstacle to formal account ownership is lack of enough money to use one. While this answer could suggest voluntary exclusion from the formal financial sector, it does not necessarily imply that these adults are unbankable. Instead, it may reflect a cost-benefit analysis on the part of these adults and demonstrates that many adults perceive banking services to be of little value, not in absolute terms, but for current levels of income and the quality of banking products. This could be because of the nontrivial costs associated with owning a formal account, from explicit costs like minimum balance requirements and withdrawal charges to implicit costs such as transportation costs, but it suggests that, for many adults, formal institutions do not offer sufficiently valuable services for day-to-day transactions or savings, particularly those involving small amounts. Another significant subset of unbanked adults explicitly cites the costs associated with a formal account: 24 percent of the unbanked report not having an account because they are too expensive.

Many adults, however, do give a clearer indication that they are not interested in the basic savings and payment services offered by the formal financial sector. Demonstrating that lack of usage does not necessarily imply lack of access, 27 percent of those who lack accounts state that they do not need these products (see Figure 9). While lack of trust is not a widely reported reason for not having an account among the general unbanked population, those who have used bank services in the past but report not currently having a formal account are particularly likely to cite lack of trust: 13 percent of these adults report trust as a reason for not having a formal account, as compared to three percent among those with no previous banking relationship.

2. Financial Capability

Financial Capability is the internal capacity to act in one's best financial interest, given socioeconomic environmental conditions. It therefore encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and make use of financial services that fit their needs.

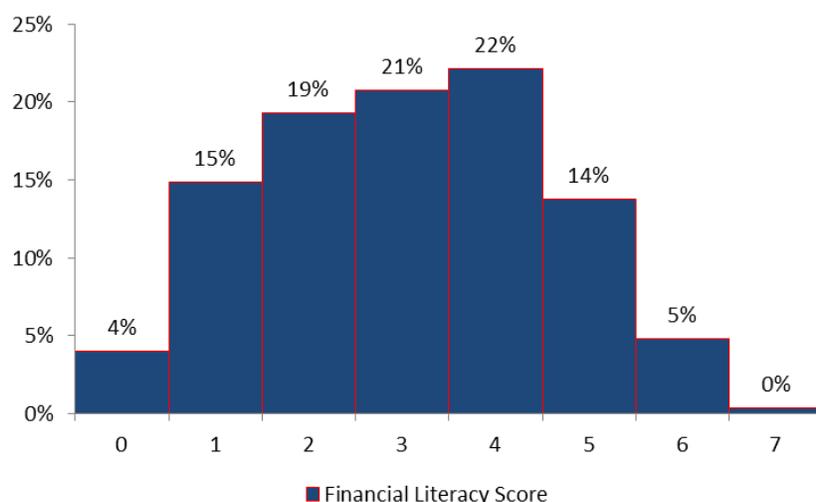
2.1 Knowledge of Financial Concepts and Products

The recent global financial crisis has highlighted the importance of financial knowledge and skills (financial literacy) for peoples' ability to take sound financial decisions and to benefit from the financial services they use. It is a well-accepted hypothesis that limitations in consumers' ability to fully understand the financial products and risks they had taken on, contributed significantly to the worst financial crises since the great depression (Geradi et al. 2010; Klapper et al. 2012). Thanks to Low Income Banking services offered by large banks, the establishment of the postal bank Al Barid in 2010, a microfinance industry which is slowly recovering from its six years lasting crisis, as well as the launch of mobile banking services such as Mobicash, financial products and services are becoming available to populations which have been formerly disconnected from the formal financial system. While these developments provide benefits, they also bear risks which may be unfamiliar to existing and new customers. To be able to benefit from these new opportunities without being exposed to undue risks, a certain level of financial knowledge and skills is required. This chapter identifies gaps in financial knowledge that need policy attention as well as vulnerable groups that display limited knowledge and understanding of concepts and products.

2.1.1 Knowledge of financial concepts

To assess respondent's financial knowledge and their basic numeracy skills, 7 questions were added to the 2013 Morocco Financial Capability Survey, covering basic calculus and financial concepts such as interest rates, inflation, compound interest, risk diversification, and the main purpose of insurance products. These questions have been asked because they capture financial concepts and skills which are widely considered as being crucial for informed savings and borrowing decisions as well as for being able to manage risks more effectively and or to take advantage of investment opportunities. We construct a financial literacy index based on the number of correct responses provided by each survey participant to the seven financial literacy questions. This index ranges from 0 to 7, whereby 0 indicates respondents who struggle the most with correctly answering any of these questions, while a score of 7 indicates survey participants with good understanding of fundamental financial concepts and the ability to perform simple mathematical calculations.

Figure 10. Distribution of financial literacy scores

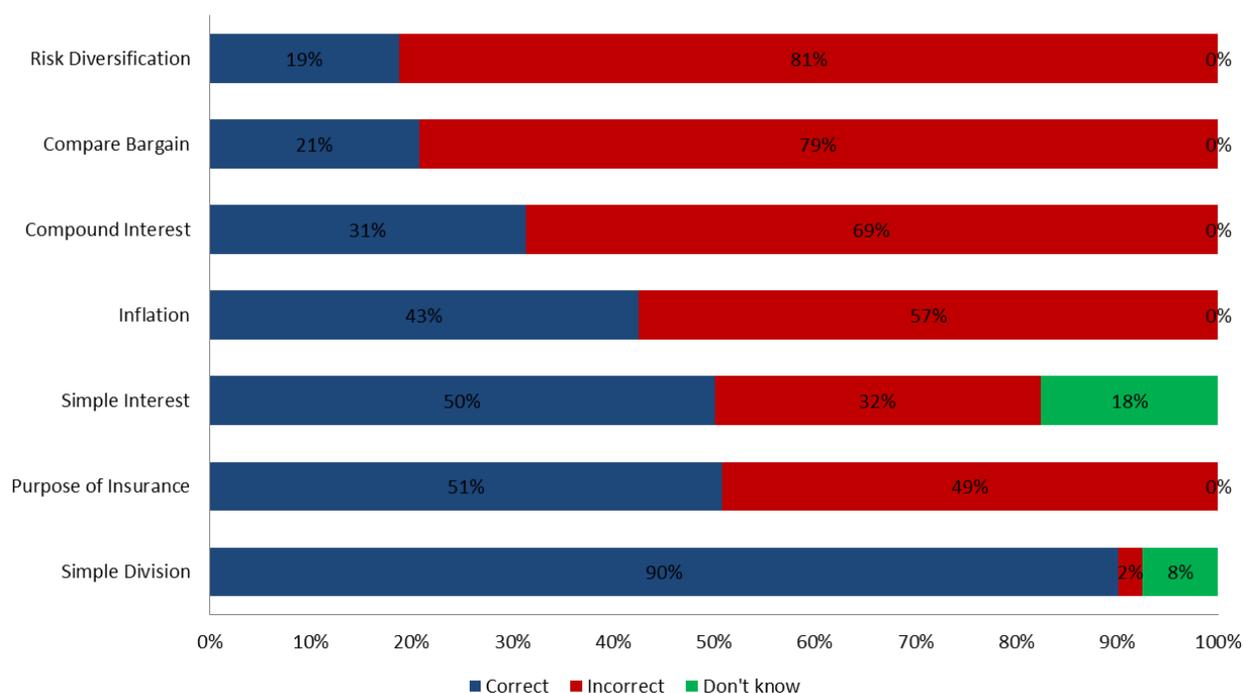


Source: WB Financial Capability Survey, Morocco 2013

The survey results suggest that on average respondents were able to correctly answer 3 out of 7 questions on financial literacy. Figure 10 reveals that the majority of survey participants were able to provide between 2 and 4 correct answers. 14 percent of the sample was able to answer 5 questions correctly. Giving correct responses to 6 or more questions seemed, however, to be a challenging task which was only achieved by 5 percent, while no one was able to provide correct responses to all 7 financial literacy questions. A more concerning finding is, that a significant proportion of respondents, around one fifth, was not able to provide more than 1 correct answer, while 4 percent of the sample had difficulties in answering any financial literacy questions correctly.

One can conclude that whilst most can perform simple financial calculations, they may lack the numeracy skills needed to identify better bargains as well as the specific knowledge required to make informed savings and borrowing decisions. As can be seen in Figure 11, almost all respondents were able to perform simple divisions (90 percent). By contrast, half or larger parts of the sample struggle to understand fundamental financial concepts and to solve slightly more difficult numeracy tasks. In particular, around 50 percent of the sample demonstrates understanding of simple interests and the main purpose of insurance products. Slightly less, around 43 percent of the respondents know how inflation affects their savings. Around a third of the surveyed population understands the working of compound interest. One of the most notable knowledge gaps which deserve most policy attention is that only around a fifth of the survey participants seem to be comfortable in solving simple numeracy tasks in order to identify better bargains. A similar small fraction of the sample is familiar with the concept of risk diversification and understands that holding stocks from different companies can usually be associated with less risky returns than holding stocks from a single company.

Figure 11. Financial Literacy Quiz Overview



Source: WB Financial Capability Survey, Morocco 2013

Box 1. Financial Literacy Quiz

Question 1 Imagine that five brothers are given a gift of 10,000 MAD. If the brothers have to divide the money equally, how much does each one get?

Question 2 Now, imagine that the five brothers have to wait for one year to get their part of the 10,000MAD and inflation stays at 10%. In one year's time will they be able to buy:

- More with their share of money than they could today
- The same amount
- Less than they could buy today
- It depends on the types of things that they want to buy (do not read out this option)

Question 3 Suppose you put 10,000 MAD into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?

Question 4 How much would be in the account at the end of five years? Would it be:

- More than 11,000 MAD
- Exactly 11,000 MAD
- Less than 11,000 MAD
- It is impossible to tell from the information given

Question 5 Let's assume that you saw a TV-set of the same model on sales in two different shops. The initial retail price of it was 10,000 MAD. One shop offered a discount of 1,500 MAD, while the other one offered a 10% discount. Which one is a better bargain, a discount of 1,500 MAD or 10%?

- A discount of 1,500 MAD
- They are the same
- A 10% discount

Question 6 Which of the following statements best describes the primary purpose of insurance products?

- To accumulate savings
- To protect against risks
- To make payments or send money
- Other

Question 7 Suppose you have money to invest. Is it safer to buy stocks of just one company or to buy stocks of many companies?

- Buy stocks of one company
- Buy stocks of many companies

Source: WB Financial Capability Survey, Morocco 2013

Financial knowledge and awareness levels are a significant challenge in Morocco, as well as in many countries across different income levels. Table 2 shows for 22 countries the proportion of adults with understanding of basic concepts such as inflation, simple and compound interest and who are able to perform simple divisions. As can be seen, for most financial literacy measures survey participants in Morocco perform near the middle of the pack. In terms of their understanding of what inflation is Moroccans seem, however, to lack behind the survey participants of most other countries. A plausible explanation for this phenomenon could be that the inflation rate in Morocco remained stuck on low levels in the past decade¹⁹.

Table 2. International comparison of knowledge of basic financial concepts (in % of adults)

Country	Year	Inflation	Simple Interest	Compound Interest	Simple division
Albania	2011	61	40	10	89
Armenia	2010	83	53	18	86
Colombia	2012	69	19	26	86
Czech Republic	2010	80	60	32	93
Estonia	2010	86	64	31	93
Germany	2010	61	64	47	84

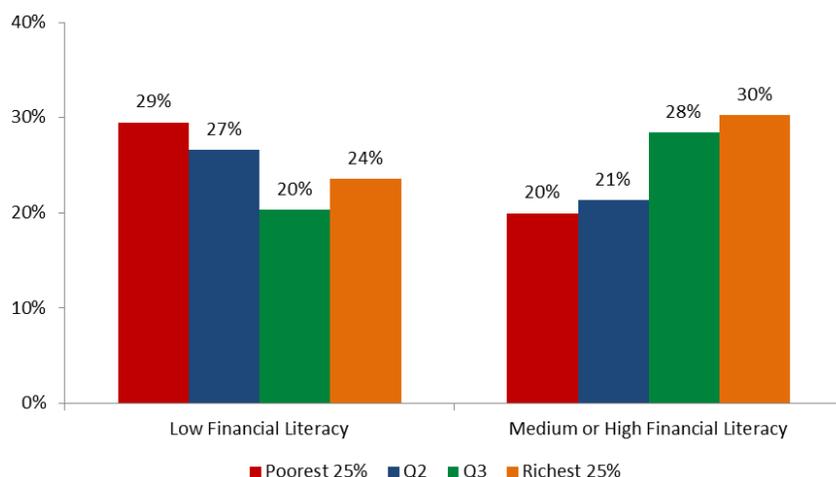
¹⁹ For instance, the inflation rate in Morocco averaged 1.74 percent from 2008 until 2014.

Country	Year	Inflation	Simple Interest	Compound Interest	Simple division
Hungary	2010	78	61	46	96
Ireland	2010	58	76	29	93
Lebanon	2012	69	66	23	88
Malaysia	2010	62	54	30	93
Mexico	2012	55	30	31	80
Mongolia	2012	39	69	58	97
Mozambique	2013	28	78	28	93
Morocco	2013	43	50	31	90
Norway	2010	87	75	54	61
Peru	2010	63	40	14	90
Poland	2010	77	60	27	91
South Africa	2010	49	44	21	79
Turkey	2012	46	28	18	84
Tajikistan	2012	17	35	56	97
United Kingdom	2010	61	61	37	76
Uruguay	2012	82	50	N/A	86

Source: World Bank Financial Capability & Consumer Protection Surveys and OECD National Financial Literacy and Inclusion Surveys

Vulnerable groups who struggle the most in understanding basic financial concepts are more likely to live on lowest incomes, to have low educational attainment, and they are less likely to be formally employed. Figure 12 reveals, those survey participants who provided 2 or less correct responses to the financial literacy quiz-type questions are more likely to belong to the lowest income segments compared to their counterpart group with better understanding of financial concepts. For instance, while 58 percent of those who reach a score higher than 2 on the financial literacy quiz belong to the upper middle and highest income group, only 44 percent of those who answered 2 or less questions correctly can be found in the lowest income segment. Likewise, regression analysis shows (see Table 6) that even after controlling for socioeconomic and demographic factors those who fail to understand basic financial concepts are also less likely to have high educational attainment and to be formally employed compared to those who achieve higher scores on the financial literacy quiz.

Figure 12. Income Distribution by Low, Medium or High Financial Literacy Scores



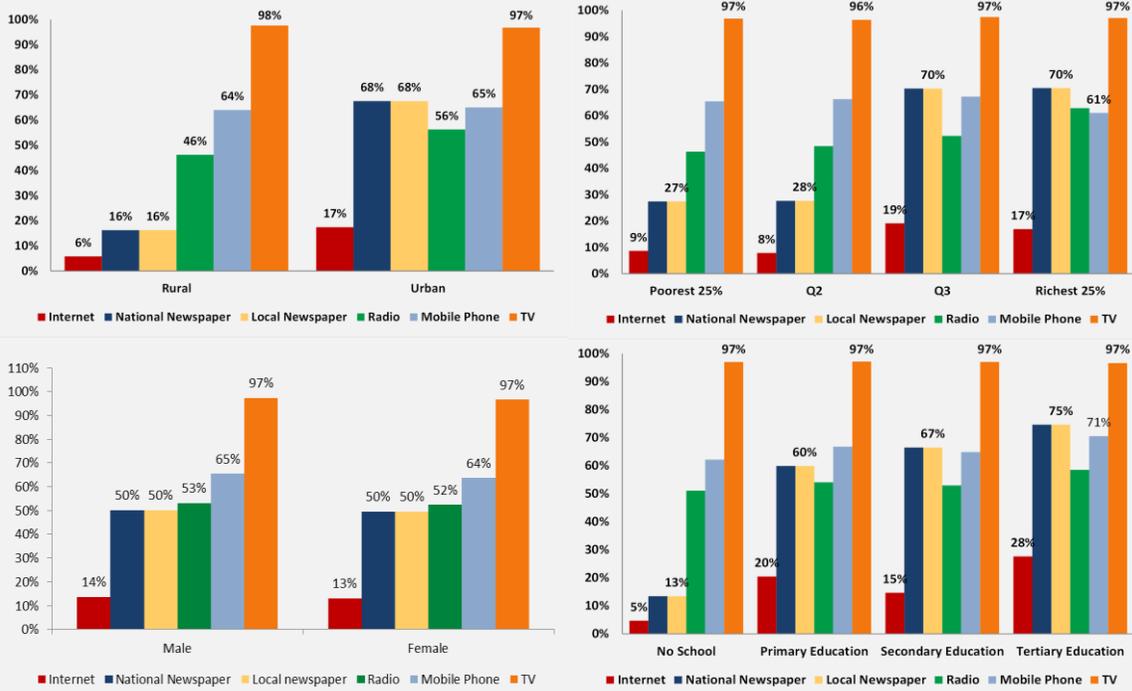
Source: WB Financial Capability Survey, Morocco 2013

In contrast, a better understanding of financial concepts is strongly correlated with individual characteristics such as higher income, higher education, and usage of print, broadcast, and internet media at a regular basis. As may be expected, regression analysis reveals (see Table 6), that higher financial literacy scores correlate with higher educational attainment, even after controlling for other individual characteristics. Likewise, the knowledge gap between those who are formally employed and those who are not employed is significant. Notably, more active media consumers score on average significantly higher on the financial literacy quiz than their counterparts who do not use print, broadcast or internet media on a regular basis.

Box 2. Media Consumption Overview

While almost every adult in Morocco watches TV and around two thirds uses a mobile phone at a regular basis, print media and internet usage rates are highest among urban, more affluent, and highly educated segments of the population. As shown in Figure 13, TV usage is a nearly universal phenomenon, even among those at the bottom of the pyramid. Despite mobile phone subscriptions of 120 per 100 people in 2012, mobile phones usage rates are relatively lower (65 percent), suggesting that a substantial proportion of adults may own more than one mobile phone. Slightly less, around 53 percent of the surveyed adults listen to the radio regularly, but usage patterns are very similar for mobile phones and radio, both of which show little variations among different subgroups of the population. A gap in connectivity and usage of mobile phones exists, however, between groups with highest and lower educational attainment. While 71 percent of highly educated adults seem to use a cell phone at a regular basis, mobile phone usage among those without school drops to 62 percent. Looking into other media types and their usage rates it becomes apparent that people at the bottom of the pyramid are less likely to read local or national newspapers or to use internet regularly compared to high income earners, urban dwellers, and highly educated adults. Notably, higher education and urban locations are key drivers of internet connectivity, while characteristics such as income or gender play a much less important or no role at all in explaining this digital divide.

Figure 13. Media consumption by social and demographic groups



Source: WB Financial Capability Survey, Morocco 2013.

Media consumption index refers to the number of media sources regularly used by respondents.

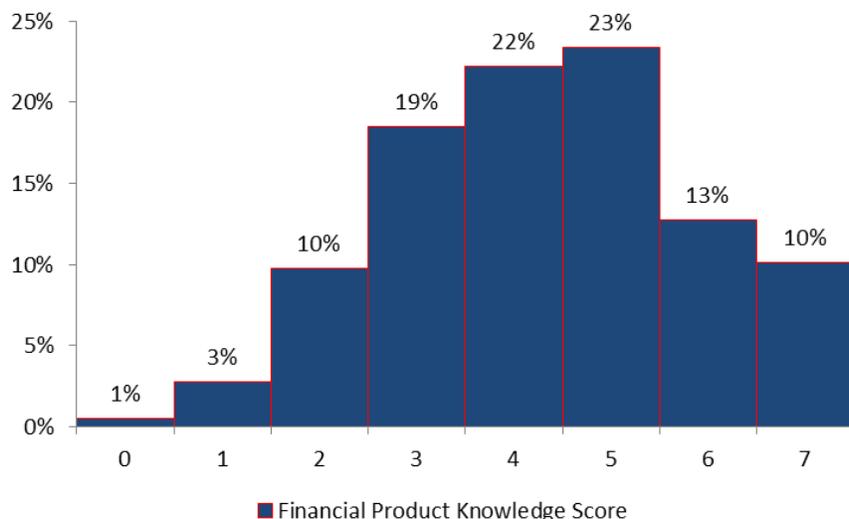
Moreover, higher levels of financial knowledge relate to enabling environmental factors such as the proximity to MFIs and the development level of the location people live in. The longer it takes to get to the next MFI branch, the less likely it is that survey participants are familiar with basic financial concepts, even after controlling for other characteristics by means of regression analysis (see Table 7). Similarly, indicators which proxy for the socio-economic development of the location, such as low criminal rates, seem to matter for better understanding of financial concepts. As compared to those residents who live in safe areas, those who live in areas with high criminal rates are less likely to answer more financial literacy questions correctly.

2.1.2 Knowledge of financial products

In order to assess survey participants' awareness levels of financial products the financial capability survey captured information peoples' familiarity with financial products offered by different types of formal and informal providers. In particular, survey participant were asked if they are familiar with products offered by banks, MFIs, insurance companies, money changers, money transfer operators, brokerage houses, and community savings and credit self-help groups. We construct a financial products awareness index based on the number of financial products known, as indicated by each survey participant. This index ranges from 0 to 7, whereby 0 indicates respondents who are not familiar with

products offered by any type of provider. Respondents with a score of 7 on the other hand stated familiarity with products offered by the seven providers that the survey asked about.

Figure 14. Overview of Financial Product Awareness Scores

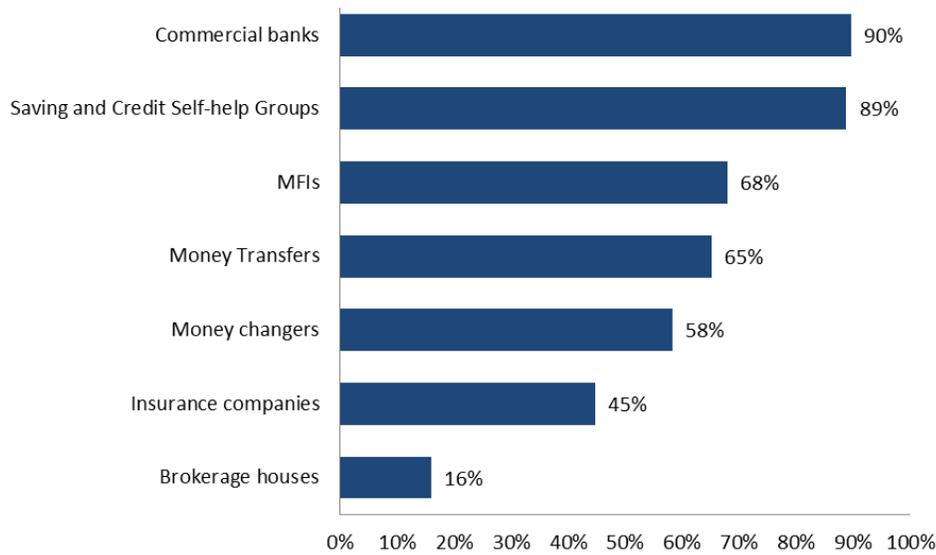


Source: WB Financial Capability Survey, Morocco 2013

As far as the average number of financial products known is concerned, respondents are familiar with products provided by 4.3 different types of providers. As can be seen in Figure 14, around two thirds of the sample indicated to be familiar with between 3 to 5 products, while 13 percent are familiar with financial products provided by 6, and around 10 percent with products offered by 7 different providers. Only 1 percent of the sample is not aware of financial products provided by any type of provider.

A deeper exploration into the type of financial products known reveals that survey participants are mainly familiar with bank products (90 percent), followed by products offered by savings and credit self-help groups (89 percent), MFIs (68percent) and money transfer operators (65 percent). Money changers and their products are known by slightly less (58 percent), whereas insurance products are known by less than half of the sample (45 percent). Much less, only 16 percent indicate to be familiar with the products offered by brokerage houses, which is most likely due to the fact that the capital market in Morocco is currently in a nascent stage, as is the case in many countries at a similar income levels.

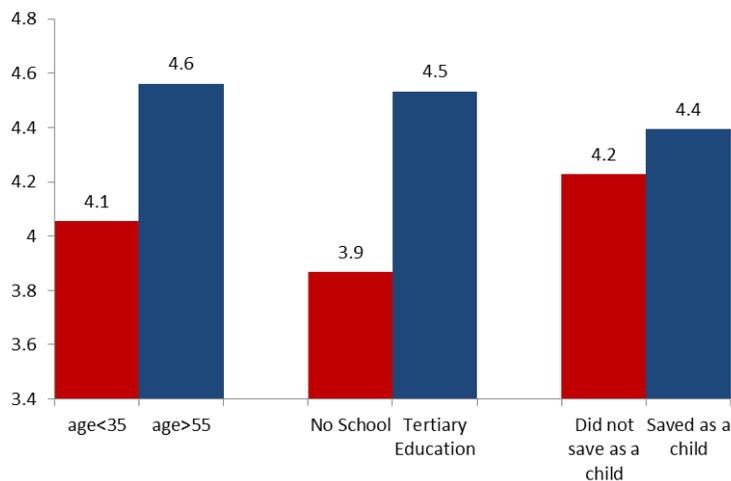
Figure 15. Overview of Financial Product Awareness of Individual Financial Institutions



Source: WB Financial Capability Survey, Morocco 2013

Respondents who are the least familiar with financial products offered by financial providers tend to be young, do not have any educational attainment, and are out of labor force. In comparison to seniors (55 years or older) and middle-aged adults (between 36 and 55 years), young adults (35 years or younger) demonstrated a lower awareness of the different providers and their products (see Figure 16). Similarly, while highly educated Moroccans were on average familiar with 4.5 providers and their offered products, those without any educational attainment indicated to be familiar with fewer different providers and their products (3.9). Regression analysis suggest that even after controlling for other socioeconomic and demographic factors, young adults, those without any education, and out of labor force populations are significantly less likely to be familiar with products offered by more than 2 different providers (see Table 6).

Figure 16. Average Financial Product Awareness Score by Age, Education, and Child Saving Status



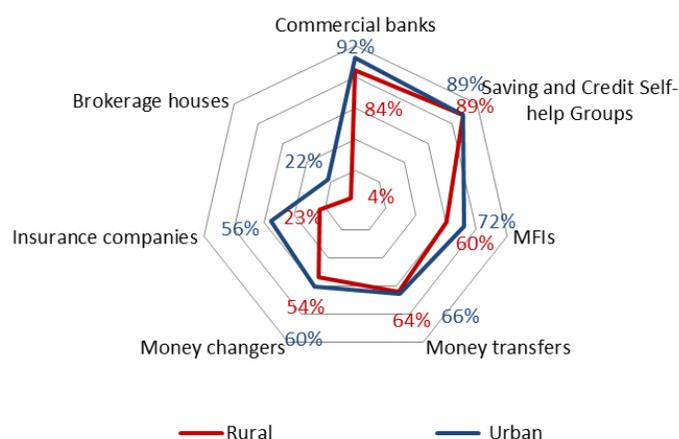
Source: WB Financial Capability Survey, Morocco 2013

Another pattern which emerges is that those who began savings habits as children demonstrate better awareness of financial products offered by different financial institutions in comparison to those who did not save in their childhood. According to regression analysis (see Table 6), even after holding income, and other characteristics constant, compared to learned savings practices as children, respondents who did not save in their childhood tend to be less familiar with financial products offered by different providers.

Living in rural habitats seems to be a strong predictor for being less aware of insurance products.

Figure 17 reveals a gap in awareness of products from a variety of financial providers, including banks, MFIs, insurance companies, and brokerage houses. Given that insurance products could enable rural dwellers to smooth seasonal variations in their incomes, the most concerning finding is, that only 23 percent of respondents living in rural neighborhoods are familiar with insurance products as compared to 56 of urban residents. Even after controlling for various socioeconomic and demographic characteristics, living in a rural environment is an important factor in explaining lack of awareness of insurance products (see Table 8).

Figure 17. Fraction of Moroccans who know about the financial products of different providers, by urban/rural



Source: WB Financial Capability Survey, Morocco 2013

2.2 Financial behavior and attitudes

Even if people possess knowledge of basic financial concepts and products they may struggle to translate it into action. To identify the role that attitudes play in shaping individuals' financial decisions and to see if and how attitudes translate into financial behavior, the survey contains questions on different aspects (components) of financial capability that include attitudes/motivations and behaviors. This chapter gives an overview of strengths and areas for improvements surveyed Moroccans show regarding relevant financial behaviors and attitudes.

In the Morocco data set, 9 main components of financial capability can be identified, some of which refer to behaviors, and others to attitudes or motivations. Each financial capability component is measured through a combination of relevant questions. These are identified by using a statistical technique called principal component analysis (PCA). PCA is a data reduction method that finds a small number of linear combinations of those variables that explain most of the variance in the data. The method is used to aggregate the variables that measure different nuances of the same component in order to obtain a single indicator (or score) for that component. Each component score ranges between 0 (lowest score) and 100 (highest score).

The following seven components measure behaviors related to financial capability: budgeting, not overspending, living within means, monitoring expenses, planning for unexpected expenses, making provisions for old age, and choosing products. More specifically, 'budgeting' measures the extent to which people plan how to use their money and whether they adhere to the plan; 'not overspending' assesses whether people have money left over after buying essentials and if yes, if they refrain from spending it on non-essentials; 'living within means' measures whether adults run short of money after buying essentials and why, their level of borrowing and whether people borrow to buy food or to repay other debt; 'monitoring expenses' measures the ability to track expenses; 'planning for unexpected expenses' indicates whether people could cover an unexpected expense equivalent to a month's income and whether they worry about it; 'planning for old age expenses' indicates whether people have strategies in place that allow them to cover for expenses in old age; and 'choosing products' indicates whether people search for alternatives, check terms and conditions, get information before selecting financial products, and search until they found the best products for their needs. The last score is only calculated for those who have personally chosen a financial product in the past five years.

Two financial capability components refer to attitudes and motivations, such as farsightedness, and attitude towards saving. In particular, 'farsightedness' measures whether people agree or disagree with statements such as 'I live for today', 'The future will take care of itself', 'I only focus on the short term'. The attitude towards score on the other hand is based on agreement or disagreement with statements about trying to save for the future, trying to save for emergencies, trying to save even if a small amount, and about being disciplined.

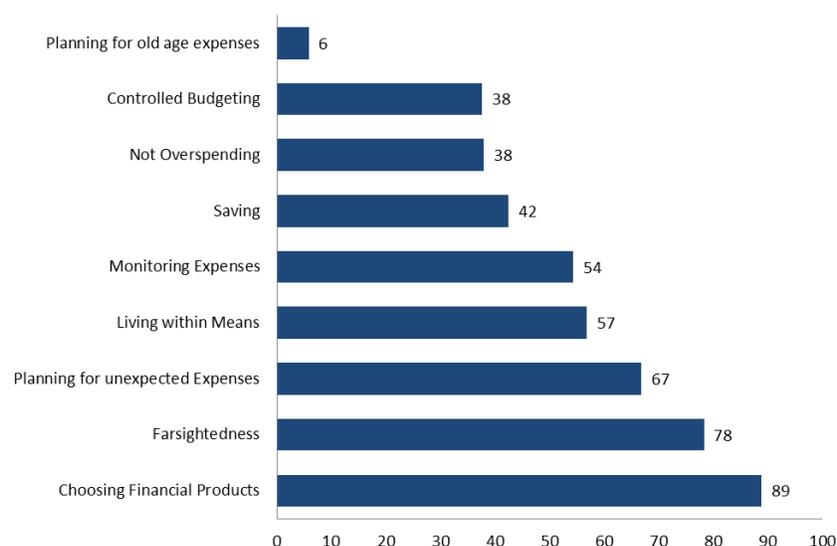
Compared to other aspects of financial capability, survey participants show strengths in areas related to choosing financial products and services, thinking about the future, and putting funds aside for unexpected expenses. Figure 18 shows all scores for different aspects of financial capability in increasing order. As can be seen, the highest average score (89) is obtained for choosing financial products, followed by scores related to farsightedness (78) and to coping with unexpected shocks (67). The highest score in the area of choosing financial products is based on the fact that 93 percent of those who have personally chosen a financial product in the past 5 years indicated that they were searching for information from a range of resources. The same proportion of the surveyed adults indicated that they considered many alternatives before deciding which product to get and that they searched until they found a product which met their needs best. These survey results suggest that Moroccans master the task of

choosing financial products which fit their needs best. However, in light of the difficulties respondents faced in solving simple numeracy tasks during the financial literacy quiz in order to identify better bargains, it may be questionable if people end up selecting those products which meet their needs best.

Financial attitudes and behaviors on the other hand, which relate to day-to-day money management and savings, seem to be a challenge in Morocco. Figure 18 further reveals that compared to their three main areas of strengths, respondents score on average much lower in areas related to managing their day-to-day finances, such as living within their means (57), monitoring expenses (54), or not overspending (38) and budgeting (38). Digging deeper in the variables used to create the budgeting score reveals that that almost half of the sample (45 percent) reported that they do not plan at all how to spend the money they receive. Moreover, a quarter of those who plan never adhere to the plan. Similar to weaknesses observed in Morocco in areas related to daily money management, survey participants score lower with respect to their attitude towards savings than they do in their three main areas of strength. The low savings attitude score is based on the fact that between 58 and 64 percent of respondents disagreed with statements such as ‘I try to save money for the future’, ‘I try to save money regularly, even if it is only a little’, and ‘I try to have some provisions for emergencies’.

By far the lowest score is, however, found for behaviors that relate to long-term financial decision taking, such as making provisions for old age expenses. Even though survey results suggest that participants in Morocco have a high inclination to think about the future, their forward-looking attitudes towards savings seem to translate into action and sound long-term decision taking. The lowest overall financial capability score indicates that Moroccans ability to pay attention to long-term considerations and cover for expenses in their old age may be sincerely constrained. This is a worrisome finding given its implications for Moroccan’s long-term wellbeing.

Figure 18. Average Financial Capability Scores



Source: WB Financial Capability Survey, Morocco 2013

An international comparison to respondents in ten countries confirms that Moroccans master the task of choosing financial products and tend to be far-sighted, but they are among the most challenged with respect to managing their day-to-day finances and planning for old age expenses.

Table 3 compares the financial capability scores Moroccans achieved in eight different areas to the ones of respondents in various countries in which a similar survey has been conducted. As can be seen, Moroccan survey participants outperform respondents from seven other countries in the area of choosing financial products and in their propensity to think about the future. The comparison to survey participants in other countries further confirms that Moroccan respondents struggle with their daily money management and achieve relatively lower scores for their attitudes towards savings. The most concerning finding is, however, that respondents in Morocco lack far behind survey participants in other countries in their ability to make provisions for their old age expenses.

Table 3. Cross-country comparison of different financial capability scores

Country	Controlled budgeting	Monitoring expenses	Living within means	Planning for unexp. expenses
Armenia	74	63	68	64
Colombia	80	36	75	59
Lebanon	40	44	82	73
Mexico	52	41	78	64
Mongolia	65	N/A	84	N/A
Mozambique	74	61	N/A	45
Morocco	38	54	57	67
Nigeria	78	48	82	71
Tajikistan	81	N/A	83	N/A
Turkey	60	50	68	68
Uruguay	71	48	81	55

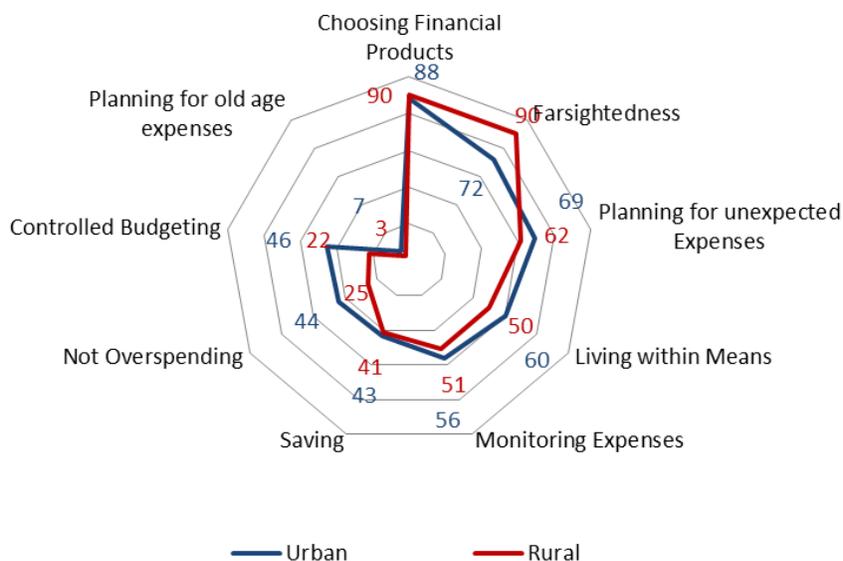
Country	Saving	Far-sightedness	Planning for old age expenses	Choosing financial products
Armenia	46	28	100	59
Colombia	45	37	67	57
Lebanon	40	55	71	63
Mexico	57	35	65	59
Mongolia	62	60	N/A	49
Mozambique	42	40	40	34
Morocco	42	78	6	89
Nigeria	55	N/A	N/A	N/A
Tajikistan	66	84	N/A	N/A
Turkey	30	50	72	52
Uruguay	44	35	60	N/A

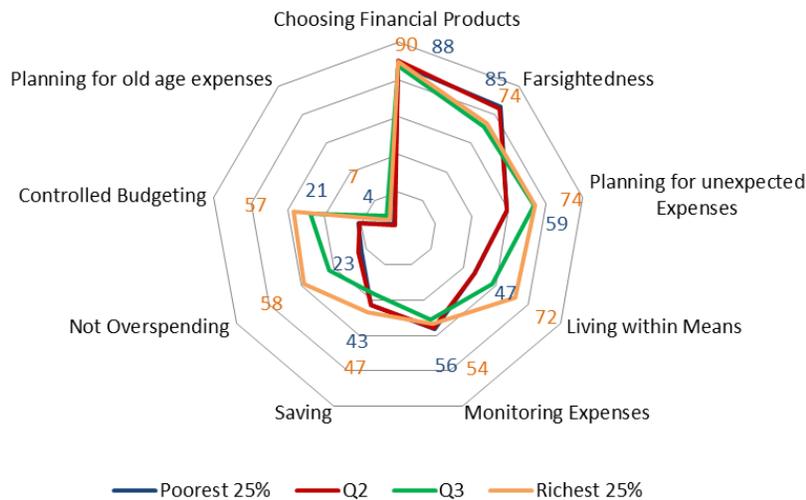
Source: WB Financial Capability Surveys

An important personal characteristic which is found to be strongly associated with higher scores in several financial capability areas is higher income. Faced with small income streams, low income populations seem to have less financial control and struggle more than high income earners with setting up a budget and adhering to it which is reflected in a remarkable difference of 36 points in their budgeting scores (see Figure 19). As compared to affluent segments of the population, those living on the lowest incomes are also more inclined to overspend and they are found to experience more difficulties living within their means. As would be expected, daily hardships of low income segments constrain their ability to cope with unforeseen events in comparison to high income groups, resulting in a difference of 15 points in their respective scores for planning for unexpected events.

Another pattern which emerges is that living in a rural environment is related with lower financial capability scores. Figure 19 reveals a wide gap between rural and urban populations in their propensity to think about the future. More specifically, while urban dwellers achieved a score of 72, rural residents scored 90 in the area of farsightedness. However, despite having longer time horizons, respondents who live in rural neighborhoods tend to be more challenged in terms of budgeting, refraining from overspending, and monitoring their expenses. Further, regressions analysis suggest that holding income and other individual characteristics constant, rural dwellers are less inclined to save as compared to their urban counterpart group (see Table 9).

Figure 19. Financial Capability by Urban/Rural, Income Quartiles

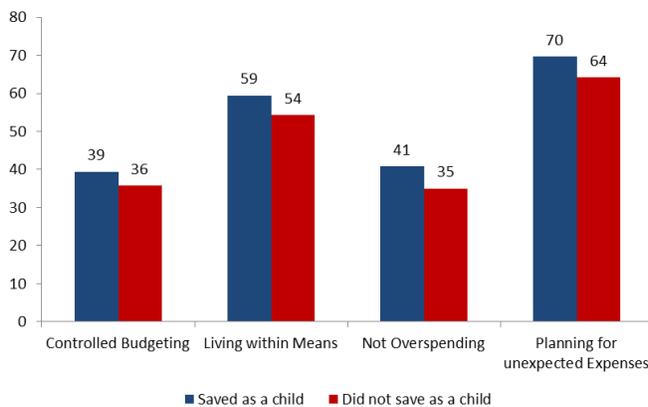




Source: WB Financial Capability Survey, Morocco 2013

Starting early pays off since having saved as a child correlates with a higher ability to budget, to live within means, to refrain from overspending, and to cover for unexpected expenses. Starting to save at an early age has value. As shown in Figure 20, respondents who already saved as a child score on average slightly higher than their counterpart group who did not save in their childhood with respect to financial behaviors such as budgeting, living within means, not overspending, and covering for unexpected expenses. Regression analysis confirms that these observed differences remain significant even after controlling for other socio-economic and demographic factors (see Table 10). Interestingly, those who began saving habits as children and those who did not are not distinguishable in terms for their attitudes towards savings.

Figure 20. Financial Capability Scores by Saving Status during Childhood



Source: WB Financial Capability Survey, Morocco 2013

3. Relationship between Financial Inclusion and Financial Capability

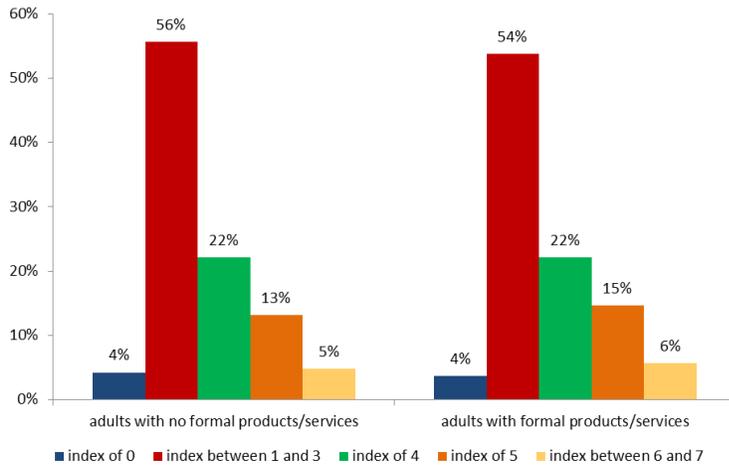
There is little doubt that financial capability and financial inclusion influence each other. While lack of knowledge about financial products may hinder their use, it may also be the case that as people begin using financial services, they become more familiarized with them and knowledgeable about them, in a “learning by doing” fashion. While disentangling a causal link between financial inclusion and financial capability is beyond the scope of this report, this chapter presents an overview of who the financially excluded in Morocco are and how their financial knowledge, attitudes and behaviors compare to financially included segments of the population.

3.1 Financial literacy and financial inclusion

Financial illiteracy is usually cited as an explanation of the limited demand for financial services in developing countries. If people do not understand financial concepts and lack basic numeracy skills, they may not feel comfortable in choosing financial products and hence will not demand them, or perhaps even more alarming, they will choose products which do not fit their needs best or use them in the wrong way. For instance, in a study in India and Indonesia, Cole and others (2009) found financial literacy to be an important factor in determining the demand for financial products, especially among uneducated and financially illiterate segments of the population.

Data from the Financial Capability Survey indicates that in Morocco, differences in financial literacy levels among users and non-users of formal financial products and services are not substantial. Using the financial literacy index discussed in chapter 2.1.1 and categorizing respondents into 5 groups according to the number of financial literacy questions they answered correctly, it can be seen in Figure 21, that there are hardly any differences between the performance of Moroccans who currently use formal financial products and those who do not. This finding is validated by regression analysis, which suggests that there is no significant correlation between financial literacy and the participation in formal financial markets (see Table 11).

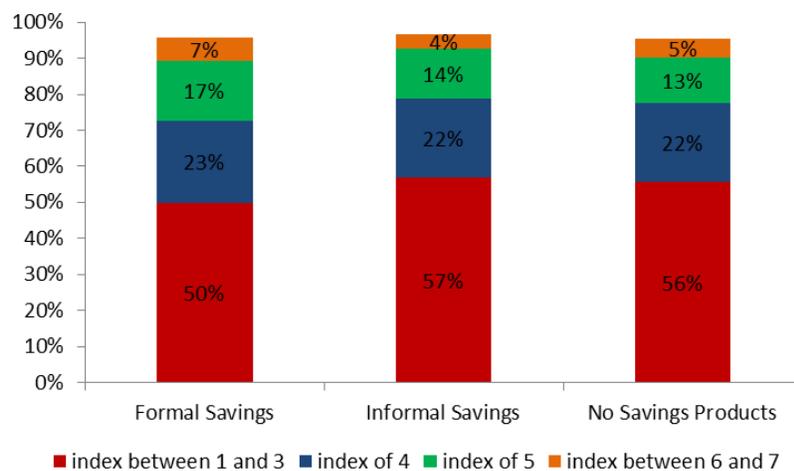
Figure 21. Distribution of financial literacy score, by formal financial products and services ownership

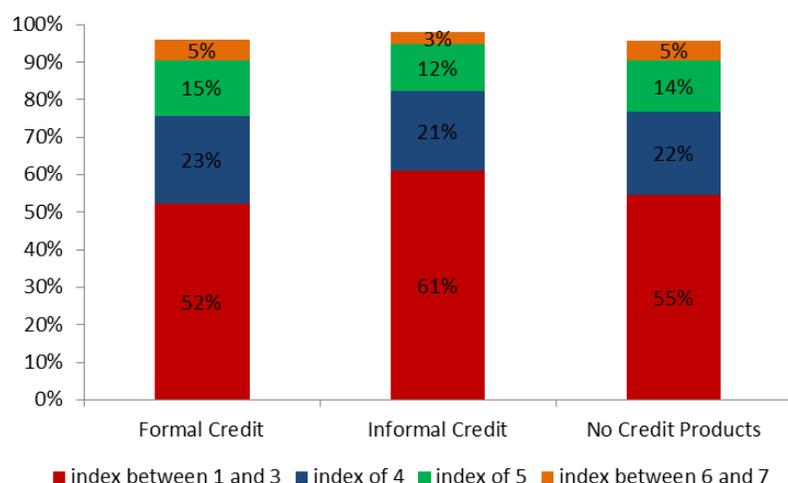


Source: WB Financial Capability Survey, Morocco 2013

Even Moroccans who use formal savings or borrowing instruments appear to have low understanding of fundamental financial concepts. In Figure 22, we present the financial literacy index of Moroccans who save and borrow by tapping into formal, informal sources, and those who do not save or borrow at all. As seen from the figure, half of the Moroccans who save formally are not able to answer more than three out of the seven quiz-like questions correctly. Moroccans who do not save, or who save in savings and credit self-help groups or other informal sources, perform slightly worse. A similar pattern is found among borrowers. While respondents who hold a formal credit score marginally higher in their financial literacy assessment than respondents without or with informal credit, there is a substantial portion of Moroccans using credit from banks who answered more than half of the financial literacy questions incorrectly.

Figure 22. Distribution of financial literacy score, by usage of formal/informal savings and credit products





Source: WB Financial Capability Survey, Morocco 2013

These low levels of understanding of basic financial concepts may be of concern, particularly among the active users of financial products. In order for financial products to provide maximum benefits, their users need to know and understand how to use them. Experience (as with the microcredit crisis in Morocco and in several other countries) has shown that using financial products without fully understanding them could do more harm than good (see box 3). As with the case of financial awareness, there seems to be room for policies aimed at enhancing financial literacy levels and numeracy skills among Moroccans, both for users of formal financial products as well as for Moroccans who are currently excluded from the formal financial system but might eventually become more integrated.

Box 3. Financial literacy and attitudes towards debt

Most evidence on the effects of financial literacy on debt comes from studies in developed countries. In the U.S., Lusardi and others (2009) found that debt literacy (measured by questions evaluating debt related concepts) is on average low, and is positively associated with higher debt loads, fees and borrowing costs. Perry (2008) found that in the U.S. a substantial fraction of people (32 percent) tend to overestimate their credit ratings, being also less financially literate, less likely to plan their expenses and to save or invest.

3.2 Knowledge about financial products and financial inclusion

It is difficult to establish a causal relationship between financial inclusion and financial product awareness with this survey, studies in various settings have found, however, that enhanced financial awareness may in turn lead to higher product up-take. In the U.S., for instance, information

about a retirement plan was randomly provided to a group of university employees. Workers who received the information were substantially more likely to enroll in the retirement plan than those who did not obtain the information, suggesting that individuals are more likely to use a financial product once they learn about it and its benefits (Duflo and Saez, 2003). In a similar vein, Giné and others (2011) found that in rural India lack of understanding of insurance products is the second most stated reason for households not to use purchase rainfall insurance. Overall, evidence of these studies suggests that lack of usage of products may be reflecting a lack of awareness about them.

While it is the case that not everyone should (or needs to) use financial products, lack of awareness can prevent people from using financial products that could potentially benefit them. As discussed in chapter 1.5, most financially excluded Moroccans state they do not have formal accounts because they lack the money to maintain the accounts or because they have no need for them. Only a small fraction of Moroccans report that they do not know how to use them (4 percent) or that they do not trust them (5 percent), suggesting at first glance that in Morocco, barriers related to lack of knowledge about financial products are not substantial. However, when analyzing how informed Moroccans without formal accounts are about services of various financial providers, their awareness level appears to be low. Using the financial product awareness index discussed in chapter 2.1.2, Figure 23 suggests low awareness levels even among non-formal account users who state reasons not related to financial awareness barriers.²⁰ Regression analysis suggests that even after controlling for socioeconomic and demographic characteristics of Moroccans, awareness of financial products and the likelihood of owning a formal product or service are strongly linked (see Table 11).

As people's awareness of financial products increases, they are more likely to rely on products from formal providers. As Figure 24 indicates, Moroccans who save and borrow from formal sources are more aware of various financial institutions and their products than those who tap into informal sources, or those who do not save or borrow at all. If formal financial providers offer services of higher quality, this pattern may suggest that Moroccans with more information of the financial sector, select better products and institutions than those with less information.²¹

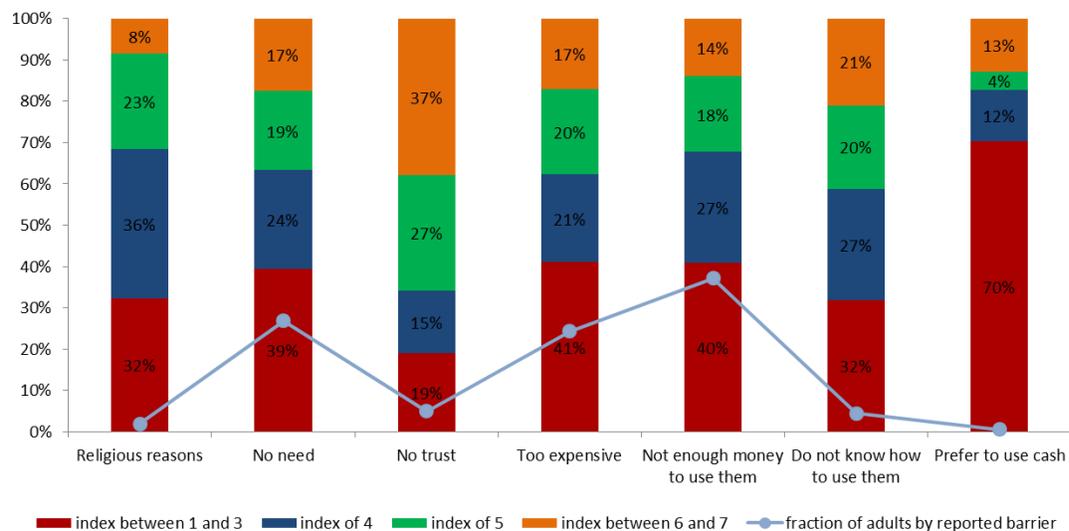
While financially excluded Moroccans are familiar with services from less regulated providers, they are less aware of products offered by formal financial institutions. As compared to survey participants who own formal financial products, Moroccan respondents without formal products are familiar with

²⁰ In the 2013 Financial Capability Survey, respondents were asked if they knew about the products of seven financial institutions that are: commercial banks, insurance companies, brokerage houses, microfinance organizations, other non-banking financial institutions, money changers and money transfers. The financial awareness score ranges from 0 to 7. A score of 0 corresponds to a respondent who is not aware of any of the listed institutions, whereas a score of 7 corresponds to a respondent aware of the products of the 7 financial institutions.

²¹ Table 12 presents the results of a regression analysis that compares the correlations of having a formal product/service and being aware of formal or informal financial institutions. Insurance companies, brokerage houses and microfinance organizations, were classified as formal financial institutions, while savings and credit self-help groups, money changers and money transfer operators were classified as informal financial providers. Awareness about commercial banks was not included in the regression analysis because it perfectly correlates with having a formal account.

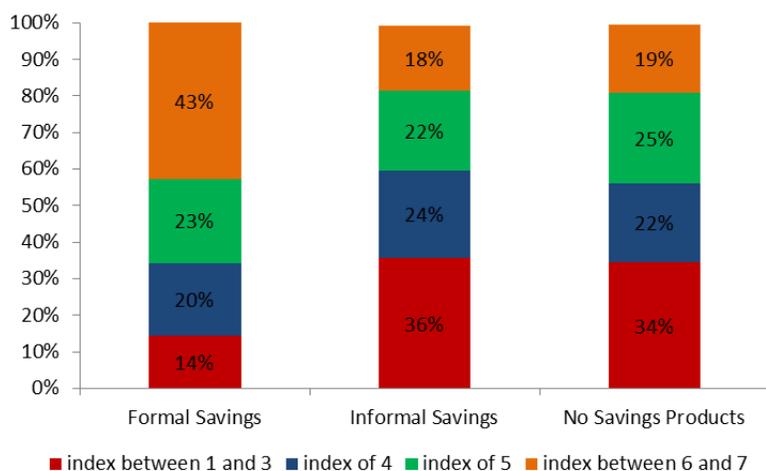
products offered by fewer financial institutions. Notably, the financial providers that Moroccans without formal products were less likely to be familiar with are formal ones, such as commercial banks, insurance companies, microfinance institutions, and brokerage houses (see Figure 25). Knowledge about financial products offered by less regulated providers (such as savings and credit self-help groups, money changers and money transfer operators) was not related to owning a formal product.

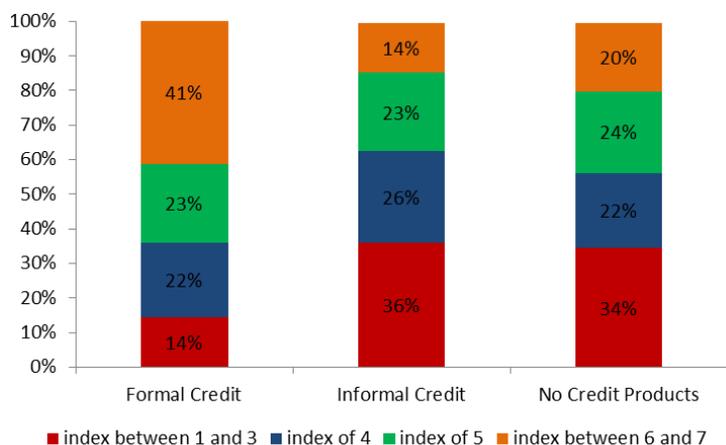
Figure 23. Financial product awareness score, by reasons for not having a formal account



Source: WB Financial Capability Survey, Morocco 2013

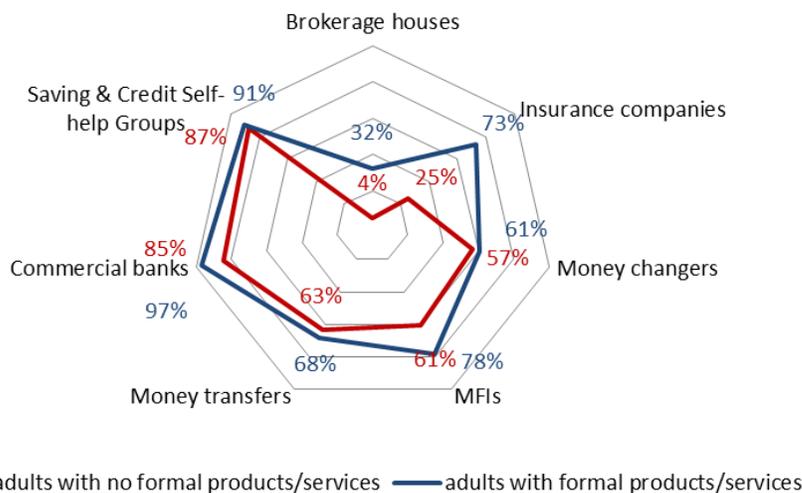
Figure 24. Distribution of financial product awareness score, by formal/informal savings and credit products





Source: WB Financial Capability Survey, Morocco 2013

Figure 25. Financial Product Awareness, by formal products and services ownership



Source: WB Financial Capability Survey, Morocco 2013

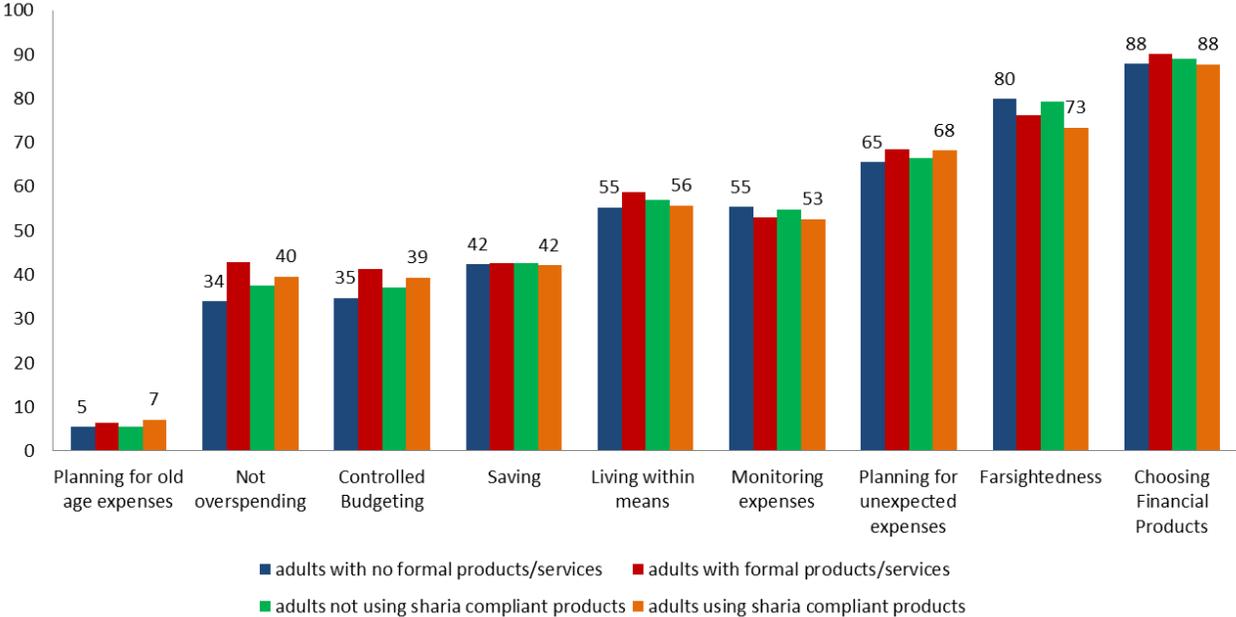
3.3 Financial attitudes/behavior and financial inclusion

Attitudes and behaviors are another relevant dimension when analyzing financial inclusion. In developed and developing countries, households and firms are frequently excluded from accessing financial products because of inadequate credit history, irresponsible financial behavior, poor business and accounting records, etc.²²

²² For instance, a recent survey of firms in Zambia found that about 73 percent of micro entrepreneurs found it difficult to obtain loans for these reasons (World Bank 2013).

Interestingly, in Morocco there are no substantial differences in the financial behaviors and attitudes of respondents with and without formal financial products, as well as users and non-users of Shari’ah compliant products. Using the same financial capability scores which have been described in chapter 2.2, Figure 26 shows that little differences arise between Moroccans with formal financial products and those without in terms of their financial attitudes and behaviors. Likewise, regarding their financial behaviors and attitudes, they are hardly distinguishable between those Moroccan respondents who report using and not using Shari’ah-compliant products.

Figure 26. Distribution of Financial Attitudes and Behaviors



Source: WB Financial Capability Survey, Morocco 2013

4. Financial Consumer Protection

In addition to peoples' ability to take sound financial decisions, the recent financial crisis has highlighted the importance of financial consumer protection to protect consumers from abusive sale practices and to level the playing field between providers and consumers of financial services. Financial consumer protection is about ensuring a fair interaction between providers and consumers of financial services. A consumer protection regime is essential in counterbalancing the inherent disadvantage of financial service consumers vis-à-vis the power, information, and resources of their providers. Without basic protective measures, consumers may find it difficult or costly to obtain sufficient information or adequately understand the financial products that they use.

Thus, financial consumer protection is necessary to ensure stable financial markets in Morocco while ensuring that expanded access benefits consumers and the overall economy. As outlined in chapter 1.1, a number of initiatives are planned or already underway in Morocco to increase financial sector outreach to formally excluded populations. Increased access to finance can result in substantial positive effects, both on the macro level as well as on the level of individuals. However, it can be harmful if inexperienced consumers are not protected against fraud or unfair business practices.

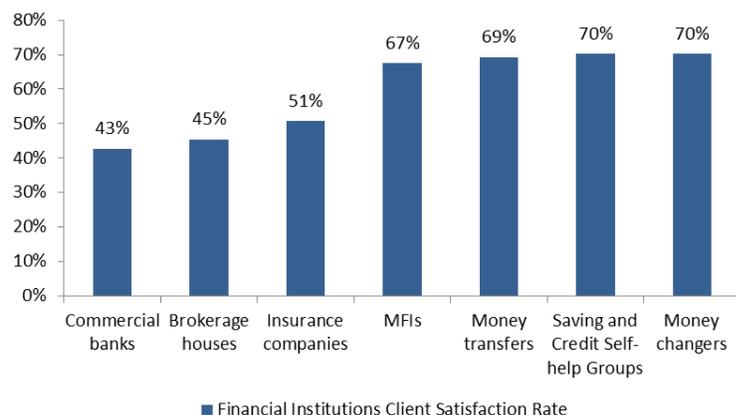
In addition, effective financial consumer protection frameworks are critical for instilling confidence in the financial system and for promoting financial sector outreach. A high incidence of conflicts with providers of financial services or low levels of satisfaction with financial products used could undermine the trust in the financial system. Despite making existing consumers worse off, it can also discourage potential new consumers to enter the market. This section investigates if the products that financially included individuals use are effectively meeting their needs. In particular, it identifies segments which are more likely to have encountered a financial service provider conflict in the past three years and who seem less likely to be satisfied with the products they use.

In order to measure whether products that financially included individuals use are effectively meeting their needs, the financial capability survey captured if survey participants are in general satisfied with different types of products they ever used. More specifically, respondents were asked if they are satisfied with products they used from by banks, MFIs, insurance companies, community savings and credit self-help groups, money changers, money lenders, and brokerage houses.

Despite serving more customers, banks and their products seem to meet the needs of their clients less as compared to six other types of providers and the products they offer. Figure 27 presents the satisfaction rates for different providers. As can be seen, the highest satisfaction rates are achieved by savings and credit self-help groups, money transfer operators, money exchange offices, and microfinance institutions which seem to meet the needs of around 70 percent of their client base. Banks on the other hand achieve the lowest satisfaction rate among all seven financial providers. While 53 percent of the population have been using banks at some point in their lives (see chapter 1), only 43 percent of their

clients indicated to be satisfied with their products. Only brokerage houses whose products reach a relatively small fraction of adults appear to have a similar proportion of customers who claim to be satisfied with the products they offer.

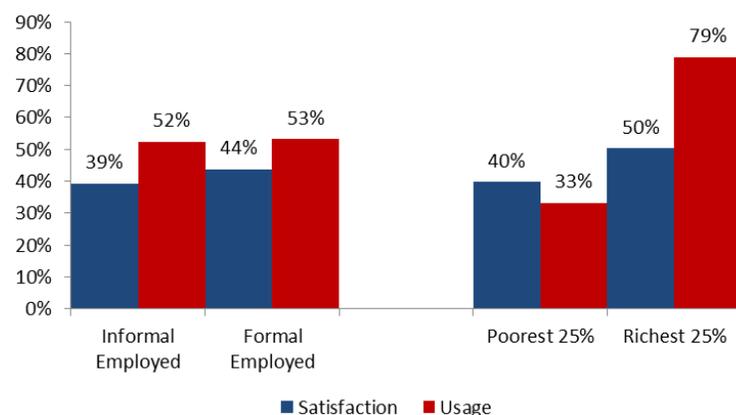
Figure 27. Financial Institutions Client Satisfaction Rate



Source: WB Financial Capability Survey, Morocco 2013

Among those who ever used banks, informally employed and low income segments are less satisfied with their products than their counterpart groups. Whereas 44 percent of formally employed adults indicated that they are satisfied with the products offered by banks, the corresponding number for informally employed Moroccans is 39 percent. Another important predictor for people’s satisfaction with bank products is income. While half of the highest income earners who ever used bank products reported to be satisfied with them, only 40 percent of the lowest income group indicated to be satisfied with the bank products they used.

Figure 28. Bank Usage and Client Satisfaction Rate by Employment, and Income



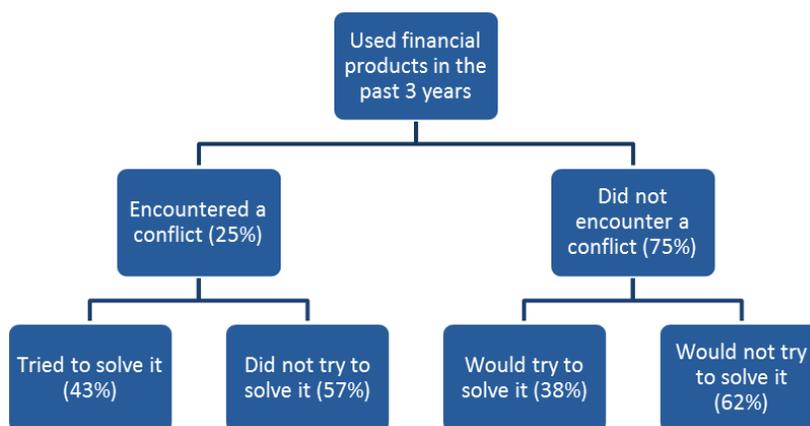
Source: WB Financial Capability Survey, Morocco 2013

Another interesting finding is that although a substantial portion of respondents (25 percent) experienced a financial service provider conflict, the majority did not try to solve conflicts they

encountered. As shown in Figure 29, a quarter of the sampled respondents stated, that they experienced a conflict with a financial service provider in the past three years. This incidence rate of reported financial service provider conflicts is much higher in Morocco than in the few countries for which a comparable indicator is available. For instance, the portion of people who encountered a conflict in the past three years is 15 percent in Mozambique, 5 percent in Mongolia, and only 1 percent in Tajikistan. However, less than half of those Moroccan respondents who encountered a dispute (43 percent) took actions to try to solve it. Even less, 38 percent of those who did not experience a conflict stated that if they faced a conflict they would try to solve it.

A closer look at the characteristics of those who encountered a dispute reveals that women and rural populations are among those who were more likely to have faced a financial service provider conflict. Compared to 24 percent of men, 26 percent of all women who used a financial product in the past three years reported to have faced a financial service provider conflict. Likewise, the survey findings suggest that 24 percent of urban dwellers faced a conflict with a financial service provider in the past three years as compared to 26 percent of rural residents. Regression analysis shows that these differences matter even after controlling for other socioeconomic and demographic factors (see Table 13).

Figure 29. Approaches to deal with financial service provider conflicts

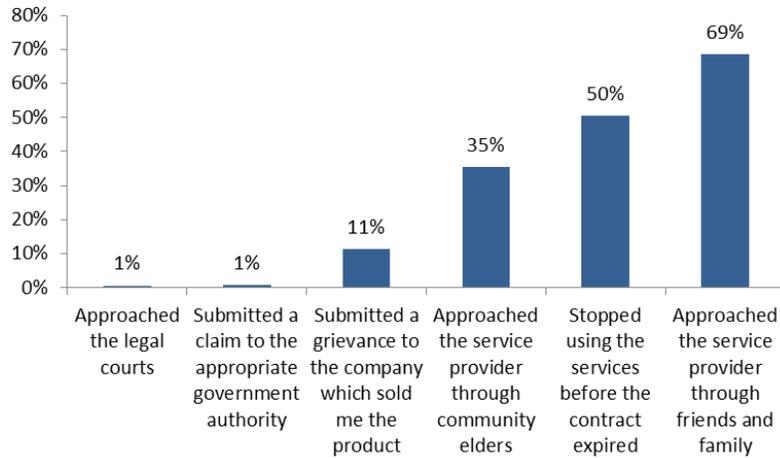


Source: WB Financial Capability Survey, Morocco 2013

In terms of actions taken in the event of a dispute, redress systems such as the respective regulatory government agency or legal courts were barely sought by those who experienced a conflict with their financial service provider. Figure 30 highlights the approaches followed in trying to resolve the conflict. As can be seen, the most common actions taken to try to resolve disputes were to approach the service provider through friends and family (69 percent), to stop using the services before the contract expired (50 percent), or to approach the service provider through community elders (35 percent). A grievance to the company which sold the product was submitted by 11 percent of those who experienced a conflict. The appropriate government authority and legal courts were only sought as systems of redress in 1

percent of all conflict cases. The latter can most likely be explained by perceived high costs and lengthy time of proceedings.

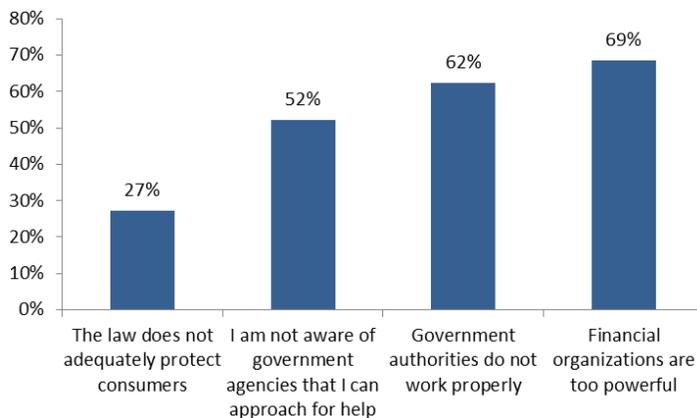
Figure 30. Actions Taken to Redress Conflicts with Financial Service Providers



Source: WB Financial Capability Survey, Morocco 2013

The main causes for inertia are either related to perceived power imbalances between financial providers and their clients or they relate to lack of trust in or lack of awareness of respective government authorities which can be approached in the event of a dispute. More than two thirds of those who did not take any actions to solve a dispute reported as main reason for their inertia that they perceived financial institutions as being too powerful. Slightly less, 62 percent indicated that they think the government authorities do not work properly, followed by 52 percent who were not aware of any government agencies they can approach for help which helps to explain why only 1 percent of respondents submitted a claim to the appropriate government authority when they faced a financial dispute. 27 percent of those who did not try to solve a conflict mentioned that they did not take any actions because they think the law does not adequately protect consumers (Figure 31).

Figure 31. Reasons for Not Solving the Conflicts with Financial Service Providers



Source: WB Financial Capability Survey, Morocco 2013

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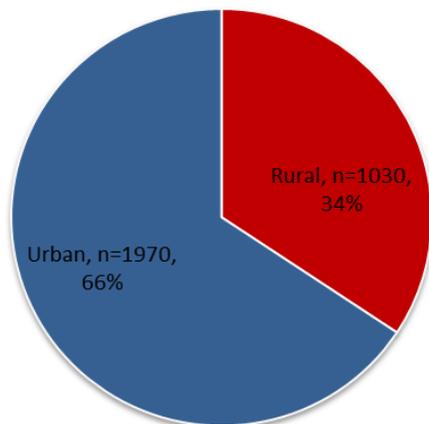
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Appendix

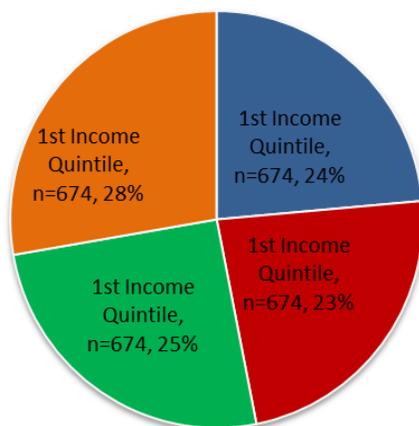
A. Background on the Morocco Survey

Figure 32. Estimated population break-down by urban/rural



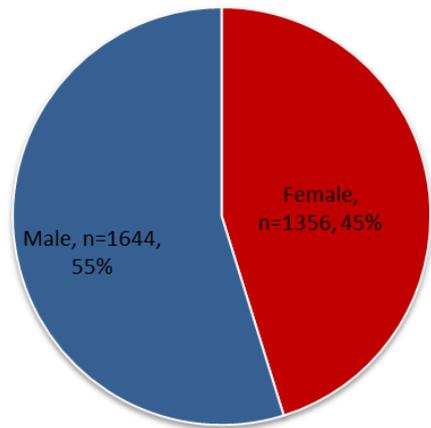
Source: WB Financial Capability Survey, Morocco 2013

Figure 33. Estimated population break-down by different income groups



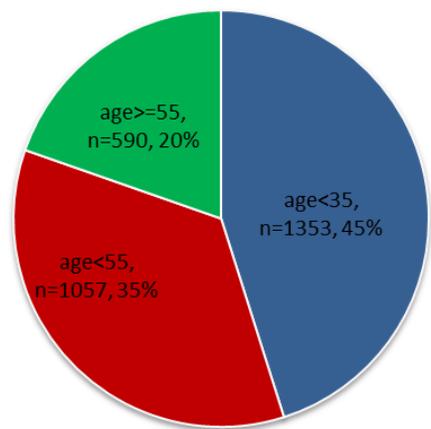
Source: WB Financial Capability Survey, Morocco 2013

Figure 34. Estimated Population Break-down by Male/Female



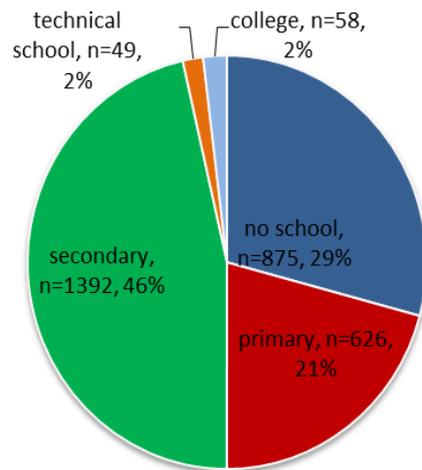
Source: WB Financial Capability Survey, Morocco 2013

Figure 35. Estimated population break-down by age groups



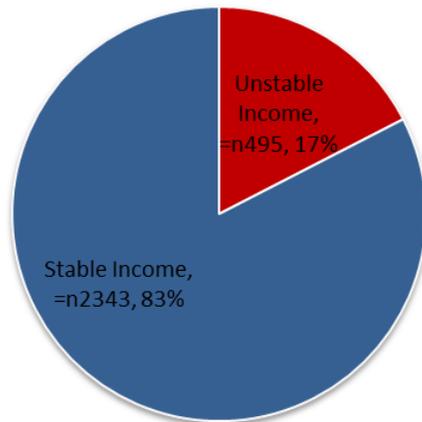
Source: WB Financial Capability Survey, Morocco 2013

Figure 36. Estimated population break-down by education groups



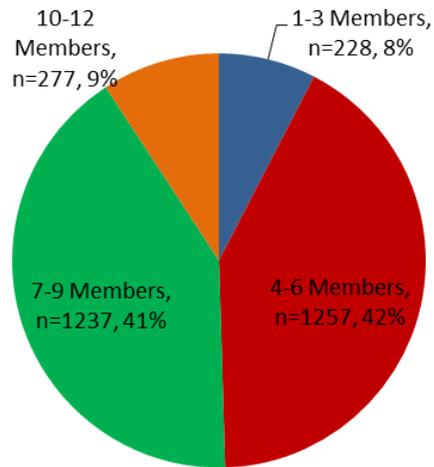
Source: WB Financial Capability Survey, Morocco 2013

Figure 37. Estimated division of stable/unstable income groups



Source: WB Financial Capability Survey, Morocco 2013

Figure 38. Estimated population break-down by household size



Source: WB Financial Capability Survey, Morocco 2013

B. Regression Tables

Chapter 1. Financial Inclusion

Table 4. Owning a formal product by Social and Demographic Factors

Age	0.00407*** (0.000838)
Male	0.129*** (0.0255)
	No School as the baseline
Primary school	0.0413 (0.0256)
Secondary school	0.0806*** (0.0254)
Tertiary school	-0.0141 (0.0697)
Read/write Arabic/Tamazight/French	-0.00807 (0.0251)
Hhd head	0.0750** (0.0357)
	Poorest 25% as the baseline
Second 25%	0.0216 (0.0273)
Third 25%	0.0940*** (0.0337)
Richest 25%	0.184*** (0.0378)
	Out of Labor Force as the baseline
Unemployed	-0.0147 (0.0454)
Formally employed	0.102*** (0.0318)
Informally employed	0.0759** (0.0355)
Self-employed	0.103*** (0.0388)
Retired	-0.102 (0.0659)
Urban village	0.273*** (0.0330)
	No Media Usage as the baseline
One media used	0.152* (0.0837)
Two media used	0.176* (0.0901)
Three media used	0.203** (0.0856)

Four media used	0.151 (0.0913)
Five media used	0.152 (0.0922)
Six media used	0.161 (0.104)
HH size	-0.00847 (0.00539)
1 = if income is stable	-0.0339 (0.0273)
Constant	-0.279*** (0.101)
Observations	2,712
R-squared	0.220
N	2712
df_m	25

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Table 5. Commercial Bank Awareness, Commercial Bank Product Usage, and Commercial Bank Account Usage by Social, Demographic, and local community Factors

	Bank Awareness	Bank Product Usage	Bank Account Usage
Male	0.03 (0.02)	-0.05* (0.03)	-0.05* (0.03)
Age	0.01*** (0.00)	0.01 (0.00)	0.01 (0.00)
Age Square	-0.00*** (0.00)	-0.00 (0.00)	-0.00 (0.00)
No School as the baseline			
Primary school	0.10*** (0.02)	0.04 (0.03)	0.04 (0.03)
Secondary school	0.12*** (0.02)	0.06** (0.02)	0.06** (0.02)
Tertiary school	0.16*** (0.02)	-0.02 (0.06)	-0.02 (0.06)
Read/write Arabic/Tamazight/French	-0.01 (0.03)	-0.03 (0.02)	-0.03 (0.02)
Hhd head	0.04* (0.02)	0.05 (0.03)	0.05 (0.03)
Poorest 25% as the baseline			
Second 25%	0.00 (0.02)	0.10*** (0.02)	0.10*** (0.02)
Third 25%	0.06*** (0.02)	0.18*** (0.04)	0.18*** (0.04)
Richest 25%	0.11*** (0.02)	0.33*** (0.04)	0.33*** (0.04)
Out of Labor Force as the baseline			
Formally employed	0.02 (0.02)	0.06 (0.04)	0.06 (0.04)

Informally employed	0.00 (0.02)	0.05 (0.04)	0.05 (0.04)
Self-employed	-0.02 (0.03)	0.02 (0.04)	0.02 (0.04)
Retired	-0.01 (0.04)	-0.04 (0.07)	-0.04 (0.07)
Unemployed	0.01 (0.03)	0.05 (0.06)	0.05 (0.06)
Urban village	-0.09*** (0.02)	0.13*** (0.03)	0.13*** (0.03)
No Media Usage as the baseline			
One media used	-0.05 (0.03)	0.13* (0.08)	0.13* (0.08)
Two media used	-0.11*** (0.02)	0.12 (0.07)	0.12 (0.07)
Three media used	-0.09*** (0.02)	0.15* (0.08)	0.15* (0.08)
Four media used	-0.06** (0.03)	0.09 (0.08)	0.09 (0.08)
Five media used	-0.07*** (0.03)	0.09 (0.08)	0.09 (0.08)
Six media used	-0.06** (0.03)	0.10 (0.10)	0.10 (0.10)
HH Size	-0.01 (0.00)	-0.00 (0.01)	-0.00 (0.01)
1 = if income is stable	-0.02 (0.02)	-0.06** (0.03)	-0.06** (0.03)
City Casablanca as the baseline			
region==CHAOUIA- OURDIGHA	-0.03 (0.03)	-0.15** (0.06)	-0.15** (0.06)
region==DOUKALA-ABDA	-0.02 (0.03)	-0.24*** (0.07)	-0.24*** (0.07)
region==FÈS-BOULEMANE	-0.07** (0.03)	-0.25*** (0.06)	-0.25*** (0.06)
region==GHARB CHRARDA- BNI HSEIN	-0.11*** (0.03)	-0.21** (0.09)	-0.21** (0.09)
region==GRAND- CASABLANCA	-0.07*** (0.03)	-0.15** (0.06)	-0.15** (0.06)
region==GUELMIM- ESSEMARA	-0.07 (0.06)	-0.37*** (0.07)	-0.37*** (0.07)
region==LAËYOUNE- BOUJDOUR	0.03 (0.02)	-0.28*** (0.06)	-0.28*** (0.06)
region==MARRAKECH- TENSIFT-ALHAOUZ	-0.00 (0.02)	-0.14** (0.07)	-0.14** (0.07)
region==MÈKNÈS- TAFILALET	-0.01 (0.03)	-0.16** (0.08)	-0.16** (0.08)
region==ORIENTAL	0.00 (0.02)	-0.17** (0.08)	-0.17** (0.08)

region==OUED ED DAHAB- LAGOUIRA	-0.32*** (0.02)	-0.58*** (0.05)	-0.58*** (0.05)
region==RABAT-SALÉ- ZEMMOUR ZAER	-0.01 (0.02)	-0.12* (0.06)	-0.12* (0.06)
region==SOUSS-MASSA DÁRAA	-0.01 (0.02)	-0.29*** (0.06)	-0.29*** (0.06)
region==TADLA-AZILAL	0.00 (0.03)	-0.22*** (0.07)	-0.22*** (0.07)
region==TANGER-TÉTOUAN	0.03 (0.02)	-0.11* (0.06)	-0.11* (0.06)
region==TAZA-AL HOCEIMA- TAOUNATE	-0.01 (0.03)	-0.24*** (0.07)	-0.24*** (0.07)
Shortest Distance Quartile of Nearest Financial Institution as the baseline			
2 nd Distance Quartile of Nearest Financial Institution	-0.03** (0.02)	0.05 (0.03)	0.05 (0.03)
3 rd Distance Quartile of Nearest Financial Institution	-0.04** (0.02)	-0.01 (0.04)	-0.01 (0.04)
Furthest Distance Quartile of Nearest Financial Institution	-0.04** (0.02)	-0.01 (0.03)	-0.01 (0.03)
_cons	0.77*** (0.07)	-0.00 (0.13)	-0.00 (0.13)
Number of observations	2,351	2,351	2,351
R2	0.125	0.224	0.224

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Chapter 2. Financial Capability

Table 6. Financial Literacy and Financial Product Awareness by Social and Demographic Factors

	Financial Literacy	Low Financial Product Awareness
Age	0.000298 (0.000946)	-0.0101*** (0.00371)
Male	-0.00389 (0.0239)	-0.0903 (0.0949)
No School as the baseline		
Primary school	0.105*** (0.0365)	-0.411*** (0.120)
Secondary school	0.107*** (0.0336)	-0.318*** (0.103)
Tertiary school	0.144*** (0.0489)	-0.156 (0.251)
Read/write Arabic/Tamazight/French	-0.109*** (0.0341)	-0.0920 (0.120)
Hhd head	-0.0269 (0.0356)	0.0508 (0.122)
Poorest 25% as the baseline		
Second 25%	0.0326	0.0974

	(0.0313)	(0.0904)
Third 25%	0.236***	-0.0292
	(0.0324)	(0.114)
Richest 25%	0.258***	-0.515***
	(0.0329)	(0.119)
	Out of Labor Force as the baseline	
Unemployed	0.136**	-0.0131
	(0.0574)	(0.158)
Formally employed	0.105**	-0.242**
	(0.0478)	(0.121)
Informally employed	0.0745	-0.166
	(0.0465)	(0.132)
Self-employed	0.0982*	-0.295**
	(0.0502)	(0.145)
Retired	0.0362	0.112
	(0.0788)	(0.220)
1 = if income is stable	0.0149	0.0155
	(0.0400)	(0.124)
Urban village	-0.196***	-0.0964
	(0.0258)	(0.0795)
	No Media Usage as the baseline	
One media used	0.106	0.0467
	(0.125)	(0.462)
Two media used	0.132	-0.0908
	(0.116)	(0.459)
Three media used	0.151	-0.123
	(0.114)	(0.449)
Four media used	0.256**	-0.154
	(0.116)	(0.446)
Five media used	0.250**	-0.535
	(0.116)	(0.454)
Six media used	0.314**	-0.408
	(0.122)	(0.484)
HH Size	0.00265	0.0370**
	(0.00570)	(0.0164)
Saved as a Child	-0.00820	-0.126*
	(0.0214)	(0.0725)
Constant	0.812***	-0.140
	(0.128)	(0.530)
Observations	2,712	2,712
df_m	25	25
f	.	6.093

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Poisson Model

Table 7. Financial Literacy by Local Community Factors

	Inner City as the baseline
Urban location	-0.0729 (0.0857)
Peri-urban location	-0.438*** (0.124)
Rural location	-0.0811

	(0.0926)
Distance in min to primary school	-0.00191
	(0.00451)
Distance in min to clinic/hospital	-0.000263
	(0.00293)
Distance in min to bank	-0.000463
	(0.00173)
Distance in min to MFI	-0.00345***
	(0.00127)
Most homes have electricity inside property as the baseline	
Most homes do not have electricity inside property	-0.00614
	(0.0538)
Most homes have piped water inside property as the baseline	
Most homes do not have piped water inside property	0.0592
	(0.0656)
Water supply is a problem as the baseline	
Water supply is a problem to some extent	-0.0337
	(0.0592)
Water supply is not a problem	-0.0323
	(0.0660)
Unemployment is a problem as the baseline	
Unemployment is a problem to some extent	-0.0233
	(0.0294)
Unemployment is not a problem	-0.123**
	(0.0563)
Crime is a problem as the baseline	
Crime is a problem to some extent	0.165**
	(0.0675)
Crime is not a problem	0.143**
	(0.0714)
Life in location has better than 5 years ago as the baseline	
Life in location has not changed from 5 years ago	-0.0189
	(0.0547)
Life in location is worse than 5 years ago	-0.597***
	(0.0935)
Normal dress below standards in location as the baseline	
Normal dress standards in location	-0.427***
	(0.107)
Normal dress above standards in location	-0.110
	(0.0999)
Middle income location (perceived)	
Middle income location (perceived)	0.202**
	(0.0792)
Low income location (perceived)	0.150
	(0.0912)
Constant	1.474***
	(0.184)
Observations	1,680
df_m	21

 Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Poisson Model

Table 8. Insurance Awareness by Social and Demographic Factors

Urban village	0.138***
	(0.0320)
Age	0.00316***
	(0.000819)
Male	0.0229
	(0.0226)
	No School as the baseline
Primary school	0.0756**
	(0.0296)
Secondary school	0.0803***
	(0.0255)
Tertiary school	0.0709
	(0.0589)
Read/write Arabic/Tamazight/French	-0.0690**
	(0.0278)
Hhd head	0.0353
	(0.0319)
	Poorest 25% as the baseline
Second 25%	-0.0897***
	(0.0240)
Third 25%	0.166***
	(0.0350)
Richest 25%	0.374***
	(0.0366)
	Out of Labor Force as the baseline
Unemployed	0.0730*
	(0.0425)
Formally employed	0.155***
	(0.0278)
Informally employed	0.128***
	(0.0304)
Self-employed	0.139***
	(0.0390)
Retired	0.0441
	(0.0640)
	No Media Usage as the baseline
One media used	0.0455
	(0.137)
Two media used	0.0767
	(0.139)
Three media used	0.0892
	(0.139)
Four media used	0.0533
	(0.143)
Five media used	0.0948
	(0.145)
Six media used	0.0774

	(0.152)
Household Size	-0.0132***
	(0.00461)
1 = if income is stable	-0.106***
	(0.0278)
Constant	0.0702
	(0.150)
Observations	2,712
df_m	24
f	32.89

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Table 9. Financial Capability in Saving by Social and Demographic Factors

	Saving
Age	0.0852 (0.0595)
Male	0.992 (1.880)
	No School as the baseline
Primary school	1.986 (2.022)
Secondary school	1.978 (2.001)
Tertiary school	-3.889 (3.605)
Read/write Arabic/Tamazight/French	2.466 (1.920)
Hhd head	0.261 (2.587)
	Poorest 25% as the baseline
Second 25%	0.494 (1.544)
Third 25%	-4.507** (1.850)
Richest 25%	4.830** (2.067)
	Out of Labor Force as the baseline
Unemployed	-0.467 (3.401)
Formally employed	-0.914 (2.261)
Informally employed	-3.619 (2.477)
Self-employed	-4.761** (2.303)
Retired	0.00625 (4.624)
1 = if income is stable	-2.283 (2.049)
Urban village	3.937**

	(1.857)
Saved as a Child	0.691
	(1.457)
	No Media Usage as the baseline
One media used	-31.31***
	(7.267)
Two media used	-31.87***
	(7.349)
Three media used	-35.64***
	(7.532)
Four media used	-41.58***
	(7.541)
Five media used	-37.86***
	(7.675)
Six media used	-40.85***
	(8.302)
Constant	71.95***
	(7.865)
Observations	2,712
df_m	24
f	4.197

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Table 10. Financial Capabilities by Social and Demographic Factors

	Controlled Budgeting	Living within Means	Not Overspending	Planning for Unexpected Expenses
Age	-0.175*** (0.0570)	-0.0813 (0.0672)	-0.296*** (0.0803)	0.0341 (0.0721)
Male	3.669* (1.930)	2.664 (1.807)	0.0716 (2.399)	0.559 (1.975)
		No School as the baseline		
Primary school	2.730 (2.359)	-1.709 (2.627)	-0.951 (2.846)	-2.866 (2.869)
Secondary school	0.172 (2.092)	0.127 (2.368)	-3.553 (2.456)	-5.095* (2.608)
Tertiary school	1.355 (3.967)	-2.802 (4.228)	-4.973 (6.115)	-7.970 (5.393)
Read/write Arabic/Tamazight/French	-5.836** (2.365)	-4.374 (2.827)	1.127 (3.076)	-4.061 (2.992)
Hhd head	-0.735 (2.159)	-0.926 (2.554)	5.881* (3.264)	0.413 (2.662)
Poorest 25% as the baseline				
Second 25%	-0.171 (2.000)	-0.142 (1.794)	1.157 (2.462)	-1.067 (2.251)
Third 25%	21.91*** (1.917)	11.09*** (1.978)	17.13*** (2.743)	11.50*** (2.696)
Richest 25%	29.24*** (2.114)	25.29*** (2.226)	31.60*** (3.122)	12.00*** (2.899)
		Out of Labor Force as the baseline		

Unemployed	2.557 (3.293)	4.293 (3.176)	0.0282 (3.927)	-4.669 (3.854)
Formally employed	-4.065 (2.541)	0.177 (2.286)	-1.070 (3.106)	-3.768 (2.591)
Informally employed	-3.299 (2.826)	-0.111 (2.480)	-3.485 (3.205)	-4.973* (2.796)
Self-employed	-1.588 (2.660)	3.115 (2.678)	-2.383 (4.061)	-3.871 (3.194)
Retired	-8.237 (5.227)	-0.490 (4.752)	-4.752 (5.550)	3.587 (4.693)
1 = if income is stable	1.937 (2.258)	-2.501 (2.080)	-1.228 (2.613)	0.0733 (2.456)
Urban village	8.821*** (1.652)	0.720 (1.732)	6.114*** (2.226)	2.765 (2.091)
Saved as a Child	4.059*** (1.437)	4.556*** (1.536)	6.272*** (1.618)	5.532*** (1.709)
No Media Usage as the baseline				
One media used	6.460 (8.630)	-3.705 (8.613)	4.764 (11.10)	0.0143 (12.09)
Two media used	8.252 (8.338)	2.098 (8.201)	11.42 (10.85)	-4.901 (12.09)
Three media used	10.69 (8.256)	3.511 (8.394)	8.944 (11.10)	2.355 (11.79)
Four media used	10.33 (8.444)	-1.232 (8.506)	13.58 (11.33)	3.041 (11.99)
Five media used	18.20** (8.556)	1.938 (8.471)	12.33 (11.46)	3.701 (12.06)
Six media used	13.55 (9.187)	10.73 (9.310)	12.56 (12.50)	4.156 (12.12)
Constant	15.81* (9.175)	50.19*** (9.083)	20.36* (11.48)	63.67*** (12.27)
Observations	2,712	2,712	2,712	2,712
df_m	24	24	24	24
f	34.96	11.58	13.94	7.949

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Chapter 3. Relationship between Financial Inclusion and Financial Capability

Table 11. Financial Inclusion by Financial Literacy, Financial Product Awareness, Social and Demographic Factors

Financial Literacy Score		-0.00498 (0.00615)
Financial Product Awareness	0.0819*** (0.00599)	
Age	0.00336*** (0.000785)	0.00407*** (0.000838)

Male	0.133*** (0.0248)	0.129*** (0.0255)
No School as the baseline		
Primary school	0.00143 (0.0242)	0.0413 (0.0256)
Secondary school	0.0423* (0.0232)	0.0806*** (0.0254)
Tertiary school	-0.0423 (0.0661)	-0.0141 (0.0697)
Read/write Arabic/Tamazight/French	0.00537 (0.0248)	-0.00807 (0.0251)
Hhd head	0.0563 (0.0343)	0.0750** (0.0357)
Poorest 25% as the baseline		
Second 25%	0.0341 (0.0270)	0.0216 (0.0273)
Third 25%	0.0556* (0.0330)	0.0940*** (0.0337)
Richest 25%	0.0696* (0.0368)	0.184*** (0.0378)
Out of Labor Force as the baseline		
Unemployed	-0.0197 (0.0453)	-0.0147 (0.0454)
Formally employed	0.0693** (0.0317)	0.102*** (0.0318)
Informally employed	0.0574* (0.0343)	0.0759** (0.0355)
Self-employed	0.0782** (0.0370)	0.103*** (0.0388)
Retired	-0.105 (0.0638)	-0.102 (0.0659)
Urban village	0.270*** (0.0311)	0.273*** (0.0330)
No Media Usage as the baseline		
One media used	0.149 (0.102)	0.152* (0.0837)
Two media used	0.162 (0.106)	0.176* (0.0901)
Three media used	0.190* (0.101)	0.203** (0.0856)
Four media used	0.138 (0.106)	0.151 (0.0913)
Five media used	0.129 (0.105)	0.152 (0.0922)
Six media used	0.127 (0.116)	0.161 (0.104)
HH Size	-0.00946* (0.00526)	-0.00847 (0.00539)
1 = if income stable	-0.0170 (0.0260)	-0.0339 (0.0273)
Constant	-0.532***	-0.279***

	(0.118)	(0.101)
Observations	2,712	2,712
R-squared	0.274	0.220
N	2712	2712
df_m	25	25
F	48.41	28.87

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Table 12. Financial Inclusion by Awareness of Formal and Informal Institutions, Social and Demographic Factors

Age	0.00284*** (0.000767)	0.00407*** (0.000838)
Male	0.130*** (0.0252)	0.129*** (0.0255)
	No School as the baseline	
Primary school	-0.00643 (0.0267)	0.0403 (0.0255)
Secondary school	0.0359 (0.0246)	0.0796*** (0.0251)
Tertiary school	-0.103 (0.0682)	-0.0126 (0.0694)
Read/write Arabic/Tamazight/French	0.00984 (0.0245)	-0.00705 (0.0250)
Hhd head	0.0624* (0.0344)	0.0760** (0.0356)
Poorest 25% as the baseline		
Second 25%	0.0967*** (0.0247)	0.0203 (0.0274)
Third 25%	0.139*** (0.0316)	0.0889** (0.0347)
Richest 25%	0.196*** (0.0357)	0.177*** (0.0378)
	Out of Labor Force as the baseline	
Unemployed	-0.0435 (0.0449)	-0.0169 (0.0450)
Formally employed	0.0518* (0.0312)	0.101*** (0.0316)
Informally employed	0.0462 (0.0347)	0.0761** (0.0351)
Self-employed	0.0666* (0.0366)	0.102*** (0.0386)
Retired	-0.101 (0.0643)	-0.103 (0.0662)
Urban village	0.249*** (0.0292)	0.277*** (0.0334)
	No Media Usage as the baseline	
One media used	0.188* (0.102)	0.142 (0.0865)
Two media used	0.201* (0.107)	0.166* (0.0928)

Three media used	0.217** (0.102)	0.192** (0.0880)
Four media used	0.152 (0.108)	0.139 (0.0937)
Five media used	0.146 (0.107)	0.138 (0.0945)
Six media used	0.172 (0.119)	0.145 (0.107)
HH size	-0.00468 (0.00539)	-0.00855 (0.00539)
1 = if income stable	-0.0258 (0.0266)	-0.0349 (0.0273)
Knowledge of Formal Institutions	0.314*** (0.0231)	
Knowledge of Informal Institutions		0.0528 (0.0385)
Constant	-0.489*** (0.119)	-0.328*** (0.107)
Observations	2,712	2,712
R-squared	0.282	0.220
N	2712	2712
df_m	25	25

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Linear Regression with OLS Estimation

Chapter 4. Financial Consumer Protection

Table 13. Individual Experiencing Financial Disputes by Social and Demographic Factors

Age	-0.000328 (0.00250)
Male	-0.139* (0.0752)
	No School as the baseline
Primary school	-0.0566 (0.0864)
Secondary school	-0.00732 (0.0881)
Tertiary school	0.0647 (0.172)
Read/write Arabic/Tamazight/French	-0.0258 (0.121)
Hhd head	0.0311 (0.0906)
	Poorest 25% as the baseline
Second 25%	0.157** (0.0730)
Third 25%	0.272*** (0.0814)
Richest 25%	0.229***

	(0.0860)
	Out of Labor Force as the baseline
Unemployed	0.303**
	(0.135)
Formally employed	0.141
	(0.0977)
Informally employed	0.138
	(0.111)
Self-employed	0.324***
	(0.114)
Retired	0.402**
	(0.189)
Urban village	-0.172**
	(0.0712)
	No Media Usage as the baseline
One media used	-0.0982
	(0.480)
Two media used	-0.122
	(0.474)
Three media used	-0.0204
	(0.496)
Four media used	-0.0345
	(0.479)
Five media used	-0.0776
	(0.479)
Six media used	0.226
	(0.496)
HH size	-0.00468
	(0.00539)
1 = if income stable	-0.0258
	(0.0266)
Saved as a Child	-0.0376
	(0.0557)
Constant	-0.484
	(0.496)
Observations	2,712
df_m	25

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, Probit Model