The Effect of Taxation on Dairy Processing Cooperatives in Morocco: A Qualitative Research

Saïd Ahrouch and Khadija Rhaddioui

ABSTRACT

Being at the heart of the social and solidarity economy, cooperatives contribute greatly to the socio-economic development of countries. Moreover, this entity is not opposed to the realization of a lucrative activity, as the profits made are mainly devoted to their social finality. In addition, in order to fully ensure its socioeconomic function, the cooperative requires an institutional, legal and fiscal framework that guides and supports its activity, and also ensures its protection against commercial companies. However, following the growth of their activity, certain governments introduced a set of reframing the tax legislation, under the argument to establish tax fairness and to restore fair competition between cooperatives and lucrative businesses. Therefore, this submission to taxation has aroused reticence on the part of the cooperatives proclaiming that the public authorities have not taken into account their social contribution. Hence, these tax measures raise the question of their legitimacy and their effect on the growth of the cooperative's activity, especially at the commercial, financial, and social levels. Thereby, to provide an answer to this problem, qualitative research was conducted to approach the effect of taxation on the growth of dairy processing cooperatives in Morocco.

Keywords: Dairy Processing Cooperatives, Nvivo Software, Qualitative Research, Social and Solidarity Economy, Taxation.

I. INTRODUCTION

The social and solidarity economy is a science of human life, democratic and humanist in nature; it is a substitute economy with an economic, social, and societal dimension, which emphasizes the distribution of wealth, social justice and equality while being at the service of society. This branch of economics has a particular purpose, which is a major point of distinction regard to the market economy, to take into consideration in parallel with the achievement of its objectives the social sphere compensates for the existence of social inequalities.

In fact, the social and solidarity economy has always had its roots in Moroccan society as it first emanates from the spirit of solidarity rooted in the culture of the Kingdom. Thus, by making its social and economic sphere viable through its organizations, this economy has a significant impact on the local socio-economic development. Thereby, the social and solidarity economy is a grouping of cooperatives, associations, mutual and other foundations, which are formed with the aim of raising a category of people living in a precarious environment and who are neglected by the market economy.

Moreover, the cooperative constitutes the backbone and the main component of the social and solidarity economy, as the cooperative model, armed with a set of values and principles, carries the torch of solving a set of social problems, unlike companies under the capitalist model which are uniquely focused on the realization of profit. In this regard, the Moroccan government has paid particular attention to cooperatives, which constitute a tool for responding to socio-economic problems and a driving force for the development of the social and solidarity economy, as this sector provides an adequate framework for the creation of employment and income-generating activities.

Therefore, given the role of these entities, the Moroccan government has supported the cooperative sector by establishing a set of accompanying and supporting measures and granting tax relief, primarily in terms of the corporation tax and the sales tax. Thus, following this set of administrative and financial support these cooperatives experienced considerable expansion, allowing in this direction to contribute mainly to their social purpose.

Nevertheless, the tax regime applicable to cooperative societies has been strongly claimed by their competitors, under the argument of the nonconformity with the rules of competition law. As well, the cooperators on their part denounce an inadmissible intrusion of their vision, by affirming that their entities should be spared from any logic of taxation, given their social status.

Thus, the taxation of Moroccan cooperatives, especially the dairy processing cooperatives, was introduced by the
2005 finance law after several reluctances on their part. In fact, these tax measures aimed to establish tax fairness and restore healthy competition with traditional businesses. Thereby, the taxation of Moroccan cooperatives has been known over the years, several progressive passages before leading to full taxation. This is due to the fact that the abolition of the tax exemption was perceived as a kind of discouragement of their social contribution and degradation of the development of their activity, which forced the government to introduce this tax reform in a progressive manner.

Hence, the legitimacy of the financial support granted by the public authorities is only the counterpart of a service rendered to the community by the cooperatives, also to compensate for the restrictive legal regulations and the inadequate environment for their business growth. Indeed, their social usefulness in particular, and their role in local socio-economic development in general legitimize the tax exemption.

Faced with this controversy of taxation manifested by the abolition of tax exemption for cooperatives exercising an activity similar to the traditional companies and involved in social contribution, cooperators raised a dispute proclaiming that the cooperative status contributes to purely socio-economic development, whereas their competitors claimed to restore fair competition in the market. Consequently, the government has been challenged to find a solution to mitigate the risk of unfair competition while taking into consideration the insertion of the cooperative in the social and solidarity economy, which is manifested primarily by the reduced price of its goods or services sold and the insurance of the social aspect of their members, inter alia, a characteristic that is most often neglected or not taken into consideration by the companies belonging to the market economy.

Thereby, the present research is oriented toward the precision of the literature review concerning the problem of the cooperative’s taxation, as well as to approach through an exploratory qualitative study the effect of taxation on these social entities.

II. THEORETICAL FRAMEWORK

The definition of the social and solidarity economy is not unanimous among researchers. Generally, they proceed either by the definition of their principles, the determination of the companies which compose it or to differentiate it from other forms of economy. In fact, the social and solidarity economy is made up of two distinct but complementary economies, due to the existence of a certain interaction between them. As stated by Jeantet (2008), the social and solidarity economy is not just an ideological construction, nor an artificial superposition of two terms, because solidarity runs through its entire history.

Subsequently, Collette and Pigé (2008) argued that the social economy is an economy at the service of society and includes all initiatives that place humans at the center of economic development. Thus, it is defined as a set of cooperatives, mutual, associations, and foundations sharing characteristics that distinguish them from individual, public, and capital companies. Plus, the previous authors specify that the solidarity economy is based on a combination of three economies, in a particular market, non-market and non-monetary. For Fréméaux (2014), the solidarity economy brings together high social utility organizations, whether they primarily hire people in difficulty, help them to create an activity, develop ecologically sustainable activities or even practice forms of exchange respecting high social and environmental standards. In general, the organizations of the social and solidarity economy, either with strong social utility or defined by their status, have in common non-profit management and governance which is democratic, also their purpose is to respond to the collective needs and expectations of their members (Économiques, 2009; 2013).

Otherwise, Draperi (2014) underlines that the social economy as the public sector is concerned with the general interest and the social utility companies and activities. The social economy does not benefit from any advantage while it is entitled to claim a minimum of consideration at the legislative and fiscal levels to operate both in the market and non-market, monetary and non-monetary sectors. Thus, Collette and Pigé (2008) specifies that the solidarity economy knows that by producing a good or a service, it generates a societal effects halo which is beneficial to society as a whole. Therefore, the enterprise of the social and solidarity economy increases the well-being of the community.

Thereby, this branch of economics is a key element of a government’s regulatory strategy in order to achieve certain goals that it cannot achieve, also it aims to satisfy the needs of general interest that the market economy does not have the will or the capacity to satisfy either for lack of resources or means.

Therefore, as an entity of the social and solidarity economy, the cooperative is above all a group of people, where each cooperator is linked to his cooperative by a double relationship of association and activity, where he participates in its democratic management and assumes a share of responsibility (Économiques, 2009). In fact, the cooperatives organized as enterprises in the service of their members, offer a particularly useful business model in the event of economic difficulties and the dysfunction of capitalist markets (Galidi, 2016).

Thus, The International Cooperative Alliance points out that the first traces of cooperatives date back to 1761 and come from the Fenwick Weavers Society in Fenwick, Scotland (Pollet, 2018). Also, Jeantet (2008) argues that the social economy was initially formed by the agricultural cooperatives which were born in 1822 in Denmark, then, the consumer cooperatives were born in 1844 in Rochdale, England, on the initiative of the weavers and which made it possible to acquire the basic necessities to put them on the market at a reasonable price. In fact, the Rochdale Equitable Pioneers Society is considered the prototype of the modern cooperative society and the founders of the cooperative movement.

Indeed, the first formation of cooperative principles goes back to the First Law of the equitable pioneers of Rochdale, and they have been refined and adapted by the doctrine devoted to their current universal vocation by the various international organizations, mainly the International Cooperative Alliance (Ghazali & Diebold, 1993).
In fact, according to the organization of the International Cooperative Alliance, these principles constitute benchmarks to guide cooperatives in the application of their values and articulate in voluntary and open membership, democratic control exercised by members, economic participation of members, autonomy and independence, education, training, and information, also cooperation between cooperatives and the commitment to the community (Alliance coopérative Internationale, 2015). Thus, the cooperative principles mentioned above serve as a virtual reference to the cooperative vocation even when they are not expressly legalized.

As a matter of fact, the cooperative can be defined as a free association of people whose ownership is collective. This economic and commercial entity is based on the principle of cooperation and qualified as being a non-profit commercial enterprise, enjoying legal capacity and financial autonomy, having as its essential objective servitude in the best economic interests of its participants and meeting the socio-economic needs of its members. In other words, the cooperative entity is constituted on the basis of an economic foundation; nevertheless, it does not pursue a capitalist goal as the search for service takes precedence over profit. Thereby, it can provide solutions in the event of dysfunction of the public and private economy and aims to value the human person on the moral and social levels.

In short, the cooperatives’ orientations are collective choices; their objectives are not the maximization of profits or the profitability of capital but rather the valuation of their activities. Thus, the results are first directed towards the investment and reserves are indivisible to ensure the sustainability of their activity.

Thereupon, the majority of states grant cooperatives a set of tax advantages, as these last are subject to a set of additional constraints compared to other entities operating in the market. Indeed, the prices applied by the cooperatives are often different compared to their capitalist competitors, who are most often lower, also they have more difficulties in procuring resources, in making decisions and are more restricted by the profitability requirement (Collette & Pigé, 2008). Otherwise, Karlhausen (2010) argues that the main purpose of the cooperative is to satisfy the needs of its members by developing an activity from which they derive a direct benefit. This model is in opposition to capital companies, where the goal pursued by the partners is only speculation on the investment made.

Certainly, the cooperative has a role of contributing to the general interest claims following its statute the recognition of its socio-economic utility, and the consideration of its submission to more restrictive regulations, which limits in this respect the development of its activity, moreover, cooperatives generally develop only in sectors left vacant by the State and the market or as a simple extension of these (Demoustier, 2010). Thus, the public authorities generally have a penchant for cooperatives to bequeath certain functions rather than resorting to private entrepreneurs. This is due to the fact that the latter’s commitment requires the installation of control procedures, which manifests additional costs in order to mitigate the diversion of these general interest missions for their benefit. Also, these constraints should be weighed as they vary according to the nature of the sector and the size of these entities.

However, Karlhausen (2010) argues that the reality and specificities of cooperative societies have not escaped certain legislators to take them into account in the elaboration of tax rules relating either to the taxation of the cooperative or the cooperators’ income. Although commercial in its form, the cooperative has the particularity of carrying out its activities in the field of the social and solidarity economy because of its particular mode of operation, but also about the activities carried out, which explains its benefits from certain derogations from the common corporate income tax regime. The author pointed out that the European Commission has recalled that specific tax treatment of cooperatives must be proportionate to the legal constraints, the social added value or the limitations inherent in this form, thus the states must more particularly ensure compliance with competition rules during the implementation of specific tax treatment for equity and cooperative reserves. Also, cooperatives are forced to carry out economic operations with their members alone, which falls under the principle of exclusivism. Thus, the inseparable nature of the double and unitary quality of membership underlines that cooperative members are both suppliers and/or customers of the cooperative but also members (Roussilhe, 2015).

Moreover, the taxation of the wealth produced by companies should ideally be done according to the mechanism of creation and distribution of wealth specific to the economic structure. In this regard, the tax law is generally not interested in the legal form used by the cooperative structure. From this perspective, it should tax closed cooperatives as partnerships and open cooperatives as commercial companies, since equal tax treatment is more disadvantageous to close cooperatives, whose economic development depends mainly on self-financing through capital gains placed in reserve, and less the one with a hybrid model which generally proceeds to finance its growth by means of capital investments through non-cooperating third parties (Karlshausen, 2010).

In Morocco, cooperatives constitute the essential and most representative component of the social and solidarity economy. Indeed, this branch of the economy contributed, through the cooperative sector, 1.5% of the National Gross Domestic Product for the year 2016 (Centre Marocain de Conjoncture, 2017). However, the Moroccan government has mainly targeted the cooperative’s large structures, operating essentially in the marketing and processing sector and not respecting the principle of exclusivism or having reached a turnover threshold as mentioned in the tax legislation (Loi de Finances, 2005; Code Général Des Impôts, 2013). Indeed, this taxation aimed at strengthening the rules, allowing thereby companies belonging to the market economy to carry out their activities in an environment of fair competition.

In this regard, following these tax measures, the cooperatives, which benefit from the corporation tax and sales tax exemption, are those whose activity is limited to the collection of the raw material from the members and its marketing, without any transformation or treatment. Also, the cooperatives whose activity is the transformation of the raw material collected from the members and whose turnover has not reached a certain threshold. Thus, any company having
regularly adopted the cooperative form is exempted or taxed under a set of conditions.

As a result, the elimination of these tax benefits aims, according to the Moroccan public authorities, to restore fair competition in several branches of activity, but in reality, it was a response to pressure from private businesses, particularly dairy operators, who constantly denounced situations of unfair competition due to the rise in power of certain cooperatives belonging to the same sector.

Accordingly, the dairy sector is an important pillar of the agro-food sector in Morocco. In 2018, it ensured the country’s food security by producing 96% of national needs in the milk and derivatives (Portail Agricole du crédit Agricole du Maroc, 2021). Furthermore, milk processing on an industrial scale is a major component of the agricultural sector and has a significant role in the agro-food branch of the Moroccan economic fabric, as it represents approximately 30% of agricultural Gross Domestic Product and approximately 60% of jobs, providing nearly 10% of production and 6% of added value (Attouch & Nia, 2015; Hamimaz & Sbai, 2007).

Likewise, this sector brings together 400,000 dairy farms, which aggregate production of around 82 dairy industrial operators, who are mainly located in the coastal basins and irrigated areas located in the center of the Kingdom of which around 99% of the milk volume (Miquel, 2018). Nevertheless, despite the performance of this sector, it comes up against a certain number of constraints, in particular the climate, the stagnation of the market, and the size of the farms, which commits it to improve the productivity of dairy farming, which makes also calls for needs in dairy cows, breeding, storage, and processing equipment as well as the know-how and the operator training (Portail Agricole du crédit Agricole du Maroc, 2021).

Hence, the dairy processing sector in Morocco is strongly represented by cooperatives, as their number of which has more than tripled in recent years. These entities mainly specialize in the collection and marketing of raw milk on traditional markets as well as the production and industrial processing of milk. Thus, the characteristics of this sector are generally highlighted by the representativeness of its actors and their potential in terms of the production and consumption of milk and fresh dairy products. Also, the milk and dairy products industry is provided by the cooperative and private sectors. In this regard, the milk collected is processed in medium-sized or large industrial units, bringing together industrial cooperatives, private companies and mini-dairies with a cooperative nature present in isolated regions of the Kingdom (Hamimaz & Sbai, 2007).

Nevertheless, this sector which, is strongly marked by the presence of cooperatives, operating through industrial or manual processes is certainly not large enough in terms of numbers, but the turnover achieved by these entities and the commercial and financial transactions undertaken by them are substantial. Indeed, the dairy processing cooperatives are scattered at the level of the Kingdom because each region is marked by the positioning of a cooperative which contributes to the socio-economic development of the region and satisfies the needs of the local population in terms of the marketed products. As a result, it requires major support and encouragement measures from the government and partners to ensure its sustainability and growth.

It’s to be emphasized that the cooperative law in Morocco makes clear that the market economy and the social economy enterprises belong distinctly to different markets or environments and have a particular profit distribution system, in particular cooperatives, as even if they have structures and a turnover similar to traditional companies, they are differentiated by their purpose, which is the satisfaction of the socio-economic needs of the members and their contribution to the socio-economic development. Furthermore, the cooperative model seeks to ensure a balance between economic efficiency and social development. Moreover, the law inscribes the cooperative in the logic of economic and social development and not only of socio-economic improvement (Loi n°112-12, 2014).

III. RESEARCH METHOD

The data collection during the qualitative research was carried out through the semi-structured interview. Thus, the main topics covered in this latter were essentially guided by the theory which moreover constitutes the frame of reference. As a result, the interview guide was composed of a few questions and aimed at tracing and defining the discussions in relation to the research subject. First, a personal presentation of the research theme was made. Thereafter, the interlocutors were guided to express their perception of the influence of taxation on the growth of cooperatives’ activity. At the end of the interview, the various interlocutors were asked to express further additions to the subject.

Thereby, the interviewees of the study sample consisted of interlocutors from six cooperatives, representing the leaders of the cooperative dairy processing sector in Morocco, and who had their own direct knowledge of the study’s subject. Thus, the interviews realized an average duration of 26 minutes, moreover, the various interviewees had either the status of being a director, or president or belonging to the accounting and finance department of the cooperative subject of the study.

Then, after having carried out all the interviews and before proceeding with the exploitation of their reflections through the qualitative data processing software, preliminary work was necessary in order to facilitate the processing of information, and which is consisted of the transcription of the interlocutors’ advancements using a language in a homogeneous structure on a document model, also, the organization of the various topics in the form of questions. Thus, the processing and analysis of data provided by the semi-structured interviews were used through the NVIVO 12 Software.

Indeed, the content analysis processing can take two forms, in particular a lexical and thematic analysis, allowing in this regard to organize and standardize the various reflections of the interlocutors in a language, that can be presented as a result, in the form of graphics, diagrams or tree shapes, in order to facilitate the task of interpreting and exposing the answers required for the validation of the theoretical corpus. In effect, the interview data were analyzed in base on the
qualitative content analysis method, as described by (Berelson, 1952; Schreier, 2014).

In fact, the first step for the use of the data processing software consists in importing the various files tracing the reflections of the interlocutors during the semi-structured interviews, and granting them a set of attributes to these sources. The second step referring to the lexical analysis consists of creating codes in the form of nodes, which were carried out on the basis of the word’s frequency used by the speakers. Otherwise, these words were used to carry out a textual search, creating nodes specific to the latter and allowing in this order the release of thematic analysis.

Thereafter, the final step corresponds to the automatic encoding which consists in exploiting all the source files from the interviews and retracing in the form of paragraphs in order to deepen the analysis by exposing a set of schematic representations. In sum, the exploratory qualitative study analysis is a technique for formally condensing the content of a corpus analysis, where all the sources are organized into nodes or themes and exposed in the form of visual representations.

IV. DATA ANALYSIS AND DISCUSSION

The exploitation of the data collected from the semi-structured interviews through Nvivo 12 Software, allocated the development of lexical and thematic analysis in order to approach the effect of taxation on dairy processing cooperatives in Morocco.

A. The Lexical Analysis

The lexical analysis is based on the frequency and proximity between the words used by the interviewees, hence the constitution of a lexicon of words through the division of the text into units. Indeed, this analysis is based on several stages, in particular, the lexical inventory of the treated corpus and the calculation of the frequency of the words which are represented by reading, as well as their representation through the clouds of points, graphs, and surfaces. In addition, the reading of the software output highlighted in Fig. 1, indicates the frequency of the words expressed by the interviewees in the context of our qualitative study, disregarding the logical links and connectors.

Therefore, the words that appear in bold in Fig. 1 represent the importance of the keywords in relation to the problem. In this sense, three groups of words can be classified according to their frequency of use. Thereby, Table 1 classifies the different terms in order of frequency, from the most to the least frequent.

![Fig. 1. Representation of the textual analysis word’s cloud.](image)

<table>
<thead>
<tr>
<th>Frequency of use</th>
<th>Words expressed by the interviewees</th>
<th>Theoretical framework in relation to the variables resulting from the literature review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Activity, Share, Growth, Market, Cooperative, Contribution, Taxation, Social.</td>
<td>Growth of the activity, market share.</td>
</tr>
<tr>
<td>High</td>
<td>Taxation of cooperatives, social contribution.</td>
<td></td>
</tr>
</tbody>
</table>

B. The Thematic Analysis

The analysis of the thematic content consists of the categorization of the interlocutor’s reflections on themes by distinguishing the main axes. Indeed, its objective is to identify semantic units referring to the context of the interviews, it is therefore a method based on the identification of significant ideas and their categorization. Thus, following the automatic encoding, the semantic content analysis allocated the obtaining of a set of results, which can be represented by the thematic analysis digest matrix, but which will be presented for a reason of simplification as the form as follows:

1) Topic n°1: The effect of taxation on the growth of activity and the market share of cooperatives

The interviewees questioned in the study argued that the taxation of dairy processing cooperatives slowed down the growth of their activity while having a negative impact on the added value and the market share held at the national level. This is due to the fact that the increase in milk product prices, marketed due to the establishment of the sales tax and which is supported by the final consumer concludes a situation that no longer provides a competitive advantage to the cooperative. In addition, they pointed out that taxation constitutes generally a cost and a loss of earnings for the cooperative.

2) Topic n°2: The effect of taxation on self-financing and the cash flow

The interviewees underlined that the amount of tax can be redeployed for the envelope intended for the financing of projects, therefore this constitutes a brake on investment. Indeed, the annual tax deferral can create a big difference in the support of investments, in other words, the taxation of cooperatives can be judged as minimal annually, but if the tax burden is deferred over several years, this amount will be substantial. In fact, this can affect the investment strategy, because cooperatives will use credit to finance projects, hence the influence on the financing strategy and the financial health of the cooperative. Among the interviewees questioned, one interlocutor argued that the taxation was manifested by the modification of the profit distribution strategy at the level of their cooperative, thus in order not to pay a high corporate tax, the cooperative proceeded to increase the remuneration of the cooperators, but this reduced the accumulation of capital, which slowed down investment. Also, they pointed out that taxation caused a major drop in the cash flow, which also indirectly influences investments.
3) Topic n°3: The effect of taxation on the net profit margin

The interviewees pointed out that the taxation caused the absorption and reduction of the net profit margin of the cooperatives and this mainly owing to the corporate tax, indeed they have advanced that the government by establishing the conditions of liability to the taxation, should not take into account as criteria uniquely the turnover and the industrialization of the activity but also the rate of the net profit margin achieved, because even if the cooperative achieves a considerable turnover, the net profit margin remains low in certain cases.

4) Topic n°4: The effect of taxation on the social contribution

The interviewees underlined that the taxation of dairy processing cooperatives has greatly affected the social aspect and in terms of the remuneration of cooperative members which has experienced a decrease, in other words, the reduction in the amount of payment of the milk’s price allocated to the coopera members in compensation for the increase in the milk product’s selling prices, also, this taxation has hampered recruitment and salary increases. In addition, this tax reform caused the deterioration of the socio-economic situation of the members and the reduction of the investment’s envelope intended for social activities, for example, the construction of milk collection centers, which attract more milk collectors, and directly increase the quantity of milk collected and implicitly the products marketed, hence the turnover of the cooperatives. As a result, the cooperative cannot be encouraged to undertake more social activities following the decline in the social contribution portfolio as this naturally depends on the surplus which will be reduced due to taxation.

V. CONCLUSION

At the end of the qualitative study realized and the literature review presented, it can be stated that the cooperatives are distinguished from private companies and public establishments by their contribution to both economic and social environments. These entities, which previously had benefited from a fiscal grace on the part of several states, were the subject of several demonstrations on the part of their competitors, which put pressure on the government to submit them to taxation; however, this situation raised the manifestations of these cooperatives.

Hence, in order to approach this problem in a more objective and concrete way, the research presented aimed to conduct an exploratory qualitative study of the Moroccan dairy processing cooperative leaders, which were strongly affected by this taxation, in order to analyze the effect of this taxation on the cooperatives studied.

Thereby, the results of the qualitative study were presented, highlighting the lexical and thematic analysis and presenting the negative effect of taxation on the activity growth, though, the commercial aspect manifested by the drop of the market share due to the increase of the prices of the products following the introduction to the sales tax, for the financial aspect, the decrease of the amount of the self-financing, the cash flow and the net profit margin as a result of the taxation, both at the level of the sales tax and the corporation tax, also the social aspect, that was influenced by the drop in profit which decreases automatically the social contribution. Nevertheless, cooperatives contribute a lot to the social sphere and economic development. It is for this reason that the government should find a medium solution, allowing fair taxation of cooperatives while taking into consideration the social contribution and its essential role for local socio-economic development.

In sum, the cooperative’s taxation weighs heavily on the commercial, financial and social aspects of dairy processing cooperatives in Morocco. Thus, the government should review the subjection of these social entities in order to find a balance between taxation and social contribution. So that cooperatives exercise their activity under normal conditions of the competition alongside capitalist enterprises operating in the same market, and without proclaiming negligence of their social contribution.

REFERENCES


Les Entreprises Coopératives Expériences et Perspectives.


Loi n°112-12 relative aux coopératives, (2014).


DOI: http://dx.doi.org/10.24018/ejbmr.2022.7.5.1673