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THE RISE OF PARTICIPATORY FINANCE IN MOROCCO: ACHIEVEMENTS, CHALLENGES AND FUTURE PROSPECTS

L'ESSOR DE LA FINANCE PARTICIPATIVE AU MAROC : RÉALISATIONS, DÉFIS ET PERSPECTIVES D'AVENIR

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Abstract:
This paper explores Islamic finance, examining its origins and development, while focusing on its specific applications in Morocco and Malaysia. Islamic finance is recognized as an ethical finance that follows strict values to avoid prohibited practices, promoting a balance between personal and public interests, as well as fairness, transparency and sincerity. These principles are crucial to the integrity of this funding system. The study includes a comparative analysis of the development of Islamic finance in Morocco compared to that of Malaysia, highlighting the prospects and the main challenges of this sector in these two countries. This comparison enriches the understanding of the adaptations needed to effectively integrate Islamic finance in different economic and cultural contexts.

Keywords : Islamic Finance, Financial Ethics, Economic Development, Morocco, Malaysia, Comparison, Outlook, Challenges, Transparency, Equity

Résumé :
Ce document explore la finance islamique, en examinant ses origines et son développement, tout en se concentrant sur ses applications spécifiques au Maroc et en Malaisie. La finance islamique est reconnue comme une finance éthique qui suit des valeurs strictes pour éviter les pratiques prohibées, favorisant un équilibre entre les intérêts personnels et publics, ainsi que l'équité, la transparence et la sincérité. Ces principes sont cruciaux pour l'intégrité de ce système de financement.
L'étude comprend une analyse comparative sur le développement de la finance islamique au Maroc comparé à celui de la Malaisie, en mettant en lumière les perspectives et les principaux défis de ce secteur dans ces deux pays. Cette comparaison enrichit la compréhension des adaptations nécessaires pour intégrer efficacement la finance islamique dans différents contextes économiques et culturels.

Mots-clés : Finance islamique, Éthique financière, Développement économique, Maroc, Malaisie, Comparaison, Perspectives, Défis, Transparence, Équité

INTRODUCTION

Not long ago, the concept of Islamic finance was struggling to spark interest in Morocco. Perceived as complex by the authorities and not a priority for the leaders of financial institutions, this alternative economic model seemed distant from the country's immediate concerns. However, the landscape has changed considerably recently. Driven by the influx of capital from oil-producing countries, faced with the limitations of the traditional financial system, and concerned with financial traceability in accordance with Islamic principles, Islamic finance began to gain ground. Some see it as an opportunity for banks to expand internationally and to ethically manage oil wealth. For others, it represents a banking alternative that meets the religious requirements of a large fraction of the population.

Despite its relatively recent appearance on the financial scene, Islamic finance shows considerable potential, especially in Western contexts. Uncertainty nevertheless looms over the future of its innovations, especially in a global economic context marked by instability. The challenge is daunting: to build a robust and sustainable Islamic financial system.

The increasing demand of Moroccans for financial services that respect the precepts of Islam suggests that Islamic banks could be a notable success, at the risk of seeing traditional institutions lose some of their clientele and revenues. In response, traditional banks have diversified their offering with alternative products, often perceived as expensive and uncompetitive, enriching the debate on the true preference of Moroccan consumers between traditional and sharia-compliant loans.

The introduction of participatory banks represents a major development, promising more financing options and a reduction in dependence on the traditional financial system, particularly in a context of tight liquidity and insufficient banking rates.

This article aims to explore the dynamics and challenges of Islamic finance in Morocco, highlighting its potential benefits for the Moroccan banking system. At the same time, a comparative analysis with the Malaysian experience will be carried out, thus offering an enriched perspective on the practices and challenges associated with the establishment and development of Islamic finance in two distinct contexts.

I. HISTORICAL FOUNDATIONS AND FUNDAMENTAL PRINCIPLES OF ISLAMIC FINANCE

In the inauguration of our exploration, the first part is dedicated to a quest for a deep understanding of the historical and fundamental roots of this particular finance, singularly distinguished by the formal prohibition of the interest rate. Prospecting in the annals of history reveals that the embryos of this system gradually matured, crystallizing into a body of rigorous principles that spread with velocity and efficiency throughout the world.

These principles, once established, have served as a foundation for a form of finance that is radically different from its conventional counterparts, promoting alternative economic values and practices. The revelation of these foundations took root in scattered historical traces, which, although sporadic, were powerful enough to inspire the birth of a structured formalisation.

This edifice of financial practices, once informal and dispersed, has undergone a process of systematization, resulting in the dissemination of its precepts well beyond its original cradles. These precepts, once confined to isolated communities, have pierced borders and become anchored in global financial awareness, inviting a new way of considering and practicing monetary exchange.

As for the first concrete and organized experiments with these financial principles, they can be described as late if we compare them to the long history of traditional finance. However, despite this gradual maturation, as soon as they emerged, they aroused an almost instantaneous momentum of adherence, which turned into a movement of international scope. This rapid and widespread acceptance reveals not only a desire for diversification of financial systems but also a quest for ethical values in economic practices.

The enthusiasm with which these new methods have been welcomed testifies to their relevance and their ability to meet the needs of an audience in search of alternatives to conventional finance, often criticized for its excesses and its lack of consideration for social and environmental impacts.

II- DEFINITIONS AND EVOLUTION OF ISLAMIC FINANCE

1) Evolution and History of Islamic Finance

Islamic finance, in its current form, did not really exist in the early days of Islam, that is to say in the time of the prophet Mohamad. Rather, there were contracts and transactions governed by the rules of the Qur 'an and the practices of the prophet. As far back as we can go in history, the first traces of finance organized in Islamic countries probably date from the first khulafa. It was more a question of finance taking sources in the establishment of the first accounting systems, the latter have existed since the invention of writing. Accounting has therefore always organized the business world, especially that in the land of Islam, men have always kept books of accounts.

The first traces of an accounting and financial system in the land of Islam thus go back to the khoulafa, it was a budgetary management of the funds of a nascent state. During this period, the territorial expansion of Islam and Islamic institutions required rigorous management of state accounts, in particular to effectively channel the collection of zakat. This tax is mandatory for all Muslims, it is claimed beyond a certain income, the funds produced from this collection are sent to the Beit-El-Mel-El-Mouslimine or Public Treasury. Recall, moreover, the obligation inscribed in the Qur 'an to record debts between believers (amount, maturity...), Sura 2-El Baqarah, verses 282 and 283. The combination of these commercial (private management) and fiscal (public management) elements was therefore likely to bring about an accounting and financial system in the land of Islam.

Many financial innovations then appeared: cheques, contracts, bills of exchange, international fund transfer operations, partnership operations, savings accounts, foreign exchange...All these techniques were subsequently, from the 13th century onwards, transferred to medieval Europe.

But finance as we understand it today did not appear until much later. Indeed, the first public accounting and management systems of the first khoulafa survived until their fall in 1258.

Islamic banks represent a relatively recent experience in the Islamic world. They were established in order to address the urgent need of Muslims, while adhering to the principles of Islamic law[1]. They operate outside the realm of usurious practices adopted by traditional banks. The latter have as their primary goal to maximize their profit rather than to invest and achieve the economic and social development that Islamic banks aim to achieve.

According to some studies, the origins of Islamic financial institutions can be traced back to 1940 in Malaysia, where interest-free savings funds were established. In 1950, the idea of adopting financing formulas in accordance with Islamic law moved to Pakistan.

However, serious attempts in modern times to create banks offering banking services and operations in accordance with Islamic law began in 1963 with the experience of local savings banks that emerged in Upper Egypt in the province of Dakahlia, initiated by Dr. Ahmed Abdel Aziz El-Naggar.

These local savings banks worked on the basis of collecting small savings from small farmers and reinvesting them on the basis of partnership, away from the interest rate, whether loans or deposits. Although short-lived (four years), this experiment was a success, as evidenced by the

[1]Zamir I. and Mirakhor A. (2006), An Introduction to Islamic Finance: Theory and Practice, Wiley, 332 pages.

number of depositors reaching fifty-nine thousand in just three years. However, this promising experiment could not continue due to political and administrative factors.

At the same time, Pakistan had another experiment led by Sheikh Ahmed Ershad, supported by Saudi King Faisal and Sheikh Amin Al Husseini. This experiment took a different approach by trying to transform traditional banks into non-usurious Islamic banks, while retaining the mechanisms in force in these banks. However, this attempt met the same fate as the previous one, lasting only a few months.

In 1970, the Egyptian and Pakistani delegations proposed the establishment of an International Islamic Bank or International Union of Islamic Banks at the Second Conference of Foreign Ministers of Islamic Countries in Karachi, Pakistan. The project was studied and a report was presented highlighting the need to develop an alternative Islamic system to the usurious system.

In 1971, Banque Nasser Sociale was founded, starting its practical banking activities in 1972, with a founding law stipulating the absence of interest-based transactions. This experience aroused great interest and was placed on the agenda of the meeting of Foreign Ministers of Islamic countries in 1972 in Jeddah, which examined the possibility of establishing local Islamic banks and an international Islamic bank.

In 1973, at the meeting of finance ministers of Islamic countries in Jeddah, the idea of creating Islamic banks offering full banking services was proposed. Participants discussed in detail the theoretical and practical aspects of establishing a system for Islamic banks and financial institutions. This idea was well received and accepted, and the meeting concluded on the need for its implementation.

Islamic banking work actually began in 1975 with the princely decree establishing the Islamic Bank of Dubai, which distinguished itself by providing comprehensive banking services. The same year saw the creation of the Islamic Development Bank, an international development finance institution in which all Islamic countries participate.

Subsequently, local Islamic banks were established in various countries, with the Islamic banking industry growing rapidly over the past four decades. While the number of Islamic banks was three in 1975, this number grew to about 520 Islamic institutions and banks worldwide by the end of 2012, spread across more than 60 countries, with forecasts of nearly 900 banking institutions by 2015, most of which are concentrated in Arab countries, particularly in the Arab Gulf countries.”

Islamic financial practices have been used by traders for centuries in Muslim countries, but at the same time banks in these countries offered standard products of conventional finance. It was not until around 1940 that some experiments in the use of traditional techniques, by economists and bankers, emerged in Malaysia and Pakistan, then in Egypt.

The experiment that took place in Egypt in 1963 is often presented as the starting point of the system. An Egyptian, Ahmad Al Naggar, created a savings bank whose funds were raised to finance agricultural projects. It was then, in the 1970s, during the sharp increase in the price of oil - it was multiplied by twelve - that the Islamic financial system officially developed. As deposits of funds accumulated in the Gulf countries, institutions were created to manage these deposits according to the principles of Shariah.

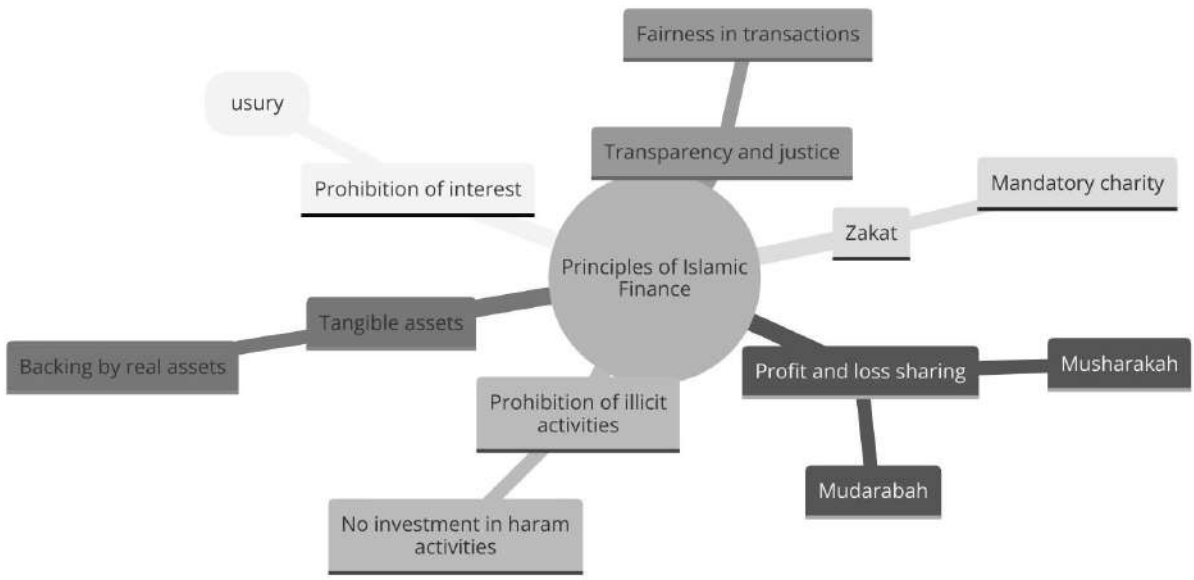
A milestone in the history of the Islamic financial system was the establishment of the Islamic Development Bank (IDB) in 1975. Based in Jeddah, it was created by four founding member countries: Saudi Arabia; Libya, the United Arab Emirates and Kuwait. It's purpose is to be the development bank for the Muslim world and as such it participates in major projects. It was during this period that countries, constituted as Islamic republics, proceeded to the complete Islamization of their financial system: Pakistan in 1979, Sudan and Iran in 1983.

In the 1990s, we are witnessing another significant event: the opening of special departments or "Islamic windows" by conventional banks established in Muslim countries, these banks also intended to attract Muslim customers by offering Islamic products and services. As a result, Western banks present in the Muslim world have also created Islamic windows.

It should be noted that during this period Islamic finance had little or no presence in the Maghreb countries, except for a bank in Mauritania and a subsidiary of Al Baraka in Algeria. The next step will see the opening of Islamic banks and windows outside the Muslim world.

III- THE PRINCIPLES OF ISLAMIC FINANCE

The Core Principles of Islamic Finance



Personal development

Islamic finance is based on distinctive key principles that differentiate it from conventional finance. At the heart of these principles is the prohibition of interest (riba), which is the foundation on which this financial branch is based. This prohibition encompasses all forms of financing involving interest rates.

Sharia, or Islamic law, provides general and specific guidelines that govern economic transactions, promoting an ethical approach aimed at the development of human well-being and the guarantee of social justice. In this context, Islam seeks to combat precariousness and exploitation, positioning itself against economic systems based on the monopoly and domination of capital, which contribute to the impoverishment of the poorest and the enrichment of the wealthiest[2].

In addition, Islamic finance prohibits speculative transactions, considering that these practices contribute nothing to the real economy and are often motivated by self-interest, contrary to the principles of Shariah. The Islamic religion also prohibits any activity related to alcohol, gambling, tobacco, and pornography, as well as transactions based on deception or false oaths, with the aim of maintaining social and commercial equity.

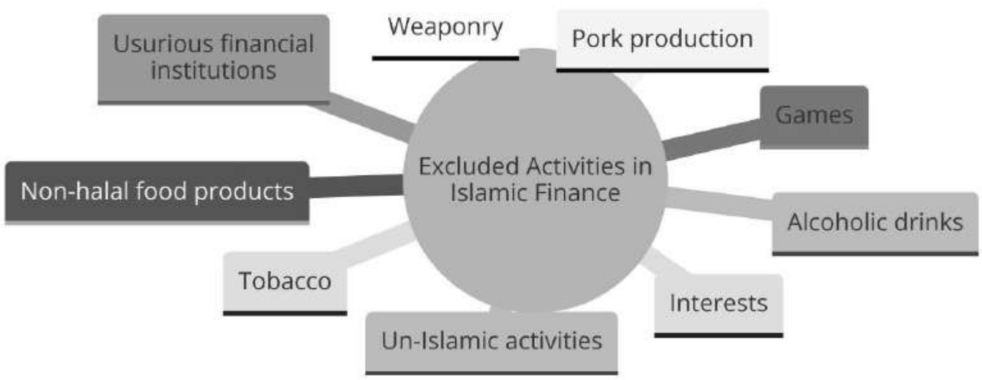
[2]Bochra Kammarti, "Islamic financial standards and their circulation in France and Great Britain", Archives de sciences sociales des religions, 179 | 2017, 255-280.

The foundations of Sharia are based on two main sources: the Qur 'an and the hadiths (words and deeds of the Prophet Muhammad), also known as Sunna (tradition established by the Prophet Muhammad).

The Islamic finance sector has evolved through the reintroduction of traditional financial products and the development of new products, while taking care to avoid prohibitions dictated by Islamic economic and social principles. These prohibitions mainly include: prohibition of interest (riba), gharar (uncertainty, deception, risk), hoarding, speculation (maysir), and activities deemed illegal. This presentation highlights the prohibition of interest and gharar, which are the pillars on which the Islamic financial system is based.

The following diagram gives a detailed presentation of all activities prohibited by Islamic finance:

Prohibited Practices in Islamic Finance



Personal development

Islamic finance is distinguished by its unique principles, the strict adherence to which is essential to maintain the validity and integrity of its financial products. The conformity of these products with Islamic law is assessed by specialized lawyers, who approve them if they are deemed to comply with the requirements of Shariah.

Islamic finance is based on principles that prohibit certain common practices in conventional finance, including the use of interest as a means of return on capital. On the other hand, it favours other methods such as profit and loss sharing, which is an ethical alternative to interest.

1) prohibition of interest (Riba)

The prohibition of interest (RIBA) is considered the central pillar of Islamic economics. Islamic economists have explored the reasons for this prohibition, aiming to demonstrate its foundations and necessity. The term "RIBA" refers to interest in all its forms. This prohibition highlights the incompatibility between the modern economic system and the principles of Sharia, which upholds equity and outlaw's exploitation.

Economists such as John Maynard Keynes have attempted to define interest in a conventional way, but in the context of Islamic finance, interest, whether charged at a normal or abusive rate (usury), is categorically excluded. This exclusion is based on the principle that money should not be a means of making a profit without effort or real contribution to the economy.

1-1-Justifications of the RIBA Ban:

The main reason for the prohibition of interest is to prevent potential injustice between lenders and borrowers. For example, if a borrower makes a profit above the agreed interest rate, the lender suffers a potential loss, not having shared the risk of the business. This situation is considered unfair according to the principles of Shariah.

In the Islamic view, money only becomes capital when combined with effort and work, stressing that money in itself should only serve as a medium of exchange. This principle aims to encourage productive economic activities rather than speculation or passive accumulation of wealth.

1-2-Economic effects of the RIBA ban:

One notable effect of the interest ban is its potential to limit inflation. In the conventional financial system, money is often remunerated by an interest rate that must exceed the rate of inflation to preserve purchasing power. However, this practice can contribute to an economic slowdown if consumption declines. Islamic finance, by avoiding these practices, seeks to promote more stable and equitable economic growth[3].

the principles of Islamic finance, in particular the prohibition of RIBA, aim to establish a fairer and more ethical financial system, which promotes equity, reduces inequalities and encourages investment in economically productive activities.

From a religious point of view, it is useful to point out that the three monotheistic religions prohibit the use of interest.

1-3- Disadvantages of the interest-based system:

The disadvantages generally advanced are as follows. The practice of interest:

[3]Fakhri Korbi. Islamic finance: a new ethic?: Comparison with conventional finance. Economics and finance. University of Sorbonne Paris Cité French NNT: 2016USPCD031

-Discourages entrepreneurship because as soon as the loan is granted, even before any return on investment, the borrower/entrepreneur must pay interest and begin to repay the capital;

-Promotes inflation, interest being charges leading to an increase in the selling price;

-Bringing a dichotomy between the real economy and the monetary economy.

This last argument is significant in the current situation. The practice of interest has led to the creation of financial products subject to speculative transactions, unrelated to any underlying wealth-creating economic operation, which have led to recent financial disasters.

2) profit and loss sharing

The Islamic Bank is a for-profit organization responding to Quranic law and Sharia, it is not in case a charity institution, it shares the same goals with a conventional bank to ensure its sustainability and survival.

Koranic law prohibits any concentration of capital by a minority, but requires the full involvement of the providers of funds in the real economy, and therefore the sharing of risks and profits.

Interest is prohibited but lending is not prohibited. It is even recommended when it benefits those who need it. But, since Islamic banks are not charitable organizations, it is therefore necessary to find an alternative remuneration system: it is the sharing of profits and losses resulting from the financing operation, or PPP system[4].

The prohibition of interest and the principle of PPP go hand in hand. The latter appears as an alternative solution to the lender's remuneration in the absence of interest rates. But it is a remuneration process that is fully in line with the values of the Islamic economic system, based on the sharing of risk and remuneration, and the nature of the relationship between the lender and the borrower. The bank lends money to a company that becomes a partner, as does the depositor of the money considered a shareholder of the bank.

Both parties assuming a risk have an interest in engaging in profitable operations and working towards the success of the funded project.

3) The prohibition of uncertainty and speculation (GHARAR الغرر and MAYSSIR الميسر)

[4]Talbi, M., Drissi, H., & Taghzouti, A. (2019). The development of Islamic finance in Morocco: what adaptations to the legislative and regulatory framework? Moroccan Journal of Economics and Management (REM), (32), 119-138.

Islamic finance promotes the engagement of investors in the real economy, and prohibits any speculative transaction that does not result in the creation of added value in society.

The prohibition of GHARAR has its origins in the following verse:

"O you who believe, alcohol, gambling, standing stones and arrows

Divinatories are nothing but impurity, caused by the devil. Preserve it, in order to succeed. The devil only wants, through alcohol and gambling, to throw enmity and hatred between you, and turn you away from the remembrance of God and prayer…"

GHARAR means any operation in which there is deception, which therefore presupposes a perfect knowledge of the clauses of the contract and the product in question. The gharar can also take other forms such as the risk premium in some classic transactions, so it would be necessary to show all the details before the conclusion of the contract.

Through this prohibition sharia aims to promote social justice, the financial assembly of Islamic financial products for example will have to operate on the basis of this rule, note in passing that Islam also prohibits the possibility of taking out insurance to deal with hazards because of the existence of uncertainty in the operation.

But Sharia offers an alternative to meet the needs of the market, by offering TAKAFUL insurance based on pooling, and compliance with the rules enacted by Koranic law.

According to this principle neither party should normally be favoured over the other, and the contract should be clear about its content and performance. As a result, uncertainty is strictly prohibited, which explains the prohibition of the sale of a property that is not yet ready, or that is not in the seller's procession. The objective is always to protect the contracting parties.

The prohibition of the gharar is just as important a principle as that of the ban on riba, but it differentiates Islamic finance less because it is more a matter of moral values and ethics. A trader must avoid "misrepresentations" of his goods; must reveal his defects. An agreement that involves some degree of doubt, uncertainty or deception is not valid. This principle is derived from the sanctity of contracts whose objective is to reduce information asymmetry and uncertainty in contracts.

Gharar is a fundamental concept in Islamic finance, referring to excessive uncertainty or ambiguity in contracts and transactions. It can take various forms, all characterized by a lack of clarity or precision in the commitments or terms agreed upon by the parties. Common manifestations of gharar include the uncertain or relative obligation of one of the parties, conditional payment by one party, or the inaccuracy of the price at the time of signing the contract. These forms of uncertainty are considered incompatible with the principles of fairness and transparency promoted by Sharia in economic dealings.

Several hadiths provide concrete examples of situations involving gharar. Among them are the sale of a baby camel still in its mother's womb and the sale of wool still on the animal's back. These cases reflect the prohibition of transactions that involve unknown outcomes or undefined conditions, which can lead to injustice between the parties involved.

In the modern context, the prohibition of gharar applies to various contemporary commercial practices. For instance, the purchase or sale of equipment with a price to be determined at a later date constitutes gharar. Similarly, the sale of a building whose specifications will only be defined after the contract is signed also falls under this category. In all these cases, the absence of precise and agreed-upon terms at the time of the contract introduces a level of uncertainty that renders the transaction non-compliant with Islamic financial principles.

The gharar can be difficult to detect when it relates to an element that does not appear immediately, that is to say when it relates to something other than the price or a delay.

Unlike the application of the riba prohibition principle, for which solutions can easily be found, the application of this principle is sometimes difficult in contracts relating to large construction projects.

4) Asset Backing: Backing investments with tangible assets from the real economy

One of the principles of Islamic finance is the backing of any transaction with a tangible asset. This avoids a disconnection between the real sphere and the financial sphere.

This principle of asset tangibility can be put into practice by the securitization technique. Indeed, many contracts use this technique to comply with the principles of alternative finance[5].

Thus, in conventional finance, economic transactions must always relate to something real, and therefore the existence of an underlying in the operation.

The underlying asset must be clearly validated by Quranic law, this obligation represents a primary point in Islamic finance, which makes it possible to avoid financial crises such as the subprime crisis of 2008.

[5]Drissi, H., & Talbi, N. (2017). Obstacles to the development of Islamic finance in Morocco. International Journal of Management Sciences, 88(3), 381-398.

Respect for this principle engages investors more in the real economy, thanks to the multiplication of added value and the dynamization of the nation's economic activity.

IV. ISLAMIC FINANCE IN MOROCCO: A BOOMING SECTOR

The Kingdom of Morocco, the strategic and commercial hub of North Africa, has gradually metamorphosed into an essential crossroads for Islamic finance, a financial sphere guided by the principles of Islamic law, Shariah. This development is part of an approach to diversify and deepen its financial system, as well as in the search for financial inclusion that respects the religious beliefs of its predominantly Muslim population.

Over the period from 2010 to 2023, the Moroccan Islamic finance sector experienced a remarkable expansion, resulting in an estimated average annual growth of 15%. This meteoric increase was notably characterized by a substantial expansion of the range of Islamic financial products and services available, from simple Sharia-compliant deposit accounts to sukuk, Islamic equivalents of bonds, Takaful insurance and other complex financial instruments.

At the dawn of 2023, Islamic finance assets in Morocco rose to impressive heights, reaching the equivalent of 60 billion dirhams. This rise in power reflects a growing appetite for financial solutions that not only meet the practical demands of the population but also align with their ethical and spiritual values.

Morocco, aware of the significant potential of Islamic finance, has taken proactive measures to create an environment conducive to its development. The legal and regulatory framework has been carefully fine-tuned to accommodate and encourage innovation in this area. In 2015, the adoption of Law No. 103-12 on credit institutions and similar bodies marked a decisive turning point, establishing a robust and dedicated legal basis for Islamic finance, thus promoting the creation of new Islamic financial institutions and the extension of the activities of existing actors.

Morocco's financial landscape, renowned for its diversity and strength, already benefits from the presence of conventional banks, microfinance organizations and insurance companies, among other financial institutions. The integration of Islamic finance into this ecosystem offers an attractive alternative for consumers and investors, but also represents a potential lever for the economic and social development of the country.

The potential impact of Islamic finance on the Moroccan economy is multifaceted. It can serve as a catalyst for the financial inclusion of previously unbanked segments of the population because of their religious beliefs. In addition, it could attract significant foreign investment, especially from Gulf and Southeast Asian countries, where Islamic finance is already well established and looking for new opportunities.

The ethical principles of Islamic finance, which prohibit interest (usury) and advocate the sharing of profits and losses, offer a financial vision that could appeal even beyond the Muslim population, because of its emphasis on equity and financial responsibility. Transparency and commitment to tangible and socially responsible investments correspond to a global trend towards more ethics in finance.

In order to fully seize the opportunities presented by Islamic finance and overcome the challenges associated with it, Morocco will need to continue its efforts in the financial education of its population, the harmonization of practices with international standards and the encouragement of dialogue between regulatory authorities, financial institutions and consumers.

Morocco, through its strategy of integrating Islamic finance, is not only pursuing a trajectory of economic growth; it is also helping to shape a future where finance and ethics converge, and where the precepts of a faith-based economy blend harmoniously into the fabric of its economic development.

V. THE DEVELOPMENT OF ISLAMIC FINANCE IN MOROCCO

1) The basics of Islamic finance in Morocco

The rise of Islamic financial products and services in Morocco reflects a carefully orchestrated strategy to meet the specific needs of the population and businesses. The adaptation of these services is part of an approach of personalization and respect for ethical and moral principles, which resonate particularly well with the values of a predominantly Muslim population.

In 2023, the Moroccan Islamic financial landscape showed its maturity with the presence of 14 Islamic banks and the opening of 10 Islamic windows operated by conventional banks. These windows allow traditional banks to offer Islamic products and services, providing a full range of options for customers to make financial choices aligned with their beliefs. This proliferation of banks and dedicated windows has established Morocco as a thriving market for Islamic finance.

The financial solutions offered by these institutions are viable and attractive alternatives to conventional financial products. They are distinguished in particular by their compliance with the precepts of the Shariah, which strictly prohibits usury (RIBA) and requires that any profit be generated by a shared risk and legitimate economic activity. These principles encourage fairer and more equitable investments and pave the way for a financial approach that prioritizes transparency and social justice.

Beyond the simple alternative, Islamic finance in Morocco is proving to be a booming and innovative sector. The players in the field are constantly developing new products to satisfy an ever-changing demand, seeking to stand out and add value to the global financial market. This results in an increased diversity of financing and investment options, allowing consumers and businesses to find solutions suitable for a variety of projects, whether it is real estate financing, investments in sustainable development projects or risk coverage through Takaful insurance contracts.

These innovations reflect a desire to align with global trends in sustainable and responsible finance, while preserving the specificities of Islamic finance. It is an approach that confirms Morocco's commitment to economic integration that respects not only the financial aspects but also the social and environmental dimensions.

The advent of Islamic finance as a dynamic and innovative sector reinforces Morocco's role as a leader in this area at the regional level. The country continues to capitalize on this dynamic to strengthen its image as an inclusive and responsible financial center, in line with the requirements of a world increasingly concerned with ethics and sustainability.

Morocco's financial transformation towards a more inclusive model that respects Islamic principles has materialized through a series of strategic initiatives. The creation of Islamic banks and the inauguration of Islamic windows within conventional banks marked the first steps in this transformation. These institutions now offer a range of Shariah-compliant financial products, which have been enthusiastically welcomed by the local and regional market.

The adoption of an Islamic Finance Law laid the foundation for a solid legal framework and legitimized the practice of Islamic finance in the kingdom. This legislation has not only facilitated the emergence of new financial players but has also strengthened investor confidence, both domestic and international, by providing a clear and stable regulatory environment.

The establishment of a national committee of Islamic finance illustrates Morocco's willingness to structure and supervise the industry according to international best practices. This committee plays a crucial role in harmonizing standards and ensuring the compliance of Islamic financial products with religious principles, while supporting the innovation and competitiveness of the sector.

In addition, Morocco has made significant diplomatic and economic efforts to forge ties with foreign countries, signing multiple international partnerships. These strategic alliances have enabled knowledge sharing and cooperation that benefit the country's Islamic financial ecosystem and strengthen its position on the international stage.

These concrete measures received global recognition when, in 2023, Morocco was ranked 6th globally in the Global Islamic Finance Development Index (GIFDI), a feat that testifies to the vitality and innovation of the sector in the kingdom. The rapid rise in this ranking is the result of sustained growth, fueled by smart government policies and strong consumer and investor interest in ethical and socially responsible financial products.

Morocco's potential to become a global leader in Islamic finance is undeniable. With a young and dynamic population, a strategic geographical position at the crossroads between Europe and Africa, and a clear political will, the country has all the assets to establish itself as a nerve centre of Islamic finance on an international scale.

In the coming years, with the consolidation of its legislation, the expansion of its offer of Islamic financial services, and the deepening of its strategic partnerships, Morocco is on track to achieve its ambition of becoming a global hub for Islamic finance, thus contributing to the reconfiguration of global finance towards a more equitable and sustainable model.

2) Current State of Islamic Finance in Morocco: Analysis of Latest Statistical Data

Table 1: Assets and liabilities of participating banks

Year	Total assets (in billions of dirhams)	Total liabilities (in billions of dirhams)
2020	44.7	42.2
2021	53.2	49.7
2022	60.0	56.5

Bank Al-Maghrib; (2022). Annual report on banking supervision. Rabat, Morocco

The evolution of assets and liabilities of participatory banks in Morocco from 2020 to 2022 illustrates a sustained and significant increase in the Islamic finance sector. Starting with a base of 44.7 billion dirhams in total assets in 2020, banks grew to 53.2 billion dirhams in 2021, followed by an increase to 60.0 billion dirhams in 2022. This upward trajectory demonstrates not only the growing consumer and business confidence in Islamic financial services but also the ability of participatory banks to expand their asset portfolio effectively.

At the same time, total liabilities followed a similar trend, rising from 42.2 billion dirhams in 2020 to 49.7 billion dirhams in 2021, finally reaching 56.5 billion dirhams in 2022. The increase in liabilities reflects the expansion of deposits and other financial obligations, which is an indicator of the growth of banking activity and depositor confidence.

The difference between assets and liabilities, representing the net balance sheet of banks, also suggests an improvement in the financial health and stability of participatory banks. This growth is indicative of the robustness of the Islamic finance sector in Morocco, signaling an increased demand for its products and services that are perceived to be in line with the ethical and moral values of a large portion of the population.

The constant expansion of assets and liabilities shows that participatory banks play an increasingly central role in the Moroccan financial system. Their ability to generate quality assets and maintain a healthy level of liabilities is a testament to their competence in risk management and Sharia-compliant banking.

Table 2: Financing and deposits of participating banks

Year	Financing granted(in billions of dirhams)	Deposits collected (in billions of dirhams)
2020	34.7	32.2
2021	42.2	38.7
2022	48	44.5

Bank Al-Maghrib; (2022). Annual report on banking supervision. Rabat, Morocco

Financial data from 2020 to 2022 show a steady growth in the participatory banking sector in Morocco, with a notable increase in financing granted and deposits collected. Financing increased from 34.7 billion dirhams in 2020 to 48 billion dirhams in 2022, while deposits increased from 32.2 billion to 44.5 billion dirhams over the same period. This upward trend reflects growing public confidence in participatory banks and increased demand for Shariah-compliant financial products, underscoring the financial health and expansion of the Islamic finance sector in Morocco.

Table 3: Products and services of participatory banks

Product/service	Market share (%)
Murabaha	55%
A. Musharaka	25%
Ijara	10%
Takaful	5%
Wakaf	5%

Bank Al-Maghrib; (2022). Annual report on banking supervision. Rabat, Morocco

In the Islamic finance sector, Murabaha dominates the market with a 55% share, reflecting its popularity as a financing mechanism in line with Islamic principles. Ijara follows with 25%, illustrating interest in Islamic leasing solutions. Sukuk, Islamic equivalents of bonds, account for 10% of the market, while Takaful (Islamic insurance) and Wakaf (Islamic endowment) each hold 5%, indicating a growing diversification of Islamic financial products and services.

Table 4: Distribution of Participating Banks in Morocco

Bank Type	Number
Participative banks	5
Islamic windows	9

Bank Al-Maghrib; (2022). Annual report on banking supervision. Rabat, Morocco

In Morocco, the participatory banking landscape is divided into two main categories: there are 5 dedicated participatory banks, which focus exclusively on offering Shariah compliant products and services, and 9 Islamic windows, which are divisions or branches of conventional banks offering Islamic financial services alongside their traditional activities. This distribution illustrates a mixed approach adopted by Morocco to integrate Islamic finance into its overall banking system, thus allowing greater diversification and accessibility to Islamic financial services.

VI. Islamic Finance Benchmarking in Morocco and Malaysia

To develop a rigorous benchmarking between the Moroccan and Malaysian experiences in the field of Islamic finance, I adopted a structured methodological approach, aimed at ensuring the credibility and accuracy of the analysis. This method is based on the comparative assessment of the performance of the two countries through a series of essential criteria that reflect the fundamental and dynamic aspects of their Islamic finance markets. Here are the key methodological elements of my approach:

Criteria Selection: The first step was to identify relevant criteria that provide a meaningful overview of the Islamic finance sector. These criteria include market size, growth rate, market share of different products and services, market depth, product development, legal and regulatory framework, level of financial inclusion, and innovation. The selection of these criteria was guided by their relevance to assess the maturity, diversity and innovation potential of the sector.

Data Collection: Rigorous data collection was carried out, relying on reliable and recognized sources to ensure the accuracy of the information. This includes central bank reports, market research, academic publications and reports from international financial institutions.

Analysis and Assessment: With the data collected, I conducted a detailed analysis for each criterion, using my professional judgment to assign a score to each indicator. This evaluation was carried out taking into account the current performance and trends observed in each country, thus making it possible to determine their relative positioning.

Assignment of Levels: Based on the analysis, the following levels were assigned to the different indicators for each country:

Advanced: awarded to Malaysia for market size, market depth, product development and innovation, highlighting its leading role in the sector.

Robust: also attributed to Malaysia for its legal and regulatory framework, reflecting a well-structured environment supporting Islamic finance.

High: Recognized for the level of financial inclusion in Malaysia, indicating broad accessibility of Islamic financial services.

Developing: awarded to Morocco for several criteria, highlighting opportunities for improvement and potential growth of the sector.

Comparison and Benchmarking: The final step is to compare scores and benchmark between the two countries, identifying areas of strength, opportunities for improvement and best practices that can be adopted.

Table 5: Comparative Overview of Islamic Finance in Morocco and Malaysia

Country	**Morocco**	**Malisia**
Legal Framework	Officially introduced in 2014 with the participatory finance law	Well-established since the 1980s with specific regulations
Social and Cultural Acceptance	Growing, but awareness efforts still needed	Broadly accepted and integrated into the economic system
(average annual growth rate)	15%	10%
Islamic Finance Market Share	5%	30%
Number of Islamic banks	5+9 windows	16%
Market Depth (Assets/GDP)	3%	40%
Product development	developing	Advanced
Legal/Regulatory Environment	In development	Solid
Level of financial inclusion	Low	high
Innovation	developing	Advance

Note: The data presented in this table is from our own data collection.

Islamic finance has developed differently in Morocco and Malaysia, with each country having its own peculiarities in terms of market, regulatory approach and sector maturity.

Morocco, with its predominantly Muslim population, benefits from a natural market for Islamic finance. This population represents a significant reservoir for Islamic financial institutions, especially as awareness and financial education progress. The rapid growth of the Moroccan market, although recent, is promising and reflects an economic dynamic favourable to innovation and adaptation.

The Moroccan government has shown strong support for the development of Islamic finance. This support translates into regulatory and legislative initiatives that aim to create a welcoming environment for investors and Islamic financial institutions.

Malaysia is often seen as an example of Islamic finance. The country has a mature market, with a wide variety of products and services that attract a diverse clientele. Malaysia also benefits from a robust and well-established legal and regulatory framework, which has been refined over the years to meet the needs of a dynamic market.

The level of financial inclusion in Malaysia is high, implying that Islamic financial products are accessible to a large proportion of the population, including groups often excluded from conventional financial services.

However, Morocco needs to work on several fronts. The size and depth of the market remains limited compared to more mature Islamic markets. New product development needs to be accelerated to meet increasingly sophisticated demand.

The legal and regulatory framework, although in progress, requires continuous evolution to ensure fair competition between Islamic and conventional financial institutions and to promote the integration of the sector into the global economy.

Malaysia, despite its well-established market, must seek to maintain a sustained rate of growth and encourage innovation to remain competitive on a global scale. Growing international competition and rapidly changing consumer needs require constant innovation

Morocco, with its rapid growth and supportive government, has the capacity to become an influential player in global Islamic finance. However, to achieve this potential, it must draw inspiration from countries such as Malaysia, which have succeeded in establishing a thriving Islamic financial ecosystem.

On the other hand, Malaysia can observe the emerging market dynamics in Morocco to anticipate trends and stimulate innovation within its own market.

Thus, in a spirit of cooperation and exchange of expertise, Morocco and Malaysia have the opportunity to strengthen their respective positions in the Islamic finance sector, each leveraging the strengths and opportunities of the other for mutual and beneficial growth. Islamic finance in Morocco, despite its considerable potential and promising growth, faces significant obstacles. One of the most pressing challenges is the lack of qualified human resources.

As the sector is newly created in Morocco, there is a clear shortage of professionals with the specific training needed to thrive in this industry. The complexity of Islamic financial products, combined with Shariah compliance requirements, requires specialized skills that the current job market cannot fully satisfy.

The legal and regulatory framework, although constantly evolving, requires sustained attention to adapt to the specific dynamics of Islamic finance. Despite significant progress with the adoption of relevant laws, grey areas remain, limiting the operational efficiency of Islamic financial institutions and potentially hindering the attraction of international investment.

Another major challenge is low public awareness. Although the demand for Sharia-compliant products is intrinsically present among Morocco's predominantly Muslim population, a lack of understanding of the principles and benefits of Islamic finance persists. This gap in collective knowledge can slow the adoption and popularization of Islamic financial services. In addition, Islamic finance must navigate the competitive waters of conventional finance, firmly entrenched and anchored in the country's financial practices. The challenge lies not only in offering alternative services but also in demonstrating their viability and relevance in the contemporary economic context.

However, the outlook is favorable and revolves around several axes. First, the development of special education and training is fundamental. Educational institutions, in partnership with the financial sector, must initiate dedicated programs to cultivate a new generation of seasoned Islamic finance professionals. Second, strengthening the legal and regulatory framework remains a priority.

Regular adjustments and careful legal monitoring must be carried out to ensure an environment conducive to financial innovation while respecting Islamic ethical principles. Third, an increase in public awareness is imperative. Information campaigns and educational marketing initiatives could play a key role in demystifying Islamic financial products.

Fourth, Morocco needs to look at the development of research and innovation to not only adapt Islamic financial products to the needs of the market but also to explore emerging niches such as Islamic fintech and Islamic green finance.

The rise of Islamic fintech could revolutionize access to financial services, offering innovative solutions tailored to young populations and entrepreneurs. At the same time, Morocco, already engaged in sustainable development initiatives, has the opportunity to position itself as a forerunner of green Islamic finance, thus financing projects that support its environmental commitments. International partnerships remain a crucial growth vector. Sharing expertise and collaborations with established Islamic financial markets could facilitate a transfer of know-how and promote beneficial cross-investments. islamic finance represents a horizon of opportunities for Morocco. By addressing current challenges and capitalizing on its strengths, the country could not only strengthen its financial ecosystem but also rise as a driving force in the field of Islamic finance on a global scale, playing a significant role in the economic and social development of the region.

Conclusion

Islamic finance, although having aroused only limited interest in Morocco a few years ago, has seen its relevance increase considerably recently. Initially perceived as a subject of regulatory complexity and secondary priority by traditional financial actors, Islamic finance is now attracting more attention. This rise in importance is attributable to several factors, including the accumulation of oil revenues, the inherent fragilities of the conventional financial system, and a growing demand for financial traceability in line with Islamic principles. Faced with these challenges, Islamic finance is seen both as an opportunity for the international expansion of Moroccan banks and as a response to the expectations of a population wishing to access ethical and sustainable financial products.

Despite its recent introduction, Islamic finance shows significant development potential in Morocco, in resonance with a growing global interest in Western countries. However, innovation in Shariah-compliant financial products, while necessary, introduces a complexity that must be rigorously controlled. It is crucial to ensure that this finance remains anchored in the real economy and avoids any deviation towards speculative practices that could undermine its credibility and acceptance.

Our article focuses on the development of Islamic finance in Morocco, with a particular focus on the challenges faced and the prospects for the future. In parallel, a comparative analysis with the Malaysian experience is proposed, highlighting the lessons learned and best practices likely to inspire Morocco in its ambition to consolidate its place in the field of Islamic finance. This reflection is part of a context where defining a clear line in Islamic financial innovation becomes a crucial issue, in light of the current economic challenges and the need for finance that truly serves the real economy.

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