

The Concentration of Participatory Financing around the Mourabaha in Morocco: between Economic Rationality and Institutional Constraints

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Abstract : Participatory financial engineering in Morocco, implemented within an official regulatory framework since 2017, is characterized by a marked predominance of the Mourabaha product, while other participative products (Moucharaka, Moudaraba, Salam, Ijara) remain marginalized. This paper proposes a theoretical analysis of this concentration by mobilizing the principles of economic rationality, institutional challenges and market structure in the field of participatory finance. Based on a critical review of the literature on participatory finance, crowdfunding models and Sharia governance, the study explores factors that may explain the dominance of Mourabaha: operational simplicity, management of perceived risk and alignment with customer and bank preferences. It also examines the structural limits of the Moroccan banking system, in particular the non-existence of diversification and product standardisation mechanisms, as well as the effects of a still emerging regulatory framework on the development of alternative instruments. The discussion highlights the central dilemma of the sector: the concentration around Mourabaha can be interpreted as a rational choice in a specific economic and institutional context, but it also reveals structural blockages that hinder innovation and the maturation of participatory finance in Morocco. The article finally proposes conceptual avenues for thinking about the diversification and strengthening of the sector through a well-adapted institutional and theoretical framework.

Keywords : Participatory Finance, Mourabaha, Economic Rationality, Financial Innovation.

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1. INTRODUCTION

Participatory finance, also known as Islamic finance, is an emerging segment of the Moroccan financial system that relies on Sharia principles, notably the prohibition of interest (riba) and the sharing of profits and losses. In Morocco, this sector was legally structured with the adoption of Law No. 103.12 on participatory banks, promulgated in 2017, which sets the regulatory framework for authorized institutions and instruments, such as Mourabaha, Moucharaka, Moudaraba, Salam and Ijara.

Since then, the participative financial ecosystem has developed rapidly, with several banks and active participatory windows and a proliferation of customer accounts. In 2023, participatory financing in Morocco reached 21.4 billion dirhams, up from the previous year, confirming a sustained growth momentum. Despite this progress, the sector remains highly concentrated in Mourabaha, which constitutes nearly 99% of total participatory financing according to data from the Moroccan Central Bank.

This concentration is also reflected in the sectoral distribution of financing: a very significant share is allocated to real estate financing, representing around 80% of the total, followed by equipment and consumption. Structurally, Moroccan participatory finance still represents only a small percentage (~2%) of global banking assets despite its institutional advances.

The study of the domination of Mourabaha in Moroccan participatory finance is at the intersection of several theoretical and practical debates. On the academic level, it questions the rationality of economic actors' choices and the institutional constraints that shape emerging financial markets. The literature on crowdfunding highlights a tension between simple instruments and risk-sharing instruments, and between market dynamics and regulatory and operational constraints. However, there is a research gap specific to the Moroccan case, despite the recent expansion of the sector, which scientifically justifies a thorough exploration of this institutional and conceptual dominance.

At the practical level, understanding the reasons for this concentration is essential for public decision-makers, regulatory authorities and financial institutions seeking to enhance the diversification of participatory instruments and increase the sector's impact on the real economy, particularly in terms of financing small and medium-sized enterprises and innovative projects.

The central question addressed in this article is as follows: does the predominance of Mourabaha in Moroccan participatory finance result from a rational choice of actors or does it reflect structural blockages of the participatory financial system? To address this issue, the specific objectives of the study are:

- Identify the theoretical and institutional determinants of the concentration of funding around the Mourabaha
- Analyze the economic and structural implications of this dominance for the development of the sector
- Propose conceptual and institutional approaches that could promote a diversification of participatory instruments in Morocco as well as strategies to strengthen the resilience and innovativeness of the sector.

2. LITERATURE REVIEW

Participatory finance, or Islamic finance, is based on the principles of the prohibition of interest (Riba), the prohibition of excessive speculation (Gharar) and the sharing of profits and losses. It aims to offer financial instruments in accordance with Sharia, allowing alternative financing to traditional banking products. Among the existing instruments, the Mourabaha, the Moucharaka, the Moudaraba,

the Salam and the Ijara represent diversified financing mechanisms. The Mourabaha, a cost-increased sales contract, is however preferred in practice for its simplicity, predictability, and low risk exposure, while profit-and-loss sharing products require more expertise and commitment from stakeholders. (Usmani, 2002; El-Gamal, 2006).

In several emerging participatory finance systems, such as in Malaysia and Indonesia, the concentration of funding on the Mourabaha is also observed. The international literature emphasizes that this predominance results from a mix of economic rationality and institutional constraints: clients and banks prioritize simple and secure instruments, while secondary markets and infrastructure for alternative products remain limited (Wilson, 2008; Iqbal & Mirakhor, 2011). These analyses suggest that the dominance of the Mourabaha may constitute both a rational short-term choice and a structural obstacle to the diversification of the sector.

In Morocco, academic research and institutional reports confirm a similar concentration. According to the Al-Maghrib Bank (BAM, 2023) and the work of El Amrani (2021), the Mourabaha represents more than 70% of participatory financing, while the Moucharaka, the Moudaraba, and other products remain marginalized. This situation raises questions about financial innovation and the potential role of participatory finance in financing SMEs and projects with a socio-economic impact.

The predominance of the Mourabaha presents several conceptual and structural limitations. Firstly, it focuses funding on limited risk instruments, which reduces the exposure to real profit and loss sharing, thus limiting diversification and innovation of participatory banks. Secondly, this concentration can create a misalignment with the socio-economic objectives of participatory finance, notably the financing of productive, sustainable projects and SMEs. Finally, institutional and regulatory constraints, such as the limited standardization of contracts and the absence of secondary markets for profit-sharing products, reinforce this dominance. The literature therefore suggests that the 'Mourabaha-centric' model translates both a rational choice and a structural blockage hindering the sustainable development of the sector in Morocco (Wilson, 2008; Iqbal & Mirakhor, 2011; BAM, 2023).

3. MOROCCAN INSTITUTIONAL FRAMEWORK

Participatory finance in Morocco is part of an official regulatory framework, established by Law No. 103-12 on participatory banks, enacted in 2017 and supplemented by circulars and directives from the Bank Al-Maghrib (BAM). This framework defines the conditions for the approval of participatory banks, the Sharia governance rules, as well as the authorized instruments: Mourabaha, Moucharaka, Moudaraba, Salam and Ijara. The legislation aims to create a safe and Sharia-compliant environment while encouraging innovation and diversification of financial products.

Sharia governance is a central element of this framework. Each participating bank must have an independent Sharia compliance committee responsible for validating contracts and overseeing their compliance with Islamic principles. This requirement ensures the religious legitimacy of the products, but also introduces operational constraints, especially for more complex instruments, such as the Moucharaka and the Moudaraba, which require further controls and expertise.

At the economic level, the Moroccan institutional framework takes into account the liquidity and market constraints specific to participatory banks, notably the absence of a developed secondary market for profit-sharing products. This limits the ability of institutions to diversify their portfolios and contributes to the predominance of Mourabaha. In addition, regulatory and prudential requirements influence the choice of products, reinforcing the focus on simple, standardized and limited-risk instruments.

Thus, the Moroccan institutional framework illustrates the double effect: it provides legitimacy and security necessary for the development of participatory finance, while creating structural constraints that can limit innovation and diversification of financial instruments.

4. ANALYSIS OF THE DOMINATION OF THE MOURABAHA

The predominance of Mourabaha in the Moroccan participatory finance system can be understood from two complementary angles: the rational choice of actors and the structural blockage of the sector.

4.1. Rational choice of actors

Economically, the concentration around Mourabaha can be interpreted as a rational choice for banks and customers. For institutions, the Mourabaha offers a predictable and easily standardisable instrument, allowing to limit operational risk and simplify Sharia governance. For clients, this type of financing is understandable and secure, offering clear visibility on the final cost and associated low risk. In this context, the dominance of Mourabaha is partly explained by a short-term economic rationality, where security and simplicity take precedence over diversification and real profit-loss sharing.

4.2. Structural blockage

However, the focus on Mourabaha also reveals structural limitations. Regulation, although favorable, imposes compliance and governance constraints that make alternative instruments more complex and costly to deploy. In addition, the lack of secondary market mechanisms for profit-sharing products, liquidity limitations and the low standardization of Musharaka or Mudharaba contracts are obstacles to their adoption. These combined factors inhibit innovation and contribute to the marginalization of participatory instruments other than Mourabaha.

4.3. Implications for the development of participatory finance

This theoretical analysis suggests that the dominance of the Mourabaha is not only an economic choice, but also results from structural and institutional constraints. It limits the diversification of funding, restricts the role of the sector in financing SMEs and innovative projects, and hinders the development of a mature and resilient participatory market. Understanding this duality is essential to guide banks' strategies and public policies aimed at stimulating growth and innovation in Moroccan participatory finance.

5. IMPLICATIONS AND PROSPECTS

The concentration of financing on the Mourabaha has strategic consequences for participatory banks. If this model ensures operational stability and easy Sharia compliance, it limits the diversification of the portfolio and exposure to more innovative products. In the long term, this orientation may restrict the competitiveness of the sector and its ability to meet the specific needs of clients, particularly SMEs and projects with a high economic or social impact.

For the regulatory authorities, the dominance of Mourabaha highlights the need to rethink incentive mechanisms and market infrastructures. The development of standardized alternative products, the establishment of secondary markets for profit and loss sharing instruments, as well as the training of players are essential levers to stimulate innovation and diversify the sector. A proactive regulatory approach could reduce the identified structural bottlenecks and promote more balanced participatory finance.

The sector has significant potential to expand its economic role. By promoting the use of diversified instruments such as Moucharaka, Moudaraba and Ijara, participatory banks could better support the financing of SMEs, sustainable projects and the real economy. Ultimately, the combination of

institutional reforms, product innovation and financial education could transform Moroccan participatory finance into a robust lever for economic and social development.

6. CONCLUSION

This paper analyzed the domination of the Mourabaha in participatory finance in Morocco through a theoretical approach. The study showed that this predominance results from both a rational choice of actors, based on simplicity, predictability and risk management, and structural blockages related to regulation, Sharia governance and market constraints.

The concentration around the Mourabaha limits the diversification of instruments and hinders the development of a more innovative and inclusive sector. The perspectives identified highlight the need for institutional reforms, development of standardized alternative products and incentive mechanisms for financial actors.

In conclusion, Moroccan participatory finance, although stabilized by the dominance of Mourabaha, has a significant potential for maturation and diversification, provided that it combines financial innovation and institutional adaptation. This analysis thus offers a useful conceptual framework to guide the strategies of banks, public policies and future research on participatory finance in Morocco.

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