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DEVELOPMENT OF MOROCCAN REAL ESTATE
IN THE CONTEXT OF ISLAMIC FINANCE

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ملخص
الغرض من هذا البحث هو تحليل تطور العقارات في بلد المغرب في سياق التمويل الإسلامي، وكذلك تأثير هذا التمويل على القطاع الثانوي المغربي.

ستكون الورقة في جزأين. الجزء الأول يحدد مبادئ التمويل الإسلامي، الجزء الثاني هو إعطاء المزيد من الاهتمام في القطاع العقاري، مع توضيح الوضع الفعلي للعقارات في المغرب ومساهمة التمويل الإسلامي على المستوى الجزئي والكلي.

الكلمات المفتاحية:
التمويل الإسلامي، العقارات، إصدار الحكومات الإفريقية، السندات الإسلامية.

Abstract
The purpose of this research is to analyze the development of real estate in the country of Morocco in the context of Islamic Finance, as well as the impact of this finance on the Moroccan secondary sector.

The paper is going to be in two parts. The first part outlines basic principles of Islamic finance as well as a brief and general explanation of Islamic products.

The second part is going to give more interest to real estate sector, showing the actual situation of real estate in Morocco and the contribution of Islamic finance at the micro & macro level.

Key words: Islamic finance, real estate, African governments issuing, Islamic bonds
I. The Islamic financial system

Introduction

The opening of Islamic banks has been increasing considerably in recent years in many countries. Morocco is among these countries and exposed as the last Muslim countries that will integrate this type of finance into their financial system. This article will focus on the contribution of Islamic Finance in the Moroccan real estate sector.

In the part 1, we are going to explain some basic principles of Islamic finance as well as the main Islamic products operational in the Islamic banking system.

The second part underlines the evolution of the real estate sector in Morocco during the last years and the input of Islamic finance on the secondary sector.

A. Basic principles of Islamic finance

Islamic finance is based on five pillars, divided into three negative principles and two positive ones:

**Negative principles:**
- ✓ Prohibition of interest
- ✓ Prohibition of uncertainty
- ✓ Prohibition of illicit sectors called in Haram

**Positive principles:**
- ✓ Sharing of profits and losses
- ✓ Existence of underlying asset

A.1 Prohibition of interest and usury (Riba)

Islam considers that money is only an instrument of exchange. Interest and usury promote concentration on wealth. So, it’s one of prices rise causes. For these reasons and others, interest rate is prohibited in Islamic finance.

A.2 Sharing of profits and losses

Islamic finance promotes productive investment sharing profits and losses in order to favor shareholder, to the detriment of banker who only lends money.

A.3 Prohibition of uncertainty and speculation (Gharar and Maysir)

The uncertainty (Gharar) can be defined as selling of objects of which existence and features are not certain. This situation could be resulted from a lack of an element, ignorance of exchanged goods nature or a wrong description of these goods.

The Speculation (Maysir) is defined as the fact of betting on event realization basing on subjective anticipations in the future.
Both Gharar and Maysir are prohibited as the same way like Riba.

A.4 The principle of underlying asset existence

Islamic finance is essentially based on assets. In fact, money is only a means of exchange, in order to define an asset value. So, all Islamic financial transactions have to be made by identified and tangible asset. It means real goods. As a result, Islamic finance contributes to development of real economics by stimulating direct investment.

A.5 Prohibition of illicit assets

The Muslim investor has to make sure that transaction he’s going to finance are licit. In fact, any transaction can be directed to sectors that are not in accordance with the Chariaa’s law.

Among banned sectors there are:

✓ Financial institutions based on Riba or Gharar: this includes all conventional banks, stock exchange and insurance companies.
✓ Alcoholic drinks: production, packaging, bottling, selling and distribution.
✓ Games of chance: all activities attached with these games as casino, games centers as well as fabrication of game materiel.
✓ Pork: and pork selling and all derivative products. Fabrication process (production, packaging, trade, distribution and slaughterhouse).
✓ Distraction activities: this prohibition covers all pornographic activities as well as indecent images.
✓ Tobacco: are included distribution, production, wholesalers and retailers.

B. The Islamic financial products

B.1 The financing techniques of trade operations

This category includes financing ways based on purchasing and selling operations of various products in order to realize a licit profit resulted from difference between purchasing price and selling’s.

The Murabaha

It’s about an alternative to interest loan affected to consuming. The IFI buys commodities or suppliers materials with its customer order, then the Institute can resell it him with reasonable profit margin, fixed in advance. The contract makes clear that, with this profit margin as well, conditions of delivery and general price settlement.
The delay of repayment depends on the transaction amount. In this contract three operations are simultaneous:

✓ Purchasing commitment of customer.
✓ Selling commitment to institution.
✓ Selling contract with profit after acquisition of goods by purchaser.

So, the IFI pays provider and will be paid back by customer.

**Ijara**

Banks buys grounds, equipments, buildings of which customer needs. Then banks make him them available for a rent, during determined time period, decided on the contract signing.

At the end of the contract, bank recuperates its object put in renting to make it available to another customer. In this situation, customer has purchasing option during all contract duration.

**Bai al Salam**

It’s a selling contract with deferred delivery. The purchaser pays negotiated price by cash to seller with a seller settlement to deliver the forward good. This contract is applied on agricultural and manufactured goods of which quantities and qualities could be specified without ambiguity.

**Istisna’a (subcontractor’s contract or manufacturing’s)**

It’s about a contract according to which a part asks another one for manufacturing him or building a building, mentioning clearly description of this good, for some remuneration payable in advance, by installments or forward.

It’s about a variation that is like a Salam contract with difference that object of transaction is focused on delivery, not on purchased goods, but on finished products that have undergone transformation process.

**Khard or Qard Hassan**

It’s about an exceptional free loan granted, generally, to a faithful customer who meets some difficulties. The bank does not take profits and the customer pays only back, as a result, the principal that has been granted to him.

**B.2 Financing participative techniques**

The next products described as follows associate capital-work in participative operations; the goal is the prohibition of interest loan. These participative operations are generally long-term financing operations and both used techniques to illustrate them are Musharaka and Mudaraba.
The Musharaka: active partnership

The Musharaka is a partnership between banks and entrepreneurs whereby every part contributes to partnership capital equal or variable proportions, to establish a new project or to be associated in an existent project by supplying additional funds. This technique is based on distribution of risks between different partners. Losses are distributed between customer and bank according equity contribution of everyone.

There are two modes of Musharaka contracts:

✓ Definitive or permanent Musharaka: It's a Musharaka in which participation of every partner in capital remains constant during all the concerned period.

✓ Decreasing Musharaka: It's a particular Musharaka in which investor participates in project financing with intention for retreating progressively from this one by selling his part to his associate. The operation ends once a partner has given back totally of investor debt and keeps only the control of project.

The Mudaraba

The Mudaraba is a kind of financing putting in equality Human capital and financial's in order to share profits and losses resulted from this association.

In this situation, the entrepreneur (beneficiary, associate manager) called Moudareb, brings his expertise and his know-how. Islamic financial institute, called Rab Al Mal, brings necessary financing to realize the operation.

Profits will be shared by both parties according agreed rate. As for risk of loss, of course losses are entirely supported by Islamic financial institute, nevertheless, customer loses his time, his effort and work value that he has supplied during carrying out of his project, knowing that this customer is considered as partner who does not receive any salary. In case of management negligence by the customer, loss will be supported by both parties.

The Sukus

The Sukus are defined as Islamic bonds that are not debt equity, but property’s of financial asset, allowing benefiting from regular payments and cover invested capital. They are defined as well by Islamic bond borrowings of states that contains, as every classical bond, a coupon, a deadline and a yield, to which a leasing contract is added. Investors (lenders) do not receive predefined interests but only underlying yield.
II. The contribution of Islamic finance in the real estate sector of Morocco

According to the International Monetary Fund (IMF), the economy of Morocco has expanded by a healthy 3.2% in 2018, after growing 4.1% in 2017, 1.1% in 2016, 4.6% in 2015 and 2.7% in 2014. According to the economists, the economy is expected to grow by 3.2% during 2019, and by another 3.8% in 2020.

According to Morocco’s central bank Bank Al-Maghrib, yet during 2018 the nationwide residential real estate price index (REPI) increased by only 0.8%.

The next figure expose the evolution of real estate price index during Q4 in 2018:

<table>
<thead>
<tr>
<th>Property type</th>
<th>Annual change (%)</th>
<th>Quarterly change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>RESIDENTIAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apartments</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Houses</td>
<td>0.8</td>
<td>-1.2</td>
</tr>
<tr>
<td>Villas</td>
<td>5.9</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Bank Al-Maghrib

A. The mortgage market is decreasing

According to the Center for Affordable Housing Finance in Africa (CAHF), there are a wide range of sources for mortgage lending, including commercial banks, public banks, consumer credit companies, and microfinance companies.

The next figure compares the evolution between real estate loans and percentages of GDP during the period of 2001-2018:
Numerous housing projects over the past decade have been implemented by the government, including social housing initiatives and the mobilization of thousands of hectares of land, giving developers incentives to invest in social housing projects, and getting them to commit to build 900,000 units by 2020.

Lending for middle- and low-income families is accessible through partnerships between the government and banks:

- The FOGARIM mortgage guarantee fund guarantees 70% of a mortgage loan made to a household with an informal income, to buy a housing unit worth less than MAD250,000 (US$26,045), helping about 1,200 new beneficiaries every month.
- Another guarantee program, FOGALOGE, guarantees loans to middle-class independent workers, moderate income civil servants, and non-resident Moroccans purchasing or building houses up to about MAD1 million (US$104,180) in value.

**B. The sector of tourism is growing**

The sector of tourism in Morocco is considered by the second largest economic one, accounting for around 8% of GDP in 2018. With an increasing of the share to GDP to about 15%. In addition, the tourism sector employs more than 2.5 million people (both direct and indirect) — representing almost 25% of the total labor force.

According to the Ministry of Economy and Finance, in 2018, the total number of tourist arrivals rose by 8.2% to 12.28 million from a year earlier, after growing by 9.8% in 2017 and 1.5% in 2016.
The figure shows that 4 million tourists have been recruited between 2008 and 2018. The achievement of these positive results ..... to:

To boost tourism further, the government is increasing air flights into the country, building new airports in cities such as Fez and Agadir, and promoting Morocco as a leading tourist destination online.

As a result, an increasing number of airlines are adding flights to Morocco. Low-cost airline Transavia France is adding seasonal flights between Lyon and Casablanca in July, having already connected Marrakech, Agadir and Oujda to Lyon. Royal Air Maroc (RAM) is launching direct flights between Boston and Casablanca, and RAM’s partner S7 Airlines is launching flights from Moscow to Casablanca.

C. Morocco Turns to Islamic Finance

The Sharia compliant bank accounts are now available in Morocco as the Central Bank and the Ministry of Economy and Finance have authorized the opening of five Islamic banks, referred to as “participatory” banks, according to a press release published this Monday.

According to the bank’s statement, the legislation has also been modified to allow the High Council of Ulemas, an official authority that aims to support the Islamic religious policy of Morocco, to host a “Sharia Committee for Participatory Finance.”

This committee will be the “only committee that is authorized to issue fatwas on the conformity of the products of the participative finance to the precepts of the moderate Islam,” adds the communiqué.

D. The banking finance of Moroccan real estate
The bank sector is playing a leading role in the Moroccan economy and may be considered as one of development driver of the country in its capacity as the main finance source of the economy and therefore, to be the main part of growth and job creation.

According to the BAM, this sector has accounted 84 lending institutions and assimilated agencies at the end of 2017's :

54 lending institutions : 19 banks and 35 finance companies ;
30 assimilated agencies : 6 off shoring banks, 3 micro lending institutions, 9 intermediary companies for fund transfers, the central guarantee fund and the deposite and management fund.

E. The contribution of Moroccan banks in the real estate sector

The Moroccan bank system is composed of Moroccan capital banks as for instance Attijariwafa bank, Popular Central Bank, BMCE... that controls 70% of the Moroccan bank market and the other foreign capital banks as Société générale, Crédit du Maroc, BMCI. The subsidiaries of these last ones that have been touched by financial international crisis are directly an impact on the Moroccan banks.

F. Opportunities and challenges of the launching of participative banks in Morocco

Beyond the religious argument, many opportunities may be made to ensure the sector development conditions. In particular :

✓ To neutralize all the frictions of a fiscal nature ;
✓ To target populated and rural areas to improve the bankarization rate as well as to offer possibilities of finance in the agricultural sector ;
✓ To target the SME having difficulties of conventional finance access ;
✓ To design and carry out communication campaigns explaining characteristics, purposes and scope of participative banks activities ;
✓ To adapt legal rules relatively to the introduction of participative finance into different sectors of insurance and capital markets to promote the emergence of an integrated participative financial system ;
✓ To train qualitative human resources and in enough number.

G. The contribution of participative finance for the real estate Moroccan sector :

G.1 At the micro economical level

For clients
✓ To encourage clients to make lending to participative banks thanks to their compliance to the Sharia;
✓ The Islamic products as Mourabaha or Ijara represent alternative solutions trusted to the credit or lease at conventional rate;
✓ The principle of sharing profits and losses encourage some clients to be part of projects and investments with the participative banks.

For the participative bank
✓ Traceability of underlying asset;
✓ Backing of tangible asset;
✓ Decreasing of the gap between financial and economical sphere.

G.2 At the macro economical level

For real estate developers
✓ Encourage Moroccan and foreign real estate developers who refuse relationships with conventional banks for religious reasons;
✓ Rise of the demand and the sales in the real estate sector because of the launching of participative banks thanks to alternative products.

The state of Morocco
✓ To keep the social balance;
✓ To contribute in economical development in Morocco;
✓ To reduce housing deficit and to improve technical and architectural quality of building;
✓ To solve infrastructure finance problems by sukuks issuing that based on principle of sharing profits and losses.

CONCLUSION
According to this article, we notice that the participative finance model by its nature offers considerable opportunities to Moroccan economical actors, at the level of its ethic character giving preference to the partnership and the sharing of profits and losses. And also at the level of financial products proposed that could be adapted to different needs situations of the clients.
In spite of difficulties encountered by Morocco during the first years of the entry of the participative finance because of the lake of training and experience in this area, the participative finance will play an important role for the real estate investments in Morocco.

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