

Tax neutrality and its impact on the development of the participative banks: benchmark approach Morocco – Leading Countries

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Abstract: Financial industry always provoked interest as well on behalf of powers public as private actors, she allows to accompany economic development and social by the encouraging and adequate financing. On the other hand, new economic order worldwide imposed on the different countries to adopt an opening politics in relation to the financial systems not conventional for which the regulatory and fiscal devices are lacking. In this configuration, the present article treats the tax impact of neutrality in relation to the participative banks as financing alternative and mode of financial partnership with the rest of the world, and in this case the Asia and Means east. Further to an approach Benchmark with leading countries and one based on Key success factors, we could disassemble this correlation who allows to sit an encouraging fiscal policy for the investors and equitable in relation to the mode of financing conventional. Tax neutrality increases the attractiveness of foreign direct investments, offers an alternative financing for both companies and individuals, encourages the establishment of participatory banks and increases trade with countries that have adopted the participatory system. The demystification of this new financing device by mass communications, to inhibit the action of lobbies, to mobilise the actors of the financial sector, to sit a real will of the state and an adoption of a neutral tax system will allow assurance an emergence of the participative banks in Morocco.

Keywords: tax neutrality; participative banks; benchmark approach; Key success factors.

Digital Object Identifier (DOI): <https://doi.org/10.5281/zenodo.6591164>



1. Introduction:

The banking servuction has always aroused a great interest among the different economic actors and political leaders because of its inescapable role in the development of the economic dynamics and support of different sectors of activity.

This preponderant place of expanse and efficiency of banking industry has to accompany the needs of both firms and individuals following the example of the financial crisis of 2008. The finance industry has converged towards new ways of operating in order to compensate for the alternative of financing propelled by the conventional banks.

This new paradigm has been reinforced by experiences piloted by precursor countries in the field of participative finance, in this case Malaysia, which represents a system of the veracity of this alternative financing based on the Koranic precepts and which aims at the economic and social dynamics in a win-win logic rather than the search for profit by the establishment of an interest rate relative to the cost of the money mobilized by the conventional banks during a financing operation.

Referring to the importance given to the financial system and its flexibility (organizational, regulatory, fiscal and managerial), it is undeniable to concord the importance of the economic dynamics by support and accompaniment of the private and public sector to the modernization of the financial system and its capacity to participate actively in the attractiveness of the direct foreign investments and to play its major role in peace and social committees. It is a horizontal vector that allows to support the different restructuring and development projects, both micro and macroeconomic.

As our current subject is concerned, there is no doubt that **the problem of tax neutrality represents the centre piece of the development of participative banks**. The flowing question will help us answer to our subject issue:

- **How have participative Banks seen the day In Morocco?**
- **What is the context of application of the Benchmark approach?**
- **What is the operating mode and process of the Benchmark approach?**
- **What are the key success factors of the development of participative banks in the precursor countries of our Benchmarking approach, namely Malaysia, the United Kingdom and France?**
- **What are the factors and determinants of tax neutrality in Morocco under an efficient development of participative banks?**

2. Context and reference framework of participative banks in Morocco:

According to the historical panorama, participative finance "Islamic finance" is referred to as an "exotic niche", because it is limited to the Muslim population (G. Causse, 2010).

In addition to its capitalist dimensions, it has moral and socially responsible vocations (F. Gueranger, 2009). Moreover, participative finance is intended to be a model that is both ethical and profitable, since it relies on ethical, moral, social and religious factors.

It also encourages honesty, trust, respect for others and social justice. Apart from financing which is the fundamental principle of capitalism, it looks after the respect of individual and collective values.

As Morocco is concerned, The Moroccan financial system was for a long time closed to the international Islamic banks. Since about fifteen years, many Islamic Banks asked to join The Moroccan Banking circuit, but their requests were refused by the Moroccan monetary authorities.

In fact, the Taboo character linked to Islamic finance in Morocco provoked a collective dialogue allowing the evidence of the appearance of Participative Banks and driving Bank Al-Maghreb (the Moroccan Central Bank) to finally bow to the pressures of the banking market by announcing; on October 2007; the introduction of Islamic products in accordance to the rules of Sharia. These new banking products were called «**alternative Products**».

We have to note that The Moroccan central bank sets the obligation to name these products "**Alternative Products**" by avoiding the use of the adjective «**Islamic**» and avoiding any use of Islamic reference during sale and advertising campaigns (El Meziane, 2013).

In the meantime, The Moroccan Central Bank collaborated with a group of professionals in Banking (**GPBM**) in order to create a guide that explains the way of commercialising those products, in which it was clearly mentioned that it was forbidden to use "*Any religious mention, such as halal, fukah, fatwa, Islamic, shariaa, religious consulting*" during sale campaigns.

Actually, in spite of the interest carried by clients and prospective buyers to the participative finance products, this new banking solution confronted many difficulties for its establishment.

There were multidimensional pressures: commercial, fiscal... We choose to list the following elements:

- **Non conformity of Sharia rules:** Even if the Moroccan Government accepted the creation of Alternative products, these products were meant to be commercialised by the normal conventional banks. This statement was alarmed by Sharia Board, as its resources were considered as not halal.
- **High prices:** As everyone knows, any new product has to be attractive comparing to the products that already exist in the market. Unfortunately, this was not the case of the products that the Islamic banks offer, as the cost of the mortgage is based on the evaluation of the final price which generates additional cost that has to be taken in charge by the client, unlike conventional products that use a variable rate of interest. (EL OMARI ALAOUI and MAFTAH, on 2012).
- **Lack of competences:** As they were new to the Moroccan banking Market, the islamic banks confronted a lack of competences of their employees since no Moroccan university used to offer Islamic Finance programs. By the appearance of Islamic banks, the government urged the necessity of the creation of Islamic finance programs in universities, which opened new branches of master degree programs and modules to palliate the specific needs of competences.
- **Lack of a promotional communication strategy:** The effective implementation of alternative products in Morocco was initiated with the support of a guide indicating the different aspects of their communication. This professional guide was developed in agreement with Moroccan banks, its objective being to avoid the use of religious arguments during the marketing process of such products (BAM, 2007).
- **Weak commitment of banking sector:** The success of the participative banks in other Muslim countries was a real threat to conventional banks, which lead them to get organised on a sort of lobby and concentrate their efforts in order to hinder the creation or emergence of a participatory banking system.

- **Fiscal Constraints:** The Moroccan fiscal System was among the obstacles that slowed down most the evolution of the alternative products in Morocco. It was clearly not adapted to these products. Actually, the key product of alternative solutions “**Mourabaha**” was very penalised, as it was doubly taxed both on VAT and in tax registration fees, due to the fact that it contains two contracts of property transfer.

On 2014, and in spite of all the constraints cited above, three circulars of « **BANK ALMAGHREB** » finally appeared on the official bulletin, creating the new banking **law 103.12** of credit institutions and assimilated organisms, and setting up a panoply of new alternative products such as: **Mourabaha, Ijara, Moucharaka, Moudaraba, istisnaa and Salam**, and also fixing the modalities of their marketing, and the procedure of granting agreements.

3. Purpose of Benchmark:

« Benchmarking means to asset a competitive optics to get improved.

Benchmarking is dynamic. It is a big incentive not to remain immobile. » (Laurence Parisot, during the convention of Medef in 2008).

If benchmarking is considered as a group of tools allowing to measure and to compare, measure **is not its objective** in itself.

It is in the name of transformation of firms, products, Countries, public policies or even individuals that this technology is aiming to be used.

First invented by the world of industry, then used in private companies, this method has gradually spread to the field of public action. Its discourse, promising improved performance, through a technical paraphernalia (charts, indicators, dashboards, bonuses, etc.) has penetrated the country, accompanying its "modernization" effort.

Quantifying activity through indicators, setting targets, comparing results achieved with a view to a "performance race", establishing best practices to serve as benchmarks, publicizing results. It is to this set of tools, which culminate in dashboards, rankings or barometers, that the authors give the name benchmarking. They then show how this new public quantification (NQP) is linked to the New Public Management (NPM) and its implementation through the General Review of Public Policies (RGPP) and the Organic Law on the Finance Act (LOLF), the former inspired by so-called reengineering methods aimed at reorganizing the country, the latter introducing efficiency measures in the management of public budgets.

Benchmarking is presented as "a technique of power. It redistributes hierarchies, reorders values, governs desires and enlists wills. This tool would have allowed the rise of a new "managerial" elite, cutting itself off "from the mass of those it continuously subjects to its evaluation and classification systems". It is presented as a neutral and benevolent technique.

Actually, Benchmarking is the tool that can help the development of participative banks in Morocco.

In order to answer our subject's issue, it was undeniable to embed the benchmark approach in order to establish a benchmarking system through the prism of precursor countries (France, Malaysia and England), through a synthesis of key success factors determining the tax neutrality and allowing a

development of participatory banks in Morocco.

4. Key success factors of tax neutrality in the precursor countries mobilized in the Benchmarking approach:

Malaysia	England	France
Flexible definition of the sharia	Effective impact of participative finance in terms of financial and socio-economic results	International opening to Golf Region countries
Inclusion of Islamic products to the general population despite religious orientation	Inclusion of Islamic products to the general population despite religious orientation	Strong Muslim population
Effective commitment and voluntarism of the country	Integration of all stakeholders with responsiveness and prior study	High banking rate
Economic openness and geostrategic location		Significant purchasing power
Well-founded legal and regulatory framework		Regional integration of regulatory and fiscal arrangements

Following the results that we got according to benchmark approach in comparison to three leading countries, three types of factors were identified:

- **Endogenous factors:** For which the country's action is effective and can undergo a change.
- **Exogenous factors:** which are related to geographical position, different changes, and international politics. For these factors for the country action is weak for change.
- **Qualitative factors:** it is also necessary to take into consideration the qualitative aspects that are related to the human element in terms of management style, responsible governance, and corporate culture.

5. Positioning of Morocco and application of the Benchmark:

At this level, we use the benchmark result to identify the key success factors that can underpin a tax neutrality system in Morocco. To do so, we rely on three factors: first, the geographical position, second, the historical capital of economic exchange and third, the presence of a Muslim population.

Morocco's geopolitical position (as a link between Africa and Europe) has allowed the kingdom to benefit from the expertise of the leading countries in terms of financial systems through the ratification of international conventions and agreements.

This strategic orientation based on the opening on the international level has allowed the kingdom to

capitalize on the achievements in the exercise of the profession and to implement a culture based on modernity, competence, efficiency of the banking service and the bank insurance system; thus it occupies the second largest place in Africa and the first in the MENA region.

To apply predictive analysis, we include the adjustment variables, which allow us to assess the economic and social conditions of the Kingdom which influence the monetary policy in accordance with international conventions and the Basel guidelines. Thus, in order to understand the selected variables, we took into consideration the observations dressed through the annual reports of different agencies and official sources.

Variables	Signification	Sources
Market	Consumption potential	HCP
Growth rate	Economic Development Index	HCP
Opening rate	Export and trade capacity with the world	Foreigntrade
Aggregate M3	Financial Sector Development Index	BAM
GDP	Size of the economy	BAM – HCP
Exchange rate	Monetary fluctuation	BAM

Figure 1 : List of adjustment variables and their sources

6. Analysis plan and stratification of tax neutrality factors:

In terms of predictive analysis, our methodological approach will be in line with the results of the field investigation and the benchmark system. Thus, it will be based on the following steps:

- **Qualification of the data:** first of all, once we have retained the exogenous variables that allow us to explain the dependent variable, it is necessary to qualify this database by a series of tests; in this case, the normality, significance and stationarity of the observations. This step allows us to validate the data base through the time series that make up our starting point;
- **Descriptive analysis:** Before starting the estimations and in relation to the evaluation of the degree of stability of the variables over time, we proceed with a descriptive analysis of the variables selected in order to appreciate their evolution over time and thus to be able to note if the reaction of these variables could have been influenced by an exogenous event which risks having a non-linear and differential increase or regression in relation to the average of the other years. At this level we will know whether to delay the model by one year or more or even to eliminate the variable selected by constant or punctual restrictions (this is the case of the crisis of 2008, the Arab Spring of 2011 or the Covid 19 pandemic of the year 2000);
- **Combinatorial least squares and principal components analysis:** in order to extract the most significant variables to be able to explain the determinants of fiscal neutrality we carry out this type of analysis. These selected variables will be the only ones that will feed the proposal of the tax system to be applied for the participative banks in Morocco.
- **Predictive analysis by means of linear regression:** The objective is not only to analyze the elements of the past, but rather to be able to estimate the evolution of this situation in the future and that is why we undertake this type of analysis which in turn will be the basis of the final recommendations that we make at the end of this article.

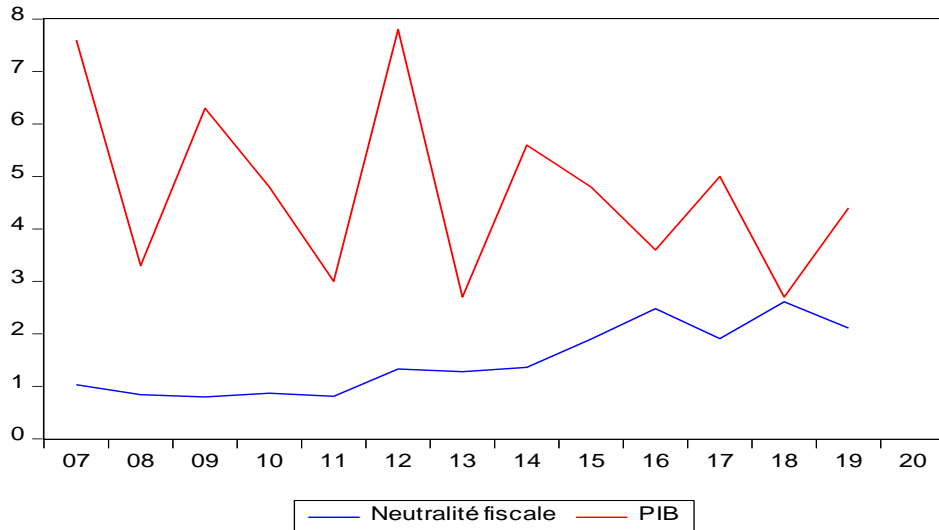


Figure 2: Evolution of the GDP since 2007 in 2020

Source: quantitative inquiry accomplished by our care and treated under E-Views

Referring to the two parameters GDP and the size of the market represented by the variation of household spending in comparison with economic growth, we can confirm that GDP significantly influences the tax system. This finding is justified by the exponential equation of the order of 0.1434 with respect to each flow.

On the one hand, we can confirm that the contribution of GDP combined with household spending is of the order of 14% in the evaluation of the tax system and consequently in the final decision to finance participative banks.

On the other hand, it should be noted that this situation is associated with a correlation index of the order of 4.939 in negative sign, which means that the influence of economic dynamics is proportional to the proportion of variation of household spending in relation to economic growth by 14%. Therefore, economic performance as an exogenous factor represents a determinant of the tax system in participative banks.

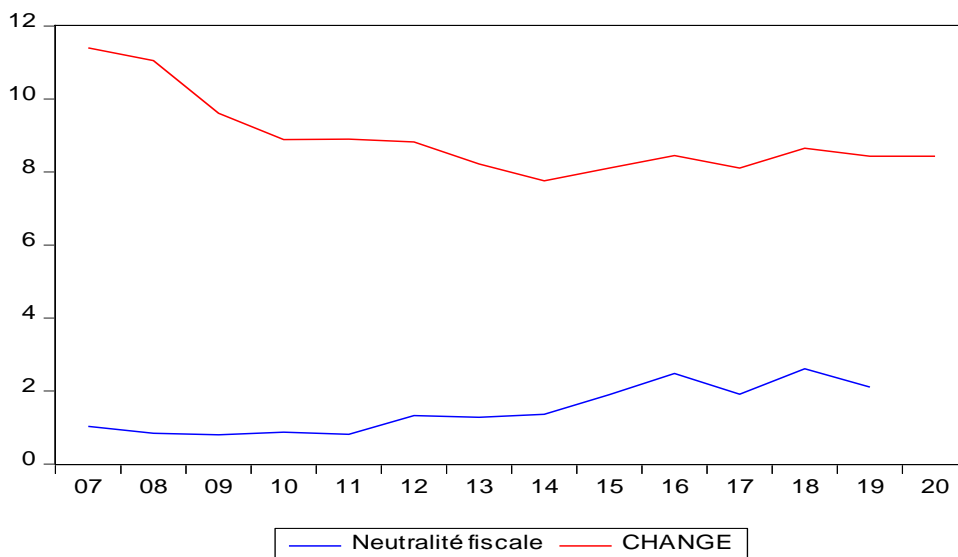


Figure 3: Evolution of credit decisions and exchange rate from 2007 to 2020

Source: quantitative survey conducted by us and processed in E-views

According to the graph above, we can identify perfect concordance between the two fluctuations (the tax system by its neutrality and the change rate against the Dollar), this asymmetrical combination of data allows us to confirm strong correlation between the two variables and consequently the presence of the positive impact that confirms this determinant as an exogenous factor in the implementation of a tax decision.

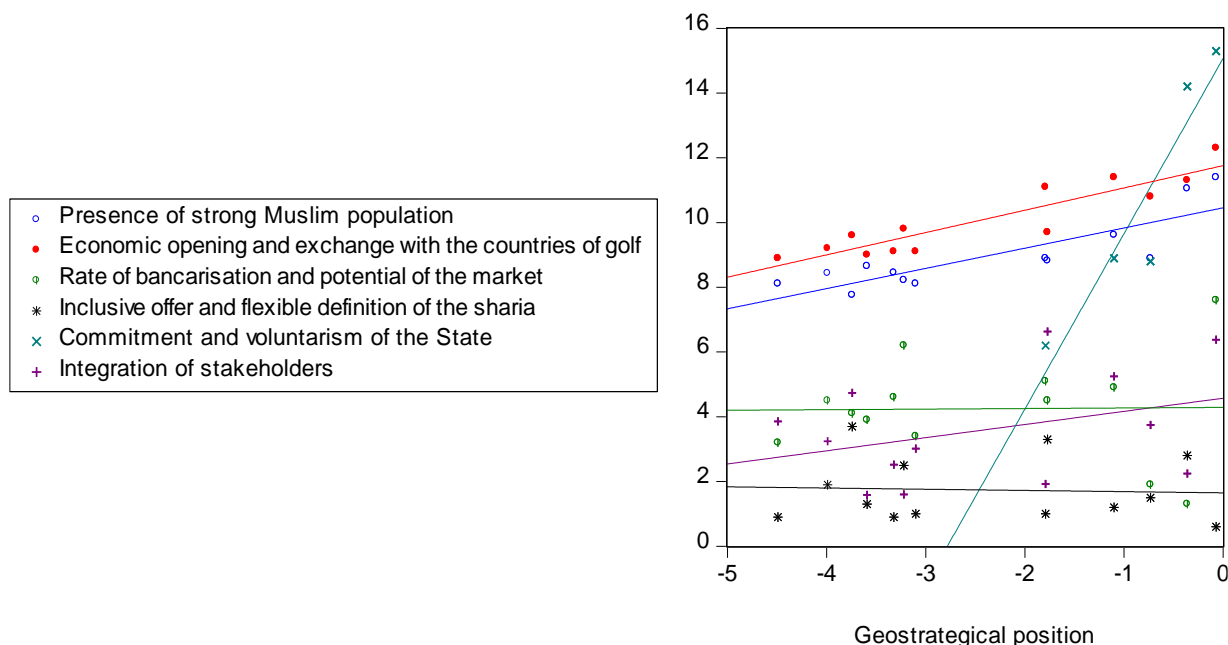


Figure 4:actor analysis CFA through linear regression of determinants during the period 2007-2020

Source: quantitative survey conducted by us and processed in E-views

Factor analysis allows us to highlight the most significant variables in order to explain the variance and to feed the data set that will be the basis for estimating forecasts up to 2025; to do this, we have selected the six variables that are part of the causality analysis and that represent the three dimensions (endogenous, exogenous and qualitative).

As shown in the graph above, which represents the simple regression of the six variables in consideration of the geographical position, a concentration is observed in the two variables: banking rate and the degree of economic openness with the Gulf countries; also, a second concentration is identified in the country commitment and the high Muslim population; To do this, it is essential to calculate the smoothing index R2 in order to justify the error term associated with a confidence index that will be between 95 and 98%, moreover the development of participatory banks following the adoption of a neutral tax system.

7. Key success factors and application of the benchmarking system

Key successfactors	Benchmark Morocco
StrongMuslim population	Force
High Rate of bancarisation	Weakness
substantial purchasing power	Weakness
International opening with the countries of golf	In perspective
Perspective of economic and financial evolution in terms of aggregates	Force
Regional integration and regulatory and fiscal arrangements	In perspective
Inclusion of Islamic products to the general population despite religious orientation	In perspective
Effective commitment and voluntarism of the country	Weakness
Flexible definition of the sharia	In perspective
Economic openness and geostrategic location	Force
Well-founded legal and regulatory framework	Weakness
Sharia-compliant inclusive offer without indexation of Islamic nomination	Force
Integration of all stakeholders with responsiveness and prior study	Weakness
Effective impact of participatory finance in terms of financial and socio-economic results	In perspective

The factors that are colored green represent achievements for Morocco that must be maintained; while the factors that are put in yellow require a development in order to perfect the encrustation of the participative banks based on the model of leading countries; on the other hand, the factors put in red represent a considerable weakness and requires a complete reorganization.

Taking into account these results, we can add mass communication towards the general public, the development of the implantation of the different agencies all over the country and the adaptability of a regulatory and fiscal system that guarantees neutrality in order to ensure an efficient and perennial growth of participative banks in Morocco.

By taking into account these results, we can add communication toward general public, alerting lobbies, establishment of different agencies all over the kingdom and adaptability of a regulation and tax system which guarantees neutrality to assure the efficient and permanent growth of the participative banks in Morocco.

8. Qualitative elements referring to human capital:

Qualitative criteria, which stem from the management team's ability to steer the company's activity and guarantee its sustainability, are considered important aspects in the governance of participative banks.

a. Management style:

This aspect concerns the effective willingness of the management team to put in place organizational processes that allow the development of employees' skills: autonomy, leadership, participative management, etc.

b. Organisation and management:

Concerning the company's operating mode, managers often set up an organizational system that favors the centralisation of powers. In addition to management tools, criteria relating to identity, corporate culture and management of high potentials are taken into consideration in the qualitative evaluation of credit risk.

Conclusion

In term of conclusion, Following the benchmark approach that we have set up according to a system of comparison with leading countries, we have been able to identify the key success factors and determinants of a neutral tax system that will allow Morocco to succeed the emergence of participative banks relying on the experiences of leading countries like Malaysia, the United Kingdom and France.

Actually, the kingdom of Morocco could adapt its tax system to receive this new mode of financing. The legislator was aware of the role which the taxation can play to flatten divergences which existed between both modes of classical and participative financing, and also in development of participative banks on the condition of assuring a neutrality.

For that, different tax provisions were progressively introduced to lighten the tax cost of these products, but the tax approach qualified of drop with drop remains deficient to arrive at desired tax neutrality.

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