

## Exploratory study of Islamic Social Finance in Morocco

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### ABSTRACT

Islamic Moral Economy emerged in the late 1960s aiming for the Islamic financial ecosystem to finance the real economy. Practical experiences exhibited double-digit growth of the financial performances of Islamic banking and financial institutions. However, the social purpose of these institutions was lacking. Indeed, one of the biggest critics of the modern Islamic Finance industry are its weaknesses in terms of social performances. Many researchers mourn the lack of an effective institutionalization of the Islamic principles mentioned in religious sources that could alleviate poverty; such as Zakat, Waqf and Qard Al Hassan. Institutionalized Islamic social models are deployed and presented as solutions to overcome the issue. As for that, several initiatives have been developed all around the Islamic world, using local and governmental initiatives alongside with other Islamic-based actions; in order to alleviate poverty and unemployment, and to encourage investments and entrepreneurship of a targeted population's financial inclusion. In Morocco, although social Islamic finance does not exist under this denomination; several initiatives launched by the governmental institutions, the civil society and sometimes even by individual and informal actions are taking place. Most of these are backed by Islamic principles as it has been religiously, historically and culturally inherited in the Moroccan society.

**Keywords:** Islamic Social Finance, Zakat, Awqaf, Qard Al Hassan.

### الملخص

تسعى هذه الورقة إلى البحث في جوانب مختلفة من الوقف النقدي في المغرب بما في ذلك الحلفية الدينية، التشريعات القانونية وكذا أشكال تطبيقاته الحديثة. لقد تم تصميم استبيان لاستطلاع الرأي العام حول الموضوع وتوزيعه عبر الأنترنت على مئة من المشاركين يمثلون خلفيات تعليمية ومهنية مختلفة. وقد تم الحصول أيضا على بيانات ثانوية من خلال متن البحث المرتكز على الكتب و المقالات و التقارير وكذلك المواقع الإلكترونية. و تشير النتائج إلى أن الوقف النقدي، إذا تم تطبيقه في المغرب بالشكل الصحيح،

سيساعد بشكل فعال على الحد من البطالة و التخفيف من حدة الفقر و بالتالي زيادة الثقة بين المزيد من المغاربة للمساهمة في النمو الإقتصادي و في رفاهية مجتمعهم. كما تم اقتراح عدد من التوصيات للحكومة المغربية لإصلاح الهيكل الحالي للوقف حتى يصبح أكثر شمولاً.

برز الاقتصاد الإسلامي الأخلاقي في أواخر الستينيات من القرن الماضي بهدف تمكين النظام المالي الإسلامي من تمويل الاقتصاد الحقيقي. أظهرت التجارب العملية نمّ واً مضاعفاً في الأداء المالي للمؤسسات المالية والمصرفية الإسلامية. ومع ذلك ، كان الهدف الاجتماعي لهذه المؤسسات غير موجود. في الواقع ، فإن أحد أكبر منتقدي صناعة التمويل الإسلامي الحديثة هي نقاط ضعفها من حيث الأداء الاجتماعي. يأسف العديد من الباحثين لعدم وجود مؤسسية فعالة للمبادئ الإسلامية المذكورة في المصادر الدينية التي يمكن أن تخفف من حدة الفقر ؛ مثل الزكاة والوقف وقرض الحسن. يتم نشر النماذج الاجتماعية الإسلامية المؤسسية وتقديمها كحلول للتغلب على هذه القضية. أما بالنسبة لذلك ، فقد تم تطوير العديد من المبادرات في جميع أنحاء العالم الإسلامي ، باستخدام المبادرات المحلية والحكومية جنباً إلى جنب مع غيرها من الإجراءات الإسلامية. من أجل تخفيف حدة الفقر والبطالة ، تشجيع الاستثمارات وريادة الأعمال في الشمول المالي للسكان المستهدفين. في المغرب ، على الرغم من أن التمويل الإسلامي الاجتماعي غير موجود في هذه الفئة ؛ هناك العديد من المبادرات التي أطلقتها المؤسسات الحكومية ، والمجتمع المدني ، وفي بعض الأحيان حتى من خلال. إجراءات فردية وغير رسمية. وتدعم معظم هذه المبادئ الإسلامية لأنها كانت موروثاً دينياً وتاريخياً وثقافياً في المجتمع المغربي.

الكلمات المفتاح: التمويل الاجتماعي الإسلامي، الزكاة، الأوقاف، القرض الحسن.

## INTRODUCTION

In the 1960s, the Islamic Moral Economy emerged aiming for a more socially oriented Islamic finance. The industry has indeed exhibited exponential growth throughout its history, however it was criticized by some scholars who assumed that it did not bring the social changes and impact it should socially have. Several critics regarding the Islamic finance industry weaknesses in terms of social performances and many researchers mourned the lack of an effective institutionalization of the Islamic principles mentioned in religious sources. Social finance initiatives are common in every country. Muslim-majority countries and others with important Muslim communities tend to apply Islamic principles in the social finance actions they undertake. Zakat, Waqf and Qard Al Hassan are some of the instruments used in Islamic social finance, and the purpose of our study is to understand to what extent they are used to have an impact on project development and poverty alleviation of needy people, and more precisely in Morocco. That is why the objective of this paper is to understand the Social Finance and Islamic Social Finance ecosystem. Indeed, by understanding of the Social Finance ecosystem of the country, we hope to get a sense of where the Islamic Social Finance is standing in Morocco, a specially recently; after the introduction of participatory finance, after the importance that has been given to the development of green finance in the country and even more; after the will to make of Morocco a regional financial hub has been expressed. Thus, we will start by defining Social Finance in the one hand, and Social Islamic Finance in the other hand to build a comparative table that helps in the understanding of the differences between the two. Second, we will describe the Social Finance ecosystem in Moroccan by presenting its landscape in the country. Last but not least, we will highlight the Islamic Social Finance Initiatives to understand the country's position in the matter.

### **1. Social finance and islamic social finance: points of convergence and divergence**

#### **Social**

#### **1.1 Defining and characterizing Social Finance**

According to the MaRS Centre for Impact Investing, Social finance is “an approach to managing money to solve societal challenges”. Social finance aims to provide resources to support the development of social innovation, leveraging several instruments. The concept that has been developed recently, as a response to the 2007 international crisis. The concept is quite complex since it implies the application of several instruments that are similar from one

to another. Social finance takes into consideration several levels and different domains such as community investing, microfinance, social finance or social impact bonds. However, the objective of social finance encompasses these diverse instruments as it is conceived as a philosophy that aims to use money responsibly and aim its use to sustainable ends. Researchers found it difficult properly define to the term, since several instruments overlap, and leads to a confusion in terms of the boundaries between an instrument and another. These instruments are the following (Hangl, 2014):

### **1.1.1 Social Entrepreneurship:**

According to Lehner (2012), social entrepreneurship is “a form of entrepreneurship, where social entrepreneurs create and deliver social value by employing market-based strategies and approaches for client and income generation” in (Hangl, 2014).

### **1.1.2 Socially responsible investment (SRI)**

SRI is the practice of integrating social, environmental, or ethical criteria into financial investment decisions (Chadwick, 2012). Socially responsible investments were introduced by the UN Principles for Responsible Investment (PRI). They historically started with religious groups who tried hundred years ago to avoid investing in sin industries (such as alcohol, gambling, tobacco, arms). Modern SRI Activists came in response to the political climate of the 1960s and 1970s as a result of the rise of human right awareness, and events such as the Vietnam War, and the set of claims and activism against apartheid. In the 1980s and the 1990s, the SRI evolved further to include the positive screening.

### **1.1.3 Impact investing/ social impact investing:**

Beyond SRI, impact investing aims to achieve the highest combined financial and socio-ecological value. It encompasses the creation of positive impacts and financial returns. Indeed, it aims to channel financial capital towards activities that will ultimately provide positive social and environmental impacts (Nicholls 2010). While socially responsible investing seeks to minimize negative impact, impact investments aim to achieve positive impacts beyond financial returns. Coined in 2007, Social impact investing is defined by the Global Impact Investing Network (GIIN) as “investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return” (Martin, 2013).

#### **1.1.4 Social impact bonds**

A Social Impact Bond is an innovative financing mechanism where governments enter into agreements with social service providers, such as NGOs, social enterprises and investors to pay for the delivery of pre-defined social outcomes.

#### **1.1.5 Social Banking**

Social finance for banking or social banking is identified in the literature as a relatively new development in the international banking and finance sector (Hangl, 2014). It is a response to the negative outcomes that followed the international crisis, as it aims to provide a more sustainable banking business model.

#### **1.1.6 Microfinance**

Professor and Nobel Prize winner Muhammad YUNUS defines a social enterprise as “a non-loss, no dividend company, created with the intention to do good to people, to bring positive changes to the world, without any short-term expectation of making money out of it” (Yunus, 2007). It is a financial service that aims to facilitate the financing of vulnerable populations’ and entrepreneurs’ small businesses financing.

### **1.2 Defining and characterizing Islamic Social Finance**

Islamic social finance is defined, according to IRTI (Islamic Research and Training Institute), as the sector comprising Zakat, Awqaf and Islamic microfinance. Islamic social finance is considered to have a fast-paced growth and is about to become a major component of mainstream Islamic finance (IRTI, 2017). The sector was developed after it has been noticed that the Islamic finance sector is only comprised of banking, insurance and financial market participation, considered for-profit segments that do not completely fulfill the Islamic principles and Economical promise. Indeed, Researchers of the Islamic moral economy have developed an economical model that aims to achieve economic and social development while respecting Shariah principles (IRTI, 2017). The Islamic Moral Economy is the basis of the reflection leading the article, alongside with the Maqasid Al Sharia who are the principles upon which the economy is based.

#### **1.2.1 The Islamic Moral Economy**

As introduced upwards, the Islamic Moral Economy is considered as the critique of the capitalist and communist systems who are disregarding Moral and Human well-being (Chapra

1992; Navqi 2003). The Islamic Moral Economy appeared as an alternative to the conventional economic and financial system whose main objectives are according to Huqq (1993), to maximize economic growth and production. El-Ghazali defined it as “an intrinsically moral and ethical system, in which man occupies the central place as both the means and the goal” (El-Ghazali 1994 p.57)”. The model is based on a specific set of concepts issued from Maqasid Al- Shariah which are **Al Falah** (human well-being) and **Hayat Tayyibah** (good life). Chapra (1992) explains that it aims to reach socio-economic justice and brotherhood. This objective can be reached when individuals accept to not maximize their personal gain, and accept to reduce their own material (Navqi 1981). Mirakhor and Askari (2010), two of IME’s fervent defenders explain that the main components of the philosophy/ are individual self-development, physical development and the development of the society. As a matter of fact, scholars developed an axiomatic to assess its realization and to justify the elimination of poverty alongside with the economic development. The scholars involved in the development of the approach are Siddiqi 1981; Naqvi 1981b; Chapra 1992; El-Ghazali 1994; Sirageldin 2000 and Asutay 2007. The approach is based on the following postulates:

- (i) Tawhid (unity)
- (ii) Al-‘adl wa’l-ihsan (justice equilibrium)
- (iii) Ikhtiyar (free-will) and Hurriyah (freedom)
- (iv) Fard (responsibility)
- (v) Haqq (right)
- (vi) Rububiyah (divine arrangements for nourishment, sustenance and directing things towards their perfection)
- (vii) Tazkiyah (purification plus growth)
- (viii) Amanah (trust)
- (ix) Islah (reform)
- (x) Khilafah and human accountability before God (Individual’s role as God’s vicegerent on earth)
- (xi) Ukhuwwah (solidarity) and Unity
- (xii) Maqasid-al Shariah (objectives of the shariah)

These methodological postulates can be resumed with the three following points:

- A. The prevalent model is strongly based on the importance of social concern, and is not solely based on individualism
- B. In this postulate, individuals are both “God-conscious” and rationale in that they align their interest with social purposes and conduct their activities in accordance with Islamic principles.
- C. Market exchange according to IME’s axiomatic approach should keep in mind that the outputs are to be socially concerned and environmentally friendly.

These postulates are what define the “homoislamicus” individual.

### 1.2.2 Maqasid Al-Shariah principles

As previously explained, the Islamic Moral Economy is based on Islamic principles and rulings of Sharia, initiated from Quran and the Sunna. Maqasid al-Shariah is the framework in which ISF actions are taught. Etymologically, the term “Maqsid” (plural “Maqasid”) refers to the notion of principle in the sense of an ‘end’. Maqasid of the Islamic law are thus the objectives, purposes, intents ends and principles behind the Islamic ruling. A number of Islamic legal theorists defined the concept throughout the history. The comprehensive understanding of the contemporary notion of Maqasid Al Shariah has heavily been influenced by several scholars such as Abdul-Malik al-Juwain, Abu Hamid al-Ghazali, Fakhruddin al-Razi and al Amidi and several others. One of the models that inspired the reflexion of the article alongside with the Islamic Moral Economy is Najjar’s concept of Maqasid Al-Sharia framework. AlNajjar cites different modern and medieval scholars and notes that they usually Maqasid with the ultimate Shariah objective of bringing welfare and avoiding harm. In that book, Al Najjar allocates a specific chapter on the new dimensions of Maqasid in which he adds three dimensions to the original five. His model is as following:

**Table 1: Najjar’s Concept of Maqasid al-Sharia**

Safeguarding the value of human life	<ul style="list-style-type: none"> <li>a. Faith</li> <li>b. Human rights</li> </ul>
Safeguarding the human self	<ul style="list-style-type: none"> <li>a. Self</li> <li>b. Intellect</li> </ul>
Safeguarding the society	<ul style="list-style-type: none"> <li>a. Posterity</li> </ul>

	b. Social entity
Safeguarding the physical environment	a. Wealth b. Environment (Ecology)

### 1.3 Social Finance and Islamic Social Finance: A Comparative table

Social finance and Islamic social finance both aim to support social development. As seen in the previous parts, both are presented as solutions to the extreme financialisation of the economies. Nonetheless, both are neither based on the same ethos, nor they are using the same instruments. The following table gives a brief presentation of the main common and differences:

**Table 2: Comparative table between Social and Islamic Social Finance**

Elements	Social Finance	Islamic Social Finance
Final objective	Provide resources to support the scaling of social innovation	Helping the ones in need (however, it is to be differentiated with charity)
Recipients	Can range from charities to purely commercial enterprises	Needy people Depending on the instrument used (Zakat 8 recipients determined by the Quran)
Requirements	Return of both social impact & financial performance	Helping the ones in need however, compliance with the ruling principles of Islam is a must
Ethos	“About the way the money is used”	Based on Maqasid Al-sharia
Historical overview	The absent access to formal financial services for poor or disadvantaged people encouraged the development of informal, community-based financial arrangements to meet their financial needs	Quran and Sunna
Instruments	Social Entrepreneurship: Socially responsible investment	Zakat Awqaf



	Impact investing/ social impact investing: Social impact bonds Social Banking Social capital Microfinance	Qard Al Hassan Islamic microfinance
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## **2. The Social finance Ecosystem in Morocco**

The Social Finance ecosystem in Morocco is composed of several actors that each try on their ends to achieve social development goals. The ecosystem is based on the initiatives of a set of ministries, programs, associations and even informal means that can be classified as following:

1. Government initiatives
2. Civil society
3. Informal sector

### **2.1 Government initiatives**

Government initiatives are the set of actions implemented by governmental authorities or initiated by the King Mohammed VI. A historical overview of the key milestones regarding the sector can show how important is the development of the social model in Morocco.

#### Historical overview and key milestones

**2005:** In 2005, the King Mohammed VI initiated the creation of the National Initiative of Human Development (INDH) following an unexpected royal speech. The initiative aims to reduce poverty via a set of reforms and programs that target poor and needy populations. Nearly 40 billion dirhams of investments were mobilized, more than 44,000 projects were carried out, and about 10 million beneficiaries were reached. The initiative have covered about twenty sectors of activity, ranging from education to health, including tourism and vocational training, and of course projects that support activities that generate jobs. The projects, which targeted more than 1,100 rural municipalities and nearly 800 urban districts identified on the basis of socio-demographic criteria, have made it possible to build health, education and socio-cultural centers.

**2017:** The King Mohammed VI challenged the social development model in a royal speech. An invitation to speed up the process of regionalization was made by the sovereign, in order

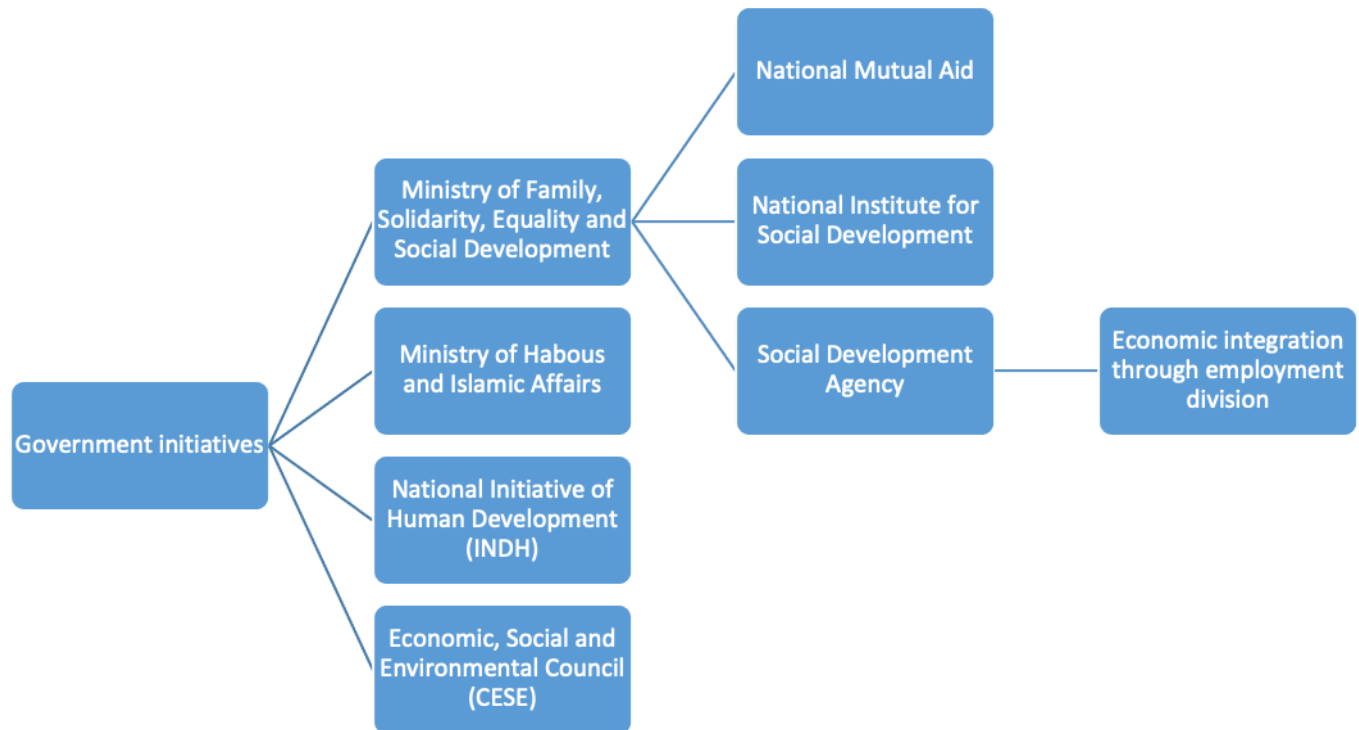
to provide tangible answers to the social demands and development expectations expressed in the various regions of the Kingdom. It was noted that the progress made in Morocco did not benefit all citizens because it had very little impact on young people.

As shown throughout the King's deep concern and involvement in Morocco's social issues, up scaling and ameliorating the country's social development model is one of the key undertakings of the authorities. As a matter of fact, governmental organisations are involved in the development Social finance and Islamic Social Finance more precisely in Morocco are the following:

- Ministries involved:
  - Ministry of Habous and Islamic Affairs
  - Ministry of Family, Solidarity, Equality and Social Development (ADS/ Social Development Agency)
- Special entities involved
  - National Initiative of Human Development (INDH)
  - Economic, Social and Environmental Council (CESE)

These governmental entities are in charge of supervision a set of different associations, federations and other entities who are working to enhance the social development of the country. These entities can be mapped according to the following diagram:

Diagram 1: Social Finance Ecosystem in Morocco



The diagram above, shows the governmental entities involved in the social development of Morocco. The third level comprises the specific entities involved in the operational work. The following table describes each of the diagram's components alongside with each operator's role:

**Table 3: Description and roles of the social finance ecosystem players in Morocco**

Elements	Description and roles
Ministry of Family, Solidarity, Equality and Social Development	This ministry is an entity in charge of matters relating to social development, women, individuals with disabilities, children, family affairs, elderly persons and social protection. As far as the social development component is concerned, the Ministry operates on two main lines of actions which are the financing of association projects and

	capacity building of associative actors.
Ministry of Habous and Islamic Affairs	The Ministry of Habous and Islamic Affairs is in charge of issues related to the Waqf, and other Islamic affairs. The ministry's main achievements in recent years concern the enhancement of Habous heritage and the safeguarding of its assets, as well as the identification of family and mixed waqfs and the management of disputes over habous property.
National Initiative of Human Development (Initiative Nationale de Développement Humain)	The National Initiative for Human Development, launched by King Mohammed VI in May 2005, aims to fight poverty, precariousness and social exclusion through the implementation of projects to support basic infrastructures, training and capacity building projects, social, cultural and sporting activities, as well as the promotion of income-generating activities and employment.
Economic, Social and Environmental Council (Conseil Economique Social et Environnemental CESE)	The Economic, Social and Environmental Council is an independent constitutional institution established by the King in 2011. It carries out advisory missions on economic, social and environmental issues as well as studies and research, either at the request of the Government, the House of Representatives or the Chamber of Councillors (referral) or on its own initiative (self-referral).
National Mutual Aid (Entraide Nationale)	Since independence, the National Mutual Aid has been one of the State's main mechanisms for social development and the fight against exclusion and precariousness. The

	<p>organization was created in the aftermath of independence, with the aim of contributing to the fight against poverty. The creation of the EN was part of the dynamic of development and construction of the country of a Morocco which, at the time, had no public system of social action. Only the Muslim Charitable Associations (MCA) constituted and structured the Kingdom's sphere of social action. In order to structure this sector, the State has launched the National Mutual Aid to ensure the carrying of some social programs and federate and support the MCAs, which are now under its supervision. This marked the very beginning of participatory democracy in Morocco. Today, the organization is undergoing restructuring in order to be able to respond more effectively to the expectations of the sector.</p>
<p>National Institute for Social Development (Institut National de l'Action Sociale INAS)</p>	<p>The National Institute for Social Development was created in 1981 to provide training and further training for personnel intended to serve in the field of Social Action, who will be assigned to public administrations, local authorities and semi-public and private bodies, and to contribute to the development and popularization of techniques and methods of work and research in the field of Social Action.</p>
<p>Social Development Agency (Agence de développement social ADS)</p>	<p>The Social Development Agency (ADS) is a public institution, dedicated to poverty reduction and the promotion of social development in Morocco. Its action is resolutely complementary and synergistic with the major reform projects that Morocco is carrying out under the reign of the King Mohammed VI. It has the following main pillars:</p>

	<ul style="list-style-type: none"> <li>• Social inclusion through economic integration</li> <li>• Capacity building of actors</li> <li>• Urban social development</li> <li>• Human Development</li> <li>• Equality and Equity</li> </ul> <p>The Agency's intervention targets vulnerable and/or disadvantaged social categories, both in rural and urban areas.</p>
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## **2.2 Civil society initiatives**

Civil society describes all the non-governmental entities that are involved in social work. In Morocco, the main actors in the development of social schemes related to investment and entrepreneurship of a targeted population are Associations and Cooperatives. Alongside these institutions financial inclusion is realized through the allocation of funds throughout microfinance institutions and benevolent loans.

- **Associations**

Associations comprise public utility associations, which are associations with a special status and other associations, without the governmental status allocated to public utility associations. According to the Haut Commissariat au Plan (HCP), the Moroccan statistics institute's head chief of the Economic Census and Institutional Surveys Division, there are more than 140 000 associations today. Not all of the associations are obviously involved in social finance and not all of them are involved in entrepreneurship and investments practices. According to HCP's latest Non-profit institutions Survey, (realized in accordance to 2007 data); 2077 out of 44771 associations, which accounts for 4,6 % of the associations surveyed are Economic and Professional associations. Associations of public utility apply to become untitled so. It is a benefit for associations, since it can be used as a lever to raise funds from donors through the fiscal carrot. The advantages associated with public utility recognition are essentially of a fiscal nature. When we know that funding is a crucial issue for most associations, this status can serve as an important lever in the collection of financial resources. Religious associations

exist, however they operate under charitable modes and may allocate funds under Sadaqa or charity, without any formal model. Some companies have their own Foundations to achieve social good and sustainable goals. As a matter of fact, Moroccan institutions such as King Mohammed VI Foundation, Maroc Télécom Foundation or OCP through the OCP Policy Center have their own Foundations which are mostly acting on the amelioration of the social model in Morocco.

- **Cooperatives**

Cooperatives are also part of the Moroccan social finance ecosystem because of their involvement in diverse areas of the economy. They are involved in 22 sectors and aim to support individuals in those diverse sectors.

It should be noted that even though cooperative do not operate under sharia ruling, most of the cooperative execute their activities in accordance with Islamic principles. According to a head of research of the Development and Cooperation Office division of Guelmim, there are a lot of similarities between the cooperative model and the Islamic economy. However, it is difficult to qualify a cooperative as Islamic in that they do not have a Sharia commission or board. Nonetheless, according to the officer, most of the cooperatives and especially small sized ones respect the Islamic principles as inherited by the Muslim Moroccan history. The officer also noted that small cooperatives tend to use Qard Al Hassan when there is a lack of financing means, and tend to use the informal “Dart” model of financing. “Dart” is a mutual understanding between a number of individuals who agree to deposit and give up on an amount of money, that will be used entirely by one of the members. Each individual has to fill the fund until each of the contributors received their amount. The officer mentioned however that cooperatives finance their investment projects through state subsidies coming from sectorial programs.

- **Other socially motivated financing means**

- **Microfinance institutions**

Microfinance institutions were created to address financing means to individuals excluded from the traditional banking system and are not allocated banking loans. The National Observatory of Solidarity-based Microfinance is in charge of the study of the microfinance sector in Morocco. According to the project manager of King Mohammed VI for solidarity-based microfinance (CM6), there are 13 microcredit institutions who give interest-bearing loans to selected individuals. There are about 900.000 clients with a potential of 1 million

clients. The average cost of a loan is 7000 MAD with a maximum loan of 50.000 MAD. According to the project manager of CM6, Islamic microfinance is very far for its development in the country

○ **Benevolent loans**

Benevolent loans are interest-free loans allocated by associations or foundations to entrepreneurs excluded from the banking system and who need amounts of money to launch their projects. Benevolent loans are named Qard Al-Hassan in Islam however it should be noticed that there is a difference between the two since Qard Al-Hassan are interest-free loans that are allocated only if Sharia principles are respected. In Morocco, these loans are mainly allocated by associations such as Maroc Entreprendre, Souss Massa initiative or Maroc Telecom Association for the Creation of Enterprises and Employment Promotion. The following table displays Souss Massa initiative's features:

**Table 4: Presentation of Souss Massa Initiative**

Elements	Souss Massa Initiative
Eligibility of the candidates	<ul style="list-style-type: none"> <li>• Be over 18 and under 55 years of age.</li> <li>• At least one of the partners applying for the loan must have a higher education diploma and/or a vocational training diploma and/or at least two years of experience related to the creation project. The number of partners applying for the loan per company may not exceed 2 persons</li> </ul>
Eligibility of the projects	<ul style="list-style-type: none"> <li>• Projects should have their head office established in the Souss Massa region, in a sedentary and sustainable manner.</li> <li>• Company in the process of creation or having been created for less than 24 months at the date of filing the loan application to ISM.</li> <li>• Projects with overall investment programs ranging from 30,000 dh to 1,000,000 dh.</li> <li>• For loans that can be cumulated with other loans: When the project holder calls on other loans for his project: The application for the honorary loan must be made at the time of the financial arrangement with the other loans and check the progress with the bank so that the contribution of the ISM can complete the overall investment.</li> </ul>



Selection process	<ol style="list-style-type: none"> <li>1. Registration of candidates at ISM/ANAPEC agencies for individual interviews</li> <li>2. Pre-selection of the dossiers by the advisers on the basis of the dossiers submitted and then accompaniment of the candidates whose interviews and dossiers have been convincing</li> </ol>
Loan characteristics	<p>SMI allocates up to 70% of the Investment with a minimal loan of 10000 and a maximum loan of 150000. The loans are interest-free and without warranty. However, the loan is repayable over a maximum period of 5 years with a maximum delay of 6 months.</p>

### **2.3 Informal Social Finance**

Informal social finance designates all the non-traditional means used to participate to social finance. According to researchers like LELART, informal finance was at the premises of microfinance (Lelart, 2006). Informal finance is characterised by its lack of formalisation: the savings and credit practices do not compulsorily have to comply with a specific framework. The main instruments used are:

- Savings and credit revolving practices or "tontine" defined as financial practices that allow saving, lending and borrowing (the saver is at the same time an investor in spite of himself or herself).
- Clandestine bankers (El Abdaimi, 1990)

The system is based on specific relationships between debtors and creditors. Indeed, these relationships are exclusively based on trust and the success of these informal activities is due to the proximity (geographical, local and cultural) that lenders maintain with micro-entrepreneurs, and the social pressure that goes with this type of relationship. Nonetheless, informal finance is often unreliable, random, non-transparent and limited in the short term. In other words, poor households use informal finance for lack of choice. (Guérin, 2010).

Moroccans have been known to use solidarity funds for as long as it is possible to remember. Funds are helping to raise money to go to hajj, or funds to gather money to build a house have historically been implemented. These means are culturally accepted, and even more encouraged since the funds and money allocation is usually interest free and based on mutual

knowledge of each of the participants. The informal sector is already very important in Morocco it impacts the Moroccan economy. The main instruments used are:

- **Dart:** Dart” is It is the Moroccan equivalent of savings and credit revolving practices. As already explained in a previous section, Dart is a mutual understanding between a number of individuals who agree to deposit and give up on an amount of money, which will be used entirely by one of the members. Each individual has to fill the fund until each of the contributors received their amount. Funds can be allocated to Hajj, to building a new house or to any other mean.
- **Informal qard al-hassan loans:** which are interest-free loans allocated by families or close friends to members in need. The practice could be considered as the equivalent of El Abdaimi’s clandestine bankers.

### 3. The Islamic Social Finance ecosystem in Morocco

The previous part described and gave an overview of the social finance ecosystem in Morocco. It has been shown that it is mainly influenced by the governmental strategy and individual contributions all around the country whether it is throughout the actions of the civil society or using informal means. A thing to be noticed is that none of the initiatives described upwards has a Sharia board or commission to evaluate the initiatives’ Sharia compliance. However, due to the religious, historical and cultural background, many of the initiatives are inspired by Islamic principles and most of them are Sharia compliant. Nonetheless, due to the lack of Sharia inspection it is not possible to qualify those initiatives as a part of the Social Islamic Finance ecosystem in Morocco. Indeed, the latter is mainly composed of Zakat and Awqaf, Islamic Microfinance (when applicable or existent in the country).

#### 3.1 Islamic Social Finance Conceptual framework

In order to assess of the “Islamicity” of the initiatives, several criteria have to be taken into consideration. If we refer to the first part of the paper describing the Islamic Moral Economy, Maqasid Al Shariah principles and Screening Methodologies; the following framework can help in assessing the “Islamicity” of the initiatives. Indeed, there are several social finance initiatives in Morocco, however very few of them are under a Sharia umbrella, meaning a Sharia commission or are exclusively Islamically oriented.

**Table 5: Maqasid Al Shariah: philosophical approach**

**Underlying philosophy: Maqasid Al-Sharia**

Safeguarding the value of human life*		Safeguarding the human-self*		Safeguarding the society*		Safeguarding the physical environment*	
Faith	Human right	Self	Intellect	Posterity	Social Entity	Wealth	Environment
Divine arrangements	Justice	Freedom	Responsibility	Unity	Reform		
Purification	Education	Free-will	Rightness	Solidarity	Public interest		

\*Najjar's Maqasid Al Sharia framework

**Table 6: Islamic Finance prohibitions and encouragements**

<b>Actions</b>	
Compulsory* or Encouraged	Prohibited
Zakat*	Gharar
Waqf	Riba
Qard Al Hassan	Israf
Sadaqa	Itraf
Hiba	Tabdir
Infaq	Production or Investments in products that violate Islamic norms: <ul style="list-style-type: none"> <li>• Alcohol/ Liquor ...</li> <li>• Entertainment</li> <li>• Adult content (+18)</li> <li>• Tobacco</li> <li>• Porc</li> <li>• Hotels (depending on the criteria)</li> </ul>

	<ul style="list-style-type: none"> <li>• Biotechnology companies involved in human/ animal genetic abuse</li> </ul>
Asset-backed finance	Financialisation of the Economy
Islamic micro-insurance/ Micro-takaful	Insurance companies
Islamic microfinance	
Islamic Crowd funding	
Financing for SMEs	
Risk-sharing and Profit and Loss contracts	
Islamic fintech	
Social banking	

It has been noticed that most of the initiatives (except the ones initiated by the Ministry of Awqaf and Habous or the ones involving Zakat) do not have a Sharia commission to statute the accordance with Maqasid Al Sharia and the Islamic principles. Thus, the initiatives implemented in the country cannot be categorized in the Islamic social finance set of initiatives. Nonetheless, Zakat and Awqaf can be assimilated to Islamic Social Finance initiative because of their compliancy with Islamic principles (they are issued from).

### **3.2 Zakat in Morocco**

The world zakat is derived from an Arabic word who means “that which purifies”, as well as “that which fosters”. It is Zakat is one of the five pillars of Islam as indicated in the Quran, Sunna and Ijmaâ. For the Fouqahas, Zakat has several definitions even though the general sense of the word is similar for each one of the schools.

In order for the goods to be subjected to Zakat, the following conditions have to be fulfilled

1. The good should be the owned by someone in particular
2. The ownership should be absolute and total
3. It should grow
4. It should attain the Nissab
5. It should have accomplished the Hawl
6. It should be a surplus after the satisfaction of the needs
7. It should be a compensation after any indebtedness affecting the Nissab

According to the Holy Quran, and as stated in Surat At-Tawbah: 60, there are eight groups of people who are qualified to receive zakat, these ones include al-Fuqara' (needy/strained), alMasakin (poor/deficient/lacking), amil (has right to collect zakat), mualaf (convert/reconciled to Islam), alRiqab (slave), al-Gharimin (people in debt), fi-sabilillah (Allah's cause) and Ibn as-Sabil (traveler/wayfarer) (Gambling & Karim, 1986). Zakat is payable on several goods as stated by Islamic sources. It is applied on business revenues and assets, on gold and silver, and on savings; the basic rate being 2.5 %. Zakat is viewed by Muslims as a means of 'purifications' and not just an obligation (Gambling & Karim, 1987). Zakat plays an important role in the economy, but also and mostly in the well-being of a society. Zakat also eliminates greediness and allows the reduction of poverty within the community (Gambling & Karim, 1987). Zakat is divided in two main categories: zakat al-Fitr and zakat of wealth. On the one hand, Zakat al-Fitr designates the zakat paid by Muslims once a year and during the month of Ramadan, right before Eid celebration. On the other hand, Zakat al-Fitr refers to "zakat of the body" (Gambling & Karim, 1987).

Historically speaking, the management of zakat involved its collection and redistribution. Back in the days, zakat collection was used to erase poverty and as an important money entry to the government. Nowadays, it is considered as an extra help to welfare institutions. Indeed, zakat is collected differently among Muslim countries, and sometimes even it is not. Zakat is before everything an act of worship and its remittance depends on the good will of Muslims in some countries. In others, it either depends on the endeavours of particular organisms and finally in others, it is considered as one of the roles of the government. Some experiences show that potentially, many more individuals would give zakat if the subject received more serious attention and if significant results were obtained (Guermat, 2013).

Opinions diverge on whether zakat collection should be done on a compulsory basis or on a voluntary basis. Some countries don't even discuss the topic as "Of the forty predominantly Muslim countries, twenty-four do not institutionalize zakat". Morocco is amongst the countries who do not institutionalize zakat collection. Some debates have been lifted on these regards. Indeed, the Higher Council of Ulemas has attempted to launch a project to establish a Zakat Fund. According to Ahmed Tawfiq, a project for the establishment of a zakat fund is being finalized. It will be handed over to the Sovereign shortly. A few years ago, the former Minister of Habous and Islamic Affairs, Abdelkebir Alaoui Mdaghri, set up a commission to find a formula for its establishment. According to Abdessalam Balaji, member of the executive board of the Moroccan Association for Studies and Research on the Zakat, they

have been estimated at a value of around 3 to 6% of GDP, making a sum of one billion dollars. It will be free to any person to pay the zakat or not according to his personal convictions. The philosophy of the project aspires to establish solidarity between the rich and the poor. In 1998, the late King Hassan II expressed a wish to see the creation of a Zakat fund in Morocco. In 2007, the Minister of Habous and Islamic Affairs, Mr Ahmed TAWFIQ, proclaimed the quasi-finalization of the Zakât Fund project in Morocco. Moreover, the Finance Act provides each year in its annexes for a special Zakat fund. Nowadays, however, Morocco still does not have a Zakat fund.

According to the Islamic conception, the « developed individual » is the one who manages to find the right equilibrium between the economic, social and moral dimensions. In terms of Zakat, the contribution covers to three points mentioned in the following way:

1. Morally: Purification of productive money
2. Socially: Redistribution mean to the ones in need and solidarity action
3. Economically: Reinjection of social surplus to the economic cycle.

Thus, Zakat is a manifestation of the homoislamicus individual; for whom the hereafter matters as much as the present and acts consequently (El Kettani, 1997).

### **3.3 Awqaf in Morocco**

WAQF is a specific instrument of the Islamic economy, considered to be a “sadaqa jaryia” whose main mission is to help in solving complex social problems. Nowadays developments of Islamic finance has made it possible to develop the financing instruments of the Awqaf institution in order to raise more funds and generate more income thus improving its economic efficiency.

One of the most famous illustration of Waqf is Al Qarawiyne University in Morocco and Al Azhar University in Egypt. Since their creation, the two universities have taken advantage of the awqaf system to cover their expenses and guarantee their development and sustainability.

Nowadays, most Islamic States have established ministries responsible for the management of waqf. It is an effective social instrument to support the efforts of Islamic governments.

A Waqf operation is based on the following components and actors:

- Property subject to waqf: These are real and movable assets, financial assets and rights that may be subject to waqf.

- The person who made al waqf: This may be a person or a group of persons who made the donation.
- The beneficiaries of the waqf: the donors of the waqf designate the beneficiary or beneficiaries who can be a group of individuals or even a good being the object of WAQF (Mosque, hospital, Library, etc.)
- The income of the waqf: it is the income generated by the property object of the waqf (rent or commercial income, etc.).

The Waqf and the Ministry in particular have the following socio-economic missions

- A better distribution of wealth
- The maintenance of public property
- The strengthening public services and reducing state social charges
- Investment Encouragement: the objective is to developed assets that will safeguard their value and increase the income generated. This mission requires the institution to become an “investor” and an “entrepreneur”.

## CONCLUSION

Social Finance and Islamic Social Finance are two different means that aim to reach to the same sustainability and social development goals. Both are based on ethical principles, and both encourage the application of bold and innovative initiatives. In Morocco, Islamic finance was recently introduced which should open the road to the development of Islamic Social Finance. As for now, the only initiatives that can be qualified as Islamic Social Finance initiatives are the ones clearly supervised by a sharia commission or board such as Zakat or Awqaf initiatives. Morocco expressed its will to become a regional player in the finance industry, and the introduction of participatory finance showed the commitment of the country to the matter. On the informal side, many apply the principles in a non-institutionalized manner, and it has proved to be efficient in many cases. The question that arises now is to what extent a formalization and institutionalization of Islamic Social Finance instruments such as Zakat and Qard Hassan will provide support to the governmental efforts aimed at helping vulnerable populations?

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