

MOROCCO ISLAMIC  
FINANCE 2014:  
**UNLOCKING  
THE  
KINGDOM'S  
POTENTIAL**

EXCLUSIVE

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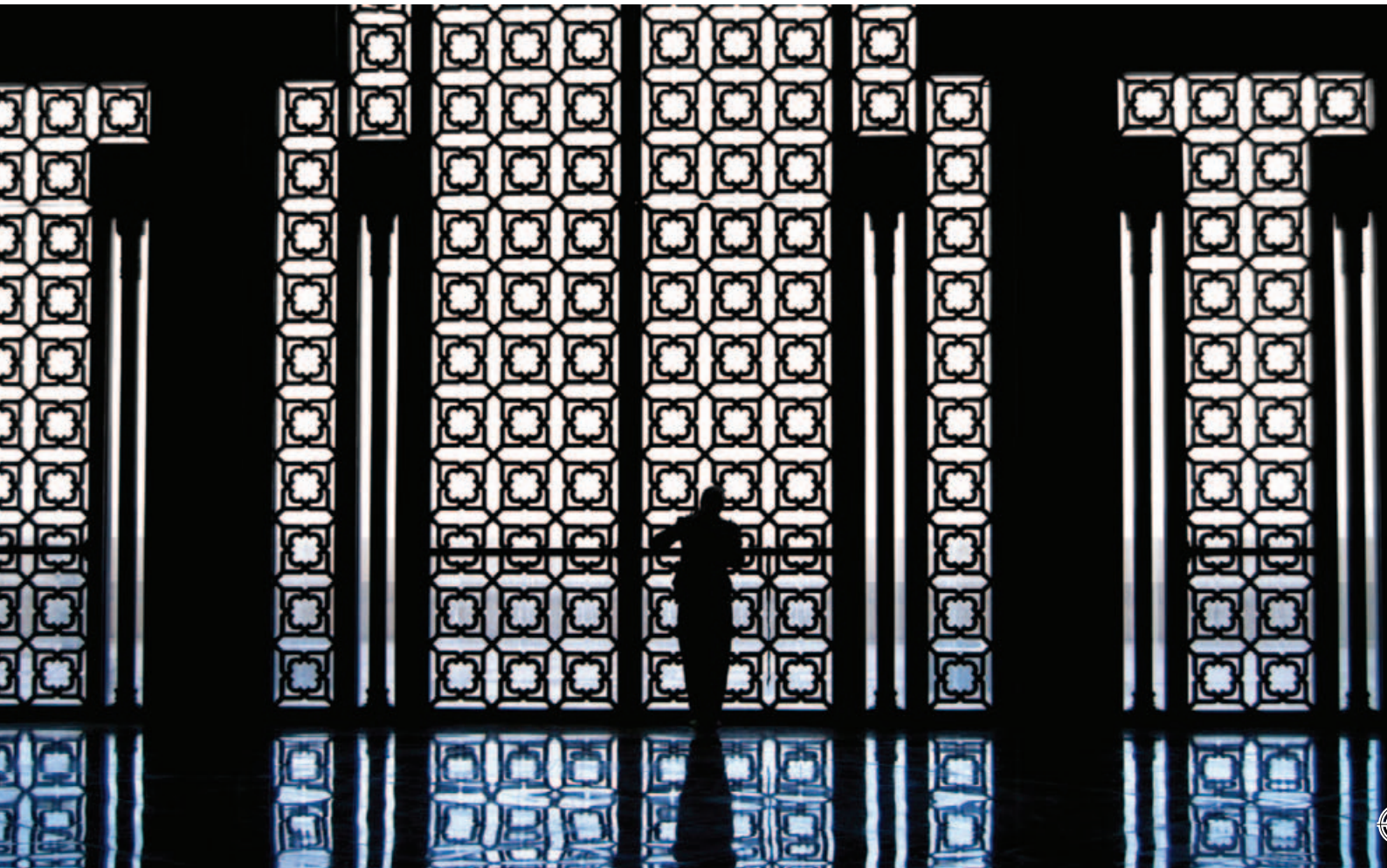
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## Morocco Islamic Finance Country Report 2014 presents the necessary confluence of economic, financial and political fundamentals that are coming together in a kingdom ready to embrace Islamic finance.

In Arabic, Morocco is called 'Al Maghreb', the westernmost land in the northwestern region of the maghreb (region denoted in lower case). Yet this dominant Arab complexion of Morocco belies the country's and indeed the entire maghreb region's richly tapered history and heritage long before lines in the sand were drawn to separate the modern nation states of Algeria, Morocco and Tunisia.

Historically, the maghreb as a region is home to the native diverse Berbers who pre-date the arrival of the Arabs in the 7th century. Between the 7th and the 16th centuries the region was ruled by different successive Berber and Arab dynasties. During this period the maghreb reached a high during the 10th to the 13th centuries under the Arab Fatimid caliphate and then under the Islamic Berber dynasties Almoravids and Almohads. The Almoravids founded Marrakesh in 1062, and extended their empire beyond present-day North Africa to parts of modern-day Spain, Portugal, France, Gibraltar and Mauritania. In the mid-12th century the Almohads overtook the Almoravids, and ruled until their decline in the mid-13th century. Lesser and smaller Berber rule reigned until the middle of the 16th century when Arab dynasties returned first with the Saadis and then with the Alaouites in the 17th century. The maghreb fell under the influence of

This report gives you the economic, financial and political fundamentals you need to navigate investment decisions for Morocco. More exclusively, this report also presents an overview of the potential for the growth and development of Islamic finance based on four studies: a national survey focused on retail Islamic finance, another focused on SMEs, interviews with key industry stakeholders, and an assessment of Islamic finance investment scenarios.

European powers in the early 19th century, but the Alaouites have persisted, and their position preserved through the five decades of European rule from the early to the mid-20th century, even if they did not have significant power.

Today, the maghreb as an entity is embodied in the Arab Maghreb Union, which is a trade agreement signed in 1989 that envisions an economic and future political unity for Algeria, Libya, Mauritania, Morocco and Tunisia. The state of the Union, however, is inactive, fraught as it is with political disputes.

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President of Islamic Development Bank (IDB) Group Ahmed Muhamed Ali speaks during the "Third IDB 1440H Vision Commission Meeting" in Kuala Lumpur March 23, 2006. REUTERS/Zainal Abd Hallim



## ABOUT THE ISLAMIC RESEARCH AND TRAINING INSTITUTE



The Islamic Research and Training Institute (IRTI), a member of the Islamic Development Bank Group (IDBG), was established in 1401H (1981). The principal aim of IRTI is to undertake research, training and advisory activities in Islamic Economics and Islamic Finance to facilitate the economic, financial and banking activities in IDB member countries to conform to Shari'ah. A knowledge-based organization, IRTI, is considered to be one of the pioneers and key centers of excellence around the world in promoting and supporting the development and sustenance of a dynamic and comprehensive Islamic Financial Services Industry (IFSI), which supports the socio-economic development of IDB member countries and Muslim communities across the globe.

**VISION** To be the global knowledge center for Islamic Economics and Finance by 1440H (2020)

**MISSION** To inspire and deliver cutting edge research, capacity building, advisory and information services in the area of Islamic Economics and Finance

### IRTI SERVICES

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IRTI provides comprehensive advisory and consultancy services in the fields of Islamic Finance and Economics with global outreach to the public and private sectors. Backed by over three decades of industry experience, IRTI's advisory and consultancy services add real value to the clients' businesses. In addition to IRTI's renowned experts, IRTI utilizes industry experts, affiliate partners and IDB Group members entities' experts to provide advisory and consultancy services to clients. IRTI's consultancy services include (but not limited to): setting up regulatory framework, developing new Islamic financial products and services to cater to the market needs, Shari'ah research, Shari'ah toolkits, Shari'ah guidelines, introduction of Islamic

banking windows in conventional banks, conversion to Islamic banking, Shari'ah auditing exercises, Shari'ah advisory and technical support for sukuk issuance etc.

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IFIIC is a portfolio of online applications and databases with relevant data about the Islamic Financial Industry. Components of the IFIIC are the following: Islamic Banking Information System (IBIS, [www.ibisonline.net](http://www.ibisonline.net)), Shariah and Who's Who Databases.

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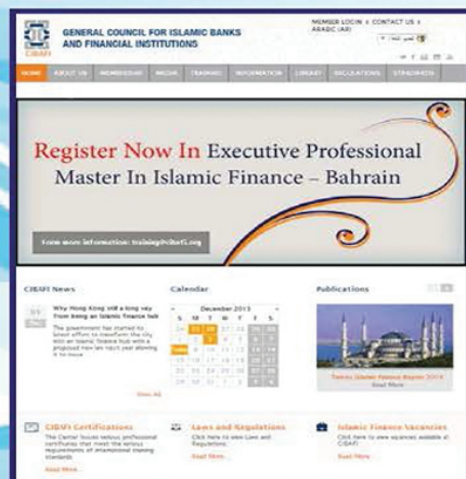
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- 1- Research and Publications
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# FOREWORDS



The Morocco Islamic Finance Country Report is part of a series designed to provide key insights and analysis on the development of emerging or frontier Islamic finance markets. The Report's objectives are aligned with those of Thomson Reuters Islamic Finance Gateway — to provide accurate information and insightful analysis and to promote transparency and access to information on the broader Islamic Economy.

The Islamic finance industry is developing unevenly across a number of countries, but one point is clear, perhaps more than at any other time in the industry's development, that appropriate regulatory measures and frameworks are needed to build a dynamic infrastructure to support both the conventional and Islamic financial systems within a country's borders, and contribute to stronger supply streams to attract demand in under-penetrated markets.

Driven by the repercussions of the 2008 financial crisis and the shockwaves of the Arab Spring, countries in North Africa have started to strengthen the core pillars that support the growth of a holistic Islamic finance industry. Tunisia, Egypt and Libya all have plans for the development of their respective Islamic finance industries, with Libya aiming to completely restructure its financial sector in line with Islamic principles starting from 2015.

Morocco had introduced Islamic or "alternative" financial products as they are known locally, on a small scale in 2007. The country is now putting in place necessary legislative frameworks that will allow for the establishment of participatory banks, kickstart sukuk issuance, build an Islamic capital market, and start a takaful sector. Investors are scrambling to participate in what appears to be the imminent growth of a potentially vast, relatively greenfield sector in a country hungry for funding and financing, particularly for infrastructure development as well as the overall inclusive prosperity of the nation.

Beyond economic and financial fundamentals, this Report provides a spectrum of key insights and perspectives of government and private sector stakeholders with respect to the unique opportunities and challenges faced by Morocco's new Islamic finance sector. These are combined with retail and SME surveys to present Islamic finance investment opportunities and scenarios for Morocco's real economy.

We hope that this Report will help you navigate your way to meaningful and successful investments in the Kingdom of Morocco.

**Dr. Sayd Farook**

Global Head Islamic Capital Markets, Thomson Reuters



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The Islamic Finance Country Reports continue to focus on countries where Islamic Finance has a great potential to develop. The third edition of this report is dedicated to the Kingdom of Morocco, which across history has been one of the most important gates of civilizational interaction between the Occident and the Orient.

Endowed with a strategic location in Northwest Africa at the confluence of the Atlantic Ocean and the Mediterranean, Morocco is one of the best performing countries in the MENA region in terms of economic growth with an average of 4.7% since 2000. The country offers a stable and business-friendly environment and is engaged in an ambitious multidimensional economic program that focuses on the enhancement of the competitiveness of its economy and the realization of an inclusive and sustainable socio-economic development.

It is therefore not surprising that Morocco launched the Casablanca Finance City (CFC) to be a regional financial hub; it is endowed with an attractive environment capable of attracting international investors. The Islamic Financial Services Industry (IFSI), with total assets estimated at USD 1.6 trillion in 2012 and expected to reach USD 6.5 trillion in 2020, naturally constitutes one of the engines which can favour the acceleration of the CFC's development, on condition that the industry is well anchored in the country. And the premises of the emergence of an IFSI in Morocco are not lacking. The kingdom enjoys: i) strong government support for the development of Islamic finance as signaled by recent advances in the legal framework of the Islamic financial system, ii) high interest from the population for

alternative financial products offered by the IFSI, iii) interest from the country's conventional banks in opening specialised windows for alternative products.

It is not surprising that the Islamic Research and Training Institute (IRTI) have accorded a high priority to the production of the Islamic Finance Country Reports (IFCR). Indeed, it is in line with the institute's strategy to contribute to the development of the Islamic finance services industry in OIC member countries. With our mission *"To inspire and deliver cutting edge research, capacity building, advisory and information services in the area of Islamic economics and finance"* IRTI is ready to extend our support to the Moroccan public and private institutions in their efforts to improve their capacities in Islamic Economics and Finance, to offer high level advisory services to conventional banks who wish to open participatory banking windows and related services, and to advise private firms looking to raise funds through the issuance of sukuk.

It gives me great pleasure to invite you to discover the Morocco Islamic Finance Country Report 2014, which has been produced with professional rigour, and which benefits from diverse perspectives and opinions from the primary stakeholders active in Islamic finance in Morocco. Enjoy the report and do not hesitate to share your opinion!

**Professor Dr. Mohamad Azmi Omar**  
Director General, IRTI





The Kingdom of Morocco first introduced Islamic financial products and services, or alternative financial solutions as they are called in the country, through conventional financial institutions at the national level in 2007. In 2013, the country approved the amendment to the securitization bill to allow for the issuance of sukuk and benefit from the potential of the Islamic capital market.

Enhancing the related ecosystem and environment has been a necessary corollary to recent initiatives and the Kingdom has been gradually working to develop an appropriate legal and regulatory framework for participatory banks, the term used in the Kingdom for Islamic banks. The Moroccan parliament is now expected to approve the bill on participatory banking anytime in 2014. To follow, the regulatory framework for takaful is expected to be issued towards the end of 2014. These and other related developments are clearly signaling the dawn of a new horizon for Islamic finance in Morocco.

The “Morocco Islamic Finance Country Report 2014” delivers the recent, most relevant, high impact insights on Islamic finance investment and expansion opportunities in Morocco, and provides a comprehensive overview of the legal and regulatory requirements for Islamic financial services. It provides an accurate pulse of retail consumers, corporate customers and the government regulatory roadmap, all of which we believe will be very meaningful for all interested stakeholders.

We are confident this Report will bring useful insights to the stakeholders that

have interest in this promising market, from inside or outside the Kingdom. It is a timely contribution which highlights the opportunities as well as the potential challenges interested parties may face while tapping into this market.

The Report is one of a series of Islamic finance country reports and market analyses produced collaboratively by CIBAFI, IRTI and Thomson Reuters. The series evaluates the appetite and potential for Islamic financial services as well as the economic and financial fundamentals for the new frontiers and emerging markets for Islamic finance. They provide practical insights for local, regional, and international investors and all stakeholders, especially those interested to offer Islamic financial services, as well as those interested in benefiting from the same services.

As the global umbrella of Islamic banks and financial institutions, CIBAFI is committed to addressing the needs and expectations of our members and stakeholders, in effectively contributing to the development and dissemination of Islamic finance information, awareness and analysis. In partnership with IRTI and Thomson Reuters we will continue to deliver pioneering reports such as this in order to galvanise the development of Islamic finance globally.

**Mr. Abdelilah Belatik**  
CIBAFI Secretary General



General Council for Islamic  
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# ACKNOWLEDGEMENTS

The Morocco 2014 Islamic Finance Country Report is part of the series of reports produced in partnership between Thomson Reuters, the General Council for Islamic Banks and Financial Institutions (CIBAFI) and the Islamic Research and Training Institute (IRTI).

The goals and motivations of this report follow in the same vein as the previous country reports - to serve the needs of the Islamic finance industry and to provide financial institutions, customers and other stakeholders with high quality intelligence and insights into the Islamic finance opportunity in Morocco in order to help all parties make informed decisions. This report reflects the efforts of a broad and diverse group of experts.

The authors are grateful to Abderrahman Elglaoui, Director of the Islamic Development Bank for the West Africa Region for facilitating our interviews and meetings in Morocco.

We are also grateful to Dr. Abusif Ghnyah and Najat Abqari of the Islamic Development Bank, for their invaluable support during our field trip to Morocco.

We would also like to thank Islamic Finance Advisory & Assurance Services IFAAS, a leading international sharia advisory firm, for sharing the information and data of their Morocco Consumer Survey executed in 2012.

Last but not least, we would like to express our appreciation to Thomson Reuters management, particularly Nadim Najjar (Interim Managing Director, GGO Middle East, Africa and Russia) for his trust in and commitment to our work.

Sincerely



**Dr. Sayd Farook**  
Global Head Islamic Capital Markets  
Thomson Reuters



**Dr. Mohamad Azmi Omar**  
Director General  
IRTI



**Mr. Abdelilah Belatik**  
Secretary General  
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# STUDY PURPOSE, SCOPE & APPROACH

The MOROCCO 2014 ISLAMIC FINANCE COUNTRY REPORT is part of a series of Islamic finance country reports and market analyses to evaluate the situation and appetite for Islamic finance in the Organisation for Islamic Cooperation (OIC) countries that are developing or engaged in Islamic finance. The reports are distributed free of charge for the benefit of the industry and other interested parties. These Islamic finance country reports are different from the regular country reports available in the market, since they focus on the investment and development opportunities of Islamic finance.

The MOROCCO 2014 ISLAMIC FINANCE COUNTRY REPORT provides practical insights for local, regional, and international investors to offer Islamic financial services. These insights better inform the investor of the Islamic finance potential for emerging and untapped markets vis-à-vis the retail and corporate markets. The reports also provide an assessment of the developing regulatory environment.

The objectives of the Morocco Islamic Finance Country Report are:

1. To provide the most relevant, high-impact insights on emerging Islamic finance investment and expansion opportunities in Morocco
2. To provide a comprehensive overview of relevant legal and regulatory requirements or trends to the offering of Islamic financial services in Morocco
3. To provide an accurate pulse of retail consumers, corporate customers and government regulatory road map
4. To be a pioneering report in galvanizing the development of the Islamic finance space in the country

# EXCLUSIVE

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Morocco has not taken to modern Islamic finance quite as readily as its Arab cousins in the Gulf despite the kingdom's prominence and deep roots in Islamic civilisation since the 7th century.

The introduction of Islamic finance in Morocco has been start-stop at best; the first attempt at introducing Islamic financial products, or alternative financial products as they are called in the country, was in 1991 when Wafa Bank took the lead but the bank's offering of alternative financial products was short-lived due to legal issues. In 2007 there was a more concerted national-level introduction of sharia-compliant financial products within conventional financial institutions but this has not made significant impact. Following these first experiments and increasing investment opportunities particularly from Gulf countries and the plans for the Casablanca Finance City to propel Morocco as a regional financial hub, the kingdom is now ready to more fully embrace Islamic finance.

Morocco is viewed as an exciting emerging Islamic finance market with vast opportunities for investment, and the country's current government is keen to develop the industry both for its citizens as well as to attract foreign investment. Islamic finance in Morocco is set to take root and bloom with the establishment of Islamic banks, or participatory banks as they are called locally, and other Islamic financial institutions that will come onto the financial landscape once all relevant legislation is put in place. As of this writing a bill regulating participatory banks and sukuk has been adopted by government, paving the way for a final vote by parliament. Approval of the law is expected before the end of 2014. The draft laws for takaful and mutual funds are set to follow.

# 1. SURVEY WITH FOCUS ON RETAIL ISLAMIC FINANCE

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This Report presents a national retail financial services usage and perception survey conducted by the Islamic Finance Advisory and Assurance Services (IFAAS) in June 2012. The survey assessed the demand for alternative financial products in the Moroccan retail market from a weighted sample of 813 individuals aged 18 to 55 from a variety of socio-economic backgrounds from cities and surrounding rural municipalities of Casablanca, Rabat, Marrakech, Agadir, Fes, Tangier and Oujda. A significant 79% of respondents said they would be 'very interested' in participatory banking services once available.

Based on the survey findings and the experience of other markets that have launched Islamic banking, we estimate that Moroccan participatory banking assets could potentially reach between 3% and 5% of total banking assets by 2018. This could mean participatory banking assets of between US\$ 5.2 billion and US\$ 8.6 billion, generating a profit pool of between US\$ 67 million and US\$ 112 million for Islamic finance providers.

Our projections are based on two primary assumptions: full government support, and increasing knowledge and awareness of Islamic finance products and services to highlight the Islamic finance proposition.



## 2. SME SURVEY ON USE OF FINANCIAL SERVICES

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SMEs are a major part of the Moroccan economy. They account for more than 95% of the total number of operating enterprises, contributing over 30% to GDP and 48% to total employment<sup>1</sup>. SMEs struggle with access to capital, and Islamic financial institutions could fill this gap.

Almost half of the SMEs we surveyed did not use any type of financial services in the last five years and those who did use financial services mainly depended on financial institutions for corporate financing needs. 98.2% of SMEs surveyed do not bank Islamically and when asked if there was interest to consider participatory banking, 71% answered 'maybe' with 22% saying 'yes' and a low 7% saying 'no'. How would Islamic financial institutions win over SMEs? The survey found that a high percentage — 85% — of SMEs consider low rates and fees the most important factor when using financial services and so it was unsurprising that a high 64% said the most important factor for them to consider participatory banking is competitive rates.

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<sup>1</sup> EBRD strategy doc/ European Bank for Reconstruction and Development 2012



## **Exclusive Interview with Mohammed Boulif, Al Maali Managing Partner**



### **What is your opinion of the evolution of the Moroccan Islamic finance industry since 2007?**

Morocco is a recent entrant to the Islamic finance industry and has chosen a specific path that is moderate and progressive. This prudent approach started with the launch of Alternative Finance in 2007 and was confirmed by the Participative Banking Act chapter (which is being considered by parliament as of this interview) that is incorporated into the general Banking Act. This is also true for the bill on takaful. We believe that this gradual strategy aims at maintaining stability of the financial sector of the country. However, this incremental strategy for the development of the industry should be embedded in a clear 5- or 10-year strategic plan driven by a clear vision. This would give strong signals to the market, especially to investors, of Morocco's next steps forward.

### **What will be the key challenges for Islamic finance in Morocco?**

We believe that the most critical challenge is to get all stakeholders – regulators, banks, financial institutions, operators, academia, and others – on board. We must stop hesitating as we did during the Alternative products phase.

The second challenge is obviously the need for a strong regulatory and comprehensive framework that will ensure legal security for all stakeholders and provide tax neutrality for Islamic financial instruments.

Operational challenges are more about how to meet the specific requirements of operators in this industry, and challenges will include liquidity management, central bank refinancing scheme, and setting up an appropriate accounting and reporting framework.

The sharia governance system seems to be on the right path; it is set by the National Council of Sharia Scholars, a move which will streamline the harmonisation process at the national level.

Market and customer awareness needs the engagement of all stakeholders. Indeed, though the appetite for Islamic financial products is high among the population, most of the consumers are not knowledgeable or correctly informed about Islamic financial products which can harm the penetration process and again repeat the same misfortunes faced earlier for Alternative products.

### **What is the most appropriate model for Morocco to adopt to benefit from the development of the Islamic finance industry?**

Morocco should develop a proper model that will fit its economic and social environment. We think that an intermediary model

between the one in the Middle East, which is highly capitalistic, and the Malaysian model, which is based too much on debt instruments, would be the most appropriate.

The Moroccan model should be developed with major innovations and diversification in terms of products that must meet the market demand, for example:

1. A financial inclusion program mainly for poor and rural populations is important. This can be achieved through the development of Islamic microfinance and would also benefit micro and small businesses.
2. The large agricultural sector needs instruments such as salam and mugharasa
3. SMEs need strong support through profit-sharing tools such as mudaraba and musharaka,
4. Home financing could be bolstered through istisna' and diminishing musharaka
5. For industrial and infrastructure projects, the use of sukuk instruments will help the country attract foreign and new sources of funding.

**Many surveys have highlighted the willingness of Moroccan retail customers to adopt Islamic financial products. Do you think these intentions will lead to a significant change in the local financial industry landscape?**

A significant switch to or take-up of Islamic financial services has not happened in the more than 50 countries where Islamic financial services exist, especially within prudent, strong and stable financial systems. However, we should note that the Moroccan financial system is developing dynamically, and it is characterised by diversification which will make the market a friendly environment for product innovation, including Islamic finance. We believe that like any new industry, there will be a 'wait and see' phase in Morocco, which may take time.

**Could Morocco be positioned as the regional financial hub for Islamic finance?**

It goes without saying that Morocco has the potential to become the Islamic finance hub in northern and western Africa, in the footsteps of other hubs such as Malaysia, UK and Bahrain. First, the country is blessed with a unique location at the crossroads between the Middle East, Europe and Africa and with strong economic and political relationships with these regions.

Furthermore, Morocco has an enviable political stability, a vibrant economy and strong religious

leadership in the region. Finally, many economic sectors, especially the financial industry, have embraced a regional strategy and have become key players in Africa.

Consequently, Morocco could become an important player channeling Islamic finance investments from GCC countries to the region, which is in line with the Casablanca Finance City project. In order to do so, and as mentioned earlier, a strong strategy within a long-term vision should be clearly set and communicated to all stakeholders. For example, we cannot imagine a regional leadership without an institutional Islamic finance infrastructure that harmonizes standards and practices, tax neutrality or without qualified human resources. But definitely Morocco is well positioned to capture this opportunity.

MOHAMMED BOULIF

Mohamed Boulif is Managing Partner at Al Maali Consulting Group. He held several senior positions in international companies, and was Group as Director of Finance for Dar Al Maal Al Islami for 10 years where he was in charge of planning, coordination and supervision of financial and accounting activities for two entities in banking and takaful in Luxembourg. Mr Boulif has extensive international experience in documenting and developing Islamic financial products (Legal, Sharia and Operational aspects), Audit, Governance and Accounting Norms for Islamic financial institutions. He is frequently invited as a speaker at international Islamic finance events and conferences, and is also a visiting professor and lecturer at executive masters courses in Islamic finance in universities in Europe and Africa.



## 3. KEY INSIGHTS FROM INDUSTRY STAKEHOLDERS

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Interviews with key industry stakeholders have given us direct insight into the concerns and issues facing Islamic finance in Morocco. In this section we note key points from the interviews. While only select excerpts are presented throughout this report, all interviews have informed and contributed to the research and writing of this report. Interviews were conducted in September, 2013 with:

1. Ministry of Finance – Directorate of External Financing and Budget
2. Bank Al-Maghrib (the central bank)
3. Ministry of Endowments and Islamic Affairs
4. Attijariwafa Bank
5. Dar Assaffa
6. Banque Populaire
7. Banque Marocaine du Commerce Extérieur (BMCE) Bank
8. National Agency for the Promotion of Small and Medium Enterprises, and
9. An independent expert

### **a. Ministry of Finance**

- At the time of the interview, the draft law on participatory banking allows participatory banking windows.
- Conventional insurance companies will not be allowed to open takaful windows; takaful operations must be separated and operate out of a different branch.
- The draft law on takaful does not include any considerations for inclusion of social security (pension) funds. Morocco's current legal provisions for pension funds allow for investments in the stock market, state bonds and real estate, and these legal provisions are under a separate purview.
- Members of the central sharia board for Islamic finance will be appointed from the Supreme Council of Scholars, with the secretariat based at Bank Al-Maghrib.

### **b. Bank Al-Maghrib**

Bank Al-Maghrib is Morocco's central bank. It was founded in 1959 and is based in Rabat.

- Alternative banking products were introduced in 2007 after a series of training workshops were conducted within conventional banks and related financial institutions. A limited range of products was introduced centering around ijara, musharaka and murabaha.
- From the first introduction of alternative products between 2007 and 2011, murabaha was dominant. However, overall, alternative banking products did not exceed MAD 1 billion (approximately US\$ 120 million). Additionally, there are still double taxation issues related to ijara, which are being looked into now.
- The draft banking law will allow the creation of any alternative financial product that is consistent with sharia provisions. It will

allow the creation of participatory banks (i.e. Islamic banks) which will be licensed by the central bank and conventional banks will also be allowed to offer the same products to their customers. The draft law defines some of them — murabaha, mudaraba, musharaka and ijara — but other products will also be allowed. All products must be approved by the central sharia board.

- Morocco seeks to unify fatawa for Islamic finance under the Central Sharia Board (which will follow the Maliki school of jurisprudence) with the secretariat based at the central bank.
- According to Bank Al-Maghrib, there will be no restrictions as to who can apply for participatory banking licenses. However, joint ventures between local banks and foreign investors might be encouraged.

### **c. Ministry of Endowments and Islamic Affairs**

Morocco has a deep heritage of endowments (awqaf) that spans 12 centuries. In 2012 the Ministry of Awqaf started a restructuring exercise in order to enhance the management of awqaf institutions and Islamic charitable bodies. The ministry currently manages a substantial legacy of over 51,000 commercial, housing and professional real estate in the kingdom. Awqaf properties include those in cities as well as agricultural lands. Income from these endowments jumped 62% in 10 years from MAD 164 million in 2002 to MAD 266 million (approximately US\$ 31.5 million). Total income for agricultural endowments totaled MAD 70.7 million in 2012. The ministry oversees the construction and maintenance of awqaf properties for rent in order to increase awqaf revenues. The main challenge is to modernise the system and administration of awqaf, especially in terms of leveling off rental prices at market rates and ironing out issues related to customary rights, which are tradeable but lower the rental value of awqaf properties. However, if rental prices are

hiked up to market rates then the many poor families who currently occupy awqaf properties would be left homeless.

- Awqaf will benefit from financing from participatory banks in the country. Currently, the main sources of financing come from the Ministry of Finance and the Islamic Development Bank.
- The ministry has dabbled in the stock market, and in terms of the development of Islamic finance in Morocco, the ministry is looking towards investment funds in real estate.
- The interests of the awqaf lands are numerous; they are not limited to the religious, social and educational aspects but also extend to the medical and health sectors.
- Urban expansion has enveloped many pieces of agricultural lands, which if left undeveloped will be turned into slums. The ministry works with the private sector through investment partnerships to develop these plots of land. These investment opportunities are open to both local and foreign partners.
- The ministry is overseeing large construction projects for residential buildings and commercial complexes.
- Many of Morocco's most touristic sites are awqaf properties, but the budgets of the Ministry of Culture and the Ministry of Tourism are not sufficient to maintain the sites.
- The Ministry of Endowments and Islamic Affairs has started a new strategy to diversify income; the ministry is building cultural centres that will house the rich heritage of the different regions. These centres house historical and literary artefacts, and offer public lectures and viewings.
- The ministry also works on literacy programmes in mosques. These programmes mainly attract older citizens and women.

The ministry also oversees programmes for imams and religious leaders.

#### **d. Banque Populaire**

Banque Populaire (BP) is a publicly listed company that was established in Morocco in 1926. It is Morocco's second largest bank in terms of size and market share. In 2007 the bank was one of three that introduced a limited range of alternative banking products (centering around murabaha and ijara), within its conventional banking network. In BP's opinion, the first (i.e. 2007) wave of alternative banking products was not successful in Morocco due to three reasons: higher cost than conventional products, public perception of lack of Islamic authenticity of products, and regulator constraints on bank promotion and marketing of alternative financial products. BP will open an Islamic subsidiary once the Islamic banking law is passed by parliament.

- BP considers the regulations on participatory banking to be very general and these may not necessarily help make alternative banking products as competitive as conventional products.
- BP is seeking to open its participatory bank subsidiary with a partner who has technical expertise in Islamic banking. The bank has a potential candidate partner but remains open to other potential partners.
- BP's new participatory banking subsidiary's brand, name and distribution channels are in place. The bank will assume a defensive strategy.
- BP's participatory banking subsidiary will first start with individual financing. The bank's surveys have revealed that there is "no huge interest" for SME or corporate financing. Additionally, matters related to sharia-compliant SME and corporate financing are still unclear. Hence this sector will grow slower



than individual financing at the outset.

- BP will have a definitive plan for training bank employees on participatory banking and finance by Spring 2014. It will rely on French-speaking experts in Islamic finance to train its staff.
- The bank is aiming for around 60 large branches for its participatory bank in four to five years.

#### **e. Banque marocaine du commerce extérieur (BMCE) Bank**

Banque Marocaine du Commerce Extérieur, or BMCE Bank, is listed on the Casablanca Stock Exchange. It was established in Morocco in 1959. BMCE Bank is Morocco's third largest bank in terms of size and market share. The bank is planning to establish private participatory banking, and is equally interested in sharia-compliant investment banking, and providing takaful products for Morocco. BMCE Bank has an eye on being a gateway Islamic investment bank for Africa and Europe.

- BMCE Bank believes that Morocco's regulations on participatory banking are not sufficiently robust to develop a dynamic Islamic Finance industry for the country but that it is adequate for a nascent sector and are confident on the willingness of Bank Al Maghrib to develop this law whenever it is necessary.
- The bank has conducted several feasibility studies which have revealed a lack of awareness about Islamic finance in the Moroccan market.
- BMCE believes that in Morocco the important players in banking sector will certainly use their expertise and resources to support Morocco Participative Finance industry and to make it as successful as the conventional finance for their dedicated niches.

- BMCE Bank sees a promising future for the sukuk market in Morocco, especially with regards to financing infrastructure projects.
- BMCE believes an Islamic finance academy in Morocco will help develop the industry's human capital.
- Casablanca can assume an important position for Islamic finance as the mid-point between Africa and Europe.

#### **f. Independent Expert**

Dr Abdul Rahman founded the Moroccan Association for Islamic Economics in 1987 and was involved in the country's first experiment with participatory banking when Wafa Bank attempted to open an Islamic window. This experiment was suspended due to political opposition. He then went on to establish the country's first sharia-compliant joint mutual fund.

- Among other matters the participatory banking draft law considers sharia governance. Dr Abdul Rahman calls for mindfulness on the matter, saying that sharia governance must also be considered separate from the Central Sharia Board.
- The draft participatory banking law currently does not cover Islamic microfinance despite feedback and demands from the banking sector.
- A good goal to achieve by 2020 is to increase the market share of participatory banks to 5% of the total banking sector.
- To start with, a joint venture bank that will include both local and foreign banks is preferred. With this, existing banks should not be worried about customer migration as they will all be part of the new bank.
- Awareness of Islamic finance comes mainly from religious institutions.

## 4. BIRD'S EYE VIEW: ISLAMIC FINANCE INVESTMENT SCENARIOS AND INDUSTRY DEVELOPMENT

Morocco presents substantial opportunity for any Islamic financial institution and investor; the country is home to a majority Muslim population of 32.52 million, it embodies a strong heritage of waqf, holds a banking asset base of \$127 billion (2012), and has no standalone Islamic financial institution. Our retail survey findings also point to significant interest in Islamic finance from the population. The most requested products and services are personal financing, home financing and automobile financing. Takaful, investment funds, and microfinance are other key product opportunities.

Morocco allows 100% foreign ownership of banks but some sources within the country have indicated that the level of foreign ownership for Islamic financial institutions has not been determined (the banking draft law 103-12 was not officially published as of January 2014). The financial sector will benefit from the Casablanca Finance City (CFC) project to make Casablanca a regional financial centre. The Moroccan Financial Board manages the initiative. Firms that qualify to be part of the CFC will receive a CFC Status that

allows for specific tax incentives, exchange control facilitation and other elements that facilitate ease of doing business.

### **Public Private Partnerships**

Investment opportunities should be evaluated against various active government reform programmes that include projects not only in infrastructure but also in renewable energy, agriculture, and automotive and other manufacturing sub-sectors. Investment in government projects through Public Private

Partnerships (PPP) is a viable opportunity in Morocco; approximately 50% of energy projects have been put into action by PPP.

### Corporates

There is strong appetite from the corporate sector for sukuk. According to a survey conducted by the Moroccan financial market authority (official name — Le Conseil Déontologique des Valeurs Mobilières, CDVM) in 2012, 9 out of 10 institutions would be interested to issue sukuk if permitted by law. The market will also be boosted by the Islamic Development Bank's (IDB) decision to support Morocco's planned first sovereign sukuk. The country's infrastructure projects could also benefit from sukuk. There are large gaps in Morocco's infrastructure sector, particularly in municipal services.

### SMEs

SMEs account for more than 95% of the total number of operating enterprises, contributing over 30% to GDP and 48% to total employment.<sup>2</sup> Our survey of SMEs reveals that they are most concerned with cost of financing and perceive alternative products (i.e. Islamic products) to be more expensive than conventional products. Almost half of the SMEs surveyed had not used any financial services in the last five years. Islamic providers have the opportunity to tap into this lucrative and financially underserved market particularly for working capital, equipment/material financing and leasing. Morocco has a strong microfinance sector that presently does not have any Islamic microfinance participation. Both conventional and Islamic microfinance present another viable financing option for SMEs.

### Waqf

Another key area of opportunity is Morocco's well-established awqaf network. The awqaf ministry currently manages over 51,000 commercial, housing and professional real estates. The ministry is keen to fully modernise its awqaf preservation and development system, and awqaf asset management could provide lucrative opportunities for Islamic financial institutions and investors. The ministry has experience working with local and foreign private companies to develop awqaf lands and would welcome more private partnerships for future growth and development of awqaf lands and properties.

### Tourism

Tourism is a major growth sector for the Moroccan economy. The sector is developed and has always been a key target of FDI into Morocco. Additionally a large segment of the population either directly or indirectly depends on tourism for employment. There is a growing 'Muslim tourist' niche market that Morocco can certainly benefit from. With its rich heritage and cultural connectivity, Morocco can more actively work to attract this growing market. Muslim tourists represent a major niche market globally worth US\$ 126.1 billion in 2011, with the sector set to grow another 4.8% through 2020. This compares favourably to the global average of 3.8%. The biggest beneficiary of this market has been Turkey, Malaysia, and the United Arab Emirates.

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<sup>2</sup> EBRD strategy doc/ European Bank for Reconstruction and Development 2012





People walking by buildings in Morocco

# MOROCCO AT A GLANCE

## Political snapshot

In the modern era Morocco gained independence from France in 1956, when Sultan Mohamed became king. His son Hassan II succeeded him in 1961 and ruled for 38 years. He was an important proponent of the process of pursuit for peace in the Middle East and North Africa and was one of the original promoters of the Islamic summit meetings; under his patronage the first meeting that led to the establishment of the Organisation of the Islamic Conference (OIC) (renamed Organisation of the Islamic Cooperation in 2011) in 1969 took place in Rabat. That meeting was co-initiated with King Faisal of Saudi Arabia.

In more recent years, Morocco avoided the more significant political fallouts of the Arab Spring experienced in Tunisia, Egypt and Libya. In June 2011 King Hassan II's son, King Mohamed VI responded to the growing demands for more democracy by introducing a wide range of political and social reforms including the drafting of a new constitution accepted by a large margin in a popular referendum in July 2011.

The new constitution introduced various fundamental reforms, including a more democratic decentralised system of governance with an independent judiciary, and outlined the fundamental grounds for a new social contract with laws guaranteeing both public engagement and access to information. Nevertheless, Mohammed VI continues to be the definitive authority maintaining command over the national army and the power to veto new laws as well as appointment of ministers. The prime minister, however, must come from the political party with the most number of seats in parliament.

The new coalition government formed in January 2012 was led by the moderate Islamist

Justice and Development Party (official name — Parti de la justice et du développement, PJD), followed by the Istiqlal party, and the National Rally of Independents (NRI). The cabinet of 30 ministers was headed by Abdelilah Benkirane from the PJD. After ministers from the Istiqlal party left the coalition in July 2013, King Mohamed increased the number of ministers to 39, and the ministers from the Istiqlal party were replaced by members of the NRI.

No fundamental changes were brought forward by the Islamist-led government, particularly with respect to public liberty and freedom when compared to previous governments. However the government has placed importance on social dialogue as a means to strengthen social democracy. Important steps towards the governance agenda relating to access to information law were also taken.

Municipal elections were expected to be held in mid-2013 but no dates have been confirmed, as of this writing. Municipal elections supported by the king are considered to be the internal factor of the regionalisation process.



## MOROCCO'S 2011 PROTEST MOVEMENT

The February 20 “Mouvement des Citoyens pour le Changement”, or “Movement for Change” attracted tens of thousands in major Moroccan cities demanding political change and more democracy. The demonstrators also demanded an end to corruption, and improvements to the country’s socio-economic ills which include high unemployment, abuse of authority by some government officials, and concentration of political and economic power amongst the minority elite. (Also known as the Makhzen.)

After two weeks of demonstrations across the country, King Mohamed VI appeared on national television on March 9 promising significant constitutional changes.

The protest movement came into existence from a loose alliance between liberals, supporters of the Islamist Justice and Charity Organisation (JCO, Al Adl Wal Ihsan) and leftist youth leaders. The JCO is banned (but tolerated) yet is estimated to be among Morocco’s largest grassroots organisations.

The protests continued after the 2011 constitutional revision process but are now greatly reduced. As of 2012, activities and plans involving the liberals and the JCO have receded. Most Moroccans want to give the new government enough room and opportunity to prove itself rather than take their demands to the streets again. However a minority still remains aggravated. Most fear that continued protests would lead to greater instability and impact negatively on the economy. Such apprehensions may perhaps also stem from the fear of heightened political turmoil in neighbouring Libya and Syria.





**Full name: Kingdom of Morocco**

<b>Population (2012)</b>	32.52 million (IMF)
<b>Capital</b>	Rabat
<b>Largest City</b>	Casablanca
<b>Area</b>	710,850 sq. km / 274,461 sq. miles (including W Sahara)
<b>Major Languages</b>	Arabic and Berber (official), French, Spanish
<b>Major Religion</b>	Islam
<b>Life Expectancy</b>	70 years for men   75 years for Women (UN)
<b>Monetary Unit</b>	Dirham (MAD) = 100 centimes
<b>Main Exports</b>	Minerals, seafood products, textile, fertilizers, fruit and vegetables
<b>GDP Per Capita (2012)</b>	US \$2,955.86 (current US\$) (IMF)
<b>Internet Domain</b>	.ma
<b>International Dialing Code</b>	+212

**Largest cities and towns**

	<b>REGION</b>	<b>POPULATION, THOUSANDS</b>	<b>POPULATION DENSITY, PERSONS PER SQ. KM</b>	<b>SUM (AREA IN SQ. KM)</b>
1	Grand Casablanca	3,616	2,239	1,615
2	Souss Massa Draa	3,095	44	70,880
3	Marrakech Tensift Al Haouz	3,088	99	31,160
4	Tanger Tetouan	2,460	213	11,570
5	Rabat-Salé-Zemmour-Zaer	2,349	245	9,580
6	Meknès-Tafilalet	2,126	27	79,210
7	Doukkala Abda	1,978	149	13,285
8	Oriental	1,909	23	82,900
9	Gharb-Chrarda-Béni Hssen	1,850	210	8,805
10	Taza Al Hoceima Taounat	1,803	75	24,155
11	Chaouia Ouardigha	1,646	235	7,010
12	Fès-Boulemane	1,568	79	19,795
13	Tadla Azilal	1,448	85	17,125
14	Guelmim Es semara	425	3	122,825
15	Laayoune Boujdour Sakia El Hamra	246	2	139,480
16	Oued ed Dahab Lagouira	73	1	50,880

Source: African Development Bank.

## Politics

Morocco has a fundamentally stable political environment relative to its North African Arab Spring neighbours. In June 2011 King Mohamed VI responded to the growing demands for more democracy and introduced a wide range of political and social reforms including the drafting of a new constitution accepted by a large margin in a popular referendum in July 2011. Early Parliamentary elections were held in November 2011 which ushered in a coalition made up primarily of the Justice and Development Party (official name — Parti de la justice et du développement, PJD), the Istiqlal party, and the National Rally of Independents. In July 2013 the Istiqlal party quit the coalition government, forcing the PJD to form a new coalition with the National Rally of Independents (NRI) in October.

## Economy

Morocco has been on a steady path of economic recovery since the stagnation of the 1990s, with sound macroeconomic management and sustained growth in non-agricultural sectors. The country's Haut Commissariat au Plan reported GDP growth of 4.8% in the first quarter of 2013, rising to 5.1% for the second quarter and dipping to 4.5% in the third quarter. All signs point to an improved GDP performance in 2013 from sluggish growth of 2.7% in 2012 (IMF World Economic Outlook October 2013). Morocco's economy has grown an average of 4.7% since 2000, which is almost double that of the average of 2.6% per year from 1990 to 1999. The International Monetary Fund (IMF) projects growth of 5.1% for the whole of 2013 and 3.8% for 2014, attributing the slowdown in 2014 to the normalisation of rain-dependent agricultural production after an exceptional harvest in 2013. (IMF World Economic Outlook October 2013)

## Legal

With the new constitution and government, aspects of Morocco's legal system are being

reviewed and revised, particularly the judicial system that has traditionally been viewed by Moroccans as corrupt, and favouring the rich and powerful. Modern Morocco follows a mixture of Spanish and French civil codes. Islamic law prevails with the Mudawana, a personal status code based on the Maliki school of jurisprudence, that governs primarily family matters such as marriage, divorce, inheritance and child custody. Like sharia, the Mudawana is not immutable and has been updated throughout the years; the most recent 2004 reforms particularly considered the rights of women and children.

## Foreign Policy

Morocco's foreign policy focuses mostly on France, Spain, and the United States. The country is currently serving a two-year stint as a non-permanent member of the U.N. Security Council. It is a major non-NATO ally of the United States. Unlike neighbours Tunisia, Algeria and Libya, Morocco is not a member of the African Union. It is a member of the Arab League.

## Geography

Morocco is located at the northwest of Africa. It is bordered in the north by the strait of Gibraltar and the Mediterranean Sea; to the south by Mauritania; to the east by Algeria and to the west by the Atlantic Ocean. The Moroccan coast extends over 3,500km.

PORTUGAL

SPAIN

North Atlantic Ocean

Ceuta

Melilla

Rabat

Fés

Casablanca

MOROCCO

Marrakech

CANARIE  
(SPAIN)

ALGERIA

MAURITANIA

MALI





*Inside*  
**MACRO-ECONOMIC  
FUNDAMENTALS**

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# MACRO-ECONOMIC FUNDAMENTALS

## SWOT Analysis

### S STRENGTHS

1. A strategic geographical position – Morocco stands at the crossroads between Europe and Africa and has land and sea access to Arab lands across North Africa to Jordan and the Gulf Cooperation Council (GCC) countries.
2. Member of Arab Maghreb Union.
3. The world's biggest producer and exporter of phosphate.
4. Thriving sectors include services, automotive, logistics, and transport.
5. A solid and resilient banking sector with little exposure to external risks.
6. Low level of inflation.
7. Unique Free Trade Agreements with access to 1 billion consumers (Europe, Africa, North America).
8. Competitive labour costs.
9. Stable and business-friendly environment for foreign investors.
10. Despite headwinds from the Eurozone crisis and the Arab Spring, the kingdom retains its investment grade rating. Fitch affirmed Morocco at BBB- with a stable outlook while S&P holds the kingdom to BBB-, but with a negative outlook (both Nov 2013).

### W WEAKNESS

1. High-level of unemployment: 9% in 2012 (IMF, October 2013), unemployment high especially among young graduate men and women.
2. High compensation fund for subsidies but currently transitioning out of subsidies; the government announced (on Jan 17, 2014) an end to subsidies of gasoline and fuel oil and was starting to significantly cut diesel subsidies<sup>3</sup>.
3. Limited access to financing for SMEs.
4. Arab Maghreb Union as an entity is inactive, and Morocco's trade with other member countries is very low.
5. Weak business climate.
6. Economy heavily dependent on the Eurozone, with Spain and France each absorbing 20% of the country's exports.
7. Relatively limited domestic capital market.
8. Very dependent on agriculture and vulnerable to price movements of hydrocarbons.

### O OPPORTUNITIES

1. Implementation of the national pact for Industrial Emergence to boost growth.
2. Development of Casablanca Finance City (CFC) to push Morocco as a regional hub to serve the fast emerging North and West Africa region.
3. Encouraging niche industries for export and promotion of service.
4. Pledge to reduce budget deficit.
5. Favourable tax reform.
6. Speeding up reform of public procurement.
7. Increasing education budget (6% of GDP in 2012).
8. Active strategies for renewable energies (solar and wind) and water production and management.
9. Development of capital markets (including new products and markets).

### T THREATS

1. Foreign exchange reserves depleting since 2008.
2. Low level of household saving.
3. High level of corruption.
4. Sensitive to swift implementation of compensation fund reform.
5. Close eye must be kept on trade and budget deficits; both narrowed in 2013 and must be controlled to meet conditions set by international lenders. Treasury debt is about 60% of GDP.
6. Shortage of raw materials for agri-food and textile sector.
7. Moderate drop in transparency and international ratings.

3 Reuters, "Morocco ends gasoline, fuel oil subsidies." Jan 17, 2014.

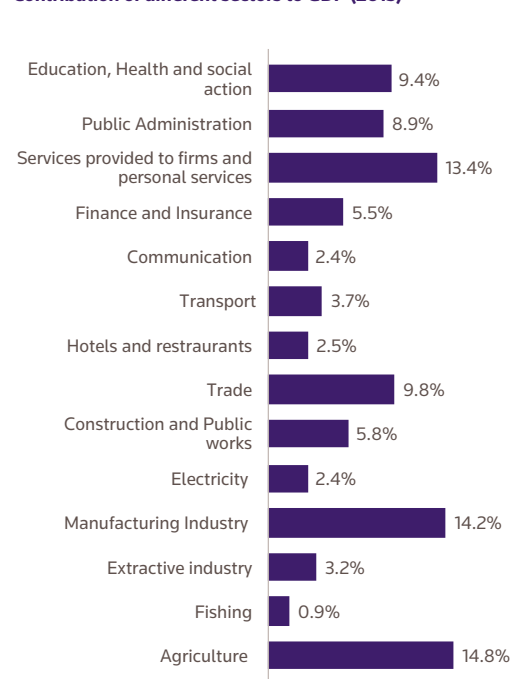
Despite the twin negative shocks of domestic political upheaval in 2011 and the Eurozone crisis, real GDP in Morocco grew by 5% in 2011 compared to 3.6% in 2010. However, a slowdown in activity in 2012 pushed growth down to 2.7%, which was a mid-point figure for oil-importing countries in North Africa. Real GDP growth bounced back up to 4.5% in 2013.

Morocco's 4.5% GDP growth was the clear leader in North Africa in 2013 when Tunisia and Algeria grew 2.7%, and Egypt 2.1%. Morocco's economy grew an average 4.6% for the period 2000-2007, which is almost double that of the average of 2.6% per year from 1990 to 1999.

**GDP breakdown by sector (2013)**

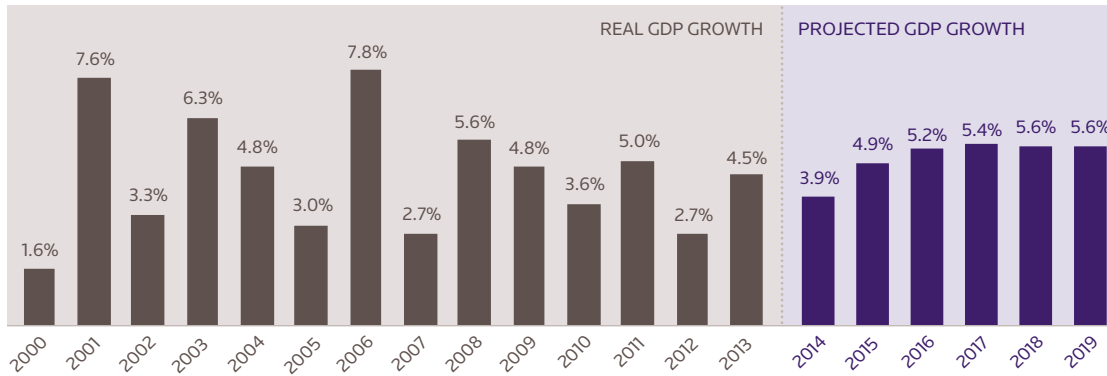
SECTOR	% OF GDP	% OF POPULATION EMPLOYED
Services	43.35%	34.6%
Manufacturing & Industry	29.86%	21.90%
Agriculture	15.09%	39.8%

**Contribution of different sectors to GDP (2013)**



Source: Ministry of Economy & Finance, Q3 2013.

### Real GDP Growth And Projected Growth (% changes and constant prices)



Source: IMF World Economic Outlook Database, April 2014.

### Sustained growth

A middle-income, medium-sized economy, sustained economic growth over the last decade has pushed GDP in 2013 to US\$ 105.1 billion (current US\$), which is almost treble the US\$ 37 billion in 2000. GDP per capita has also more than doubled to US\$ 3,199.13 in 2013 (current US\$, IMF) from US\$ 1,300 in 2000.

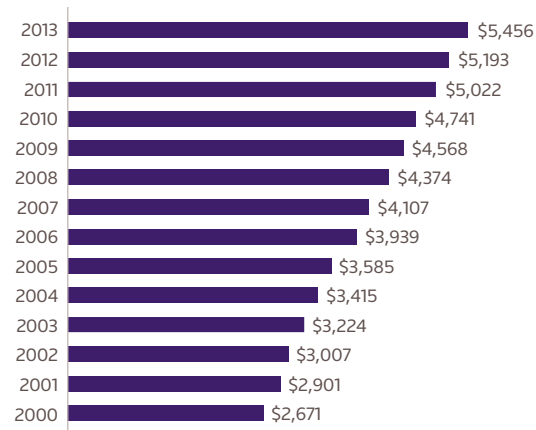
### Buoyant GDP growth to 2019

The IMF estimates real GDP growth moving on a positive trend to reach 5.6% by 2019 above the estimates for Algeria (4.3%), Tunisia (4.5%), Egypt (4%), South Africa (3.0%), and Libya (3.5%). (IMF World Economic Outlook, April 2014)

### Diverse economy

In terms of importance to GDP, Morocco's economy is predominantly services-based. However the agricultural sector employs a larger proportion of the population. The country's manufacturing sector has been growing, but the government needs to do more to create jobs in the industrial sector.

### Morocco GDP per capita at PPP (US\$)



Source: IMF World Economic Outlook Database, April 2014.

## AS A RESULT OF THE ARAB SPRING, THERE IS A NEW POLITICAL CONSTITUTION AND ECONOMIC STRATEGY

Morocco has started the process of increasing political pluralism and openness which impacts on economic strategy. It is implementing structural reforms in many areas: the labour market, justice, education, competition policy and monetary policy. It is working to consolidate public finances, and liberalise the economy through a privatisation policy.



# BUDGET DEFICIT POST 2008 AND ARAB SPRING

Morocco's 2013 budget deficit fell to 5.4% of GDP, the lowest level since before the Arab Spring uprisings. The deficit had been on the rise — it was 4% in 2010<sup>4</sup>, 6.9% in 2011 and 7.6% in 2012.

Moroccan public finances were relatively healthy before the global crisis of 2008 but have since deteriorated due to the swelling of expenditures. Pressures were particularly fierce in 2011 and 2012 when the government had to manage growing social demands and the sharp rise in international oil prices while maintaining its investment efforts.

## CONTROLLING SUBSIDIES

In a bid to improve public finances, the government announced on Jan 17, 2014 that it was putting an end to gasoline and fuel oil subsidies, and was starting to make significant cuts to diesel subsidies.<sup>5</sup> The public budget for food and energy subsidies for 2014 is MAD 35 billion, down from MAD 42 billion in 2013 and MAD 53 billion in 2012. The government is aiming for a budget deficit of 4.9% of GDP in 2014.<sup>6</sup>



Zagora, Morocco — March 14, 2010 : People taking fuel at one of the rare gas stations of Afrikaia, which is the largest gas provider in Morocco, along the road between Ouarzazate and Zagora. This region already belongs to the Sahara desert.

## Current account deficit

Since 2007, Morocco has run a current account deficit, mainly driven by a negative trade balance. The persistent merchandise trade deficit, driven by the country's need for imported energy, has been largely offset by inflows including transfers from Moroccans resident abroad, tourism revenue, and foreign investment. In 2010, the current account deficit stood at 4.6% of GDP.

## Good credit rating

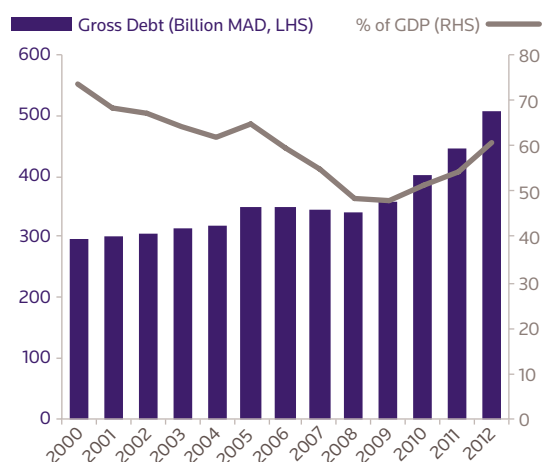
Economic growth in the 2000s led to a positive credit rating by the major credit rating agencies. Since 2010, Standard & Poor's has maintained the kingdom's Investment grade rating although the latest Nov 2013 outlook was negative. In 2013, Moody's changed its outlook to negative from stable with the local currency bond rated Baa1. On Nov 5, 2013, Fitch affirmed the kingdom's long-term foreign and local currency Issuer Default Rating at BBB- and BBB respectively, with a stable outlook.

4 Reuters, "Morocco's budget deficit falls to lowest since before protests." Jan 23, 2014.

5 Reuters, "Morocco ends gasoline, fuel oil subsidies." Jan 17, 2014.

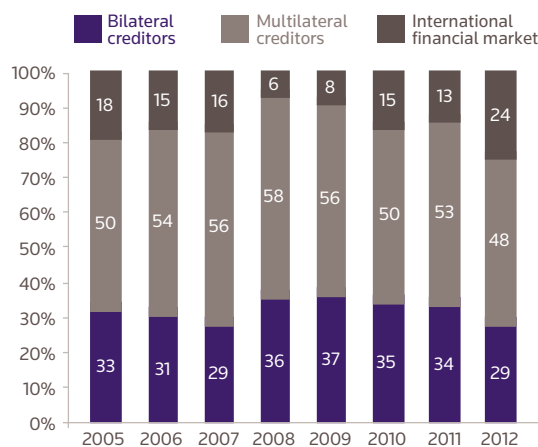
6 Reuters, "Morocco's budget deficit falls to lowest since before protests." Jan 23, 2014.

### Gross Debt, and as % of GDP



Source: Ministry of Finance, Kingdom of Morocco.

### Structure of External Government Debt



Source: Ministry of Finance, Kingdom of Morocco.

### General Government Gross Debt (% of GDP)

	2006	2007	2008	2009	2010	2011	2012
<b>Egypt</b>	90.3	80.2	70.2	73.0	73.2	76.6	80.6
<b>Morocco</b>	59.4	54.6	48.2	48.0	51.3	54.4	60.5
<b>Asia</b>	34.5	35.1	31.3	31.5	40.8	36.7	34.5
<b>Euro Area</b>	-	-	68.2	80.1	85.7	88.2	93.0
<b>Latin America</b>	50.6	49.5	50.4	53.2	51.7	51.5	52.0
<b>MENA</b>	78.4	71.1	62.3	64.9	66.8	70.1	75.5
<b>G-20</b>	36.5	35.6	32.9	34.6	39.8	36.8	35.1

Source: IMF World Economic and Financial Surveys, Fiscal Monitor: Taxing Times, October 2013.

### Prudent debt management policy

The Moroccan authorities have implemented an active debt management policy to reduce the kingdom's public debt. However, treasury debt to GDP has been above the 50% target set by the Ministry of Economy and Finance, and was 60% of GDP in 2012. The public debt was on a downward trend until the financial meltdown and the soaring prices of raw materials. At the end of 2012, treasury debt stood at MAD 493.7 billion, which is the equivalent of 59.6% of GDP, a 6-point rise compared with 2011. Overall, the debt burden has been declining since 2000 and has remained flat since 2009 to reach 2.4% of GDP as of this writing. Only 14.1% of the debt is denominated in foreign currency, but the bulk of this is contracted to official creditors at concessional terms.

### External Debt

Foreign exchange reserves and active external debt management policies give Morocco the capacity to service its debt. At the end of 2010, current external debt stood at US\$ 20.5 billion.

### FOREX reserves

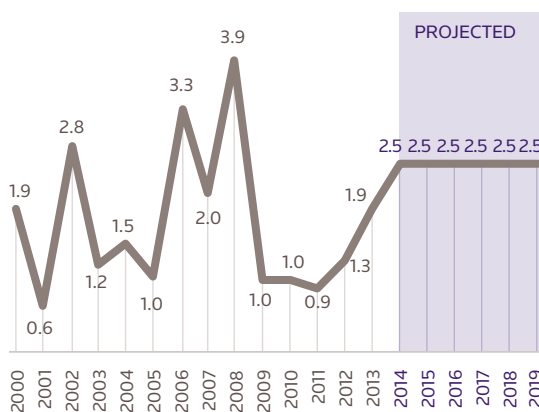
Foreign exchange reserves continued to decline in 2011, totaling less than 6 months' worth of goods and services imports. This trend has continued in 2012 with foreign exchange reserves dropping 20% and covering four months' worth of imports.

# LOW INFLATION LEVELS

Morocco has been running a structurally low inflation rate and the annual growth of consumer price index (CPI) has surpassed 3% on only two occasions since the early 2000s. Inflation was maintained at that level mainly due to a cautious monetary policy targeting inflation, stable exchange rate and government intervention through the compensation fund (food and oil price subsidies).

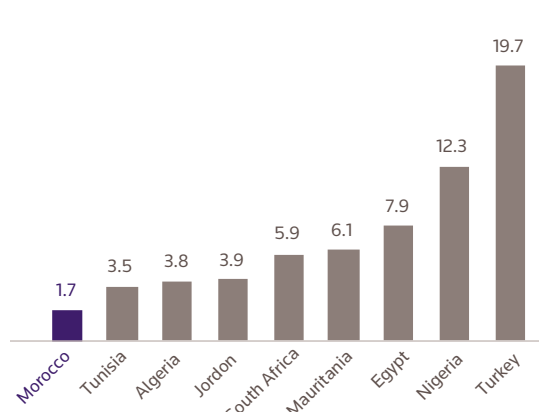
In 2012, inflation as measured by the change in the CPI was 1.3% versus 0.9% in 2011, despite a 16% increase in administered fuel prices in June 2012 and a poor harvest amid high global commodity prices. This can be attributed to the milder pressures from local demand and the ease of inflation for Morocco's trading partners. Inflation in Morocco remained the lowest in the Middle East and North Africa region, at 1.3%.

**Evolution of Inflation and Projected Inflation (% changes)**



Source: IMF World Economic Outlook Database, April 2014.

**Regional Average Inflation 2000 - 2012 (%)**



Source: IMF World Economic Outlook Database, October 2013 and IRTI calculation.

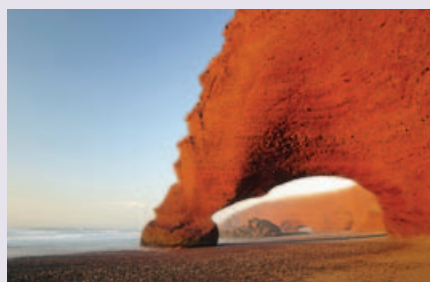
To boost foreign trade and attract foreign direct investment (FDI), Morocco has adopted an open economy strategy towards foreign markets. Morocco has free trade agreements with the EU, US, Turkey and several Arab nations.

### Trade deficit, Imports & Exports

2013 trade deficit narrowed 2.8% from MAD 202.06 billion in 2012 to MAD 196.38 billion (US\$ 23.80 billion) in 2013, driven by a 2% drop in imports – energy imports dropped 4% and wheat imports were down 31.7% as 2013's national harvest hit record levels. Total imports decreased 2% in 2013 to reach MAD 379.22 billion from MAD 386.94 billion in 2012. However 2013 exports dipped 1.1%.<sup>7</sup> Morocco's trade deficit had been deteriorating in recent years mainly due to the increased price of crude oil and an increase in wheat, corn and sugar imports<sup>8</sup> (2012 imports were 7.9% more than in 2011) so 2013's improved import figures are indeed good news. However the dip in exports in 2013 would need to be checked moving forward as the country was enjoying rising exports in recent years as a result of a rise in the sales of phosphates and derivatives. Exports of goods increased by 5.5% in 2012 to MAD 184.7 billion while manufacturing goods exports increased by 4.7% in 2012.

### WORLD'S LARGEST EXPORTER OF PHOSPHATES

Morocco is known for its fertile land and is the world's largest exporter of phosphates; it has 75% of the world's known reserves, and supplies 36% of the world's crude phosphates.<sup>9</sup>



Red arches on the coast of the Atlantic Ocean, Morocco.

<sup>7</sup> All 2013 trade deficit, import and export figures from Reuters, Jan 17, 2014. "Morocco's trade deficit narrows 2.8 percent in 2013". Available from: <http://www.reuters.com/article/2014/01/17/morocco-trade-deficit-idUSL5NOKR08V20140117>

<sup>8</sup> Monetary Policy Report, prepared for the central bank board. December 20, 2011, pp 17-18.

<sup>9</sup> Office Chérifien du Phosphates, 2013



### **Strategic location**

Located at the confluence of Europe, Africa, and the Arab World, Morocco has easy access to over one billion consumers in the three regions.

### **Strong links with the EU**

In 2008 the kingdom entered into an Advanced Status agreement with the European Union (EU) and in April 2013 the first round of negotiations between the EU and Morocco for a Deep and Comprehensive Free Trade Area (DCFTA) was started. The DCFTA will extend significantly trade relations between the EU and Morocco to include trade in services, government procurement, competition, intellectual property rights, investment protection and the gradual integration of the Moroccan economy into the EU single market, for example in areas such as industrial standards and technical regulations or sanitary and phytosanitary measures.<sup>10</sup> Morocco's major trading partner remains the EU, with which 60% of the total volume of the country's foreign trade takes place. Asia and the USA are second and third, with 20.5% and 13.7% shares respectively. Additionally, 75% of workers' remittances come from EU member states<sup>11</sup>, and the EU is a significant trading partner — the bloc absorbed 57% of Morocco's exports in 2011, provided 59% of its imports, and accounted for 70% of tourists visiting the country.

### **FTA with the U.S.**

Morocco is the only African country (so far) to have a bilateral FTA with the United States. The U.S.-Morocco FTA eliminated tariffs on 95% of bilateral trade in consumer and

industrial products. Tariffs on U.S. exports to Morocco will be phased out entirely by 2024. The FTA provides new trade and investment opportunities for both countries and has encouraged economic reforms and liberalisation. Since it came into force, bilateral trade between the two countries increased 272% through November 2011.

### **Formal trade links with the Middle East**

In the contemporary era, Morocco's trade and investment links have been closest with the EU but Morocco has recently been more open and attentive to investment and trade with the Arab world. Morocco has notable FTAs signed with Turkey, the Mediterranean Arab nations — Tunisia, Egypt and Jordan — (through the Agadir Agreement) and the United Arab Emirates (UAE). It is also in continuing discussions and negotiations on a revised Unified Agreement for the Investment of Arab Capital in the Arab States (which first came into force in 1981 and whose members are nations of the Arab League); a draft text was adopted in early 2013 ensuring free movement of capital and providing national treatment and most-favoured-nation status to investments.<sup>12</sup>

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<sup>10</sup> European Commission, 2013. Available from: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/>

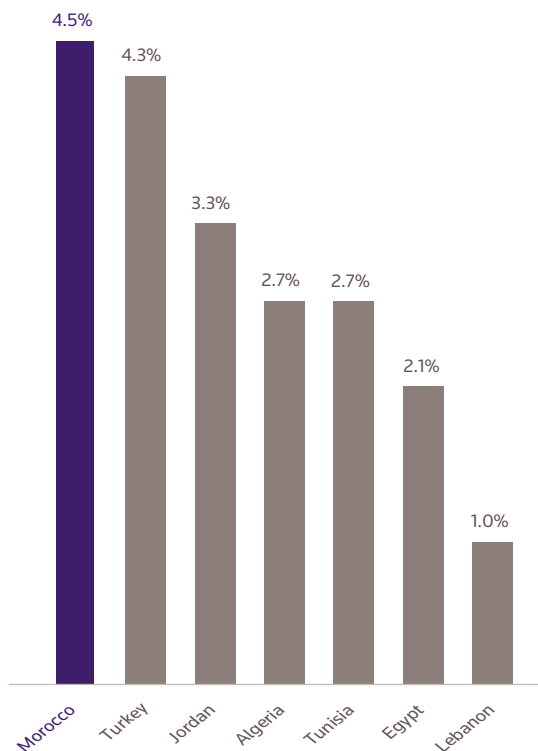
<sup>11</sup> Ministry of Economy and Finance of Morocco, 2013

<sup>12</sup> United Nations Conference on Trade and Development (UNCTAD), 2013. "World Investment Report 2013: Global Value Chains: Investment and Trade for Development." Available from: [http://unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

# AMBITION TO BE REGIONAL FINANCIAL HUB

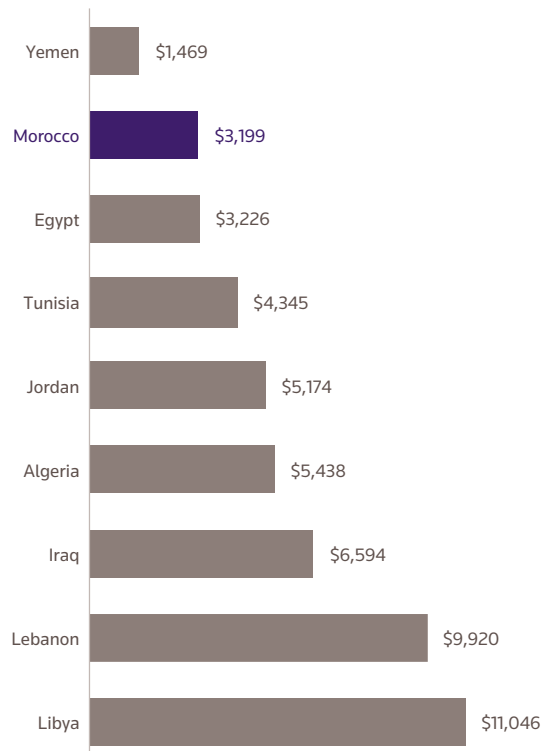
Morocco is developing a regional financial hub known as the Casablanca Finance City. The government wants CFC to be a centre notably for the Great North West Africa Region (GNWA Region). The financial hub will potentially contribute up to 2% of Morocco's total GDP and help create more than 30,000 new jobs.

GDP Growth in Mediterranean Region, 2013 (%)



Source: IMF World Economic Outlook Database, April 2014.

Regional GDP Per Capita 2012 (USD Current Price)



Source: IMF World Economic Outlook Database, April 2014.

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### **Casablanca Finance City as a regional financial hub**

The Casablanca Finance City (CFC) seeks to position Casablanca as a regional financial centre. CFC is still under construction but several companies have already been granted CFC status. The zone is meant to provide an attractive environment for national and international institutions in terms of a specialised infrastructure, a single regulatory system, a qualified talent pool, appropriate human resources, specific tax incentives, exchange control facilitation and other related services. The development of CFC is part of a comprehensive strategy that aims to reinforce Morocco's attractiveness for foreign investment and enhance and offer international investors a gateway to regional investment mainly in the maghreb and West Africa. The project is managed by the Moroccan Financial Board, which is a public-private initiative comprising of founders Bank Al-Maghrib, Caisse de Depot et de Gestion, Casablanca Stock Exchange, Groupe Banque Populaire, Attijariwafa Bank, BMCE Bank and four insurance companies – Mamda, Cnia, Atlanta-Sanadand, and Axa.

The institutions based at the CFC could serve either exclusively non-residents or a combination of residents and non-residents. They can belong to one of the following sectors:

- Financial services companies: corporate and investment banking, private equity, asset management and insurance, etc.
- Professional services firms: consulting firms in management strategy, legal, tax and audit, ratings agencies, research and information, etc.
- Regional financial and non-financial headquarters: undertaking supervisory, marketing and coordinating activities in at least one other foreign country

The emergence of a dynamic Islamic financial services industry in Morocco will also be an asset to the development of CFC and will attract foreign capital, especially from the MENA region.

### **MOROCCAN BANKS ABROAD**

The presence of Moroccan banks abroad, mainly in Africa, is one of the prominent features of the Moroccan banking system. Moroccan banks have more than 25 subsidiaries (with more than 1,200 agencies mainly in sub-Saharan Africa), 10 branches and 59 representative offices (mainly in Europe).

### **5TH LARGEST AFRICAN ECONOMY**

Morocco has become a major player in African economic affairs and is the 5th largest African economy by GDP (PPP).



*Selection of very colorful Moroccan tajines.*

Morocco's FDI is concentrated mainly in the real estate sector, followed by industry and tourism. Morocco was the only North African country to register FDI growth in 2013 – inflows grew a solid 24% to US\$ 3.5 billion, according to the United Nations Conference and Trade Agency's (UNCTAD) Global Investment Trends Monitor. FDI inflows into Africa as a whole grew by 6.8% to an estimated US\$ 56.3 billion from 2012 to 2013, driven by the strong performance of Southern African countries, including South Africa and Mozambique.

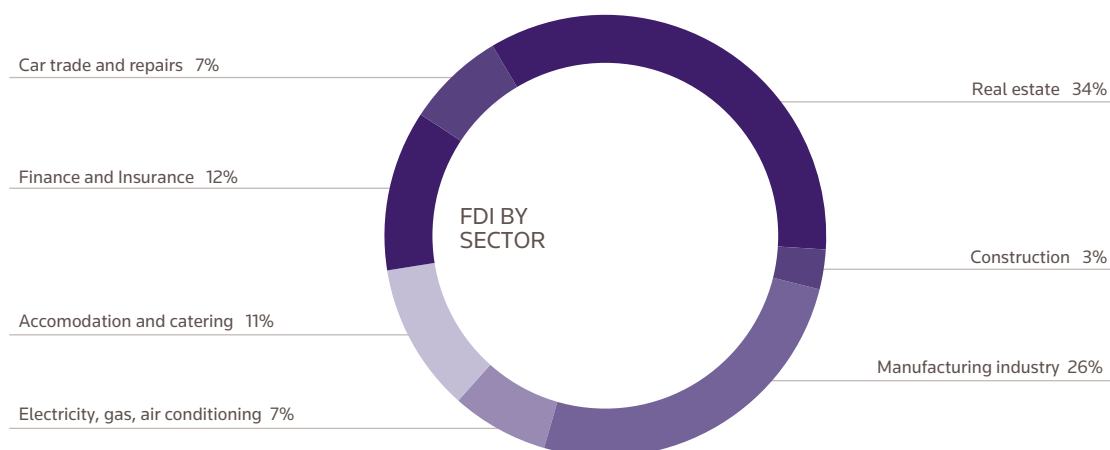
Morocco also led FDI inflows in North Africa in 2012 at US\$ 2.836 billion. Egypt trailed closely on US\$ 2.798 billion.<sup>13</sup> Morocco's stability relative to Egypt, Tunisia, Algeria and Libya has proven attractive to investors. In addition, a vast project of economic modernisation has been launched to boost FDI. Casablanca in particular aims to become an international financial centre.

To attract FDI, the government adopted the "Investment Charter" in 1995 that provides company exemptions for VAT and corporate tax for 5 years. In the industrial sector, the

Emergence Plan creates infrastructure which offers turnkey premises. In the case of off-shoring facilities, the government has offered telecommunications costs set at 35% below the market price and training grants of up to US\$ 7,000 for each Moroccan employee during the first three years of employment. A new version of the investment incentive regime is currently undergoing a governmental review.

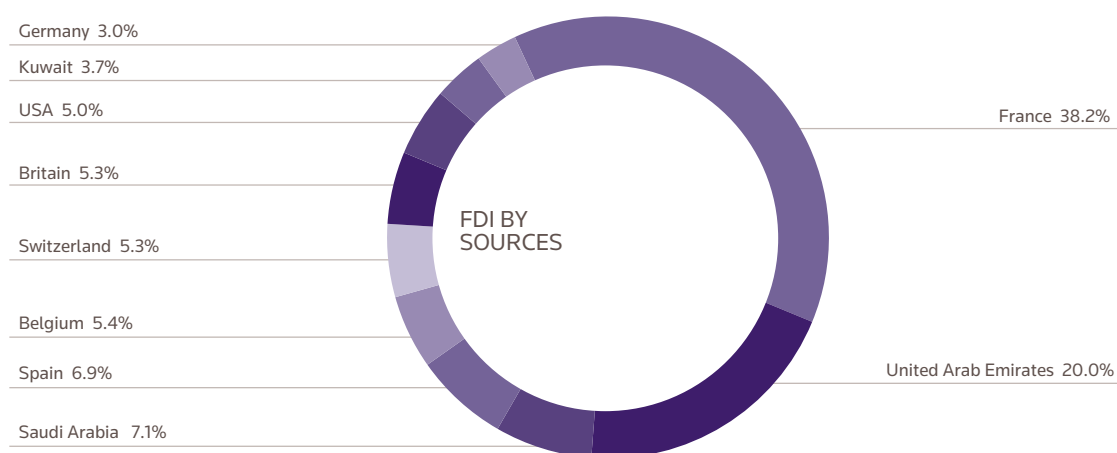
<sup>13</sup> United Nations Conference on Trade and Development (UNCTAD), 2013. "World Investment Report 2013: Global Value Chains: Investment and Trade for Development."

### FDI by Sector



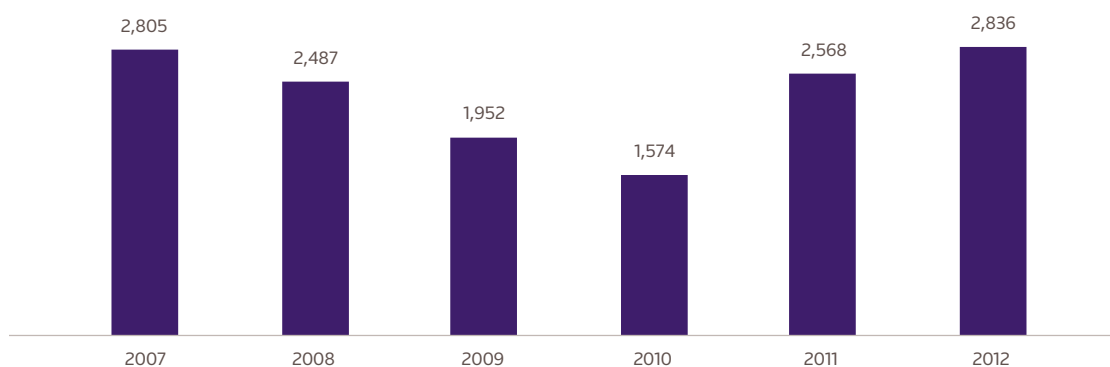
Source: Moroccan Investment Development Agency (2011).

### FDI by Sources



Source: Moroccan Investment Development Agency (2011).

### FDI Inflow, 2007-2012 (US\$ million)



Source: United Nations Conference On Trade And Development, World Investment Report 2013.

Unemployment, especially among the youth, remains a critical concern. It fell to 9% in 2012 from a high of 13.4% in 2000 but questions remain over the quality of jobs on offer. Youth unemployment (15-24 years of age) fell from 31.1% in 1990 to 15.7% in 2005 but increased to 17.9% in 2012 with urban youth unemployment surpassing 33.5%.

#### **Private sector hiring lower than public sector's**

The Moroccan government has been undertaking necessary initiatives to tackle unemployment over the years. However the government's expanding workforce is not matched by similar growth within the private sector. Other measures such as enhancing industry and services sectors maybe more effective.

A World Bank report puts Morocco's unemployment rates of tertiary education graduates at 18.1% (down from 28.9% in 2000), which is lower in the MENA region only to Tunisia's 22.9% (up from a much lower 8.7% in 2000) and Egypt's 19% (up from a lower 12.8% in 2000)<sup>14</sup> although it is clear from the figures that Morocco's employment situation for tertiary education graduates has improved while Tunisia's and Egypt's have deteriorated. For Morocco (and similarly for its North African neighbours) youth unemployment is not only a waste of productive resources but also a catalyst for social unrest. Education and employment synchronisation, effective job creation strategies, and self-dependency of the youth are key.

14 World Bank, June 2013. "Benchmarking Governance As a Tool for Promoting Change: 100 Universities in MENA Paving the Way."



# POVERTY DOWN FROM DOUBLE DIGITS BUT STILL AN ISSUE

Through the creation of the National Initiative for Human Development which makes available Micro credit (or micro finance) to provide access to basic social services and also promotes employment for youth and women, Morocco has achieved the first Millennium Development Goal (MDG) relating to poverty reduction. Using the national poverty line (US\$ 1.50 per day) as a standard measure, the rate of poverty fell from 16.3% in 1999 to approximately 9% to date (the figure is higher in rural areas, at 14.4%). (Moroccan National Bureau of Statistics, 2013) The government has initiated the second phase of the national initiative which is to improve health, education, roads, water, sanitation and electricity.

## **Improving Human Development Index ranking**

Morocco ranks 130 out of 187 countries on the 2012 Human Development Index (HDI) and ranks 17th in the MENA region. (United Nations Development Program, 2013) Its HDI score (0-1, where 1 is best) has been climbing steadily from 0.435 (1990) to 0.507 (2000) to 0.579 (2010), to 0.582 (2011) and 0.591 in 2012. Its 2012 ranking places it just below Nicaragua and directly above Iraq.

## **Improving life expectancy and years of schooling**

Life expectancy at birth has improved from 64.1 years in 1990 to 72.2 years in 2011. Life expectancy for females has increased from 66.1 to 74.5, and from 63 to 69 for males; expected years of schooling have improved from 6.6 years in 1990 to 11 years in 2011. Despite this constant improvement in the past two decades, Morocco still lags behind comparable countries such as Egypt and Tunisia. This is mainly due to the disparity in access to health and education between the urban and rural areas.

Fes, Morocco - July 27, 2010: People on a street market. Fes center is listed in UNESCO and it is the largest preserved medieval city in the world. Also it's one big market.



## ANALYSIS

### THE ROLE OF IDB GROUP IN POVERTY ALLEVIATION AND REDUCING UNEMPLOYMENT IN MOROCCO

by Dr. Ismaeel Ibrahim Naiya (ERPD) & Dr. Rami Abdelkafi (CTY), IRTI

Morocco is one of the founding member countries that established the Islamic Development Bank (IDB) on August 12, 1974. The first IDB operation in Morocco was approved by the Board on September 9, 1977. To date IDB Group financing approvals for Morocco has cumulatively reached US\$ 5.27 billion for various projects with concentration mainly in energy (36%), transportation (35%), and water, sanitation and urban services (18%). The total IDB-approved ordinary operations (excluding cancellation) in Morocco has reached 92 amounting to approximately US\$ 2.4 billion. About 90% of the financing approved for the country has been non-concessionary. In 2011, Morocco was the first among IDB member countries to receive disbursements with an amount of US\$ 288 million.

Other IDB Group entities the International Islamic Trade Finance Corporation (ITFC) and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) have also made significant contributions to Morocco. Most recently Morocco joined the Islamic Corporation for



IMLIL, MOROCCO - JULY 27: A Berber shop keeper poses for a photograph in the village of Tisgui Ntknt on July 27, 2007 in Imlil district, Morocco. Tisgui Ntknt is a village of around seventeen families in the High Atlas Mountains of Morocco. The Berber people of the Atlas have a strong sense of family and each village will consist of a number of families ranging from five to around thirty or forty. Tisgui Ntknt does not have electricity but King Mohammed VI has pledged that the whole of Morocco will be electrified in six years time. (Photo by Chris Jackson/Getty Images)

the Development of the Private Sector (ICD) in March 2011. Cumulative operations of the ITFC for Morocco stands at US\$ 2.67 billion. ICIEC has also managed to insure exports and imports businesses worth US\$ 201.5 million.

### **Economic growth and development**

The Moroccan economy has made significant gains over the past decade with a sustained average growth rate of 4.7% since 2000 compared to an average of 2.6% from 1990 to 1999, giving rise to higher GDP per capita (US\$ 2,955.86) in 2012. Both inflation and external debts have significantly declined and external reserves have significantly increased. Private sector investment has also soared to a comparable level of the East Asian economies to reach 36.3% of GDP in 2008. Overall, unemployment rate was brought down to 9.1% in 2010 while the rate of poverty declined from 16.3% in 1999 to 9% in 2010.

However, despite all these achievements, the Moroccan economy still faces several challenges including a high rate of rural poverty and a high rate of youth unemployment especially among educated youth in the urban areas.

### **Challenges: poverty and unemployment**

Poverty in Morocco is a predominantly rural phenomenon; 70% of the poor live in rural areas, and 75% of them depend on agriculture for their livelihood. Since poverty alleviation and human development is the key strategic objective of the IDB Group, food security and rural development are at the center of the Bank's operations.

The IDB has financed several projects in Morocco's rural areas including electrification and agriculture and rural development. To date, IDB interventions in the agricultural sector has accounted for US\$ 147.8 million, which represents 8% of the IDB portfolio in Morocco. IDB interventions in other sectors including energy, water and sanitation and infrastructure have also focused on the rural areas.

### **Main cause of youth unemployment: Education-Labour Requirements Mismatch**

Another key challenge facing Morocco in recent years is high unemployment among educated youth especially in the urban areas. The overall unemployment rate stands at 17.9% among the youth aged 15-24 and 32.2% among urban youth. It is estimated that 61% of young people with secondary education or above are unemployed. The majority of the 1.5 million jobs created by the economy during the last two decades were in the construction sector which requires low skilled labourers. An IDB study of the situation in the country has detected that a large skills mismatch is the major cause of the high unemployment among the young educated demographic. This reflects a disconnect between the education system and the major forces driving the economy. High unemployment rates among the educated also reflect the failure of the economy to effectively allocate resources especially labour from the agricultural sector which is necessary for structural transformation and sustainable growth of the economy.

Meanwhile, the recent episodes of the Arab Spring in the MENA region which was triggered to some extent by the problem of high youth unemployment in the region, has posed a great challenge to both the government and other development partners. In this context, the IDB has devoted a US\$ 250 million facility to support youth employment in the affected Arab countries. The Bank is now considering approval of the Youth Employment Support Program in Morocco.

Recently, the IDB Group finalised the Member Country Partnership Strategy (MCPS) for Morocco for the period 2013 – 2016. The strategy is based on extensive consultations with main stakeholders in the country. The MCPS has identified four pillars for IDB Group interventions in Morocco: (i) Enhancing Trade Competitiveness and (ii) Integrated Rural Development and two Crosscutting Themes: (iii) Private Sector Development and (iv) Reverse Linkages. All target at improving efficiency in the economy, thereby creating more job opportunities especially for the youth.

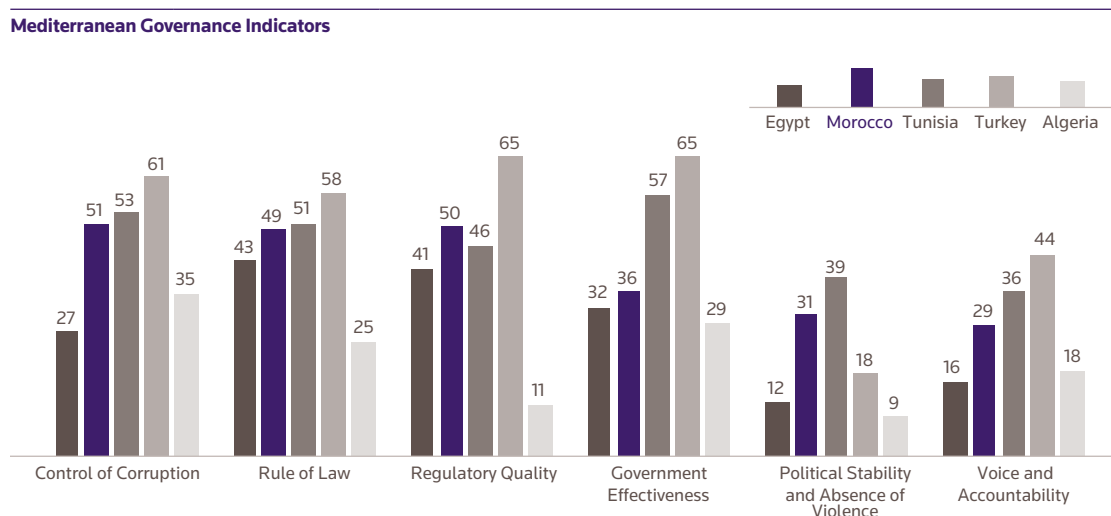
**Dr. Ismaeel Ibrahim Naiya** previously worked as a lecturer in the Department of Economics, Bayero University and joined the Economic Research and Policy Department, Islamic Development Bank (IsDB) in 2007 as an Assistant Researcher. He was educated in his native Nigeria, as well as in Saudi Arabia and Malaysia. He obtained his Ph.D. from the International Islamic University Malaysia, in 2012.

**Dr. Rami Abdelkafi** joined the Islamic Development Bank in 2008 as an economic researcher and currently serves as a Senior Country Program Manager in the Country Programs Department. He obtained his PhD from the University of Nice Sophia Antipolis, France, in 2002.



# GENERAL BUSINESS ENVIRONMENT

Corruption continues to be a serious problem despite efforts to combat it. The government established the Central Authority for Corruption Prevention (official name – Instance Centrale de Prevention de la Corruption, ICPC) in 2008 to coordinate, supervise and monitor corruption prevention policies. The new government post-2011 has also addressed the need to combat corruption and increase transparency. It has passed a law to protect whistle-blowers as well as trial witnesses and experts, and in December 2012 it launched an anti-corruption awareness campaign.



Source: The World Bank – Worldwide Governance Indicators 2012.



*Chefchaouen medina.*

Despite national efforts, the kingdom's ranking on Transparency International's Corruption Perceptions Index has not improved for the last couple of years, and only time will tell if national efforts will bear fruit. While the country's score of 37 remained unchanged for 2012 and 2013 its ranking dropped from 88th in 2012 to 91st in 2013. Comparatively for 2013 (2012) Tunisia was 77th (75th), Algeria 94th (105th), and Egypt 114th (118th). South Africa also slipped, from 69th in 2012 to 72nd in 2013.

### **Improved position in global rankings and indexes**

- a. The World Economic Forum's Global Competitiveness Report 2013-2014 ranks Morocco 70 out of 148 countries. The kingdom remains ahead of its fellow North African countries Egypt (118), Algeria (100), and Libya (108).
- b. Morocco is ranked 87 out of 185 countries in the 2014 World Bank Doing Business (DB) Report. The kingdom has the most improved business regulation (on the ease of starting a business) compared to other regional economies, ranking 39 compared to the regional average (MENA) of 112. Morocco has started eliminating the minimum capital requirement for limited liability companies, simplifying the construction permitting process, easing the administrative burden of tax compliance, and providing greater protections to minority shareholders. However Morocco has made registering property more expensive by increasing property registration fees.
- c. The Economist Intelligence Unit's Business environment rankings place Morocco 69 out of 82. According to the EIU's 2012 index of economic freedom Morocco scores 60.2 out of 100, making its economy the 87th out of 186 freest countries in the 2012 Index. Its 2012 score is 0.6 points better than 2011's as a result of modest improvements in most of the categories of economic freedom. Morocco is ranked 9th out of 17 countries in the Middle East/North Africa region, and its overall score is just above the world average.
- d. The World Bank Knowledge Economy Index ranks Morocco 102 out of 146 countries in 2012, which is lower than fellow maghreb countries Egypt (97), Algeria (96) and Tunisia (80).



ESSAOUIRA, MOROCCO — AUGUST 01: Fishermen gut sardines in front of the Skala du Port in Essaouira Harbour amidst hundreds of seagulls on August 1, 2007 in Essaouira, Morocco. Essaouira is a bustling Atlantic coast fishing town 150 kilometers west of Marrakesh. Despite decreases in stock, fishermen ply their trade down in the harbour processing their catch and selling to restaurants and local housewives. (Photo by Chris Jackson/Getty Images)

## ANALYSIS

### MOROCCO'S YOUTH: MISFORTUNE OR BAD POLICIES?

by Lahcen ACHY, Professor of Economics (INSEA, Morocco) and Senior Associate (Carnegie Middle East Center)

Morocco has improved its growth performance over the last decade. However, the decline in the country's unemployment from 13.4% in 2000 to less than 9% currently<sup>15</sup> is not a result of its economy's ability to create more jobs but rather to its labour force's slow growth. Morocco's labour force participation rate dwindled to 49% by 2012 from 53% in 2000,<sup>16</sup> and joblessness among youth and the highly educated remain high despite the overall decline in unemployment rate at the country level.

<sup>15</sup> Based on Labor force survey report by High Planning Commissariat (HCP).

<sup>16</sup> HCP data.

Policymakers have attempted to position youth issues on their agenda with a wide range of institutions and programs that seek to provide social services to young people. Their work, however, suffers from a lack of coordination that disperses energy and resources and creates confusion and overlap. Most existing institutions lack adequate financial resources and trained staffing and fail to adjust their programmes and upgrade their services. Morocco should make thorough adjustments at different government levels in order to place young people’s concerns at the heart of the national development strategy.

### **The demographics**

Youth (aged between 15 and 29 years) represent about 30% of the population and 44% of the working age population. Such a “demographic bulge” can offer formidable opportunities, but may also create serious challenges for the country. Young people are an essential asset for the country’s human capital; their efficient deployment can stimulate economic growth, enhance productivity, promote innovation, boost consumer demand and improve overall well being. A youth-inclusive approach can also strengthen the youth’s sense of citizenship, unlock their creativity and dynamism. However, youth social and economic exclusion in Morocco — as is also the case in most Arab countries — prevents the country from reaping the benefits of the “demographic dividend” and turns it into a “curse” that might threaten economic stability and social cohesion.

To be explicit, five key patterns bring to light the multidimensionality of youth concerns in Morocco.

### **5 key patterns of youth concerns**

1. First, although youth unemployment rates in Morocco are high — amounting to an average of approximately 22% for males and 38% for females — they only tell a small part of the story. Youth exclusion and lack of prospects are much worse than unemployment figures suggest. Official statistics indicate that about 90% of young women and roughly 30% of young men<sup>17</sup> who were not at school in the past couple of years, are either jobless or counted as economically inactive.
2. Second, the level of participation of Moroccan youth in social and civic life is extremely modest. Remarkably, young people spend on average 80% of their time ‘hanging out’ or doing personal and recreational activities that are highly unproductive. Meanwhile, their participation in civic activities — such as volunteer work, associations or other civic organizations — remains weak due to the absence of adequate infrastructure and facilities to host and support such activities. Dropping out of school early and being unemployed amid a lack of supportive institutions that assist youths in their socialization and confidence building, forces most of them into marginalization and expose them to long-lasting psychological, social and economic risks.
3. Third, The Moroccan Household and Youth Survey (MHYS) carried out in 2009-2010 shows that the majority of young people are complaining not only because they are currently out of employment but because they have little future prospects. They feel that in the absence of personal or family connections, education and skill acquisition are far from enough to get a decent job, be it the public or private sector. Based on the Gallup survey (2010), corroborated by the MHYS, more than one out of three young Moroccans wants to leave the country permanently, or is planning to do so. The propensity tends to be higher among males (48%) compared to females

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<sup>17</sup> World Bank (2012), Kingdom of Morocco: Promoting Youth Opportunities and Participation”, Middle East and North Africa Region, Sustainable Development Department, p. 13.



(18.5%), and among tertiary educated (41%) compared to their uneducated peers (17.5%). Multiple reasons explain the desire to migrate overseas among which are gloomy expectations in the domestic labour market.

4. Fourth, strikingly, employed youth put across their dissatisfaction with their current jobs either because they don't meet their pay expectations or they do not offer a minimum of job stability. Indeed, four out of five youth work without any formal employment contract. This means that most of them are not officially reported so they can benefit from social security, or work in the informal sector.
5. Fifth, although many young people prefer to get a job in the public sector, only a few of them would still prefer to be civil servants if offered a good salary in the private sector, as revealed by the MHYS. Some 58% of male jobseekers identify self employment or private sector as their most preferred job. Unlike the trend in most Arab countries, where young people prefer to queue for years to join the government sector, the majority of Moroccan youth seem to behave differently. Females and highly educated work tend however to give stronger preference to public jobs.

#### **Government policies for alleviating youth unemployment: Do they work?**

In terms of government policies and instruments, the labour market intermediation agency, the "National Agency for the Promotion of Employment and Competencies" (official name – Agence Nationale de Promotion de l'Emploi et des Compétences, ANAPEC), remains unknown among large segments of youth. Only 8% of those unemployed have benefited from its services, according to the MHYS. In addition, most of the unemployed youth in Morocco have either low education credentials or have not been in school at all. Three out of four have not completed secondary school.<sup>18</sup> Yet, labour market policies continue to focus heavily on tertiary educated youth. Those who are least educated and ill equipped are left without support.

Morocco's active labour market policies (ALMPs) include wage subsidies granted to employers when they hire youth jobseekers (IDMAJ scheme), training and retraining programs to increase their employability (TAEHIL scheme), and preferential credits to promote those who opt for entrepreneurship (MOUKAWALATI scheme). In 2012, IDMAJ program assisted 55,400 people and TAEHIL program benefited some 18,300.<sup>19</sup> On the other hand, only 750 young people established their own micro-enterprises<sup>20</sup> among which 70% relied exclusively on self-finance. Such outcomes reveal the modest contribution of ALMPs in Morocco that target chiefly university graduates whose number is relatively limited, compared to the all jobless youth and those counted as economically inactive. In relative terms, the three programs covered respectively 7.6; 2.5 and 0.1% of all unemployed youth.<sup>21</sup>

Morocco needs a more comprehensive and integrated youth strategy. Such strategy should be better articulated in its design and coordinated in its implementation. The country needs to focus

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18 Based on HCP data (2012).

19 Based on ANAPEC data.

20 The 750 enterprises created 1970 jobs (less than 3 jobs per enterprise).

21 Author's calculations based on ANAPEC and HCP data.



IMLIL, MOROCCO - JULY 25: A young Berber boy carries apricots through the village of Tisgui Ntknt on July 25, 2007 in Imlil district, Morocco. Tisgui Ntknt is a village of around seventeen families in the High Atlas Mountains of Morocco. The Berber people of the Atlas have a strong sense of family and each village will consist of a number of families ranging from five to around thirty or forty. Tisgui Ntknt does not have electricity but King Mohammed VI has pledged that the whole of Morocco will be electrified in six years time. (Photo by Chris Jackson/Getty Images)

on the most disadvantaged youth groups and particularly in underprivileged regions. To be successful, such strategy must engage with young people and promote their participation in political life as well as in the economic sphere.

**Lahcen Achy** is professor of Economics at Morocco's National Institute of Statistics and Applied Economics and Senior Associate at the Carnegie Middle East Center. He obtained his PhD from the Free University of Brussels and has been published in different internationally refereed journals. He has edited and co-authored several books on the political economy of reform; labour and gender in the Maghreb; globalization, employment and income distribution; competition and efficiency; as well as industrial dynamics and productivity. Dr Achy is research fellow at the Economic Research Forum (ERF) and Member of the board of the Mediterranean Forum for Economic Institutes (FEMISE). He has consulted for different international organizations including the World Bank, the European Commission, UNIDO, UNCTAD, UNDP, OECD, ILO, the Economic Commission for Africa (ECA) and the Canadian International Development Research Center (IDRC).



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*Inside*

## FINANCIAL MARKET LANDSCAPE & TRENDS

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# FINANCIAL MARKET LANDSCAPE & TRENDS

## SWOT Analysis

### S

#### STRENGTHS

1. Enhanced banking regulations and supervision are applied by Bank Al-Maghrib.
2. Morocco's banking assets have been on the rise since 2008.
3. High Capital Adequacy Ratio standing above the minimum requirement of 12%.
4. Higher financial inclusion rate compared to other North African countries.
5. National saving is high — 12% of the population had saved at a financial institution as at 2011.
6. Ranked 77 out of 148 countries in terms of financial market development.

### W

#### WEAKNESS

1. High Non-performing loans ratio (NPLs) for financing companies.
2. The banking sector suffers from a liquidity shortage.
3. Banking sector Return on Equities (ROE) ratio for the past two years is lower than average during 2008-2010.
4. Limited access to financing for SMEs.

### O

#### OPPORTUNITIES

1. The Casablanca Finance City (CFC) project aims to attract foreign investments and be the catalyst for growth in North and West Africa.
2. Facilitating SME financing is one of the government's priorities.
3. New regulations for Islamic banking activities will be introduced.
4. New takaful regulation will be introduced.
5. High interest among corporates to use sukuk once all necessary regulations are in place.
6. Strong microfinance sector but no Islamic microfinance participation. The market is large for those who would take the lead, especially to reach the vast rural poor.
7. Awqaf properties throughout the country are in need of both preservation and development, and the Ministry of Awqaf is open to partnerships with the private sector in terms of real estate and land development that will require sharia-compliant financing and investment. Awqaf will also benefit from professional Islamic asset management.

### T

#### THREATS

1. Morocco's banking sector is dominated by 4 banks, which will make market penetration for new entrants difficult.
2. Economic and political instability in neighboring countries may shake investors' confidence in Morocco.

Morocco's population of 32.52 million (2012, IMF) is higher than Tunisia's 10.78 million, but slightly lower than Algeria's 37.5 million. The kingdom's GDP per capita is the lowest of the three: as of 2012, it stood at US\$ 2,955.86 (current US\$, IMF), compared to Algeria's US\$ 5,582.85, and Tunisia's US\$ 4,213.15. It is also lower than Egypt's US\$ 3,111.87.

### Financial inclusion

As of 2011 39% of Moroccans had an account at a formal financial institution, which is much higher than Egypt (10%), and slightly higher than Tunisia (32%) and Algeria (33%). Bank Al-Maghrib, the country's central bank, has set financial inclusion as a priority.

12% of the population (15+ yrs) had saved at a financial institution as of 2011, a much higher level than neighbours Egypt (1%), Algeria (4%) and Tunisia (5%). In 2011, 4% of Moroccans obtained loans from financial institutions compared to 3% in Tunisia and 9% in Algeria.

Although the number of credit cards circulated in the market increased by 13.6% in 2011 compared to 2010, credit cards usage is at a low percentage, accounting for only 4% of the population (15+ yrs). Credit cards can represent an area of opportunity for existing and potential banks in the kingdom, according to World Bank data.

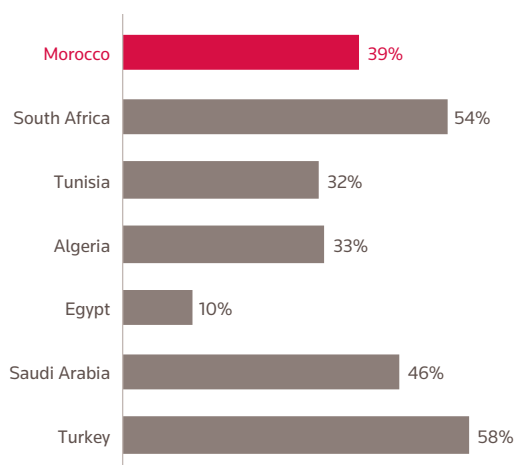
In a move that could result in increased participation in the banking sector, in June 2012 the Prime Minister Abdelilah Benkirane invited lower-income Moroccans to open bank and postal accounts to gain access to the direct grants of cash that the government will distribute as part of a reform of the country's costly subsidy system. This move, along with the Arab Monetary Fund mandate to promote financial inclusion in some of the Arab countries, is believed to provide the impetus to push the financial inclusion rate to 55%.



Marrakesh, Morocco - October 28, 2007: People at bazaar on famous Marrakesh square Djemaa el Fna in Marrakesh, Morocco.

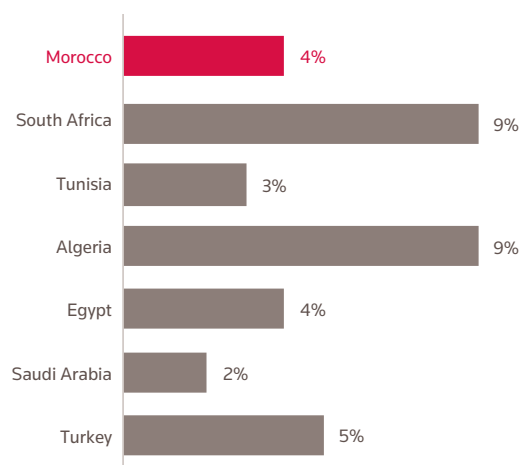


#### Account at a formal financial institution (% age 15+), 2011



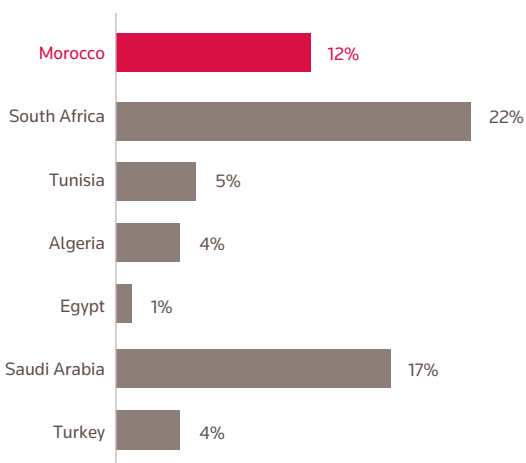
Source: World Bank financial inclusion data.

#### Loan from a financial institution in the past year (% age 15+), 2011



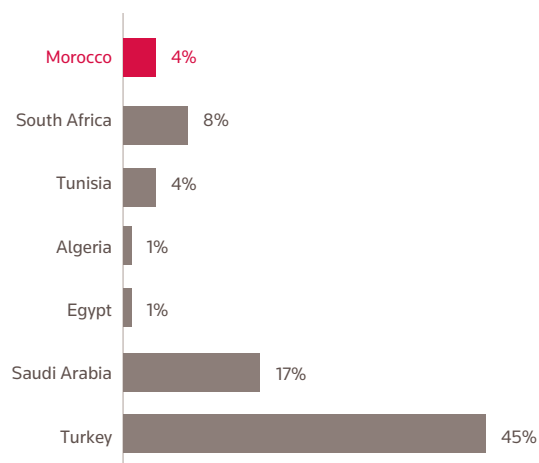
Source: World Bank financial inclusion data.

#### Saved at a financial institution in the past year (% age 15+), 2011



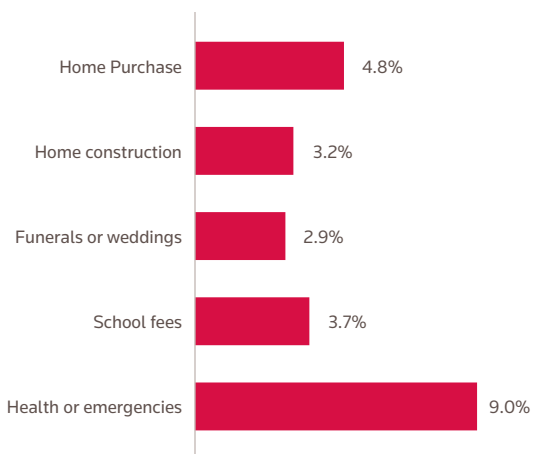
Source: World Bank financial inclusion data.

#### Credit card (% age 15+), 2011



Source: World Bank financial inclusion data.

#### Outstanding loan by Moroccans (15 yr+), 2011



Source: World Bank Database, Findex.



# FINANCIAL INDUSTRY STRUCTURE

The financial sector comprises 86 financial institutions including 19 commercial banks (among which 6 are listed), 36 finance companies, 6 offshore banks, 10 funds transfer companies and 13 microcredit associations, in addition to the Central Guarantee Fund and the Caisse de Dépôts et de Gestion (a state-owned holding company).

**Evolution of the number of Credit Institutions and similar organizations**

	2008	2009	2010	2011	2012
<b>Banks</b>	18	19	19	19	19
<b>Financing Companies</b>	37	36	36	35	36
<b>Offshore banks</b>	6	6	6	6	6
<b>Microcredit associations</b>	13	12	12	13	13
<b>Funds Transfer companies</b>	7	9	8	10	10
<b>Other Institutions</b>	3	2	2	2	2
<b>TOTAL</b>	84	84	83	85	86

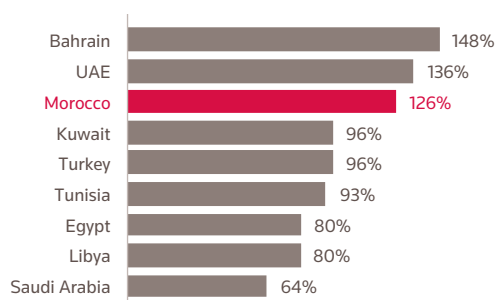
Source: Bank Al-Maghrib.

**Breakdown of Moroccan Credit Institutions by Assets Share in 2012**

<b>i. Commercial Banks</b>	88.76%
<b>ii. Offshore banks</b>	2.78%
<b>iii. Leasing, Factoring and other financing institutions</b>	8.02%
<b>iv. Microfinance Institutions</b>	0.44%
<b>TOTAL ASSETS</b>	100%

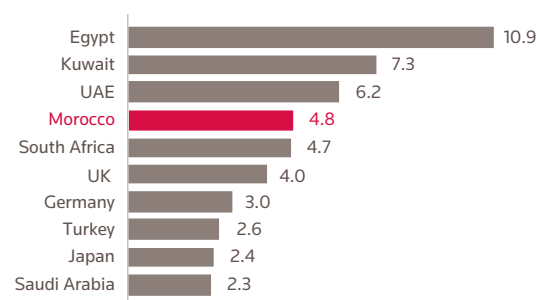
Source: Bank Al-Maghrib – 2012, on the Control, Activity and Results of the Credit Institutions.

**Banking Assets/ GDP (2012)**



Source: Thomson Reuters Eikon & IMF World Economic Outlook, October 2013.

**Bank nonperforming loans to total gross loans (%), 2011**



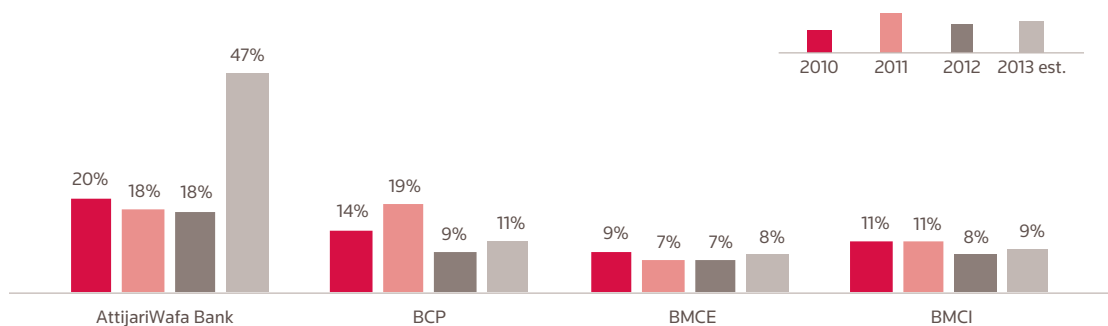
Source: World Bank Data.

# THE BANKING SECTOR IS DOMINATED BY THE THREE LARGEST BANKS

The banking sector is dominated by the three largest banks, which control approximately 65.6% of the banking sector's total assets. This is a very clear warning for new entrants as to how well established these three banks are in the kingdom.

AttijariWafa, the largest bank in Morocco and Africa's sixth largest by balance sheet, announced in 2012 its plan to expand its presence mostly in francophone African countries as bank penetration in Morocco reached over 50% in 2011, a sign for the bank that its domestic growth maybe nearing saturation point.

## Return on Equity (ROE)



Source: Thomson Reuters Eikon.

## THE BANKING SECTOR IS THE DOMINANT COMPONENT OF THE FINANCIAL SECTOR

The World Economic Forum's Global Competitiveness Index (2013-2014) ranks Morocco 77 out of 148 countries in terms of financial market development, better in regards to this pillar than countries like Tunisia (83) and Egypt (118) but worse than Jordan (68), Turkey (44) and the GCC countries.



Cityscape, Morocco

### Key Indicators

Morocco has one of the highest **banking assets / GDP** in comparison to its neighbours. Banking assets stood at US\$ 127 billion in 2012, compared to Tunisia's US\$ 42 billion but much lower than Egypt's US\$ 206 billion.

**Non-performing loans (NPL)** ratio is considered the most fundamental indicator in relation to asset quality. Morocco's NPLs stood at 5% in 2012 compared to 4.8% in 2011. In comparison, South Africa's NPL was 4.6% and UAE's was 6.2% in 2012. Since the financial crisis in 2008, Morocco's banks have managed to keep very low NPL levels. The ratio showed remarkable improvement for the period from 2008-2011, decreasing to 4.8% in 2011 compared to 6% in 2008.

**Return On Equity (ROE)** eased for all four big banks except BCP for the period 2010 to 2012. Moroccan banks' ROE is expected to recover and reach as high as 46% for AttijariWafa bank, according to forecasts.

# THE BANKING SECTOR

The banking sector can be divided into three categories in terms of ownership:

- Private banks (7),
- Public banks (5), and
- Subsidiaries and branches of foreign banks (7)

According to Bank Al-Maghrib statistics released in June 2012, private banks with dominant Moroccan ownership represent 65.8% of total banking assets, 65.6% of total deposits and 64.5% of total loans. In June 2012, 58.2% of deposits were current accounts, 23% were term deposits and 15.7% saving accounts.

## Banking concentration

The concentration of the Moroccan banking sector is high – the three (five) largest banks hold 65.6% (79.4%) of total banking assets, 65.4% (80.2%) of total deposits, and 64.5% (80.7%) of total loans.

### Structure Indicators of the Moroccan Banking Sector (Activities in Morocco)

	2008	2009	2010	2011	2012
<b>Banks with dominant public ownership</b>	5	6	6	5	5
<b>Banks with dominant private ownership</b>	6	7	7	7	7
<b>Banks with dominant foreign ownership</b>	7	7	7	7	7
<b>Employees</b>	29,412	30,845	35,766	37,245	38,262
<b>Foreign presence: Numbers of branches, subsidiaries and representative offices</b>	NA	NA	86	88	94
<b>Bank Accounts/Population</b>	43%	47%	50%	54%	57%
<b>Banking cards (in millions)</b>	5.2	6.3	7.1	8	9.3
<b>Assets' concentration *</b>	65%	66%	63.60%	64.60%	65.60%
<b>Deposits' concentration *</b>	68%	67.90%	64.70%	65.70%	65.40%
<b>Credits' concentration *</b>	60.90%	61.40%	62.70%	64.10%	64.50%

\* share of the 3 major banks

Source: Bank Al-Maghrib Reports – 2008, 2010 and 2012, on the Control, Activity and Results of the Credit Institutions.



### Total banking network

The banking network is well developed with 5,447 branches in 2012 and a ratio of 22.31 branches per 100,000 adults in 2011, far above the average of the upper middle-income countries (14.98).

The private banks with dominant Moroccan ownership dispose of 51.2% of the branches in 2012.

### ATMs

Although the number of automated teller machines (ATM) has increased over the years and accounted for 5,476 in 2012, this is still low if we consider the ratio of ATM per 100,000 adults which equaled 21.84 in 2011, less than the rate for upper middle income countries (42.35) and that of Turkey (59) but comparable to Tunisia (22).



Entrance to Kasbah in Tangier, Morocco.



## Extract from interview with Lhassane Benhalima Deputy Head – Banking Supervision, Bank Al-Maghrib<sup>22</sup>

### **Can you give us an overview of the new provision intended for Islamic banks? Are the salam and istisna contracts included in the law?**

The provision relating to Islamic banks is stipulated in the draft banking law. First it defines participatory banks: they are banks whose business and operations are in compliance with the rulings of sharia. The second principle is that we have defined the alternative financial products that may be marketed by participatory banks.

These are widely recognised products, including investment deposits and products relating to murabaha, musharaka, istisna, salam contracts. Some of these products have been defined in the banking law and some others will be introduced in the form of regulatory provisions “circulars” to be issued by Bank Al-Maghrib. We have focused on products that are used at the international level, such as murabaha, mudaraba, musharaka and ijara, while salam and istisna are not mentioned.

However, the banks are allowed to use not only istisna and salam, but any bank can determine the products intended to be offered to the market after consulting with the Sharia Supervisory Board, and after the Board has given its approval, the bank will be allowed to offer the product to market. The new law welcomes any product that complies with the rulings of sharia.

With regards to sharia governance, we have stated two compliance entities:

1. National finance sharia board which has the power to issue sharia pronouncements, or fatawa. Details about Key Terms of Reference for the national finance sharia board will be announced in its decree;

2. The audit committee (within the participatory banks) who monitor the day-to-day compliance with the sharia pronouncements of the Central Sharia Board.

### **When would [Morocco's] supreme Sharia Board intervene?**

When we defined the products in the draft banking law, we mentioned that they would be approved upon ratification by the Central Sharia Board. This applies to murabaha, ijara and any other products.

### **Concerning constituting participatory banks, you mentioned that you prefer partnership?**

Joint ventures between local banks and foreign investors are encouraged.

### **Have you received requests from the Gulf region?**

We have received informal requests from the Gulf region, as the law has not yet been approved. A number of Gulf banks in Kuwait, Bahrain, and United Arab Emirates have expressed their desire to enter the Moroccan market when the new law comes into force. We remain open minded in our vision and joint ventures between local banks and foreign investors are encouraged.

### **As experts, what is your outlook for the next five years with regard to the participatory banking market?**

We have a progressive approach to introduce participatory banks in Morocco, taking into account experiences of other countries.

<sup>22</sup> As of January 2014, Mr. Lhassane Benhalima was appointed as the Head of Banking Supervision Department

## Number of total accounts

The number of total accounts over the total population has increased from 50% in 2010 to 55% in 2012, reflecting improvement in access to banking services.

## Number of adults with an account

39% of adults (aged 15+) in Morocco have an account at a formal financial institution, which is higher than the average for Africa and North Africa (23% each). Southern Africa has the highest account penetration at 42%.<sup>23</sup> In the MENA region as of 2011 18% of individuals aged 15+ have an account at a formal financial institution.<sup>24</sup>

## % of adults with savings accounts

The percentage of adults reporting a savings account at a formal financial institution was 12.24% in 2011 which is higher than Turkey (4.17%) and Jordan (8.26%) but lower than Malaysia (35.4%). Bank Al-Maghrib is well aware that the country needs to make extra efforts to improve access to finance and enhance financial inclusion. It is a member of the Alliance for Financial Inclusion (AFI), the network of 95 central banks and other financial regulatory bodies from 81 developing countries whose mission is to facilitate access to finance to more than 2.5 billion persons living in precarious conditions across the globe.

## Bank branch concentration

Moroccan banks are concentrating their presence more on the major urban centers even if they have recently increased their exposure to remote areas. The Postal Bank, a subsidiary of the postal network, which was granted a full banking license in 2009 and launched in 2010, could play an important role in enhancing financial inclusion. With a network of 2,000 points of contact spread out among all Moroccan districts, it aims to bring 2.5 million more clients into the financial system by 2014. In order to achieve this objective, Poste Maroc will offer households in remote areas not only conventional financial products but also Islamic microfinance products.

23 African Development Bank, 2013, "Financial Inclusion in Africa".

24 World Bank Financial Inclusion Data. Available from: <http://datatopics.worldbank.org/financialinclusion/region/middle-east-and-north-africa>



Marakech, Morocco — October 09, 2011: Before the football game against Tanzania. On Djemaa el Fna Moroccans buying flags for the football match.





# RATIOS RELATED TO BANKING OPERATIONS

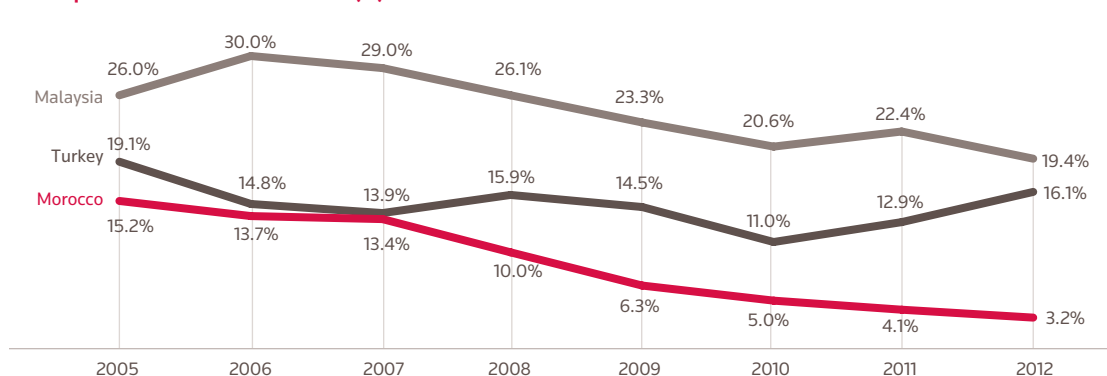
The banking sector plays a major role in the Moroccan economy and has withstood the global financial crisis in large part because it is not highly integrated into the international financial architecture.

Indicators of the Moroccan Banking Sector Operations

%	2008	2009	2010	2011	2012
Total Assets/GDP	110.8	113.0	115.9	121	125.7
Deposits/GDP	83.1	82.1	81.4	84.4	84.1
Loans/GDP	79.5	82.9	85.4	91.1	92.6
Domestic Credit to Private Sector	63.0	65.0	69.0	72.0	73.0
Securities / Total Asset	16.4	17.9	15.8	17.6	19.9
Fixed Assets / Total Assets	2.0	2.0	2.0	2.0	2.0
Liabilities / Total Liability	86.7	84.6	82.4	85.5	84.9
Deposit / Total Liability	75.0	72.6	70.2	69.8	66.9
Loans / Deposit	95.7	101.1	104.8	108.0	110.1
Liabilities / Total Asset	86.7	84.6	82.4	85.5	84.9
Off-Balance Sheet Transactions / Total Assets	28.7	26.5	25.8	24.9	23.9

Source: Bank Al-Maghrib reports –2008, 2010 and 2012, on the Control, Activity and Results of the Credit Institutions.

Bank liquid reserves to bank assets ratio (%)



Source: World Bank data.

### **Bank assets to GDP ratio**

This has been gradually increasing, reaching 125.7% in 2012 from 110.8% in 2008.

### **Deposits to GDP ratio**

Deposit growth is very slow and marginally dipped from 84.4% in 2011 to 84.1% in 2012.

### **M2 to GDP ratio**

Between 2000 and 2012, this rose 71% to 113%, indicating that the size of the Moroccan financial intermediary sector has increased rapidly.

### **Loans to GDP ratio**

This has increased gradually from 79.5% in 2008 to 92.6% in 2012 although growth slowed from 2011 to 2012.

### **Extension of credit to the private sector**

Increased to 73% of GDP in 2012, up from 63% in 2008. This ratio is higher than Turkey's (54%) but below the 118% of GDP in Malaysia. While loans granted by banks to the public sector represent only 5.8% of total loans in January 2013, the allocation of loans among the private sub-sectors reveals the predominance of real estate loans (31.25%) relative to

equipment loans (19.51%), financial facilities loans (25.36%), and financial transaction loans (11.65%). The maturity structure of the loans in June 2012 matches with the above breakdown of the loans since 40.8% of the total loans are of short term maturity, 27.6% are mid-term and 26.6% are long term loans, with the remaining 5% as non-performing loans.

### **Securities portfolio to total assets**

Increased to 19.9% in 2012 from 16.4% in 2008. Looking at the sector's asset composition, Fixed Assets represent only 2% of total assets and 84.9% of the sector's assets are financed by liabilities. Off-balance sheet transaction to total assets ratio has been decreasing since 2008, reaching 23.9% in 2012.

### **Loans to deposits ratio**

Increased from 95.7% in 2008 to 110.1% at the end of 2012. This signals increased pressure on banks' liquidity which is also reflected by the drop in bank liquid reserves to bank assets ratio which passed from 10% in 2008 to 3.2% in 2012, a level which is much lower than that of Turkey (16.1%) and Malaysia (19.4%).



Marrakech, Morocco – May 4, 2008: Locals and tourists at Djemaa el Fna.

## SMEs AND BREAKDOWN BY SECTORS

Morocco is ranked highest in the MENA region for SMEs access to financing – SME loans in Morocco exceed 30% of total loans.<sup>25</sup> 79% of small and 87% of medium-sized enterprises have a bank account.<sup>26</sup> However, improving SMEs access to financing remains a priority; the central bank has formed a national awareness-raising campaign on SME financing, in cooperation with the National Agency for SME Development (ANPME), the Moroccan Bankers Association, the Central Guarantee Fund (CCG) and the General Confederation of Moroccan Enterprises (CGEM).

According to the World Bank enterprise survey (2007 for Morocco) the proportion of investments financed by banks equaled 12.2% whereas 75.4% of the investments were financed internally. 31.6 % of the surveyed Moroccan firms identified access to financing as a major constraint.

25 *The World Bank and The Union of Arab Banks, June 2010. "The status of bank lending to SMEs in the Middle East and North Africa region: the results of a joint survey of the union of Arab banks and the World Bank."*

26 *African Development Bank, 2013, "Financial Inclusion in Africa".*

27 *Ayyagari, M., T. Beck & A. Demircuc-Kunt (2003) "Small and medium enterprises across the globe: a new database," Policy Research Working Paper Series 3127, The World Bank.*

28 *ITFC, "Background note on micro small and medium enterprise database."*

### NEED FOR A CREDIT BUREAU

Building a modern infrastructure of credit information sharing will help financial institutions better understand SMEs' financial positions.<sup>27</sup> In addition, the role that a credit bureau can play in establishing SMEs' credit history and credit risk is invaluable for creditors' lending decisions.<sup>28</sup>



Medina of Marrakesh.

### Access to financing for less industrialised areas

Developing regional branches of banks and leasing companies and the decentralisation of their administrative procedure is important for the expansion of medium-sized manufacturing enterprises in less industrialised areas.<sup>29</sup>

The change of allocation of loans across the sectors shows that households continue to benefit, accounting for the lion's share of bank

loans. The Processing Industries represent 16.7% of total loans in 2012 which is slightly lower than the 16.8% of 2011 but higher than the 15.9% of 2008, reflecting increasing interest in this sector during the last few years. However, the share of the primary sector decreased to 5.5% in 2012 relative to 6.9% in 2008.

<sup>29</sup> *Fafchamps, M. & M. Schündeln (2011) "Local Financial Development and Firm Performance: Evidence from Morocco," CSAE Working Paper Series 2011-02, Centre for the Study of African Economies, University of Oxford.*

#### Breakdown of banks' loans by sectors

%	2008	2009	2010	2011	2012
Primary Sector	6.9	6.0	6.1	5.8	5.5
Building and Public Work	12.5	14.1	13.3	13.9	12.6
Processing Industries	15.9	15.8	16.4	16.8	16.7
Administration and Local Authorities	3.0	2.9	5.0	4.8	5.0
Trade Sector	6.5	6.6	6.7	6.6	7.0
Tourism Sector	2.6	3.2	2.9	2.8	2.9
Households	26.5	27.6	28.1	27.6	28.9
Other Sectors	26.1	23.8	21.5	21.7	21.4

Source: Bank Al-Maghrib.

#### Interest rates applied to equipment credit

%	2008	2009	2010	June 2011
SMEs	7.64	7.79	7.04	7.20
Corporates	5.88	6.27	5.91	5.99

Interest rates on equipment credit for SMEs are markedly higher than for corporates

Source: Bank Al-Maghrib.



# OFF-BALANCE SHEET TRANSACTIONS

Banks' off-balance sheet items consist principally of guarantee commitments, given or received financing and commitments in foreign currencies and derivatives.

## **Commitments given by banks**

Increased by 3.6% in 2012 over 2011 and reached MAD 115 billion (US\$ 14 billion) (80 billion to customers and 35 billion to credit institutions and similar bodies)

## **Financing commitments (mainly in favour of customers)**

Increased by 3.2% in 2012 from 2011 and reached MAD 76.4 billion

## **Commitments received from credit institutions and similar bodies**

Increased by 1% in 2012 reaching MAD 51.9 billion

## **Commitments received from customers**

Increased by 19% to reach MAD 4.9 billion

## **Currency commitments**

After an increase of 53.8% in 2011, currency commitments declined by 3.5% to reach MAD 124.7 billion in 2012

## **Foreign cash transactions**

Increased by 62% to reach MAD 16.3 billion

## **Forward transactions**

Decreased by 9% to reach MAD 108.4 billion

## **Commitments on derivatives**

Increased by 23.4% in 2012 to reach MAD 41.4 billion

## **Operations on interest rate instruments**

Decreased by 3.3% to MAD 14 billion

## **Operations related to exchange rate instruments**

Increased by 75.6% to MAD 20.3 billion

Prudential regulations and supervision have significantly improved in recent years. In 2007 the standard approach of Basel II was implemented and the year 2010 marked the adoption of the advanced approach (Internal Rating-Based Approach). For the first time, Bank Al-Maghrib received the results of stress tests in 2012 (enhancing the supervision process related to pillar 2 of Basel II) performed by banks in relation to credit, concentration, liquidity, market and country risks.

Bank Al-Maghrib raised the minimum level of Tier 1 capital to 9% and the capital adequacy ratio (CAR) to 12%. Bank Al-Maghrib has prepared a strategy to implement the components of the Basel III reform on equity.



*Ocean view from the old medina in Rabat, Morocco.*

### **IFRS Accounting standards in use by banks**

In 2008 the International Financial Reporting Standards (IFRS) was adopted by Moroccan banks.

### **Capital Adequacy Ratio (CAR)**

Currently stands above the minimum requirement of 12%. The ratio increased to 12.3% in 2012 compared to 11.2% in 2008.

### **Principle Capital to Risk Weighted Assets ratio (Tier 1)**

Above the international level of a minimum of 6% within Basel III rules. The ratio stands at 10.1% in 2012 compared to 9.6% in 2008. The strong capital structure of the Moroccan banking sector contributed to its resilience during the recent economic and financial crises.

### **FX Net General Position / Own Funds Ratio**

Reached 7.4% in 2012 compared with 6.5% in the previous year

### **Improving solvency ratios**

As a consequence of the strengthening regulatory and supervisory frameworks, the average solvency ratio of banks increased from 10.6% in 2007 to 12.3% in 2010.

### **Falling NPL rate for banks**

The rate of banks' Non-Performing Loans (NPL) has continuously decreased from 19.4% in 2004 to 5% in 2012.

### **High NPL rate for financing companies**

However, the rate of NPLs for the finance companies is still high at 9.7% in 2012.

#### **Ratios related to Capital Adequacy and foreign exchange exposure**

<b>%</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Capital Adequacy Ratio</b>	11.2	11.8	12.3	11.7	12.3
<b>Principal capital/Risk-weighted assets</b>	9.6	9.2	9.7	9.6	10.1
<b>FXNGP/Own Funds</b>	6.5	13.5	10.3	7.3	7.4

Source: Bank Al-Maghrib.

# ASSET QUALITY

Lower levels of asset quality reflect liquidity problems faced by the banking sector. Bank Al-Maghrib is conducting an accommodating policy to provide banks with necessary liquidity. At the end of December 2012, advances granted to banks doubled relative to 2011 to reach 70 billion dirhams.

The central bank has also undertaken other measures in 2012 to ease banks' liquidity. Some of these measures include:

- Reducing the monetary reserve from 6% to 4% and money rate by 25 basis point to a level of 3%
- Enlarging the range of collateral accepted for guarantees and softening their eligibility criteria

<b>Ratios related to Asset Quality</b>					
<b>%</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>NPL (Net)/ Own Funds</b>	13.9	12.7	12.2	12.9	13.6
<b>NPL/Gross Loans</b>	6.0	5.5	4.4	4.8	5.0
<b>Loans loss provisions/NPL</b>	75.3	74.1	70.1	69.0	68.0
<b>Liquid Assets/Total Assets</b>	18.6	17.3	12.0	11.4	10.5
<b>Liquid Assets/Short Term Liability</b>	24.7	23.0	16.0	16.1	14.7

Source: Bank Al-Maghrib.



Net weighted risks borne by banks increased to MAD 760 billion in 2012 from MAD 721.6 billion, at a lower rate of 5.3% compared to 9.3% recorded in 2011. They are made up of credit risk (MAD 648 billion or 85.2%), operational risk (MAD 66 billion or 8.7% percent) and market risk (MAD 46 billion or 6.1%). Under these three risk categories banks' capital requirements amounted to MAD 76 billion in 2012, compared to MAD 72 billion in 2011.



*Seagulls over Essaouira fort.*

### **NPL Ratio (NPL/Gross Loans)**

NPL ratio is considered the most fundamental indicator in relation to asset quality. The ratio decreased to 5% in 2012, compared to 6% in 2008. However, the 2012 level was an increase relative to the 4.4% in 2010 and 4.8% in 2011; this might be related to the effects of the global financial crisis on Moroccan exporting firms and tourism sector.

### **Loans loss provisions/NPLs ratio**

Decreased to 68% in 2012 from 75.3% in 2008

### **Liquid Assets/Total Assets ratio**

Decreased to 10.5% in 2012 compared to 18.6% in 2008

### **Liquid Assets to Short Term Liability ratio**

Decreased from 24.7% in 2008 to 14.7% in 2012



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## **Extract from interview with Laidi EL Wardi, General Director – Retail Banking, Banque Populaire**

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### **Can you tell us more about your new Islamic subsidiary?**

On this project we have already done a lot of work. We have studied the opportunity to launch this type of alternative financing activity and we have established a business plan in this regard with a very clear business model strategy on what we have to do and what kind of products, and what segment of the market we should be targeting. Now we have started work on the operational part that includes, for example, technology infrastructure. I think the project will start to accelerate within the coming months. We already have an idea of the brand and the name of this new subsidiary. We are working with some potential partners. As we explained to our friends in the Islamic Development Bank, we need technical expertise. So we have a potential candidate that has the expertise in Islamic finance and this type of financing, but we are still open to others.

### **Will the new subsidiary be a full-fledged participatory bank? How will you capitalise on your large network?**

Yes it will be [a full fledged participatory bank]; it is integrated within our business model strategy. First we have to establish the bank as an authority, that's why we decided to create a subsidiary, which will have a new brand and to use the conventional network in the second phase. We think that [our] consumers committee will ensure that these products comply with sharia principles.

### **How will you deal with competitors?**

We will have a defensive strategy, and I believe the market share of this type of individual alternative financing activity will be 20%.

### **What is your strategy to enhance and improve the understanding of Islamic banking products?**

I believe that we have to work with opinion leaders. So that's why we want to first work with the members of the centralised sharia board. I think there will be people from the Moroccan Central Sharia Board but they may not have expertise in the financial markets.

So as a prominent financial institution in Morocco, we believe that we should work with

them. Also, in our strategy, we want to participate in the expansion of this type of activity. That is why we first want to establish the right network with specialised personnel in participatory banking. For the second phase we will start using the conventional bank networks. But first we want the new bank to create its own network, even though it will not be very large. I believe in the next 4 to 5 years, we will have at least 60 branches.

In our business model, we already have the two parts – individual financing and SMEs financing. We think that SME financing or corporate financing will be very small in the beginning. The surveys we conducted show that there is no huge interest in this type of activity. This could be because microfinance is very successful in Morocco, and a lot has been achieved [with microfinance]. I believe the question of *riba* has not been raised very strongly, so we think that in terms of marketing, the first adopters of this kind of financing will be the intermediate class, the very skillful people. And the major part of the activity will be based on individual financing but SME financing will be something that will grow very slowly because there are a lot of things that are not very clear.

# INCOME — EXPENDITURE AND PROFITABILITY RATIOS

Sector profitability ratio has been relatively stable.

## Income to Assets ratio

Approximately 5.5% during the years 2009-2011 and 5.6% in 2012

## Expenses to Assets ratio

Stabilized at 3.6% during the last three years

## Interest incomes to interest expenses coverage ratio

High. Interest income is 2.6 times higher than interest expenses. However, the share of interest incomes as a part of total incomes has decreased from more than 80% in 2008-2009 to 78.4% in 2012 reflecting banks' strategy to diversify their income sources.

## Return on Assets (ROA)

Decreased from 1.2% in 2010 to 1.1% in 2011 and 1% in 2012, indicating that the banking sector is struggling to increase the efficiency of using its assets to generate income.

## Return on Equities (ROE)

Increased to 11.8% in 2012 from 10.21% in 2011. However this is still lower than the average level of 14.4% earnings generated from shareholder capital during the years 2008-2010.

Income — expenditure and profitability ratios related to banks' activities in Morocco

%	2008	2009	2010	2011	2012
Incomes/ Assets	5.4	5.5	5.5	5.5	5.6
Net Interest Income/ Loans	3.9	3.7	3.8	3.7	3.7
Interests from Securities/Securities Position	0.8	1.0	1.3	1.2	1.0
Expenses/Assets	3.6	3.7	3.6	3.6	3.6
Interest expenses and similar fees/Deposits	2.1	2.4	2.3	2.3	2.4
Expenses/Incomes	66.1	66.4	64.2	65.3	65.2
Interest Incomes/Incomes	81.8	80.0	79.4	79.0	78.4
Interest Expenses/Expenses	45.2	46.7	44.8	44.4	45.2
Interest Incomes/Interest Expenses	273.8	258.3	276.0	272.8	266.4
Operating Expenses/Expenses	48.0	46.7	48.4	49.3	48.5
ROA	1.07	0.98	1.2	1.1	1.0
ROE	15.4	13.5	14.2	10.21	11.8

Source: Bank Al-Maghrib.

# OFFSHORE BANKS

There are 6 offshore banks in Morocco holding total assets of MAD 35.4 billion in 2012, which represents 3.64% of other banks' assets. This is the first year of contraction, after consistent rise in assets in recent years, from MAD 21.8 billion in 2008 to MAD 36.5 billion in 2011. This trend is mainly caused by the fall of loans due from customers which decreased to MAD 16.7 billion in 2012 from MAD 20.3 billion in 2011. Despite the dip in their activities, offshore banks earned a cumulative net profit of MAD 0.2 billion which is a 33% improvement relative to 2011. This trend is attributed to the good performance of their net banking income (NBI) which increased by 15% to reach MAD 0.27 million.

<b>Offshore banks assets</b>					
<b>AMOUNTS IN MILLIONS MAD</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Claims on Credit Institutions and Similar</b>	7812	11,663	12,934	14,794	16,892
<b>Claims on Clients</b>	11,083	14,635	15,505	20,318	16,670
<b>Securities Portfolio</b>	2,751	2,130	3,769	1,115	1,560
<b>Other Assets</b>	176	124	142	306	236
<b>TOTAL</b>	21,822	28,552	32,350	36,533	35,358

Source: Bank Al-Maghrib.

<b>Offshore banks liabilities</b>					
<b>AMOUNTS IN MILLIONS MAD</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Liabilities towards Credit Institutions and similar</b>	18,934	26,341	29,665	33,618	32,069
<b>Deposits</b>	2,372	1,659	2,093	2,096	2,433
<b>Own Funds</b>	277	322	364	399	450
<b>Other Liabilities</b>	239	230	228	420	406
<b>TOTAL</b>	21,822	28,552	32,350	36,533	35,358

Source: Bank Al-Maghrib.



## Extract from interview with the Ministry of Finance

### **Will takaful be on the basis of interest-free loans, the qard al-hasan?**

No, but that was the definition of takaful. If a Takaful Fund is allocated, the company mapping out the fund should provide special means, [or] 'loan' for the Fund, or a good 'interest free' loan, as the interest free loans can be returned if there is a surplus.

### **Does this situation pertain to the case of a Fund deficit?**

Yes, especially in the early years. As mentioned earlier, the current draft law is at the Government Secretariat before being presented to the Council of Government and the Council of Representatives (parliament). The law is holistic and general. Also, [the draft law] was published on the website of the General Secretariat of the Government (SGG) for a one-month period [that] ended October 4, 2012.

There are some definitions and principles on which Islamic finance is built; principles that are agreed upon by Islamic countries and that we have adopted. There is the concept of donation (tabarru). There is a mandatory adherence for the legal provisions, whether in insurance contract or others, and there is also the Sharia Board, which is a topic that has a special case in Morocco.

The Supreme Council of Scholars is the only authority that can issue sharia rulings (fatawa); so in the draft law, we provided for a committee or body affiliated to this Council that specialises in economic affairs, including banks and insurance companies. There is the principle of qard al-hasan provided for in case of Takaful Fund deficit and also if the funds do not have enough to cover risks, the managing authority must pay funds without interest to be returned from the interests that will be made in the future.

### **Are there any takaful companies which [have] filed applications for licenses to operate in Morocco? Are there any foreign companies?**

Not yet, because there is no law as yet. But there are companies in the Moroccan market that have shown interest. Officially, no company has applied yet because there is no legal framework, and if a company files an application, we will consider its application. However,

there is a foreign company that has its eye on the Moroccan market. There is an interest from home and abroad. There are many large-sized companies that have looked closely at the Moroccan market and taken interest in it.

### **Can foreign companies establish takaful or does the law not address this?**

It is not a problem for foreign companies to establish takaful here. There is no problem as the sector is privatised and the proof of this is that all insurance companies operating in Morocco are private except the re-insurance companies, which are few. There are companies with foreign capital in Morocco, [such as] AXA and other companies and there is no problem legally, but the authorities decide on the license and there are standard tests, taking the public interest into account, as the capital could be undesirable.

### **Do you expect that takaful companies can compete with large companies?**

We have identified the areas which takaful companies can operate in. Now, the issue is that we are at the very earliest stage and we put it, in the beginning, within the framework of family takaful in order to maintain market balance and stability. For example, if we permit car insurance, issues may arise in the market, and the traditional businesses may lose their portfolios which can all go to takaful. Before we open the door to takaful, we will assess the market. The other reason is that there is the banking network that is allowed to sell products for individual insurance that can contribute significantly to this field, and it is not allowed to sell liability products.

### **Do you think the takaful sector will increase overall insurance penetration in Morocco?**

It is necessary. We do not have a thorough or detailed study, but there are large sums of money that neither go to the insurance nor the banking market. There are people who channel large sums of money outside the banking framework. There are people who have started to buy gold and others who trade in real estate or other assets.

### **About mutual funds, are there any laws and regulations that define the work of mutual funds compliant with sharia?**

We addressed them in the draft law as investments must be in agreement with the provisions

of sharia...these products must be made available. There is currently a law on sukuk instruments and, in the market, there should be sharia-compliant products. It is a matter of principles, as in the extreme case we can invest in usurious products, but we cannot channel the usurious proceeds into the system. But it is suggested that those benefits are directed to charitable purposes and be taken out from the funds in which money is invested. There are several solutions pending the development of market and availability of products; and there are temporary solutions.

**Is there a plan to invest part of the Social Welfare Fund money in these funds?**

Social Security is currently the pension funds, which are not included in the draft law on takaful. As for retirement [funds], it has legal provisions of its own, which are currently all the products available in the Moroccan market which can be invested with regard to the existing retirement systems: they can be invested in the stock market, invested in state bonds, or in real estate. These have their own provisions that determine the fields in which investment can be made; these do not pertain to the law we are talking about. They have their own regulations, and we have a department competent in this area.

To go back to the issue of definitions of the principles that we have adopted in relation to the internal control, the draft law made it incumbent on the internal control to ensure takaful is sharia-compliant. There is also transparency, as the contract must refer to a number of issues, including the commissions on which the company operates whether it is on *mudaraba* or *wakala*. The contract should show these things clearly. There is also the method of distribution of premium surplus, which is conducted in a transparent way, and the law prevents the company from receiving any surplus amount as the surplus are allocated only to subscribers. This is made clear in the provisions and contracts.

**What is your vision for the next five years vis-à-vis takaful in Morocco?**

There is demand from the [market] players in the sector. The department has learnt that there are companies ready [to provide takaful] as soon as the law is passed. Undoubtedly there will be applications that we will receive. With regard to such companies, they are for-profit companies

and so cannot put any money unless it is guaranteed. There are also applications from Muslim, Arab and sister countries. We also take into account these applications.

We are aware that the demand exists, and there are Moroccans who are uncomfortable using current banks and existing insurance companies. This system will attract the money that is outside the system, because if the problem is out of control, it will be difficult to direct, but if it is in this context, it can be directed to development. There are other indicators, namely the establishment of a number of associations specialising in Islamic finance, and during the last 4 to 5 years there has been a large number of workshops and training courses related to this field. There is great interest in this field.

**In the sectors not covered by traditional insurance such as agricultural insurance, can takaful be more effective?**

The agricultural insurance is part of a cooperative framework; it is very close to takaful. Agricultural insurance is confined to the cooperative sector, which can be transformed so as to conform with sharia.

**What are your expectations for market share of takaful within the larger insurance sector, for the next five years?**

It is difficult to give numbers, but the beginning is always difficult. As we said, it depends on the products that will be introduced. Family insurance currently accounts for one third of total insurance. We are optimistic, and the first years will be an important and positive indicator.

# FINANCING COMPANIES

There are 36 financing companies in Morocco, dominated by Consumer Credit Finance Companies (18) and Financial Leasing Companies (6).

Total assets of the non-bank financial sector grew by 8.5% in 2012 to reach MAD 98 billion. This is a higher growth than the 6.7% and the 4% in 2011 and 2010 respectively. Their NPL decreased slightly to 9.7% of total assets from 9.8% in 2011 and were covered at 78%, marginally lower than the 79% of 2011.

The increase in total assets is largely attributed to asset management companies, financing companies and factoring companies which increased the share of 12 other financing companies to 10% of the total financing companies' assets relative to the 6% in 2011. Net profit increased to MAD 1.5 billion and the ROE continued its positive trend after declining during the period 2008-2010.

## Evolution of the number of financing companies

	2008	2009	2010	2011	2012
Consumer Credit Finance Companies	20	19	19	18	18
Financial Leasing Companies	7	6	6	6	6
Real Estate Credit finance companies	2	2	2	2	2
Guarantee companies	2	2	2	2	2
Factoring companies	2	2	2	2	2
Payment Modes Management Companies	3	3	2	2	3
Other companies	1	2	3	3	3
<b>TOTAL</b>	<b>37</b>	<b>36</b>	<b>36</b>	<b>35</b>	<b>36</b>

Source: Bank Al-Maghrib.

## Offshore banks liabilities

%	2008	2009	2010	2011	2012
Consumer Credit Finance Companies	51	51	48	48	47
Financial Leasing Companies	43	44	46	46	43
Other Financing Companies	6	5	6	6	10
<b>TOTAL</b>					<b>100%</b>

Source: Bank Al-Maghrib.

**Ratios related to operations and profitability**

<b>AMOUNTS IN BILLIONS MAD</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Total Assets</b>	74.3	81.2	84.6	90.3	98
<b>Net Banking Income</b>	4.1	4.4	4.6	4.9	5
<b>Gross Operating Income</b>	2.6	2.8	2.9	3.1	3.2
<b>Net Profit</b>	1.5	1.3	1.1	1.3	1.5
<b>NPL</b>	9.1%	9.5%	10.1%	9.8%	9.7%
<b>ROA</b>	1.9%	1.6%	1.4%	1.5%	1.5%
<b>ROE</b>	22.4%	18.4%	14.0%	16.4%	16.8%

Source: Bank Al-Maghrib.

**Development of selected items from the management balance statements of Financial Leasing Companies**

<b>MILLIONS OF DIRHAMS</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>+ Interest income and similar products</b>	13.1	3.6	7.8	10.2	1.7
<b>- Interest expenses and similar fees</b>	1,116.0	1,398.3	1,549.2	1,635.6	1,750.1
<b>Net Interest Income</b>	-1,102.9	-1,394.7	-1,541.4	-1,625.4	-1,748.5
<b>Net position on leasing and rent operations</b>	2,051.1	2,336.4	2,521.4	2,716.7	2,847.3
<b>Income from commissions</b>	-9.1	-5.6	-5.2	-4.5	-5.7
<b>Net banking income</b>	938.2	935.4	974.2	1,087.3	1,095.7
<b>- General operating expenses</b>	249.6	267.4	271.1	277.9	294.2
<b>Gross Operating Income</b>	688.4	671.8	702.8	808.6	803.1
<b>Allowance net of write-off of provisions</b>	-49.4	-104.4	-125.4	-194.4	-321.0
<b>Current Result</b>	639.0	567.4	577.4	614.2	482.1
<b>Non-Current Result</b>	10.2	18.5	-5.4	2.8	-5.8
<b>- Taxes</b>	232.1	221.4	210.5	234.0	186.2
<b>Net Profit</b>	417.1	364.6	361.4	383.0	290.0

Source: Bank Al-Maghrib.



The insurance sector in Morocco counts 17 insurance companies, including 2 mutual insurance companies and one reinsurance company.

## Regulator

The Ministry of Economy and Finance regulates and controls the sector through its Department of Insurance and Social Welfare. The sector has benefited from recent regulatory reforms, including the revisions for Law No. 17-99 which covers the Insurance Code, supplemented by Law No. 39-05 which improved the rights of insurers and beneficiaries of insurance contracts.

## Vision 2014

The Moroccan Federation for Insurance and Reinsurance Companies has set a 2014 vision to cover 90% of Morocco's population. The sector has a high penetration of 2.8% (2nd highest in Africa/ 3rd in Arab countries).

## Premiums growth

With favourable demographics supported by a diversified economy, premiums in 2012 grew by 8.9% reaching MAD 26 billion (US\$ 3.19 billion), a growth rate slightly lower than the 9.2% growth registered in 2011. Non-Life insurance accounted for MAD 17.2 billion (US\$ 2.1 billion) about two-thirds of the premiums in 2012. Half of this came from the motor coverage segment (MAD 8 billion – US\$ 0.98 billion). Life insurance premiums grew by 14.5% in 2012 reaching MAD 8.78 billion (US\$ 1.07 billion) and were constituted in majority by individual contracts rather than group policies.

## TAKAFUL

Given that there are no takaful institutions, the passing of the takaful law will create strong opportunities and help the sector achieve its objective to cover 90% of the population. Indeed, much of the self-employed and low-income individuals especially in the remote areas have no cover and would be attracted by sharia-compliant insurance contracts.



*Man riding donkey in Morocco.*

## The total capital raised through Casablanca Stock Exchange in 2012 was nearly MAD 8.4 billion.

The lion's share of the total capital of MAD 8.4 billion (US\$ 1.03 billion) raised in 2012 came from increases in share capital by 7 listed companies which amounted to equity issued of MAD 7.4 billion. In addition, 6 companies issued bonds listed on the Exchange totaling MAD 0.9 billion for all issued listed bonds. Trading volume in 2012 reached MAD 49.7 billion (central market and block market), which was a decrease of 17% compared to 2011. 85% of the trade volume was related to equities transactions whereas 15% was for bonds transactions.

### Capitalisation

The capitalisation of the Casablanca Stock Exchange (CSE) to GDP experienced a tremendous development during the 2000s, growing from 29% in 2000 to 76% in 2010 with a peak of 100% in 2007 before decreasing to reach 55% in 2012 due to the slowdown of economic activity.

### Revenue

CSE's revenue fell by nearly 14% compared to 2011 to reach MAD 94 million in 2012; its net income was MAD 9 million registering a decline of 71% in 2012 compared to 2011 mainly due to the decline in trading volume.

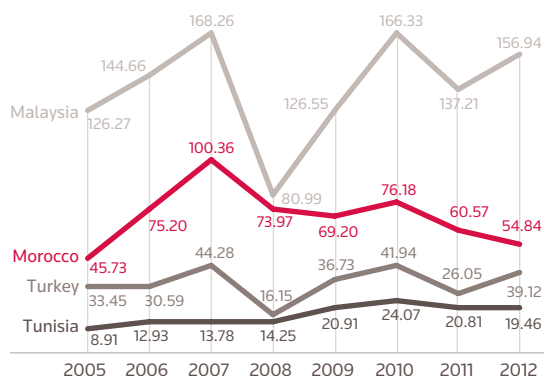
### Operating Expenses

Increased steeply mainly due to the contribution to the Casablanca Finance City project.

### Number of listed companies

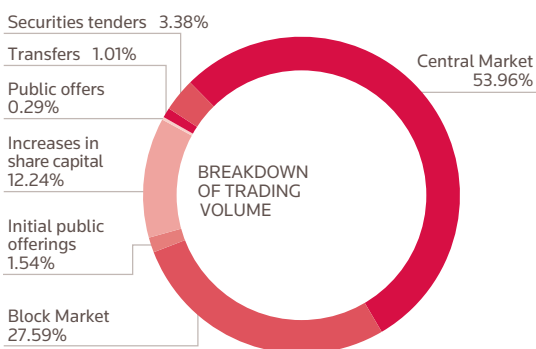
Increased from 53 in 2000 to 76 in 2012. The Moroccan stock market was relatively more resilient in the face of the financial crisis relative to Malaysia's and Turkey's. However, its continuous decline will ensure it is some years away from reaching its pre-crisis capitalisation level.

Market Capitalisation (%GDP)



Source: World Bank data.

Breakdown of Trading Volume by Transaction Type



Source: Annual Report 2012, Casablanca Stock Exchange.

# DRAWING TOGETHER THE PATH FOR SUCCESS





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*Inside*

## ISLAMIC FINANCE DEMAND & POTENTIAL

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# ISLAMIC FINANCE DEMAND & POTENTIAL

## SWOT Analysis

### S

#### STRENGTHS

1. Government support for the development of Islamic finance and its willingness to issue its first sovereign sukuk.
2. A population which is highly interested in Islamic financial services.
3. Morocco aims to be a regional financial hub through Casablanca Finance City, a unique opportunity to attract Islamic finance players.
4. The presence of conventional Moroccan banks in sub-Saharan Africa will enable future Islamic banking subsidiaries to gain economies of scale.
5. Current advances in the legal framework of the Islamic financial system (ongoing — draft banking law introducing the participatory banks, sukuk law, takaful law) are likely to be pursued by more specific and detailed application circulars.
6. Creation of a Central Sharia Board.
7. Morocco has a deeply rooted culture of awqaf.
8. Microfinance services are developed in Morocco.
9. Many associations are active in the field of Islamic finance and economics.

### W

#### WEAKNESS

1. Lack of awareness of Islamic finance products and services amongst the public.
2. Lack of specialised human capital.
3. Alternative products were not attractive in the past and the population was suspicious about their Islamic authenticity and compliance to sharia.
4. Fiscal neutrality is still not completely resolved except for murabaha products.

### O

#### OPPORTUNITIES

1. The three largest banks are interested in offering Islamic financial products and services.
2. More than 90% of the population expressed interest in Islamic financial products, according to the IFAAS survey.
3. With 42% of its population between 25 and 54 years old, Morocco could gain remarkable progress in promoting family takaful<sup>30</sup>.
4. Good political and economic relationship with GCC countries would encourage inflows and direct investment into Islamic financial institutions and related sharia-compliant sectors.
5. The richness of awqaf and their coupling with microfinance institutions will enable the rapid development of the Islamic microfinance industry.
6. The stock exchange of Morocco is ready for the listing of sovereign and corporate sukuk with the possibility of listing foreign companies' sukuk.
7. Many universities have recently launched diploma, masters and PhD programmes in Islamic finance and economics.
8. Existing programmes for the promotion of SMEs (e.g. Emtyaz are endowed with the flexibility to receive line of financing in the form of mudaraba or musharaka).

### T

#### THREATS

1. Delays in enacting the new laws and the issuance of detailed application circulars will trigger uncertainty and possible lack of confidence towards direction of the development of the Islamic financial services ecosystem.
2. A market structure which does not favour competition between the suppliers of Islamic financial services will dampen the demand from the population and may have a chronic effect.
3. Huge expectations on the benefits of the development of the Islamic financial services industry could turn to disappointment rapidly if the services are offered in the absence of a well-designed ecosystem.

30 Islamic Finance News, May 2012.



# IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES



*Fes, Morocco — May 1, 2013: Unidentified man in the entrance of the University of al-Karaouine. It is the oldest continually operating university in the world. The old medina of Fes is declared UNESCO World Heritage Site.*



This quantitative survey undertaken by IFAAS (Islamic Finance Advisory & Assurance Services) is the first-ever independent market research conducted in Morocco pertaining to Islamic finance. The survey performed on a representative sample of the Moroccan population across the major regions of the Kingdom meticulously evaluates the demand for Islamic retail banking, finance and insurance. The findings of the survey underpinned with a scientific research methodology, provide a detailed insight to Moroccan consumer behaviour and attitudes towards Islamic finance. IFAAS, the leading international Shariah advisory firm has undertaken similar groundbreaking surveys in several other countries, setting industry benchmarks for emerging Islamic finance markets.



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# ISLAMIC FINANCE MARKET POTENTIAL/DEMAND

The Morocco 2014 Islamic Finance Country Report uses a national retail financial services usage and perception survey to gain an authentic pulse of the market. The survey was conducted by the Islamic Finance Advisory and Assurance Services (IFAAS) in June 2012.

The study assessed the demand for Islamic financial products in the Moroccan retail market. It analyses the current behaviour of Moroccan consumers vis-à-vis banking and insurance products, and measures their receptiveness, understanding and expectations towards sharia-compliant financial products including banking and insurance.

The survey was conducted using a quantitative research method through a structured questionnaire conducted face-to-face, in random street interviews. The target sample was composed of men and women aged 18 to 55, from a variety of socio-economic categories, living in urban and rural areas and consisted of both banked and unbanked groups of the population.

The study was conducted in the cities and surrounding rural municipalities of Casablanca, Rabat, Marrakech, Agadir, Fez, Tangier and Oujda. The study was conducted on a weighted sample size of 813 individuals, reflecting a true picture of the Moroccan consumer market.

The interviews were conducted by trained independent researchers from March 19 to 29, 2012. No incentives were given to the respondents. There has not been any event to significantly change the results of the survey, and we feel our findings are a true reflection of perceptions in Morocco today.

The survey methodology and respondent profiles are detailed in the Appendix.



Fez, Morocco- April 1, 2012: A worker prepares animal hides to be dyed in traditional Moroccan tannery.



# KEY THEMES FROM RETAIL SURVEY RESULTS AND BEST PRACTICE CONSIDERATIONS

The survey provides us with the following major insights into Moroccan retail consumers, their interests and preferences for Islamic finance and insurance products:

## **1. Under-penetration of banking and insurance products among retail consumers**

Increasing banking and insurance penetration will ensure the growth of the banking and insurance sector will outpace GDP growth.

## **2. General awareness and recognition that riba (interest) is prohibited**

Current perceptions about riba and conventional banking provide a strong platform for Islamic finance institutions to leverage. However, addressing consumers' needs to understand Islamic finance will be key to driving demand.

## **3. Significant interest in Islamic finance products and services**

There is overwhelming interest in Islamic finance from retail consumers. Islamic institutions will need to address consumer concerns to be able to convert interest into banking relationships.

## **4. Strong demand for retail Islamic financing products**

Most respondents expressed an interest in obtaining Islamic financing facilities within 2 years. Retail products like personal, home and auto loans are the most in-demand products.

## **5. Strong demand for Islamic accounts**

Similar to Islamic financing products, there is strong demand for Islamic liability products. Most respondents indicated that they would open Islamic accounts within one year of the launch of these services.

## **6. Limited price sensitivity**

There is a misconception among consumers that Islamic finance products will be cheaper than conventional products. Despite this, 43% indicated that they would still be interested in Islamic finance, even if it was more expensive.

## **7. Sharia-compliance the most important consideration when choosing an Islamic bank**

Although sharia-compliance was highlighted as the most important consideration, few consumers understand Islamic finance. Institutions will need to address knowledge and awareness if the industry is to realize its growth potential.

## **8. Clear preference for Moroccan stand-alone Islamic financial institutions**

Consumers have expressed a clear preference towards banking with stand-alone Moroccan Islamic banks. This is a key challenge that conventional and foreign institutions will need to address.



## 1. Banking and insurance penetration levels are low

There is significant under-penetration of banking and insurance products among surveyed retail consumers in Morocco: 54% do not use banks or financing companies (cf. to national situation – World Bank 2011 Financial Inclusion data reports 39% of adults aged 15+ have an account with a formal financial institution, 4% have taken out a loan from a financial institution in the past year, and 12% saved at a financial institution in the past year) and 67% do not have any insurance policies. The main reason cited by respondents for not being part of the banking system was due to low or irregular income (82%). Those that were part of the banking system primarily had a single banking relationship (85%) and predominantly used current accounts (77%). In terms of insurance, most respondents (75%) said they did not have insurance because they did not need it.

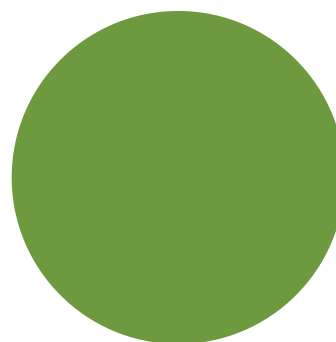
Going forward, as the Moroccan economy continues to grow, banking penetration among

retail consumers will increase, as will their sophistication. They will start to use an increasing number of products and services, and will start to establish multiple banking relationships. This increase in penetration will drive the growth of the banking sector, which would be expected to grow faster than GDP. This growth will ensure increasing demand for both conventional and Islamic banks.

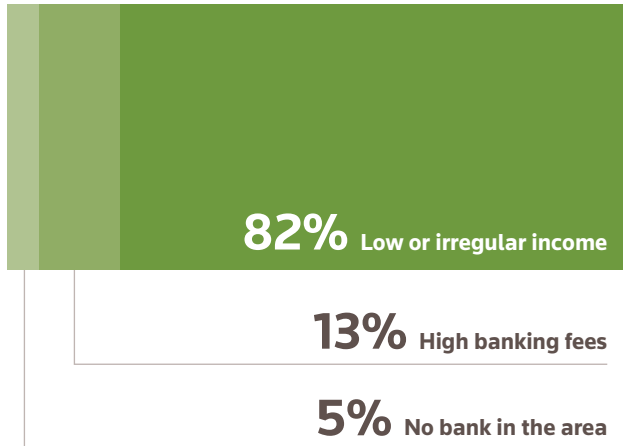
With regards to insurance, although there will be a natural increase in insurance penetration, insurance companies will need to increase awareness of products and services among retail consumers who currently do not feel they require these products. As in many other developing markets, increasing awareness is vital to increasing insurance penetration, particularly for the retail segment.

**54%** of respondents said they **DO NOT** use banks or financing companies in Morocco.

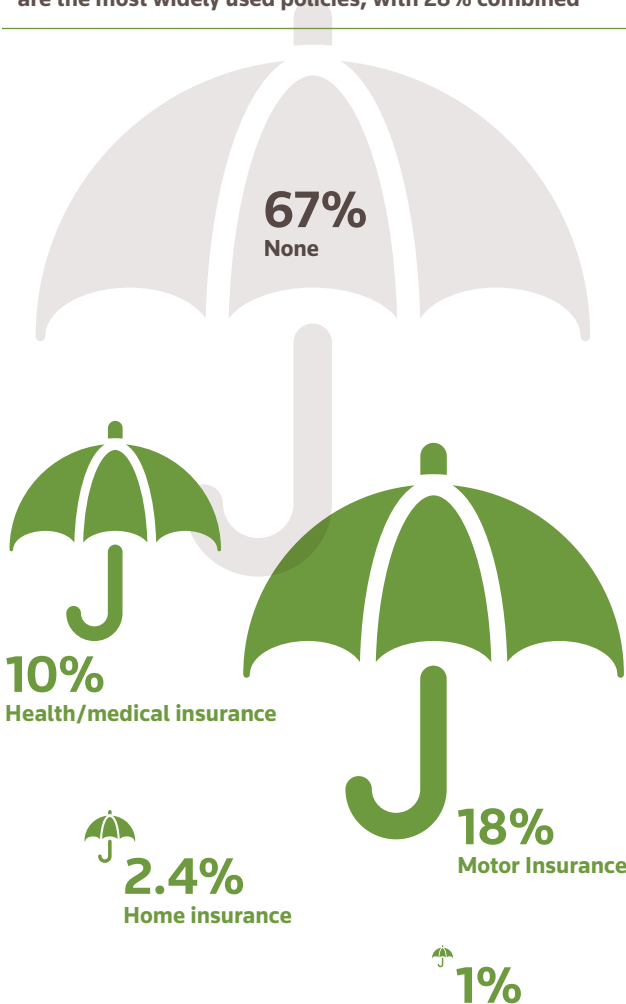
Of those that are part of the banking system, **77%** use current accounts, **16%** have savings accounts, and only **7%** use loans.



**82%** of respondents quoted low or irregular income as the reason they are not part of the banking system.

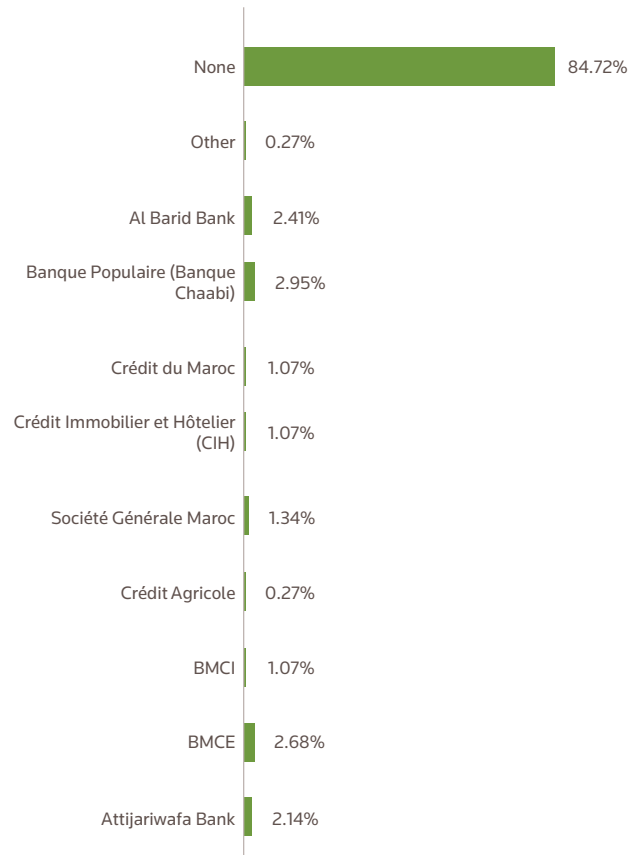


Insurance penetration is even lower than banking penetration, with over 67% of respondents saying they do not have any insurance policy. Motor and health insurance are the most widely used policies, with 28% combined



Of the respondents that are part of the banking system 85% stated that they only have a single banking relationship.

QUESTION: In addition to your main bank, what other banks do you deal with? (Multiple answers possible)

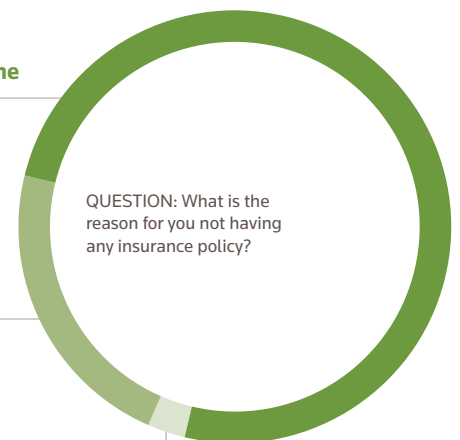


**75%** of respondents felt they do not require insurance policies, with only 3% considering

**75%**  
I don't need one

**22%**  
Other

**3%**  
Due to religious reasons  
(I think insurance is Haram)



## 2. Recognition that Interest is haram

There is general awareness and recognition among retail consumers (85%) that conventional banking products are not sharia-compliant. Most respondents recognise that interest in the banking sector constitutes riba (76%) and that it is prohibited under all circumstances. Furthermore, most consumers are troubled by their need to engage with conventional banking (64%).

This provides a strong basis for the demand for sharia-compliant products and services, provided that Islamic financial institutions are able to

articulate the Islamic finance proposition and how it is different from conventional finance.

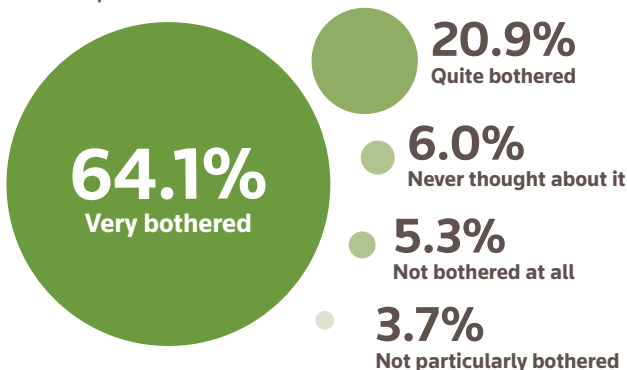
Based on our experience in other markets, a lack of information among retail consumers can be dangerous, as it can lead neutral consumers to be opposed to Islamic finance, as they are unable to distinguish between Islamic and conventional products. Multi-platform awareness campaigns, using various media, are essential to increasing knowledge about the Islamic finance value proposition.

**85%** of respondents are unsure whether their banks offer sharia-compliant products and services.



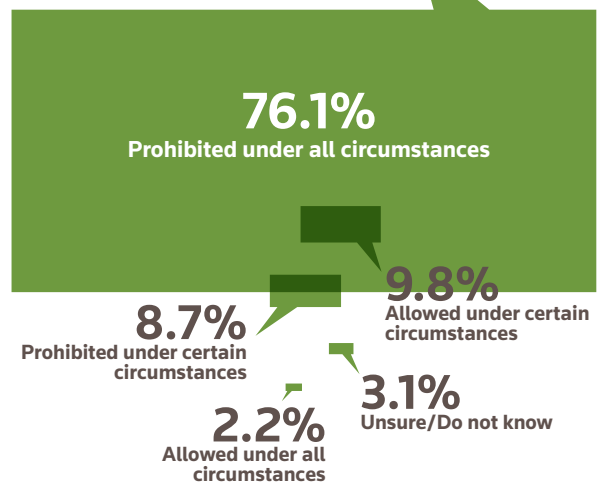
**85%** of respondents said they were either very bothered or quite bothered using their current banking services, given the prohibition of interest in Islam.

QUESTION: In using your current banking services, how do you feel about the prohibition of interest in Islam?

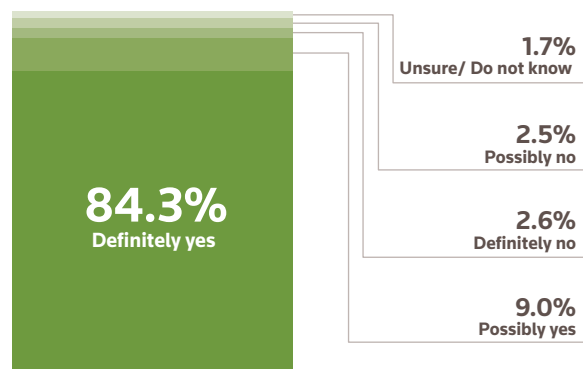


Over 76% of respondents recognize that interest is prohibited in Islam under all circumstances. In addition, over 84% of respondents recognise that interest and other charges paid or charged by banks and finance companies in Morocco is riba.

QUESTION: In your opinion, in Islam, interest is:



QUESTION: Do you think the interest currently paid/charged by the banks/finance companies in Morocco is Riba?



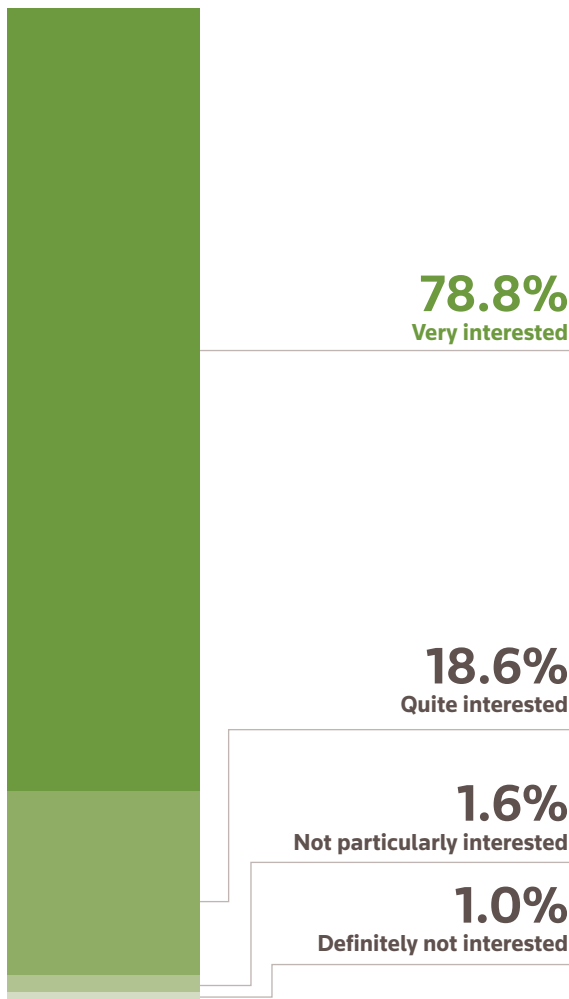
### 3. Significant interest in Islamic finance

There is significant interest in Islamic finance among retail consumers in Morocco, with 98% of respondents expressing interest in Islamic banking services. However, although 30% said they would switch their banking relationships from conventional to Islamic, a sizable proportion said that they would wait and see before making the switch.

This shows that, although there is a lot of interest in Islamic finance, consumers are not

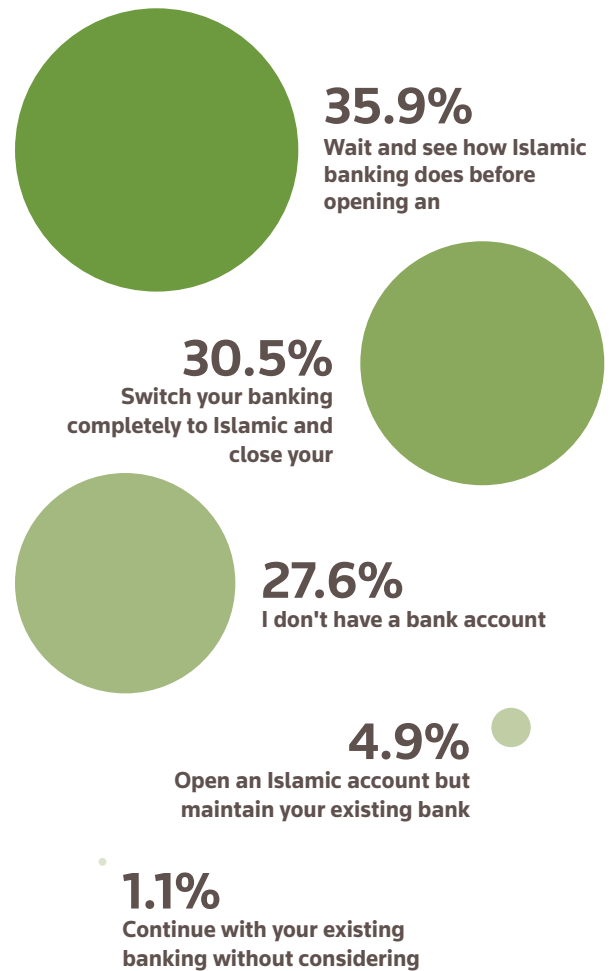
going to be simply driven by the name alone. There are a lot of other considerations (which we cover throughout this section) that will influence consumer demand and the emphasis is on Islamic banks to ensure that they address the needs of consumers. Otherwise, despite the high interest, Islamic banks will not be able to convert these consumers to banking customers.

**98%** of respondents have expressed an interest in Islamic banking products, once they become available in Morocco.



**30%** of respondents said they would only maintain banking relationships with Islamic banks once the services become available, with 36% saying that they would wait and see.

QUESTION: What will you do when Islamic banking becomes available in Morocco?





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## **Extract from interview with Mohamed Maarouf, Director, Participatory Development Finance, Banque marocaine du commerce extérieur (BMCE)**

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### **Could you give us a brief overview of BMCE's approach for Islamic finance?**

*BMCE is one of the first banks in Morocco; we have been serving the needs of corporates and individuals for over 50 years. The strategy of the bank is also based on innovation; the bank has always offered new products to meet all segments of the Moroccan financial market. In this context, BMCE Bank aspires to be among the pioneers of Islamic finance in Morocco. In this regard, we have conducted studies to find the best way for the bank to operate in this sector. Today, we have a first level partnership for the implementation of a participation bank in Morocco.*

### **Are the institutions with which you have partnerships from outside of Morocco?**

*Yes, they are from outside of Morocco. The partnerships must be established with a banking group specialised in Islamic finance in order to achieve rapid development and optimal performance. With our partner we have a comprehensive vision, which is to create an integrated offer for Islamic finance.*

### **The top three banks in Morocco control over 70% of the market. Will it be hard for Islamic banks to compete in this environment?**

*We think there is a need for Islamic finance, not only in the Islamic countries but the global economy needs the additional added value of Islamic finance. In Morocco the important players of the banking sector will certainly use their expertise and resources to provide Morocco with a successful Islamic finance industry. We believe that participation banks will be complementary to conventional banks.*

### **What is your assessment of the level of public awareness of Islamic finance? A survey last year found nearly 80% of respondents expressing a desire to bank Islamically.**

*We think that it is normal in an Islamic country to find that a majority of respondents desire to*

*bank Islamically, but we will need to build a lot of awareness because very few Moroccans really know the specificities of Islamic finance products.*

### **What is your vision with regard to takaful in Morocco?**

*The insurance companies in Morocco can be ready, but the law has not been enforced. We think that takaful products will be sold through the channels of the banks and that will be the first step in the field of takaful. We do not know what kind of permits will be granted.*

#### 4. A lot of interest in Islamic financing

There is a lot of interest in Islamic financing from retail consumers, with 88% expressing a strong interest, and 87% saying they would take out Islamic financing within 2 years (50% said they would use Islamic financing within 6 months). This demonstrates the demand for Islamic financing.

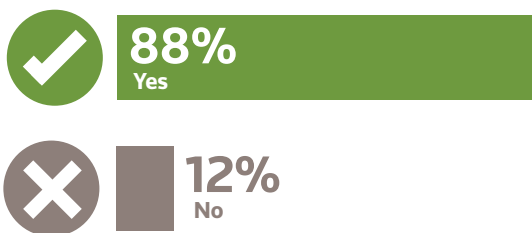
In terms of product preferences, the typical retail banking product proved to be the most

demand, with personal (59%), home (30%) and auto financing (7%) leading the way. Also, in terms of insurance products, motor (44%), home (33%) and health insurance (16%) proved most popular.

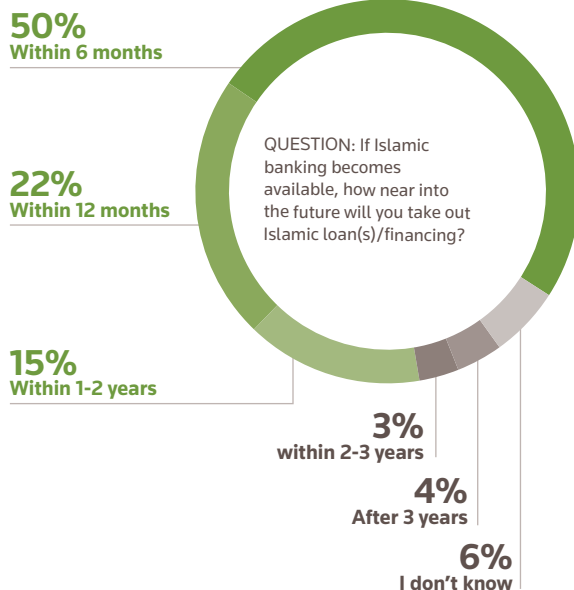
This provides strong guidance to institutions looking to offer Islamic finance or takaful services to retail consumers, with regards to the product strategies to be adopted.

**88%** of respondents expressed an interest in taking out an Islamic financing product, if it was available.

QUESTION: If Islamic banking becomes available in Morocco, would you be interested in taking out Islamic loan(s)/financing

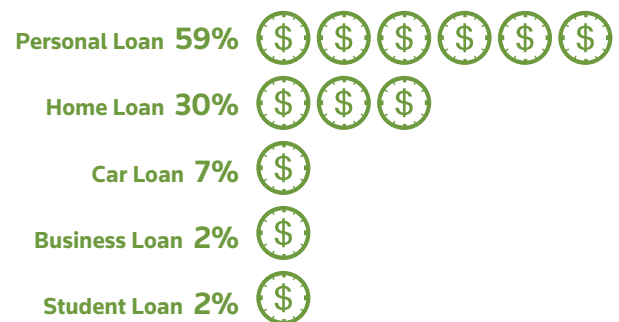


Over 87% of respondents said they would take out an Islamic financing product within 2 years of it being made available.



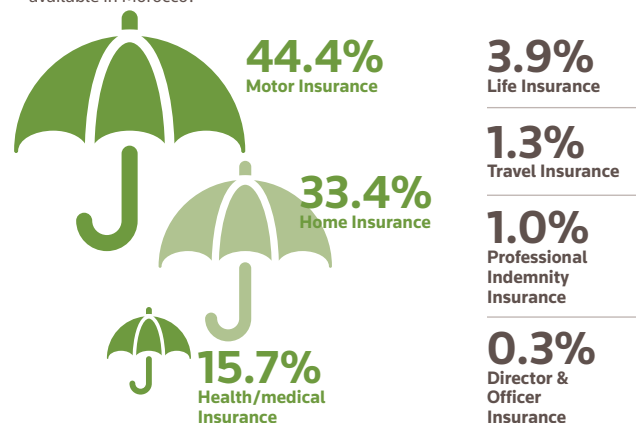
Personal loans and home finance are the most popular products demanded by retail customers, with 59% of our respondents highlighting personal loans and another 30% highlighting home finance.

QUESTION: If they were available in Morocco, which of following Islamic loans/financing would you like to take out?



In addition, motor, home and health insurance are the most popular services in terms of Islamic insurance, being highlighted by 44%, 33% and 16% of respondents respectively.

QUESTION: What Islamic insurance policies would you take if they become available in Morocco?



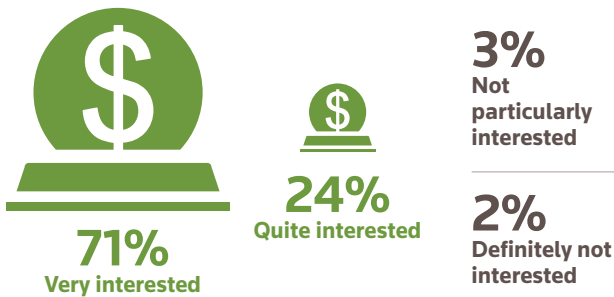
## 5. Significant demand for Islamic liability products

Similar to Islamic financing, there is significant demand for Islamic liability products among retail consumers in Morocco. 95% expressed a positive interest in opening Islamic deposit or savings accounts, with 87% saying they would open an Islamic account within one year (48% in the first 3 months).

Given the demand for Islamic liability products and the fact that current accounts are the most popular banking product among retail consumers in Morocco, Islamic banks should be able to attract significant funds from retail consumers.

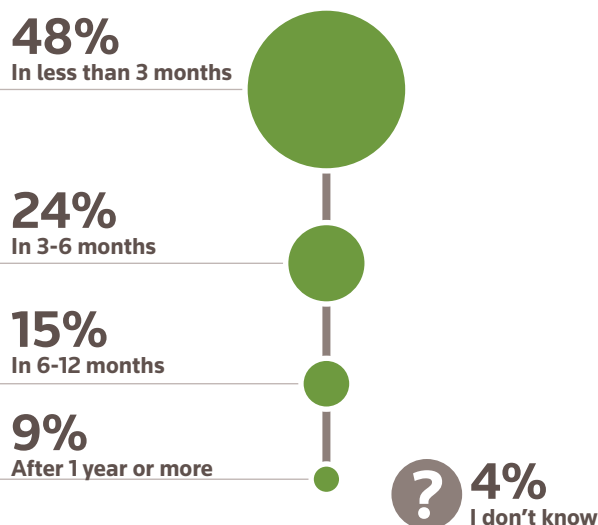
**95%** of respondents expressed an interest in setting up an Islamic deposit or savings account.

QUESTION: To what extent are you interested in Islamic deposit or savings accounts?



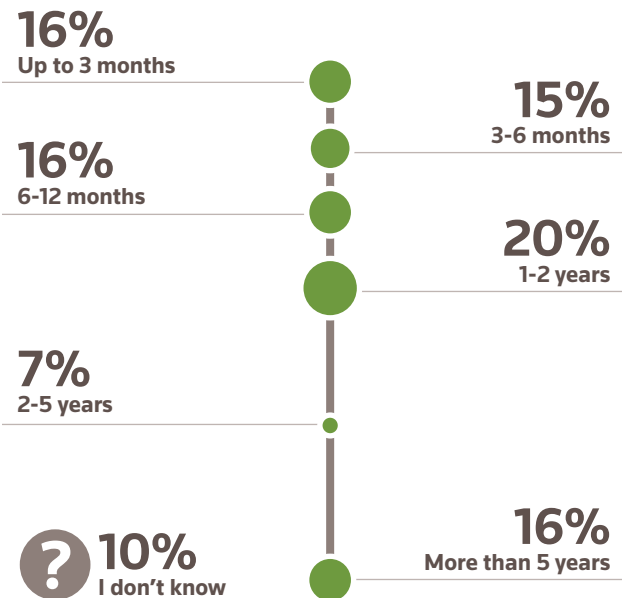
**87%** of respondents said they would open an Islamic account within a year, with 48% in the first 3 months and a further 24% within the first 6 months.

QUESTION: How soon would you be looking at opening Islamic savings account if it becomes available in Morocco?



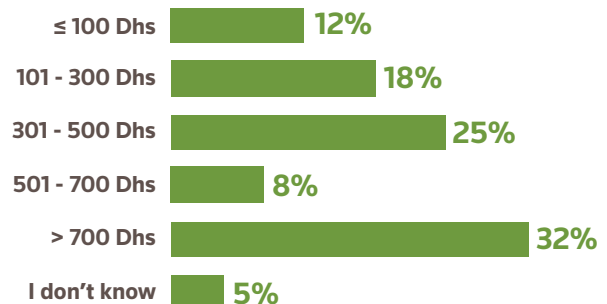
In terms of maturity, all tenors are equally split based on responses from respondents.

QUESTION: How long would you be willing to keep your money in your Islamic savings account?



Personal loans and home finance are the most popular products demanded by retail customers, with 59% of our respondents highlighting personal loans and another 30% highlighting home finance.

QUESTION: If they were available in Morocco, which of following Islamic loans/financing would you like to take out?



*Selection of very colorful Moroccan tajines (traditional casserole dishes).*





## 6. Pricing a key consideration

There is an expectation among retail consumers that Islamic banking and insurance products and services will be cheaper than conventional ones (84%). In most Islamic finance markets, pricing for Islamic products are aligned to conventional products, and are usually more expensive in developing Islamic finance markets. This misconception in Morocco will need to be addressed by Islamic institutions that will need to clearly articulate the reasons for pricing of Islamic products.

In terms of the importance of pricing, 43% of consumers would still be interested in Islamic products, despite higher prices. This is reflective of the nature of consumers in other markets, where there is always a captive market for Islamic finance products, despite pricing. But as the industry becomes more competitive, Islamic institutions will need to compete on price, among other factors, to retain customers.

**84%** of respondents expect Islamic banking and Islamic insurance products to be cheaper than their conventional counterparts.

QUESTION: In terms of pricing, what do you expect from Islamic banking and insurance products?



**84%** They must be **CHEAPER** than traditional banking and insurance products

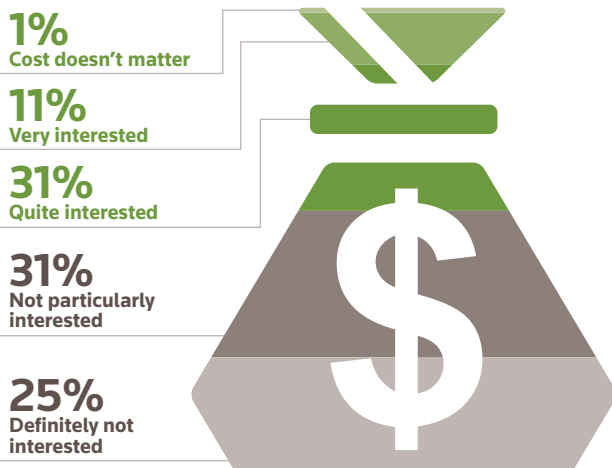
**13%** They should be **THE SAME** price as the traditional banking and insurance products

**2%** They may be **A LITTLE MORE EXPENSIVE** than traditional banking and insurance products

**1%** They will be **MORE EXPENSIVE** than traditional banking and insurance products

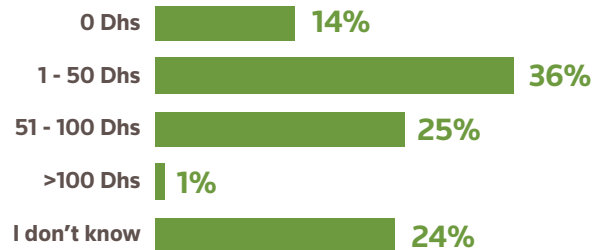
**43%** of respondents would still be interested in Islamic finance, even if it was more expensive compared to conventional finance.

QUESTION: If these Islamic loans/financing happen to be more expensive than interest bearing/traditional loans, how interested would you still be?



**36%** of respondents would be willing to pay an additional 5% in installments for an Islamic financing product, 25% would pay an additional 10% and 24% would be willing to pay over 10%

QUESTION: Assuming that your monthly repayment installment of your existing traditional loan is 1000 Dhs, how much additional money would you be willing to pay per month for an equivalent Islamic loan?



**43%** of respondents would still be interested in Islamic insurance, even if it was more expensive compared to conventional insurance

QUESTION: If Islamic insurance policies happen to be more expensive than traditional insurance, how interested would you still be?

**10%**  
Very interested

**33%**  
Quite interested

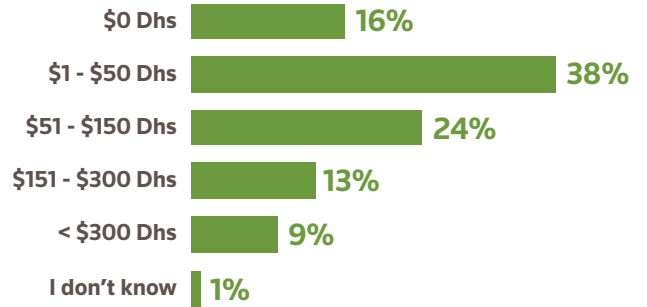
**35%**  
Not particularly interested

**21%**  
Definitely not interested



**38%** of respondents would be willing to pay an additional MAD 50 for Islamic insurance products, 24% would pay up to MAD 150 and 13% would pay up to MAD 300.

QUESTION: If Islamic insurance policies were more expensive, how much additional premium would you be willing to pay on an annual basis?



Modern Casablanca City, Morocco.

## 7. Knowledge and understanding of Islamic finance is key

Sharia-compliance has been highlighted by consumers (40%) as the most important consideration when choosing an Islamic finance or insurance provider. This, coupled with the lack of information on Islamic finance among retail consumers (83% have little to no understanding of Islamic finance), makes it imperative that Islamic finance institutions promote knowledge and awareness of Islamic finance.

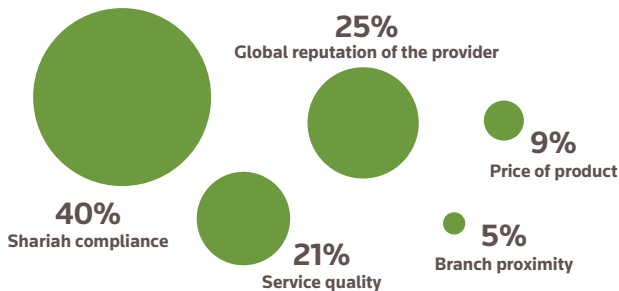
44% of consumers expect Islamic finance institutions to provide evidence on the sharia-compliant nature of their services, with 25% requiring

approval from their local imams. This places the emphasis on Islamic financial institutions to work closely with local scholars to address this issue.

Islamic financial institutions will also need to leverage on the skills of local scholars, as 45% of respondents said they would require products to be attested by Moroccan scholars. This may prove to be challenging, as it would take time for local scholars to develop the required expertise in the Islamic finance space, which could hold back the growth of the industry.

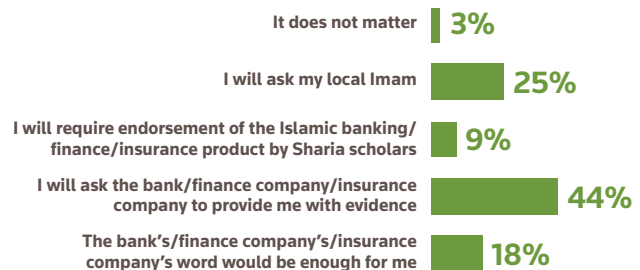
**40%** of respondents said that sharia-compliance was the most important criteria when choosing an Islamic bank, followed by global reputation of the provider.

QUESTION: What is the most important criterion to choose an Islamic banking, finance or insurance provider?



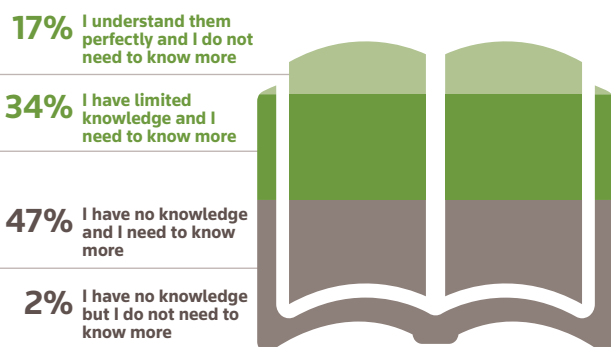
**44%** of respondents said they would expect the Islamic bank to provide them with evidence of the sharia-compliant nature of the business, with 25% requiring approval from their local imams.

QUESTION: How will you determine that your Islamic banking or insurance products & services are really Islamic?

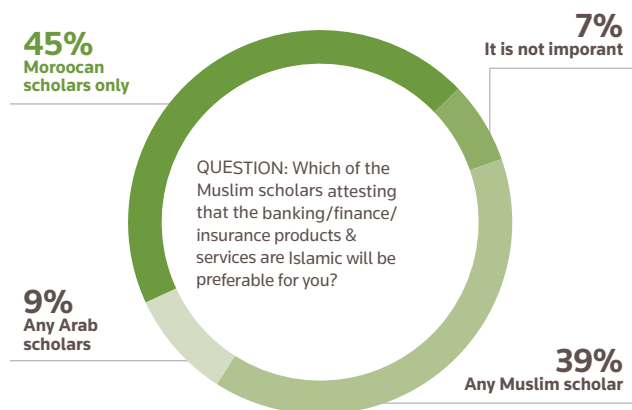


**83%** of respondents said they had little to no knowledge of Islamic finance.

QUESTION: How much do you understand the similarities and differences between Islamic banking and insurance products and traditional banking and insurance products?



**45%** of respondents prefer Islamic finance products to be attested by Moroccan scholars, with 39% happy with any Muslim scholar.



## 8. Standalone banks preferred over Islamic banking windows

In terms of distribution channels, most respondents (79%) expect to bank with standalone Islamic financial institutions, and 51% expect to bank with Moroccan institutions. This can create a challenge for conventional institutions looking to offer Islamic banking products through windows or for foreign institutions looking to operate in Morocco.

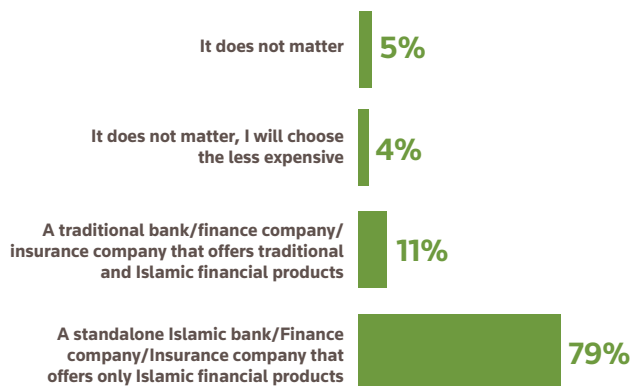
These institutions will need to focus on this particular area in their marketing campaigns. For conventional institutions looking to offer

Islamic products, they will need to highlight how their two businesses are segregated, and how their conventional business does not compromise the sharia-compliant nature of their Islamic finance operations.

For foreign institutions, they will need to demonstrate their commitment and dedication to Morocco, and potentially highlight the expertise of the local senior management team, to put a "local face" to their Moroccan operations.

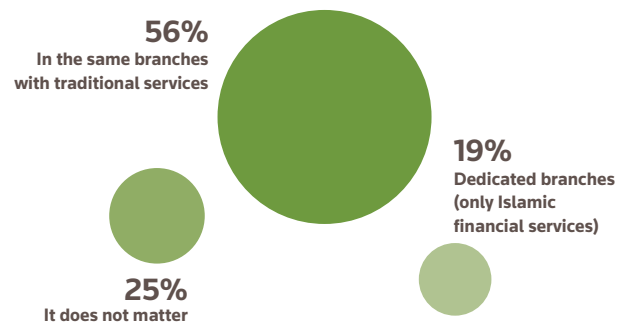
**79%** of respondents expect Islamic finance products to be offered by standalone Islamic banks.

QUESTION: In your opinion, the Islamic banking/finance/insurance services should be provided by



**56%** of respondents said that if products are being offered by conventional institutions, they prefer these services to be provided through conventional branches, with 25% being indifferent, and 19% preferring standalone branches.

QUESTION: Through which of the following channels would you prefer the provision of Islamic financial services in a traditional bank?



**51%** of respondents said their preferred provider of Islamic financial services would be Moroccan institutions.

QUESTION: Who will be your preferred provider institution of Islamic financial services?





IFAAS, since its inception in 2007 has been at the forefront of the dynamic Islamic financial industry. Having grown into a leading provider of a wide range of specialist professional services pertaining to Islamic finance, our offices located in the UK, France and Bahrain are currently serving a variety of over 40 institutional clients and key stakeholders spread in 16 countries across 4 continents. Our principle services include Shariah compliance & audit, product development, market research & feasibility studies, advisory & technical assistance in operational implementation and providing professional Islamic finance training. All services are provided in English, French and Arabic. For more details, visit us at [www.ifaas.com](http://www.ifaas.com) or contact us at:

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**IFAAS**  
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# SME RETAIL SURVEY FINDINGS & INSIGHTS

## SME SURVEY RESULTS

1. Almost all SMEs surveyed do not use Islamic banking
2. SME banking penetration level is low
3. SMEs prioritise pricing, rates and preservation of capital
4. Significant interest in Islamic banking, but not at any cost
5. Knowledge and understanding of Islamic finance is key

The Morocco Islamic Finance Country Report 2014 undertook a survey of Moroccan Small and Medium Enterprises (SMEs) to better detect an authentic pulse of the market. The survey aimed to assess experience and satisfaction with any financial services SMEs use or have used and their perception, understanding and inclination to Islamic financial services. The survey was conducted online and over the phone with a representative target sampling from key geographic areas of Morocco (metropolitan area): Casablanca, Rabat, Marrakech and other cities.

### Sectors

The SMEs that participated in the survey were represented by several economic sectors – 24% retailing, 12% wholesale and distribution, 11% other manufacturing, 10% construction services, 7.3% agriculture and fisheries, 7.3% telecommunication, and 28% other sectors.

### Capital

Just over 60% of SMEs surveyed hold capital of between MAD 1 and MAD 500,000 (approx. US\$ 60,000).

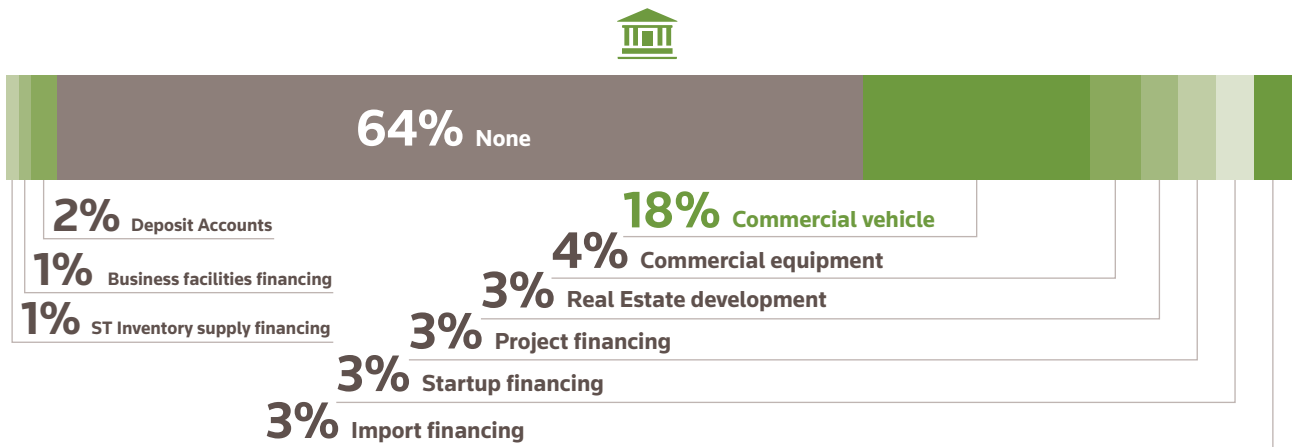
Capitalisation		
CAPITAL IN MAD	%	#
1 - 100,000 annually	29.1%	30
100,001 - 500,000 annually	32.0%	33
500,001 - 1,000,000 annually	19.4%	20
1,000,001 - 5,000,000 annually	7.8%	8
5,000,001 - 10,000,000 annually	1.0%	1
10,000,001 + annually	3.9%	4
Prefer not to answer	6.8%	7

## 1. Almost all SMEs surveyed do not use Islamic banking

Does your business bank with an Islamic Bank?



Which financial services does your business enterprise use today or have used in the last five years?



What financial services do you need or will use in future?





## 2. SME banking penetration level is low

Almost half of SMEs surveyed did not use any type of financial services in the last five years. This can be attributed to banks' risk aversion post 2008 global financial crisis. For those who did use financial services in the last five years, half of them mainly depended on financial institutions for corporate financing needs. 18% of SMEs resorted to financial institutions to finance "commercial vehicles" and 4% financed their "commercial equipment" by resorting to those institutions.

Almost half of respondents said they would not need or use any financial services in the future. However, a quarter said they would need to resort to financial institutions for operational finance needs, e.g. financing inventory supply. This was followed by 23% saying they would need to finance a commercial vehicle with corporate financing. 16.5% said they would need import financing, and 10% would need letters of credit. Investment options — investing cash surplus and M&A — factor towards the very end of SMEs' future needs.



Marrakesh, Morocco — January 21, 2010: Unidentified people shopping in the souk of Marrakesh.

### 3. SMEs prioritise pricing and preservation of capital

Unsurprisingly, a high percentage – 85% – of respondents consider low rates and fees the most important factor when using financial services, followed by a considerable 62% choosing customer services as one of the most important factors. While ease of access to information was the fourth most important factor, financial stability and strength of the financial institution, along with sharia-compliance were of much less importance to the SMEs. This could reflect SMEs’ desperate need for low cost financing, and the perception that sharia-compliant products carry considerably higher costs than conventional ones. Higher rate of return was the least important factor

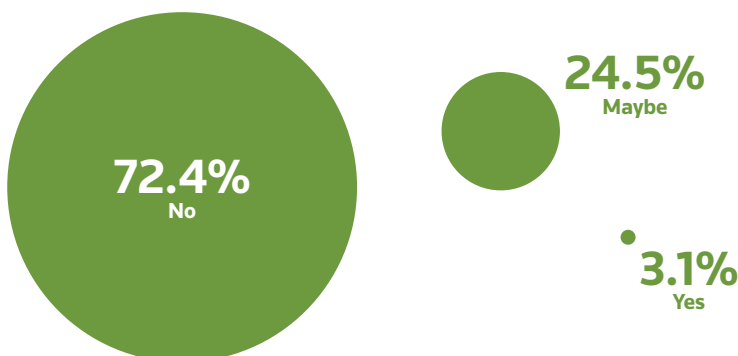
for SMEs, a very clear sign that funds are being used mainly for day-to-day operations.

From those respondents interested in Islamic banking, a significant 72.4% said they would not consider Islamic banking if their capital is not guaranteed. However, almost a quarter said they may still switch to Islamic banks even if capital is not guaranteed, and only 3% said they will switch to Islamic banks even if there is a risk of losing their capital. While it is normal for respondents to say no to losing their capital, this indicates the need for education and awareness of Islamic banking in the kingdom.

#### Overall, which of the following is important to your business when using business financial services?



#### If the Islamic bank says that your capital is not guaranteed, as part of its Sharia compliance, will you still deal with them?



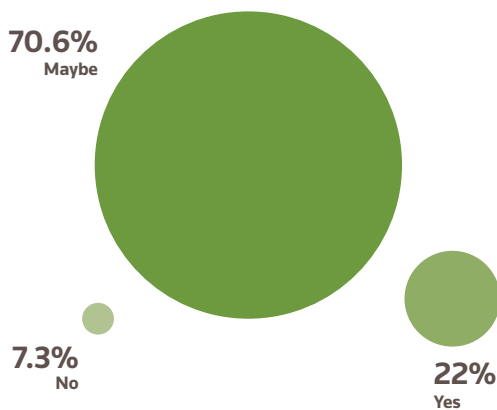
#### 4. Significant interest in Islamic banking, but not at any cost

When asked if there was interest to consider Islamic banking, 'maybe' is the main answer – an overwhelming 71%. Only 22% said yes, and encouragingly for the country's future Islamic finance sector only 7% said no. While a 'yes' represents the real demand for Islamic banking, 'maybe' represents SME interest in Islamic banking if the sector can meet the factors considered earlier, top of which are low rates and fees, good customer service, and good geographical coverage. This presents Islamic bank entrants with a sizable interest in Islamic banking from those currently not using it.

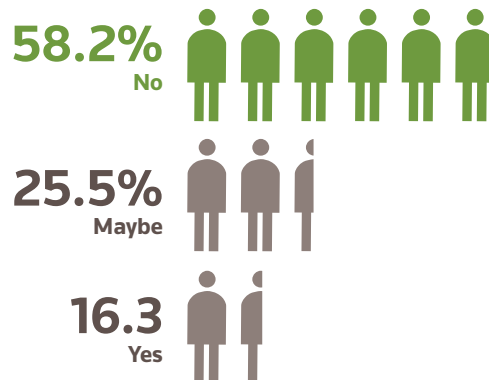
Further, with just over 30% of respondents satisfied or very satisfied with their primary financial services provider Islamic banks have a significant opportunity to win over the more than 60% of respondents who expressed indifference.

Again, as a clear sign of how sensitive SMEs are to the cost of financing, 64% of the respondents said the most important factor for them to consider Islamic banking is competitive rates. However, 12% said they are not interested at all in Islamic banking, and 10% said adhering to Islamic rules is most important.

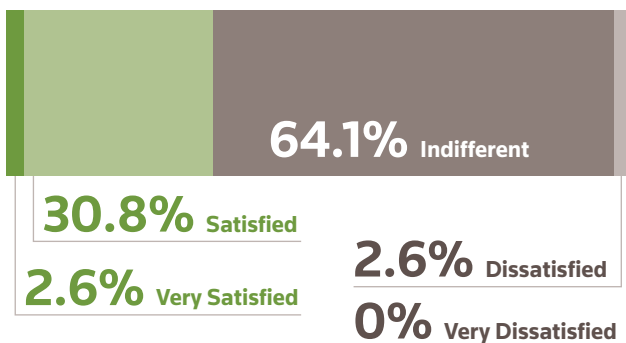
##### Is there interest in your business to consider Islamic Banking?



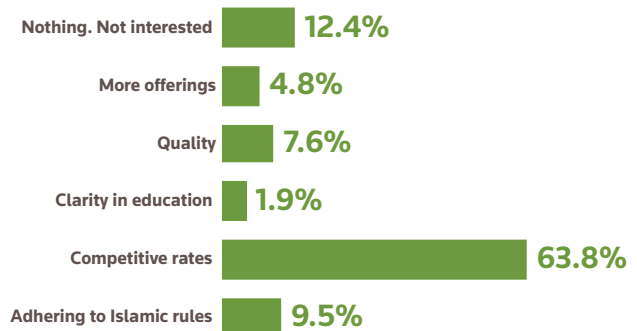
##### Will you switch to an Islamic bank even if the conventional one offers better rate of return?



##### How satisfied are you with your business' primary financial service provider?



##### Please choose the most important factor that would encourage you to deal with Islamic banks?

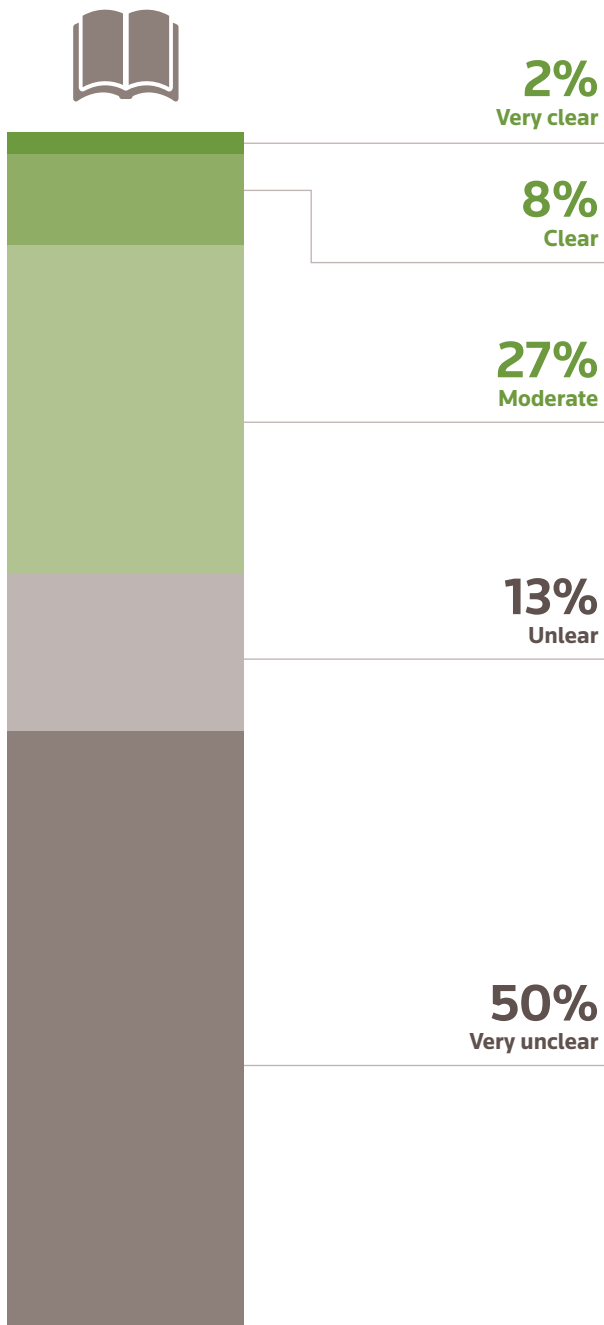


## 5. Knowledge and understanding of Islamic finance is key

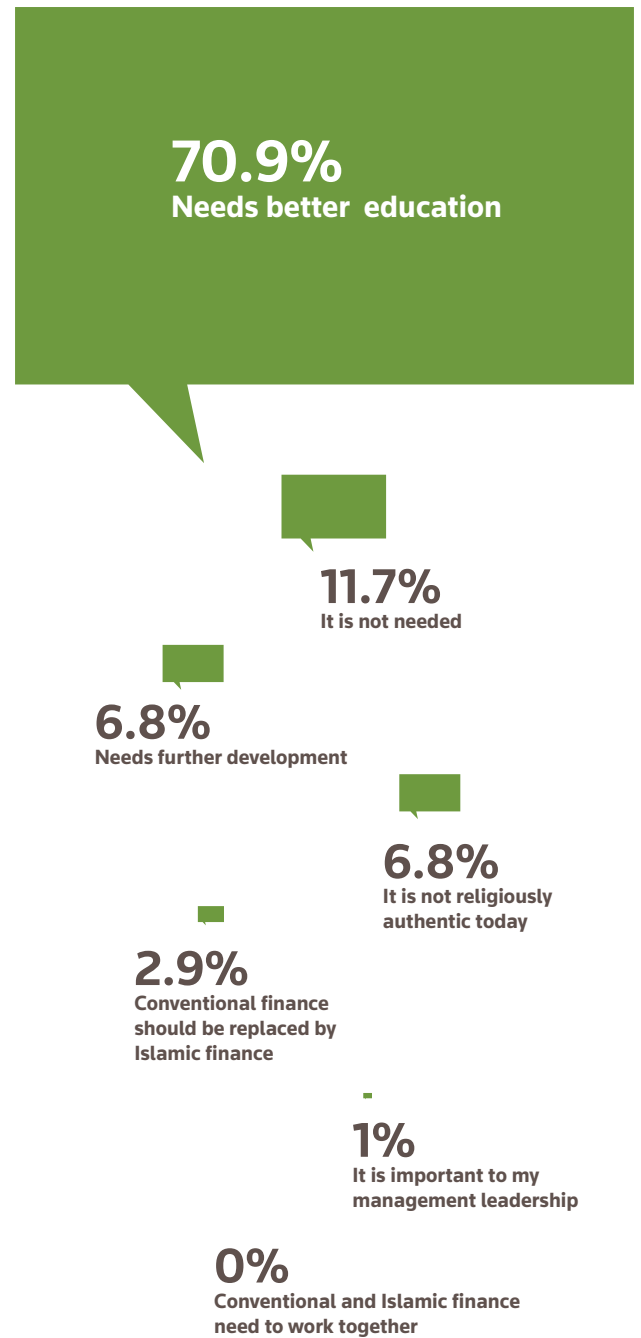
Half of the respondents are unclear about Islamic finance concepts, with an anaemic 2% who say they have a 'very clear' idea about Islamic finance concepts. A more encouraging 8% say they have a 'clear' idea about Islamic finance concepts. There is a significant

knowledge and awareness gap that needs to be addressed by both the market and the state. What is very clear, though, is that SMEs know that they do not know – 70.9% say that better education on Islamic finance is needed.

### How well do you understand Islamic Finance concepts?



### What are your views about Islamic Finance?











## **Extract from interview with Abderrahmane Lahlou, Independent expert who has been involved with the develop- ment of Islamic finance in Morocco from the late 1980s**

### **What is the vision for 2020, what is the expected percentage for Islamic banks of the entire banking system?**

At the present time, we have a very small percentage (0.5%) of alternative (i.e. Islamic) transactions. I think with good advertising campaigns and sharia control giving reassurance to customers, we may reach the level of some countries such as Turkey where it is now 5%. I think that the lobby which hinders things now is the banking lobby as I think that there are still concerns and that it is linked to the political course of the Moroccan government and the economic course of the banks. But now, we have moved to a period in which debate has become open, despite the slowdown.

### **What are some sectors that, in your opinion, could greatly benefit from Islamic financing?**

Farmers, crucially, need transactions such as salam and murabaha. The current draft law does not mention salam specifically, but according to the law, the Finance Committee, the banks have the authority and capability to issue any new product subject to Sharia Board approval. But, in our comments, we said this is good, yet we have a tradition in Morocco that if a law has been passed the executive decree will be delayed for years, and this kind of items delay for years. As for the law, we told them to add salam and istisna but we did not get an answer. So, let's wait for parliament and see what it will add to the draft law.

Unfortunately the banking law does not cover microfinance and this is one of our demands in the memo we made. Microfinance remains 100% conventional. The Islamic system was not included in microfinance but it was introduced into conventional banking. When we made our comment, the Ministry of Finance replied with elaborations [stating] that it can be taken on in the future. Microfinance is important for the participatory (i.e. Islamic) banks for two reasons: first, microfinance covers a much larger number of individuals and include groups that do not reach the commercial banks and this is of great significance. Second, the current situation of microfinance is that the existing interest rates are very high, amounting to 5%

per month. However, they take those high interest rates to receive loans to live on and be financed with. But, if you take it for one year, it will be very expensive.

Islamic microfinance could boost transparency in the microfinance sector. The people dealing with microfinance do not always offer or report truthfully, and they provide false information. They do not have a culture of reporting and transparency. But will sharia-compliant financing lead to transparency in reporting and eliminate speculation? God only knows.

### **How do you evaluate awareness and understanding of Islamic financing in Morocco, especially as there is an Islamic [financial institution] Dar Assafaa, and we see every week that there are workshops and seminars?**

Seminars and Dar Assafaa belong only to a small group of Moroccan society, which is the educated and urban group. Awareness comes from religion, mosques, preaching and guidance. For example, anyone in any marginal neighborhood in a major city knows that usury is taboo and he has probably heard about some banks dealing without usury. Everyone knows that. So, awareness comes from this way, and I think it is high...but if you say to someone that there is an alternative in line with your beliefs, he will follow you 100%, you will not find someone who says he does not care, you will not find someone who tells you that murabaha is wrong... However, when an institution is actually established, conducts media campaigns, displays its products and fixes the cost price, we would not know how to deal with it, although the desire exists. Any project starts with the surveying phase; but afterwards, the results come right after establishment of the first institution.

# ISLAMIC FINANCE MARKET POTENTIAL/DEMAND

The results of the retail consumer survey validate the demand for Islamic finance products and services — 98% of respondents expressed an interest in Islamic finance.

It is our estimate, based on the results of our survey and the experience of other markets that have launched Islamic banking, that Islamic banking assets could potentially reach between 3% to 5% of total banking assets by 2018. This could mean Islamic banking assets of between US\$ 5.2 billion and US\$ 8.6 billion.

Our base case (scenario 1) assumes Islamic banking assets reaching 3% of total banking assets by 2018. Our best case (scenario 2) assumes Islamic banking assets reaching up to 5% of total banking assets.

This could create a profit pool of between US\$ 67 million and US\$ 112 million for Islamic finance providers (average return on assets, net of all expenses, is approximately 1.3% for Islamic banks globally, based on EY's Islamic Banking Competitiveness Report 2013.).

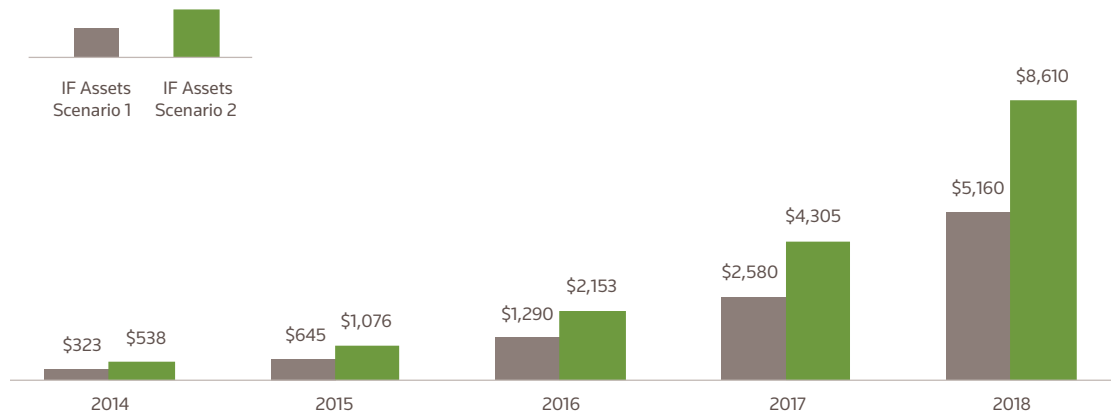
## **Government support is a key assumption for achieving this growth**

For the Islamic finance industry to achieve this potential, government support is key. New legislation needs to be introduced to support the launch of Islamic finance products and services including banking, takaful, sukuk and Islamic funds. Furthermore, tax and other legislation may need to be amended to ensure a competitive environment between Islamic and conventional banks.

## **Knowledge and awareness is a key focus area for Islamic institutions**

Increasing knowledge and awareness of Islamic finance products and services is a key requirement for highlighting the Islamic finance proposition and how it differentiates from conventional finance and building acceptance among consumers. Also, the development of the expertise of local scholars is a key requirement to ensure the long-term growth of the industry.

Morocco Projected Islamic Finance Assets (US \$ millions)



Aurika Valley, Morocco — October 24, 2013: woman at work in a cooperative for manufacturing argan oil.



*Inside*  
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DEVELOPMENT AND  
RECENT ACTIVITY**

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# ISLAMIC FINANCE DEVELOPMENT AND RECENT ACTIVITY

The banking sector is expected to continue to expand in 2014, at a time when the government is preparing the official introduction of the Islamic banking framework. Morocco currently does not allow standalone Islamic institutions but conventional banks have obtained licenses in 2007 to offer alternative products. However, the approved products by Bank Al-Maghrib are limited to *ijara*, *musharaka* and *murabaha*.

Attijariwafa is the only bank that currently provides alternative products based on *murabaha* financing, and only for personal finance. But these products lack the proper legal operating structure and were constrained by operating under conventional regulatory frameworks. They charge higher fees and were therefore less competitive compared to conventional banking products.

Moroccan banks continue to show strong growth amid the slowdown in Europe in 2012. Total banking profits increased from MAD 9.72 billion (US\$ 1.15 billion) in 2010 to MAD 10.1 billion (US\$ 1.19 billion) by end 2011. The introduction of Islamic finance frameworks should allow Islamic banking assets to grow and also provide opportunities for foreign banks.

Moroccan banking assets have been on the rise; banks recorded a 7.7% growth in total assets to reach MAD 1,061 billion (US\$ 127 billion) by the end of December 2012, compared to MAD 985 billion in 2011 (US\$ 116 billion). Total banking net income reached MAD 9.9 billion in 2012, a decrease of 2%

compared to MAD 10.1 billion in 2011. Full-year 2013 banking assets were not available as of this writing.

Attijariwafa Bank, the country's biggest bank in terms of market share, recorded a 1% increase in net income in 2012, reaching MAD 4.5 billion.

Islamic banking requires special structures and certain contract operating frameworks, different from those of conventional banks. Morocco has decided to establish a full regulatory framework for participatory banks to meet the large demand and enable the sector to grow.

The new draft banking law which introduces participatory banks was passed by government in the middle of January 2014 and, as of this writing, it awaits final voting by parliament, which is expected to happen before the end of 2014. Moroccan banks welcome the delay as it affords them more time to better prepare themselves for intense competition, particularly from new Islamic banks from the GCC. Two of Morocco's biggest banks, BMCE and BCP are preparing to launch Islamic subsidiaries as the Moroccan parliament discusses the approval of a bill regulating Islamic banks, likely to be passed in the first half of 2014.<sup>31</sup> Moroccan banks are seeking cooperation and partnerships with other prominent Islamic banks to enter the market and local conventional banks are looking to identify feasible partners with the right technical expertise in Islamic finance.

Compared to the set of Islamic banking regulations introduced in 2007, the new law introduces the establishment of a Central Sharia Board, and includes the introduction of mudaraba and investment deposit. Some highlight the need to add other significant relevant contracts that perpetuate the diversity of Islamic banking and to ensure the revitalisation of the Moroccan economy. This includes products such as istisna that would further support the revitalisation of small and medium enterprises, as well as real estate and infrastructure projects. Considering the importance of the agriculture sector, salam contracts would also be an added advantage. Our interviews with the relevant authorities — the Ministry of Finance and Bank Al-Maghrib

— have informed us that while salam and istisna are not explicitly mentioned in the draft banking law their approval and use is still possible, and participatory banks will have to seek approval for their products from the Central Sharia Board on a case-by-case basis.

### **New entrants**

Faisal Islamic Bank, one of the first Islamic banks in the Middle East, has shown huge interest in operating in Morocco. Further, traders in Casablanca cite Qatar International Islamic Bank as another foreign Islamic bank intending to operate in the country.

<sup>31</sup> <http://uk.reuters.com/article/2014/03/23/uk-morocco-banking-idUKBREAZM0EM20140323>





*Highway at dusk, Marrakesh, Morocco.*

A number of large local banks, including Banque Populaire and BMCE Bank have also indicated their intentions to partner with institutions (particularly those from the GCC) which have the right technical expertise in offering Islamic banking services. Both banks have already designed business models and strategies to establish subsidiaries offering Islamic banking products pending parliament's approval of the new law.

Local banks are seeking to capitalise on their presence in the market, and are trying to avoid direct competition with new entrants into the market; a move they feel may cause instability. The authorities and market players seem to prefer partnerships with foreign investors who show interest in Islamic banking in Morocco.

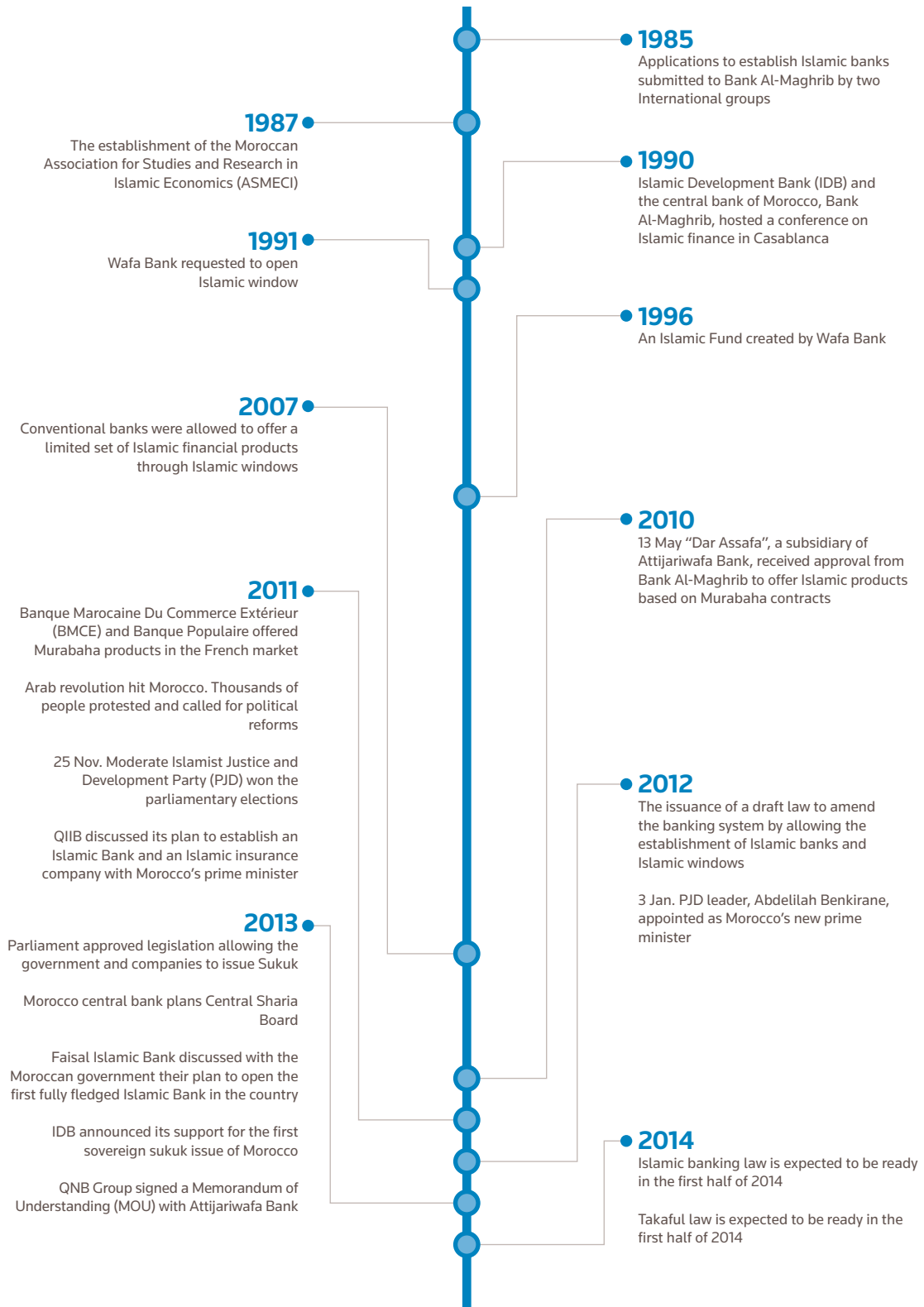
There are 19 conventional banks in Morocco; the bill would allow a steady introduction of Islamic

financing products in order to avoid overflowing the market and causing instability. The introduction of Islamic financial services should help the economy that is facing liquidity constraints, by providing access to the large pool of funds in the global Islamic finance industry.

The strong performance of the banking sector in 2012, the plans to develop a new market segment in 2014, and development of the Casablanca Finance City should support Morocco's aim of transforming Casablanca into a regional financial centre. At a time when other regional markets such as Tunisia and Egypt are facing political and economic instability at home, Casablanca has retained a growing financial environment and a relatively stable investment climate.



# CHRONOLOGY OF RECENT AND UPCOMING MILESTONES





The Moroccan government has been carrying out some of its infrastructure, real estate and energy-based national projects using Islamic finance. Most of the funding have consisted of istisna where the financier pays for the tools, employment and contractors for the project and receives the profit of the capital advanced plus a pre-arranged profit mark-up when the project is completed and revenue flows in.

Bank Al-Maghrib approved a licence for Attijariwafa Bank, the country's largest bank and the third largest in Africa, to open the first participatory financial institution in the country, Dar Assafaa Litamwil, as one of its subsidiaries. The central bank's announcement was published in the Official Bulletin No. 5852 of 18 Rajab 1431 (1 July 2010).

Dar Assafaa Litamwil has been marketing a range of alternative financial products (i.e. Islamic financial products) in Morocco since its establishment. All its products are based on murabaha contracts and target individuals:

- Safaa Immo:** Financing Real Estate Projects
- Safaa Auto:** Financing Vehicles
- Safaa Cons:** Purchasing Products and Services
- Safaa Tajhiz:** Purchasing Home Furniture

In June, 2013, Dar Assafaa Litamwil signed a deal enabling it to offer alternative financial products to 42% of state employees (350,000 staff members). By allowing standalone participatory financial institutions to operate in Morocco, Bank Al-Maghrib will overcome the chronic shortage of liquidity, speed up economic advancements and support its initiatives to build a regional economic hub. PJD legislators are confident that once operational Islamic finance systems will add 2% to annual GDP growth. Bank Al-Maghrib is already injecting US\$ 4 million into the banking system each week to deal with liquidity shortage, which is hurting the financing of investments and affecting lending growth, said Najib Boulif, General Affairs and Governance Minister.

### Projects financed Islamically

DATE	PROJECT	SECTOR	TYPE	\$USM
2011	National Roads Support Program	Infrastructure	Istisna (IDB)	11.0
2011	Port Expansion	Infrastructure	Istisna	150.0
2010	Rural Electrification	Energy	Istisna	65.6
2009	Al-Quneitrah Housing	Real Estate	Islamic Finance	53.5
2009	Al-Quneitrah Power Station	Energy	Islamic Finance	200.0
2007	Mohammedia Gas Turbine Plant	Energy	Istisna	189.0
2005	Marrakash – Agadir Highway	Infrastructure	Istisna	106.2

Source: Islamic Finance Information Service

### Key Highlights of Dar Assafaa Litamwil

Number of Branches	9
Commenced Operations	May 13, 2010
Capital	\$5.7 million
Ownership	Attijariwafa Bank



Marrakesh, Morocco – September 23, 2011: Street Market in the Medina of Marrakesh.





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The country's parliament approved a law "N°119-12" in September 2013 that will permit the sovereign and corporate bodies to issue sukuk.

The current securitization law was enacted in 2002 and was later amended in 2010 to widen the range of eligible assets and to permit institutions other than banks to use securitization. At the end of 2012, the government passed another amendment to the law to pave the way for sukuk issuance.

The new law "N°119-12" for securitization which relates to sukuk will allow issuers to target both domestic and international investors. It also allows the government to use any government or government related entities' tangible assets to back any sovereign sukuk issuances.

## 2013 DEVELOPMENTS

### Sovereign

In June 2013, the Islamic Development Bank (IDB) announced that it would support Morocco by buying its first sovereign sukuk, rather than offering the country more financing. There are two merits to this support. First, Morocco will issue its first sukuk with more confidence knowing there is a large institutional investor, and raise funds in a sharia-compliant manner.

### Corporates

The appetite for issuing sukuk on the corporate level is strong. A survey conducted by the Moroccan financial market authority (CDVM) in 2012 revealed that 9 out of 10 institutions would be interested to issue sukuk if the law permitted it.

### Financials

In Aug 2013, three banks — Attijariwafa Bank, Banque Centrale Populaire (BCP) and BMCE

Bank — indicated their intentions to issue foreign-currency bonds to boost their liquidity levels. The banks are more likely to issue conventional bonds instead of sukuk, given that the sukuk law is yet to be approved by the parliament. One of the reasons for these banks to bolster liquidity is the expansion of their operations in Africa. Expansion is in line with government vision for Morocco's development as a regional financial hub. BMCE Bank sold \$300 million in conventional bonds at the end of November 2013, which it said it would use to fund expansion across Africa beyond the francophone countries of West and Central Africa where it already has a presence.<sup>32</sup> Their intention is to increase the company's presence on the continent from 12 to 20 countries by 2015.

<sup>32</sup> Reuters, "Morocco's BMCE bank to use bond sale \$300 mln to fund expansion", Nov 29, 2013.



*Rabat at night, Morocco.*

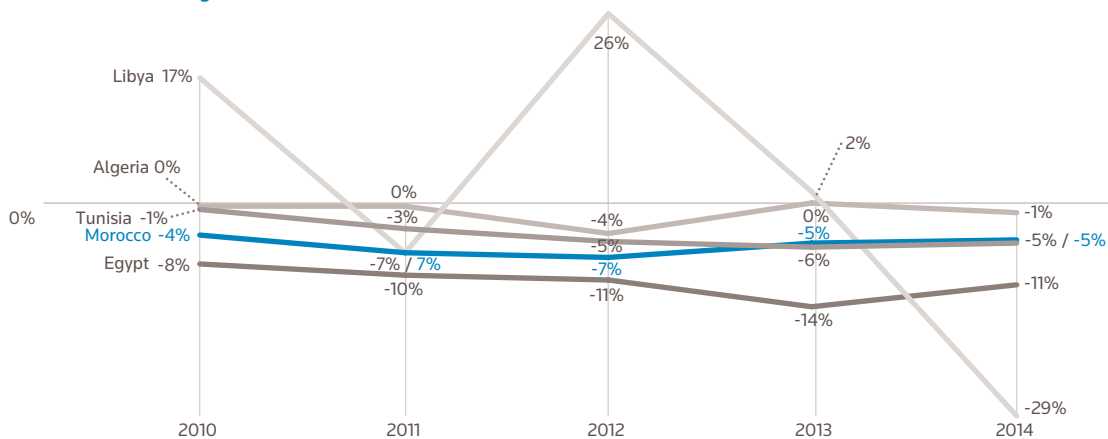
Overall, the liquidity position of Morocco's financial institutions is deteriorating. The amount of non-performing loans deteriorated to 5% in 2012 compared to 4.8% in 2011. While still within acceptable limits, 5% is a recent high and mainly related to the volatile business environment. Bank Al-Maghrib, the central bank of Morocco, has taken steps to support the financial industry's liquidity position by easing monetary policy, boosting

liquidity and encouraging lending. The central bank tapered its policy rate in 2012 by 25 bps to 3%, and also lowered the deposit reserve requirement to 4% from the previous 6%, leading the central bank to drop one fourth of its deposits. Since then, no action was taken to change these rates. In addition, the central bank also included certificates of deposits to the list of instruments that could be accepted as guarantee.

# STATE OF MOROCCO'S PUBLIC PURSE

Morocco's fiscal account position is slightly better than Egypt's. When the government of Egypt announced its intention to issue sovereign sukuk, it had a clear purpose of how to use the proceeds — to fund the high fiscal deficit account which was estimated to be 11.3% of the country's GDP as of 2013. Morocco, on the other hand, while potentially using sukuk proceeds to plug its 2013 budget deficit of 5.4%, is keener to boost its liquidity as well as establish a benchmark for corporate and quasi-sovereign entities to raise funds through sukuk. Additionally, a sovereign issue would help the country develop its domestic Islamic finance sector, one of the key items on the government's agenda.

2010 - 2014 Fiscal Budget Stats



Source: IMF World Economic Outlook Database April 2014.



### Local investor base

Morocco can also rely on its local investor base. The amount of assets under management by Moroccan mutual funds reached US\$ 28 billion in 2012, making up more than 25% of the country's GDP. Interestingly, in the midst of the Arab Spring, as MENA markets fell into a downward spiral, Moroccan funds achieved the highest performance figures on a regional level and delivered very competitive returns on sharia-compliant funds on a global level. (Investor confidence in Morocco's stability and progress is clear – the kingdom received the highest inflows of FDI in 2012, beating long-time North Africa FDI favourite Egypt.)

### Financing the real economy

While Morocco's plans for the country's Islamic finance sector appear to be clearly defined, the government must take concrete steps to promote sound economic policies. The country has the ingredients to grow sukuk given the increased investor base demanding quality sharia-compliant assets with attractive yields. Sukuk by its nature remains more secure than conventional bonds, hence providing increased investor confidence. In addition, the cost of issuing sukuk in Morocco will gradually become cheaper compared to bonds in relation to documentation and structuring as sukuk structures are becoming more standardised.

One area of sukuk which has remained largely untapped is project sukuk which Morocco could capitalise on with its infrastructure projects. In the MENA region especially, there have been a couple of sukuk issuances to finance projects, from the General Authority of Civil Aviation (GACA) in 2012 and Saudi Aramco Total Refining and Petrochemical Co (SATORP) in 2011. Interestingly, SATORP sukuk carried a tenor of 14 years which is not typical for most sukuk issuances which are normally between five to seven years. Still, the paper was over-subscribed 3.5 times. This indicates growing investor confidence in longer-tenor project sukuk.

However, project sukuk normally use the istisna structure followed by ijara once the project is completed. If the Moroccan government decides to adopt AAOIFI standards to regulate its sukuk market, the tradability of istisna and ijara structures become limited on the secondary markets as AAOIFI standards require projects to be at least 51% completed before istisna and ijara papers can be traded. Therefore, investors will need to hold on to their investment until it becomes tradable.

There are also a few good reasons why Morocco can develop its Islamic capital market faster than neighbouring countries. The government is supportive in terms of initiating the establishment of a robust capital market environment. In addition, headwinds from the EU, whose members account for some of Morocco's strongest trading partners, will allow the country to diversify its investor base by attracting Middle Eastern countries, especially GCC countries which are simultaneously seeking to geographically diversify their investments. Morocco also enjoys a stable political environment as well as an investment grade rating of BBB-/BBB-/Ba1 from Standard & Poor's, Fitch and Moody's respectively, which is the second highest grade in the continent after South Africa. Morocco's investment environment is more favourable than Sudan's and Gambia's, the only African countries that regularly issue sukuk. Both countries remain unrated.



## **Exclusive Interview with Houda Chafil, Managing Director at Maghreb Securitization – Maghreb Titrisation – Groupe CDG.** (Interview conducted September 2013)



**How would you describe the new sukuk law and what structures does the law permit? Are musharaka and istisna contracts allowed, for example?**

Morocco has opted to cover this new class of securities in the context of the new securitization law.

The new securitization law paves the way for the issuance of sukuk certificates, the most frequently used Islamic finance instruments. Inspired from the last version of the AAOIFI rules, sukuk certificates are defined as instruments representing the entitlement of each holder to an undivided interest in assets acquired or to be acquired or investments made or to be made by the issuer of such instruments.

Sukuk certificates issued by the Moroccan securitization vehicle may finance any kind of Islamic transaction (for example, ijara, murabaha and musharaka). In this respect, the Moroccan law is more flexible than other laws.

The new law also distinguishes two categories of sukuk issuance:

- (i) *International issuance: could be governed by foreign laws, should be subject to international conditions and standards in terms of structures and sharia-compliance based on scholars' fatwa recognised by the targeted international investors.*
- (ii) *Local issuance: the technical characteristics are defined by the Moroccan administration (should be similar to international standards). When the sukuk certificates are intended to be placed among local investors, a conformity certificate from the Central Sharia Board – the Comité Charia pour la Finance (which will be created by law) will be necessary.*

**Will the Originator be able to set up and own the special purpose vehicles, or will it have to be a regulated financial institution (e.g. banks, brokerages, security agent), an exchange traded real property trust, a corporation that has obtained a local investment grade rating in Morocco or a company that is at least 51% owned by the government?**

The special purpose vehicle, called under the Moroccan law FPCT (fonds de placement collectif en titrisation- securitization vehicle) is constituted at the sole initiative of the management company who will establish the management rules.

The FPCT management must be assigned to a single management company, separate from the originator.

The management company must be governed by Moroccan law and approved by the Moroccan financial authority (AMMC) and Ministry of Finance.

It will conduct securitization operations for the FPCT's account and manage the FPCT in the exclusive interest of the investors. The management company will also take possession of every documented or constitutive title of the FPCT's eligible assets as well as all related documents.

The management company and FPCT are both controlled by the Moroccan financial authority.

The new securitization law establishes a new form of securitization vehicle in the form of a corporate body (the securitization company) alongside the pre-existing unincorporated debt mutual fund (copropriété). The new law also grants, at the option of the management company, the legal personality to the debt mutual fund. The idea behind these features is to offer maximum flexibility when creating the appropriate securitization vehicle, especially in an international context.

**How do you describe the tax framework for sukuk contracts in the new sukuk legislation?  
How will taxes on ijara sukuk be resolved?**

*The tax environment has been relaxed, and it conforms with the new roles assigned to securitization in the financing of the real economy (notably when it comes to financing corporate, assets and infrastructures).*

*The 2013 Finance Act has brought many changes to the fiscal regime applicable to securitization operations, aiming to achieve a certain form of fiscal neutrality between originators and FPCTs, designed to favour sale and lease back sukuk (al ijara), in particular.*

*The General Tax Code sets out the principle of non-taxation of revenue from the sale of real estate assets, resulting from a sale between an originator and an FPCT in the context of a securitization.*

*Consequently, in the context of a securitization, for example, by the issuance of sukuk al ijara, the transfer of assets from the originator to the FPCT and its subsequent repurchase by the same originator will remain completely neutral from a fiscal point of view (land registry fees, registration fees).*

*Furthermore, FPCTs are completely exempt from corporation tax for benefits realised within the framework of the company's legal objectives.*

**What is your expectation for the sukuk market in Morocco for the long-term?**

*We believe that the sukuk market in Morocco will grow significantly during the coming years. It will attract new categories of originators and investors who are looking for Islamic-based financing and investment.*

*A recent study conducted by the Moroccan financial authority shows that there is a big interest for this type of securities especially in the current context of a lack of liquidity.*

*This new financing instrument complements the other existing sources from the banking industry and the conventional capital market and could be an ideal way to finance Moroccan infrastructure projects, without forgetting*

*that the sukuk certificates should be the main financing tool for the Islamic banks that will be established in Morocco.*

**How do you assess the current demand for sukuk? Where do you see it coming from locally? Banks/ Corporates / Individuals (HNWIs)?**

*Following our recent experience, we think that the demand will come first from corporates given that there is no established Islamic bank in Morocco.*

Houda Chafil joined Maghreb Titrisation in February 2011. Maghreb Titrisation is a subsidiary of CDG (Caisse de Dépôt et de Gestion) Group and was the first securitization company in Morocco. She has led the arrangement and management of all securitization transactions carried out in Morocco since the adoption of the new securitization law 33-06.

Recently, she advised and worked with the Ministry of Economy and Finance on the amendment of securitization's legal and fiscal framework, including the introduction of sukuk certificates.

Prior to Maghreb Titrisation Houda Chafil was Managing Director of CDG Développement (a subsidiary of CDG) between 2007 and 2011, in charge of the Group's financial strategy. She was responsible for financial and strategic deals undertaken by the Group.

Morocco's insurance sector currently operates within an environment that lacks regulation and supervision. The sector is undergoing a reform; apart from new regulatory reforms for takaful, the government is forming a regulatory agency for the insurance sector — the Insurance and Social Welfare Regulating Authority (ACAPS), which will replace the Department of Insurance and Social Welfare (DAPS) in the Ministry of Finance. Further, a development strategy for the insurance sector has been drafted by the Moroccan Federation of Insurance and Reinsurance Companies (FMSAR); the strategy includes a set of regulations to enhance the existing law.

In a bid to boost the sector and diversify the market, the Moroccan government is currently looking at implementing a new law for takaful that would facilitate the development of sharia-compliant insurance products. The law has been submitted to the Secretariat General of the Moroccan government for approval prior to parliamentary review. The takaful law will only allow standalone companies to operate in the Moroccan market; they will only be allowed to offer family takaful in the beginning in order to ensure market stability. The Moroccan Ministry

of Finance and Economy expects the law to be ready in mid-2014. Once the law is passed, takaful is expected to play a major role in further developing the insurance sector and capturing a larger segment of the population.

There are 18 insurance and reinsurance companies operating in the kingdom, with the largest four insurers (Wafa Assurance, RMA Watanya, AXA Assurance Maroc and CNIA Saada) dominating 70% of total premiums. In such a competitive market, companies need



to diversify their offerings to attract a larger proportion of the population. Potential area of growth for the insurance/ takaful sector can be life and savings insurance, given that a large proportion of the population are low-income groups and are self-employed. These groups are either under-covered or not at all covered against these types of risks.

The insurance sector has already attracted foreign investments and the three main international players in the local market are La Marocaine Vie, Axa and Zurich. In a similar trend, companies from the GCC have shown interest in Morocco's takaful market. This will help Morocco diversify its sources of investments and boost its economic cooperation with the GCC countries.

The Moroccan insurance/ takaful sector is likely to capture additional market share with the introduction of new offerings or takaful products accompanied by regulatory reforms

that can promote further access to the sector and capture different income groups.

Morocco's insurance sector is the second largest in the continent after South Africa, in terms of the total number of written premiums. Among Arab countries, it is third after UAE and Saudi Arabia. The sector is growing rapidly; a growth of 8.9% in total premiums reached MAD 26 billion (US\$ 3.07 billion) in 2012, largely driven by growth in the property and casualty segments while the life insurance segment is fairly under-developed. The kingdom has a relatively high insurance penetration rate of 2.9% in 2010.<sup>33</sup> However, takaful products are not yet allowed in Morocco.

33 KPMG Financial Services in Africa, 2013.



Fes, Morocco – December 18, 2012: Woman purchasing tangerines from the man selling them in the street.

There is a limited set of sharia-compliant funds operating in Morocco. While one of those funds can be traced back to 1996, the development of this sharia-compliant asset class is linked to the development of the overall Islamic finance sector in the country. The largest sharia-compliant fund is the US\$ 14 million Attijari Al Moucharaka, the Attijariwafa bank equity assets fund that is managed by Wafa Gestion. The other two funds are much smaller equity funds that are domiciled in Morocco and run by local fund managers. However, these funds are dwarfed by the well-developed conventional funds, of which there are over 30 domiciled in Morocco with a size of over US\$ 100 million.

Although sharia-compliant funds in Morocco are limited to equities, a group of investment professionals announced in November 2012 their plan to set up a US\$ 1 billion private equity fund in Morocco. This will be Morocco's first financial institution in the form of a private equity management company and an Islamic microfinance organisation. It aims to focus investments and support on the agribusiness sector and SMEs. However, due to the absence of a regulatory framework for Islamic financial

institutions, this institution has not seen the light of day.

If parliament approves the Islamic finance law, we expect many sharia-compliant firms to offer their services. Well-established Islamic banks from the Arab Gulf region are showing interest in moving into Morocco's banking sector. These banks are also expected to offer their expertise in asset management by introducing various services to their potential clients in the country.

## Extract from interview with Mohammed AlKawrari, Awqaf President, Ministry of Endowments and Islamic affairs

### **How big is the Awqaf pool of properties?**

About 80 thousand plots all over the country. However, these are divided into a large number of small plots and they suffer from the *istikhtar* problem. The large areas are for farming on the basis of a strategy developed by the ministry for investing in planting olives, so they become olive farms instead of leasing them annually for grains cultivation at a low rental. The other small plots are given to the small farmers and such plots play a social role in the stability of a group of inhabitants of the deserts and rural areas, because they provide the families with income or subsistence agriculture, or serve as complementary to the rent of agricultural land from the waqf. This way he owns a farm that provides him with stability.

### **What is the ministry's overall strategy?**

The strategy of the Ministry for Endowments is linked to overall national strategies in maintaining awqaf assets. There is a government programme with [regard to] dissemination [of] real estate properties, a mortgage modification programme, which means registering all the properties into the national Real Estate Registration and Notarisation Department. This way, an incontestable final land title is given in order to maintain the assets and protect them from disputes and ownership claims.

### **What about the deduction for awqaf?**

The investment that is currently present in Morocco is the development of earnings, i.e. the waqf in the country is through leasing to third parties through a set of measures and procedures that aim to improve and maximise rental rates, in order to be at the same level of similar rents in the region. Moroccan awqaf are old awqaf; we have endowments that are 12 and a half centuries old and most have been subjected under the '*habous*' (i.e. traditional land property legislation). We have inherited the old awqaf in the historically rich old cities, such as Fez and Marrakech. These endowments came with low [rental and property] prices and despite development and amendments, we still have not reached the required [market rates].

Secondly, there is a problem in Morocco with regard to customary rights. There are people claiming that there are rights established on

controlling the waqf holders and I think that such rights were recognised at the beginning of the twentieth century. These rights are tradable and they lower the value of the rent, as the holder of the right gains more. As is the case with the leasing problem in some countries, you don't have a property to lease but you have the right to this trade. We are aiming to solve this problem within the next ten years through laws and other legal procedures. We will address the issue of whether a person buys awqaf in order to enjoy such rights or if they buy the right to control the waqf by the holder of the right.

Concerning replacement strategies, this means that the control can be replaced and we re-invest the funds earned from replacements in beneficial real properties with better earnings. Unfortunately, [a lot of] these properties are deteriorated. Further, there are many families [living] in these buildings. Hence, there is a social aspect that must be taken into account; because these families are poor and so it is difficult for us to raise the monthly rental. We can resort to the judiciary to evacuate these families, but throwing out vulnerable families will leave a bad impression of the Awqaf Administration. New investments or replacements and construction of projects are all leased at market prices. There are two types of properties: those in cities and agricultural properties.

### **How does the Ministry of Awqaf benefit from expected future changes in the field of participatory banking?**

The Gulf has many decades of experience in participatory banking, and I have good relations with Kuwait and Qatar. If financing were available we would have managed without the private sector. We need the financing and the existing banks and projects as well as the existing properties. Financing from participatory banks will give us a boost that will benefit the endowment investment. We have many challenging projects that require many guarantees, and a failed project will lead to risking capital and liquidity that we lack. The financing is necessary.

### **Does the Ministry manage the assets of the large projects it owns?**

Yes, it is currently managing the assets. However, this may change in the future, as it

is challenging for the ministry to manage the assets, especially with the level of development witnessed in some areas which makes demands of maintenance, collecting rents and many other problems. This management may be given to private companies.

**Can a participatory bank become a partner in financing these projects?**

Yes. Our investments are financed internally through the Ministry of Awqaf and the Ministry of Finance. Participatory banks can benefit us a lot in this field. We can benefit from awqaf products and contracts and would not have to resort to loans. We have resorted to the Islamic Development Bank through a contract of profit sharing in a project in Marrakech and resorted to taking a loan from Abu Dhabi Fund at a low interest rate by which the Awqaf Tower was built under a guarantee from the State.

**With regard to participatory banks, sharia-compliant funds may be approved next year (2014). Is there any plan for investing part of the Awqaf's money in these funds?**

This is possible. The Ministry of Awqaf has had much experience in the stock market and companies and we also have a course carried out by the International Institute of Islamic Waqf in Malaysia about the investment funds of real estate properties and I have teams participating in this training course in order to see how these funds work and the facilities it will provide to the Awqaf.

**Is it possible to invest inside and outside Morocco?**

Yes, because what matters is the returns along with preserving the rental. We have originally requested that they create "offshore" areas in Morocco where international companies enter into free zones, but unfortunately this was risky. On the basis of financial portfolios, there were names associated with the Awqaf which caused some problems and led to us receiving blame from society for investing in *riba*-based banks.

**Is there is a renewed interest in awqaf?**

I think yes, as I contact an endowment each month. For example, the awqaf in Tunisia has been inactive since 1956 and I met the new minister, who is insistent on reviving Tunisian awqaf. While we are currently building mosques and many utilities for them, we are also trying to support other sectors, such as health and

education and some other social affairs. Health is an especially important area.

**What are the next large projects?**

The annual large projects are the construction of residential buildings or residential and commercial complexes. We also, according to the reconstruction areas, prepare and sell the lands in order to provide lands for all components of economy, including tourism and industry. The plots are prepared and sold and the earned money is invested with the Islamic Development Bank.

**Are the lands sold?**

They are sold within replacement and is called compensation, i.e. the price is invested in buying a property instead of the replaced waqf. Agricultural lands have become enveloped inside urban areas due to urban expansion. Therefore, investments must be made or else slum areas will emerge. So we opened them to the private sector through investment partnerships in a set of sectors. This is a new experience for us. We also have a file with the Islamic Development Bank at the present time concerning financing a project from the Awqaf Investment Fund. We also continue to conduct studies on awqaf.

**If we suppose that the private sector will cooperate with the Ministry, will the private sector be encouraged to invest in awqaf to make use of the tax-exemption facility?**

No, because the awqaf's share is tax-exempt unlike the private sector's share, but some sectors have tax stimulus under the law as to construction and housing and the Awqaf [Ministry] have a great experience in this field in Morocco in order to encourage the growth of real estate. There are also initiatives on the part of the State to encourage rental housing. This is also [one of] the function[s] of the awqaf, which is the construction of buildings for rental in order to increase the revenues of the waqf. However, we are tax-exempt, so we do not benefit, as we have a privilege.

**Are all these considered as encouragement to construct [new buildings]?**

No. The Awqaf has a balance of different waqf buildings, such as mosques, schools, libraries and many historical monuments of high value in Fez.





Awqaf and zakat provide significant opportunities for Morocco to alleviate poverty. The Ministry of Awqaf and Religious Affairs is looking to diversify the distribution of awqaf wealth and use them to finance public programmes designed to benefit the needy; these include financing the work of farmers, small enterprises, health care centres, and schools in remote areas. More efforts are to be channeled to pumping a greater percentage of awqaf and zakat to finance income-generating and job-creating services/industries in the rural areas; these include the creation of new tourism destinations and the rehabilitation of heritage and cultural monuments.

Zakat and awqaf are sharia-endorsed instruments used to support social finance especially to help the poor and the needy. In the early days of Islam these instruments were individually managed. With expansion of Muslim lands and wealth, the individual and fragmented management of zakat and awqaf became inefficient, and it became clear that there was a need to institutionalise the collection and distribution of the wealth generated through these two mechanisms.

In 2012 the Ministry of Awqaf started a restructuring exercise in order to further enhance the management of awqaf institutions and Islamic charitable bodies. The ministry is currently managing a huge legacy of over 51,000 commercial, housing and professional real estate in the kingdom. Income from these endowments jumped to MAD 266 million (US\$ 31.5 million), from MAD 164 million in 2002, an increase of 62% in 10 years. Total income for agricultural endowments totaled MAD 70.7 million in 2012. This could provide a great opportunity for sharia-compliant asset management to offer their services to the ministry.

In Morocco, zakat management is undertaken at the national level. This policy was originally put forward by the late King Hassan II (who reigned from 1961 to 1999) when he called for an institution to be responsible for collecting zakat. However zakat management at the national level remains a challenge to this day.

The potential for zakat to alleviate poverty in Morocco is substantial; simulations through a quantitative macroeconomic model conducted in 2003 have shown that zakat contributions have the potential to reduce the number of poor people by 84%.<sup>34</sup> A more recent 2012 study<sup>35</sup> using the national survey of 2007 estimates that zakat proceeds can cover the resources shortfall needed to cover the poverty gap under US\$ 1.25 per day.



Girl carrying hay.

The management of collecting and distributing zakat is a thorny issue in Morocco. The public generally does not trust government officials to manage and distribute zakat funds in an honest and transparent manner. As part of his election campaign in 2011 current Prime Minister Abdelilah Benkirane promised proper zakat management. In October 2012 a national zakat fund was created to more efficiently manage and structure zakat contributions and distributions.

Further, the Ministry of Endowments and Religious Affairs has been tasked to study the optimal structure for zakat management in Morocco. An efficient zakat management framework would enable the government to

34 Dr. Hasan Ghasan Balqasim and Husain Ehnash, 2003. "Monetary Zakat System and Public Pension: comprehensive quantification on Morocco economy." *General Administration Periodical Publication*, Volume 43, Issue 1, January 1424, March 2003.

35 Mahmoud Mohieldin, Zamir Iqbal, Ahmed Rostom & Xiaochen Fu, 2012). "The Role of Islamic Finance in Enhancing Financial Inclusion in Organization of Islamic Cooperation (OIC) Countries." *Islamic Economic Studies*, Vol. 20, No. 2, December 2012 (55-120).



streamline and channel zakat funds accordingly to fund many social needs, and finance public programmes for poverty alleviation, jobs creation, and upgrading health and education services. If the ministry and current government succeed in delivering its promises for a clean and efficient national zakat management, then the public will be more encouraged to use the national zakat platform.

The Moroccan Association for Research and Studies in the Zaqah (MARSZ) has suggested Morocco adopt and implement international

best practices in terms of auditing and accountability in the management of zakat funds in order to enhance the credibility of the public office in charge of zakat. MARSZ argues that adopting these practices will ensure the separation of zakat funds from the government budget and ensure the channeling of zakat funds to their proper recipients. The association is also suggesting the reform of the taxation regime in favour of zakat by deducting the amount the individual contributes to zakat from their taxable revenue or income.



*Fes, Morocco, 15th July 2012. An older man is working in the famous tannery complex of Fes in foul smelling conditions. He is working a yellow piece of leather which in the future will be used for clothes. All natural ancient process.*



# MICROFINANCE ENVIRONMENT OVERVIEW

Microfinance is another area of opportunity for Morocco's participatory banks, especially in rural areas. The Moroccan economy is highly dependent on agriculture, with approximately 15% of total GDP coming from the sector. Offering tailor-made Islamic microfinance products for low-income farmers should prove to be a very lucrative business for those who will take the lead. The agricultural sector is still considered to be the largest employer, hiring over a third of the country's labour force.

Microfinance is recognised as a powerful tool for job creation, poverty alleviation and empowering the poor. The history of formal microfinance in Morocco dates back to the mid-1990s and despite the late start of the microfinance industry in the country Morocco is a leader in microfinance among the Middle East and North African countries, even if the assets of the microfinance institutions represent less than 0.5% of the total assets of the overall financial sector. Given the high unemployment rate among youth and the poverty rates especially in the rural areas, the microfinance sector is of strategic importance for the country and can benefit from sharia-compliant products. However, Islamic banking and Islamic microfinance is new in Morocco, and will need an enabling environment to develop. The country needs to develop a supportive Islamic

microfinance programme taking into consideration assistance from the Islamic Development Bank Group.

Morocco's microfinance sector was initiated by local NGOs with the cooperation and support of donors, and activated with the initiatives of the United States Agency for International Development (USAID), United Nations Development Program (UNDP), other NGOs and strong government legal and financial support. The government of Morocco passed the Microfinance Act in 1999, which provided a legal framework for the microfinance sector. Under the Act, microfinance institutions are required to register with the Ministry of Finance, and permitted to advance microloans for income generating activities, housing and for social activities.



Essaouira, Morocco Jan 13, 2010: Fisherman works tending ropes among the famous blue fishing fleet of Essaouira.

Morocco microfinance ratios related to operations and profitability					
AMOUNT IN BILLIONS MAD	2008	2009	2010	2011	2012
Total Assets	6.9	6.2	5.7	5.6	5.4
Outstanding Loans	5.7	4.8	4.7	4.6	4.6
NPL	5.3%	6.4%	6.2%	4.3%	6.7%
Net Profit/Loss	0.03	-0.12	0.03	0.11	0.17

Source: Bank Al-Maghrib

The microfinance sector is well developed. According to a report by Grameen Jameel, there are 13 microfinance institutions (MFIs) in Morocco, and by the end of 2012 these 13 were serving 803,780 clients (the largest outreach in the region). The largest 4 MFIs – Zakoura, Al Amana, Fondation Banques Populaire and FONDEP – represented almost 90% of portfolio outstanding in Morocco.<sup>36</sup> Zakoura, Al

Amana and FONDEP have a national coverage, while all other MFIs have a regional or smaller coverage. (Zakoura Foundation merged with Fondation Banque Populaire pour le micro-crédit in 2009 to form Attawfiq Microfinance)

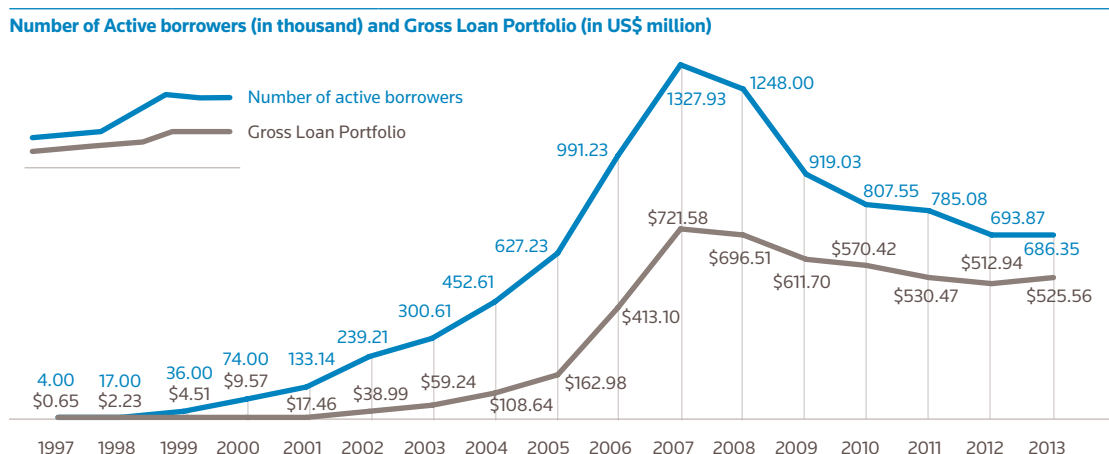
<sup>36</sup> Grameen Jameel, "The Microcredit Sector in Morocco Pre and Post Crisis".

**Morocco's microfinance sector was performing very well and the major MFIs were growing rapidly until 2006-2007.**

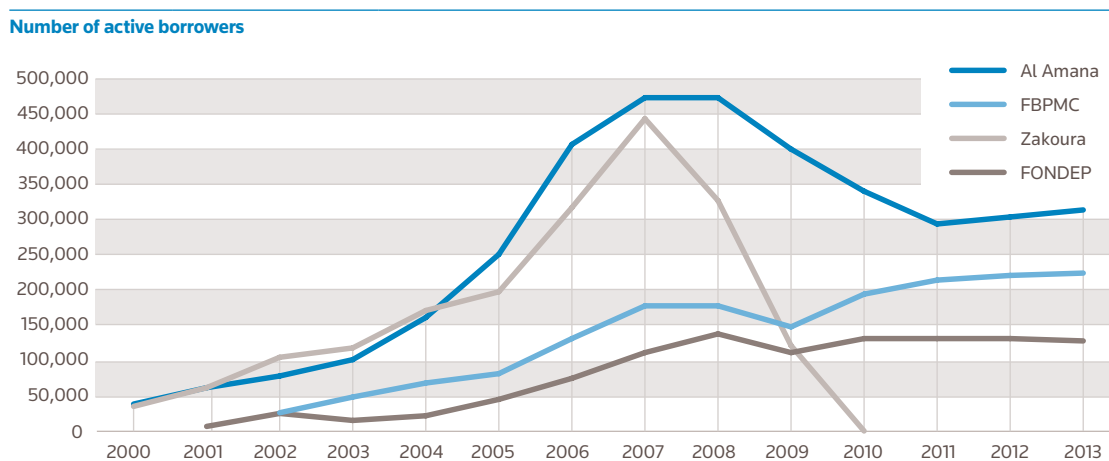
The number of active borrowers reached about 1.3 million in 2007, representing the peak of the microfinance sector in Morocco. Subsequently, the number of active borrowers declined to approximately 0.69 million in 2012 (out of total 803,780 clients) and almost the same (0.68 million) in mid-2013. Gross loan portfolio was about US\$ 721.58 million in 2007 and deteriorated thereafter.

The performance of the four big MFIs – Al Amana, FBPMC, Zakoura and FONDEP – has been impressive. The number of Al Amana's active borrowers reached 472,961 in 2007

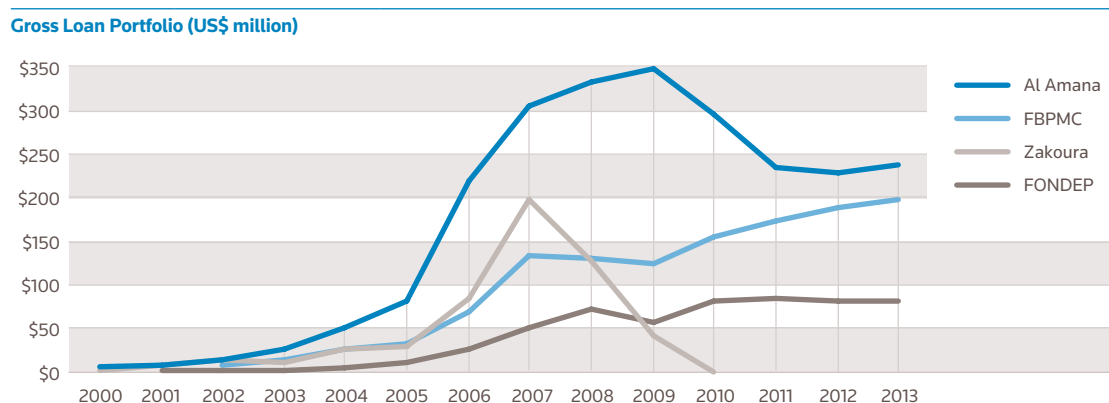
but numbers started to decline thereafter. Al Amana's gross loan portfolio reached US\$ 347.61 million in 2009 but plunged to US\$ 237.18 million in mid-2013. Similarly Zakoura's number of active borrowers peaked at 443,016 in 2007 and its gross loan portfolio was also a high of US\$ 198.26 million in the same year. Zakoura was unable to sustain its performance and ultimately merged with Fondation des Banques Populaires in 2009. The successful performance of MFIs in Morocco over the last 10 years was largely due to government funding, international donors and the backing of the local banks. Competition among the MFIs, however, increased their operational costs.



Sources: calculated from MIX market data, which has reported 11 MFIs only.



Source: Mixmarket.com | Note: data reported in 2013 are quarterly, the rest are annual.



Source: Mixmarket.com | Note: data reported in 2013 are quarterly, the rest are annual.

### 2007 – 2009: Morocco microcredit crisis

The microfinance sector faced a few years of difficulties starting in 2007. The main causes for their plunge in performance include: lenient credit policies, obsolete management information systems, lack of internal controls and substandard governance, changes in credit methodology from group lending to individual lending, increases in loan size, and changes in payment frequencies; and multiple lending (causing cross-indebtedness).<sup>37</sup>

However, the sector rallied and started recovering from around 2009. The Micro Finance Institutions (MFIs) worked together to control multiple loans through the exchange of borrowers' information, they formed teams for loan recovery, cooperated with local banks that maintained credit allocations, and the Development Finance Institutions (DFIs) did not call their loans. The government also improved the regulatory framework and secured liquidity for the microfinance sector. The sector started recovering from 2009, and since then has shown progress in terms of the growth of gross loan portfolio and the number of active borrowers. 11 MFIs have shared their data with the MIX Market. According to the latest available data (June 2013), the number of active borrowers is 813,842 and the gross loan is approximately US\$ 557 million.

The Global Microscope on the Microfinance Business Environment (2012) report, a

publication of the Multilateral Investment Fund, benchmarks the regulatory and operating conditions for microfinance in 55 developing countries.<sup>38</sup>

For overall business environment, Morocco stands 38th out of 55 countries with overall category score of 33.7, which is lower than the overall average of 42.6. This indicates a weak business environment compared to some of the other countries. By this ranking Morocco's business environment deteriorated by one point in 2012. In the subcategories, Morocco ranks 41 in 'regulatory framework and practices', 28 in 'supporting institutional framework' and 25 in 'adjustment factor stability'. According to the report, the Moroccan microfinance business environment is weak and its regulatory and supporting institutional frameworks require further improvement.

<sup>37</sup> CGAP, *Microfinance Gateway*. <http://www.microfinancegateway.org/p/site/m/template.rc/1.26.12518>

<sup>38</sup> *The Global Microscope on the Microfinance Business Environment* report assesses the microfinance sector using two different categories: (i) Regulatory Framework and Practices, including legal recognition for microfinance institutions (MFIs), national regulatory and supervisory capacity, policies towards deposits and market distortions; and (ii) Supporting Institutional Framework, such as financial reporting standards and transparency, credit bureaus, pricing, dispute resolution, and policies for offering microfinance through new agents and channels. The microfinance business environment index also includes the effects of political shocks on the microfinance sector and general country conditions. The weighted sum of category scores is between 0 and 100, where 100 is most favourable.



Morocco's banking sector dominates the financial market while the country's financial leasing sector remains relatively under-developed. The potential growth of financial leasing in Morocco presents an opportunity for the development and use of ijara.

The financial market in Morocco faces risk from being too exposed to non-banking financial institutions that at present lack a clear regulatory framework to ensure credibility, transparency and suitable protection of customers. The leasing industry in Morocco is governed by the law on financial credit institutions established in 2006 (Moroccan Law No. 34-03.). The potential for further growth in this sector relies on Moroccan regulators addressing exit regulations and institutional obstacles that hold back the sector's development. This includes regulatory rigidities such as weak contract enforcement and poor mechanisms to resolve insolvencies.

Bank Al-Maghrib, the central bank, supervises leasing companies, that is including the handling of the approval of licenses subject the approval of the Credit Institutions Committee. There are six financial leasing institutions operating in Morocco as of 2012, down from eight in 2004. The total assets of these leasing institutions reached MAD 42.5 billion in 2012, up by 2.2% from MAD 41.6 billion a year earlier. Growth of gross loans

was anaemic in 2012 – 3.5% compared to 7.8% in 2011.

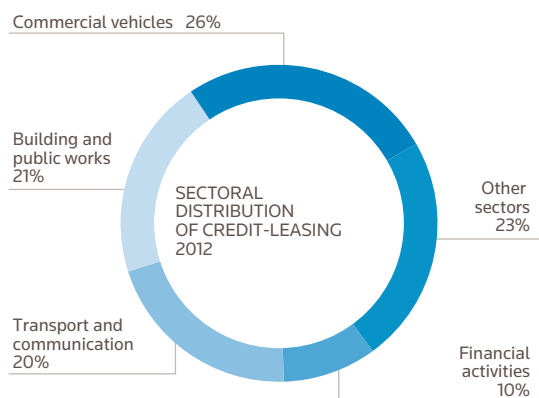
#### Morocco Leasing Companies

1.	BMCI – LEASING
2.	COMPAGNIE MAROCAINE DE LOCATION D'EQUIPEMENT «MAROC-LEASING»
3.	CREDIT DU MAROC LEASING «CDML»
4.	SOCIETE GENERALE DE LEASING DU MAROC «SOGLEASE MAROC»
5.	SOCIETE MAGHREBINE DE CREDIT-BAIL – LEASING «MAGHREBAIL»
6.	WAFABAIL

The breakdown of the leasing sector includes financing commercial vehicles (36%), machinery and industrial equipment (31%) and automobiles (14%). The leasing sector also benefits from other activities within other sectors – industry (27%), trade (19%), building and public works (15%) and transportation (15%).

Despite the plunge in assets growth in 2012, financial leasing is expected to grow in the

### Sectoral Distribution of Credit-Leasing 2012



help to increase the channels to credit for companies, particularly small and medium sized enterprises (SMEs), which struggle to gain access to credit from the formal banking sector.

The leasing of plant and equipment, for example, can be used as a way to improve companies' access to credit, including term finance. Ijara (Islamic leasing) on equipment could be a big growth sector for Morocco. Ijara can also be adopted to further improve the leasing sector in the country.

coming years as the country is starting to prepare a more robust regulatory framework for credit institutions. This development will support the growth of the leasing sector, and



Moroccan Taxi.



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ISLAMIC FINANCE  
INFRASTRUCTURE

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## Sharia Ecosystem

A Central Sharia Board will be appointed by a decree. The Moroccan sharia governance framework is unique in the sense that individual participatory banks are not allowed to have their own sharia boards; instead their operations, transactions and contracts are to be endorsed by the Central Sharia Board.

With regards to sharia governance, the draft banking law has stated two compliance entities:

1. Central Sharia Board which has the power to issue sharia pronouncements, or fatawa. Details about key terms of reference for the national finance sharia board will be announced in its decree;
2. The audit committee within the participatory banks will monitor the day-to-day compliance with fatawa issued by the Central Sharia Board.

In Morocco His Majesty the King holds the status of the leader of the believers (Amir al-Muminin) and he delegates his religious authority to the highest religious council in the country known as the Supreme Shariah Scholar Council of Morocco.

For centuries North Africa has been a stronghold of the Maliki school of jurisprudence and Morocco follows the same jurisprudential line today.

Formal Islamic finance training for the financial industry started in 2003 with the authorities' initial exploration of sharia-compliant products. Government bodies like Bank Al-Maghrib, the central bank, conducted and

hosted workshops on Islamic finance and sent delegations abroad to learn from the experience of other countries. This was in preparation for the introduction of a limited range of alternative products in 2007. Sharia supervisory boards and sharia audits, however, were not required at this stage.

This first wave of alternative financial products in the country achieved very limited success; industry players cite the lack of religious, or sharia mandate for the products as one of the reasons for their limited use. The draft banking law that is waiting to be passed by Parliament (as of this writing) makes specific sharia considerations.



# ISLAMIC FINANCE AWARENESS AND EDUCATION

Islamic finance industry building and development will require certified professionals. Early Moroccan interest in Islamic finance and economics produced small private sector initiatives in the 1980s dedicated to the spread of Islamic finance and economics information and the training of professionals. However there has neither been any large-scale nor far-reaching initiative.

L'Association Marocaine d'études et de Recherches en Economie Islamique, or the Moroccan Association for Studies and Research in Islamic Economics (ASMECI), was founded in 1987 by a group of Moroccan professors, researchers, and experts in law, economics, finance and accounting. The association is also home to business professionals and members of the Moroccan public interested in improving the country's socio-economic situation. It is Morocco's pioneer and leading champion of Islamic economics and finance. ASMECI has taken effective steps in developing professional cooperation with institutions involved in Islamic economics. The association has a dedicated Islamic finance and economics library that houses more than 800 relevant publications. ASMECI is planning to establish a dedicated center for research in Islamic finance and economics.

ASMECI has played an active and pioneering role in developing the Moroccan people's

understanding of Islamic economics from its theoretical, conceptual and academic roots into more concrete actionable outcomes. In 1989 the association was responsible for the preparation of a feasibility study on the establishment of Islamic banks in Morocco, which was presented to the governor of Bank Al-Maghrib. The association also contributed to the study that led to the short-lived Islamic window for Al Wafa Banking Group in the early 1990s. On the ground in Morocco, the association has been active and prolific. It continues to organise research, workshops, and training sessions, and it also speaks about Islamic economics and Islamic finance in the media and on the national public stage.

The association also cooperates with various national and international organisations, such as the Islamic Development Bank Group and the Organisation of Islamic Cooperation, to develop contemporary applications of Islamic economics. The association and its counterparts have

collaborated at the Moroccan level to establish a framework of coordination; the association hosted the inaugural meeting of the Maghreb League for Islamic Economics in Rabat in November 2013. The Association is also working to coordinate the establishment of a similar initiative for Africa and southern Europe.

At the national institutional level, initial steps pre-2011 were already taken; as we read in the previous section Moroccan authorities started organising Islamic finance workshops for the financial industry from 2003 in preparation for the 2007 rollout of the limited range of Islamic finance products.

Higher education programmes have also emerged in the last few years – for example Masters-level courses in Islamic finance are available from Université Internationale de Rabat and the Private International Institute of Management and Technology (PIIMT) of the American University of Leadership. In early 2013 Dubai-based Ethica Institute of Islamic Finance signed a deal with Alar Conseil, an independent Moroccan advisory and training

firm specialising in human resources development, to offer Islamic finance certifications, training courses and seminars.

Leading local and international educational and training institutes like Dubai Al Maali Islamic Finance Training and Consultancy and Moroccan Mohammadia School of Engineering are offering Islamic finance studies and training for Moroccans. Some foreign organisations have also organised training sessions and forums that cover many aspects of Islamic finance; these include sessions held by the Islamic Financial Advisory and Assurance Services (IFAAS) in partnership with Grant Thornton and REDmoney.

In April/May 2013 l'Association Marocaine pour les Professionnels de la Finance Participative – Sharia Compliant (AMFP) was formed. As a professional industry body the association is playing a key role in raising awareness of Islamic finance. AMFP has already started hosting and organising workshops about Islamic finance products such as sukuk and takaful.

#### AMFP Founding Members

NAME	AFMP POSITION/ROLE	MAIN OCCUPATION (PRESENT)
<b>Mr. Said Amaghdir</b>	President	Secretary General at RMA Capital
<b>Mr. Hakim Bensaid</b>	Vice-President	Project Manager at RMA Capital
<b>Mr. El Mahdi Yassine</b>	Secretary General	Business Analyst at Méditelecom
<b>Mr. Adil Agenaou</b>	Treasurer	Admin and Finance Manager at SMACL Maroquenerie
<b>Mr. Rida Jalil</b>	Vice-Treasurer	Islamic Finance Researcher-Doctorate program (under planning)
<b>Mr. Ali Alami Idrissi</b>	Audit and Advisory Committee	Partner Founder at OPTIMA FINANCE Consulting
<b>Mr. Houssine Bousaid</b>	Audit and Advisory Committee	Partner Founder at MTC Consulting

## Banking Regulatory and Supervisory Framework

The Moroccan banking sector is regulated by Bank Al-Maghrib, the central bank which is the principal regulatory authority for all banking activities. Bank Al-Maghrib oversees the banking system, enforces the regulatory frameworks, and controls all activities of the credit institutions and other financial institutions.

The governance bodies of Bank Al-Maghrib consist of Administrative and Management bodies. This includes the Bank Board, Governor and Management Committees.

The main departments of Bank Al-Maghrib are:

- Banking Supervision Department
- Audit & Risk Prevention Department
- Economic and International Relations Department
- Financial Department
- Monetary Operations and Exchange Department

Banking activities and supervision conditions are carried out according to the banking law No. 34-03 on credit institutions and similar bodies, formed by Dahir No. 1-05-178 of Muharram 15, 1427 (February 14, 2006). Credit institutions including banks and finance companies are also governed by other regulatory measures related to their application.

In 2011, Bank Al-Maghrib cooperated with foreign regulators by signing an agreement with the Bank of Central African States (Banque des Etats de l'Afrique Centrale, BEAC). The agreement reinforced supervision of Moroccan banks in the countries within the supervisory framework of the authority. Bank Al-Maghrib has undertaken several regulatory reforms pursuant to credit institutions following changes at the international level.

### Opening Banks

The establishment of banks in Morocco requires approval from Bank Al-Maghrib. The decision is notified by the Governor of Bank Al-Maghrib within a maximum period of four months from the date of receipt of all documents and information required. Bank Al-Maghrib may limit credit institutions' operations to certain activities depending on the human, technical or financial means of the applicant. After receiving the central bank's approval and after publishing the decision in

the official gazette, a copy will be sent to the Minister of Finance. Licensing of credit institutions with headquarters outside Morocco that will open a branch or a subsidiary in the kingdom shall be supported by the opinion of the base country regulators.

### **Banking Regulatory Requirements**

Banks are required to comply with various requirements as determined by Bank Al-Maghrib.

### **Minimum Capital Requirements**

Credit institutions acting as banks are required to have a fully paid-up capital or a fully paid-up allocation of a minimum of MAD 200 million (US\$ 23.8 million). However, if the bank does not receive funds from the public, then the minimum required capital is MAD 100 million. Credit institutions acting as finance companies are required to have a minimum fully paid-up capital or an entirely paid-up allocation of:

1. MAD 50 million for companies that carry out operations relating to real-estate loans, leasing, consumer loans, or any credit operations.
2. MAD 40 million for finance companies licensed to carry out guarantee operations other than mutual guarantee.
3. MAD 30 million for companies that carry out factoring operations.
4. MAD 10 million for companies licensed to carry out and manage operations of clients relating to all means of payments.
5. MAD 10 million for companies licensed to carry out mutual guarantee operations.

### **Reporting requirements**

Financial institutions are required to report their financial statements to the management of the banking supervision directorate on a semi-annual basis. Those statements, which

must be prepared as per the banking supervision directorate requirements, must show the institution's exposure to risks that are over 5% of their equity. Banks are also required to submit their liquidity risk management report periodically to the central bank.

### **Liquidity Requirements**

Banks are required to comply with the minimum liquidity ratio of 100% between their total short-term realisable assets and the total demand and short-term liabilities. Monthly declarations should be sent to the central bank along with on-site inspections to control this rule. Given the persistent pressure on banks' liquidity, Bank Al-Maghrib continues to closely monitor banks' liquidity position, paying attention to liquidity buffers and banks' policy of resources diversification.

### **Solvency Requirements**

Banks are required to comply with Basel II requirements. In April 2012, Bank Al-Maghrib announced plans to prepare banks to adopt Basel III; the minimum level of Tier 1 capital was raised to 9% and solvency ratio to a minimum of 12% effective June 2013. As a result, banks have strengthened their capital; solvency ratio and Tier 1, on a consolidated basis, is higher on average — they rose from 12.4% and 9.8% respectively in 2011 to 12.9% and 10.2 % in 2012.

### **Maximum Risk Division Ratio**

Bank Al-Maghrib may bring the maximum risk division ratio, set at 20%, to lower levels for some or all counterparties of an institution for prudential reasons. As a response to the 2008 global financial crisis, and given Moroccan banks' substantial exposure to the European Union, Bank Al-Maghrib has requested banks to report their exposures periodically. Banks' risks and management methods were also reinforced due to the new challenges and uncertainties.



The draft banking law number 103-12 which has articles relating to participatory banks (i.e. Islamic banks) is expected to be approved by parliament in the first half of 2014, according to sources familiar with the matter. Article 58 states that participatory banks can finance clients using the following contracts: murabaha, ijara, musharaka, mudaraba or any other contract (according to article 57) that complies with the sharia and that are approved by the central bank governor after being reviewed by the Central Sharia Board.

However, it is worth mentioning that two of the most important sharia contracts were not included in the draft law — salam and istisna. However, this might be seen as a positive move, as banks can be innovative in introducing different types of products which would then need to be approved by the Central Sharia Board.

In March 2013, Morocco announced its plan to form a central sharia board to oversee Islamic finance activities in the country. The main role of the board is to ensure the compliance of banks' transactions and activities to sharia. Additionally, the sharia board will also:

- Ensure the compliance of products and transactions to sharia
- Answer banks' queries
- Give opinion in advance on banks' marketing campaigns

- Suggest measures that could contribute to the development of sharia-compliant products or services

Under the suggested banking draft law, a deposit insurance fund is to be created to compensate depositors in case of a default. In exceptional cases, the fund may offer participatory banks in difficult situations part of its accumulated funds provided it is repaid to the fund. This fund will include all types of deposits and funds that are refundable, except investment deposits.

The Moroccan Government also amended some provisions of the Circular on Taxation of the Finance Act 2010 during the establishment of Dar Assafaa Litamwil. One of the significant amendments is the reduction of VAT on murabaha to favour Islamic banking competitiveness.

Morocco's capital market has been gradually developing since 1993 and is considered to be one of the largest in the African continent after Egypt and South Africa.

The securities market in Morocco is governed by the Conseil Déontologique des Valeurs Mobilières (CDVM) which is the acting financial market authority, established by Dahir (Royal Decree) establishing Law No. 1-93-212 (September 21, 1993). The CDVM was established to ensure the protection of savings invested in securities, the smooth functioning of the financial market, and assisting the government in the regulation of the financial market.

This financially independent public entity that has its own legal status plays an important role as a market watchdog. CDVM's work has ensured a more sound capital market infrastructure that helps protect investors in transferable securities; the body also ensures the disclosure and transparency of information required by the public. This helps ensure compliance with the various legal and regulatory provisions governing financial markets.

Morocco's capital market law was updated in 2008 with the law No. 33-06 (October 20, 2008) that covers a wider range of products

and services. The scope of the previous law covered securitized assets limited to mortgages.

However Morocco still has to further strengthen its capital market in order to promote longer term financing and a more diverse range of instruments and financial products such as securitisation or covered bonds to help the re-balancing of maturity mismatches and support the overall development of its capital market.

The new securitisation act (N°119-12) is key stepping-stone towards such advancement. The new law will extend the list of eligible assets for issuing securities intended to increase the range of securitisation beyond the securitisation of receivables.<sup>39</sup> Widening the scope of eligible tangible assets was required to allow the issuance of sukuk certificates. The law was accepted in January 2013 and should be implemented in 2014.

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<sup>39</sup> EBRD Legal Transition Developments January – June 2013 An update of commercial and financial laws

## Exclusive Interview with Karim Hajji, General Director and CEO – Casablanca Stock Exchange

(Interview conducted on September 27, 2013)



### Can you please give us a brief overview of the Casablanca Bourse?

Casablanca Stock Exchange (CSE) is one of the oldest bourses in the African continent; it was established in

1929. Today, the stock exchange is one of the top exchanges in Africa. Our market capitalization is approximately US\$ 50 billion, which is significant for African exchanges but not that significant compared to those in the MENA region. [CSE total market capitalization] is a sizeable percentage of GDP – roughly above 50% of Moroccan GDP. This means the financial markets in Morocco are fairly well developed.

Many sectors of the economy are listed on our exchange. The finance and banking sector, as well as insurance, are the largest sectors listed on the stock exchange in Morocco; they account for roughly a third of market cap. Then we have telecommunications with 21%, followed by cement/construction sector, real estate and building materials. These are the main sectors represented on the Casablanca Stock Exchange. We have one foreign Tunisian company, involved in car dealership.

Volumes have been decreasing in recent years; [the drop] following the 2008 financial crisis was quite significant. At that time we had reached a very high valuation and since we don't short-sell, it has taken us a long time to correct the volatile prices. We are unsure how long this is going to last but we are currently at a good level.

In terms of participants in the exchange, we are mostly an institutional investor-driven market. Institutional investors in Morocco account for roughly 70% of total volumes, followed by foreign investors with 15% to 20%. Then we have HNWIs. We do not have as many individual investors as in Saudi Arabia, for instance. In Saudi Arabia, HNWIs make up roughly more than 3 million. In Morocco, individuals account

for 100,000 at most. Now it is more likely about 30,000 [post 2008]. So we are really an institutional market, which explains why there isn't as much liquidity as we could attract if we had more individual participation in the market. That's also one of the reasons why we are promoting the market to individual investors through our stock exchange school, which trains over 3,000 individuals every year; among them are bank officers who in turn train other bank officers at the network level.

We also have initiatives like the Stock Exchange Championship, which is open to individual investors. There are other initiatives in the form of partnerships with high schools and universities. We also have "Injaz Al Maghreb", a Moroccan Junior Achievement programme.

### Casablanca Bourse is one of the oldest in Africa. How do you justify having only one foreign company listed?

Stock exchanges are often considered by countries as an attribute of sovereignty, so it is very complicated to have a foreign company listed. Even South Africans only managed to list 3 foreign African companies and it is the oldest and most liquid stock exchange in the continent [Editor's note: Egypt's bourse is older than South Africa's by 4 years]. So this tells you how difficult it is to convince a company from another African country to list on another exchange. It takes time, but we are working on it.

### Can you tell us about the new sharia index? How will this help liquidity?

We hope that the sharia-compliant Index will draw more liquidity to the market. In fact many Moroccans invest in sharia-compliant equities. I believe we can attract more sharia-sensitive investors with the new sharia-compliant Index which we are working on with our partners at FTSE.

### What is the current process of the sharia-compliant index?

The index is ready (effective September 2013) and will be launched soon. It will be a good way to show that the Casablanca Stock Exchange

provides sharia-compliant investment options. So for Moroccans who are skeptical about the sharia-compliance of the stock exchange and only invest in real estate, this will provide a big opportunity for them. The sharia-compliant index will have around 35 companies.

**What are the screening methodologies for sharia-compliant equities?**

The screening method is done by FTSE using Yasaar [sharia advisory firm].

**What other sharia-compliant securities are also considering listing on the stock exchange?**

Sukuk is definitely an interesting product to list because we have many projects in Morocco to be financed by sukuk, especially infrastructure projects. Sukuk is a way to finance such projects because cash flows can be directly assigned to the investors. This makes sukuk the perfect vehicle for project financing. There are many infrastructure projects such as airports, highways, ports and the high-speed railway between Tangier and Casablanca. So there are a number of projects that can be eligible for sukuk issuance.

Other products include the various equities that are sharia-compliant, 35 of which we have identified with FTSE and we will identify more.

**According to Thomson Reuters Global Sukuk Study 2014, global investors prefer sukuk to be listed. So how are you collaborating with the Ministry of Finance in this regard?**

The government is in the process of enacting the regulations that will allow the issuance of sukuk. I believe the law will be presented to parliament in October 2013. There is no issue with the Stock Exchange, as the bylaws already allow the listing of sukuk. So once the regulations of sukuk are enacted, we can very quickly list sukuk on our stock exchange. Our system can accommodate the process, but first we would have to identify an interesting project to finance through sukuk. For instance, the government wants to extend the capacity of Tangier port and issue sukuk to assign the cash flows to the project.

**When do you expect the first sukuk issuance?**

It really depends on the government; I believe the government will be the first to issue sukuk to pave the way for the private sector. But I think this year (2013) is too early, it requires identifying the most appropriate structure, especially

since structuring sukuk can be very complex compared to conventional bonds. [There are other considerations such as] identifying the right currency. It will take time. I don't anticipate any sukuk issues in 2013.

**You mentioned the one foreign company listed on the CSE. Do you see [the possibility of] other foreign equities and sukuk listed in Morocco?**

Why not, the regulations allow for this. Today, [regulations are] subject to approval from the Ministry of Finance, but the law is being changed so that there will be a ceiling for foreign companies to issue equity or debt in Morocco. It could be a cap per year. Once that ceiling is approved by law, anybody can basically issue sukuk or stocks, etc.

**So apart from sukuk, what other plans does the CSE have for sharia-compliant products?**

We are also looking into ETFs but not only for Islamic products. Today, however the regulations do not allow the listing of ETFs. We are also working to list REITS. We are working with Casablanca Finance City to have these products listed.

CEO of the Casablanca Stock Exchange since April 2009, Karim Hajji previously managed Atlas Capital Group for 8 years. He founded Atlas, an investment bank with corporate finance and asset management activities, in 1999. Mr. Hajji had worked previously with the ONA Group as Chief Financial Officer. He joined the Moroccan conglomerate in 1991 as advisor to the Chairman, then managed an affiliate in Monaco, La Monegasque, in 1992 and as Secretary General he supervised the Finance, HR and IT functions at Compagnie Optorg in Paris until 1994 before taking the top finance job at ONA.



*Inside*

# ISLAMIC FINANCE SECTOR INVESTMENT CONSIDERATIONS & KEY CHALLENGES

Sukuk opportunity focus

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# ISLAMIC FINANCE SECTOR INVESTMENT CONSIDERATIONS & KEY CHALLENGES

Morocco is well positioned to attract foreign investment and banking capital flows from Islamic investors in the GCC and Malaysia who are looking for sharia-compliant investment opportunities in emerging markets with attractive returns to invest their excess liquidity.

Based on the earlier presentation of Morocco's current economic landscape and trends, we offer the following as the key fundamentals driving Morocco's Islamic finance investment potential:

- Islamic finance laws will be passed by early to mid-2014 with a unique proposed sharia governance model (a Central Sharia Board with high reputation)
- Strong latent demand for retail and corporate (SME, and large enterprise, sukuk, takaful) Islamic financial services
- Stable political and macro-economic environment (compared to North African neighbours Libya, Tunisia and Egypt) as well as strong FDI trend providing investor confidence
- Strong government development/ investment agenda at different phases of implementation
- Promising and growing industrial base and exports facilitated by various Free-Trade Agreements provide strong fundamentals

- Growing financial sector with regional reach (insurance, waqf, Africa reach)

## **Islamic financial institutions opportunities**

Morocco presents substantial opportunity for any Islamic financial institution and investor; the country is home to a majority Muslim population of 32.52 million, it embodies a strong heritage of waqf, holds a banking asset base of US\$ 127 billion (2012), and has no standalone Islamic financial institution. As highlighted earlier, the potential demand for Islamic financial services is in the range of 3% to 5% of total banking assets by 2018. This could mean Islamic banking assets of between US\$ 5.2 billion and US\$ 8.6 billion.

As with similar markets, the fundamental roadblock has been the lack of government regulations and support to develop the Islamic finance opportunity. However, this is all about to change. A comprehensive set of Islamic financial regulations – sukuk, banking and takaful – are in motion to complete their three step review and approvals (public-government committee-parliament) by early to mid 2014.

Foreign investors in Morocco's banking industry enjoy ownership of up to 100%, although it is unclear if the foreign ownership limit for banks will still remain at 100%. The need for international partners for local players is driven by four key factors:

1. The need for capital infusion
2. Islamic finance technical expertise/experience, a need that has been clearly stated by many local players
3. Local market seeking credibility of an established international player in order to address market credibility issues, and
4. Government is providing and/or considering various incentives to support financing of select sectors/industries

Another national-level initiative in support of financial institution investments is the Casablanca Finance City project to make Casablanca a regional financial center. The objective is to have a strong business ecosystem (cluster) with a specialised infrastructure, a single regulatory system, a qualified talent pool, appropriate human resources and other related services. Firms have to qualify to be part of the City and receive a CFC Status that allows for specific tax incentives, exchange control facilitation and other elements of doing business. The Moroccan Financial Board manages the CFC initiative.

Investment opportunities in Islamic finance is clear for both retail and corporate banking. Retail demand has been established and businesses are ready to pursue sukuk with the right regulatory framework in place. Opportunities also exist for leasing Institutions. Ijara structures can serve to further improve the leasing sector in Morocco.

Insurance in Morocco is mature with a relatively high penetration rate of 2.9% as of 2010 (2nd highest in Africa/ 3rd in Arab countries.) Given that there are no takaful institutions, the passing of the takaful law will create strong opportunities.

Assuming the approval of regulations as widely expected, 2014 should be a historic year that will kick start Islamic finance and takaful development in Morocco. With an already mature conventional banking and successful insurance sector (although life insurance remains under-developed), there is much interest from existing players as well as international investors in the takaful space. Navigating the current market dynamic and opportunities requires a clear business plan and opportunity analysis.

We present the key customer segments and industry sector considerations that should be evaluated and mapped to investor strengths/capabilities in order to make the strongest business case for investment in Morocco.



*Morning at seaport, Casablanca, Morocco.*

## CUSTOMER SEGMENTS

### Retail

The demand for Islamic financial services by the general population has been validated through this study – 79% of respondents of the IFAAS June 2012 survey said they would be ‘very interested’ in Islamic banking services once available.

#### *Product categories*

*Personal financing, home financing and car financing were the most requested financing types. Takaful, investment funds, and microfinance are other key product opportunities.*

### Diaspora

An important retail segment for Morocco is its diaspora in Europe. This diaspora is a major foreign exchange contributor to the economy. Deposits held in Morocco by Europe-based immigrants stood at MAD 127 billion (US\$ 15.6 billion) in 2010. This represents just under 20% of total national banking deposits. Remittances are still mostly untapped.

#### *Product categories*

*Mobile banking, wire transfers, foreign remittance, foreign currency accounts, investment funds.*

### SMEs

SMEs are a major part of the Moroccan economy. They account for more than 95% of the total number of operating enterprises, contributing over 30% to GDP and 48% to total employment.<sup>40</sup> SMEs struggle with access to capital, and Islamic financial institutions could fill this gap. As our exclusive SME survey revealed, Moroccan SMEs are highly cost conscious; most SMEs surveyed – 63.8% – say competitive rates are most important when considering Islamic banking.

#### *Product categories*

*Microfinance, venture capital, working capital, equipment/material financing/ leasing*

### Customer Segments

Retail consumers

Large diaspora

SMEs

Large enterprises

Government/PPP

### Sectors

Renewable energy

Agriculture

Infrastructure

Automotive & other manufacturing

Tourism

Awqaf

### Corporations

There is strong appetite for sukuk from the corporate sector. 9 out of 10 institutions would be interested to issue sukuk if permitted by law, according to a survey conducted by the Moroccan financial market authority (CDVM) in 2012. The market will also be boosted by the Islamic Development Bank’s (IDB) decision to support Morocco’s planned first sovereign sukuk.

### Government/PPP

Investment opportunities should be evaluated against various active government reform programmes. These include:

- Green Moroccan Plan for Agricultural Development
- Logistics Strategy;
- Fisheries plan for maritime fishing;
- Water strategy;
- National Industrial Emergence Pact;
- Tourism strategy;
- The Energy strategy;

<sup>40</sup> EBRD strategy doc/ European Bank for Reconstruction and Development 2012.



- Moroccan Digital Strategy for the development of information and communication technology (ICT).

Investment in government projects through Public Private Partnerships (PPP) is a viable

opportunity in Morocco; approximately 50% of energy projects have been put into action by PPP. Morocco's infrastructure projects could benefit from sukuk.



*Tangier Mediterranean Port in Morocco.*

While Morocco's plans for the country's Islamic finance sector appear to be clearly defined, the government must take concrete steps to promote sound economic policies. The country has the ingredients to grow its sukuk market given the increased investor base demanding quality sharia-compliant assets with attractive yields.

Sukuk by its nature remains more secure than conventional bonds, and this will give investors more confidence to invest in them. In addition, the cost of issuing sukuk is dropping, in terms of documentation and structuring, as structures become more standardised.

One area of sukuk which has remained largely untapped is project finance sukuk which Morocco could capitalise on with its infrastructure projects. In the MENA region especially, there have been a couple of sukuk issuances to finance projects, namely the General Authority of Civil Aviation (GACA) and Saudi Aramco Total Refining and Petrochemical Co (SATORP). Interestingly, SATORP sukuk had a tenor of 14 years which is not in the typical range of regular sukuk, which normally falls between five to seven years. The paper was over-subscribed 3.5 times, indicating growing investor confidence in longer tenor sukuk.

However, project finance sukuk normally use the istisna structure followed by ijara once the project is completed. If the Moroccan government decides to use AAOIFI standards to regulate its sukuk market, the tradability of istisna and ijara structures become limited on the secondary markets as AAOIFI standards require projects to be at least 51% completed before their papers can be traded. Therefore, investors will need to hold on to their investment until they become tradable.

## Sectors

There are several key sectors in terms of export trends, FDI activity and development priorities; these will be attractive for sukuk issues.

## Renewable energy

Morocco has limited hydrocarbon reserves and is in fact the largest energy importer in the MENA region. An ambitious Green Energy plan is underway, aiming at a significant increase in the use of renewable energy. With its hot climate, open land/desert spaces, and large coastal line, Morocco is well positioned geographically

**Examples of recent project finance sukuk announced, and issued:**

COUNTRY	SECTOR	STRUCTURE	SIZE
<b>Pipeline</b>			
Australia: SGI-Mitabu	Solar energy	Ijara (first 20 years) then Musharaka	A\$ 550
Malaysia: Syarikat Prasarana Negara Bhd	Transportation & Railways	Possibly Istisnaa	RM 1 billion
<b>Issued</b>			
Saudi: GACA	Airport	Murabaha	SAR 15 billion
Saudi: Aramco (SATORP)	Greenfield	Istisnaa Ijara — Forward Lease	US\$ 1 billion

to leverage solar and wind energy. The government's renewable energy plan expects 42% installed renewable energy capacity by 2020, which is estimated to yield about 2,000MW. This commitment is backed by a strong policy and regulatory framework for renewable energy that is already in place.

Morocco also sees this as a source of exports and FDI interest, especially considering its strong connectivity with and proximity to Europe. A global initiative called Desertec Foundation has already initiated projects in Morocco to produce solar electricity in North Africa for export to Europe. A project was initiated in 2011/2012 at Ouarzazate to develop a 500MW solar power plant that will be a mix of concentrated solar power and photovoltaic power plant.

A number of recent funds have also been established targeting this sector. A US\$ 1 billion Energy Development Fund (official name — Fond de Developpement de l'Energie, FDE) has been set up, with contributions from Saudi Arabia, United Arab Emirates and the local Hassan II Fund for Economic and Social Development (FHII).

Additionally, a MAD 1 billion capitalised Energy Investment Corporation (SIE) has been established to finance RES and other energy-efficient projects.

Microfinance is playing a key role in renewable energy proliferation, as indicated by initiatives such as FreemE. The FreemE program leverages microfinance to bring renewable energy to the mass market. It was launched in 2010 by PlaNet Finance and French NGO Geres.

**Agriculture**

According to government data, agriculture is a major contributor to Morocco's GDP (15% to 18%) and job creation (40%). This is more pronounced in rural areas where agriculture remains the leading provider of jobs (80%) and the main source of income. Food and agriculture is also a major export sector accounting for 19% of the country's total exports.

The government has prepared a strategic programme for agriculture, known as the Green Morocco Plan, which seeks to generate public and private investments of MAD 120 billion (US\$ 14.7 billion) to create 1.5 million new jobs by 2020. The goal is to add about MAD 85 billion (US\$ 10.5 billion) to GDP.

Currently, government and industry are coordinating to increase competitiveness of the food processing industry and transforming primary production into higher value-added products.

## Infrastructure

There are large gaps in Morocco's infrastructure sector, particularly in municipal services. The municipalities have had to shoulder greater responsibilities for infrastructure — particularly water and waste management, transportation (specifically rail) — under the regionalisation plan, hence increasing their capacities to better manage their work is a key priority. Public Private Partnership projects are essential. Regulatory reform challenges still exist but are slowly being addressed by tariffs and cost recovery.

## Automotive & Other Manufacturing

Automotive manufacturing is one of the strongest areas of industrial development in Morocco; this sector is driven by the country's strong trade connections with and proximity to Europe. The government has also extended the sector very attractive incentives. As a result, the sector has enjoyed major FDI inflows. In 2012 French carmaker Renault inaugurated a € 600 million production and assembly plant in Tangier. The plant is built for production capacity of more than 300,000 cars a year headed for the European market. A separate industrial zone called Kenitra Automotive City has also been established; this is where car equipment manufacturers and suppliers for other major car companies operate.

Morocco is leveraging on its success in the automotive sector to build its aeronautics equipment manufacturing industry. Over 90 companies are already operating in a dedicated industrial zone in Nouaceur, and generating over US\$ 1 billion in revenue mostly from international sales.

## Awqaf

Another key area of opportunity is Morocco's well-established awqaf network. The awqaf ministry currently manages over 51,000 commercial, housing and professional real estate. Endowment income jumped by 62% in the last ten years, from MAD 164 million in 2002

to MAD 266 million by 2012. Total income for agricultural endowments alone totaled MAD 70.7 million in 2012. Awqaf asset management could provide lucrative opportunities for Islamic financial institutions.

## Tourism — Muslim market focus

Tourism is another major sector of the Moroccan economy that employs a large proportion of the population. The sector is developed and has always been a key target of FDI into Morocco. There is a growing Muslim tourist niche market that Morocco can certainly benefit from. With its rich heritage and cultural connectivity, Morocco can more actively work to attract this growing market. Muslim tourists represent a major niche market globally worth US\$ 126.1 billion in 2011, with the sector set to grow another 4.8% through 2020. This compares to the global average of 3.8%. The biggest beneficiary of this market has been Turkey, Malaysia, and the United Arab Emirates.

## KEY CHALLENGES

There are three key challenges for foreign investors in Morocco's Islamic finance space:

1. Delay or hiccups in successful implementation of comprehensive suite of regulations for Islamic financial institutions
2. Engaging with local partners for successful market entry with medium to long term benefits
3. Addressing the big gap in educating consumers about Islamic finance to build confidence in this market



Essaouira Morocco — November 2, 2006: Looking down onto people milling around a market taking place in a courtyard Essaouira Morocco.





*Hassan II mosque in Casablanca Morocco Africa night scene*

# STRATEGIC ROADMAP FOR ISLAMIC FINANCE INDUSTRY DEVELOPMENT IN MOROCCO

Morocco's Islamic finance industry potential is to become a regional hub. With an established and stable banking system, stable economy and political environment, and initiatives including the Casablanca Finance City, Morocco is well positioned to become a regional hub.

Morocco should aim to attract Islamic finance investment and banking flows from developed Islamic finance markets led by the GCC, Malaysia, Indonesia, and Turkey. As mentioned earlier in this report, Morocco can attract over US\$ 7 billion in Islamic banking flows from the GCC and Malaysia by 2018 and develop a revenue pool in excess of US\$ 70 million to facilitate Islamic banking flows by 2018. In addition this report estimates potential takaful premiums in Morocco to be US\$ 200 million by 2018.

The potential is substantial but Morocco needs to take definitive steps to build the appropriate ecosystem and infrastructure required to facilitate Islamic banking flows from the GCC and Malaysia. Currently, no country in the region has made any concerted efforts or taken any definitive steps to build the appropriate ecosystem and infrastructure to facilitate Islamic banking flows from the GCC and Malaysia.

## MOROCCO FACES FIVE KEY CHALLENGES TO ATTRACT ISLAMIC BANKING FLOWS

### **Education and Awareness**

Low levels of education and awareness for customers and training for professionals

### **Investment Intelligence**

High information search and transaction cost increasing barriers to entry and transacting. In addition, there is a lack of awareness of investment opportunities in Morocco and the maghreb region

### **Standardisation**

Lack of standardisation of transaction documents

### Professional Connectivity

Poor connectivity for professional community to facilitate transactions

### Social and global relevance

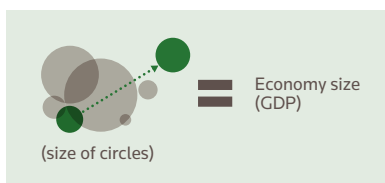
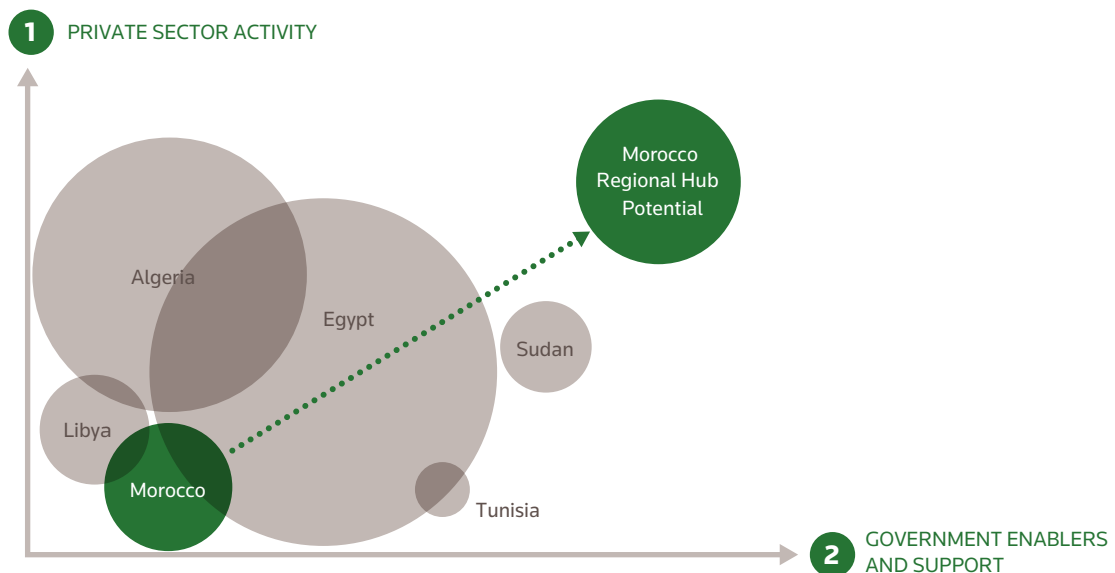
Failing to reach expectations of customers. In addition, engaging non-Muslims/non-religious stakeholders and hence failing to reach critical mass

Addressing these challenges on a strategic regional level will support the development of a sophisticated and inclusive Islamic finance industry. The country already has a strong Islamic finance and economics culture. This

growing talent pool should be leveraged.

However, it should be noted that an overflow of Islamic finance professionals is a possibility with the current growth in education programmes. The industry and government should prepare to leverage this talent pool.

In addition the existing network of associations should be further supported. The newly formed Association Marocaine pour les Professionnels de la Finance Participative – Sharia Compliant (AMFP) should take up the mantle of leading the Industry towards a regional hub status.



**1**

**CRITERIA**

**Islamic Finance Institutions**

- Commercial Banking
- Private Equity
- Takaful Companies

---

**Independent Islamic Finance Transaction Volume**

- Interbank
- Corporate Finance
- Real Estate
- Private Equity

---

**Broader Islamic Finance Activities**

- Conferences
- Trainings
- Education

**2**

**CRITERIA**

**Enabling Regulations**

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**Subsidies**

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**Direct Investment /Financing Support via Government Vehicles**

- Pension Funds
- Government related Entities

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**Infrastructure Development**

- Educational Institutions
- Professional Associations
- Shariah Governance

CHALLENGES	SOLUTIONS FOR MOROCCO	PHASE		
<b>EDUCATION &amp; AWARENESS</b> 	<b>Capacity Development &amp; Knowledge Resources</b> <ul style="list-style-type: none"> <li>Develop human capacity for servicing participation finance transactions</li> <li>Develop full spectrum Arabic/French language knowledge resources to support understanding</li> </ul>	1	2	3
IMPACT: BUILD LOCAL EXPERTISE & AWARENESS IN ISLAMIC FINANCE				
<b>INVESTMENT INTELLIGENCE</b> 	<b>Market &amp; Investment Research</b> <ul style="list-style-type: none"> <li>Develop market research capabilities for Morocco and the Maghreb region</li> </ul>	1	2	3
IMPACT: ATTRACTING ISLAMIC FINANCE INVESTMENTS				
<b>STANDARDISATION</b> 	<b>Standardised Sharia &amp; Legal Framework</b> <ul style="list-style-type: none"> <li>Develop Standardised Sharia Framework</li> <li>Develop Standardised Moroccan Documentation Platform</li> </ul>	1	2	3
IMPACT: ENHANCE INVESTMENT FLOW				
<b>PROFESSIONAL CONNECTIVITY</b> 	<b>Community Facilitation &amp; Support Infrastructure</b> <ul style="list-style-type: none"> <li>Develop connectivity for professional community</li> <li>Develop advisory support for institutions wishing to gain access to participation transactions</li> </ul>	1	2	3
IMPACT: FACILITATING TRANSACTIONS				
<b>SOCIAL &amp; GLOBAL RELEVANCE</b> 	<b>Innovative Branding Approach</b> <ul style="list-style-type: none"> <li>Develop an inclusive ethical and participation based branding vision for participation finance in Morocco</li> </ul>	1	2	3
IMPACT: INCREASING ACCESSIBILITY TO ISLAMIC FINANCE				

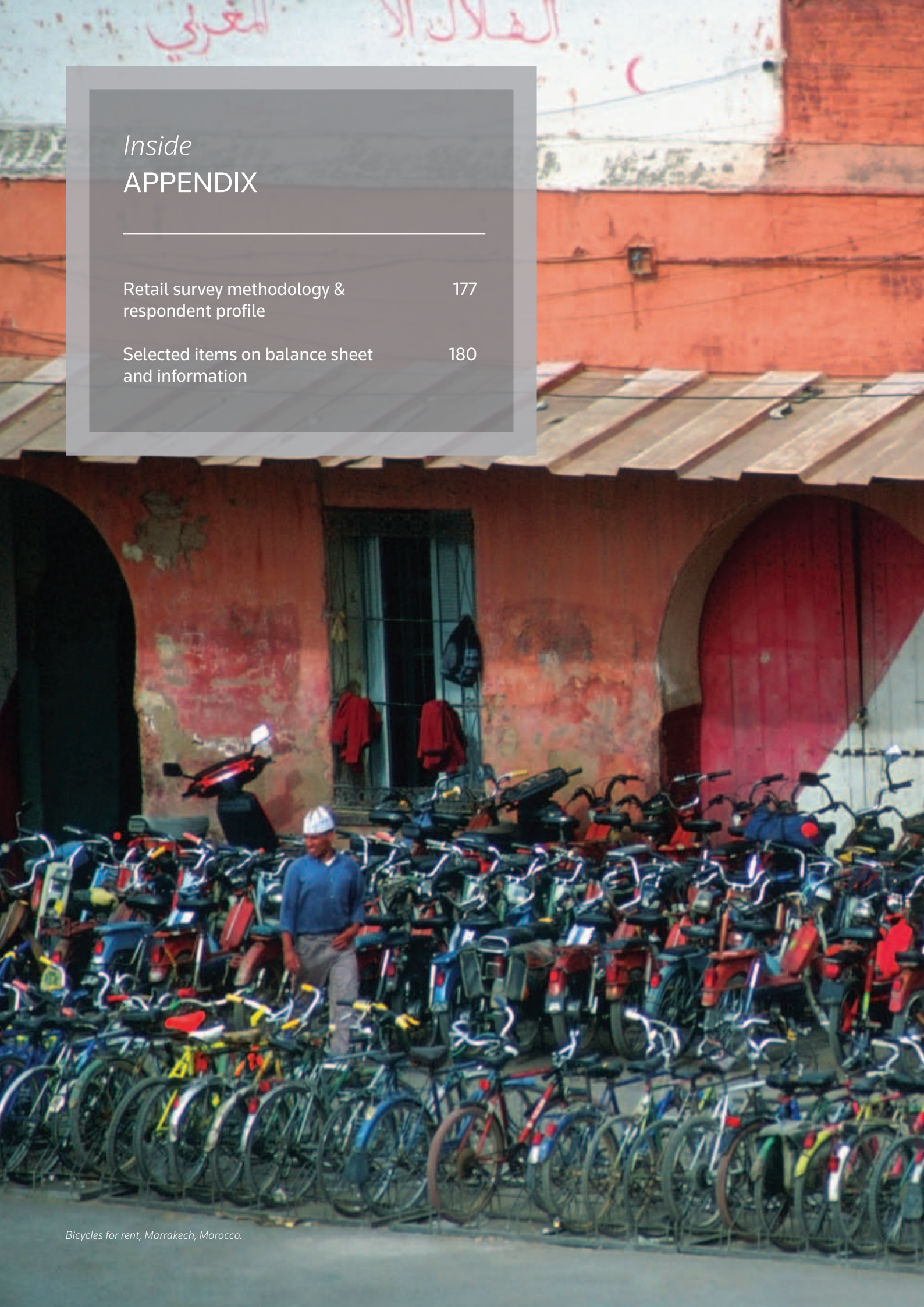


*Inside*  
APPENDIX

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## RETAIL SURVEY METHODOLOGY & RESPONDENT PROFILE

The survey was conducted by Islamic Finance Advisory & Assurance Services (IFAAS) in 2012. The results were first published by IFAAS in their exclusive report entitled, 'Islamic Finance in Morocco – sizing the retail market', analysing the consumer retail market for Islamic financial products and services in Morocco.

### **Aims & Objectives**

The study aims to assess the demand for Islamic financial products in the Moroccan retail market. It analyses the current behaviour of Moroccan consumers vis-à-vis banking and insurance products, and measures their receptiveness, understanding and expectations towards sharia-compliant financial products including banking and insurance sectors.

### **Methodology**

The survey was conducted using a quantitative research method through a structured questionnaire in Arabic and French dispensed face-to-face, in random street interviews.

### **Target Sample**

The target sample was composed of men and women aged 18 to 65, from a variety of socio-economic categories (SEC), living in urban and rural areas of the kingdom and consisted of both banked and unbanked groups of the population.

### **Fieldwork**

The interviews were conducted by trained independent researchers from March 19 to 29, 2012. No incentives were given to the respondents.

### **Sample Selection**

The study was conducted on a weighted sample size of 813 individuals, reflecting



a true representation of the Moroccan consumer market.

The sample was constituted using quotas for variables including age, gender, residential area and SEC.

### Geographic Coverage

The questionnaire was distributed in a wide range of cities in Morocco. 22% of respondents were in Casablanca, the capital Rabat had 17% of respondents, and other cities – Marrakech, Fes, Agadir and Oujda each contributed between 11% and 14% of respondents. The selection of these cities determine a fair balance between urban and rural areas to ensure a more representative social-class sample. The figures below represent the geographic coverage of the survey in relation to the population of the geographies covered.

### Gender Distribution & Age Structure

The gender distribution of the survey respondents is 73% male and 27% female. The gender distribution is evidently skewed towards males. The ratio of males to females in the general population is 0.97 male(s)/female.<sup>41</sup>

The largest number of respondents was from the 25 to 34 age group (27%), followed closely by the 18 to 24 age group (22%). The smallest group was the 55 to 65 age group. This age structure representation of the survey respondents is consistent with the relatively young median age of the country (27 years 1).

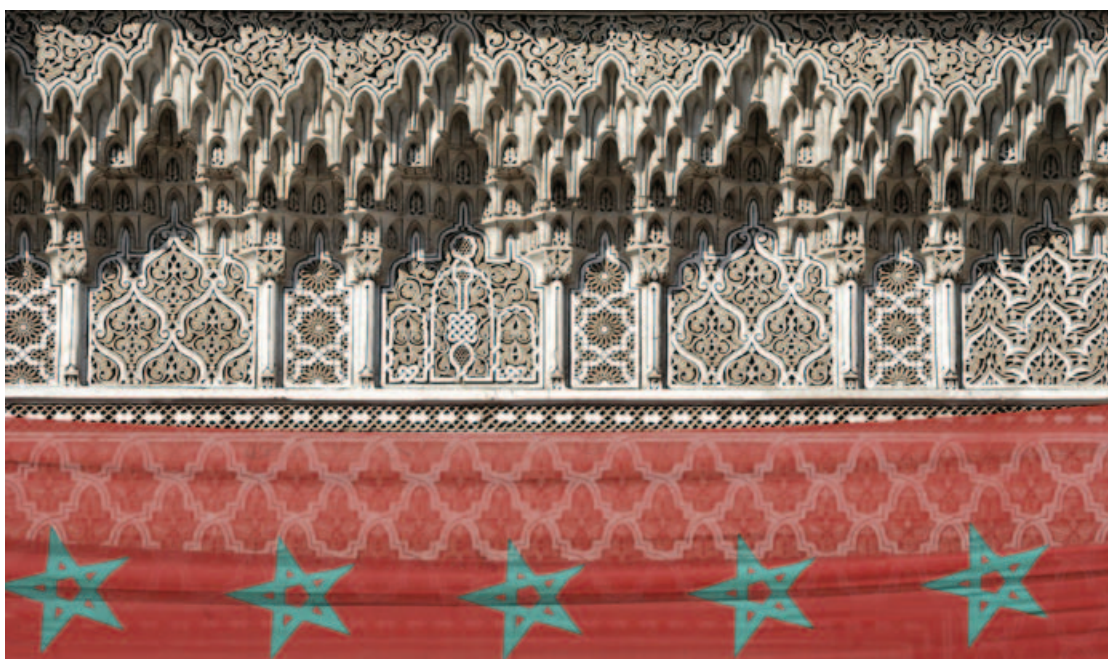
### Income Levels

25% of respondents preferred not to disclose their household or personal income. 77% earned more than MAD 2,500 monthly in household income and 23% of respondents' family income was less than MAD 2,500. 15% of respondents' total income was between MAD 5,001 and 8,000. 16% of respondents earn more than MAD 5,000.

### Education

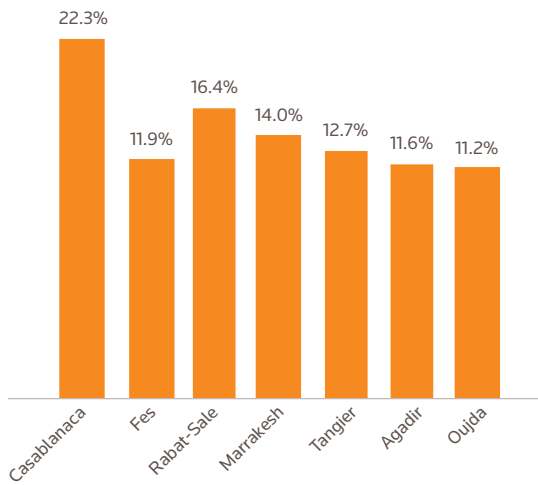
With respect to the level of education, 41% do not hold any qualification. 19% of respondents hold a University Diploma, and 10% have a Baccalaureate.

41 The CIA World Factbook (2013).

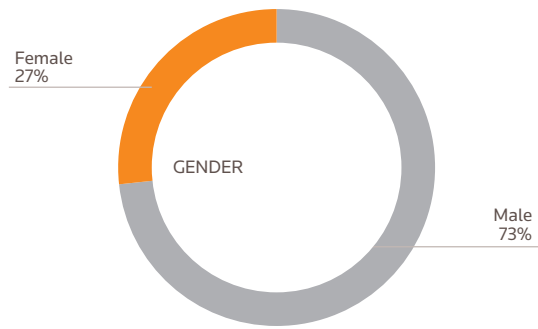


Rich decorated exterior of Marrakech high school, Morocco.

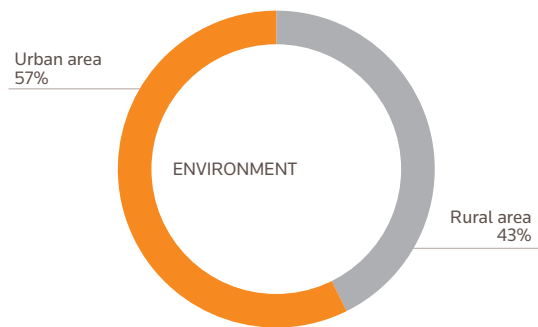
### Region



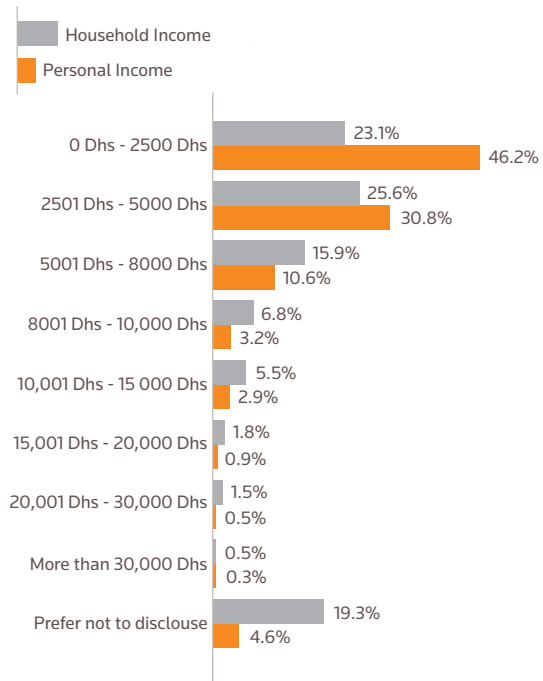
### Gender



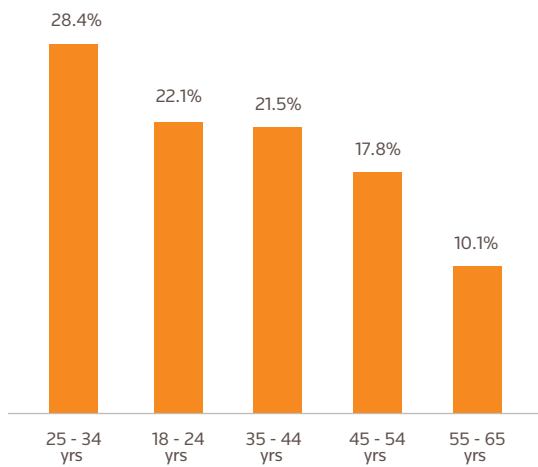
### Environment



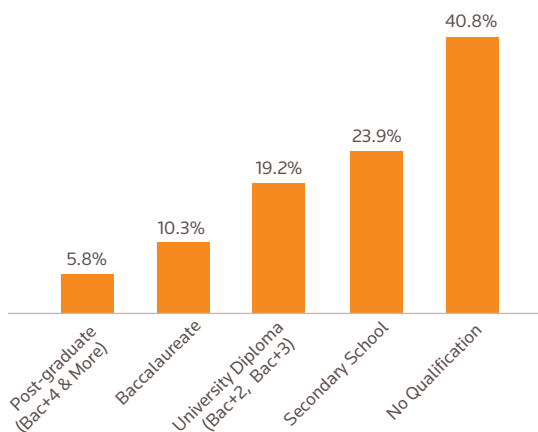
### Monthly income



### Age



### Education level





# SELECTED ITEMS ON BALANCE SHEET AND INFORMATION

## Banks' aggregate management balance statement – Morocco business

MILLIONS MAD	2008	2009	2010	2011	2012
+ Interest income and similar products	33,595.0	36,712.7	38,941.8	42,276.4	45,405.0
- Interest expenses and similar fees	12,269.1	14,214.4	14,111.2	15,496.4	17,044.7
<b>Net Interest Income</b>	<b>21,325.8</b>	<b>22,498.4</b>	<b>24,830.6</b>	<b>26,780.0</b>	<b>28,360.3</b>
+ Income from leased/rent fixed assets	97.8	103.8	117.5	146.5	152.1
- Fees of leased/rent fixed assets	78.9	89.5	99.4	135.5	102.1
<b>Net position on leasing and rent operations</b>	<b>18.9</b>	<b>14.3</b>	<b>18.1</b>	<b>11.0</b>	<b>49.9</b>
+ Commissions received	3,843.8	4,031.8	4,494.9	5,162.0	5,748.8
- Commissions paid	232.2	249.9	386.4	370.0	415.4
<b>Income from commissions</b>	<b>3,611.6</b>	<b>3,781.9</b>	<b>4,108.4</b>	<b>4,792.1</b>	<b>5,333.3</b>
± Income from securities transactions	598.7	1,097.2	1,318.6	1,728.5	2,046.9
± Income from securities investment	375.7	413.3	470.3	389.2	29.8
± Income from exchange operations	1,315.9	1,566.7	1,654.9	1,567.9	1,428.6
± Income from derivatives operations	75.1	129.1	221.9	191.1	213.7
<b>Net position from market operations</b>	<b>2,365.3</b>	<b>3,206.4</b>	<b>3,665.6</b>	<b>3,876.8</b>	<b>3,718.9</b>
+ Income from other banking services	1,192.5	1,838.5	1,807.6	2,022.7	2,879.4
- Other banking expenses	1,306.4	1,386.9	1,587.2	1,594.0	1,762.3
<b>Net banking income</b>	<b>27,207.8</b>	<b>29,952.5</b>	<b>32,843.2</b>	<b>35,888.5</b>	<b>38,579.5</b>
± Position on financial assets	200.5	631.1	36.6	-277.2	-133.5
+ Other non-banking operating incomes	491.2	418.0	320.8	440.2	350.7
- Other non-banking operating fees	247.2	297.0	75.9	105.3	101.1
- General operating expenses	13,031.1	14,224.3	15,221.4	17,199.4	18,321.1
<b>Gross Operating Income</b>	<b>14,621.2</b>	<b>16,480.3</b>	<b>17,903.3</b>	<b>18,746.8</b>	<b>20,374.5</b>
Allowance net of write-off of provisions	-1,981.5	-2,741.1	-3,276.1	-3,838.2	-5,717.4
<b>Current Result</b>	<b>12,639.7</b>	<b>13,739.2</b>	<b>14,627.2</b>	<b>14,908.6</b>	<b>14,657.1</b>
<b>Non-Current Result</b>	<b>-58.7</b>	<b>-184.2</b>	<b>-483.9</b>	<b>-84.9</b>	<b>-59.9</b>
- Taxes	3,973.4	4,337.2	4,424.4	4,763.5	4,706.7
<b>Net Profit</b>	<b>8,607.6</b>	<b>9,217.8</b>	<b>9,719.0</b>	<b>10,060.1</b>	<b>9,890.5</b>

Source: Bank Al-Maghrib.

**Development of Selected Items from the Management Balance Statements of Credit Finance Companies**

MILLIONS OF DIRHAMS	2008	2009	2010	2011	2012
+ Interest income and similar products	2935.0	3461.0	3759.6	3871.1	3754.0
- Interest expenses and similar fees	1094.7	1321.8	1431.5	1483.3	1515.6
<b>Net Interest Income</b>	<b>1840.3</b>	<b>2139.2</b>	<b>2328.0</b>	<b>2387.8</b>	<b>2238.4</b>
+ Income from leased/rent fixed assets	4057.7	3818.0	3093.9	2477.2	2778.3
- Fees of leased/rent fixed assets	3536.2	3355.9	2724.9	2125.7	2359.8
<b>Net position on leasing and rent operations</b>	<b>521.5</b>	<b>462.2</b>	<b>369.0</b>	<b>351.5</b>	<b>418.5</b>
+ Commissions received	243.5	285.5	308.2	382.7	456.8
- Commissions paid	22.6	39.4	74.6	81.8	73.5
<b>Income from commissions</b>	<b>220.9</b>	<b>246.0</b>	<b>233.6</b>	<b>300.8</b>	<b>383.3</b>
<b>Net position from market operations</b>	<b>4.4</b>	<b>3.7</b>	<b>1.2</b>	<b>0.3</b>	<b>2.5</b>
<b>Net banking income</b>	<b>2642.3</b>	<b>2903.9</b>	<b>2977.1</b>	<b>3093.2</b>	<b>3097.9</b>
- General operating expenses	1090.3	1151.9	1127.2	1196.3	1253.6
<b>Gross Operating Income</b>	<b>1639.5</b>	<b>1822.5</b>	<b>1911.8</b>	<b>947.4</b>	<b>1937.6</b>
Allowance net of write-off of provisions	-263.0	-625.8	-871.8	-718.0	-600.8
<b>Current Result</b>	<b>1352.9</b>	<b>1267.0</b>	<b>980.1</b>	<b>1177.9</b>	<b>1404.6</b>
- Taxes	509.5	458.6	462.4	464.4	499.5
<b>Net Profit</b>	<b>848.4</b>	<b>828.8</b>	<b>590.5</b>	<b>733.1</b>	<b>876.1</b>

Source: Bank Al-Maghrib.

**Development of selected items from the management balance statements of Development of Financial Leasing Companies**

MILLIONS OF DIRHAMS	2008	2009	2010	2011	2012
+ Interest income and similar products	13.1	3.6	7.8	10.2	1.7
- Interest expenses and similar fees	1116.0	1398.3	1549.2	1635.6	1750.1
<b>Net Interest Income</b>	<b>-1102.9</b>	<b>-1394.7</b>	<b>-1541.4</b>	<b>-1625.4</b>	<b>-1748.5</b>
<b>Net position on leasing and rent operations</b>	<b>2051.1</b>	<b>2336.4</b>	<b>2521.4</b>	<b>2716.7</b>	<b>2847.3</b>
<b>Income from commissions</b>	<b>-9.1</b>	<b>-5.6</b>	<b>-5.2</b>	<b>-4.5</b>	<b>-5.7</b>
<b>Net banking income</b>	<b>938.2</b>	<b>935.4</b>	<b>974.2</b>	<b>1087.3</b>	<b>1095.7</b>
- General operating expenses	249.6	267.4	271.1	277.9	294.2
<b>Gross Operating Income</b>	<b>688.4</b>	<b>671.8</b>	<b>702.8</b>	<b>808.6</b>	<b>803.1</b>
Allowance net of write-off of provisions	-49.4	-104.4	-125.4	-194.4	-321.0
<b>Current Result</b>	<b>639.0</b>	<b>567.4</b>	<b>577.4</b>	<b>614.2</b>	<b>482.1</b>
<b>Non-Current Result</b>	<b>10.2</b>	<b>18.5</b>	<b>-5.4</b>	<b>2.8</b>	<b>-5.8</b>
- Taxes	232.1	221.4	210.5	234.0	186.2
<b>Net Profit</b>	<b>417.1</b>	<b>364.6</b>	<b>361.4</b>	<b>383.0</b>	<b>290.0</b>

Source: Bank Al-Maghrib.



*Bab Boujelud Gate in Fes, Morocco.*

# CONTRIBUTORS

## Main Authors

### THOMSON REUTERS



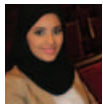
**Emmy Abdul Alim**  
Editor



**Mustafa Adil**  
Head of Research & Product Development



**Ammar Radhi – Project Leader**  
Research & Product Development Manager  
– Emerging Markets Specialist



**Ameena Al-Haddad**  
Senior Research Analyst

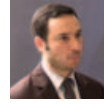


**Yusuf Radhi**  
Senior Research Analyst



**Redha Al-Ansari**  
Senior Sukuk Specialist

### ISLAMIC RESEARCH & TRAINING INSTITUTE



**Dr. Mahmoud Sami Nabi**  
Senior Researcher Economist – Team Leader



**Dr. Turkhan Ali Abdul Manap**  
Senior Researcher Economist



**Dr. Abdallahi Mohamed**  
Senior Sharia Specialist



**Dr. Abdelrahman Elzahi**  
Senior Researcher Economist



**Ahmad Fadhlan Yahaya**  
Sharia Specialist



**Mehmet Fehmi EKEN**  
Financial Analyst



**Dr. Nasim Shah Shirazi**  
Senior Researcher Economist

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## Consultant



**Rafi-uddin Shikoh**  
Managing Director, DinarStandard™

## Survey Executive Partners

IFAAS

**IFAAS**  
ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES





# NOTES

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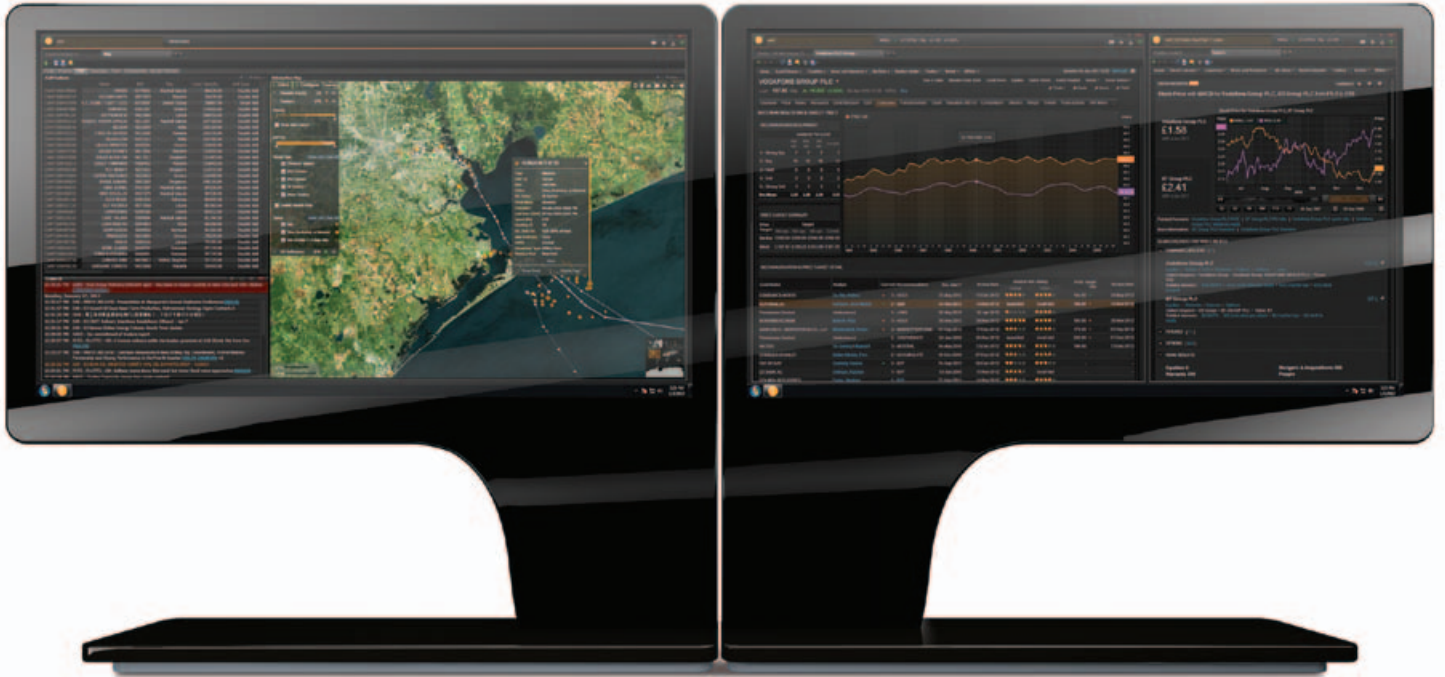
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CONNECTING THE GLOBAL FINANCIAL COMMUNITY WITH  
*NEW WAYS TO PROSPER*



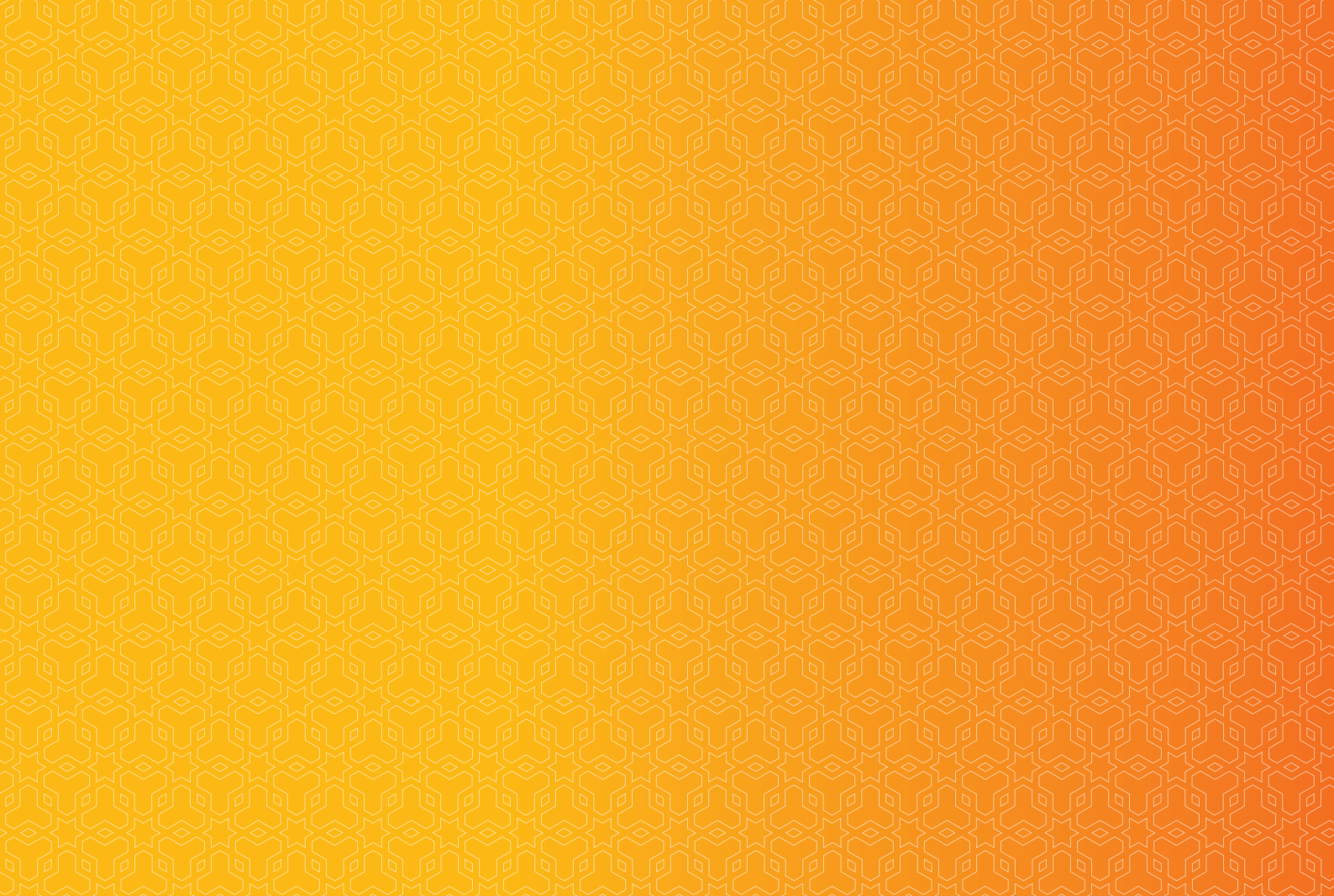
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