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Participative Banking in Morocco: History, Impact, and Challenges

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Abstract. Discussions about Islamic banking in Morocco started in the early 80s but nothing came to fruition until 2007 with the "alternative products" initiative that ended, for most, as a failure but served as a practical knowledge foundational to the creation of participative banks in 2017. The primary objective of this paper is to provide a clear historical analysis of the development of participative banking in Morocco. This includes following its development from early 1980s debates to the 2007 "alternative products" effort and the 2017 creation of participatory banks. Furthermore, the paper aims to highlight the present impact and ongoing challenges faced by this emerging industrie within the Moroccan financial system. Through a qualitative historical research approach and a comprehensive review of academic articles, financial reports, and other sources we found that participative banks are growing within the Moroccan banking system with a potential of impacting funds allocation, money creation, and financial inclusion. Nonetheless, they face many challenges notably the over-reliance on debt-based financing, the absence of profit and loss sharing, and a lack of a comprehensive regulatory framework. Facing these problems is crucial to the development of participative banks to provide a larger sectorial impact and fulfill their potential.

Key-words: *Participative banks; Historical analysis; Development; Impact; Challenges.*

1. Introduction

Economics is the science of livelihood. The existence of ways to earn and distribute wealth among people means the existence of an economic system. It is well known that these are essential for life, so we conclude that even the most primitive environments have an economy. Therefore, Islamic economics has existed since the inception of Muslims. Banking being a necessary part of the economic system can be traced back to the early days of Islam. Traces of banking and financial dealing can be found as early as the 1st century of Islam with Al-Zubair bin Al-Awam, the famous Sahabi. Moreover, the existence of bankers (sarraffeen) and banks (dawawin al-jahabidah) during the Abbasid caliphs. As another indication of financial dealing, the first check was drawn in the 4th century Hijri, thus, history indicates the existence of banks, and bankers since the dawn of Islam (Alharbi, 2015: 12-13). The glorious days of Muslim empires came to an end and the reign of Western powers started, thus the colonization of Westerners precipitated the decline of an Islamic economy and the adoption of Western economic ideology, mainly, the establishment of foreign banks. The early 1900s mark the start of a pushback against foreign ideologies and their establishments in two forms, rejection and adaptation. Between 1940 and 1971 an estimated 31 works appeared, most notably by Abul Aala Maududi, Hasan Al-Banna and Muhammad Hamidullah to cite a few (Alharbi, 2015: 14). However, their writings had mainly a jurisprudential character, separate from the progress of modern economics. The 1970s mark the start of modern Islamic economics distinguished by the entry of economists to the domain, a cooperation between jurists and economists and the establishment of Islamic finance in its modern form. In fact, Islamic finance can be seen as one of the milestones of the 20th century. Islahi (2018) hypothesised that the name Islamic finance is due to the existence of alternative products to classical loans in the classical fiqh literature and not only in early Islamic history.

The long history of Islamic banking and finance development stemming hundreds of years came to fruition in modern times. The establishment of the Islamic Development Bank by OIC countries was a landmark and a statement of the seriousness of the project. Morocco, although one of the founding members of the IDB was the last Muslim-majority country to introduce Islamic banks. This paper primarily aims to present a clear historical analysis of participative

banking's development in Morocco, following its development from early 1980s talks through the 2007 "alternative products" initiative and the founding of participatory banks in 2017. It also aims to shed light on the ongoing difficulties and present effects of this new industry on the Moroccan financial scene. On the basis of a qualitative historical research approach and a comprehensive review of academic articles, financial reports, and other sources we realised that Moroccan Islamic banking faced a lot of hurdles before its introduction. We found that Moroccan participative banks are developing with the potential of impacting funds allocation, money creation, and financial inclusion. Participative banks are facing many challenges such as limited avenues for business finance, a heavy dependence on debt-based financing, the absence of profit and loss sharing offerings coupled with a reliance on Wakala Bil Istithmar from parent conventional banks, and lastly, the lack of a comprehensive regulatory framework. This paper offers an original contribution by clearly analysing the history of participatory banking's growth in Morocco—from early conversations to significant initiatives to its present state—and highlighting its impact and challenges within the Moroccan financial landscape.
The paper is structured as follows: a theoretical framework followed by a methodology section, then a section on Moroccan participative banking from attempts to realisation followed by the current state of Moroccan participative banking, then we discuss the impact and challenges of the participative system in Morocco and end the paper with a conclusion.

2. Theoretical framework

Interest-free banking was a concept not taken seriously up to the middle of the twentieth century as interest served as a return on investment for depositors and the bank itself. Siddiqi (1983) in defining Islamic banking states, "Islamic banking is based on two cardinal principles laid down in the Shari'ah: prohibition of interest and its replacement by profit-sharing wherever feasible and desirable. Though its consequences are revolutionary, the change involved is simple" (p. 85). Thus, Islamic banking is interest-free banking. It does not provide a prohibition on interest only, rather, the substitute mode of banking is profit and loss sharing (PLS). As Siddiqi indicates, the feasibility and desire for PLS products should be considered, and thus, debt-based products exist.
Before diving deep into the different products, we should discuss the function of Islamic banks. In essence, Islamic banks serve the same traditional function as any bank, that is, intermediation and money creation. Intermediation is done by linking depositors and borrowers, i.e. deposits and loans. Historically, the allocation of large funds proved to be problematic. It necessitated the existence of a large capital owner, liquid capital, and finding entrepreneurs in need of capital. The bank through its intermediation role can easily link between both parties, and more importantly, it can turn small deposits into large capitals. Hence, transforming small deposits, which historically had limited utility, into viable financial instruments. Money or wealth creation is done through intermediation itself. In theory, loans funnelled to value-creating avenues and usage will yield returns which in turn generate new deposits. The new deposits signify a rise in the bank's capacity to allocate loans thus keeping the money creation circle rolling. Participative banks play the same role with different nuances. This nuance will be explored through a description of their saving and finance products.
Saving or deposit options provided by participative banks can be split into two distinguished forms. Current accounts are demand deposits repayable in full. They are included under the Shari'ah forms of Wadi'ah or Qard (Iqbal & Mirakhor, 2011). Either way, it is a trust from the depositors in the custody of the bank. Investment accounts for participative banks are Mudaraba deposits. They have a pre-agreed maturity and return rates. In general, it constitutes a form of equity investment. Banks can provide a special form of investment deposits. Such offers are limited to many factors such as special investment opportunities, high-net-worth clients, and so on. The main difference relies on the negotiability of return rations and maturity periods, thus,

enabling the bank to engage in targeted investments.

Profit and loss sharing products are the differentiating offerings of Islamic banking from its conventional counterpart. The link between profit and risk, that is, the risk of losing, has been indicated in numerous writings of Muslim scholars[1]. In principle, Mudaraba and Musharaka construct the entirety of PLS offerings. Mudaraba is a partnership where one party provides capital and the other provides work and expertise. The contribution of one is capital and the second is work, they both assume risk and therefore the losses on their contribution. The entrepreneur is held responsible for capital losses only if negligence or mismanagement causes it. On the other hand, profits are distributed on the basis of a pre-agreed ratio. Musharaka is an equity investment, as all parties involved provide a capital contribution. The profits are shared based on a pre-determined ratio while losses are supported according to capital contribution. It can also take the form of a time-fixed partnership where parties get their shares reimbursed while others acquire them.

Debt-based products are the most similar to conventional loans and simultaneously they are the most commercialised. Murabaha or Bay' Muajal is a transaction involving the acquisition of goods on a client's demand and selling it to them at a mark-up price on credit. Salam is a forward purchase or prepayment of precise and defined goods. The product supplier must respect product specifications and delivery deadlines. Ijarah is a lease contract. The bank loans an asset in return for rent while the lessor is responsible for the maintenance risk and reward inherent in its ownership. Lastly, Istisnae, a manufacturing contract in return for periodic payments. The constructor upholds the contractual specification and timeframe while the consumer's payment covers the production costs and profit margin.

To situate Islamic banking money creation we refer to a Shari'ah principle for compliant transactions, that is, the existence of an underlying asset. Every transaction should be asset-backed to avoid purely financial dealing limiting the danger of Riba. What seems as a Shari'ah prohibition or exigency serves as the basis of the linkage between finance and economy for participative banks.

Most of the banking and financial crises can be traced back to the separation of money and real markets. It manifests in form of speculation over financial contracts, hence, dealing in a purely financial form with no "real-life" attachment. Islamic banks combat this phenomenon but our concern is not towards crises avoidance, rather, we focus on how money or wealth creation serves as a logical conclusion to asset-backed banking.

Through this mechanism, Islamic banks insure the circulation of money in the economy. Furthermore, the securing process facilitates the efficient usage of funds. For the sake of simplicity, we take the Murabaha product for example. Murabaha is used to finance movable or immovable assets, viz. underlying assets. The financing of either assets signifies the transfer of funds from the bank to the producer in return for the goods enabling the start of another production cycle. Simultaneously, the bank transfers the asset to the client enabling him to begin his own value creation endeavour through the usage of the asset, thus, indicating the initiation of another economic process. The focus on tangibility and thus on the placement of funds within the real economy gives Islamic banks a different function of money creation.

3. Methodology

With a qualitative historical research approach, we will explore the evolution of participative banking in Morocco. On the basis of a comprehensive review of secondary data, primarily academic articles and official reports chosen by their significance to the history of participative banking in Morocco through all its three phases. This was done by chronological organization and thematic synthesis and the aim to present a comprehensive history. Statistical analyses are provided throughout to give an objective outlook on the state and evolution of participative

[1] Check Islahi (2014) pp. 32-33 for a discussion on profit/ risk relation in crucial Muslim scholar's work

banking. Being limited to secondary sources is an acknowledged limitation.

4. Moroccan participative banking: from attempts to realisation

a. First conversations

Being one of the 42 founding states of the Organization of Islamic Cooperation (OIC) and an active member within it (Zehra et al., 2022, p. 355), Morocco contributed to the creation of the Islamic Development Bank (IDB) in 1975 (Benmansour, 1994, p. 232), which aims for social and economic development by providing interest-free and profit and loss sharing products, hence, it adheres completely to the principles of Shari'ah (Akhrif, 2023, p. 44), as a deduction, it shows the Moroccan acceptance of Shari'ah guided socio-economic endeavours.

In the early 80s, interest shown by many foreign Islamic financial institutions regarding the creation of an Islamic bank in Morocco which was never accepted at the time, notably, Qatar International Islamic Bank and Saudi Islamic banks (Radi & Bari, 2012). In a slightly different context, the Moroccan Association for Studies and Research in Islamic Economics proposed a comprehensive project for the offering of Islamic financial products by a local bank, "WafaBank", through dedicated windows (Chgoura & Hefnaoui, 2020, p. 89), an idea that was welcomed by the WafaBank Group and its founder, Moulay Ali Kettani, but opposed by the governor of Bank Al-Maghrib at the time, Mohamed Sekkat, who showed his rejection of the proposition (Zehra et al., 2022).

Talks about Microfinance law projects in 1998 came with a proposition to establish and utilize Islamic products (Nghaizi, 2013). Other propositions for Islamic banking came in the early 2000s. Abdelhamid Aouad, the head of the Ministry of Economic Forecasting and Planning from 2000-2004, was engaged in a project to launch Shari'ah-inspired products. In 2003, Qatar International Islamic Bank made another attempt through a joint-venture proposition (Merroun & Mouallim, 2024, p. 429). The project never saw daylight despite the offers of numerous Arab investors. As a private initiative, Miloud Chaabi, a Moroccan businessman, also demanded many times an agreement to open an Islamic bank but with no success (Zarouali, 2017, p. 5).

Both, the rejection of foreign banks and the commercialisation of Islamic products by a local one had their justifications. The rejection of Islamic banking by the Moroccan government was moved by the risk of Islamisation (Radi & Bari, 2012). The infiltration of ethical and moral dimensions into economic dealings might create a chain reaction that leads to the Islamisation of society and politics as was the case for Iran and Sudan. This would open the Moroccan banking sector to highly competitive Islamic banks with the fear being a complete takeover of Islamic banks inflicting huge market share losses on Moroccan banks, which are all conventional (Soudi & Cherkaoui, 2015, p. 155). Simultaneously, Moroccan banking lobbies opposed the opening of the sector to foreign banks, a rejection of the free market. They played a role in stopping the creation of Islamic banks and the commercialisation of their products as the success Islamic banks had in other countries posed them a threat (Radi & Bari, 2012; Chihab et al., 2019, p. 563). The limited capacity of the Moroccan banking market at the time proved to be an obstruction. The incapacity of the Moroccan banking market to receive Gulf country banks who were leaders of the domain and very interested in expanding to the Moroccan market, albeit, it was not possible to license some over the others which could lead to diplomatic problems for all Gulf countries are perceived as fraternal countries. On the other hand, the lack of conformity of Islamic products, viz. PLS, with the Moroccan banking law hindered the commercialisation of Islamic products by WafaBank (Nghaizi, 2013; Zehra et al., 2022).

The Moroccan government only rejected the creation of commercial Islamic banks but never opposed Islamic products. In fact, between 1976 and 2009, Morocco received 1685.4 Million USD from the IDB to finance 57 projects and 2621.9 Million USD for commercial transaction financing. It included many infrastructure projects financed primarily through Istisnae. Morocco, by far, was the most financed North African country (Zarouali, 2017, p. 13). This provides clear evidence against the claim that Shari'ah-compliant products were rejected for their Islamic nature and that the rejection had more to do with the Moroccan banking market --the disapproval of Islamic banks -- and not Islamic products.

b. Alternative products, the first attempt

In 2007, through the circular 33/G/2007 publication, the Moroccan Central Bank decided against the creation of new dedicated Islamic banks (Nghaizi, 2013) and confided the commercialisation of alternative products, namely, Murabaha, Ijara and Musharaka, to already established Moroccan banks (Zehra et al., 2022). The circular only provided the basic descriptions and functions of the three products. Conventional banks had the choice of offering these products through their main agencies or by creating dedicated windows (Zarouali, 2017, p. 7). The aim, for the creation of alternative products, was to provide a larger scope of banking services, mainly on the credit side, and to strengthen the level of banking adoption. Liquidity insufficiencies further pushed the Moroccan authorities into adopting these products. On the deposits side, no alternatives were created as Bank Al-Maghrib believed, if the problem relies on consuming interest, conventional banks already provide non-interest-based deposits in form of current deposits that religiously oriented individuals can utilize, no such option was available on the credits side before introducing Murabaha, Ijara and Mucharaka.

Nevertheless, of all functioning banks at the time only four banks provided their clients with alternative offers, they are Banque Populaire (BP), Banque Marocaine du Commerce Extérieure (BMCE known now as Bank of Africa), Banque Marocaine pour le Commerce et l'Industrie (BMCI) and Attijariwafa Bank (AWB).

The decision made by the Moroccan Central Bank was guided by three main reasons (El Omari Alaoui & Maftah, 2012). First, no foreign Islamic banks were allowed into the Moroccan banking sector to protect their local banks from imbalances driven by the long experience within the domain of Islamic banking that foreign banks possess. Second, the introduction of dedicated Islamic banks could create bank runs and a liquidity risk incited by deposits transferring. Lastly, The Moroccan Central Bank provided local banks with a chance to learn, observe consumer reactions to alternative products and grow from experience.

In the same year, Bank Al-Maghrib became and observing member of the Islamic Financial Services Board.

Attijariwafa Bank was the only successful bank in commercialising alternative products as both BMCE and BP discontinued their offers (Malhou & Maimoun, 2020, p. 199). It provided two offerings since 2007 based on Murabaha and Ijara wa Iqtinae named 'Meftah al Khayr' and 'Meftah al Fath' (Zarouali, 2017, p. 6).

In 2010, specialists within the Attijariwafa Bank team realised two main factors hindering the commercialisation of alternative products (Zarouali, 2017, p. 7). First, the taxation scheme imposed only on alternative products, a problem with which the bank had nothing to do other than push for legislative change. Second, the offering of alternative products through conventional agencies, as conventional banks are perceived by consumers as usurious, hence, all their offerings are taken as non-Shari'ah-compliant (Zehra et al., 2022, p. 357). The apparent contradictions -- interest-free offering through interest-based banks -- drove the decision to create a subsidiary 'Dar Assafa Litamwil'. A subsidiary fully owned by Attijariwafa Bank Group with an initial capital of 50 Million Dirhams dedicated to offering alternative products which included, mainly, Murabaha in various forms such as Safaa IMMO, AUTO, CONSO, and Tajhiz (Didi Seddik & Khalouki, 2024) and alternative deposits (Chihab et al., 2019, p. 563) at first, through 9 subsidiaries distributed in 8 cities: Casablanca, Rabat, Marrakech, Agadir, Meknes, Fez, Oujda, and Tangier (Zarouali, 2017, p. 8). At the time, it was the only subsidiary to get an agreement from Bank al-Maghrib (Chihab et al., 2019, p. 562).

Statistically, the experience of the alternative products was underwhelming. Two years after the launch of alternative products (named now, participative) in 2007, the total loans granted reached 700 million dirhams in 2009, the increase slowed in 2010 with a total of 800 million dirhams and peaked between 900 million and 1 billion dirhams in 2013. This figure never exceeded 1 billion dirhams while conventional loans granted reached a staggering total amount of 621 billion dirhams (El Omari Alaoui & Maftah, 2012), thus, alternative loans represented only 0.1% of the total financing of the banking sector in 2013 (Jouiet & Maaraf, 2023, p. 93).

What has been seen as a failure essentially was caused by three important constraints rather than a system failure. (1) The low involvement. This was twofold, firstly, the involvement of only four conventional banks where two suspended their offering in the next few years and only AWB had success. Second, conventional banks did not care for the growth of alternative offerings and thus not much effort was given to their commercialisation, which is because a conventional bank will render profits from its normal offering either way. (2) The over-taxation and high fees. Both problems were attempted to be solved in the Finance Laws of 2009 and 2010, nonetheless, many finance laws were not in favour of alternative products, rather, hindering them. This made alternative offerings much pricier in comparison to their conventional counterparts, therefore, a limitation on their price competition. (3) Limitations of communication. As alternative products could not be commercialised in their true form, that is, Shari'ah-compliant products, the clients had no way of distinguishing between alternative and conventional offerings especially if both were coming out of the same institutions. The inability to display the differentiating characteristics of a product made competing with conventional loans a hassle.

c. The early 2010s and the transitional period

The offers from Qatari investors persisted. In the early 2010s both, Sheikh Khalid bin Thani al Thani et Abdulbasit al Shaibei, respectively, the president and director of Qatar International Islamic Bank came to a meeting with the Moroccan authorities. A meeting that was highlighted by the proposition of the QIIB to create an investment bank and insurance company, both being Shari'ah compliant. A joint venture where Moroccan investors would possess the majority (51%) and the rest distributed between Qatari investors led by QIIB (Nghaizi, 2013; Zarouali, 2017, p. 8).

The offers were not limited to the Qatar International Islamic Bank; other offers were presented by Gulf countries, viz. Faisal Islamic Bank, Kuwait Investment House Holding, and Saudi Islamic Bank.

The influx of external offers was not the sole determinant at that time. A law proposition in 2012 accelerated the evolution of Moroccan Islamic finance with the intent of establishing a comprehensive Islamic financial system (Zehra et al., 2022), an adequate ecosystem. The process would start by establishing the 'Islamic Financial Institutions Commission (IFIC)' under the BKAM responsibility. The introduction of products which were not included in the previous 2007 law such as Salam and Istisnae'. Followed by Sukuk and Takaful[2]. It is believed that the 2012 law proposition led to the later elaboration of law n°103.12 with title III dedicated to participative banks (Didi Seddik & Khalouki, 2024).

d. The creation of Moroccan participative banks

A new direction was chosen by Moroccan authorities after the "failure" of alternative products. They decided to create dedicated Islamic banks named participative banks.

Upon this decision, many Moroccan banks submitted a demand for the creation of separate participative banks or to establish a dedicated window only. Crédit du Maroc (CDM), Société Générale (SG), et la Banque marocaine pour le commerce et l'industrie (BMCI) favored the creation of participative windows. Attijariwafa Banque (AWB), Banque Populaire (BP), Crédit

[2] Sukuk are essentially Islamic bonds while Takaful serves the purpose of an alternative to conventional insurance.

immobilier et hôtelier (CIH), Crédit Agricole (CA) and Bank of Africa (BA) previously known as Banque Marocaine du Commerce Extérieur (BMCE) chose to create independent participative banks.
After 30 years of propositions from external Islamic banks looking to enter the Moroccan banking market, their proposal would finally be accepted. BP, CIH, CA and BA all proposed their new participative bank project under a joint venture, thus, foreign banks would only enter the market under a partnership while AWB had no intent of collaborating. Possibly, their choice stemmed from their relative success in the first stint and their experience with operating a dedicated institution --Dar Assafa-- for Shari'ah-compliant products.
On the 2nd of January 2017, the Committee of Credit Institutions under the Moroccan Central Bank issued an authorizing agreement for the creation of five new participative banks and three participative windows. This marks the official start of the Moroccan Islamic banking experience while making it the last Muslim country to introduce Islamic banks.

e. Moroccan participative banks and windows

i. Bank Assafa

On January the 2nd 2017 Bank Al-Maghrib accepted the request of Attijariwafa Bank to establish Bank Assafa, a participative bank fully owned by Attijariwafa Bank with a capital of 350 million Dirhams. This makes it the only participative bank to be 100% Moroccan[3].
Bank Assafa was built upon the prior experience of Dar Assafa in alternative financing since 2010; the oldest of its kind. No partnership was needed to provide expertise in the domain of Islamic financing for Attijariwafa Bank had its own experience to rely on. This made the transition from the subsidiary Dar Assafa Litamwil to an independent bank, Bank Assafa, feasible.

ii. Umnia Bank

As part of a joint venture and after the agreement of Bank Al-Maghrib obtained on the 2nd of January 2017 Umnia Bank was the first Moroccan participative bank to be created[4]. Its three main shareholders, CIH Bank, Qatar International Islamic Bank (QIIB), and 'Caisse de Dépôt et de Gestion' (CDG) each holding 40%, 40% and 20% respectively created the bank with a capital of 600 Million Dirhams (Amrani & Najab, 2020, p. 10), the largest relative to other Moroccan participative banks. It started by establishing two branches in Casablanca and one in Rabat and expanded in 2019 to 32 operating agencies.
The creation of Umnia Bank is the product of a relationship between Morocco and Qatar. A natural relationship. QIIB has been attempting to invest in the Moroccan banking market since the 1980s, hence, the bank itself also has long-lasting relationships. It is a case of two countries having a common interest and working together to achieve a brighter future.
Umnia Bank is not looking to expand strictly within the Moroccan banking market. In a speech, Dr. Abdulbasit Al Shaibei, the Chief Executive Officer of the QIIB group indicated the high aspirations of Umnia Bank[5]. By leveraging the long and successful experience of QIIB in the Islamic banking market and the crucial position of Morocco within Africa, Umnia Bank will be looking to become the leader not only on the national level but also in Africa.
Up to 2023, The ownership of Umnia Bank has not changed since its creation as all parties still hold their original share.

iii. Al Akhdar Bank

Al Akhdar Bank was established in October 2017 after the reception of Bank Al Maghreb's

[3] Qui sommes-nous ? | Bank Assafa. Retrieved May 15, 2024, from https://www.bankassafa.com/fr/qui-sommes-nous
[4] Umnia Bank, la première banque participative du Maroc ouvre ses portes. Telquel.ma. Retrieved May 15, 2024, from https://telquel.ma/2017/05/25/umnia-bank-premiere-banque-participative_1548037
[5] QIIB - HE Sheikh Dr Khalid bin Thani officially launches the headquarters of Umnia Bank in Morocco. Retrieved May 15, 2024, from https://qiib.com.qa/Press/Details/135

agreement earlier that year under a joint venture between the Groupe Crédit Agricole du Maroc (GCAM) and the Islamic Corporation for the Development of the Private Sector (ISDPS) each holding 51% and 49% respectively. As indicated in the Press release of Al Akhdar Bank (2017), the initial capital at launch is 200 Million Dirhams to be augmented in the future to 400 Million Dirhams. The core of the partnership was indicated by the General Manager of Al Akhdar Bank[6], which is the mixture of expertise in Islamic banking by the ISDPS and the understanding of the Moroccan banking market by the GCAM.

iv. Bank Al Yousr

After getting Bank Al Maghrib's agreement Bank Al Yousr opened its doors on the 3rd of August 2017 by the establishment of Its headquarters in Casablanca[7]. It is a result of a co-ownership between Group Banque Populaire (GBP) and the global Islamic finance operator Guidance Financial Group (GFG). They hold 80% and 20% respectively with a capital of 340 Million Dirhams.

v.Bank Al Karam

BTI Bank obtained Bank Al Maghreb's agreement on the 2nd of January 2017 and was created at the end of the year under a joint venture between BMCE (51%) and Bahrain investment firm Al Baraka Banking Group (49%) with a capital of 300 million Dirhams.

The bank will go through ownership and brand changes in 2022. Starting with the acquisition of Al Baraka Group shares by Bank of Africa[8], precisely, 43.65%. In 2023, Bank of Africa, as the sole owner of BTI Bank, decided to open an official agency in Fes while also changing the name to Bank Al Karam[9].

The question in need of an answer, why did Al Baraka Group pull out of the Moroccan banking market? On the one hand, Al Baraka Group is represented in 13 countries with more than 600 branches. Holding banks were established in the late 1970s. The group seems to be as invested in Islamic banking as it has ever been[10]. On the other hand, the Chief Executive of ABG, Houssam Ben Haj Amor described the pull-out as a strategic move motivated by the consolidation of resources in hopes of augmenting the efficiency and thus extracting better results. By an inductive syllogism, if Al Baraka Group is still invested in Islamic banking while pulling out of the Moroccan market to look for efficiency, we conclude that the investment in BTI Bank was inefficient and thus unprofitable.

vi. Dar Al Amane

Dar Al Amane launched on September 12th, 2017 after the agreement of Bank Al Maghrib. The Société Générale Maroc opted for a participative window rather than a bank, thus, Dar Al Amane is owned entirely by SGM. Its capital amounted to 200 Million Dirhams at its inception[11].

vii. Arreda

Crédit du Maroc was able to start its participative activities in January 2018 after receiving the agreement of Bank Al-Maghrib. It opted for the creation of a participative window under the

[6] Le Crédit agricole et SID lancent leur filiale participative Al Akhdar Bank. Telquel.ma. Retrieved March 14, 2025, from https://telquel.ma/2017/10/17/al-akhdar-bank-vise-40-agences-en-2021_1565008

[7] Finance participative : Bank Al Yousr demarre son activite. Retrieved May 24, 2024, from https://www.groupebcp.com/fr/Pages/Ban-al-yousr-.aspx

[8] Bank of Africa acquires 43.65% additional shares in BTI Islamic Banking Group. Morocco World News. Retrieved March 14, 2025, from https://www.moroccoworldnews.com/2022/12/37889/bank-of-africa-acquires-43-65-additional-shares-in-bti-islamic-banking-group/

[9] Finance participative : Un nouveau départ pour BTI Bank qui devient Bank Al Karam. La Vie Éco. Retrieved March 14, 2025, from https://www.lavieeco.com/argent/banques/finance-participative-un-nouveau-depart-pour-bti-bank-qui-devient-bank-al-karam

[10] Al Baraka | Global Network. Retrieved May 20, 2024, from https://www.albaraka.com/en/about-al-baraka/about-us/global-network

[11] Finance participative. Dar Al Amane, opérationnelle depuis le 12 septembre. Médias24 Numéro Un De L'information Économique Marocaine. Retrieved May 15, 2024, from https://medias24.com/2017/09/25/finance-participative-dar-al-amane-operationnelle-depuis-le-12-septembre/

name Arreda --fully owned by CDM-- with an initial capital of 200 Million Dirhams[12].
Arreda, under the ownership of CDM, had an indirect change of shareholders. CDM is now owned by the Moroccan group Holmarcom after Crédit Agricole transferred 78.7% of its shares to it[13]. According to the 2023 Annual Financial Report of Crédit Agricole S.A., it only owns 15% of CDM.

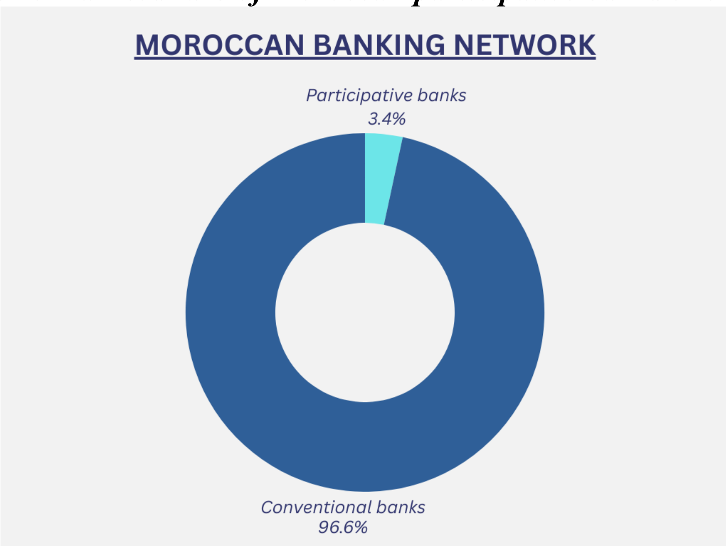
viii. Najmah

Najmah, a participative subsidiary window for BMCI, was established in February 2018 under the full ownership of BMCI and with a capital of 200 Million Dirhams[14].
BMCI is an experienced actor in Islamic banking through its majority owner PNB Paribas, a prominent international bank in Islamic banking since the early 1980s[15]. 2003 marked the consolidation of its Islamic banking endeavour under the name PNB Paribas Najmah, a global franchise group for Islamic banking based in the Kingdom of Bahrain. Ultimately, the label Najmah is used by the Group PNB Paribas for all its franchises, mainly in the Middle East, Europe, and Asia.

5. Current state of Moroccan participative banking

To showcase the position participative banks have been able to occupy within the Moroccan banking sector we chose three significant indicators. They will be compared to their conventional counterparts with the aim of providing the objective current state of participative banking.
According to Bank Al-Maghrib's latest publication on banking establishment participative banks possess 196 agencies by the end of 2023. At the same time, conventional banks possess 5606 agencies (Bank Al-Maghrib, 2024b). The disparity between the numbers is evident. Conventional banks make up close to 96.6% of all banking agencies in Morocco while participative banks are limited to approximately 3.3% (figure 1).

Figure 1: Market share of Moroccan participative banks in the banking network.

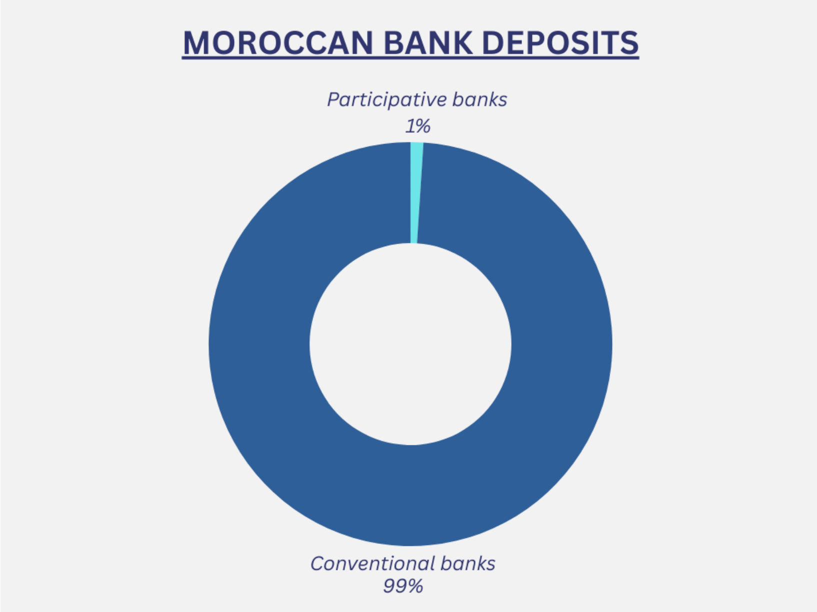


Source: Bank Al-Maghrib. (2024). Implantation Bancaire Nationale.

[12] Crédit du Maroc lance son activité participative sous l'enseigne « Arreda ». Financial Afrik. Retrieved May 15, 2024, from https://www.financialafrik.com/2017/07/31/credit-du-maroc-lance-son-activite-participative-sous-lenseigne-arreda/
[13] Holmarcom acquiert 78,7 % du Crédit du Maroc. Le Desk. Retrieved May 15, 2024, from https://mobile.ledesk.ma/2022/04/27/holmarcom-acquiert-787-du-credit-du-maroc-un-accord-signe/
[14] Maroc : BMCI lance Najmah, sa banque participative. Financial Afrik. Retrieved May 14, 2024, from https://www.financialafrik.com/2018/02/23/maroc-bmci-lance-najmah-sa-banque-participative/
[15] BNP Paribas. (2023, September 21). BNP Paribas in MEA | Our business. Middle East & Africa. Retrieved May 24, 2024, from https://mea.bnpparibas.com/en/our-business/

Bank deposits are a necessity for the intermediation process. According to the Annual Report of Banking supervision (2023), participative bank deposits collected from clients reached 12.1 Billion Moroccan Dirhams. In the same period, conventional deposits collected from clients reached 1167 Billion Moroccan Dirhams. Therefore, participative bank deposits make up close to 1.03% of the entire sector deposits while conventional banks possess 98.97% of the banking sector deposits (figure 2).

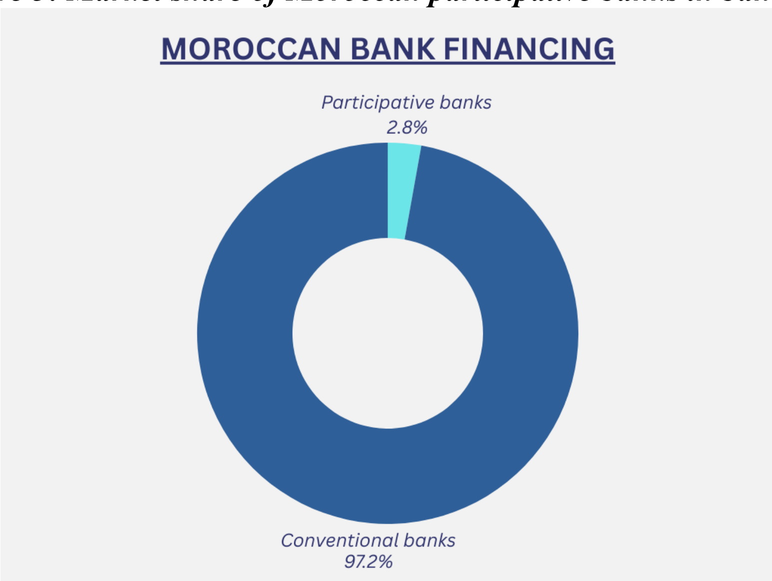
Figure 2: Market share of Moroccan participative banks in bank deposits.



Source: Bank Al-Maghrib. (2023). Rapport annuel sur la supervision bancaire.

In terms of financing, indicated in December 2024 quarterly report, conventional banks realised a financing sum of 1166 Billion Moroccan Dirhams while participative banks registered financing of 33.9 Billion Dirhams (Bank Al-Maghrib, 2024a). Hence, participative financing makes up approximately 2.8% of the total sector financing while conventional banks take up the rest at 97.2% (figure 3).

Figure 3: Market share of Moroccan participative banks in bank financing



Source: Bank Al-Maghrib. (2024a). Bulletin Trimistriel N°181

Every indicator signifies two things. First, how much growth participative banks were able to achieve in a relatively short period. That becomes clear when we highlight that alternative financing never went past 1 Billion Moroccan Dirhams. By the end of 2024, participative financing stands at 33.9 Billion Moroccan Dirhams. Second, a significant disparity between conventional and participative banks. This leads us to our next discussion. What is the impact of participative banking, and what are the challenges facing it?

6. Impact and challenges of the participative system today

a. Impact

i. On capital allocation

Through their primary role, that is, intermediation or capital allocation and wealth or money creation, banks, contribute financially and thus impact the economy. According to the Annual Report of Banking Supervision (2023), participative bank financing reached 21.4 Billion Moroccan Dirhams by the end of 2023. In the same time frame, the bank gathered 12.1 Billion Moroccan Dirhams in deposits which it funnels into financing. These additional funds circulating in the economy, albeit insignificant in the banking sector, serve as indicators of what promise participative banks possess.

ii. On wealth creation

The process of funnelling money from depositors to borrowers is the essence of money creation. Nonetheless, the argument we advance is that participative banks are more in line with wealth creation than their conventional counterparts. We start from the premise that all Islamic financial transactions should be asset-backed. Hence, linking the financial system with the real economy ensures the purposeful and productive use of money. This in turn creates wealth as borrowed funds are transferred in return for movable or immovable goods enabling the producer to discharge his products and start a new productive cycle.

iii. On financial inclusion

Financial inclusion, stated by Bank Al-Maghrib is the primary reason for the introduction of alternative products. Indeed, we believe participative banks are affecting financial inclusion as intended. The size of financing and deposits indicates the existence of a demand for this new system and thus the inclusion of new clients. This is facilitated by opening branches and developing bank phone applications for higher accessibility. Verily, the sheer size difference between participative and conventional banks limits the former's impact. Despite that, participative banking is a highly promising sector as we indicated. After a comprehensive analysis of the development of Islamic banks, Iqbal & Molyneux (2005) indicate that Islamic banks are profitable, stable, use resources effectively, and when compared to conventional banks they outperform them in almost all areas, although, bank variations exist (pp. 86-87).

b. Challenges

i. Limitations on business finance

Participative banks are prohibited from providing or consuming interest (Riba), and thus, important sources of investment based on interest are of no use to them. This limits the potential expansion of participative banks. Equity investments are a valuable alternative that even conventional institutions are using more and more. For participative banks, equity is a source of business finance.

Not all equity investments are permissible from a Shari'ah perspective. Three important conditions have been defined by some scholars. The company must not deal with banned activities such as alcohol, gambling and so on. If any interest is earned through the fund it should be negligible and separated from the rest. The proportion of debt should not exceed a limit within the company's capital structure (Iqbal & Molyneux, 2005, p. 106)

ii. Debt-based financing

The fixed-rate mode of financing or debt-based financing is the main financing mode practiced by Moroccan participative banks, rather, it is the only one. The lack of profit and loss sharing (PLS) deprives participative banks of a big financing revenue, the productive sectors. Enterprises, especially medium and small ones (MSE) would benefit greatly from PLS financing. Their unique profile of risk distribution makes entrepreneurs more eager to invent and innovate, which is the essence of entrepreneurship. The heavy burden of debt limits the entrepreneur's function leading to discouragement hindering his creative capacities and depriving the market of new advancements leading to stagnation.

The problems of debt-based financing do not end here. The profile of products such as Murabaha is preferred to Musharaka as it limits or negates entirely the problems of information asymmetry and in turn the problems of adverse selection and moral hazard. Nonetheless, credit risk, or default risk is not easily manageable for participative banks. Conventional banks engage in debt selling. Against a defaulting client, the bank extends the loan in return for a fee. In essence, it is a change in the original contract. For participative banks, a debt-based loan is a fixed liability. The contractual agreement established between the bank and the client can only be changed under their common agreement. Islamic jurists do not oppose penalties' for defaulting, it is the taking of penalties' by the bank which is problematic. An extra charge in the original sum is regarded as Riba. Hence, it has been proposed that penalties' can be funnelled into charitable avenues by the bank. Still, no clear viable mechanism has been established to deal with credit risk.

iii. Significance of conformity risk

The banking sector is open to many risks whether be it external like credit and market risks or internal like operational risks. Participative banks have to deal with said risks and subsequently, others. Conformity risk is a risk of non-conforming to Shari'ah rulings rendering the bank function unlawful. This can lead in turn to a reputational risk where the bank's client see the bank as non-Shari'ah-compliant. More often than not, a reputation risk leads to bank runs and thus liquidity risks. Hence, conformity is a cornerstone of all bank functions especially, risk management.

iv. Participative sector resources

Current deposits dominate Moroccan participative bank deposits. According to the Annual Report of Banking Supervision (2023), current deposits reached 9.1 Billion Moroccan Dirhams while investment deposits reached 3 Billion Moroccan Dirhams representing only 9% of participative bank sector resources. A liquidity risk is imminent. The overreliance on demand deposits where withdrawal can be anarchic while simultaneously having a liability of fixed debt-based financing[16] puts the deposits to loan ratio in jeopardy and in turn the banks' function and stability.

This leads to another issue, the dependence on Wakala bil-Istithmar, and therefore, on parent banks. In 2023, Wakala bil-Istithmar reached 6.1 Billion Moroccan Dirhams in comparison to 5.2 Billion Moroccan Dirhams in 2022. It makes up 18.8% of participative sector resources, double of investment deposits by clients. The increase of Wakala bil-Istithmar funds is inherent to the asymmetry between financing and deposits. The high increase of advanced funds and the limited depositing facing participative banks. Indeed, it is a mechanism to "solve" the liquidity risk.

For conventional banks, liquidity problems are dealt with by taking loans from the Central Bank or through the interbank market. The nature of these loans is interest-based. Simply, the bank

[16] The Annual Report of Banking Supervision (2023) states that Murabaha makes up 99% of financing while Salam amounts to 1%.

in need of funds gets a loan from the Central Bank or another commercial bank of an interest rate (I1). The bank takes the loan and advances it to its clients at a superior interest rate (I2). Hence, the bank can pay the principal and interest while making profits on the interest difference (P=I2-I1). Because of interest, participative banks cannot be funded by the Central Bank; furthermore, no participative inter-bank market exists in Morocco making the management of liquidity risk a delicate endeavour.

v. Lack of regulatory and juridical framework

Ait Malhou & Maimoun (2020) through a questionnaire with qualified personnel in participative banking concluded that despite the efforts to expand the participative banking sector, the regulatory and juridical frameworks are lacking making the functioning of participative banks limited (p. 212). The problem of lacking or inadequate regulations stems from the different functions of participative banks. The existence of a "Western fashioned" legal framework as a basis and then including the function of participative banks into it creates a constraint on their function.

The Moroccan participative system, concerning regulations, lacks a comprehensive legal framework. (1) A legal framework for a financial market and its instruments allowing for Shari'ah-compliant investments. (2) A framework for Islamic micro-finance institutions or even authorisation of Shari'ah-compliant products commercialisation by established conventional micro-finance institutions targeting a different set of clients. (3) The necessity for an inter-bank market cannot be overstated, and thus, a legal framework for it is needed.

7. Conclusion

After long discussions since the 80s until the first experience in 2007, Islamic banks named participative banks have seen the light in 2017. The first experience and the project law of 2012 served as a foundation for their creation. The experience of "alternative products" provided the necessary knowledge through experience practice while the 2012 law project pushed for the creation of an adequate framework. Still, Moroccan participative banks have not surpassed the initial phases of development only gaining a small market share as pointed out by the indicators. Nonetheless, their expected impact and potential in terms of capital allocation, wealth creation, and financial inclusion could not be underestimated. The existence of challenges is ordinary. The limited avenues for business finance, the over-reliance on debt-based financing, the absence of profit and loss sharing offerings coupled with a dependence on Wakala Bil Istithmar from conventional banks, and lastly, the lack of a comprehensive regulatory framework are all limiting factors to the expansion and development of Moroccan participative banking.

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