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## Broadening the tax base in Morocco: How to integrate the informal economy?.

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**Abstract**

Morocco's informal sector accounts for nearly 30% of GDP and over 40% of employment, yet remains largely outside the tax system, constraining fiscal revenues and equitable development. This study examines strategies to broaden the tax base through formalization of informal activities. Methodologically, the research adopts a sequential explanatory mixed methods design. Quantitative data cover the period 2015–2023 and were extracted from the Moroccan Ministry of Economy and Finance, the High Commission for Planning (HCP), the World Bank, and the IMF. The sample includes time-series tax indicators, informal sector surveys (HCP 2015, 2019, 2023), and comparative fiscal benchmarks from more than 180 countries. Qualitatively, the study reviews three policy case studies (Brazil's Simples Nacional, India's GST, Rwanda's digital transformation) and analyzes Morocco's recent formalization reforms (Mouwafaqa, Ibtikar, Law 69-21). The main conclusion is that administrative complexity, weak enforcement, low financial literacy, and distrust in institutions sustain informality. However, a coordinated strategy comprising a simplified flat tax for micro-companies, digital filing tools, time-limited tax amnesties, bundling tax registration with social security benefits, electronic invoicing, and cross-agency data sharing could raise tax to GDP ratio by an estimated 3 to 4 percentage points. The paper provides a phased implementation roadmap tailored to Morocco's institutional context, arguing that formalization is both fiscally necessary and socially beneficial.

**Keywords:** Tax base, informal economy, Morocco, tax policy, formalization, tax compliance.

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**Introduction :**

Morocco's tax system faces a persistent structural challenge: a substantial portion of national economic activity occurs outside the formal tax net. The informal economy, which the International Labour Organization (2021) defines to encompass unregistered businesses, undeclared labor, and untaxed transactions, remains a defining feature of the Moroccan economic landscape. According to World Bank (2022) estimates, informal activities contribute nearly 30% of gross domestic product and account for more than 40% of total employment. The High Commission for Planning (2023) further indicates that informal employment reaches approximately 68% in the agricultural sector and 38% in non-agricultural sectors. This situation generates considerable tax revenue losses, constrains the government's capacity to finance public services and social protection, and perpetuates inequalities between formal and informal economic actors.

The present study addresses this issue by examining policy mechanisms capable of broadening Morocco's tax base through the gradual integration of informal economic activities into the formal system. The primary objective is to identify and evaluate actionable strategies adapted to Morocco's specific institutional, economic, and social context. To achieve this goal, the research draws on quantitative tax data from Moroccan national sources and international organizations, reviews recent domestic formalization initiatives, and analyzes three comparative case studies (Brazil, India, and Rwanda) that have implemented successful formalization reforms. The central research question guiding this investigation is: What policy mechanisms can effectively facilitate the transition of informal economic actors into Morocco's formal tax system while ensuring tax sustainability and social equity?

The paper is organized into four sections. Section one reviews the existing literature on the definition, scope, and drivers of informality in Morocco, as well as global experiences with formalization. Section two describes the sequential explanatory mixed methods methodology employed, including data sources, analytical techniques, and case study selection criteria. Section three presents empirical findings organized around administrative, economic, social, and enforcement related barriers. Section four discusses the implications of these findings and proposes a strategic policy framework with phased implementation recommendations.

## 1. Literature review :

### 1.1. Definition and Scope of the Informal Economy :

The informal economy encompasses unregistered businesses, undeclared labor, and untaxed transactions (ILO, 2021). This sector includes a wide spectrum of activities, from subsistence agriculture and street vending to unregistered manufacturing and construction work. In Morocco, informality is particularly prevalent in agriculture, retail trade, construction, and handicrafts (HCP, 2023). The Moroccan High Commission for Planning estimates that informal employment accounts for approximately 68% of total employment in the agricultural sector and 38% in non-agricultural sectors (HCP, 2023).

Contemporary scholarship distinguishes between different types of informal actors. Chen (2018) identifies three categories: informal self-employed (own-account workers), informal wage workers (employees without formal contracts or social protection), and informal enterprises (unregistered businesses). This heterogeneity is crucial for policy design, as different categories face distinct constraints and require tailored interventions.

### 1.2. Causes of Informality in Morocco :

The literature identifies a complex interplay of factors driving informality in Morocco. These can be categorized into structural, institutional, and behavioral determinants.

**Structural factors** include the predominance of small-scale agriculture, high rates of rural-urban migration, and the concentration of economic activity in low-productivity sectors (HCP, 2023). Morocco's fragmented productive structure characterized by numerous micro-companies with limited growth potential, naturally creates conditions in which informality flourishes. (*World Bank, 2022*).

According to EL ALAOUÏ et al. (2024), the main source of tax revenue in Morocco in 2021 was VAT, a large portion of which came from import VAT. Under normal circumstances, the tax structure should be based on income tax as the primary source of tax revenue, with domestic VAT accounting for a larger share than import VAT. Unfortunately, this situation confirms a kind of fiscal failure.

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**Institutional factors** are particularly significant. Key institutional drivers include:

- **Complex tax regulations** that discourage compliance, especially for small businesses navigating multiple tax regimes (corporate tax, value-added tax, professional tax, and social security contributions) (OECD, 2021).
- **High compliance costs**, both monetary (accounting fees, tax advisory services) and temporal (time spent on declarations, record-keeping), which disproportionately burden micro and small companies (IMF, 2022).
- **Weak enforcement of tax laws and labor regulations**, resulting from limited administrative capacity and the prevalence of cash-based transactions that are difficult to trace (World Bank, 2022).

**Behavioral and perceptual factors** also play a crucial role. Research by the African Development Bank (2023) highlights low financial literacy among informal workers, limiting their understanding of formalization benefits. Furthermore, Transparency International (2023) reports that perceptions of corruption within public administration erode trust in government institutions, reducing willingness to engage with formal systems.

### 1.3. Global Experiences in Formalization :

International experiences offer valuable lessons for Morocco. This section reviews three notable approaches.

**Brazil's Simples National:** Implemented in 2006, this simplified tax regime consolidates up to eight federal, state, and municipal taxes into a single monthly payment based on progressive turnover brackets (KPMG, 2023). The reform led to a significant increase in formalized micro and small companies, with over 20 million businesses registered by 2022. Key success factors include the dramatic reduction in compliance costs, the use of technology to facilitate filing, and the creation of a graduated system that allows firms to grow without immediate punitive tax burdens.

**India's Goods and Services Tax (GST) Reform:** Launched in 2017, India's GST reform aimed to create a unified national market and curb evasion through digital invoice matching and an automated compliance platform (World Bank, 2023). Despite initial implementation challenges, the reform expanded the registered taxpayer base from approximately 6.5 million

to over 14 million within five years. The GST Network (GSTN) technology platform provides real-time data to tax authorities, enabling more effective enforcement.

**Rwanda's Digital Transformation:** Rwanda has emerged as a leader in using technology to facilitate formalization. The Rwanda Revenue Authority (RRA) implemented electronic billing machines, mobile tax filing applications, and a one-stop-shop business registration platform (UNDP, 2022). These initiatives reduced business registration time from several weeks to under 24 hours and significantly increased tax compliance rates.

These case studies demonstrate that successful formalization strategies typically combine procedural simplification, technological innovation, and the bundling of tax obligations with tangible benefits. However, the literature also cautions that context matters significantly; policies must be adapted to local institutional capacities and socio-economic conditions.

#### **1.4. Gaps in the Literature :**

While substantial research exists on informality in Morocco, several gaps remain. First, most studies focus on either supply-side factors (regulatory barriers) or demand-side factors (entrepreneur motivations), but rarely integrate both perspectives. Second, there is limited empirical research on the effectiveness of Morocco's recent formalization initiatives. Third, few studies propose comprehensive, multi-dimensional policy frameworks that address the interconnected nature of formalization barriers. This paper aims to address these gaps by providing an integrated analysis of formalization challenges and proposing a coherent policy framework grounded in empirical evidence.

## **2. Methodology :**

This study employs a mixed-methods approach, combining quantitative and qualitative techniques to provide a comprehensive understanding of informal economy formalization in Morocco.

### **2.1 Research Design :**

The research design follows an explanatory sequential mixed-methods framework (Creswell, 2009), where quantitative analysis provides macro-level trends and patterns, followed by qualitative research that explains and contextualizes these findings. This approach is particularly suited to studying complex policy issues where understanding context and mechanisms is essential.

## 2.1 Quantitative Data Collection and Analysis :

### 2.2.1 Data Sources :

Quantitative data were drawn from multiple sources:

- ✓ **Tax revenue trends (2015-2023):** Data were extracted from the Moroccan Ministry of Economy and Finance annual reports and the General Treasury of the Kingdom (GTK) statistical bulletins.
- ✓ **Informal sector estimates:** Data were obtained from the Moroccan High Commission for Planning (HCP) Informal Sector Surveys (2015, 2019, 2023) and World Bank Morocco Economic Updates.
- ✓ **Comparative fiscal indicators:** Data from the International Monetary Fund (IMF) Country Reports and OECD Revenue Statistics were used for benchmarking.

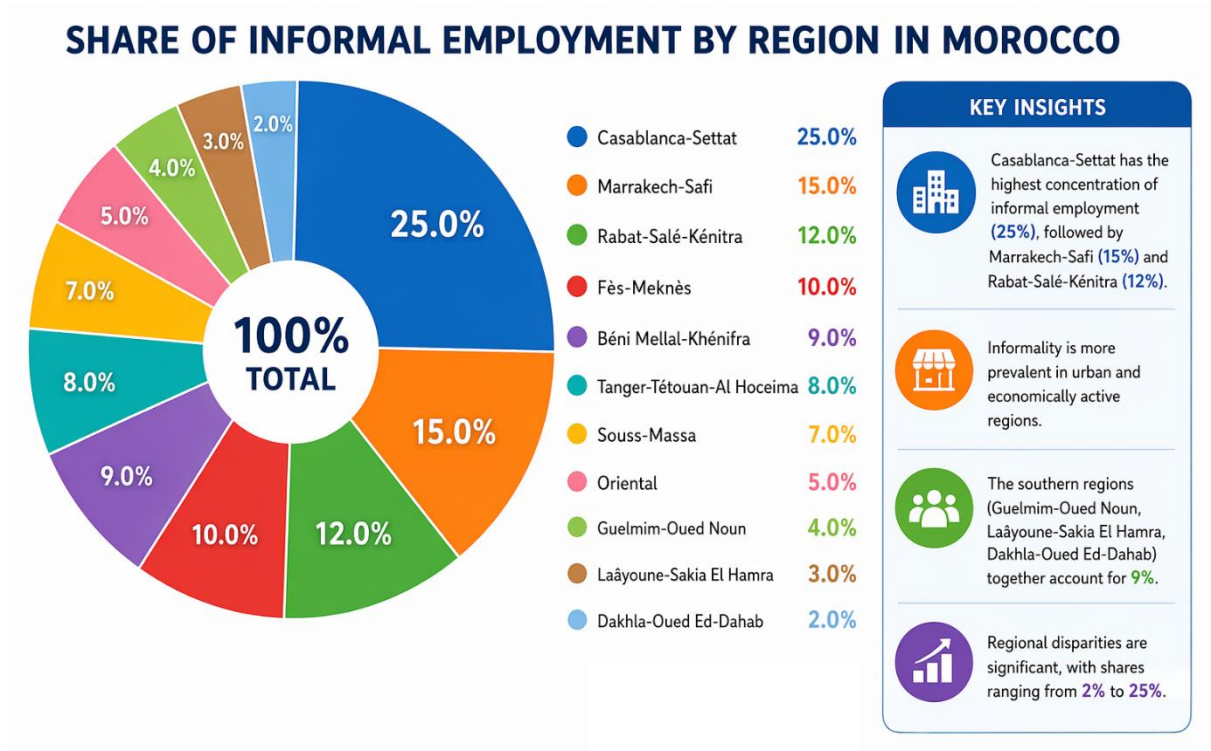
### 2.2.2 Analytical Techniques :

Quantitative analysis involved:

- ✓ **Time-series analysis** of tax-to-GDP ratios and informal sector size to identify trends and correlations.

- ✓ **Descriptive statistics** characterizing the informal sector structure by sector, region, and companies size.

Figure 1 : Descriptive statistics characterizing the informal sector structure by sector, region, and companies size 2022



High Commission for Planning (HCP). National Survey on Employment and Unemployment, 2022.

- ✓ **Comparative analysis** of Morocco's tax indicators against regional and international benchmarks.

Table 1: Comparative analysis of Morocco's tax indicators against regional and international benchmarks.

Indicator (% of GDP unless stated)	Morocco	MENA Avg	Lower-Middle Income Avg	OECD Avg	Global Avg	Key Insight
Tax revenue (% GDP)	21.0% (2023)	~15–18%	~18%	~34%	~20–22%	Morocco is above regional peers, close to global average, but well below OECD
Tax revenue (% GDP, latest reform impact)	24.6% (2025)	—	—	~34%	—	Reform driven increase narrows gap with advanced economies
Indirect taxes share (% of total tax)	~40%	High (similar)	High	~30–35%	—	Morocco relies more on VAT/consumption taxes
Income & profit taxes (% GDP)	~8%	Lower	Lower	~11–13%	—	Weaker than OECD due to informality
Non-tax revenue (% GDP)	2–2.5%	—	—	Higher in resource-rich OECD	—	Underperformance vs resource potential
Fiscal balance (% GDP)	–3.9% (2024)	~–5%	~–4%	~–3%	–2.7%	Moderate deficit, slightly worse than global avg
VAT importance (% of tax revenue)	~37%	High	High	Lower share	—	Heavy dependence on consumption taxation
Tax base coverage (formal taxpayers)	<40% workforce effectively taxed	Low	Low	High	—	Large informal sector constraint

Compiled by the authors using the World Bank’s World Development Indicators, the OECD’s Economic Surveys: Morocco 2024, and the OECD’s Revenue Statistics.

## 2.2 Qualitative Data Collection and Analysis :

### 2.3.1 Policy Review :

A systematic review of Morocco's tax reforms related to informality was conducted. Documents reviewed include:

- ✓ The *Mouwafaqa* Charter for small and medium companies (2016).
- ✓ The *Ibtikar* program for startup formalization (2018).
- ✓ The \*Law 69-21\* on simplified tax regimes for micro- companies (2022).
- ✓ Various circulars and strategic plans from the Directorate General of Taxes (DGT).

### 2.3.2 Case Study Analysis :

Comparative case studies were developed for Brazil, India, and Rwanda. Case selection criteria included: (a) successful implementation of formalization strategies, (b) relevance to the Moroccan context, and (c) availability of reliable documentation. Data sources for case studies included academic articles, policy evaluations from international organizations (IMF, World Bank, OECD, ILO), and official government publications.

### 2.3 Data Integration and Validation :

Through a process of triangulation, topics from policy reviews and case studies were compared to quantitative trends in order to integrate quantitative and qualitative findings. Since no primary qualitative data collecting from human participants was carried out, member checking was not relevant. Rather, to guarantee credibility, results were verified against several data sources.

### 2.4 Limitations :

This study has several limitations. First, the reliance on secondary data means that analysis is constrained by the availability and quality of existing statistics. Second, informal sector estimates are inherently uncertain, as they rely on survey data that may undercount hidden activities. Third, the absence of primary data from informal entrepreneurs means that the

analysis of behavioral factors is limited to existing research. Future research should complement these findings with primary data collection.

### 1. Challenges in taxing the informal economy in Morocco :

This section presents the findings from the quantitative analysis and policy review, organized thematically around the key challenges identified in the literature.

#### 3.1 Administrative Barriers :

The quantitative analysis reveals significant administrative barriers to formalization. Tax revenue data from the Ministry of Economy and Finance (2023) indicate that the number of registered companies in Morocco increased from approximately 250,000 in 2015 to 450,000 in 2023. However, this represents only a fraction of the estimated 1.5 million economic units operating in the country (HCP, 2023).

**Table 2: Tax Revenue Trends and Registered companies (2015-2023)**

Year	Tax-to-GDP Ratio (%)	Number of Registered companies (thousands)	Estimated Informal companies (thousands)
2015	22.1	245	1,180
2016	21.8	268	1,155
2017	22.3	291	1,130
2018	22.4	315	1,105
2019	22.6	340	1,080
2020	21.5	365	1,100
2021	22.2	395	1,070
2022	22.9	430	1,050
2023	22.8	450	1,030

*Sources: Ministry of Economy and Finance (2023); HCP (2023); World Bank (2023). Note: 2023 figures are preliminary.*

The table reveals two important patterns. First, the tax to GDP ratio has remained relatively stable, fluctuating between 21.5% and 22.9%, despite a nearly 85% increase in the number of registered companies. This suggests that new registrants are predominantly micro- companies with limited tax contributions, or that the formalization of existing companies has not translated into proportional revenue gains. Second, the estimated number of informal companies remains stubbornly high, hovering around one million units, indicating that current formalization policies have not achieved a structural transformation.

Policy review findings shed light on the administrative barriers underlying these trends. Complex tax filing procedures were repeatedly identified as a deterrent. The Moroccan tax system requires businesses to navigate multiple declarations (monthly, quarterly, and annual) across different tax types (VAT, corporate tax, professional tax, and social security contributions). For micro-companies with limited accounting capacity, this complexity creates insurmountable compliance costs (Ministry of Economy and Finance, 2023).

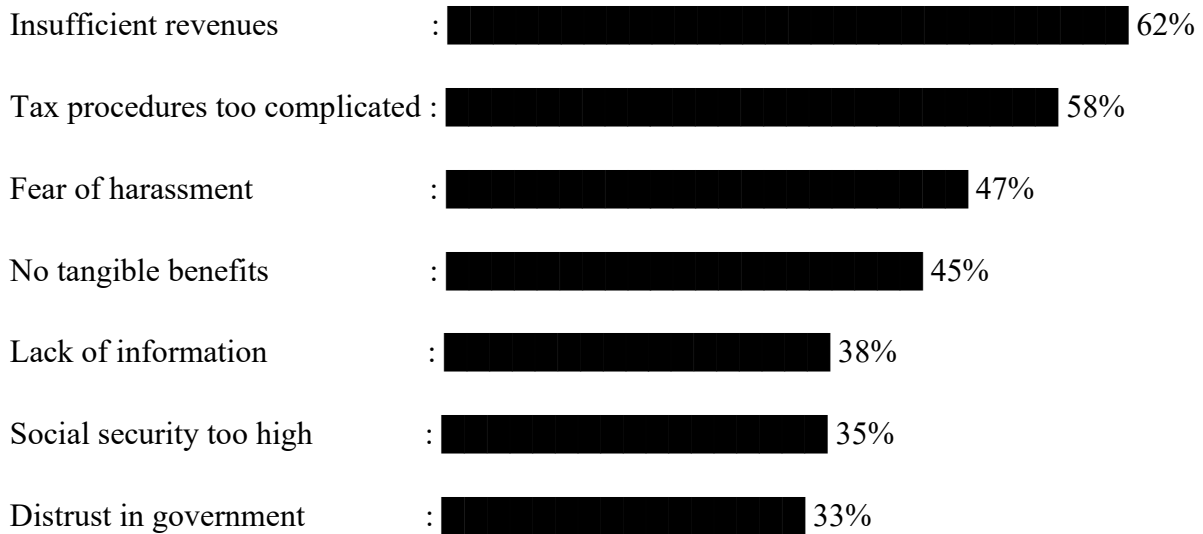
The absence of adequate digital infrastructure for compliance constitutes an additional administrative barrier. While the DGI has implemented electronic filing systems, these remain inaccessible to many informal operators due to digital literacy constraints and limited access to reliable internet connectivity, particularly in rural areas (UNDP, 2022).

### **3.2 Economic and Social Factors :**

Economic and social factors constitute the second major category of barriers. Analysis of HCP (2023) survey data reveals that 62% of informal companies cited "insufficient revenues to justify formalization" as a primary reason for remaining unregistered. This reflects the economic reality that many informal companies operate at subsistence levels, where the marginal cost of formalization would exceed the marginal benefit.

Low financial literacy among informal workers represents another significant barrier. The African Development Bank (2023) reports that only 35% of informal sector workers in Morocco have a formal bank account, and fewer than 20% have ever filed a tax declaration. This lack of familiarity with formal financial and tax systems creates psychological barriers that reinforce informality.

Distrust in government institutions emerges as a critical social factor. Transparency International (2023) ranks Morocco 94th out of 180 countries on the Corruption Perceptions Index, with 62% of Moroccans reporting that corruption is a significant problem in public administration. This perception of corruption translates into reduced willingness to engage with tax authorities, as informal operators anticipate harassment, arbitrary demands, or inefficient use of tax revenues.

**Figure 2: Main Reasons for Remaining Informal (Based on HCP Survey Data, 2023)**

*Source :Authors.*

### 3.3 Enforcement Gaps :

Weak enforcement capacity represents the third category of barriers. IMF (2023) assessments indicate that Morocco's tax administration has an audit coverage rate of less than 5% of registered enterprises annually, with even lower coverage of unregistered entities. This limited audit capacity reflects chronic under-resourcing of tax authorities and the difficulty of detecting cash-based transactions that characterize informal activity.

The prevalence of cash transactions fundamentally constrains enforcement. World Bank (2023) estimates that over 70% of transactions in Morocco involve cash, compared to less than 20% in OECD countries. This cash intensity means that economic activity leaves minimal digital footprint, making it extremely difficult for tax authorities to verify declarations or detect evasion.

Cross-agency coordination gaps further weaken enforcement. Tax authorities, labor inspectors, and social security agencies operate with limited information sharing, allowing informal operators to evade detection across different regulatory domains (UNDP, 2023).

### 3.4 Comparative Context :

To contextualize these challenges, it is useful to compare Morocco's tax performance against regional and international benchmarks.

**Table 3: Tax-to-GDP Ratio Comparison (Selected Countries, 2022)**

Country	Tax-to-GDP Ratio (%)
OECD Average	34.1
South Africa	27.4
Turkey	23.5
<b>Morocco</b>	<b>22.9</b>
Egypt	15.3
Tunisia	20.1
Sub-Saharan Africa Average	16.5

*Source: OECD (2023); IMF (2023)*

Table 3 shows that Morocco's tax-to-GDP ratio exceeds the regional average but remains substantially below OECD levels. This gap of approximately 11 percentage points represents significant foregone revenue that could finance social protection, infrastructure, and public services. Reducing informality by half could potentially increase tax revenues by 3-4% of GDP, according to IMF (2023) estimates.

## 2. Policy Recommendations :

Based on the analysis of challenges and international best practices, this section proposes actionable policy recommendations for integrating Morocco's informal economy into the formal tax system.

### 4.1 Simplifying tax procedures :

#### ***Recommendation 1: Introduce a simplified flat tax regime for micro-companies :***

Following the Brazilian *Simplex Nacional* model, Morocco should implement a single, simplified tax regime for micro-companies with annual turnover below a specified threshold (e.g., 1 million MAD). This regime would consolidate corporate tax, VAT, professional tax, and social security contributions into a single monthly payment calculated as a percentage of

turnover. The OECD (2023) estimates that such regimes can reduce compliance costs for micro-companies by 60-80%.

The threshold should be progressive, with higher rates applying to companies above the threshold to avoid creating a "formality trap" that disincentivizes growth. Graduated thresholds would allow companies to transition gradually to the standard tax regime as they expand.

***Recommendation 2: Implement digital tax filing with simplified interfaces :***

Building on the DGI's existing electronic filing system, Morocco should develop a simplified mobile application specifically designed for micro-enterprises. This application should feature:

- ✓ Pre-populated declarations using third-party data (e.g., bank transactions, utility payments).
- ✓ Step-by-step guidance in Arabic, Amazigh, and French.
- ✓ Integration with payment platforms for seamless remittance.
- ✓ Automatic calculation of tax obligations based on user inputs.

The World Bank (2023) estimates that such systems can reduce the time required for tax compliance from an average of 40 hours per year to under 10 hours for micro-companies.

**4.2 Incentivizing Formalization :**

***Recommendation 3: Provide tax amnesties for first-time registrants :***

To encourage initial registration, Morocco should implement a limited-time tax amnesty program for informal enterprises that voluntarily formalize. This program would waive past tax liabilities and penalties, allowing new registrants to start with a clean slate. The IMF (2023) notes that such amnesties, when properly designed and communicated, can significantly increase voluntary registration without creating expectations of recurrent amnesties that undermine future compliance.

The amnesty should be time-limited (e.g., 12 months) and clearly communicated as a one-time opportunity to establish credibility and discourage future informality.

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***Recommendation 4: Offer social security benefits to registered businesses :***

A critical weakness of current formalization incentives is the disconnect between tax registration and access to social protection. Formalization should be bundled with automatic enrollment in simplified social security packages, including:

- ✓ Basic health insurance coverage for the entrepreneur and family members ;
- ✓ Voluntary pension contributions with state matching for low-income registrants ;
- ✓ Accident and disability insurance ;

The ILO (2023) emphasizes that linking formalization to tangible social benefits creates a positive value proposition that can overcome the "cost" perception of tax compliance. A pilot program in Senegal found that bundling social security with tax registration increased formalization rates by 35% among target companies.

***Recommendation 5: Create formalization support centers :***

Morocco should establish one-stop-shop formalization centers in major cities and regional capitals. These centers would provide:

- ✓ Free business registration assistance ;
- ✓ Tax identification number issuance ;
- ✓ Social security registration ;
- ✓ Access to financial services and business development support ;
- ✓ Legal and accounting advisory services ;

Drawing on Rwanda's experience, these centers should be equipped with digital kiosks and trained personnel to guide informal entrepreneurs through the formalization process.

**4.3 Strengthening Enforcement :*****Recommendation 6: Expand electronic invoicing :***

Electronic invoicing is a powerful tool for reducing evasion and creating audit trails. Morocco should mandate electronic invoicing for businesses above a certain size (e.g., 5 million MAD annual turnover) and provide incentives (e.g., tax deductions) for smaller businesses to adopt

electronic systems voluntarily. KPMG (2022) reports that countries implementing mandatory e-invoicing have seen VAT compliance improve by 15-25%.

The system should be phased in gradually, starting with sectors where informality is most prevalent (construction, retail, transport) and with large enterprises before extending to smaller ones.

***Recommendation 7: Increase cross-agency collaboration :***

Effective formalization requires coordinated action across multiple government agencies. Morocco should establish a formalized information-sharing mechanism between:

- ✓ The General Directorate of Taxes (GDT).
- ✓ The National Social Security Fund (NSSF).
- ✓ The Moroccan Office of Industrial and Commercial Property (MOICP).
- ✓ Municipal authorities (for business licenses and market access).

The UNDP (2023) recommends creating a unified business identifier that links across systems, enabling authorities to track formalization status across regulatory domains and identify gaps.

***Recommendation 8: Strengthen audit capacity :***

To complement simplification and incentives, Morocco must enhance enforcement capacity. This requires:

- ✓ Increasing the number of tax auditors and providing specialized training in informal sector auditing techniques ;
- ✓ Implementing risk-based audit selection using data analytics to target high-risk sectors and companies ;
- ✓ Developing specialized audit units focused on cash-intensive sectors ;

IMF (2023) estimates that investments in audit capacity yield returns of 5-10 times the initial investment within three years.

#### **4.4 Implementation Strategy :**

Effective implementation requires a phased approach that builds institutional capacity while maintaining political momentum.

##### **Phase 1: Pilot (Years 1-2)**

- ✓ Launch simplified flat tax regime pilot in two regions (e.g., Casablanca-Settat and Souss-Massa).
- ✓ Establish formalization support centers in pilot regions.
- ✓ Implement targeted amnesty program for pilot regions.
- ✓ Develop mobile filing application prototype.

##### **Phase 2: Expansion (Years 3-4)**

- ✓ Scale simplified regime nationwide.
- ✓ Implement electronic invoicing mandate for large companies.
- ✓ Establish information-sharing platform across agencies.
- ✓ Expand formalization support centers to all regions.

##### **Phase 3: Consolidation (Years 5-6)**

- ✓ Evaluate and refine policies based on implementation experience.
- ✓ Extend electronic invoicing to medium companies.
- ✓ Integrate formalization support into broader SME development programs.
- ✓ Launch national communication campaign highlighting formalization benefits.

**Conclusion :**

This paper has examined strategies to broaden Morocco's tax base by integrating the informal economy into the formal tax system. The analysis reveals that informality in Morocco is driven by a complex interplay of administrative barriers, economic constraints, social factors, and enforcement gaps.

The key findings of this study can be summarized as follows. First, Morocco's informal sector remains substantial, accounting for nearly 30% of GDP and employing over 40% of the workforce. Second, administrative barriers, particularly complex tax procedures and high compliance costs, represent significant obstacles to formalization. Third, economic factors (insufficient revenues) and social factors (distrust in government, low financial literacy) reinforce informality. Fourth, enforcement capacity remains limited, with low audit coverage and the prevalence of cash transactions constraining detection and sanctioning of evasion.

Based on these findings, this paper proposes a comprehensive set of policy recommendations organized around three pillars: simplifying tax procedures, incentivizing formalization, and strengthening enforcement. Key recommendations include introducing a simplified flat tax regime for micro-companies, implementing digital filing systems, providing tax amnesties for first-time registrants, bundling tax registration with social security benefits, expanding electronic invoicing, and enhancing cross-agency collaboration.

Integrating Morocco's informal economy into the tax system is crucial for sustainable tax policy. The proposed measures, adapted from international best practices and tailored to Morocco's context, offer a realistic pathway toward broadening the tax base. By simplifying procedures, offering incentives, and improving enforcement, Morocco can significantly expand tax coverage while promoting more inclusive economic development.

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