CREATING MARKETS IN MOROCCO

A SECOND GENERATION OF REFORMS: BOOSTING PRIVATE SECTOR GROWTH, JOB CREATION AND SKILLS UPGRADING

Country Private Sector Diagnostic

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Abbreviations and acronyms

ADD	Agence de développement du digital
ADM	Autoroutes du Maroc
ADSL	Asymmetric Digital Subscriber Line
AFD	Agence française de développement
AMDI	Agence marocaine de développement des investissements
AMICA	Association Marocaine pour l'Industrie et la Construction Automobile
AMITH	Association marocaine des industries du textile et de l'habillement
ANRE	Autorité nationale de régulation de l'électricité
ANRT	Agence nationale de règlementation des télécommunications
BAM	Bank al-Maghrib
BTI	Bertelsmann Stiftung Transformation Index
CCG	Caisse centrale de garantie
CDG	Caisse de dépôt et de gestion
CEM	Country Economic Memorandum
CGEM	Confédération générale des entreprises du Maroc
CGI	Compagnie générale immobilière
CNCP	Commission nationale de la commande publique
COFACE	Compagnie Française d'Assurance pour le Commerce Extérieur
CPSD	Country Private Sector Diagnostic
CSE	Casablanca Stock Exchange
DEPP	Direction des entreprises publiques et de la privatisation
ESITH	Ecole Supérieure des Industries du Textile et de l'Habillement
FDI	Foreign Direct Investment
FENELEC	Fédération national de l'électricité et de l'électronique
FIMME	Fédération des Industries Métallurgiques Mécaniques et Electromécaniques
FSAP	Financial Sector Assessment Program
FSU	Fond de services universel des télécommunication
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEI	Global Entrepreneurship Index
GEM	Global Entrepreneurship Monitor
GIMAS	Groupement des Industries Marocaines Aéronautiques et Spatiales
HCP	Haute commissariat au plan
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFI	International Financial Institution
IGD	Institut a gestion déléguée
IMA	Institut des métiers de l'aéronautique
IPP	Independent Power Producer
ISMALA	Institut spécialisé d'aéronautique et de la logistique aéroportuaire
ISP	Internet Service Provider
HAO	Holding d'aménagement Al Omrane
HEM	Institut des hautes études de management
JCAP	Joint Capital Markets Assessment Program
MAD	Moroccan dirhams
MASEN	Agence marocaine pour l'énergie solaire
MFD	Maximizing Finance for Development
MFI	Microfinance Institutions
MINEFI	Ministère de l'Economie et des Finances
MRO	Maintenance, Repair and Overhaul
NAFTA	North Atlantic Free Trade Agreement
NGO	Non-Governmental Organization
OCP	Office chérifien des phosphates
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OFFPPT	Office de la formation professionnelle et de la promotion du travaille
OMPIC	Office Marocain de la Propriété Industrielle et Commerciale
ONCF	Office nationale des chemins de fer
ONCF	Office nationale de chemins de fer
ONEE	Office nationale de l'eau et de l'électricité
RAM	Royal Air Maroc

RPK	Revenue Passenger Kilometers
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
SNI	Société nationale d'investissement
SNTL	Société nationale du transport et de la logistique
SOE	State-Owned Enterprise
SOMACA	Société Marocaine de Construction Automobile
TIMSS	Trends in International Mathematics and Science Study
TFP	Taxe de formation professionnelle
TFP	Total Factor Productivity
TMSA	Agence spéciale Tanger Méditerranée
TVET	Technical and Vocational Education and Training
VAT	Value Added Tax
VC	Venture Capital
VSE	Very small enterprise
WDR	World Development Report

Executive Summary

Morocco has steered significant resources towards large investments in economic sectors identified as strategic to growth, and for increased productivity and value addition. From offshoring to aerospace to electronics, these sectors have benefited from substantial public resources and an array of generous incentives to attract foreign direct investment (FDI). The government's efforts have successfully attracted large foreign investors and created dynamic activity in several sectors, including the automotive industry, aeronautics and renewable energy. Morocco has also progressed in its Doing Business environment, moving up nine places in the 2019 Doing Business ranking to 60th out of 190 economies compared to the previous year, and up from a ranking of 129 in 2009, reflecting many years of sustained reforms.

Despite Morocco's strikingly high investment rate, one of the highest in the world at an average of 34 percent of GDP annually since the mid-2000s, the returns in economic growth, job creation and productivity, have been disappointing. Moreover, countries like Colombia, the Philippines and Turkey achieved similar or higher growth rates, but with significantly lower levels of investment (World Bank, 2016a). Countries with successful economic takeoffs have managed to maintain per capita GDP growth rates well above four percent for decades (compared to Morocco's annual GDP per capita growth rates of 2.9 percent between 2000 and 2017, and just 1.6 percent between 1990 and 2000), and have shared growth dividends through rapid job creation.

The Moroccan economy has performed particularly poorly in terms of job creation. For a working age population that grew, in net terms, by 270,000 people annually between 2012 and 2016, just 26,400 net new jobs were created on average per year. Only 17 percent of the working age population has a formal job, and less than 10 percent has a formal private sector job (Figure 2). Productivity gains have been low: in the long term, between 1970 and 2011, the Moroccan economy did not post any Total Factor Productivity (TFP) gains. There appears to have been some improvement in the 2000s, with positive productivity gains, but these have not been enough to sustain current growth.

The composition of investment hints at what is behind the limited impact of Morocco's significant investment effort. The public sector, investing mainly through State-Owned Enterprises (SOEs), accounts for half of all investment in the country. At least some of this investment has been expensive, with questionable value-for-money. While many of the investments have been in infrastructure, whose full social and economic impacts can only be observed in the longer-term, projects selected for public financing at times do not take sufficient account of efficiency concerns and may not optimize the impact on productivity and job-creation.

As has been argued by other analyses, including the World Bank's Morocco Country Economic Memorandum (CEM) and Systematic Country Diagnostic (SCD), the existing model, with growth reliant on very high rates of public fixed capital accumulations, is not sustainable. Morocco cannot rely solely on capital accumulation to catch up to higher income nations, as this would require ever-increasing investment, endangering macroeconomic stability. Distortions in allocating capital across sectors and the role of SOEs tend to stifle productive private activity. Moreover, the small contribution of labor to Morocco's recent growth, despite the favorable demographics of a young and growing population, reflects the difficulty that the economy faces in mobilizing available human capital, particularly the youth and women. Countries that have managed to sustain strong growth rates have done so with high productivity gains over an extended period of time. Such gains cannot come only from new capital investments, but from a more successful effort to accumulate human and institutional capital.

A more vibrant private sector is needed to create more jobs. Globally, it has been shown that most jobs are

created by young firms under five years of age (See Chapter IV). Morocco needs to create a conducive environment for firms to enter markets, to grow and to export. This will require a more level playing field in terms of competition, higher quality human capital and skills to meet the demands of a modern workforce and to foster entrepreneurship, better access to finance for small firms and start-ups across their lifecycle, as well as supportive institutions. In the private sphere, economic activity seems to have been driven mostly by established, often well-connected firms, not by young firms. These established firms invest mainly in non-tradable sectors that are less exposed to competition, such as real estate and construction (World Bank, 2017b). Other than FDI-led firms located in free-zones, young firms have not, overall, successfully competed with established firms or generated significant employment. More dynamic, higher value-added sectors only represent a small share of employment growth (World Bank, 2016a).

LEVELING THE PLAYING FIELD

Enhanced market contestability and competition would help to create the conditions for the emergence of a dynamic and broad-based private sector that can create the jobs that Morocco urgently needs. A level playing field for all market players is essential to foster market competition. Strong competition policy is needed for a regulatory environment that enables firms to enter markets and to grow, limits privileges for certain public and private market operators, and sanctions anticompetitive practices. Moroccan markets would benefit from embedding competition principles in key enabling sectors such as energy and telecoms, by lifting entry barriers that protect incumbents and reinforcing the role of sector regulators. Ensuring competitive neutrality is also crucial, as SOEs participate in a number of key economic sectors and often have few restrictions on the scope of their activities. A very positive recent step has been the operationalization of the Competition Council, with the naming of its president and members in December 2018, following a hiatus of four years.

Policies that have promoted FDI and large investments add to the disparities in market conditions facing firms, particularly as measures to tackle the needs of smaller firms have met with relatively less success. A bias toward large investors and FDI is apparent in the numerous incentives offered to new investments that locate in industrial zones, but not to existing exporters outside the zones. This is likely to have undermined the incentives for existing firms outside the zones to become exporters or to increase their exports, although measures to bring more balance to locational incentives are now being put in place. Finally, policies that protect domestic markets, such as trade tariffs, and that provide tax incentives to non-tradable sectors such as real estate, allow large, connected domestic investors to receive high returns. Smaller domestic firms are often at a disadvantage, in the more competitive, tradable, sectors. While Morocco has made gains as suggested by its improvement on Doing Business, consistent and sustained reform efforts are needed.

It is vital to complement the policies that have favored a relatively limited number of economic champions in strategic sectors with a focus on the enabling competitive conditions and services that support all firms, particularly SMEs. This is nowhere clearer than in the automotive sector (and to a certain extent in aerospace). Here, proactive government policy has yielded remarkable successes: cars have overtaken phosphates as the country's largest export and Morocco is today the continent's largest producer of personal vehicles (though not commercial vehicles), surpassing South Africa. The industry is well on its way to reaching the important threshold of producing one million vehicles (a target expected to be achieved in 2023, two years earlier than originally forecast). Growing numbers of suppliers are moving operations to Morocco to protect their competitiveness in European markets, populating a thriving ecosystem; and the industry employs 150,000 people, up from 75,000 in 2013, and is creating good jobs at a more rapid pace than elsewhere in the economy.

The weakness of the automotive industry, however, has been the very limited spillovers into the local economy and the failure of local champions to join the value chains. Few Moroccan firms have joined the automotive clusters, either by upgrading their activities or through joint ventures. This may come to represent a brake on the sector in the future if Tier 1 and larger

Tier 2[1] companies are unable to shift their sourcing of inputs away from imports and towards smaller local suppliers (smaller Tier 2 and Tier 3 firms). Proactive government policy is needed to support Moroccan firms with the potential to join emerging sectors by ensuring them better access to available incentives, as well as access to finance, land, and assistance in upgrading standards. Access to locally-produced components is essential for competitiveness due to the cost efficiencies associated with sourcing domestically. Not only does local sourcing cut transport and logistics and labor costs, but it also eliminates the risk of currency swings. There has been little policy focus on ensuring that these smaller local suppliers have access to the services and conditions they need to make the risky move into a new sector. The typical Moroccan SME does not export, innovate or hire (see Chapters II and IV).

ENTREPRENEURSHIP AND SMEs

Globally, new firms and high growth firms are responsible for most job creation. Empirical analyses in the OECD countries indicates that on average, while firms five years old or younger account for about a fifth of total employment, they create nearly half of all jobs. Although few of them survive, young firms contribute to economic dynamism by injecting competition into markets and by spurring innovation. In Morocco, 37 percent of registered firms are less than five years old, but little is known about their survival rate or their impact on job creation.

What is known, however, is that in order to enter markets, thrive, and create jobs, Moroccan SMEs need access to essential services: a level playing field in terms of competition, human capital and skills, access to global value chains, access to finance and risk capital at critical stages of their development, access to land and to ICT infrastructure and services critical to a modern economy, and a supportive culture. To reduce the costs associated with failure, a dynamic entrepreneurial culture also needs strong active labor market policies and broad social security coverage. Supportive institutions and policies are essential as new and small firms are more affected by policy weaknesses than incumbents; enforcing contracts, ensuring timely payments between firms, applying timely bankruptcy procedures and assuring an efficient civil justice system are particularly important. In Morocco, many of these ingredients, essential to new and growing firms, need to be reinforced.

A more dynamic private sector, operating under conditions of greater market contestability, is important to attracting and retaining talent in Morocco. Today, however, high wages encourage many of the talented and skilled to accept prestigious jobs in the public sector rather than venture into a private sector where a competitively skewed playing field undercuts initiative and risk-taking. Others join large corporations and SOEs. Average public sector wages in Morocco are two to three times higher than average private sector wages, not including the benefits that public sector employees generally receive, nor job stability (IMF 2018)[2]. The public-private wage gap in Morocco is higher than it is in MENA peers, with the exception of the oil-rich GCC countries. While young engineers from Brazil, Malaysia or Turkey who study abroad return home to jobs in engineering, teaching and research, Moroccan engineers hardly ever return to such jobs, preferring corporate or public sector employment.

Indeed, many Moroccans are "entrepreneurs" by necessity. The typical Moroccan entrepreneur is less educated than global benchmarks: 42 percent of young Moroccans between 18 and 29 years old intend to become entrepreneurs, reflecting the reality that for many young Moroccans, entrepreneurship is an alternative to a paid job in an environment of limited job creation and relatively high education requirements. In addition to promoting greater market contestability, strengthening the entrepreneurship ecosystem may help to channel more people toward starting their own businesses as entrepreneurs of choice, including from Morocco's extensive diaspora. The latter can play a larger role in fostering entrepreneurship and innovation in Morocco: between 2007 and 2012, Moroccan residents abroad filed most patents registered by Morocco.

Investing in human capital is critical to both expanding the pool of potential entrepreneurs in Morocco and closing the mismatch in skills. The country's educational and vocational training systems, which produce poor outcomes, are poorly matched to the needs of an economy that aims to grow through increases in productivity. Three types of investments in skills have the potential for big payoffs in the changing nature of work: early childhood investments, tertiary education, and adult learning outside jobs. While the most effective way to acquire the skills demanded is to start early, the role of tertiary education systems as centers of innovation and incorporating entrepreneurship tracks in vocational education can also play a major role in boosting innovation and entrepreneurship.

Tertiary education and vocational training are also areas where greater private sector participation could lead to improved outcomes in terms of closing the skills mismatch and contributing to employment growth. Public tertiary education has not been able to meet the challenge of providing either the quality or quantity (enrollments) of education demanded by youth or by employers in productive sectors. The demand for quality tertiary education at a cost that is accessible for a significant segment of the population is not being fully met by the public sector, the PPP universities, or by elite private sector institutions, whose pricing is aligned across institutions and not easily affordable for many Moroccans. A key policy in this area is to ensure that regulation does not protect incumbents or create an uneven playing field for new entrants; this would facilitate further private sector participation in the sector, which currently stands at just 5.3 percent of student enrollment, far below the government's target of 20 percent. Furthermore, the introduction of a range of financing instruments, including scholarships and student loans would make tertiary education more accessible to a broader segment of the population whose current options are restricted to low-quality public education with little prospects for employment.

Morocco has piloted a promising model for vocational training in some strategic sectors, including in the automotive and aeronautics sectors. Vocational training in these strategic sectors is carried out through the PPP model, through public sector financing and private sector management. This contrasts with the fully public provision of TVET in most sectors, funded by a mandatory payroll tax. The intent is to increase the number of such PPPs to provide vocational training that is better tailored to the needs of the private sector. On-the-job training guarantees access to the latest machinery and production processes in a fast-moving technological environment. However, the government may not be able to financially support all the vocational training centers required by the industries without a review of the institutional arrangements, management and allocation of the resources collected through the mandatory tax levied on workers' payroll. Education and vocational training reforms have been made a national priority by King Mohamed VI. A roadmap for the development of vocational training was presented to the King in April 2019, proposing the establishment of "Cities of Professions and Skills" to offer training in line with the potential of each region in the kingdom.

The emerging ecosystem for entrepreneurship will help more people become entrepreneurs by choice rather than entrepreneurs by necessity.[3] The entrepreneurship ecosystem is still nascent in Morocco, with limited coverage outside Casablanca. Encouragingly, however, this is beginning to change: an ecosystem diagnostic of Morocco found that over a dozen incubators and accelerators have been formed in the past seven years, providing support to a growing number of early-stage start-ups. Scaling up activities at the startup-level, for example, mentorship, networking, business competitions, and the provision of incubation, acceleration and business development services may stimulate entrepreneurial activity and mitigate the disincentives associated with a risk-averse culture. Similarly, there are still very few public or private support mechanisms to help firms scale up and grow—more support in this area is needed.

THE ENABLING ENVIRONMENT FOR PRIVATE INVESTMENT

Morocco's financial sector has emerged as one of the most developed and inclusive in MENA region, although the financial inclusion agenda remains a work in progress. A competitive and inclusive financial sector can help address the lack of quality jobs by

allocating savings to productive activities and SMEs. Limited financial inclusion continues to be a serious constraint to the growth and entrepreneurship of very small enterprises (VSEs), hampering productivity growth and operational expansion. Widespread delays in payments add to the chronic cash-flow problems of many VSEs. The financial sector is particularly absent in the initial stages of development of companies, when access to equity capital is most important. Young innovative firms with high potential for growth also find it difficult to get loans on accessible terms. The same is true for VSEs more generally, with few relying on banks for working capital or to expand their businesses. High collateral demands push many to rely on costlier microfinance loans. Venture capital (VC) and business "angels" are nascent. The authorities are engaged in addressing these challenges in an effort to unleash the financial sector's capacity to support a more dynamic and entrepreneurial private sector. To strengthen the financing available to startups and innovative companies, the Moroccan government has set up an innovation and seed financing mechanism, Innov-Invest. In 2019, the fund it had committed $24m and leveraged an additional $43m from local and international, $4m of which had been allocated to 67 start-ups as of May 2019.

There is a significant gap between the advanced development of the banking system and the development of the equity market. Long-term financing instruments, equity finance, and capital markets are underdeveloped in Morocco, which impacts not only SMEs, but also young innovative firms and large firms that are not immune to financing constraints. There is a lack of liquidity and few new issuers in the Casablanca Stock Exchange (CSE), particularly large institutional issuers. However, it is also true that lack of investable deals limits the development of equity investment. Here, the CCG could play a key role in mobilizing institutional investors through, for example, providing guarantees to a portfolio of SME loans, complementing their current direct guarantees for SME loans. Other options include bundled SME bond issues, guarantees for developing the venture capital sector, and supporting SME listings through the creation of sub-funds on the CSE. Next steps in the development of capital markets include more flexible investment rules for pensions and insurers, improved market infrastructure (such as ratings and pricing information) to build a risk culture, and the responsible deployment of new products and innovative transactions.

Enhancing broadband access, especially fixed broadband, is the main challenge facing Morocco in its pursuit of higher productivity, progression along global value chains, and an innovation-driven digital economy. The growth rate in the ICT sector is slowing, and Morocco has fallen behind countries that it views as competitors in this arena, particularly in terms of broadband penetration and speed. In fixed broadband infrastructure, a lack of competition, incomplete and inefficient regulation, underinvestment in fiber broadband access, and backhaul infrastructure have resulted in costly high-speed internet service. The broadband market is also limited to the country's main urban centers and routes, exacerbating the digital divide. Broadband penetration in Morocco is among the lowest in the MENA region. Addressing the legal and regulatory barriers to a more competitive broadband market is a necessary condition for Morocco to take advantage of the possibilities of a modern digital economy that are becoming increasingly central to key sectors in its economy such as agriculture and manufacturing, and to a modern public administration.

Digital platforms can play a larger role in supporting private sector development and expanding market opportunities in Morocco. A modern digital economy would benefit young, small, and medium firms, by, for instance, expanding trade opportunities and allowing producers, retailers, and service providers to reach and interact seamlessly with customers located in remote markets. A critical element to support the growth of the digital economy in the country is mobile payment. The new banking law is expected to help mobile payments to finally take off. Morocco has lagged on both mobile and electronic payments due to an imperfect regulatory framework and the lack of innovation and competition between banks and from non-banks (Morocco's central bank and the telecommunications regulator launched M-wallet end of November 2018)[4]. On the demand side, the development of electronic payments is hampered by deep-rooted preferences for cash, partly a reflection of a large informal sector. Looking ahead,

the presence of Moroccan firms operating on a regional scale in Sub-Saharan Africa, such as several banks, Maroc Telecom and OCP, provides an opportunity for Morocco to develop pan-African digital platforms and financial services, supporting key value chains.

Interviewed firms frequently note the constraint presented by difficult and costly access to land as an important constraint to doing business in Morocco. The physical availability of land is similar to global benchmarks, but the legal and regulatory environment, as well as policy, have led to a non-transparent land market does not meet the needs of investors. Buying and registering land is difficult due to lengthy and complex procedures, even for foreign firms seeking to investment significantly in the county. The government has tried to address the difficult access to land by investing heavily in the development of industrial zones and through generous land subsidy schemes. Unfortunately, this state intervention has often had a negative impact by contributing to a land market where supply is unresponsive to demand; it has encouraged speculation and created perverse incentives for rent seekers in the private sector to speculate on land, keeping it out of the market. Rather than subsidizing land, a preferable route would be improving information on land and its availability, encouraging land registration and reducing transaction delays, and discouraging speculation by taxing vacant land would encourage a more transparent land market.

EMERGING CHALLENGES IN INFRASTRUCTURE

The public sector will continue to play its essential role in the development of Morocco's infrastructure, although at between 2.9 and 9.9 percent of GDP per year in capital investment over the next decade— depending on the growth scenario used— Morocco's infrastructure, although at more than 5.4 percent of GDP per year in terms of capital investment over the next decade, Morocco's public infrastructure investment needs are high and meeting them will require an adjustment to the current model that relies principally on public spending and public guarantees.[5] Scarce public resources will need to be leveraged through strategies aiming to maximize viable private participation and Morocco has a significant track record and experience with public private partnerships (PPPs) in infrastructure to build upon. A central objective is the better allocation of public resources to priority sectors, while increasing the participation of private finance in the development as well as in the maintenance and operation of infrastructure. Private participation in infrastructure has the potential to improve the efficiency of investments—a priority for the government in its efforts to ensure that investment results in higher economic growth—to bring in more advanced technologies, as well as to reduce the fiscal burden on the state budget.

SOEs are spearheading investment and finance in infrastructure, and account for just over half of total public infrastructure investment. A sizable portion of this total is financed from long-term foreign currency concessional loans with state guarantees (about MAD 130 billion). The state also guaranteed a further MAD 30 billion that SOEs borrowed domestically, in the form of local currency bonds and bank loans, for an overall total SOE guaranteed debt of 15 percent of GDP. The existing model is, however, increasingly under strain due to demand pressures and the infrastructure requirements of moving the country to upper middle-income status, the importance of increasing the efficiency of infrastructure spending, and high public debt. Optimizing the use of state guarantees to ensure that they catalyze rather than crowd out commercial finance is necessary. Outsourcing to the private sector the operation of infrastructure services through PPP arrangements, and encouraging the origination of transactions suitable for private sector investment are other important measures.

While bringing greater private financing to infrastructure is facilitated by Morocco investment grade status (one of two in Africa), a more conducive enabling environment is needed. This includes, for example, the existence of a long-term yield curve that provides the market with a reliable price reference. Clarity is also necessary regarding the ability of institutional investors, such as pension funds, to invest in suitable instruments, e.g. project bonds, and infrastructure debt funds. Banks and debt financing will continue to be essential as debt represents the bulk of the sector's needs.

Improving the institutional environment is the essential ingredient to developing more public-private partnerships in infrastructure. Although a clear and comprehensive PPP law would be a vital pillar to support sustainable private participation in infrastructure investment, the legal framework may not be the binding constraint to develop more partnerships given the number of PPPs transacted prior to the passage of the recent PPP law. The critical sectoral institutional issues that would help to attract more private investment to infrastructure include: clarifying the subsidiary role of the state in certain infrastructure sectors (for example, air transport and telecommunications); ensuring transparent and competitive procedures for establishing public-private joint ventures; and a unified procedure to grant or extend concessions. Institutional capacity must also be built in the public sector to originate, evaluate and monitor PPPs, including their fiscal implications for the public sector budget. ■

RECOMMENDATIONS

Improving Market Contestability

Improve the contestability of markets to support the entry and growth of a competitive and dynamic private sector

1. Review the competitive neutrality of SOE commercial activities by implementing subsidiarity analyses and clarifying the scope of SOE activities. Apply the same set of rules and provide the same incentives to SOEs' commercial activities as those offered to private firms (for example, procurement, access to land, access to finance).
2. Transfer to the purview of the Competition Council the authority to approve mergers and acquisitions.
3. Harmonize public incentives (such as taxes, subsidies, training) across all exporters, irrespective of location.
4. Increase the incentives to release land for productive investment and level the playing field among private players and with SOEs (for example, increase taxation on unused land; improve access to information on land availability).
5. Reduce import tariffs on consumer goods to reduce protection in the domestic market and incentivize investment towards export-oriented industries and away from non-tradable sectors.

Entrepreneurship and SME development

Increase access by new and young firms and SMEs to essential services in order to build robust ecosystems in support of productivity, innovation and job creation

1. Scale-up activities that foster an entrepreneurial mindset such as mentoring, networking, business competitions; further support and expand the provision of incubation, acceleration and business development services for starts-ups.
2. Expand programs to acquire entrepreneurial skills at all levels of education and mobilize existing talent such as the Moroccans living abroad.
3. Improve financial access to and viability of starts-ups and existing SMEs by providing financing to along the life-cycle of start-up projects; adopting the crowdfunding law; implementing guarantee instruments to inject long term financing for SMEs; and providing credit insurance to SMEs to mitigate the impact of B2B payment delays.
4. Implementing the government's digital strategy, Maroc Digital 2020, and programs (including e-payment and digital platforms); strengthening the Agence de Developpement du Digital. Foster the digital economy by increasing access to existing broadband infrastructure (via the sharing of infrastructure between telecom companies) supported by implementing regulation and ensuring greater regulatory clarity and transparency.
5. Implement the government's public procurement decree at all levels of government (central, local and SOEs).

Infrastructure

Encourage more participation of the private sector in infrastructure in support of greater investment efficiency and impact, innovative technology and capabilities, and to buttress fiscal sustainability

1. Encourage the origination of projects suitable for private sector investment including by strengthening the capacity of the civil servants in the responsible entities.
2. Identify viable infrastructure services to outsource to the private sector.
3. Establish clear guidelines for granting guarantees to SOEs and encourage SOEs to finance investment on a commercial basis; augment public sector's capacity to monitor and evaluate the PPP portfolio.
4. Improve transparency of sector regulations and eliminate overlap between PPP law and sector specific laws.
5. Improve availability and transparency of financial and performance information in sectors where private investment is needed.

Deep Dives for private sector opportunities

1.	**Cross-cutting:**	Private investments in all sectors would benefit from the measures highlighted above, in particular those that improve the contestability of markets.
2.	**Tertiary education:**	Increase enrollment in private universities to absorb a higher number of high school graduates and improve the quality of tertiary education by ensuring the new regulation on state recognition guarantees a level playing field; improving affordability of private tertiary education including through lower fees when the state is involved, scholarships and student loans.
3.	**Vocational training:**	Foster private vocational training by replicating the successful PPPs (IDGs); channeling resources toward on-the-job training.
4.	**Automotive sector:**	Proactively support domestic investment and local SMEs expansion into the automotive sector by mapping high-potential firms in the sector and beyond, including in particular suppliers in in metal stamping and in the interiors and seating clusters; facilitate joint-ventures; and provide financial and technical support to potential candidates.
5.	**Aerospace sector:**	Attract more foreign investors by scaling up training and skills upgrading, expanding clusters and maintenance and repair activities; providing more structured support to firms on the acquisition of industry standards; improve access to affordable land in appropriate locations.

I. Development Objective

Unemployment stands out as the country's major social challenge, especially among youth; Morocco needs more private sector investment to create more jobs and reduce regional disparities. Relative to its population, Morocco creates far fewer jobs than many of its peers (Figure 1) (World Bank, 2017). Unemployment, which has hovered around 10 percent in recent years but is much higher among youth and women in urban areas, is largely structural, as 65 percent of the unemployed have been without a job for at least one year. Nearly one-quarter of the youth between 15 and 24 years of age do not work, are not in education and do not attend any training. This figure reaches 44 percent among young women. For those who are employed, the quality of employment is often low, as most jobs are informal, low-skilled and without social protection: two-thirds of employees do not have a contract that formalizes their relationship with their employer and 78 percent do not enjoy health coverage (World Bank, 2017). Only about 10 percent of the active population holds a job in the formal private sector, or 5.3 percent of the working age population excluding those in school (Figure 2). About a quarter of the active population holds an informal job, a higher proportion than those holding a formal job. Finally, forty percent of the working age population is inactive and not in school.

The government's efforts to address this challenge through interventions to improve the supply of, and demand for, jobs has only partially paid off. The authorities have concluded pacts with pre-identified emerging sectors in terms of job creation, local value-added and exports. In return, the government has provided fiscal incentives, investment subsidies, land and trained people. However, the economy is struggling to absorb some 250,000 new jobseekers annually. Job creation overall has been weak, and a large share of the working age population remain outside the labor force.

This CPSD identifies policy recommendations and investment opportunities that would foster job creation by the formal private sector and improve labor supply in skills that would anchor Morocco as an emerging economy, to continue its path of growth, and to move into higher value-added and innovative sectors. ■

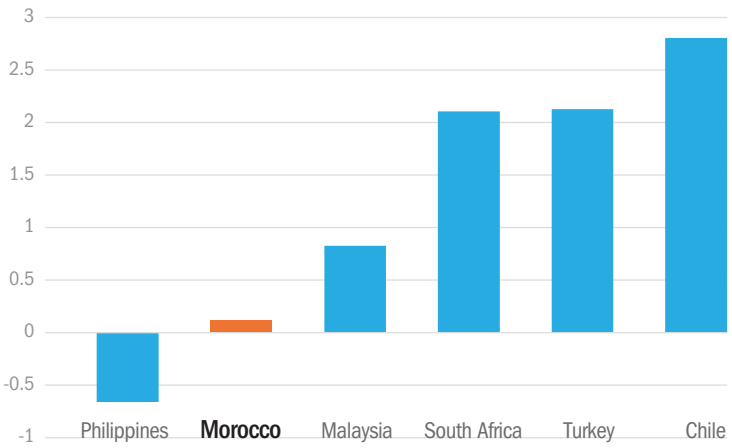


FIGURE 1 Net job creation, relative to growth of working-age population

Source: ILOSTAT. Latest available data: Chile, Philippines, South Africa and Turkey, 2017; Malaysia 2016; Morocco 2013.

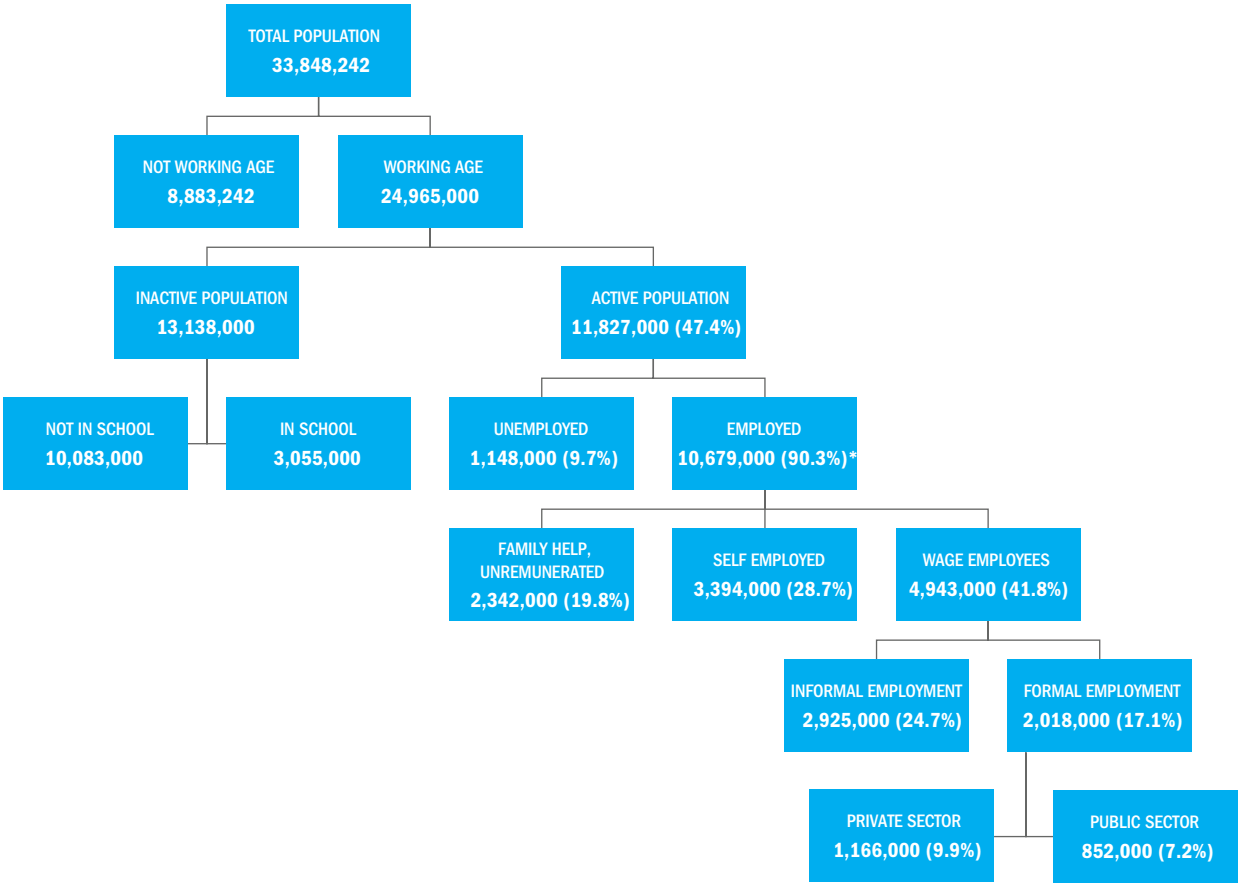


FIGURE 2 The Employment Cascade: Less than 10 percent of the active population is in formal private employment (2015)

** Percentages refer to proportion of active population*

Source: Enquête Nationale sur l'Emploi, HCP 2015.

II. Country Context

A. MACROECONOMIC CONTEXT

Morocco enjoys significant macroeconomic credibility and political stability, invaluable assets in a volatile region. The country has maintained its investment grade rating through the global financial crisis and the downturn in European Union economies, to which it is significantly exposed. Growth has been relatively firm at an average 3.4 percent between 2013 and 2017, though not commensurate with Morocco's developmental needs. Inflation is low at 0.7 percent (2017) and Bank al-Maghrib (BAM, the central bank) has policy space to contain inflationary expectations as well as access to comfortable holdings of international reserves to provide a cushion against currency volatility. The authorities signaled their willingness to gradually move to a more flexible exchange rate regime in early 2018, widening of the dirham fluctuation band from +/- 0.3 percent to +/- 2.5 percent around the reference parity from 0.6 percent to 5 percent. Fiscal adjustment is leading to an improvement in the fiscal and external balances, reducing Morocco's financing requirements and strengthening the public debt outlook. The financial sector is sound and supported by robust central bank supervision.

While economic growth is relatively broad-based, with agriculture, industry and services all significant contributors to the economy, Morocco's economy is vulnerable to a variety of shocks. Economic growth is volatile: agriculture, which employs close to 37 percent of the active population and is a major driver of domestic demand, is largely rainfed and remains dependent on the vagaries of the weather. Morocco is also highly exposed to European economies in terms of trade, tourism, and FDI; 35 percent of the labor force is employed in commerce and tourism, sectors that rely heavily on European demand. Another major export sector, phosphates and derivatives, is vulnerable to shifts in world commodity prices. Competition from Asian exporters has hurt Morocco's traditional manufacturing sectors, including textiles.

At a structural level, Morocco's reliance on domestic demand to spur economic growth, stimulated by credit and government spending, has led to fiscal and external imbalances and cannot be sustainable in the long term. Central government spending expanded rapidly over the past two decades, rising by nearly 50 percent between 2000 and 2012, to 34 percent of GDP (fiscal consolidation has brought spending to 28 percent of GDP today). While much of the escalation in spending supported the protection of households' purchasing power, underpinning the growth of domestic demand, it also contributed to a substantial deepening of the fiscal deficit, which reached 6.8 percent of GDP in 2012. Since then, consolidation efforts have reduced the fiscal deficit to 3.6 percent (2017) have allowed the stabilization of public debt, albeit at a high level. Growing household debt also propelled recent growth, although this source of growth may also have reached its limits. Bank credit to households, particularly for property loans, rose dramatically in the late 2000s, allowing 58 percent of urban households to own their homes, up from 52 percent just 10 years earlier. (World Bank, 2016a)

Today, central government debt, estimated at about 65 percent of GDP in 2017, is high. Public debt has played an important countercyclical role in the economy: as fiscal deficits accumulated following the 2008 global financial crisis, the central government's debt-to-GDP ratio rose by 19 percentage points of GDP in the space of eight years, to reach 64.9 percent in 2016. Ongoing fiscal reforms, including efforts to improve the financial oversight of some poorly managed public enterprises, should gradually reduce the fiscal deficit and debt accumulation. The public sector's (central government, local government and SOEs) financing needs are covered by pension funds, domestic banks, and foreign sources (largely concessional), with pension funds being the dominant investors in government securities. Bank claims on the public sector (either in the form of credit or securities holdings) rose from 22 percent of total bank credit in December 2016 to 28

percent in December 2018 (representing 15 and 20 percent of bank assets in 2016 and 2018, respectively).[6] The increasing share of claims on the public sector may crowd out bank lending to the private sector by raising the opportunity cost of lending to SMEs and start-ups in particular. This risk bears watching despite the slight decline of lending rates during 2018, from 4.7 to 4.6 percent for large private companies and from 6.1 to 5.9 percent for MSMEs. External debt, in contrast, is low at 31.3 percent of GDP (2017). Efforts to consolidate the fiscal position are expected to help reduce borrowing needs in the medium term.

The combination of growing central government debt and household debt has led to structurally weak external accounts. Between 2008 and 2013, the current account deficit average 6.6 percent of GDP. While today the deficit has improved to 3.6 percent of GDP (2017), the trade balance underscores the fragility of Morocco's external accounts. The trade deficit stood at 17.8 percent of GDP in 2017, compared with 11 percent in 2000, due to higher capital goods imports and worsening terms of trade. While higher energy prices have contributed to this trend, the non-energy trade balance is the primary cause of the trade deficit. Fiscal consolidation is helping to put both debt and the external deficits on a downward path, but the structural weaknesses underlying both have not disappeared.

Morocco is in search of a new growth model with the private sector at its core. In response to these vulnerabilities, and cognizant of the need for productivity, competitiveness and exports to increasingly drive growth, the government has stepped up efforts to attract FDI into sectors that diversify the export base and the creation of jobs. The authorities have focused on bolstering exports (for example, in the automotive, aeronautic and electronics sectors), in order to smooth the wide swings in GDP and take advantage of Morocco's proximity to European markets and the country's comparatively low labor costs. The emergence of these industries has relied on imports though. In the next phase of development, these industries will hopefully rely more heavily on the domestic supply of intermediate and capital goods. Improving the business environment has been another priority, to create a more benevolent climate for the private sector. In addition, the government dramatically increased the public investment effort, particularly in the 2000s. Public investment rose by close to six percentage points of GDP, although the returns to public investment in terms of growth and job creation have been disappointing.

Despite favorable demographic trends, the contribution of labor as a factor of production to Morocco's recent growth has been disappointing.[7] This is in contrast to the dominant contribution of physical capital to growth. Morocco's growth has been hampered by the difficulty that the economy faces in creating jobs and in reallocating labor across sectors rapidly to improve efficiency. In addition to skills constraints and a weak private sector, issues addressed at length in following sections, restrictive labor market regulations raise the cost of labor in the formal sector and contribute to a lower demand for employees on the part of employers. This adds to weak aggregate demand and helps to explain the low labor market participation rate and structural un- or underemployment. For instance, Moroccan law prohibits fixed-term contracts for permanent tasks and limits their duration of such contracts to 12 months, after which they cannot be renewed. Labor regulations governing private sector terminations are restrictive: terminating individuals for economic reasons is prohibited; only businesses with more than 10 employees may terminate jobs for economic, technical, or structural reasons. Reducing staff for economic reasons is subject to a prior agreement with the regional authorities. The social security system only benefits a minority of Moroccan workers—75 percent of Moroccan workers do not have access to pension systems and 85 percent are excluded from healthcare insurance[8]—yet is costly and financially unsustainable in the longer term (particularly pension systems). Reforms are needed to improve its reach and financial sustainability and ensure that it does not hamper the capacity of the economy to create high-quality jobs, especially for the young, by placing an excessively heavy tax burden on labor, reduces hiring incentives in the formal sector, or creating an obstacle to worker mobility. Finally, the minimum wage in Morocco is high when compared with average national per capita income and relative to the average formal private sector wage (World Bank,

2016a).

Introducing greater flexibility in labor-related regulations while protecting the interests of workers would support job creation and a stronger contribution of human capital to growth. Reforms that ease the constraints on the use of fixed-term contracts would encourage greater formal sector employment. Morocco could also consider introducing flexibility to contractually define different minimum wage levels that are suited to regional and sector particularities in order to encourage the employment of more youth and low productivity workers to the formal sector and provide them with social security coverage. A reform of severance payments and unemployment benefits could improve the protection of workers and facilitate labor mobility. Aligning social protection benefits with contributions would increase the equity of the system and contribute to enhancing the incentives to hiring in the formal sector (World Bank, 2016a).

Other important economic issues which impact private sector activity include a relatively inflexible exchange rate system. A more flexible exchange rate system would support the country's competitiveness and trade performance. The authorities intend to continue to move to a more flexible exchange rate regime (and a new monetary policy framework), and this would be a valuable tool in helping the economy to absorb external shocks and remain competitive. Such a reform would help the economy to absorb external shocks and preserve price competitiveness, particularly as Morocco's external competitiveness faces challenges from low productivity growth and nominal appreciation relative to competitor economies. Significant remittance and tourism inflows, amounting to 6.2 (2017) and 6.8 (2017) percent of GDP, respectively, have tended to support a mild appreciation of the exchange rate. Greater exchange rate flexibility would also improve the allocation of resources from non-tradable sectors to sectors open to international competition and allow the central bank to conduct a more domestically oriented monetary policy. In addition, flexibilization of exchange controls would diffuse other obstacle to trade. For instance, the current limits on the prepayment of imports are a hindrance to firms trading with suppliers who require a 100 percent advance payment to finance their sales or who prefer contracts in which letters of credit are not mandatory for doing business (World Bank, 2016a).

Recent changes to Morocco's corporate tax and national insurance contributions system are helping to improve the business environment, but the tax system remains complex and the overall tax burden for companies is high. Morocco rose 16 places to 25th out of 190 countries in the Doing Business "Paying Taxes" 2018 ranking. The move up the rankings comes on the heels of another strong rise, from 63rd to 41st the previous year, underscoring a rapid improvement in the tax payment system. The dramatic improvement can be at least partially attributed to the improvements and simplifications in the online tax portal and its integration with accounting software (reducing the number of hours required to file and pay taxes from 155 days in 2016 to 56 today) as well as to the move to a marginal rate-based progressive corporate system that reduces incentives for tax avoidance and evasion. While recent reforms amount to a corporate tax cut for most firms, the overall burden of corporate taxation in Morocco remains comparatively high at 49.8 percent (total tax and contribution rate) in 2017 (although well below rates of 65.6 percent and 64.1 percent in Algeria and Tunisia). The tax system remains complex: Morocco performs worse than the MENA and Africa average in all seven elements of the tax category in the EIU business environment rankings for the 2013–2017 period, placing 16th out of 17 in the region and 74th out of 82 countries globally. Cuts to corporate tax rates without undermining government revenue could be made by reducing tax incentives, as part of a comprehensive tax reform strategy (IMF, 2017).

B. THE STATE OF THE PRIVATE SECTOR

Private sector investment in Morocco has stagnated at around 16 percent of GDP—just over half of total investment—over the past decade, and has not been, on the whole, dynamic in generating jobs or exports. Older firms and SOEs, rather than new firms, drive economic activity in a few non-tradable sectors. These sectors generally have little potential to create quality jobs or generate value. New firms have generally not been successful at competing with established firms or generating significant employment. Few firms export.

Agriculture and low value-added manufacturing such as textiles have lost jobs, but more dynamic, higher value-added sectors have emerged and have compensated for these losses, although job creation remains weak. According to the 2013 Enterprise Survey[9] of 407 companies of different sizes in the five most dynamic regions in Morocco, various obstacles hamper firms' activity, including: the lack of a level playing field in terms of competition; the low quality of human capital and skills mismatches; constrained access to finance in some sectors; competition from the informal sector; and limited technology, innovative capacity and entrepreneurship.

Firm creation

The number of new entrants to the private sector has increased during the last decade, in particular in retail, construction, real estate, and services (Figure 3 and Figure 4), although little is known about their survival. The only recent data available is the number of new annually registered commercial entities, which indicates that their number has been increasing steadily between 2008 and 2017, from about 48,000 to 77,600 respectively, a 50 percent increase when population growth is accounted for. The number of firms (legal person) and individuals (natural person) registering is almost equal. The latter are predominantly present in retail, followed by industry, while firms are mostly registered in retail, construction, real estate, services, followed by industry. Commercial activities are concentrated in three urban hubs: Casablanca, Rabat, and Tangiers. The fourth most important location is Marrakech for firms, and Meknes-Fes for individuals (Table 1). Young firms aged five years of less represented 37 percent of the total (August 2018). Small firms—those with a turnover of less than MAD 3 million—constituted 84.3 percent while 15 percent were firms with a turnover smaller than MAD 175 million (2016). There is limited information on the viability of these registered commercial activities (for example, financial health, exit rate). Broadly speaking, only a tiny fraction of one person, micro or small firms in Morocco have grown to a higher-size category over a period of ten years (Schiffbauer, et al., 2015).

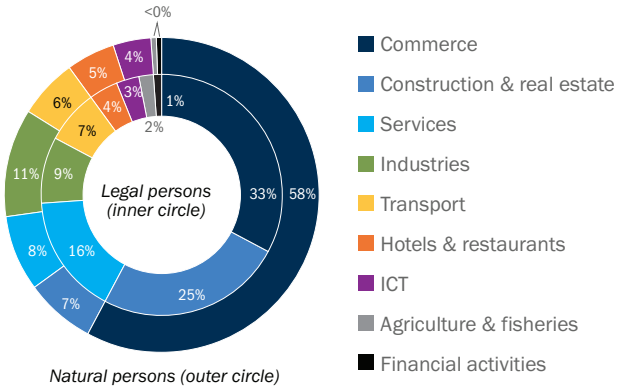


FIGURE 3 Sectoral composition of commercial activities for legal and natural persons

Source: Moroccan Office of Industrial and Commercial Property, http://ww.ompic.org.ma/en).

FIGURE 4 Registered commercial activities in Morocco, by sector and evolution 2008–2018*

Source: Moroccan Office of Industrial and Commercial Property, http://ww.ompic.org.ma/en).

**As of August 2018.*

TABLE 1 Number of registered firms by location (as of August 2018)

	FIRMS (LEGAL PERSONS)		INDIVIDUALS (NATURAL PERSONS)
Casablanca-Settat	209,701	Casablanca-Settat	218,450
Rabat-Salé-Kénitra	75,319	Rabat-Salé-Kénitra	113,182
Tanger-Tetouan-Al Hoceima	56,742	Tanger-Tetouan-Al Hoceima	103,810
Marrakech-Safi	49,140	Fés-Meknès	93,121
Fés-Meknès	36,852	Marrakech-Safi	85,630
Souss-Massa	29,267	L'Oriental	84,766
L'Oriental	19,132	Souss-Massa	64,105
Laâyoune-Sakia El Hamra	11,796	Laâyoune-Sakia El Hamra	41,950
Béni Mellal-Khénifra	11,660	Béni Mellal-Khénifra	39,451
Drâa-Tafilalet	10,006	Drâa-Tafilalet	24,976
Dakhla-Oued Ed-Dahab	6,070	Guelmim-Oued Noun	17,401
Guelmim-Oued Noun	3,145	Dakhla-Oued Ed-Dahab	11,343

Source: Moroccan Office of Industrial and Commercial Property, http://ww.ompic.org.ma/en).
**As of August 2018.*

Older firms are more prevalent than young firms in Morocco. According the 2013 Enterprise Survey, about 9 percent of firms are considered young (fewer than 5 years), a proportion similar to Tunisia's (10 percent), but much lower than the 35 percent in Egypt. At the opposite end of the spectrum, a relatively large number of firms are old (more than 35 years) accounting for about 17 percent of surveyed firms in Morocco, compared to only 8 percent in Egypt and 10 percent in Tunisia.

Investment

Morocco has been particularly successful in attracting large-scale, export-oriented foreign direct investment (FDI). According to the 2015 industry census, investment has expanded between 2013 and 2014 by 29 percent (Table 2). Investment has been relatively high and has increased in chemicals, oil refinery, agribusiness, manufacture of non-metallic minerals, and manufacture of machinery and electrical components. Moreover, FDI inflows started to show dynamism toward the beginning of the 1990s in Morocco, representing almost 2 percent of GDP by 1994. The share of FDI stock in GDP increased from an average of 18 percent during the period 1990–2003 to 45 percent during the period 2004–16, comparable to levels in Costa Rica and Vietnam. FDI has supported rapid growth of some of Morocco's most dynamic exports, including the automotive and aerospace industries, as well as electronics, chemicals, textiles and business services (Figure 5 and Figure 6). Toward the end of the 1990s, FDI inflows into Morocco became increasingly volatile, although with an upward trend. The global financial crisis was associated with a 1 percentage point drop in FDI inflows (from a 2005–2007 average of 3.4 percent of GDP to a 2010–2012 average of 2.4 percent of GDP); in 2012, FDI inflows reached 2.9 percent of GDP.

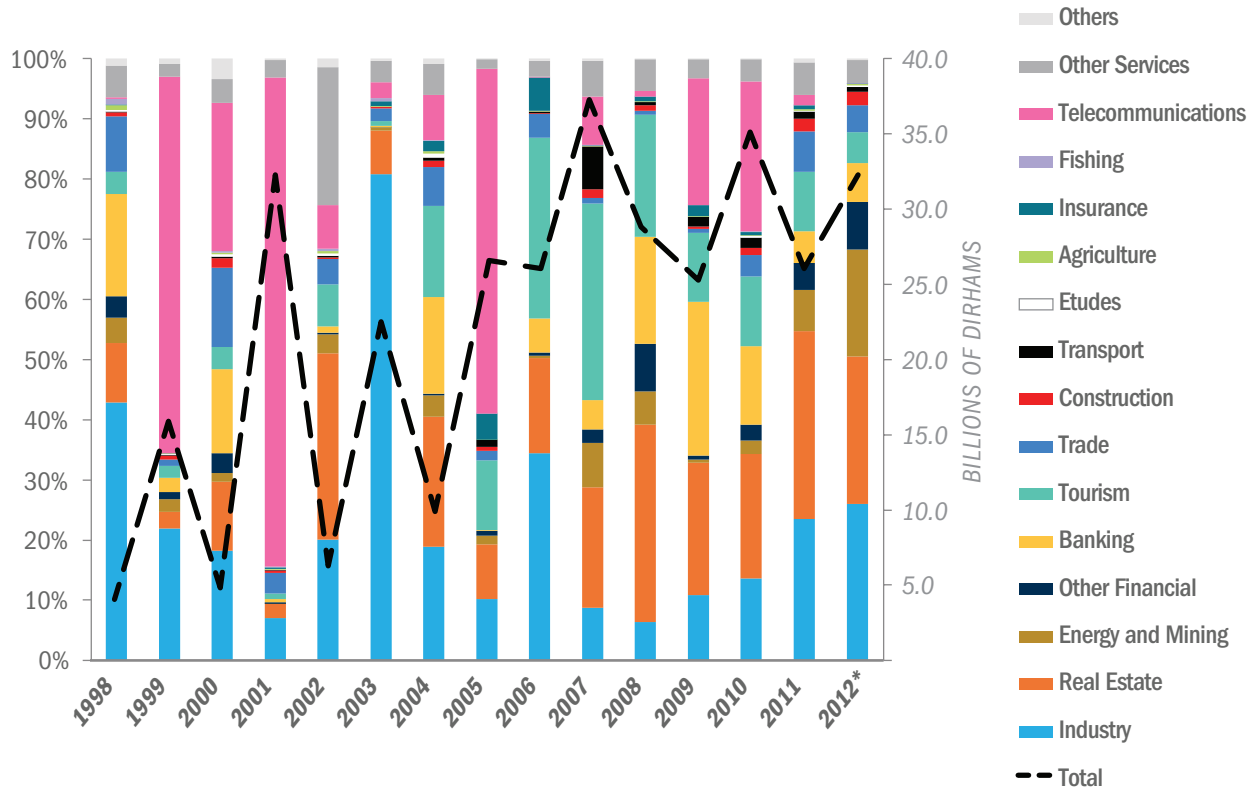


FIGURE 5 Composition of FDI Inflows by Sector, 1998–2012

Source: Office des Changes. Latest available data

Morocco's entrepreneurial activity is low but growing. Morocco ranks 65 out of 137 countries in the 2018 Global Entrepreneurship Index (GEI) and is relatively weak in many dimensions, while its neighbor, Tunisia, ranks 40. Entrepreneurship and the development of domestic private sector firms and has consistently suffered from limited educational outcomes and labor force skills, implying additional costs in on-the-job training and constraints to firms' expansion. Inadequate access to an educated workforce is the second largest constraint identified by firms in the 2013 World Bank Enterprise Survey in Morocco. Bridging the skills mismatch is particularly difficult due to a highly rigid labor market, as noted in Section B. This ranking is aligned with Morocco's ranking in the World Economic Forum Global Competitiveness Index, at 71 out of 137 countries in 2017–18, like previous years, and reflects inadequate higher education and training and labor-market constraints, as well as low innovation and technological readiness. Morocco performs relatively well, however, in terms of its institutions, the macroeconomic environment, market size, and infrastructure.

The authorities are cognizant of these constraints and have made efforts to improve the business environment during the past decade. In some areas, these efforts have paid off: Morocco ranks 34 ovut of 190 countries for the 2019 *Doing Business* indicator "starting a new business", 18 for "Dealing with construction permits" and 25 for "Paying taxes". This progress has contributed to a steady increase in enterprise creation since 2007. The number of new limited liability companies created annually increased by over 50 percent between 2007 and 2016, from about 25,000 to near 39,000. Moreover, while Morocco has one of the lowest rates of total early-stage entrepreneurial activity[10] (8.8 percent) out of 54 economies, the rate has increased since 2015 (4.4 percent), indicating a positive development in the entrepreneurial sphere. Entrepreneurial activity is mostly taking place in

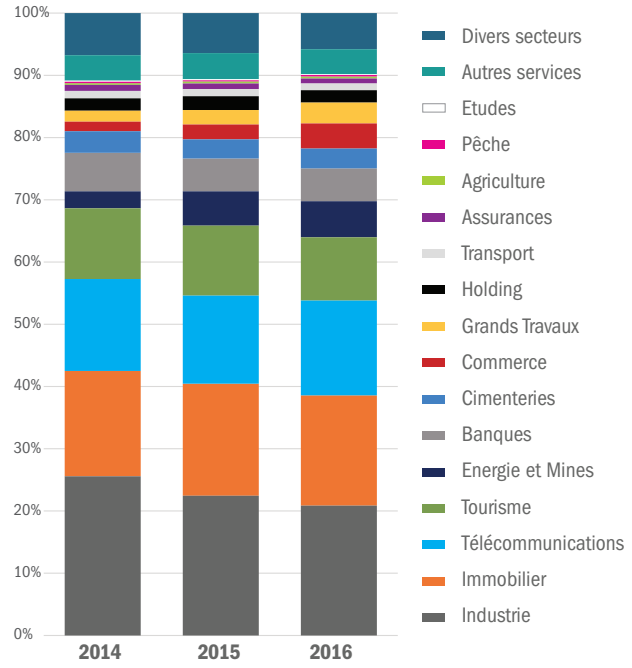


FIGURE 6 Composition of FDI stock by sector, 2014-16

Source: Office des Changes. Latest available data

wholesale and retail, but activity in manufacturing is high in Morocco compared to other countries in the sample. Another indicator of business creation seems to also reflect emergent entrepreneurial activity in Morocco. The "new business entry density" indicator[11] improved slightly from 1.2 in 2007 to 1.7 in 2016, placing Morocco ahead of some emerging economies such as Mexico and Turkey but behind Hungary, Romania, Mauritius and Botswana.

Post-creation survey piloted in the region of Casablanca-Settat indicates that firms' survival rate is relatively low. A quarter of registered firms in Casablanca does not even start their business, and half of those that start an activity survive after three years. Out of the 64,000 registered firms, about 32,000 survived and created some 249,000 jobs. The majority (93 percent) is small with a turnover smaller than MAD 10 million and less than 10 employees. The analysis shows that firms operating in tertiary education, financial services and industry are more likely to survive. Moreover, lack of rigorous preparation of projects explains to some extent the early failure in business for half of the sample. Less than 5 percent of firms benefitted from any accompanying measures (CRI 2018).

Jobs

Limited new business creation translates into limited job opportunities in the formal sector and a large share of recent graduates who are unemployed. While SMEs make up roughly 90 percent of Moroccan firms, their contribution to formal employment and GDP growth remains small (Figure 7).[12]

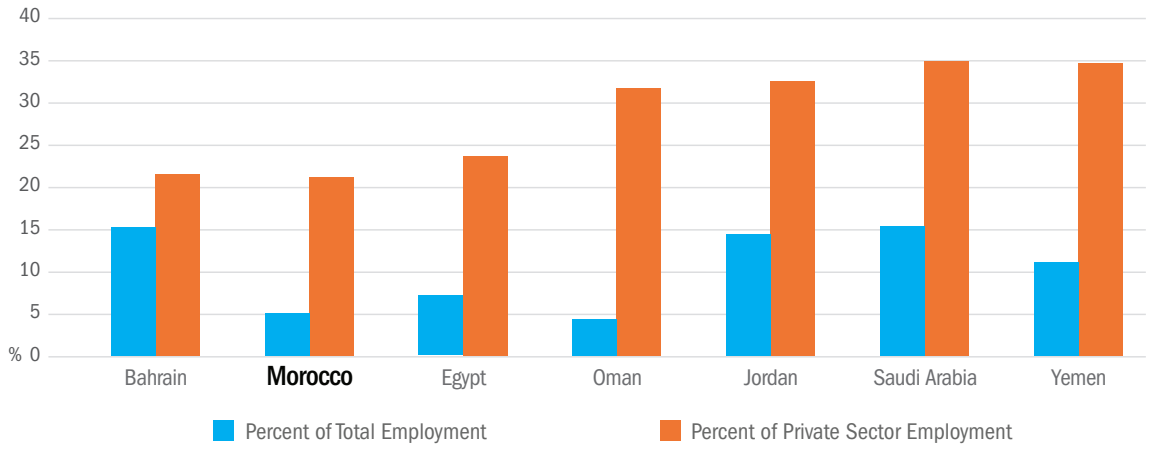


FIGURE 7 SME contributions to employment in the MENA region

Source: World Bank, 2012. Based on government databases and World Development Indicators.

Jobs have been shifting out of agriculture towards the service sector since the early 2000s. The service sector accounts for the largest number of jobs over the last decade. Close to forty percent, or about 4.1 million, are employed in the agriculture sector. The second largest employer is public administration and other services, followed by building and public works. Industry accounts for slightly more than 11 percent of all jobs (Figure 8 and Figure 9).

The number of jobs in industry increased slightly between 2013 and 2014, despite some churning among sub-sectors (Table 2). Total jobs in industry increased by 4 percent between 2013–14 to reach 597,278 jobs. Within industry, the largest employers remain agribusiness (145,109) and apparel (120,172). Jobs lost in the textile and apparel industries between 2013–14 have been more than compensated by jobs created in the mineral and metallic, agribusiness, chemical, and automotive industries. More recent data from the Ministry of Industry website show that the textile and clothing sector accounts for 165,000 jobs and the offshore sector accounts for 63,000 jobs.[13]

Industry data from the automotive and aerospace professional associations (AMICA and GIMAS respectively) indicate a substantial increase in jobs in their respective industries. In the automotive sector the number of jobs more than doubled between 2013–17,

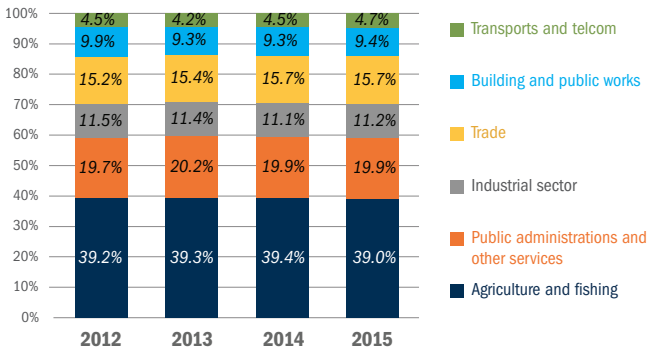


FIGURE 8 Employment sector distribution in Morocco

Source: elaborated by authors from MINEFI data. Latest available data

from about 70,000 in 2013 to 150,000 jobs in 2017.[14] The emerging aerospace industry accounted for 12,000 jobs in 2017, up from about 4,500 in 2004–08, and spread across about 115, exclusively foreign, companies. GIMAS is targeting a total of 23,000 additional jobs in four ecosystems: 8,700 jobs in assembly (via 40 new investors); 6,000 in maintenance, repair and overhaul (MRO, via 32 new investors); 3,400 jobs in the engineering ecosystem (via 17 new investors); and 4,900 in electrical wiring interconnect system (EWIS, via seven new investors).

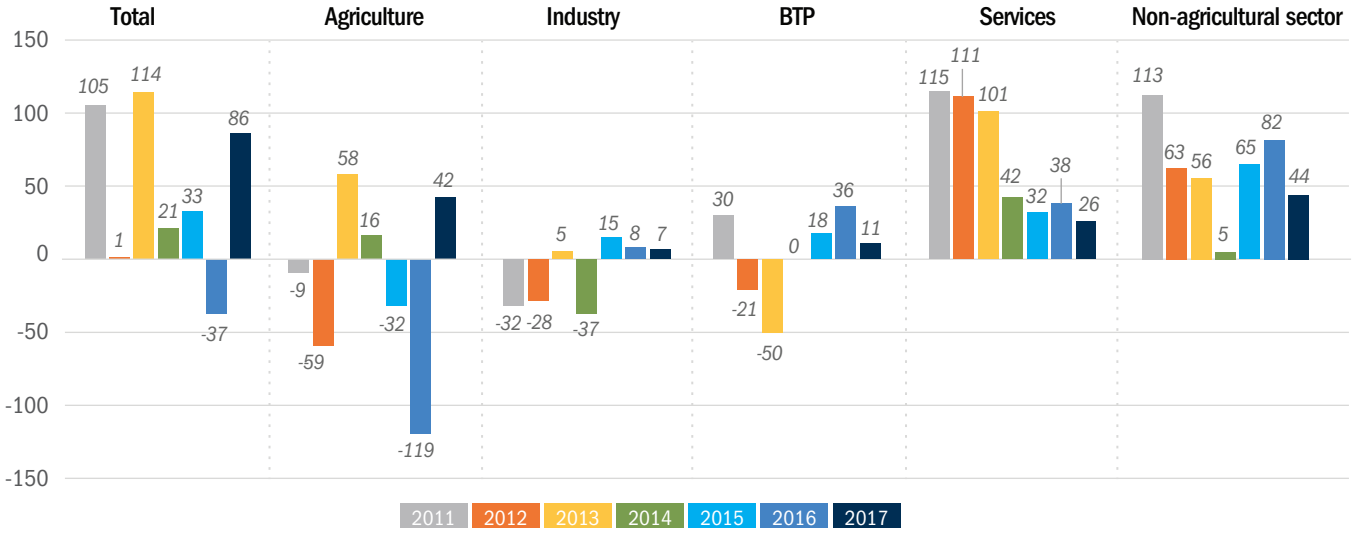


FIGURE 9 Job creation by sector, 2011-2017 in Morocco

Source: HCP; Latest available data

TABLE 2 Investment, employment and exports in industries, 2013–14

	Investment (Moroccan dirhams, millions)			Employment			Exports (Moroccan dirhams, millions)		
	2013	2014	2013/14	2013	2014	2013/14	2013	2014	2013/14
15. Industries alimentaires	4,115	7,354	79%	140,130	145,109	4%	13,695	14,024	2%
16. Industrie du tabac	142	334	135%	1,211	1,126	-7%	85	109	28%
17. Industrie textile	420	261	-38%	31,565	29,536	-6%	2,666	2,496	-6%
18. Ind. de l'habil. et des fourrures	398	404	2%	125,083	120,272	-4%	11,076	11,453	3%
19. Ind. du cuir et de la chaussure	128	61	-53%	20,388	18,067	-11%	1,726	1,741	1%
20. Travail du bois et fabrication d'articles en bois	135	81	-40%	8,703	9,973	15%	295	304	3%
21. Industrie du papier et du carton	283	305	8%	5,219	6,943	33%	293	371	26%
22. Edition, imprim et reproduction	217	112	-48%	8,538	9,340	9%	88	82	-7%
23. Cokefaction, raffinage et industries nucléaires	2,673	5,797	117%	4,670	4,325	-7%	10,035	7,663	-24%
24. Industrie chimique	9,258	10,426	13%	28,031	32,479	16%	30,570	31,451	3%
25. Industrie du caoutch. et du plast.	551	894	62%	16,081	18,871	17%	810	1,628	101%
26. Fabric. d'autres produits minéraux non métalliques	1,950	2,869	47%	34,341	41,725	22%	600	469	-22%
27. Métallurgie	1,173	212	-82%	8,982	9,448	5%	372	503	35%
28. Travail des métaux	554	653	18%	32,067	34,236	7%	1,303	866	-34%
29. Fabric. de mach. et équipements	74	71	-4%	6,379	6,852	7%	330	351	6%
30. Fabrication de machines de bureaux et du matériel informatique	-	-	-	61	61	-	-	-	-
31. Fabrication de machines et appareils électriques	1,442	1,120	-22%	57,513	60,596	5%	20,584	23,220	13%
32. Fabrication d'équipement de radio, telé et communications	134	65	-52%	5,473	4,953	-10%			-
33. Fabrication d'instrument médicaux, de précision d'optique et d'horlogerie	34	13	-62%	3,987	2,685	-33%	20	23	15%
34. Industrie automobile	508	406	-20%	17,567	22,910	30%	15,863	22,286	40%
35. Fabric. d'autres mat. de transport	216	139	-35%	6,901	7,794	13%	3,666	4,266	16%
36. Fabrication de meubles, industries diverses	151	110	-27%	8,715	9,942	14%	654	810	24%
37. Récupérations	-	0	-	44	35	-	-	0	-
Total	**24,556**	**31,687**	**29%**	**571,649**	**597,278**	**4%**	**114,730**	**124,115**	**8%**

Source: Ministère de l'Industrie, du Commerce, de l'Investissement et de l'Economie Numérique. Latest available data

The authorities are prioritizing the improvement of the skills of Morocco's graduates and the employability of its youth. A recent report by the High Commission of Planning (HCP) on the link between training and employment found that higher levels of general education correspond to a lower likelihood of employment. The unemployment rate in the highly-qualified category ranges from 15.1 to 22 percent; those with a bachelor's degree, master's degree and engineering graduates have unemployment rates of 18.9, 15.9, and 7.7 percent, respectively. However, only 3.9 percent of medical graduates are unemployed. The report also found that most of the employed population (72.4 percent) are manual workers in non-agricultural sectors.

Trade

Despite the emergence of new export stars during the last decade, the lack of dynamism in the private sector generally translates into a narrow export base. The Moroccan economy remains dependent on the success of a few products in traditional markets and the country is struggling to move up the value chain. Even in the automotive sector, exports are dominated by exports of cars from a limited number of foreign car makers. The share of capital goods in total exports remains below 10 percent, far lower than levels achieved by comparators such as Tunisia or Vietnam. Morocco's share in global trade has declined over time to stabilize at around 0.13 percent and the country still lies below the average for countries with similar incomes in terms of its openness to trade.

The number of firms exporting goods is relatively modest and declined slightly between 2005 and 2013 (latest data available, Table 3). The number declined from 5,604 to 5,325 between 2008 and 2013 (–5 percent). In comparison, Estonia and Portugal, with smaller populations of 1.3 million and 10.3 million, respectively, accounted for 9,701 and 25,682 exporting firms in 2012. In Morocco, the total number of exiting firms exceeded the number of entrants during 2005–2013, in particular in the textile and clothing industries as well as in the manufacture of non-metallic minerals (Table 4). This drop was not completely compensated by the increase in the number of exporters in the manufacture of electrical components, insulated wires and cables, motor vehicles, and aircrafts. The dataset does not capture the number of indirect exporters,

TABLE 3 Number of Exporters, Morocco and selected countries, 2005–2013*

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GEORGIA	3,634	3,475	1,492	1,449	1,441	1,588	1,771	1,811	..
JORDAN	1,467	1,758	1,841	1,989	2,194	2,327	2,675	2,391	..
COSTA RICA	2,881	2,950	2,990	2,874	2,832	3,915	4,055	4,100	..
MOROCCO	5,604	5,439	5,447	5,451	5,406	5,234	5,154	5,210	5,325
EGYPT	..	8,453	8,461	8,190	8,067	8,043	6,786	6,966	..
CHILE	6,545	6,642	7,505	7,786	7,044	6,988	7,218	7,044	..
SOUTH AFRICA	20,635	21,252	21,400	22,513	22,445	22,650	22,876	24,663	..
PORTUGAL	21,818	24,109	24,553	24,744	24,409	25,143	24,585	25,682	..
MEXICO	35,889	34,716	34,629	33,801	32,656	33,104	33,416	32,669	..
TURKEY	40,203	41,966	45,818	46,270	46,946	48,609	51,371	54,366	57,999
SPAIN	87,945	89,217	88,163	91,856	95,454	94,990	97,153	106,731	114,872
ESTONIA	4,375	4,899	4,726	5,131	5,352	5,749	9,701	..	..

Source: Exporter Dynamics Database (https://datacatalog.worldbank.org/dataset/exporter-dynamics-database).

**Latest data available.*

TABLE 4 Number of Exporters, Morocco, selected industries, 2005–2013*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	GROWTH 2005–2013
Manufacture of wearing apparel, except fur apparel	1,223	1,231	1,219	1,148	1,089	1055	979	970	945	-22.7%
Manufacture of other fabricated metal products; metal working service activities	855	1,021	961	930	859	773	735	794	774	-9.5%
Production, processing and preservation of meat, fish, fruit, vegetables, oils and fats	645	623	653	685	675	677	667	667	707	9.6%
Manufacture of other textiles	757	920	909	811	797	740	658	591	633	-16.4%
Manufacture of other chemical products	354	400	447	455	510	488	510	593	617	74.3%
Manufacture of plastics products	436	581	655	670	704	663	656	600	616	41.3%
Manufacture of special purpose machinery	351	340	387	416	393	431	426	488	484	37.9%
Manufacture of non-metallic mineral products	725	789	667	601	526	467	432	439	455	-37.2%
Manufacture of general-purpose machinery	286	278	322	357	353	358	376	462	454	58.7%
Manufacture of knitted and crocheted fabrics and articles	450	501	511	476	463	424	405	372	381	-15.3%
Manufacture of electricity distribution and control apparatus	119	121	132	150	177	170	170	203	219	84.0%
Manufacture of electric motors, generators and transformers	119	103	135	135	164	165	144	176	178	49.6%
Manufacture of other electrical equipment	75	77	104	102	115	145	122	152	172	129.3%
Manufacture of other food products	111	135	152	147	153	155	156	168	172	55.0%
Manufacture of insulated wire and cable	83	91	102	116	122	128	134	146	164	97.6%
Manufacture of structural metal products, tanks, reservoirs and steam generators	85	94	116	128	130	134	110	124	163	91.8%
Manufacture of basic iron and steel	76	90	91	101	89	110	105	120	144	89.5%
Manufacture of basic precious and non-ferrous metals	65	77	87	97	93	89	100	105	118	81.5%
Manufacture of motor vehicles	24	46	50	57	72	62	75	65	60	150.0%
Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	11	17	14	35	25	33	43	38	36	227.3%
Manufacture of aircraft and spacecraft	14	16	24	30	38	36	34	39	36	157.1%

Source: Exporter Dynamics Database (https://datacatalog.worldbank.org/dataset/exporter-dynamics-database).

**Latest data available.*

that is firms that supply exporters, which may have expanded in sectors such as the automotive industry. The small number of exporters in Morocco may also reflect the small size of firms, which tend to export less than the medium and larger firms.

Morocco's competitiveness challenges are embedded in the country's high export concentration. Although Morocco's export basket is increasingly diversified, it is concentrated in a limited number of exporting firms. The top 1 percent of exporters is responsible for 55 percent of Morocco's total exports and the top 5 percent is responsible of 77 percent of exports.[15] Combined with a rather limited universe of exporting firms, the number of firms responsible for the top 1 percent and 5 percent is small, 54 and 266 respectively, in contrast with comparators, which can count on a larger number of exporting firms. Morocco's ongoing industrial development process seems to be largely the result of the entry of new firms specializing in emerging sectors, such as automobiles and electrical equipment, rather than the diversification of existing businesses into new activities. Mixed firms (import-export) account for nearly 65 percent of all exporters and 18 percent of all importers, numbers that are consistent with the existence and growth of free trade zones where subcontracting firms or subsidiaries of foreign companies operate.

Morocco's commercial services exports (excluding government services) grew modestly between 2008 and 2017, hovering around $15 billion per year. Travel continues to represent almost half of commercial services exports over the period. Transport services exports make up the second largest sub-sector. Emerging services exports include construction services, and telecommunications, computer and information services (Figure 10 and Figure 11). This lackluster growth of services exports followed a more dynamic expansion of services exports between 1998 and 2008 when the share of travel decreased, and other business services picked up strongly.

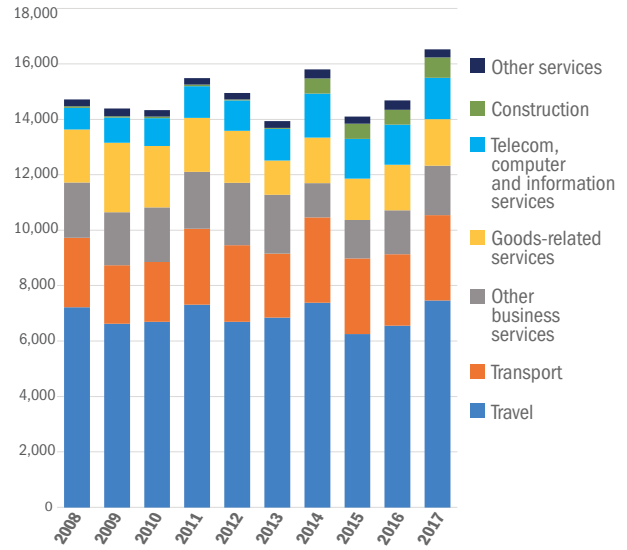


FIGURE 10 Contribution of sub-sectors to aggregate exports of commercial services, Morocco 2008-2017

Source: Authors, based on UNCTAD.

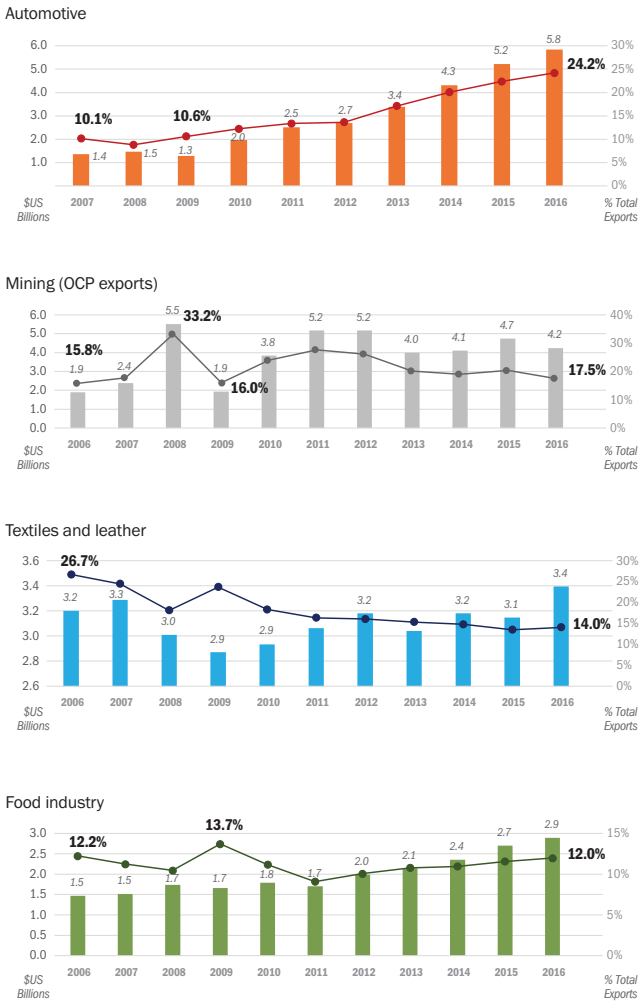


FIGURE 11 Trends of major exported products

In US$, billions (1st axis); in % of total merchandize exports (2nd axis)

Source: Elaborated by authors from MINEFI data.

Morocco has opportunities to grow and diversify exports. Morocco is globally competitive in a number of industries (Annex 1), although these are generally of low complexity (for example, textiles, animal products, agricultural crops, and mining). To sustain high economic growth and value addition, Morocco can further develop its capability stock in more complex industries, thereby putting itself on par with more advanced countries. An analysis of export capabilities[16] indicates that Morocco has opportunities to retain strength in its competitive industries: it can expand its light manufacturing, agro-processing, and machinery industries, and possesses the capabilities to branch into new goods and services in more complex areas such as woven textiles, vehicle parts, and professional services. Opportunities for product upgrades and diversification include those presented below in Table 5.

TABLE 5 Opportunities for export growth

	Future progression potential	Relatively large base	Other fast-growing	Green Shoots	Organic Progression Green Shoots
TEXTILES AND LEATHER	» Textile products » Full grain leather » Non-synthetic apparel		» Apparel		» Fabrics and garments of wool or non-wovens » Trunks and cases » Clothing accessories » Cotton yarn
FOOD, CROPS, FISH	» Cranberries » Strawberries » Avocados	» Tomatoes » Peppers	» Olive oil » Fresh fruit » Fresh cucumbers	» Beverages (incl. waters and orange juice) » Pasta » Chocolate » Vegetable fats	» Wine » Frozen vegetables
MACHINERY & TRANSPORT EQUIPMENT	» Cars » Motor vehicle parts » Electrical apparats for switchboards	» Cars » Parts for airplanes » Components for electrical circuits (incl. switchboards)			» Motor vehicle parts » Electric motors (<38W) » Valves » Electrical equipment
SERVICES		» Freight transport » Construction		» Professional/ management consulting » Personal/ recreational	
CHEMICALS		» Fertilizers » Phosphates		» Waste pharmaceutical » Mercury compounds	

Source: IFC.

*Note: the methodology uses various indicators to identify the products including Proximity (how close two goods are in the global product space); Feasibility (the ease of market entry to produce a product); Fitness of Countries (country's industrialization level and future prospects of growth); Attractiveness of Goods (measures the **capabilities** needed to produce a product); and Revealed Comparative Advantage (RCA).The approach is based on the concept of "hidden capabilities"—A country's productive structure shines a light on the capabilities it possesses and which new opportunities can be reached.*

SOE participation in the economy

SOEs have been the main vehicle through which the government has pursued its developmental policies (see Annex 2 for a mapping of the main players). Public enterprises are a major player in infrastructure and development projects, in promoting strategic sectors and developing underserved territories inland, in the North-East and the South. Although the government has reviewed its approach to intervention in the economy, embarking on privatizations in the 2000s and resuming in 2019, SOEs continue to play a major role in supporting flagship government programs and projects. Capital spending by SOEs represents the largest share of public investment. The state's portfolio includes 725 entities that provide about 130,000 jobs (2016–17), including 210 statutory public establishments and 515 limited liability companies in which the state is an ultimate owner with partial or total control (Figure 12, and Annex 3).[17] Six SOEs control about two-thirds of all subsidiaries and seven undertook nearly 60 percent of total SOE investments in 2016; these are OCP, ONEE, HAO, ONCF, CDG, RAM and TMSA.[18]

Morocco undertook an extensive reform program in the late 1990s and 2000s aimed at modernizing its legal and regulatory framework and adapting its State-Owned Enterprise (SOE) sector through privatization and liberalization. Privatization proceeds provided considerable revenue for the state and were used to fund public investment projects under the Hassan II Fund for Social and Economic Development. Following the 2000s privatizations, an emphasis on corporatization of SOEs and creating new categories of SOEs, including limited liability companies and minority shareholdings, has dramatically changed the SOE sector, increasing transparency, professionalization of SOEs, and improving monitoring.

Since the heyday of privatizations in the 1990s and 2000s, SOE divestments have been offset by the creation of new SOEs and subsidiaries. Hundreds of subsidiaries were created over the past decade— mostly limited liability companies—entirely or partially controlled by holdings. These additional SOEs have played an essential role in supporting leading

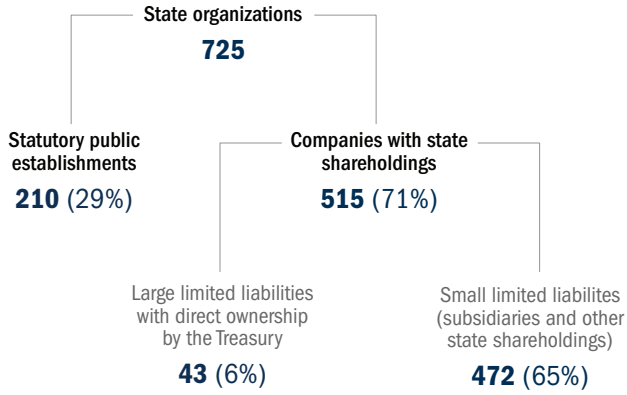


FIGURE 12 How many SOEs are there?

Source: Established by Ben Abdelkader, 2018, from (MINEFI Morocco, 2017).

government programs but may also have impacted the development of the private sector, limiting the entry and expansion of firms in concerned sectors of the Moroccan economy.

Few restrictions limit SOEs from venturing into other markets. SOE participation in a market may preempt the entry of new firms and the expansion of existing ones. In most countries, SOEs are prevented from expanding into activities outside their core markets either by their charter or by the SOE law. In Morocco, large public enterprises such as *Office National de l'Electricite et de l'Eau Potable (ONEE), Royal Air Maroc (RAM), Office Cherifien des Phosphates* (OCP Group) and *Caisse de Dépôt et Gestion* (CDG), have created numerous subsidiaries across sectors either themselves or through joint ventures with foreign and national partners. Similarly, the selection of joint venture partners does not seem to follow a clear process.

» OCP Group is a world-leading exporter of phosphates and derived products. It owns and operates subsidiaries along the fertilizer value chain: mining and processing; trading, including participation in foreign SOEs such as ZMPL (50 percent owned by the Indian government); engineering and consulting, where it has joint-ventures with foreign companies such as Jacobs Engineering or IBM; and ecosystem development.

- Caisse de Dépôt et de Gestion (CDG) is a state-owned financial holding, combining asset management (of postal savings, as well as the reserves of two large pension funds)[19], industrial and territorial development, as well as financial services (investment banking, housing finance, insurance/reinsurance, mutual funds). It had a consolidated balance sheet worth 22% of GDP in 2017. CDG participates directly—not merely as a passive investor—in a wide variety of sectors, through its subsidiaries and/or partnerships, either because its participation draws in private investors or in demonstration investments, for example in higher education. Examples of CDG's activity beyond its core business range from higher education to real estate development where it remains a market leader thanks to its privileged access to land, typically a key constraint for private investors.[20]
- RAM, the state airline, has subsidiaries in passenger and cargo transport, airport handling and other airline related services. RAM also participates in joint-ventures in the aircraft maintenance sector with Air France (Aerotechnique Industrie) and Safran Group (Snecma Morocco Engine Services), in the training and simulation sector with Boeing (Casa Aero), and in the travel sector with Amadeus (Amadeus Maroc), among others.

Even when the public sector enters into partnerships with private operators, the regulatory framework is not always aligned with competition principles. Overlapping legal instruments regulate the collaboration between the public and the private sectors, reducing predictability and transparency. For instance, the PPP law (law 86-12) offers a modern framework to articulate public-private partnerships, but it has not superseded PPP frameworks specific to sectors, which continues to apply. This creates overlapping and potentially conflicting frameworks for private participation in infrastructure investment and injects uncertainty regarding the laws that apply to different contracts. Another example is the direct selection of private partners by SOEs for joint ventures under commercial law.[21] Examples from the EU and its members states emphasize the importance of competitive selections to enact these types of partnerships.[22] Finally, SOEs are allowed to invest in private operators even when they compete against them in the market. For example, ONEE has been allowed to take equity participation in private power generation firms since 2002.[23] This can limit incentives to compete and may promote anticompetitive behavior either through coordination or through discrimination in favor of private operators with SOE participation.

The government is trying to streamline the market participation of SOEs, although the results have been mixed. The authorities began streamlining SOEs and bringing them under the general commercial legislation in the late 1990s. The Directorate of Public Enterprises and Privatization (DEPP), within the Ministry of Finance, is charged with promoting private sector participation and fostering a more efficient public sector. Among other tools, DEPP uses performance contracts to agree with SOEs on their scope of activities and key performance indicators.[24] In this sense, these contracts have been key to limiting the ability of SOEs to branch into related and non-related markets. For instance, although RAM remains active in several markets, the contract program has helped to drive the company towards profitability by reducing the scope of its activities while offering it compensation for unprofitable yet essential public services.[25] Similarly, through ONEE's program contract (2014–2017), a successful tariff subsidy reform in electricity was introduced, leading to a surplus for ONEE for the first time in 10 years. There are various exceptions, however: for example, CDG, one of the largest financial operator in the country, is exempted from the use of contract programs, enabling its expansion across markets.[26] Out of the 350 SOEs created between 2001–2010, most were CDG subsidiaries.[27] Annex 4 reviews some lessons from the corporatization of the OCP and the reforms to its governance structure that were undertaken a decade ago in order to enhance its ability to compete in international markets.

This chapter has set the stage for the remainder of the CPSD report by presenting the macroeconomic context and the current state of the private sector; the remainder of the document provides a diagnostic of selected issues which, if tackled, would boost the participation of the private sector in the Moroccan economy. The first set of issues are cross-cutting and aim to level the competitive playing field and

boost SME growth and entrepreneurship: Chapter III reviews the competition environment and the incentive structures within which the Moroccan private sector operates; Chapter IV considers entrepreneurship and the development of small and medium enterprises (SMEs) and the opportunities and constraints they face, and identifies key enablers to support private sector growth; Chapter V shifts to focus on an important enabling sector, infrastructure, and reviews the status of infrastructure sectors broadly, as well as the potential role of the private sector in infrastructure finance.

The report then focuses on four sector "deep dives" (Chapter VI) that are emblematic of Morocco's ambitions of becoming an upper-middle income country with a globalized economy based on high productivity and value-addition. These sectors are: tertiary education, vocational training, and the automotive and aerospace industries. There is broad agreement regarding the need for quality tertiary education and vocational training in Morocco to meet skills gaps and enhance human capital and entrepreneurship. Demand for higher education has been growing, but the supply of quality public education has lagged. The private sector has stepped in, but at a small scale. The deep dives in tertiary education and vocational training highlight the remaining constraints that the private sector faces to invest in these areas; many of these constraints mirror the issues highlighted in the cross-cutting portion of the CPSD. The manufacturing deep dives, into the automotive and aeronautic industries, consider the dynamic growth of these industries while underlining that industry expansion has not led to the hoped-for spillovers across the rest of the economy. The CPSD analysis examines the difficulties that local firms face in entering these value chains, many of which reflect key cross-cutting obstacles faced by the Moroccan private sector as a whole and which are highlighted in the sections immediately following.

The analysis and recommendations of the CPSD build on, and are aligned with, a number of ongoing and past analyses: (a) the World Bank's *2017 Country Economic Memorandum* and *Systematic Country Diagnostic*, which argue that Morocco's current growth model shows signs of weaknesses and that a lack of inclusion is the central factor preventing the emergence of a more dynamic private sector and the realization of higher productivity gains; (b) the top three constraints identified by the Moroccan Economic, Social and Environmental Council as *Formation, Foncier and Financement* (the three Fs)—that is, training/skills, land, and access to finance; and (c) the government's sector strategies. This report digs deeper into the constraints that prevent the private sector from playing a larger role in the Moroccan economy. It also makes cross references to the findings of Financial Sector Assessment Program (FSAP) the Morocco Infrastructure Diagnostic (MID) and the Joint-Capital Markets Assessment Program (JCAP). ■

III. Leveling the Playing Field for All Market Players

A. ENHANCING MARKET COMPETITION FOR THE BENEFIT OF THE PRIVATE SECTOR

Business risks related to lack of competition appear to hinder market dynamics in Morocco. In terms of both anti-monopoly policy and market competition, Morocco is perceived to lag regional peers and comparator countries (Figure 13). This gap has an impact on the operational risks perceived by the private sector (Figure 14).

Compared to regional peers, many Moroccan markets are characterized by greater market concentration. The share of monopolies is high in sectors that are typically characterized by low market concentration elsewhere. For instance, according to the 2013 Enterprise Survey, nearly 40 percent of firms in manufacturing are competing in oligopolistic markets (Figure 15). Concentrated market structures may emerge naturally and efficiently regardless of the level of competition, such as in the presence of large economies of scale and small market size. Nonetheless, concentrated markets may also result from government interventions that restrict entry, facilitate dominance, or create an unlevel

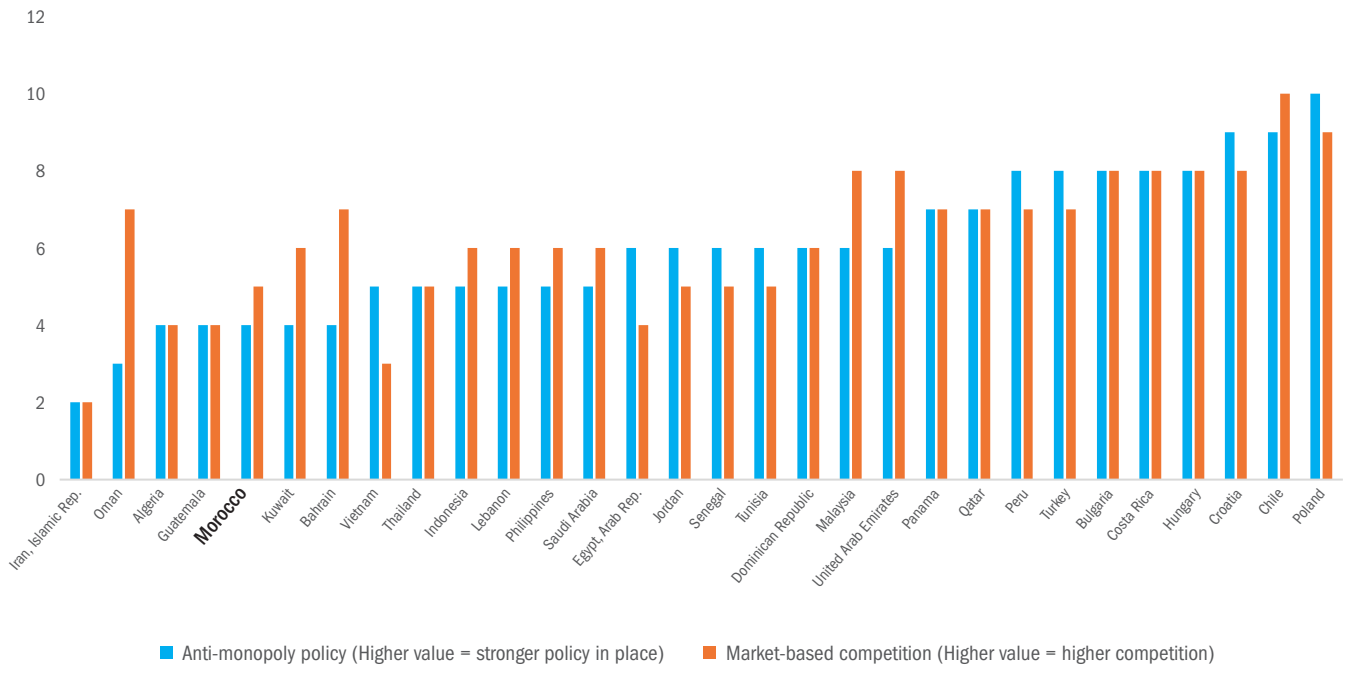


FIGURE 13 Competition indicators for MENA and selected comparators of Morocco

Source: Authors, based on UNCTAD.

Source: The Transformation Index BTI, 2018.

Note: The BTI is a perception indicator based on in-depth assessments of countries and is managed by the Bertelsmann Stiftung. The World Bank's benchmark comparator countries for Morocco were selected based upon the "find my friends" methodology, which accounts for export basket composition, GDP per capita, population, human capital and physical capital.

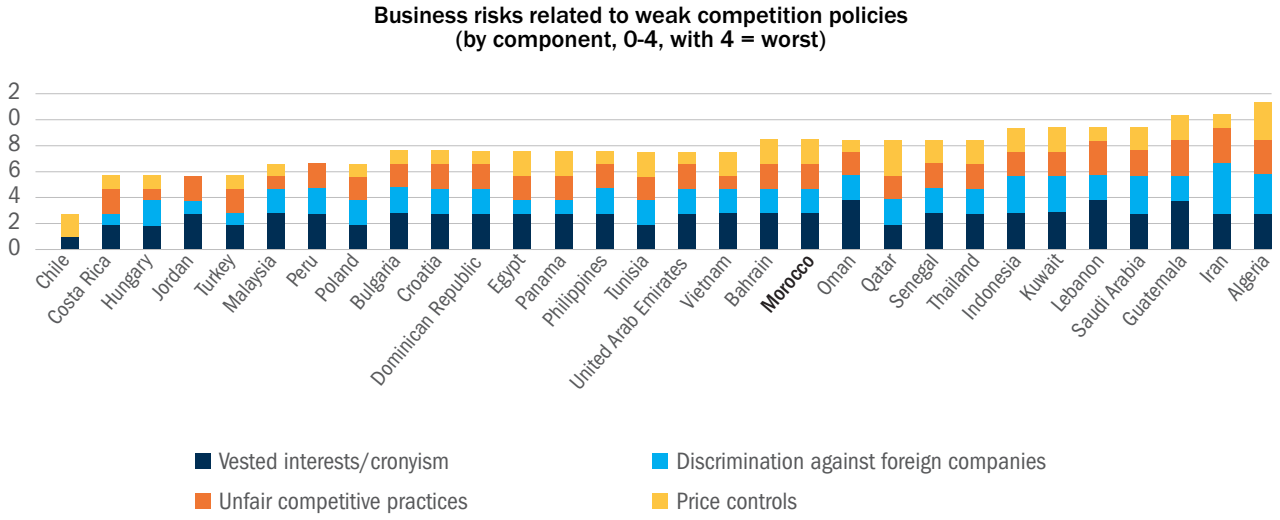


FIGURE 14 Business risks related to weak competition policies for MENA (EIU, 2018)

Note: The EIU Risk tracker is a perception indicator as reflected by the Economist Intelligence Unit.

Source: World Bank Group Markets and Competition Policy team on the Economist Intelligence Unit data, Risk Tracker, April 2018.

playing field. To this end, it is important to observe market outcomes such as price-cost margins (PCMs), often used as a proxy for firms' market power, that is, the ability of firms to raise prices above marginal costs.

A larger proportion of Moroccan firms appear to enjoy high markups when compared to regional peers.[28] Drawing from Enterprise Survey data[29] for Morocco in 2013, the Kernel density presented in Figure 16 shows the price-cost margin distribution function and provides an overall view of the degree of markup heterogeneity and/or dispersion across Moroccan firms. When comparing Morocco against MENA peers, Enterprise Survey data suggest that the share of firms charging high price-cost margins is larger in Morocco. As the figure shows, the right tail of the price-cost margin distributions is far thicker for Morocco than it is for Egypt and Tunisia, which may suggest that firms in Morocco face lower levels of competition intensity. [30] In fact, cross section regression results suggest that, on average, firms with similar characteristics (in terms of age, size, ownership and sector) tend to extract higher price-cost margins in Morocco than in Egypt and Tunisia (Figure 16 and Figure 17).[31]

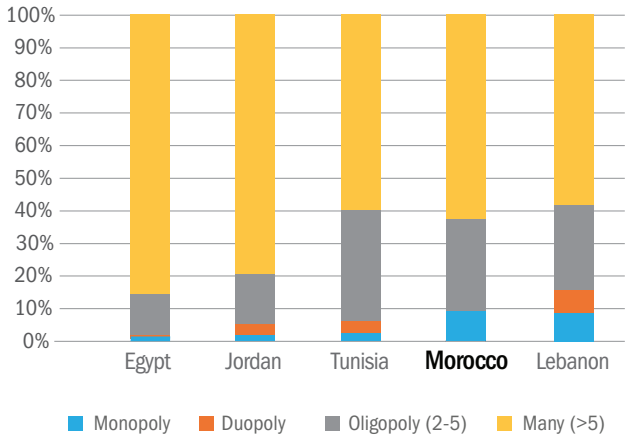


FIGURE 15 Market structure in manufacturing for selected MENA countries (EIU, 2018)

Source: WBG Markets and Competition Policy team calculation using World Bank's Enterprise Survey for relatively similar years indicated in parentheses.

Note: The shares reflect the percentage of establishments that answered "none", "1", "2-5" or "many" to the question "For fiscal year [indicated in parenthesis], for the main market in which this establishment sold its main product, how many competitors did this establishment's main product/product line face?", respectively. E.g., "None" was coded as "Monopoly".

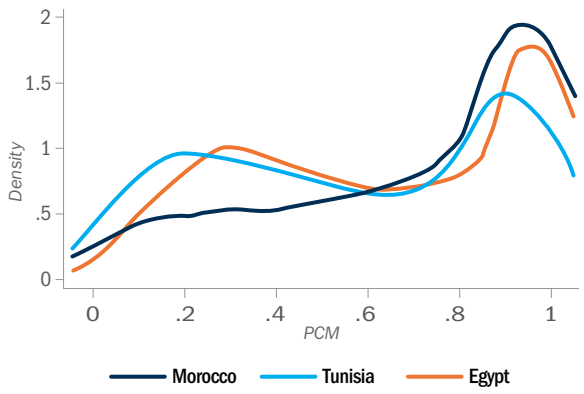


FIGURE 16 Price cost margin distributions of Moroccan, Tunisian and Egyptian firms: aggregate kernel density

Note: outlier in the [0, 1] interval winsorized

Source: World Bank Group Markets and Competition Policy team calculation using World Bank's Enterprise Survey.

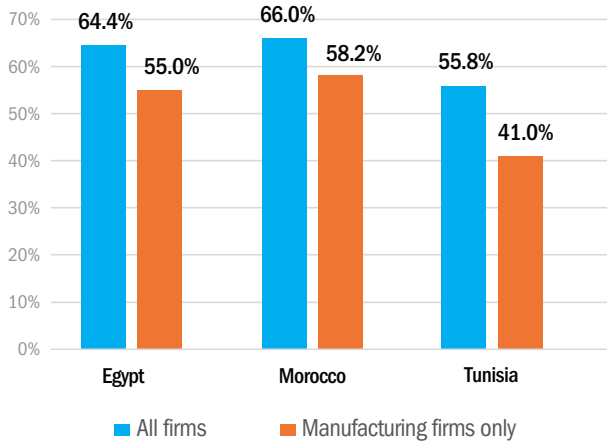


FIGURE 17 Predicted value of price cost margin for average firm: Morocco vs. Tunisia and Egypt

Limited competition in some Moroccan markets can stem from a combination of: (i) restrictive regulations or discretionary application of the regulatory framework that render entry and operation of new firms difficult; (ii) market distortions due to unequal treatment of certain operators; and (iii) ineffective competition policy enforcement. Addressing government regulations and practices that restrict market competition or weaken the enforcement of competition policies is necessary for markets to work better. The effective implementation of competition rules and related regulatory instruments such as the public procurement framework is equally important. To that end, coordinating policy efforts among public and private bodies to generate a competitive business environment and promote contestable and open markets, is vital to create incentives for entrepreneurship and increase pressures to innovate. Along these lines, Table 6 captures the key elements of an effective competition policy framework that go beyond the "traditional" notion of having a competition law in place.

First, regulations that appear to protect incumbents can distort markets, with critical spillovers over the entire economy, such as in inputs markets and network industries (Pillar I). Firms typically acquire many of their inputs—transport, energy, telecommunications and financial services—in local markets. If these upstream markets lack competition, goods and services needed for production are not priced competitively. This affects domestic consumers—households and firms—as well as foreign trade. Expensive inputs make exporting firms less competitive than their foreign rivals and economic growth may suffer. Strong pro-competition frameworks and fully empowered sector regulators not only enhance sector performance but have strong spillover effects across the whole economy.

- **In telecommunications,** while the regulator, *Agence national de réglementation des télécommunications* (ANRT), has taken several decisions to foster competition in the sector, including the sharing of mobile infrastructure and number portability, regulation remains incomplete and implementation has lagged. Despite the passage of ten years and several decisions, ANRT has not carried out the unbundling of the local loop (Figure 18-20).[32]

TABLE 6 A Comprehensive Competition Policy Framework

FOSTERING COMPETITION IN MARKETS		
PILLAR I: PROCOMPETITION REGULATIONS AND GOVERNMENT INTERVENTIONS: OPENING MARKETS AND REMOVING ANTICOMPETITIVE SECTORAL REGULATION	PILLAR II: COMPETITIVE NEUTRALITY AND NON-DISTORTIVE PUBLIC AID SUPPORT	PILLAR III: EFFECTIVE COMPETITION LAW AND ANTITRUST ENFORCEMENT
Reform policies and regulations that strengthen dominance: restrictions to the number of firms, statutory monopolies, bans towards private investment, lack of access regulation for essential facilities.	Control state aid to avoid favoritism and minimize distortions on competition	Tackle cartel agreements that raise the costs of key inputs and final products and reduce access to a broader variety of products
Eliminate government interventions that are conducive to collusive outcomes or increase the costs of competing: controls on prices and other market variables that increase business risk	Ensure competitive neutrality including vis-a vis SOEs	Prevent anticompetitive mergers
Reform government interventions that discriminate and harm competition on the merits: frameworks that distort the level playing field or grant high levels of discretion		Strengthen the general antitrust and institutional framework to combat anticompetitive conduct and abuse of dominance

Source: WBG-OECD (2016). Adapted from Kitzmuller M. and M. Licetti, "Competition Policy: Encouraging Thriving Markets for Development" Viewpoint Note Number 331, World Bank Group, August 2012.

» In **electricity,** the lack of structural separation among market segments (generation, distribution, and transmission) where ONEE is present and the absence of an independent regulator (Figure 19 have contributed to sustaining the dominant position of this public incumbent. Lack of structural or at least account separation allows ONEE to leverage its position in electricity transmission (a natural monopoly) over upstream and downstream market segments (generation and distribution/supply, respectively), and may make it more difficult for private operators to compete against ONEE in these segments. According to interviews, although the private sector entered the generation segment long ago via Independent Power Producers (IPPs)[33] and with three main producers accounting for 37 percent of installed generation capacity (World Bank, 2017b), smaller producers report difficulties in gaining access to ONEE's network. One reason for this is that third-party access to ONEE's transmission is negotiated rather than regulated (Figure 20). Regulated access would typically facilitate entry and reduce the potential for discretion and discrimination, thus fostering more competitive conditions for market operators. Moreover, the regulatory body tasked with overseeing the sector (*Autorite nationale de regulation de l'electricite*, ANRE), particularly with ensuring access and regulating tariffs, has not yet been created despite the passage of a law to this effect in 2016.[34] Today, access tariffs are established through an inter-ministerial commission that oversees the activities of the private providers and enforces regulation in case of conflict.

Price controls spanning a number of markets where competition is typically viable may further distort the incentives of private firms to participate in such markets and provide quality goods and services. While the general principle is that the market freely determines prices without government involvement, in practice many governments do regulate prices.[35] Setting prices administratively is among the regulatory

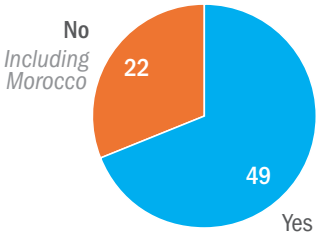


FIGURE 18 Is unbundling of the local loop required in telecommunications?

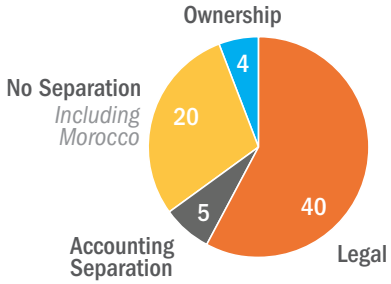


FIGURE 19 What is the nature of vertical separation from other segments of the industry? (Electricity transmission)

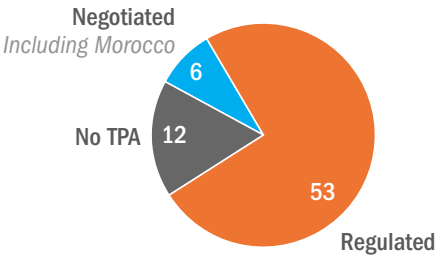


FIGURE 20 How are the terms and conditions of third-party access (TPA) to the electricity transmission grid determined?

Source: PMR preliminary data for Morocco, 2018, OECD and OECD—World Bank Group PMR data.

tools used to mimic competitive outcomes when market failures are present. Regulating prices in natural monopolies, for instance, is necessary, but in other markets price controls may reduce the ability to compete and can create focal points that facilitate collusion. In Morocco, regulation in retail remains in place for 12 products/services including the energy sector (electricity and butane gas), transport (urban/inter-urban), staples (drinking water, sugar, flour, pharmaceutical products, detergent, tobacco) and regulated professional services (notaries, medical and judicial services).[36] In addition, some of these price-controlled products, such as transport, sugar and flour remain heavily subsidized, resulting in further distortions of consumption patterns and an additional burden on public expenditures.

Second, the privileges enjoyed by some operators can make it hard for young firms to enter markets (Pillar II). Many of the country's lucrative industries remain in the hands of a few families, competing on an uneven playing field with smaller businesses that face high barriers to entry (Saadi, 2016). Economic activity is driven mostly by established firms rather than new ones (total revenues from large listed companies represent 31 percent of GDP), and mostly in a limited number of non-tradable sectors (construction, real estate, and commerce) with low potential in terms of creation of quality jobs and value-addition (World Bank, 2017). In addition, Moroccan SOEs deliver commercial goods and services, often in direct competition with private sector firms. Of the 29 sectors surveyed, 23 have at least one SOE, compared to an average of 15 in sample countries (Figure 21).[37] The existence of market failures (natural monopoly, public good characteristics, or externalities) may justify direct state participation in certain markets, notably in infrastructure sectors. In Morocco, however, over half of the sectors with SOE presence (12 out of 23) are non-infrastructure sectors. These are sectors that can typically be served by private operators, and include manufacturing (refined petroleum products, basic metals, fabricated metal products), wholesale trade, and restaurants and hotels (Table A3.2).

Where there is strong state participation in the economy, as in the case of Morocco, it is critical to safeguard competition by ensuring a level playing field for all market players, that is, competitive neutrality. According to the principle of competitive neutrality, all enterprises—public or private, domestic or foreign—should face the same set of rules to foster competition in the market.[38] The effective implementation of this principle is important in order to reduce the risk of crowding out private investment or inflicting heavy burdens on the state budget. In Morocco, however, regulatory gaps seem to affect all components of the competitive neutrality framework, (Table 7).[39]

1. *Streamlining the operation of government business:* there is no legal requirement nor systematic distinction between the commercial

TABLE 7 Competitive Neutrality framework

COMPETITIVE NEUTRALITY GAP ANALYSIS

The subsidiary anaysis: the role of the State in the economy

STREAMLINING THE OPERATIONAL FORM OF GOVERNMENT BUSINESS

- No legal requirement nor systemic separation between commercial and non-commercial activities of SOEs. Exceptionally, some SOEs identify "public service" obligations for which they get a compensation, i.e. RAM holds different accounting lines for unprofitable routes served on the basis of agreements with several regions in order to ensure connectivity

IDENTIFYING THE COSTS OF ANY GIVEN FUNCTION

- Absent structural/ accounting separation between commercial and non-commercial sectors, SOEs can use the revenues/subsidies to cross-subsidize commercial activities where SOE face private competition

ACHIEVING A COMMERCIAL RATE OF RETURN

- SOEs are not systematically required to achieve a commercial rate of return
- Contract programs, negotiated on a case by case basis, require a positive Net Present Value (NPV), but their transactions are not generally benchmarked against comparators carried by private operators

ACCOUNTING FOR PUBLIC SERVICE OBLIGATIONS

- Potential overcompensation for public service obligation

Firm-level principles: Separation of SOE commercial and non-commercial activities

REGULATORY NEUTRALITY

- Potential benefit of SOEs from regulatory procurement framework
- Sectoral laws might offer protection to SOEs fulfilling particular public services, especially in network industries, i.e. in the case of ONE or CDG

PUBLIC PROCUREMENT

- SOEs' purchase of assets, goods and services are not systematically carried out through open and transparent tender procedures a these are not generally submitted to the pubic procurement law

TAX NEUTRALITY

- Although SOEs are subject to VAT, some of them are not subject to corporate tax and may enjoy parafiscal tax revenues instituted for their benefit
- SOEs do not seem to have access to preferential rates on loans extended by State-Owned Banks. However, the majority of their debt is guaranteed by the State

DEBT NEUTRALITY AND OUTRIGHT SUBSIDIES

- Systematic grant of subsidies from the State budget to SOEs, either for investments or operations
- Some SOEs benefit from parafiscal tax revenues instituted for their benefit. These taxes are intended to finance, in part, specific support and certain training, promotion or prevention activities
- No framework in pace to control how state aid/ public support measures are granted and what may be their impact on competition

Principles embedded in cross-cutting regulatory frameworks and sectoral policies

Control of state support measures to SOEs and private operators

Level playing fied in the market between SOEs and privately owned operators

Source: World Bank Group Markets and Competition Policy Team elaboration; OECD (2012).

and non-commercial activities of SOEs; where distinction exists, it is an exception and not the rule.[40]

2. *Identifying the costs of commercial and non-commercial activity:* In the absence of structural or accounting separation between commercial and non-commercial activities, SOEs can use the revenues from non-commercial activities to cross-subsidize commercial activities where they face private competition.[41]
3. *Achieving a commercial rate of return:* The law does not systematically require SOEs to achieve a commercial rate of return and their transactions are not generally benchmarked against those of private operators.[42]
4. *Tax neutrality:* Although SOEs are subject to VAT, some are exempt from corporate taxes and may enjoy parafiscal tax revenues instituted for their benefit;[43] the state guarantees the majority of SOE external debt.[44]

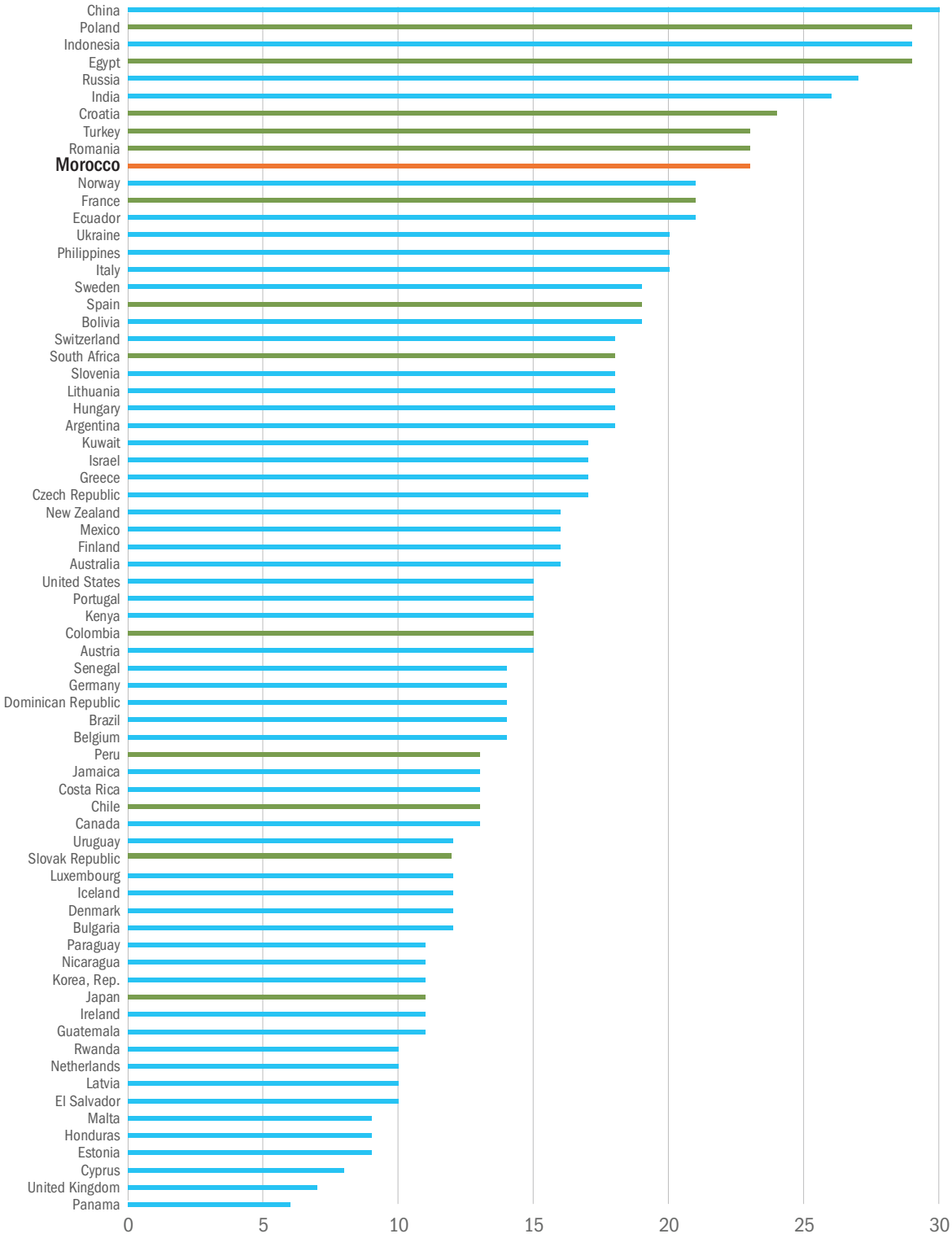


FIGURE 21 Number of sectors/subsectors with SOE presence across countries in the PMR dataset

Source: Product Market Regulations (PMR) questionnaire filled on selected aspects for Morocco by the WBG, OECD Product Market Regulation database, and OECD-World Bank Group Product Market Regulation database for non-OECD countries

Note: in green comparators for Morocco typically used in other WBG publications

5. *Debt neutrality and outright subsidies:* The budget systematically grants subsidies to SOEs, for investment and operational spending. Some SOEs also benefit from parafiscal tax revenues; there is no framework to control how such state aid and public support measures are granted, or to assess their impact on competition.
6. *Regulatory neutrality:* SOEs benefit from regulatory privileges such as exclusions from the public procurement framework.[45] Also, sectoral laws may offer protection to those SOEs fulfilling particular public services, especially in network industries, as is the case for ONEE.

Third, stronger institutional frameworks are essential to implementing the constitutional and other legal and regulatory provisions that sustain free competition in Morocco (Pillar III). The 2011 Constitution protects both the right to competitive markets (Articles 35 and 36), and the role of the Competition Council as an independent institution (Article 166), while the obligation for SOEs and operators in regulated markets to behave pro-competitively is embedded in numerous laws. In some importance instances, however, the institutions tasked with implementing these obligations have yet to be created, as in the case of the electricity regulator (ANRE); they were inoperative, as in the case of the Competition Council until recently; or they are weakly positioned to enforce their competition mandate, as in the case of the telecommunications regulator (ANRT) and the Directorate of Public Enterprises and Privatization (DEPP).

While a lack of implementation constitutes the most critical problem, some aspects of the Competition Law also raise concerns in terms of competition.

- The scope of potential exemptions risks undermining the effectiveness of the Law. While typically only agreements that do not hinder competition may benefit from exemptions when their overall benefits outweigh their negative impact on the market, the Competition Law also allows exemption of practices that constitute an abuse of dominance. These exemptions may be based on an analysis of their market impact but can also be simply approved through any other law or regulation (Article 9).
- Due to lack of implementation of the Competition Law and the interim arrangements put in its place, merger control has the potential to be highly politized and unnecessarily costly for the private sector. While the Competition Council was non-operational between 2014 and 2018, the approval of mergers that may have anticompetitive market impact was provided by the Office of the Prime Minister. This opens the door for non-technical factors and political interests to influence the review and requires the merging parties to incur significant costs (fees, legal advice, and other requirements associated with merger notification), even though no competition assessment nor potential remedies to limit the negative impact to competition are being proposed.
- The Law allows businesses ample latitude to apply price controls; this undermines the general principle of freedom of prices. Price controls include not only those established by decree — which can cover virtually any product or service (Articles 2 and 3), but also those requested by business or professional associations (Article 5). This could result in the approval of de facto price-fixing agreements.

The Competition Council (CC) assumes a crucial role in ensuring that markets work fairly and efficiently. In November 2018, His Majesty the King appointed a new president to the Competition Council, as well as new members. One of the key contributions of the CC will be to assess the validity of allegations against companies. Recently, for instance, the government requested an opinion from the competition regulator to respond to calls to limit the profit margins of fuel distribution companies. In response, the CC recommended, in February 2019, that the Government refrain from capping fuel prices and advised the undertaking of more structural reforms in the sector in the best interest of consumers and the overall economy.

The transparent, technical and impartial work of the CC will be key to restore consumer trust in a number of markets in Morocco. Social discontent and opinions about perceived high prices of certain products have been aired through various channels, but further analysis is needed to fully understand if competition has been thwarted or if there are other

explanatory factors.

B. CHANNELING DOMESTIC CAPITAL TOWARD TRADABLE PRODUCTIVE SECTORS

Government policy to boost investment and job creation in productive sectors has mainly relied on FDI and large investors, paying relatively less attention to the upgrade of existing SMEs. While this strategy has been successful in attracting FDI, domestic private capital has largely chosen to either participate in high rent, non-tradable sectors—that is, the case of "connected" firms (Saadi 2016)—or has had to struggle to compete, often at a disadvantage, in the productive tradable sectors. The policy bias toward large investors and FDI occurs via a number of avenues, including: (a) offering most incentives to new investments, particularly those located in free zones, as opposed to incumbent suppliers outside the zones; (b) focusing the majority of services provided by the *Agence Marocaine de Developpement des Investissements et des Exportations* (AMDIE) toward relatively large investments; and (c) policies that protect domestic markets, enabling investors to receive high returns in non-tradable sectors.

Until recently, the government granted preferential treatment to exporting firms, whether national or foreign, located within free zones; this is likely to have undermined the incentives for existing firms outside the zones to become exporters or to increase their exports. While free zones may help to attract new investments and to develop clusters, the dependence of incentives on firm location inside free zones has created a bias toward newly established firms. Free zones allow investors who export at least 70 percent of their production to benefit from more flexible procedures and a variety of fiscal, social and economic benefits. These include: (a) exemption from corporate tax for the first five years, followed by a fixed rate of 8.75 percent for the next 20 years (versus a regular corporate tax rate of 31 percent); (b) exemption from professional and urban taxes for 15 years; (c) exemption from VAT; (d) free repatriation of profits and capital; and (e) special customs procedures and free movement of goods. Existing companies exporting more than 70 percent of their production but located outside the zones do not benefit from most of these generous incentives. Existing firms do not consider moving to a free zone to be a realistic option: when a firm is considering an extension or a new investment locating close to existing facilities is often more attractive than moving. Firms are also hesitant to move to free zones to forego taxes due to uncertainty regarding the tax administration's reaction. This helps to explain, at least partially, why a limited number of existing SMEs have joined clusters such as the automotive one. (See Box 1 for two success stories.)

More SMEs may join the cluster in response to the new draft Charte de l'Investissement that aims to broaden the beneficiaries of export incentives to exporters outside free zones, and particularly to "indirect exporters"—the suppliers of free-zone exporting firms. These suppliers would be eligible for corporate tax exemption for the first five years after which the corporate tax rate would be fixed at 17.5 percent. A draft decree also aims to subsidize the logistics costs of exporting firms located outside the zones and needing to expedite their shipments through one of the main ports. The government can support those SMEs that could potentially integrate existing industry clusters by adopting a more proactive approach that targets them (in the same way that international suppliers are being targeted) and facilitating their integration.

Large, new investors in strategic sectors enjoy additional special benefits and treatment not available to smaller investors. Tailored negotiations with AMDIE are available for large investments (minimum MAD 100 million, or $10 million, or those that create 250 jobs or more), where the two parties sign an agreement describing the commitments of each. The private investor may commit to the volume invested, the level of production and exports, job creation, or training centers, while AMDIE provides incentives (such as access to land, or fiscal incentives), impact analyses, or access to financing. AMDIE also usually facilitates bureaucratic procedures and helps to resolve problems that the investor may face. Most beneficiaries of AMDI have been foreign firms. Another scheme used by the government to support new investments and expansions is the Hassan II Fund for Economic and Social Development (FHII).[46] New investment projects that comply with several requirements

BOX 1 Two success stories in the automotive industry

Tuyauto is a family-owned SME that has been operating in the automotive sector in Casablanca since 1960, initially specializing in the manufacture of exhaust pipes for the domestic market, including spare parts. It has managed to successfully diversify its production by branching out into aluminum stamping for automobile exports in 2011. The arrival of Renault unlocked new opportunities for the company when it won a contract for labor-intensive stamping. Tuyauto has invested in new machinery supported by a 20 percent investment subsidy from the Maroc PME Imtiaz program. The investment allowed the firm to increase turnover and grow jobs by 50 percent, from 120 to 180. Tuyauto's growth outlook is uncertain, however, for two main reasons. First, demand for its product is today heavily dependent on orders from Renault; this dependence makes investing expanding capacity by investing in more machines a risky proposition. Moreover, Tuyauto's production is specialized for one car model with a model lifetime of five years. Beyond Renault, there are no other major buyers in local market today; PSA (Peugeot-Nissan) has an established relationship with another supplier, Florecia, and is unlikely to shift to another. The entry of more car manufacturers would make the investment in capacity more financially viable. Second, Tuyauto, which is not physically based in Renault's cluster or in an industrial zone, is at a disadvantage compared to firms located in these zones. The exporters in free zones receive fiscal incentives for more than five years and are geographically better positioned with more competitive logistics.

Dolidol is a leader in the manufacture of foam for the furniture and bedding industry in Morocco and has successfully supplied the automotive industry since 2008. Established in 1970, Dolidol is part of the diversified Berrada Group (Groupe Palmeraie). After Renault expanded its activities in Morocco, Dolidol seized the opportunity to invest in a new niche, producing felt for the automotive industry. The share of the automotive sector in the company's production increased to 5 percent in 2017, and the objective is to reach 40 percent. Dolidol has benefitted from some advantages relative to competitors: it has been able to invest in a new plant on land owned by the Group, in the suburbs of Casablanca; it also has its own logistics capacity with a fleet of more than 100 trucks. Moreover, the Group's financial resources were critical as they enabled it to undertake the initial investment and allowed it to sustain a loss during the first two years. Dolidol is expanding its activities through a joint venture concluded in 2017 with the Spanish car supplier Jobelsa to export locally manufactured automotive seating trim covers.

Source: Interviews of the companies' managers conducted by authors.

(investment in excess of MAD 10 million with capital goods investment larger than MAD 5 million and operating in strategic sectors[47]) can benefit from FHII funds. In addition, eligible FHII investors receive financial contributions for the cost of leasing or buying land, constructing or renting buildings, and purchasing equipment.

Moroccan SMEs also benefit from targeted funds and instruments, although these are not as encompassing or generous as those in place for large investors. Maroc PME is the main public agency working with micro, small and medium-sized firms, start-ups and auto-entrepreneurs, and with SMEs that seek to upgrade and export. It has various programs that include technical support, and investment bonuses to firms seeking to invest in activities that create jobs or high value addition. The IMTIAZ/ISTITMAR programs, for instance, provide a 20 percent investment bonus of up to MAD 5–10 million to selected SMEs Maroc Export, now absorbed in AMDIE, has been supporting business facilitation for exporting firms in several sectors. Other incentives support technological investment or investment in new information systems for firms with revenues below MAD 200 million. While numerous programs and support mechanisms for SMEs are in place, they are generally small in scale and budget as compared to incentives for larger projects. Other

critical benefits, such as access to land, are usually not part of the assistance provided to SMEs.

Fiscal policy has tended to encourage domestic private capital to flock to high rent, non-tradable sectors rather than to more competitive tradable areas. The concentration of domestic capital in sectors such as real estate is a likely explanation for the puzzlingly low impact of Morocco's high level of investment on growth and employment, given the limited effect of such a non-tradable sector on labor productivity and the creation of stable jobs.[48] In an attempt to tackle the housing deficit over the last decade the real estate sector has been one of the main beneficiaries of tax exemptions that channel rents to specific groups (along with agriculture[49], Figure 22). It accounts for 20 percent of the total amount of foregone taxes (taxes that the government would have raised in the absence of exemptions).[50] More broadly, the IMF has argued that an increase in real estate taxes, combined with a reduction in corporate taxes and tax exemptions, would boost government revenues and output. Lower corporate tax rates would increase investment, while lower exemptions and corporate tax rates would induce substitution effects from food consumption toward the consumption of manufacturing goods. Higher property tax rates would induce beneficial substitution in asset accumulation, encouraging lower real estate, but higher capital, accumulation, and thus increased manufacturing production.[51] The government and the tax administration have begun to tackle some of these challenges and tax expenditures have become increasingly transparent and subject to evaluation. Besides exemptions, real estate and construction benefit from ample financing from the banking system relative to manufacturing, agriculture and other sectors.

Despite concerted government efforts to facilitate trade, a protected domestic market, particularly for consumer goods, undermines the attractiveness of exporting and creates incentives for informal trade. Import tariffs have remained relatively high, at an average of about 12 percent (Figure 23), especially for consumer goods, and are at 25 percent for more than 1,500 products, including construction materials, and many clothing and footwear items. Import tariffs on some agri-food items such as beverages, yogurt, couscous, ice cream and tomato sauce and ketchup, are as high as 45 to 50 percent. This keeps some domestic firms protected and profitable in the domestic market, reducing their incentive to upgrade and to export. Meanwhile, high import tariffs on selected consumer goods also encourage informal trade, in turn deterring formal firms from entering the market.[52]

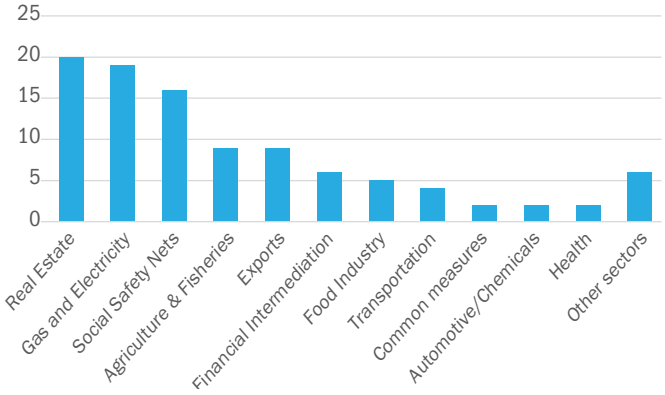


FIGURE 22 Tax expenditures by sector, 2018

Source: Ministry of Economy and Finance, 2018. Project de Loi de Finances, 2019. Rapport sur les Dépenses Fiscales.

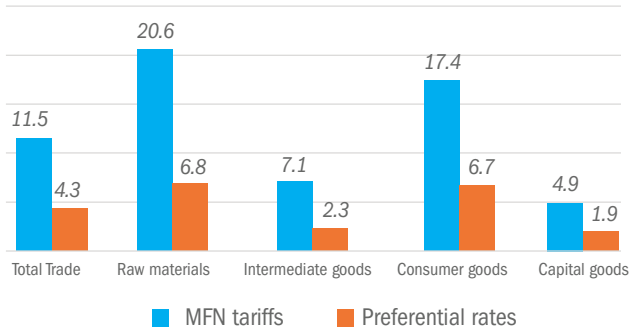


FIGURE 23 Import tariffs in Morocco, 2016

Source: Authors with UN Comtrade data.

C. RECOMMENDATIONS

Foster effective implementation of the regulatory framework for competition to:

- Limit exemptions from the application of the Competition Law, notably for potential abuses of dominance and non-transitory price controls.
- Establish a technical instance to prevent the anticompetitive impact of mergers.

To enhance Competitive Neutrality, avoid market distortions, and level the playing field between public and private operators:

- Establish a definition for commercial/non-commercial (public service) activities of SOEs
- Limit sector-specific regulatory privileges to SOEs
- Perform a subsidiarity analysis on commercial activities of (new/existing) SOEs
- Limit exceptions to the application of program contracts to SOEs
- Eliminate corporate tax differences between SOEs and private operators
- Require all sales and purchases of assets, goods and services to be carried out through an open and transparent tender procedure

To encourage the participation of domestic firms in international value chains:

- Extend incentives to all exporters, direct or indirect, who fulfil certain criteria (for example, exporting 70 percent of production); location in a free zone should not be the determinant—all exporting firms, particularly domestic suppliers to exporting firms, should receive the same incentives.
- Map potential existing SMEs that could become suppliers in the various clusters, in particular in the expanding automotive sector.
- Reduce import tariffs (Most Favored Nation, or MFN) on consumer goods to mitigate informal trade and cross-border smuggling. ■

IV. Entrepreneurship and SME Development

Global experience shows that entrepreneurship stimulates job creation in the economy, as most new jobs are created by young firms, typically those three to five years old *(Haltiwanger and al 2012)*. Empirical analyses on OECD firms indicate that younger firms are consistently more dynamic than older firms and this holds across all size classes, not just amongst smaller firms. New and young firms also contribute to economic dynamism by injecting competition into markets and spurring innovation. On average, while firms five years old or younger account for only 21 percent of total employment, they are responsible for 47 percent of jobs creation. The aggregate figure, however, masks a fair degree of heterogeneity: it is only a tiny fraction of start-ups (on average 4 percent of all micro start-ups) that substantially contribute to job creation, while the majority either fail in the first years of activity, or remain very small. The higher exit rate seems to be due to experimentation and learning in the first few years of activity (OECD 2016). In Morocco, 37 percent of firms in the national registry (OMPIC) are less than five years old as of August 2018. More data needs to be collected, though, to find out about the survival rate and their contribution to job creation. Moreover, Moroccan SMEs account for more than 95 percent of the total number of operating enterprises and are estimated to contribute to over 20 percent to GDP and over 30 percent of exports and create a substantial portion of informal jobs (Bank Al-Maghrib).

A variety of entrepreneurship ecosystem factors contribute to individuals' willingness to engage in entrepreneurial activity. According to the 2017–18 Global Entrepreneurship Monitor, Morocco is among seven countries that need to tackle one-third to more than one-half of the 12 entrepreneurial framework conditions.[53] These conditions include, first and foremost, the level of competition and entry in new markets into the economy (discussed in Chapter III), human capital (see deep dives on tertiary education and vocational training), the internationalization of firms, cultural support, start-up skills, and risk capital. According to the 2018 Morocco GEM, the three priority areas to boost the Moroccan entrepreneurial ecosystem are the educational and training systems, access to finance (credit and capital) and financial literacy, and mentoring, networking and other support to entrepreneurs. The report also identifies the risk of failure as an inhibitor for more than half of all respondents in 2017, up from 33 percent in 2016.

While Morocco has achieved great progress on its Doing Business, moving up 9 spots in the 2019 Doing Business reaching the 60th spot and reflecting many years of sustained reforms, this section discusses constraints that need to be addressed to foster an entrepreneurial culture, increase the number of entrants in the economy and support SME development. The issues range from how to bolster the acquisition of new skills needed and to tap into existing talents, to improving access to finance at critical stages of development as well as access to land. It also discusses how public procurement and the digital economy can be vehicles to support SME development. These areas build on the previous chapter that highlighted the need to level the playing field among players. Entrants are much more exposed to policy weaknesses than incumbents. For example, the impact of poor policy on the growth dynamics of start-ups is much stronger for entrants than it is for incumbents: resolving payment delays, ensuring timely bankruptcy procedures, strong contract enforcement, and civil justice efficiency are key to establishing a dynamic start-up environment.

A. FOSTERING ENTREPRENEURIAL TALENT AND CULTURE

The typical Moroccan entrepreneur is less educated than global benchmarks. A typical Moroccan entrepreneur is 25–34 years old (35–44 for established entrepreneurs), has completed high school, and lives in a household earning less than MAD 40,000. This is strikingly different from the typical international entrepreneur who is also 25–34 years old (45–54 for established entrepreneurs) but has a university degree and comes from a financially healthy household. Forty-two percent of young Moroccans between 18–29 years old claim a strong intention to become entrepreneurs,[54] reflecting the reality that for many young Moroccans entrepreneurship is an alternative to a paid job in an environment of limited job creation and relatively high education requirements.

Investing in human capital is critical to expanding the pool of potential entrepreneurs in Morocco. Morocco has considerable human assets, with 5.7 million (17 percent) young people between 15–24 years old[55] who offer a large potential workforce for the entrepreneurial scene. This is the age bracket that suffers the most from unemployment, posting the highest, and rising, unemployment rate in Morocco at 22 percent in 2016, up from 17 percent in 2010. Only a small fraction of these young people enrolls in tertiary education and, despite improvements, Moroccan students still lag in various education standardized assessments. Out of 56 countries participating in TIMSS (Trends in International Mathematics and Science Study, covering middle and primary students), Morocco ranks among the bottom three in both mathematics and science. There is no systematic tracking survey of university graduates. Moreover, Morocco is ranked 53rd out of 54 economies when it comes to entrepreneurship training in primary and secondary education, and 48th out of 54 in entrepreneurial education at the post-school stage (GEM 2018).

Morocco's businesses have scope to become more innovative and reap the benefits of their pool of talents, including among the diaspora. Moroccan residents filed only 213 patents between 2007 and 2012, or fewer than 10 patents per million inhabitants; businesses filed barely 50 of these. In contrast, Brazil filed 24 patents per million inhabitants, Turkey 65 patents, Poland 124, and China filed 400 patents per million inhabitants. Moroccans living abroad filed almost three time more patents, or 617 (Figure 24). In addition, unlike several other emerging countries, new Moroccan entrepreneurs are increasingly positioning themselves in markets where many firms are already offering related products or services. As a result, entrepreneurship is not making a substantial contribution to innovation (GEM 2015).[56] The challenge in the future will be to channel more talented workers into entrepreneurship and the most productive jobs. The CGEM recognizes the potential contribution of the diaspora and has developed a platform, "Marocains Entrepreneurs du Monde," to facilitate investment in the country by Moroccans living abroad and build a bridge between them and the local private sector ecosystem.

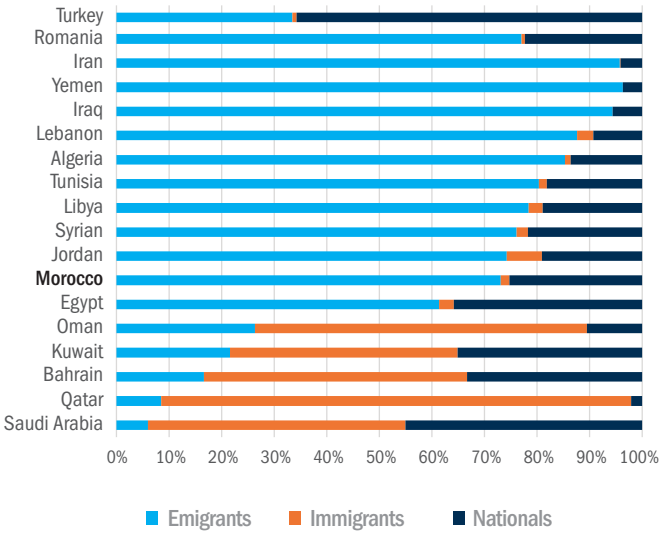


FIGURE 24 Proportion of patents registered by emigrants, immigrants and nationals

Source: Data from the World Intellectual Property Organization

Public wages are relatively high in Morocco and may be more attractive than entrepreneurship for the highly educated Moroccans, including those who study abroad and return home. An analysis using big data from the online professional directory LinkedIn shows that Morocco stands in stark contrast to a global trend: when the "best Moroccans of their generation" come home, particularly engineers, they almost always avoid the education, engineering, and research sectors.

The most talented Moroccan engineers hardly ever work in engineering. Instead, most of them seek jobs in management, administration, and finance (World Bank 2017). In contrast, when young graduates of leading international universities from most emerging countries, such as Turkey, Malaysia, and Brazil, come home, the majority work in education and research, in engineering, or as entrepreneurs. In Morocco, large corporations or government agencies and enterprises offer far better salaries and benefits than teaching or research, and without the risks inherent in entrepreneurship. Average public wages in Morocco are almost as high as those in the Gulf Cooperation Council (GCC), about 2–3 times higher than average private sector wages, not including the substantial nonwage benefits received by most public sector employees, such as various allowances, retirement benefits, and job security. This public-private wage gap is higher than in Tunisia or Algeria, while in Egypt and Jordan, workers in the private sector are on average better paid than those of the public sector. The public wage in Morocco is also high when compared to its level of development: it is 3.2 times the GDP per capita, in comparison with 2.5 times, on average, in MENA countries, and 1.5 times globally (IMF 2018, Banque Al Maghrib 2018).

Entrepreneurs, and more broadly, formal jobs, increasingly require advanced cognitive skills, necessitating important skills re-adjustments. These will need to take place outside compulsory education (and formal jobs) and be tailored to adult brains that learn differently (WDR 2018). Demand is rising for transferable higher-order cognitive skills like logic, critical thinking, complex problem solving and reasoning. Socio-emotional skills are also crucial for entrepreneurs. They include the ability to recognize and manage emotions, develop caring for others and establish positive relationships. For most children across the world, these skill-foundations are formed through primary and secondary education. Yet, the 2018 WDR argues that the foundational skill acquisition that one would expect to happen in schools is not taking place in many low- and middle-income countries. Three types of skills investments have the potential for big pay-offs in the changing nature of work: early childhood investments, tertiary education,

BOX 2 Innovation centers

There are well-known examples of successful university innovation clusters in the developed world—Stanford University (Silicon Valley) and Harvard-MIT (Boston's Route 128) in the United States, Cambridge-Oxford ("Golden Triangle") in the United Kingdom. Clusters are also emerging in middle income countries. The University of Malaya has established eight interdisciplinary research clusters during the past decade, covering sustainability science and biotechnology. Peking University is building Clinical Medicine Plus X, a research cluster for precision medicine, health big data, and intelligence medicine. As part of the Startup India initiative, seven new research parks located in different Indian Institute of Technology campuses are established to promote innovation through incubation and collaboration between universities and private sector firms. In Mexico, the Research and Technology Innovation Park currently houses more than 30 research centers covering R&D in biotechnology, nanotechnology, robotics, seven of which are led by universities.

Two main factors matter for a healthy innovation ecosystem. First, prioritize the right university for the right sector. The agglomeration effects of universities vary by sector. University R&D has been shown to be irrelevant for sectors such as furniture. Second, a healthy innovation ecosystem requires an enabling environment. Just because successful innovation clusters exist does not mean that there is a guaranteed formula for their creation. However, governments are often responsible for creating the enabling environment in which innovation clusters flourish—by providing necessary local infrastructure, increasing expenditure on R&D, assisting universities to attract high-quality researchers and connect with private sector innovation, and easing rigid labor market regulations.

Source: World Development Report, 2018.

and adult learning outside jobs.

While the most effective way to acquire the skills demanded is to start early, there are programs that can help adults acquire these skills (WDR 2018)—see Box 2.

- An additional year of general education was added in 2012 to undergraduate programs in Hong Kong SAR, China—focusing on problem solving, critical thinking, communication, leadership, and lifelong learning skills.
- Dutch Vocational Colleges provide entrepreneurial courses with the objective of improving non-cognitive skills such as teamwork and self-confidence.
- In Tunisia, introducing an entrepreneurship track that combines business training with personal coaching reshaped behavioral skills of university students.
- For a group of businesswomen in Sri Lanka a grant-plus-training approach enhanced business profitability, while a training-only approach did not influence business profits, sales or capital stock.

Strengthening the entrepreneurship ecosystem may help to channel more people toward starting their own businesses as entrepreneurs of choice (versus forced entrepreneurs). The entrepreneurship ecosystem is still nascent in Morocco, with limited coverage outside Casablanca, and suffers gaps in capability and depth (Figure 25). Successful entrepreneurial ventures thrive within ecosystems where they can obtain specialized technical assistance, have access to experienced advice and mentoring (both local and global), have options for obtaining equity finance, draw on pools of high quality potential team members, have links to potential clients, and are surrounded by networks of peers and role models within a supportive culture.

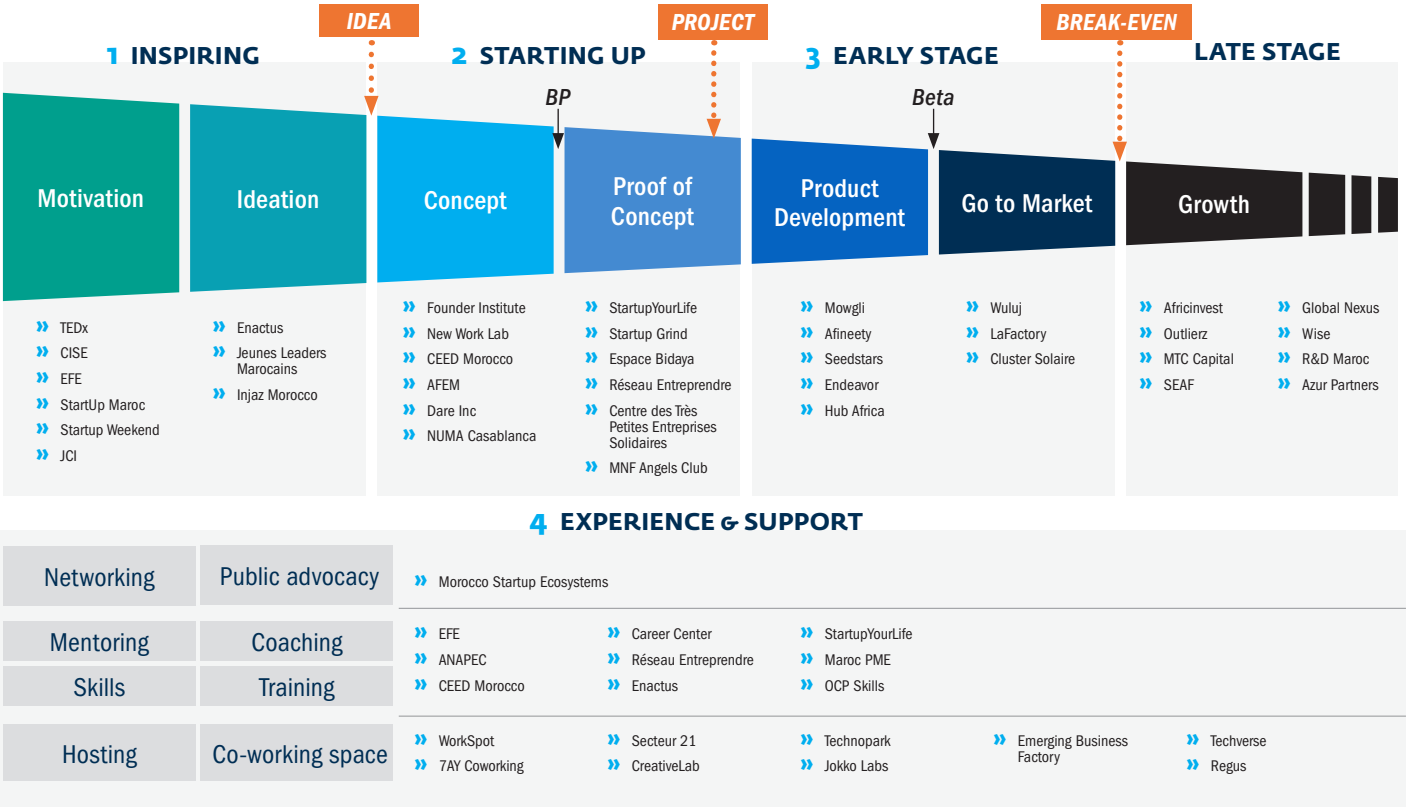


FIGURE 25 Start-up ecosystem in Morocco

Source: IFC, June 2018.

Encouragingly, an ecosystem diagnostic of Morocco found that incubators and accelerators provided support to a growing number of early-stage start-ups, although there were very few public or private support mechanisms to help them scale up later in their journeys.[57] In Morocco, there are 16 identified support entities, of which 13 were formed after 2011 and eight since 2014. There are three accelerators, all launched in since 2015. Geographically, Casablanca accounts for half of the support entities identified, while Marrakesh and Rabat host three. Most offer advisory support in varying degrees. For instance, Mowgli, a United Kingdom-based entity that trains mentors and matches them with entrepreneurs, started a program in 2011, funded by the U.K. Department for International Development. The Morocco Enterprise Network/ Réseau Entreprendre Maroc (REM) also matches entrepreneurs with mentors and provides them with pre-seed soft loans. The Center for Entrepreneurship and Executive Development, established in 2013, offers comprehensive advisory support through the various stages of business development and growth. The Casablanca Technology Park offers office space and access to multiple services for start-up companies. A tech park was recently launched in Rabat and one will soon be launched in Marrakesh.

Developing the entrepreneurial culture through mentoring and networking initiatives is key, including for women. The government and the private sector can work together to raise awareness regarding the benefits of entrepreneurship and to build an entrepreneurial culture. Furthermore, to foster female entrepreneurship, governments should support a cultural transformation process to encourage more women-owned businesses by eliminating gender-biased legal and regulatory restrictions and offering women-focused support programs for joining or starting entrepreneurial initiatives.[58] Nonetheless, top-down attempts to "construct" ecosystems are not usually effective. The most effective ecosystems develop organically, with government playing an enabling role alongside private sector and community networks. Entrepreneurs thrive within this type of ecosystem, which includes not only hard infrastructure and a diverse supply of smart capital, but also networks of mentors, experts, and acceleration service providers. A recent promising platform, Womenpreneur,[59] setup by a young Moroccan woman entrepreneur in 2016, provides such a convening space to create a large supportive community that provides resources and opportunities to network and develop skills.

An extensive review of the programs indicates that entrepreneurship programs, and more generally adult-learning programs, often improve business knowledge but do not create employment (WDR 2018). Even among successful adult learning programs, costs are high. The Chilean Micro Entrepreneurship Support Program boosted self-employment by 15 percentage points in the short run, but it is not clear how much of this is due to the 60-hour business training or the $600 capital injection. There are two main reasons for low effectiveness: suboptimal design and incorrect diagnosis of the causes of start-up failure. In some cases, the binding constraint might be lack of information or lack of credit—not lack of skills.

B. IMPROVING ACCESS TO FINANCE, FINANCIAL INCLUSION, AND INTER-FIRM CREDIT

The main sources of funds for Moroccan firms are bank finance, shareholder funds, and inter-firm trade credit. Although the country has made considerable progress in financial inclusion during the last few decades, SMEs continue to face considerable challenges in their access to all three types of funding.

1. Deepening access to finance

Morocco has made important progress in financial inclusion over the past decade, and the financial sector has emerged as one of the most developed and inclusive in MENA region. Private credit to GDP (73 percent) and household credit to GDP (31 percent) are above income group averages, and the share of SMEs with a loan or line of credit has doubled since 2007. The IMF finds that Morocco ranks second-highest in the MENA, Caucasus and Central Asia for financial inclusion of SMEs (IMF, 2019). A competitive and inclusive financial sector can help address the lack of quality employment opportunities, particularly through productive SMEs by spurring economic opportunity through allocating savings to productive activities.

The financial sector also plays a pivotal role in raising the standards of living of households by creating opportunities to better allocate their savings over time, giving them access to basic needs such as housing or education at an affordable cost.

Nevertheless, challenges remain that constrain SME growth and entrepreneurship, hampering productivity growth and operational expansion. Nine out of ten SMEs in Morocco are very small enterprises (VSE). Only three percent of Moroccans report saving to start or expand a business. The Global Findex database 2017 shows that only 29 percent of Moroccan adults have access to a formal transaction account. This percentage is similar to Egypt (33 percent) but lower than Tunisia (37 percent), the overall MENA region (44 percent) and lower middle-income countries (58 percent).[60] Fewer Moroccans save at a financial institution—just 7 percent of the 5,110 surveyed Moroccans, against 20 percent in Tunisia and 36 percent in Malaysia (Figure 26). The main sources of financing for early stage companies are family members, and friends or colleagues at work (45 percent), followed by banks and financial institutions (17 percent), and state programs and grants (8 percent).[61] For SMEs as a whole (not only start-ups), about one-third rely on banks to finance their investments. As happens in many countries, the pattern is similar for the financing of working capital where important parts of SME segments remain underserved: small firms, new firms, female-owned, and innovative firms are less likely to get financing due to higher risks and/or costs. But even well-established SMEs have challenges to sustain and attract new external financing, challenges which are exacerbated by difficulties in the use, registration and enforcement of collateral (World Bank, 2016d). The proportion of loans requiring collateral and the amount of collateral needed per loan has only marginally decreased since 2007, which may partially explain the comparatively high share of firms which consider access to financing to be a major constraint.[62] Moreover, the increase in account ownership since 2011 has not benefited all groups equally. Large segments of the Moroccan population remain financially excluded and are disproportionately female, poor, and living in rural areas. The high collateral demanded for loans places women at a further disadvantage given their lower land ownership rates.

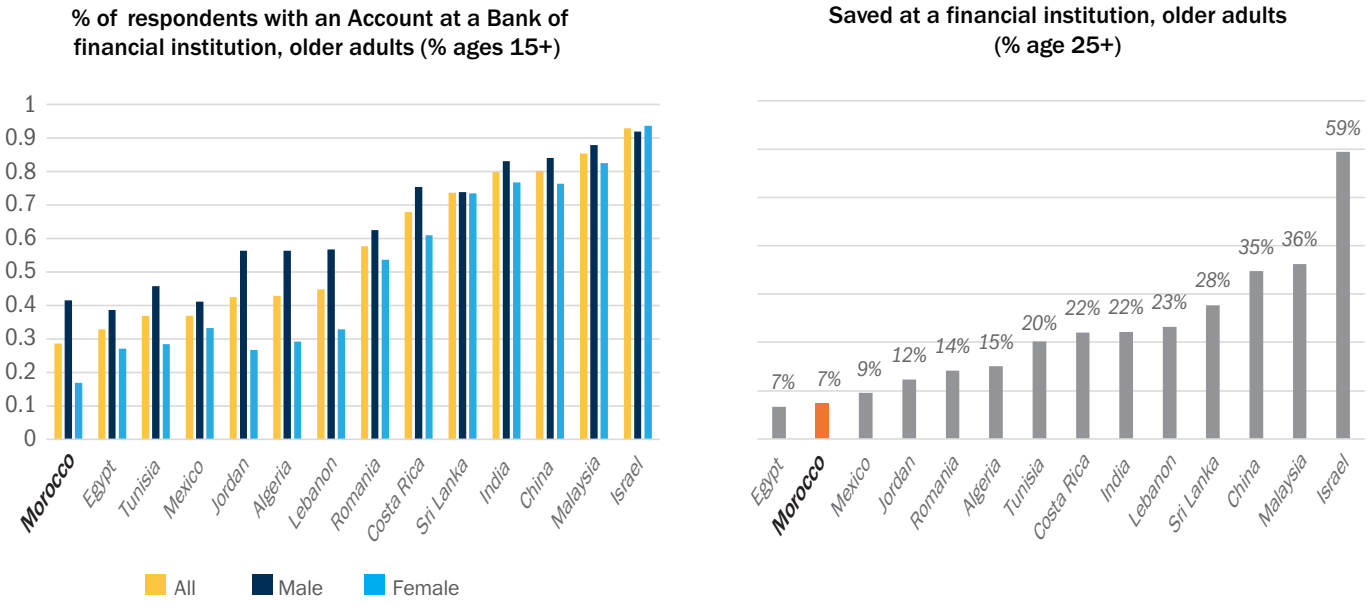


FIGURE 26 Financial inclusion in Morocco and comparators

Source: Findex 2017 Note: For Morocco, 5,110 face-to-face interviews were held in Moroccan Arabic. An equal sample size was used for each region (disproportionate sampling). Data were weighted to population distribution.

The 2016 FSAP noted that national inclusion strategies that have worked in other countries were anchored in: (a) strengthening the enabling environment, (b) financial infrastructure, and (c) policy instruments that support the achievement of specific targets. In terms of the enabling environment, an obstacle has been the blanket cap on lending rates that applied to any loan issued by banks and finance companies regardless of its cost or risk. This reduced financial institutions' ability to adequately price higher risk/cost loans and holds back the growth in access to credit. A review of the cap on lending rates is in progress, and micro-credit institutions are now allowed higher-than-ceiling rates, according to risk level. Reviewing and strengthening the legal, regulatory and supervisory framework for microfinance is also needed to enable qualified microfinance institutions (MFIs) to broaden their financial services, including offering savings accounts. Improvements in financial infrastructure would lower costs in payment and money transfer chains, and incentivize the greater use of electronic payments, including payments from and to public entities. The credit reporting system would benefit from higher data quality and greater data coverage beyond financial institutions, as well as stronger governance and oversight. Many of these reforms are currently being addressed. For instance, Morocco is the first country in MENA to license two credit bureaus. There are long-standing guarantee programs in support of low-income housing and SME finance; while these have demonstrated impact, they could benefit from further improvements to increase their effectiveness, efficiency and results measurement (World Bank, 2016d) and Morocco launched a national financial inclusion strategy in 2019 that is expected to improve outcomes of the various policy packages.

Banks are the principal source of external finance for SMEs, although non-bank financial institutions are growing, and microfinance institutions have become a viable source of financing for microenterprises, small firms, and low-income populations. Bank credit to very small enterprises segment has been on a declining trend and exhibits the highest NPL ratios of all lending, with banks reporting that segment's portfolio is less profitable than other segments. At the same time, while MFI capacity at the institutional and provider level has increased, the legal and regulatory framework needed to allow MFIs to reach their potential remains to be improved (MFIs currently reach about 5 percent of the adult population). The main product for MFIs is microcredit for productive purposes, and they are not allowed to provide other financial services, such as micro-leasing, savings, payment cards, money transfer and insurance, which could contribute to the investment finance needs of MSMEs. The current definition of microfinance as microcredit for productive purposes does not correspond to the needs of low-income groups, which use financial services to save, finance other needs (such as education) and insure themselves against risks. Their current legal form as "associations" limits their ability to diversify and strengthen funding sources. Nevertheless, MFIs could play a stronger role to meet the financing needs of low-income groups due to their business model. In this regard, Morocco increased in 2019 the MFI loan cap from MAD 50,000 per client to MAD 150,000. Global evidence suggests that the business model of MFIs—based on proximity, close follow up and cash flow-based lending techniques—is better suited to assess the risks and financing needs of small firms and low-income households, which are often characterized by higher levels of informality. The reform of the regulatory framework for microfinance could have a transformational impact on financial inclusion. Global experience has also shown that a robust regulatory and supervisory framework for microfinance can advance financial inclusion while safeguarding financial stability (World Bank, 2016d).

The government of Morocco is addressing gaps in the supply of equity financing for innovative young SMEs and to catalyze the VC market. While the Central Guarantee Agency (Caisse Centrale de Garantie, or CCG) has many tools to support bank lending to SMEs through guarantees and co-lending, these tools focused primarily on companies with an existing revenue stream and a track record of at least 3 years. To improve the supply of equity financing, the government is working with the development community and the private sector to fill this gap. (Box 3).

BOX 3 Supporting start-up finance and the entrepreneurship ecosystem in Morocco

The government of Morocco, with World Bank financing, is addressing a market gap in the supply of equity financing for innovative young SMEs and to catalyze the VC market. The Fonds Innov Invest (FII) addresses weaknesses in the investment know-how of ecosystem agencies supporting entrepreneurs and boosts scale in the creation of financially viable enterprises. Implementation began in 2017, including investments in three privately managed VC funds leveraging slightly more than $30 million from private investors. Partnerships with six providers in the ecosystem have been signed to help support entrepreneurs in developing their innovative ideas into startups. The project is implemented by the Caisse Centrale de Garantie (CCG), an agency of the Ministry of Economy and Finance. FII operates as a fund of funds. CCG co-invests with 19 (so far) accredited partners (3 fund managers, 16 incubators and accelerators). As of May 31, 2019, FII committed $24M to the 3 privately-managed funds. The $24M leveraged an additional $43 M from local and international investors (BMCE, Wise Capital, Seaf, Attijari, BCP, MITC, AfDB, DGGF, KfW). The leverage of 1.75 times demonstrates the project's ability to crowd in private financing in line with MFD. If the project sustains this pace, its targets of $30 M private capital mobilized, and 300 startups supported will be exceeded.

The project complements IFC's operations in early-stage equity investments. The project serves as a bridge between the inception and the early development stage of the start-up and acceleration ecosystem until it can receive IFC support, building a potential future investment pipeline for IFC. Once a critical mass of successful ventures has been reached and the initial risk posed by an underdeveloped investment ecosystem has been addressed through a public program, IFC would be able to further expand the market and connect the Moroccan early-stage ecosystem to global counterparts through investments and capacity-building. The development objectives of the project are to mobilize, by year 6, $30 million in private capital (already accomplished), $25 million of venture capital, and $5 million in private angel/seed stage capital, for 120 SMEs, and to provide mentoring and IR support for 100 entrepreneurs.

2. Shareholder funds and capital markets

Private equity is relatively well developed in Morocco, but venture capital (VC) and business "angels" are scarce. Firms needing seed and venture capital received just 6 percent of the total investments made in 2015—one of the lowest shares in the region. Moroccan start-ups and innovative young SMEs face the classic "valley-of-death" situation: the period from when a start-up firm receives an initial capital contribution to when it begins generating revenues. A WBG assessment concluded that there is a shortage of financing in the market starting from the pre-seed stage ($20,000) to the early-VC stage ($2 million). The 22 equity fund management companies in Morocco invest an average ticket size of $4 million per company, much larger than typically sought by start-ups in Morocco. While collaborative financing, or crowdfunding, has emerged as an alternative form of financing projects, start-ups and SMEs, especially those in their early stages, find that legal barriers block its use in Morocco. One challenge of crowdfunding is processing payments, as credit cards in Morocco cannot be used on global crowdfunding platforms. The Ministry of Economy and Finance proposed a draft bill in March 2018 setting out its long-awaited legal framework to regulate collaborative financing; it is expected to be approved in 2019.

Compounding the poor access to finance and limited liquid assets of most small firms, firm-to-firm delays in payment create further chronic cash-flow problems.[63] A 2017 COFACE corporate payment survey of 256 companies in different sectors highlighted worsening payment delays averaging 99 days (compared with 82 days a year earlier). The proportion of firms facing payment delays of 120 days or more also increased significantly, threatening thousands of firms with bankruptcy. According to Euler Hermes, the global trade credit provider, despite a slight improvement since 2011, Morocco remains among the countries where payment delays are severe, with an average of 83 days

in 2017 (ahead of China, Greece, Turkey and Italy). Payment delays raise the working capital financing needs for SMEs; they have, as a result, increased the demand for leasing and factoring in Morocco. The Moroccan government is trying to alleviate these constrains by establishing the Observatory of Payment Terms, which held its first meeting in July 2018.[64] The Observatory represents an advisory body at the service of government authorities on all issues relating to payment deadlines between companies.

The authorities are putting in place measures to improve payment discipline in the private sector, but enforcement may be challenging. Reforms to the commercial code, approved by Parliament in August 2016, should help address chronic cash-flow issues in the private sector by imposing a 60- or 90-day deadline for invoice payments and fixing penalties for late payments (10 percent of the invoice value). However, implementation is crucial to improve firms' cash flow. According to the COFACE survey, 83 percent of firms do not apply late penalties when faced with payment defaults from clients. One option would be to assess the potential for use of credit insurance by Moroccan firms. For exporting firms and supply chains, trade credit insurance is an important element in support of competitiveness, covering open-account sales between Moroccan suppliers and international buyers. It also increases the stability and predictability of the exporters' cash flows, reducing the likelihood of insolvencies and their knock-on effect on the export supply chains. Moreover, it facilitates access to finance, as sellers can use credit insurance policies as collateral to raise post- and pre-shipment finance from banks. At the national level, credit insurance has a positive impact on value added, market penetration, geographic diversification, and the stability of export supply chains. Econometric studies have estimated the short-run multiplier effect of credit insurance on cross-border trade at between 2.3 to 3.2, with an even higher long-term impact. (Petersen, M., and Rajan, R., 1997; van der Veer, K.J.M. 2014).

There is a significant gap between the advanced development of the banking system and the development of the equity market, which means that even large firms are not immune to financing constraints. Long-term financing instruments, equity finance, and capital markets are underdeveloped in Morocco. Although the Casablanca Stock Exchange (CSE) is Africa's second-largest market, companies rarely use it to raise capital. Market capitalization of the CSE, at less than $62 billion (March 2018), remains below its 2008 $75 billion peak. The Moroccan equities market was downgraded from emerging to frontier market status in 2013. Since the national budget (through IFI loans guaranteed by the state), along with the institutional investors and banks, finances most SOEs, there is a lack of liquidity and few new issuers in the CSE, particularly large institutional issuers. Medium and large family-run firms generally finance growth from their own profits and are often reluctant to share information concerning their capital and governance. To support businesses access to finance, the CSE partnered with London Stock Exchange Group in 2016 to launch business support and capital raising program, ELITE. Today, the ELITE community accounts for 48 Moroccan companies with combined revenues of 14 billion MAD, operating across 16 sectors and employing 11,000 people.[65]

Capital markets could also ease the availability of long-term financing for SMEs by mobilizing institutional investors. Long term, local currency financing seems to be largely absent for SMEs; pooling SME loans, investigating the potential for SME minibonds are among the potential alternatives to address that issue. The CCG would play a key role here through, for example, providing guarantees to a portfolio of SME loans, complementing their current direct guarantees for SME loans. This may be implemented by, for instance, creating a portfolio of SME loans that could then be securitized and guaranteed by CCG. This type of pooling does not yet exist in Morocco but may be a cheaper solution for extending credit to SMEs and may potentially allow for longer maturities. Other possibilities include bundled SME bond issues, guarantees for developing the venture capital sector, and supporting SME listings through the creation of sub-funds on the CSE. The CCG supports venture capital through InnovInvest funds which provide equity, innovation loans and aid to startups. The World Bank Group's Joint Capital Market Program (J-CAP) is exploring, with the authorities, the possibility of promoting mutual funds (OPPCs) as a source of risk

capital, potentially through a guarantee. Such an arrangement would bring institutional investors to support a pure equity of debt fund that targets start-ups and SMEs.

A fragmented and complex regulatory framework limits potential investors and the amount of their mobilization and is not conducive to allowing institutional investors to expand the type of issuers and products in their portfolios. Next steps in the development of capital markets include more appropriate and harmonized prudential supervision, improved market infrastructure (such as ratings and pricing information) the responsible deployment of new products and innovative transactions, and, in particular building a risk culture and risk assessments. J-CAP is working with the authorities to find solutions through the preparation of complementary reforms and the identification and financing of demonstrative transactions. It is recommended to explore solutions that would mobilize institutional investors via the capital market to finance SMEs.

3. Challenges in inter-firm credit

Inter-firm trade credit in Morocco has grown rapidly to reach an estimated MAD 356 billion in 2016 (35% of GDP), versus MAD 403 billion (40% of GDP) in financial sector credit extended to non-financial corporates and SMEs.[66] It is facilitated by a competitive trade credit insurance market, which has grown at a rate of 10-15 percent per year in recent years—2 or 3 times faster than the overall non-life insurance market.[67] Insured trade flows now amount to approximately MAD 70 billion annually, including around MAD 50 billion in domestic trade and MAD 20 billion in export sales (mostly OCP's phosphate exports). The current penetration of trade credit insurance in Morocco (7 percent of GDP) is significantly higher than in other MENA countries, but is still only about half of the levels observed in other emerging markets such as South Africa (15 percent of GDP). Only about 600 firms in Morocco currently use trade credit insurance. Generally, SMEs with insurable sales of over MAD 10 million can access trade credit insurance, but the market only serves formal firms with proper governance, invoicing and accounting systems.

Notwithstanding the existence of a credit insurance market in Morocco, conditions for inter-firm credit remain challenging, especially for SMEs and more so for VSEs (which lack market power and have no access to trade credit insurance). According to an annual sample survey of global inter-firm payment conditions conducted by Euler Hermes, payments in Morocco experienced average delays of 83 days 2017, versus 66 days global average. Delays appear to be highest in the technology (140 days), transport (114 days), pharmaceutical (95 days) and construction (85 days) sectors. Among large economies, only four other countries (China, Greece, Turkey and Italy) experienced an incidence of payment delays comparable to Morocco. Another survey conducted by Coface on a sample of 256 Moroccan firms points to worsening payment delays averaging 99 days in 2017 (compared with 82 days a year earlier). To assess trends in inter-firm credit, Bank al-Maghrib conducted a survey of the financial statements for 2016 of over 72,000 enterprises with aggregate sales of MAD 1036 billion (102% of GDP). The study highlights that, as expected, larger firms (with greater market power) benefit disproportionately from more favorable payment conditions for both sales and purchases. In 2016, the larger firms had account payables averaging 113 DPO (days purchases outstanding) but kept accounts receivable to 81 DSO (days sales outstanding). SMEs had average payables of 96 DPO versus receivables of 93 DPO. VSEs were in a far less comfortable position, with payables averaging 81 DPO versus receivables of 107 DSO.

Payment delays or defaults are behind 40 percent of insolvencies in Morocco. This includes late payment in public procurement contracts and from state-owned enterprises (particularly since late 2016, now reaching up to 210-240 days). The number of insolvencies in Morocco has increased threefold over the last nine years, surpassing 8000 in 2017, of which over 7000 ended in liquidations. Insolvencies overwhelmingly relate to VSEs (96 percent), and SMEs (3.2 percent) rather than large business groups (0.2 percent). They mostly arise in three sectors: retail trade, real estate and construction. Other significant causes of insolvency include a difficult trading environment and lower commercial margins for VSEs, whose sales volume fell

overall by 13 percent in the last two years. A recent post-creation survey conducted by the Casablanca Regional Investment Center identified access to markets as the major challenge facing SMEs and VSEs (identified as such by 71 percent of respondents), even ahead of access to finance. The most binding factor (identified as such by 45 percent of respondents) in access to markets is slow payments from clients.

The Government has taken measures to try and stem the number of insolvencies. These include a system allowing enterprises to recover accumulated VAT credits (including, for SOEs, a factoring scheme financed by banks and refinanced by the central bank). Another measure involves the creation of a support fund to assist 245 viable VSEs, especially in the manufacturing and construction sectors, experiencing temporary cashflow difficulties. This fund, implemented from 2014 to 2016, provided MAD 1.55 billion in subordinated loans to VSEs (up to MAD 50 million per beneficiary firm) alongside another MAD 1.1 billion in senior loans extended by commercial banks. Separately, the authorities are embedding in the commercial code (approved by Parliament in August 2016) the obligation for debtors to pay invoices within 60 or 90 days together with penalties for late payments (10 percent of the invoice value). However, according to a Coface survey, 83 percent of firms do not apply late penalties when faced with payment defaults from clients. The impact of these measures has yet to be assessed.

On the export front, trade credit insurance and related services are known to be an important element of international competitiveness. Trade credit insurance allows safe open-account sales between local exporters and international buyers, and have a positive impact on value added, market penetration, geographic diversification, and the stability of export supply chains. Econometric studies have estimated the short-run multiplier effect of credit insurance on cross-border trade at between 2.3 to 3.2, with an even higher long-term impact (Petersen, M., and Rajan, R., 1997; van der Veer, K.J.M. 2014). Morocco has dedicated state insurance schemes (managed by Smaex, an export credit insurer partly owned by the Ministry of Finance) supporting market prospection and trade fair overseas, but the uptake has been limited and the impact on local exporters remains modest.

C. EXPANDING THE DIGITAL ECONOMY

Enhancing broadband access, especially fixed broadband, is the main challenge facing Morocco in its pursuit of an innovation-driven digital economy, higher labor productivity, and progression along global value chains. Broadband will be the main source of development potential in the telecommunication and ICT industries in the coming years. Fixed broadband allows carrying far greater traffic than wireless networks and offers faster speeds and greater reliability—essential for the digital economy. When broadband is more widely available, labor productivity increases in services and industry. Entire sectors that are strategically essential to the Moroccan economy, such as agriculture, and the automotive and aerospace industries, are, and will continue to be, profoundly affected by ICT use in manufacturing processes. In the education and health sectors, broadband could be instrumental in improving the quality of services. Similarly, the development of the digital economy (developing broadband, content, applications, and the skills to use ICTs) would contribute to a modern public administration by introducing digital government services that are available to all, reducing the complexity of administrative procedures, as well as corruption, the two major obstacles to business development.

The growth rate in the ICT sector is slowing, however, and Morocco has fallen behind countries that it views as competitors in this arena, particularly in terms of broadband penetration. Due to a lack of competition, incomplete and inefficient regulation, and underinvestment in fixed infrastructure, the broadband market in Morocco remains restricted to the country's main urban centers and routes, exacerbating the digital divide. The broadband penetration rate is among the lowest in the MENA region (17.5 percent of households for fixed broadband and 41 percent of the population for mobile broadband in 2015, whereas the regional average in 2015 was 41 and 85 percent, respectively), and is considerably lower than some Eastern European countries, where rates are close to 50 percent for fixed-line and 100 percent for mobile.

The heavy reliance on the mobile network undermines the expansion of broadband internet and digital uptake. The focus on the rapid development of the mobile market over the past 15 years has limited the expansion of broadband infrastructure. The mobile penetration rate (number of SIM cards relative to population) reached 128 percent in 2015; the market is saturated and is no longer growing. This in turn explains, along with lower retail prices, the fall in operators' revenues, weakening their economic model, which is highly dependent on mobile telephony (nearly 70 percent of Maroc Télécom's turnover and almost all of Méditel's and Inwi's in 2016, according to ANRT).

The limited number of operators in the telecommunications sector reflects incomplete and ineffective regulation of the sector. The telecommunications sector is limited to three operators:[68] namely Maroc Telecom,[69] Meditel, and Inwi with about 61, 36, and 3 percent of the market, respectively. Maroc Télécom's presence remains strong over a decade after the sector was opened to competition. While Maroc Télécom owns the fixed-line transmission network and has heavily invested in the fiber optic network, other operators have invested only modestly in fixed infrastructure. This reflects both their lack of interest and the fact that local copper loop unbundling policies introduced by the regulator, the *Agence National de Réglementation des Télécommunications* (ANRT), over a decade ago have not been implemented. As a result, Maroc Télécom continues to hold over 99 percent of the ADSL (fixed broadband) market.[70] And, unlike the situation in other emerging economies, Morocco has not authorized or provided licenses to internet access providers to deploy their infrastructure, limiting the number of competitors providing internet services to the three general operators. Competition in high-speed internet thus remains constrained and prices are high—unaffordable for the bottom 60 percent of the population.

The government's *Plan Maroc Numeric 2020* includes several guidelines to promote access to broadband internet for all Moroccans, targeting the development of the digital economy and the creation of new jobs. The objective of Maroc Numeric is to raise the ICT sector's contribution to the economy from 3 to 11 percent of GDP and create 125,000 new jobs. The Plan's major measures would authorize the entry of new players to increase the level of competition and private investment in the broadband markets, set up an investment-friendly legal and regulatory framework, and promote the use of PPPs to deploy broadband infrastructure in areas that are less profitable for private investors. Related to the latter, although the government's Plan has high investment costs, the Universal Service Funds (FSU) for Telecommunications, created in 2005, funded by 2 percent of operators' total revenues for the year, is currently grossly underutilized. It could therefore help to finance new broadband infrastructure and solutions, including in areas less profitable for private investment, including peri-urban and rural areas.

Beyond ensuring access to broadband, the authorities can extend and accelerate the use of digital solutions across the economy, creating the enabling environment for the growth of the digital economy. The creation of the Digital Development Agency in December 2017 has been an important step in this direction. The agency, which is responsible for optimizing and modernizing government digital platforms and practices, to support the implementation of programs such as online services for firm registration and firm connectivity to online platforms. The agency will require a clear mandate and sufficient means to provide oversight, promote uptake, and monitor and evaluate progress in implementing Maroc Digital 2020 (OECD 2018). Further steps include the adoption by government of a digital Industry 4.0 strategy to support the development of services around the manufacturing sectors in which Morocco is well-positioned internationally, such as the automotive and aerospace industries. This would reinforce industry competitiveness with more automated factories in Poland, Romania, and Turkey whose industrial value chains are intimately integrated with large manufacturing centers in Europe; Morocco should aim for the same level of integration, to further boost its international position.

Digital platforms can play a larger role in supporting Morocco's private sector development and expanding market opportunities. The development of such platforms requires an enabling regulatory environment and digital payment services (as discussed above). It also requires learning about how to generate domestic

revenues through digital platforms, how to interact with third parties and build a digital ecosystem, and how to develop responsibility, trust and regulation around digital platforms and ecosystems. The presence of Moroccan firms operating on a regional scale in Sub-Saharan Africa, in particular Maroc Telecom and OCP, raises the opportunity for Morocco to develop pan-African digital platforms in support of key value chains, along the models of other successful examples such as Jumia (pan-African investment of Orange), and the various platforms supporting smart agriculture, fertilizers use and others (Bayer, Yara, FNB).

A critical element to support the growth of the digital economy is mobile payment. The new banking law is expected to help mobile payments to finally take off. Morocco has lagged peers in both mobile and electronic payments (Morocco's central bank and the telecommunications regulator launched M-wallet end of November 2018).[71] This has been mostly due to an imperfect regulatory framework in place prior to the enactment of the banking law of 2015, as well as the lack of competition and the low degree of innovation from banks. Banks were only permitted to offer electronic wallets and payment services. As a result, most payment services offered were tied to bank accounts or e-money accounts (the latter being provided by banks or by banks operating in partnership with telecom companies). Being bank-focused, the regulation the wallets did not gain traction. On the demand side, the development of electronic payments is hampered by deep-rooted preferences for cash. Transactions in the informal sector are cash-based and the government uses checks to pay its suppliers.

A modern digital economy would help boost e-trade and benefit young, small, and medium firms. It expands trade opportunities and allows producers, retailers, and service providers to reach and interact seamlessly with customers located in remote markets. Transactions such as initiating a wire transfer online or selling goods on a global e-commerce platform such as Amazon—are all part of the diverse universe of e-trade. Each of those transactions, however, entails very different trade relations. The Internet both facilitates trade in 'traditional' goods and services ("traditional e-commerce") and provides a platform for trading entirely "digital" goods and services (digitally produced, delivered, and consumed). E-commerce platforms are particularly valuable for encouraging exports from small and medium, and even micro, enterprises who would otherwise lack the means of reaching foreign markets. In addition, firms selling on eBay in Chile, Jordan, Peru, and South Africa are younger than firms in offline markets. E-trade also contributes to economic efficiency by reducing costs for trade of goods and services, and by increasing efficiency through the use of cloud-based services.

The supportive foundations for e-trade rely on three essential pillars: a modern, reliable and affordable telecommunications infrastructure, an open, transparent and predictable business environment, and the availability of high-skilled human resources (Figure 27)**.** Benefitting from e-trade requires expanding modern education programs to include the development of skills and entrepreneurship for digital markets. In addition to basic literacy and numeracy, e-trade participants must be proficient in digital literacy and business development, adapting cognitive, social, and technical skills to the digital business environment. There are three main "layers" of digital skills, each spanning a spectrum from basic to more advanced skills, and including or combining different complementary skills, as depicted in Figure 28. The bottom layer corresponds to "users of digital/ICT tools." The next layer corresponds to "producers of digital/ICT tools." The top layer corresponds to those who apply/create/invent innovative business models and uses of digital/ICT tools.

D. INCREASING SME PARTICIPATION IN PUBLIC PROCUREMENT

The government can also boost SME development through fair and transparent public procurement. Historically, SMEs have been impeded from competing in public procurement markets by barriers such as lack of technical and financial capacity, lack of access to information, time and cost required to prepare offers, and the size of contracts. Morocco has achieved major legislative, regulatory, and institutional public procurement reforms in recent years, including

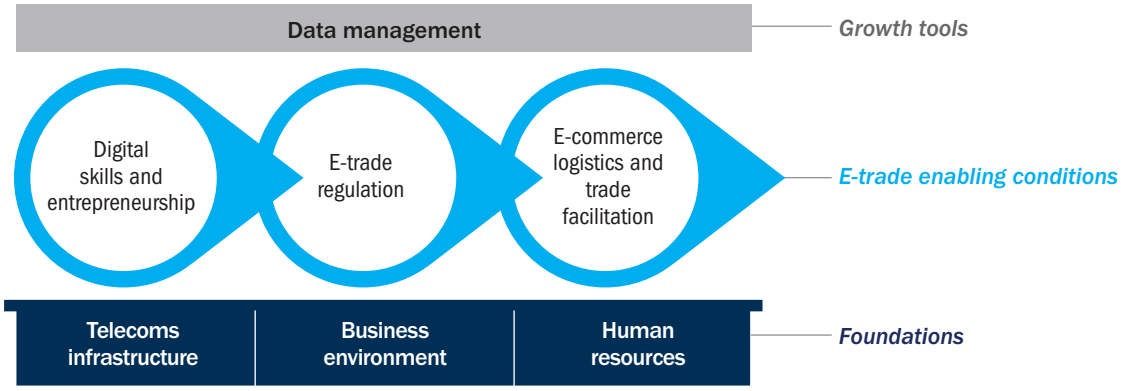


FIGURE 27 E-trade environment components

Source: World Bank group 201X.

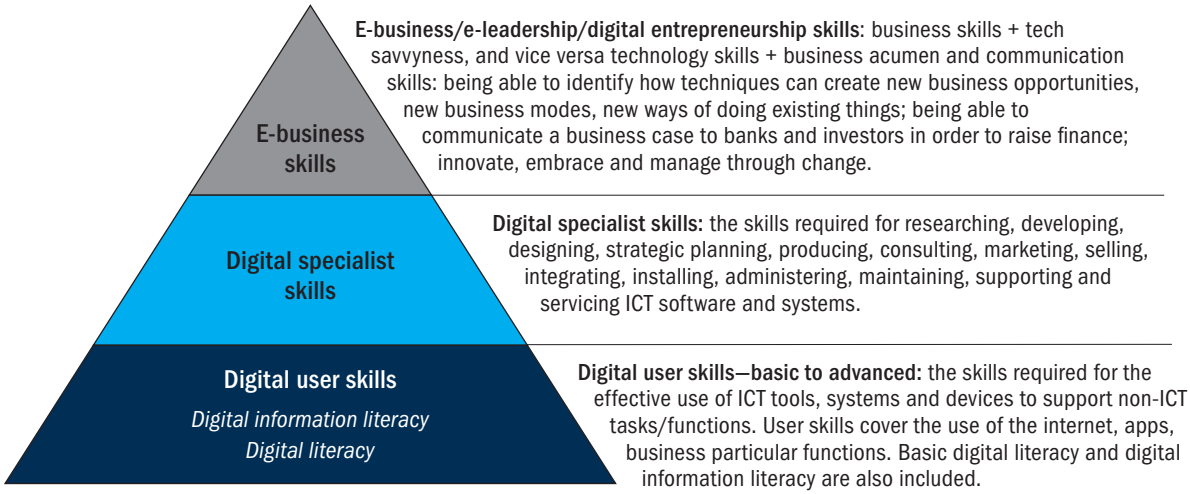


FIGURE 28 The Digital Skills Pyramid

Source: In World Bank Group 201X based on European Commission (2004), van Welsum and Lanvin (2012).

- The enactment of a public procurement decree, which, among other provisions, mandates that 20 percent of public contracts be allocated to SMEs.
- The creation of a public procurement regulatory body (CNCP), which became fully operational in January 2018 and represents a significant development in the advancement of a modern public procurement regulatory framework and promotes confidence and credibility among domestic and foreign investors by offering guarantees to protect companies from excesses or injustice.
- The introduction of the e-Government Procurement (e-GP) system. Since January 2017, the use of electronic submissions has increased access to procurement-related information, such as bid opportunities, calls for proposal, cost estimates, contract-related documentation, and results of tendering; this makes participation in tender processes easier and increases access to contract opportunities, particularly for SMEs. An electronic system for complaints management has also been put in place.

The public procurement decree also includes special provisions to encourage the participation of national enterprises. National enterprises bidding for work contracts and studies benefit from preferences whereby foreign bids deemed acceptable are priced 15 percent higher.[72] Local content requirements in public private partnerships (PPPs) offer greater opportunities for SMEs to win government contracts and/or become subcontractors, enhancing spillovers to the rest of the economy and contributing to job creation and economic growth.[73] Notwithstanding the domestic preference provisions that exist in the regulations, improving the competition policy framework is essential. This includes the regulations that govern public procurement, PPPs, and delegated management of public services, as well as the practices that allow open market competition at the level of all public procuring entities (state, local government and SOEs). This is critical to providing assurances and guarantees for transparency and that fair and equal treatment are offered to foreign bidders when competing for important investment projects or with domestic companies.

The 2011 constitution sets the ground for more transparency and efficient use of public resources.[74] As part of the institutional framework to fight against fraud and corruption, the government has created the *Instance Centrale de Prévention de la Corruption* (ICPC), responsible for coordinating, supervising and monitoring the implementation of corruption prevention policies, and collecting and disseminating information on fraud and corruption. Although the number of complaints or anonymous whistle blowing cases reported annually by ICPC is very small, it is essential to keep working on improving the overall environment with regard to fraud and corruption to bring confidence in the systems, including the judicial processes.

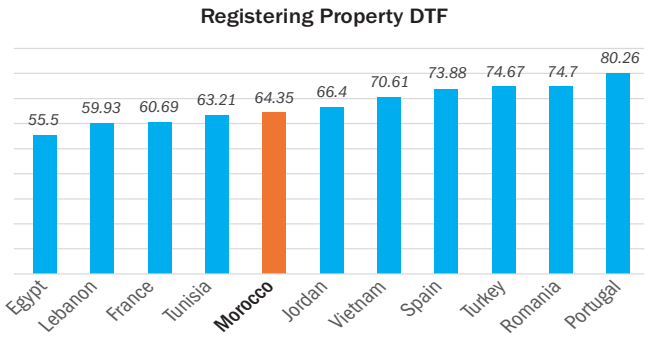


FIGURE 29 Registering property Distance to Frontier

Source: Doing Business 2018. Registering property examines the steps, time and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute. Dealing with construction permits tracks the procedures, time and cost to build a warehouse—including obtaining necessary the licenses and permits, submitting all required notifications, requesting and receiving all necessary inspections and obtaining utility connections

E. IMPROVING ACCESS TO LAND

Access to and the cost of land are problematic for businesses in Morocco, be they domestic or foreign, small or large firms. Investable land has been a critical constraint to doing business in Morocco. This is not a question of the physical availability of land; land availability appears to be reasonable and similar to global benchmarks. Instead, constraints include a complex land tenure system (several governments, such as central, regional and local, and SOEs of varying efficiency own land or regulate it), the diversity of land management regulations, the inadequate capacity of land administration (relating to the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution, and equal access to property rights), and land development decisions that do not meet the real needs of investors.

Buying and registering land continues to be difficult due to lengthy and complex procedures, even for foreign firms seeking investment in Morocco (Figure 29). Large firms see land access as a major or severe constraint to the expansion of their activities (43 percent), as they are generally those most often seeking to make extension plans to ensure the growth of their activities. According to the latest Enterprise Survey, it takes more than 4 months to obtain a construction-related permit, three times longer than in Jordan or Turkey, and double the MENA average. As World Bank enterprise surveys only include the responses of firms that successfully addressed 'starting a business' constraints, they do not capture projects that were not launched, and underestimate the problem of access to land.

Heavy state intervention in land markets has made the supply of land unresponsive to demand. For example, the provision of public land as a subsidy to private sector investment has encouraged speculation and created perverse incentives for some in the private sector to own land, in the expectation that the Government will continue to provide more subsidized land. Speculators consider subsidized land to be a fruitful investment, hoping to eventually resell their plots at market prices and generate windfall profits. In reaction to this tendency, governments often impose very strict legal limits on the transferability of allocated plots—which imposes a further constraint to land sales.[75] Firms also prefer to hold onto land that can be used as a guarantee for bank loans and as collateral for construction finance, while land-lease is not accepted as a guarantee in order to obtain a loan. In light of this, it is no surprise, indeed it is rational, that entrepreneurs shun the competitive sector, exports, and industrial production in favor of better protected and lucrative rent-seeking sectors, including land and real estate.[76]

The government has tried to address the difficult access to land though heavy involvement in industrial zones development and generous land subsidy schemes, which have made the land market supply unresponsive to private demand (Annexes 5 and 6). MEDZ, a 100-percent-owned subsidiary of the Caisse de Dépôt et de Gestion (CDG) created in 2002, is a leader in the development, promotion and management of industrial zones, offshoring and tourism resorts in Morocco. It assists the Government in the implementation of various sectoral strategies. As of 2015, it had 1,700 hectares of developed land, and developed 13 industrial and logistic zones, five tourist areas, and four offshoring business parks. Recently, it has participated in the financing of several large projects, including the Tanger Med Port and Tanger Automotive City. CGI, the construction arm of the CDG, has been a key player in the Government's rehousing program to transfer families from slums to social housing units. Moreover, the provision of public land as a subsidy for private sector investment has encouraged speculation and created the wrong incentives for the private sector, only raising expectations that the Government would provide more subsidized land.

F. RECOMMENDATIONS

In addition to addressing issues that were identified in the previous section to foster a level playing field and the entry of new players in several markets, below are additional recommendations pertaining more directly to entrepreneurship and SME development.

Entrepreneurship

- Launch initiatives such as business plan competitions, programs that prepare entrepreneurs for being investment-ready, export promotion initiatives, and support services to strengthen input-supplier linkages between small and large firms.
- Promote co-working spaces to foster ideas, exchanges and entrepreneurial culture.
- Promote media programs to advertise success stories.
- Foster mentorship programs and networking opportunities.
- Mobilize the diaspora to broaden the pool of potential entrepreneurs and mentors.
- Provide financial literacy training to emerging entrepreneurs.
- Provide training in skills required for emerging entrepreneurs such as leadership, team working, management.
- Introduce entrepreneurship training in primary and secondary education.

Financing new firms

- Continue the review of global ceiling on lending rates and replace with a stronger consumer protection and financial literacy framework. Increase efforts to analyze consumer complaints statistics submitted by banks and other financial service providers and consider adjusting the regulation and supervision of market conduct of financial institutions as needed.
- Amend the legal, regulatory and supervisory framework for microfinance to enable MFIs qualified under BAM criteria to broaden their financial services, including offering savings accounts.

Capital market

- Analyze the possibility of implementing the following measures: (a) a CCG guarantee on micro, small and medium-sized enterprises (SME) credit portfolios by the MFIs, (b) the development of a market for reverse factoring, (c) bundled SME bond issues, (d) guarantees to develop the venture capital sector, and (e) support for SME listings through the creation of a sub-fund(s) on the Casablanca Stock Exchange.
- Consider introducing the legislative and regulatory framework for a new local rating agency to build a risk culture and assist in determining the price of securities and encourage the growth of the non-sovereign debt market, via new issuers and products.

Inter-firm credit

- Explore the pertinence and feasibility of long-term solutions such as a purchase order financing system focusing on public procurement and a government scheme to facilitate access to credit insurance for VSMEs.

Digital economy[77]

- Facilitate the entry of new players into the telecommunications market. This will require: (a) amending the sector law to introduce a general authorization scheme for internet service providers (ISPs), allowing them to become facilities-based operators; and (b) licensing new ISPs and infrastructure operators in the international and data segments.
- Reduce infrastructure investment costs for telecom operators. This will require: (a) easing access to local rights of way and introducing uniform fees for using the public domain; (b) promoting cross-sector coordination of civil works carried out in the context of public infrastructure projects; (c) introducing requirements that new houses include infrastructure for telecom facilities; and (d) introduce/develop digital maps of infrastructure.
- Optimize the use of existing infrastructure through sharing between telecom companies. This will require: (a) publishing by the ANRT of regulatory decisions framing the technical and commercial wholesale offers (that is, wholesale catalogs) made by telecom operators considered to be "exerting a significant influence on the relevant telecommunications markets"; (b) amending relevant laws such that alternative infrastructure operators are covered by a special scheme and that lease agreements between alternative infrastructure operators and telecom operators are regulated by the ANRT.
- Restructure the Telecommunications Service Fund (Fond de Services Universel des Telecommunications, FSU), transforming it into a transparent and efficient tool for the financing of broadband infrastructure in underserved areas where private investment is lacking.
- Enhance the use of the digital solutions throughout the economy by developing a digital government strategy and action plan to complement the Maroc Digital 2020 strategy; developing a digital industry 4.0 strategy; accelerating the implementation of the Agence de Developpement; and developing digital platforms.
- Increase offerings of ICT and coding training to students and entrepreneurs.
- Promote the use of digital and mobile payments.

Public procurement

- Implement the government public procurement decree at all levels of government entities (central, local and SOEs).

Land

- Improve access to information on land and its availability for economic activities, while taking measures to sharply reduce transaction delays. This would significantly increase Morocco's attractiveness in the eyes of foreign investors.[78]
- Release land for private sector development outside industrial zones to all types of firms, including

through leasing, and give more responsibility to firms to develop their industrial land.

- Existing firms located outside the predefined industrial zones can get an industrial zone label if they commit to develop the land and allow other investments on the land. These firms would also benefit from incentives usually provided to new investments in industrial zones.
- Improve security of private property. This can be achieved by passing a single property law, encouraging the registration of land transactions with the land registry, guaranteeing the protection of land rights, and clarifying the expropriation system, including its transparency.[79]
- Discourage speculation. Given the problem of speculation, vacant land could be taxed to encourage its release onto the market.
- Provide a greater role to regional authorities with regard to land provision and industrial zones management.
- Attract private developers to develop, manage and operate industrial zones. International experience has shown that central and local governments are inefficient zone developers and managers. Private zone developers emphasize clear and transparent regulatory frameworks as their top priority. This includes: shedding light on rights, obligations and procedures; interacting with government agencies; and acting as a single interlocutor or providing efficient one-stop-shop services to their tenants. The structure of the concession agreement is important, especially the ability to own land or obtain a long-term lease (minimum of 49 years) that allows master developers to attract sub-developers or tenants. ■

V. Infrastructure: Responding to emerging challenges[80]

A. THE STATE OF MOROCCO'S INFRASTRUCTURE

Morocco's investments in infrastructure over the past two decades have significantly improved the population's access to basic infrastructure services (Table 8). Reflecting this progress, Morocco's international ranking in infrastructure quality has progressed- from 64th place in 2006–07 to 42nd countries in 2017–18 (Table 9).[81] Both the stock and quality of infrastructure compare favorably to those of other middle-income countries (WEF 2017) and Morocco performs well above what would be expected given its GDP level (AFDB et al., 2015). Moreover, Morocco clearly has the capacity to design and implement world-class infrastructure projects such as light rail systems in Greater Rabat and Casablanca, successive container port projects in Tangiers making the country a leading transit hub in the Mediterranean and Africa, and the Noor Ouarzazate 2000-megawatt solar project, expected become the world's largest concentrated solar power plant, once completed in 2020.

Overall progress has been rapid and impressive, although challenges in some subsectors remain and wide regional disparities endure. Quantity and quality are encumbered by inadequate maintenance (for example, in the roads sector) and in some sectors (for example broadband and in sanitation) investment will need to substantially increase in order to boost access to services. And while access to electricity is virtually universal across the country, connection costs are high and electricity prices for enterprises have increased, reflecting the fact that Morocco still imports 93 percent of its energy needs.[82] Inequality in access and resource allocation remains a significant concern. Rural-urban disparities in access to water are large: 93 percent of urban households were connected to piped water against only 26 percent of rural households

TABLE 8 Access to infrastructure in Morocco, 2005 and 2016

	2005	2016
Access to electricity (% of population)	76.1	99
Improved water source (% of population with access)	81	85
Improved sanitation facilities (% of population with access)	69	77
Rail lines (total route–km)	1,907	2,109
Air transport, passengers carried	3,492,984	7,738,640
Individuals using the Internet (% of population)	15	58
Mobile cellular subscriptions (per 100 people)	41	121

Source: World Bank Group, 2018 via World Development Indicators.

TABLE 9 Comparative ranking of Morocco's infrastructure, by sector, 2007 and 2017

Category	Rank among 137 countries in 2017-18	Rank among 137 countries in 2017-18
Quality of overall infrastructure	42	67
Quality of roads	43	67
Quality of railroad infrastructure	38	63
Quality of port infrastructure	32	65
Quality of air transport infrastructure	54	48
Available airline seat kilometers	48	51
Quality of electricity supply	46	103
Mobile-cellular telephone subscriptions per 100 inhabitants	60	67
Fixed-telephone lines	95	74

Source: WBG 2018, based on based on the Global Competitiveness Reports 2007–08; 2017–18.

in 2014. Improving the quality of water to those not connected to a piped network remains a challenge: 35 percent of poor households use non-piped, untreated water. Access to sewage networks is near universal in urban areas, but almost nonexistent in rural areas, at 5 percent. Rural areas still lag in terms of access to ICT, reflecting disparities in the main determinants of access: education levels, occupation, and type of dwelling. These challenges are likely to become more noticeable as demand continues to accelerate in the country, and as the effects of climate change are increasingly felt.

In addition to service gaps, Morocco's infrastructure needs are growing rapidly, spurred by population growth, urbanization, a growing middle class, and a vision of lifting Morocco to upper middle-income status with high productivity growth and a diversified economy.[83] Some of the usage growth has been rapid: in the roads sector, traffic reached 99.5 million vehicles/kilometer in 2016, compared to just 93 million a year earlier; port traffic has grown steadily, supported by an official policy of integrating Morocco's economy with regional and international markets; air traffic exceeded 20 million annual passengers for the first time in 2017. Electricity demand has been increasing at an annual average rate of around seven percent since 2002.

To meet this demand, all infrastructure sectors have developed investment plans with a 2030 or 2035 horizon, with ambitious targets for increasing both stocks and quality. Examples include investments in new generation capacity (both thermal electricity and renewable energy projects): the renewable energy agency, Masen, for instance, plans to generate 3,000 megawatts by 2020 and 6,000 megawatts by 2030. In ICT, the government's digital plan, Maroc Numeric, aims to provide broadband access to 100 percent of the population by 2020 (compared to 41 percent access in 2015). Econometric modeling estimates that the total annual investment needed to meet this demand will range from 11.5 percent to 18.3 percent of GDP, depending on the scenario used (low-growth, business-as-usual, or high growth). These sector investment plans invite the possibility of private sector participation in significantly larger volumes than has been the practice to date.

B. STATUS OF PUBLIC AND PRIVATE SECTOR FINANCING OF INFRASTRUCTURE

The public sector has been the driver of infrastructure development to date, with SOEs spearheading investment and finance. It is estimated that Morocco has been spending about 11 to 12 percent of GDP on infrastructure, including operations and maintenance outlays. SOEs account for 86 percent of total public infrastructure investment, with a sizable portion financed from long-term concessional loans ("official development aid," or ODA).[84] SOEs also issue long-term bonds, guaranteed by the state, and receive long-term loans from the domestic banking system. This plentiful supply of public and concessional resources has reduced the need and willingness to resort to commercial financing.

Arguably, the SOE-driven model has served Morocco well, but the scope for public investment is narrowing. The existing model is now increasingly under strain due to demand pressures and the infrastructure requirements of moving the country to upper middle-income status. This is exacerbated by the limited economic impact of high levels of investment (see Chapter II) suggesting inadequate value for money, combined with growing fiscal pressures. There is a strong rationale for greater private investment in infrastructure not only for its potential impact on efficiency gains, but also to bring in new technologies and capabilities.

More specifically, weaknesses in the existing model are illustrated by the following:

a. Although SOEs are generating operating cash surpluses, their net profits after accounting for depreciation, interest and tax are negative overall. In 2016, the seven leading infrastructure SOEs[85] incurred aggregate losses of $270 million on revenues of $4.8 billion, due in large part to the large losses incurred by ADM; Masen (then not yet fully operational) and ONCF also incurred losses. Their combined net worth represents just 17 percent of their total assets.

b. The operating cashflow generated by these SOEs covers less than half of their investment volume of $2.3 billion. The subsidy extended from the government budget to key infrastructure SOEs (0.5 percent of GDP) met less than half of this shortfall. The operating cashflow tends to be either far too small (the case of ONCF, and to a lesser extent, ANP) or negative (Masen, ADM). Only ONEE and ONDA have operating cashflow levels that are viable compared to their level of investment and indebtedness.

c. The total financial indebtedness of the seven leading infrastructure SOEs was $15.8 billion (15.2 percent of GDP), equivalent to 13 times operating cashflow. By comparison, for a fully commercial corporate utility, the banking standard would typically be on the order of three times operating cashflow. Most of this debt is in foreign currency, exposing borrowers to currency risk.

d. State guarantees are large and mostly support the indebtedness of a few leading infrastructure SOEs. Total SOE indebtedness guaranteed by the State was MAD 150 billion (15 percent of GDP), at end-2017, of which MAD 104 billion (10 percent of GDP) supported international borrowing of ONEE, ADM, ONCF and Masen, plus another MAD 19 billion for domestic borrowing by ADM.

While the public sector has been dominant, the private sector has also played a significant role in Morocco's infrastructure. The private sector has been involved in the operation of concessions (especially at the municipal level), and in the construction and financing of greenfield projects, notably independent power plants and container ports. Typically, private infrastructure projects are financed either through "project finance" (financing raised with limited recourse to sponsors, based on the future cashflow expected to be generated by a project company) or through "corporate finance" (financing based on the cashflow generated by existing assets of the borrower, or financing guaranteed by private shareholders). The first large-scale project finance transaction in Morocco was the Jorf Lasfar 600 MW coal-fired power plant, financed in 1997. During the last two decades, at least 20 large-scale greenfield infrastructure projects have been undertaken by private investors, with a cumulative project cost exceeding $12 billion. Since 2012, origination has accelerated: on average, two large greenfield transactions have been financed yearly, with an annual volume of around $1.6 billion, equivalent to 1.6 percent of GDP. This performance is similar to other emerging markets with similar level of income or credit rating, whether in the MENA region or in other parts of the world. Many of the greenfield commercial projects undertaken in recent years (such as renewable the energy project involving Masen) have been financed in a hybrid manner, combining project finance structures with public funding and guarantees. The state has facilitated private investment in infrastructure through pragmatic interventions; nonetheless, such interventions absorb public resources and may not be sustainable going forward given Morocco's limited fiscal space.

Scarce public resources will need to be leveraged through strategies aiming to maximize finance for development (MFD), although going forward, the public sector will continue to play an essential role in the development of Morocco's infrastructure. This is due to the large scale of infrastructure projects, their long time-horizon, the need to carefully plan and coordinate investments, as well as their socio-economic impact and externalities. Complementing the efforts to strengthen the governance and efficiency of SOEs in Morocco, the authorities can also optimize the use of state guarantees to ensure that they catalyze rather than crowd out commercial finance. Additional measures further supporting the development of private sector investment and commercial finance could include:

a. **Supporting the efforts of SOE to finance their investments on a commercial basis, with no state guarantees.** In some cases, this could involve the creation of an intrinsic borrowing capacity. Viable commercial activities of certain SOEs could perhaps be grouped in a vehicle with sufficient cash generation so that no further state backing is required. Such vehicles could later be opened to private sector participation.

b. **Outsourcing to the private sector the operation of infrastructure services through PPP arrangements.** The aim is to increase overall efficiency by allowing SOEs to focus on the core activities for which they have a comparative advantage, reduce the operating cost incurred by the public sector, and improve service to users. Some of these outsourced operations will continue to rely on revenue paid by the SOEs or by the state. Other assets collect stable revenue such as toll roads from users and could be packaged and auctioned out (for example, following the example of the National Highway Authority in India), while still others may use a combination of the two, i.e. user fees and revenues from SOEs or the State.

c. **Encouraging the origination of transactions suitable for private sector investment,** so as to increase the volume and number of transactions, as well as the range of infrastructure sub-sectors that attract private investment. This could involve the appointment of early-state transaction advisors, a PPP project preparation fund, a viability gap fund, possibly a guarantee fund supporting selected private sector projects, and a review of PPP regulations.

C. INSTITUTIONAL CONSTRAINTS TO PRIVATE SECTOR INFRASTRUCTURE FINANCE

Reforms to crowd the private sector into infrastructure finance do so by lowering risk and increasing competition. This will require an ambitious agenda of institutional, legal, and regulatory reforms to lower production costs, improve the efficiency and quality of service delivery, reduce the need for subsidies, and ensure affordability. Such reforms would not only improve service delivery to users, but also enhance fiscal, social and political sustainability, in turn reducing the cost of capital financing. Some of the institutional constraints to achieving greater private involvement in infrastructure are outlined below.

Market Structure and SOEs

Liberalization of infrastructure sectors has been partial and mixed ownership of service providers is common. Water and sanitation, ports, airports, railways, and electricity transmission and distribution present natural monopolies, but there are some segments that are open to multiple players, notably desalination. Other infrastructure sectors feature some degree of competition, namely in electricity generation and ICT. Few infrastructure assets or enterprises are entirely private (IPPs are one exception), but joint ownership arrangements between the government of Morocco and private financiers are common.

Specialized entities are sometimes created to circumvent the bureaucracies of traditional service providers. As noted in previous sections of this report, SOEs often exceed their core functions, leading to bloated organization, inefficiency and heavy financial burdens. In response, specialized agencies have been created, for example: the renewable energy agency MASEN was established to focus on solar energy; its remit was later expanded to cover all renewable energy sources. Another example is the *Agence Nationale pour le Développement des Energies Renouvelables et de l'Efficacité Énergétique* (ADEREE), a research institution dedicated to energy efficiency issues. In the ICT sector, the digital development agency (*Agence du Développement Digital*, ADD) was created to boost the deployment of broadband infrastructure. The Tanger Med Port Authority (TMPA) was created to bring managerial and operational expertise to the daily operations of the Tanger Med Zone.

Improving the efficiency of SOEs, by rationalizing their mandates, would contribute to enhancing efficiency of service delivery. Working with supervisory authorities, SOEs can accelerate the implementation of measures to increase efficiency in service delivery and strengthen capacity to carry out new investments, including through more reliable use of program contracts. Partial equity listings of financially viable SOEs could help improve corporate governance, transparency and the efficiency, while raising additional capital.

Policy

Improving the institutional environment is the essential ingredient to developing more public-private partnerships in infrastructure. Although a clear and comprehensive PPP law would be a vital pillar to support sustainable private participation in infrastructure investment, the legal framework may not be the binding constraint to develop more

partnerships given the number of PPPs transacted prior to the passage of the PPP law.[86] The critical sectoral institutional issues that would help to attract more private investment to infrastructure include: clarifying the subsidiary role of the state in certain infrastructure sectors (for example, air transport and telecommunications); ensuring transparent and competitive procedures for establishing public-private joint ventures; and a unified procedure to grant or extend concessions. Institutional capacity must also be built in the public sector to originate, evaluate and monitor PPPs, including their fiscal implications for the public sector budget.

On the PPP legal framework, only two PPP projects have been proposed since the passage of Law 86-12 on PPPs in 2014,[87] and thus its effectiveness has still to be tested. The law has strengths as well as limitations. On the positive side, it allows the concessionaire to receive assets from the contracting authority in return for collateral, thus facilitating the concessionaire's access to private finance. It also introduces performance-based objectives, including penalties for failing to meet the objectives. The requirement that a preliminary evaluation be conducted before a PPP can be selected is good practice. There are some important limitations, however. Removal of exceptions to the PPP law are under consideration and should be implemented: for example, the ban on a private partner being paid exclusively by user fees (as could be the case of toll roads); there is no scope to allow subnational entities (notably regions and municipalities) to contract under the PPP law. Moreover, sector-specific laws co-exist with the PPP law and allow contracting with private parties in certain sectors (ports, renewable energy generation, electricity generation, desalination, and airports). This creates confusion among potential investors, particularly as the laws are not aligned on a number of issues including contract selection, preliminary evaluation of projects, minimum clauses, and guarantees. An amendment to the PPP law is currently being prepared by the Ministry of Economy in order to resolve some of the identified shortcomings. While the law provides a framework for the government to engage in PPPs, more effort is needed to develop a pipeline of bankable projects and to reach out to potential investors.

Planning

While sector plans are detailed and specific, the identification and financial planning of investment projects is not anchored in thorough and objective quantitative analysis. Plans often do not identify sources of finance or a plan for mobilizing the needed funds. For instance, ports, with the exception of Tanger Med and Jorf Lasfar, are located within cities, which makes expansion difficult. Another example is the development of the Tangier-Casablanca railway line which was developed despite the existence of a highway covering the same route. And despite no longer working on renewable energy, ONEE'S performance contract includes allocations for spending on renewable energy, reflecting a disconnect between strategic planning and budgeting.

Procurement

Morocco's current legal framework for public procurement is well-balanced and for the most part reflects international best practice, but the institutional structure is problematic. In principle, the Competition Council is responsible for regulating and monitoring competition in various sectors, while the National Commission for Public Procurement (*Commission nationale de la commande publique*, CNCP) regulates public procurement. For the past four years, however, and as noted in earlier sections, despite a reorganization that took place in August 2014, the Competition Council was non-operational until December 2018. As for the CNCP, it was established in September 2015 but is only now becoming operational following the nomination of its president in January 2018. Moreover, its powers and autonomy in regulating public procurement are not well defined, leaving a significant institutional void. These institutional weaknesses have led to serious gaps: there are no model templates for calls for tenders, customized by type of procurement process; there is no reliable system for collecting and managing statistical data; capacity constraints delay technical and financial evaluations; and there is no system for monitoring the progress of submissions, undermining transparency and accountability. As for executing contracts, projects are often delayed—sometimes by up to twice the estimated

timeline—because of missing requirements that could have been foreseen during procurement.

Regulation

Updating the approach to regulation across sectors would help to ensure transparency and sustainability in infrastructure finance. There is little transparency regarding the technical information needed to allow an independent assessment of sector performance; what information exists is rarely made public, reducing the scope for useful feedback from key stakeholders. Tariff reviews are conducted and decided without a public explanation of the rationale for tariff levels and structures. Financial information is accessible for a number of sectors, but usually falls short of international regulatory standards. For instance, Morocco does not have regulatory accounting guidelines that require operators to provide sufficient details in their cost accounting. Such information is needed, for example, when comparing options to improve cost recovery, or to rebalance tariffs for the social good. This approach to regulation is anchored in a tradition that assumes that the public service is by definition in the public interest, and that costs are not a primary concern. Costs do matter, however, particularly when sustainability and efficiency are at stake. If the political preference is to maintain subsidies to a sector, regulations can be designed to ensure that these subsidies produce value to the taxpayers in a cost-effective way. These concerns are currently not internalized in the practice of regulation in Morocco.

D. SECTOR-SPECIFIC ISSUES

TRANSPORT

What's working well?

The road network has expanded significantly in recent decades, the quality of roads is higher than in middle income peers. The total road network is 60,000 kilometers long (2017), of which 2,500 kilometers are highways (2 percent), 41,500 kilometers (71 percent) are paved roads, and 16,000 kilometers are unpaved (27 percent). The government has prioritized road development as part of a strategy of reducing poverty, isolation, and social inequality across the country. Through successive programs beginning in 1995 almost 25,000 kilometers of rural roads have been constructed or rehabilitated. The paved road network in rural areas doubled between 2000 and 2015, and nearly 80 percent of the rural population now lives less than a kilometer from an all-weather road, compared with only 34 percent in 1995. Morocco is ahead of its peers in paved road density with 29 kilometers per 100 square kilometers, compared to a low- and middle-income country average of 23 kilometers, and enjoys a developed network of highways.

The overall level of connectivity is good relative to regional peers, with excellent port infrastructure and good quality rail infrastructure. Morocco outperforms the MENA regional average in terms of connectivity in three out of four transport subsectors—paved roads, ports, and airports—and is almost at the benchmark level in railways. In the latest Global Competitiveness Index (2017–18), Morocco was ranked 38th out of 138 countries for the quality of its railroad infrastructure (WEF 2017). This puts Morocco ahead of all African countries and also of some of its middle-income peers. Tanger Med is a major international port hub and a gateway for Morocco's imports and exports. Air transport has witnessed massive growth in the past few years, spurred by the signing of the Open Skies Agreement with the European Union in 2006.

There appear to be good prospects for private financing and operations in the aviation industry. ONDA is already partly financed by the private sector, issuing its first bond, worth MAD 2 billion to raise financing for the expansion of airport infrastructure (Oxford Business Group, 2011). A PPP for an airport specializing in business aviation in Tit Mellil is in the early stages of study. The airport sector is relatively competitive on international routes, but domestic flights could not survive without state subsidies.

Where are the gaps?

Despite overall high quality of road stocks, these have deteriorated significantly since 2002. As of 2015, almost half of the road network was deemed to be in poor state. The share of road length considered to be suitable for traffic declined from 66 percent in

2002 to 54 percent today, returning to 1990 levels. Secondary roads (regional and provincial) have been particularly affected. The deterioration is due to insufficient spending on maintenance, increased road traffic, and the impact of climate change. Regarding climate change, the transport sector accounts for 40 percent of national energy consumption but there are few concrete measures to green the sector. While plans are quite detailed regarding infrastructure expansion, sustainable development is largely ignored.

Urban public transport, particularly in large cities, is slow, congested and unequally distributed. Moroccan cities suffer from insufficient public transport coverage in poor neighborhoods. Moreover, the commercial speed of public urban transport as reported by operators is particularly low and unpredictable. Speeds often drop to 5 kilometers per hour on average in the densest urban areas during peak hours. An aging bus fleet has resulted in unreliable service.

Planning capacity and the dominance of SOEs in commercial sectors are additional constraints. The capacity to prioritize projects is weak, occasionally leading to oversized assets. Municipalities lack the capacity and resources to procure and manage complex urban transport contracts. The Cour des Comptes has also highighted delays and cost overruns in asset delivery. The public sector is involved in services that can perhaps be delivered by the private sector. Logistics activity, for instance, is in the hands of the Societe nationale du transport et de la logistique (SNTL); SNTL has already devolved some of its activities, notably real estate and insurance, to subsidiaries, although some of these functions could also be managed by the private sector (Cour des Comptes, 2016). ONDA manages Morocco's airports but has other functions that extend beyond this core mandate; ONDA has never had a program contract with the state; such an instrument could help to clarify its role and responsibilities.

ENERGY

What's working well?

Universal access to electricity has been achieved and reforms in the 1990s introduced private participation in the sector. The national average rate of electricity access increased from 18 percent in 1995 to 98.9 percent in 2018. The sector's structure has also shifted over the past 25 years: the share of the total electricity supply produced by the national utility, ONEE, has dropped from 95 percent to below 30 percent. Partial liberalization of the generation segment has allowed private sector participation in generation and distribution in big cities under concession contracts. Today, independent power producers (IPPs) contribute about 52 percent of Morocco's energy supply (not accounting for those under the Renewable Energy Law), while imports (17 percent) and private industrial producers (less than 1 percent) account for the rest.

The National Energy Strategy sets a target level for renewable energy at 52 percent of total installed energy generating capacity by 2030. The Strategy was adopted in 2009 in order to reduce the country's import dependence, lower the energy intensity of the economy, and mitigating climate change. The renewable energy target, initially set at 42 percent of installed power generating capacity by 2020, was increased to 52 percent by 2030 in Morocco's Nationally Determined Contribution (NDC).

Where are the gaps?

Morocco imports over 93 percent of its primary domestic energy needs, making it the largest energy importer in the MENA region. Petroleum imports account for 20 percent of total imports and 50 percent of the current trade deficit, making Morocco particularly vulnerable to fluctuations in international energy price and supply shocks. Increasing energy efficiency to manage demand is a challenge.

Expansion of the grid has been accompanied by an increase in network losses. The technical and commercial losses in Morocco (13.4 percent) are lower than in its regional peers Tunisia and Algeria, yet remain high when compared to other regional peers, including Jordan and Egypt (11 percent) or Saudi Arabia (7 percent).

More clarity for IPPs on the integration of renewable energy into the grid is critical to encouraging private investment. Sector organization, regulation and sustainability has become more complex. The

rise of MASEN and changing role of ONEE have introduced uncertainty regarding the governance of the sector and rationalizing the roles of sector actors to clarify responsibilities and avoid overlap is needed. Moreover, the financial sustainability of off-takers has deteriorated: MASEN is a loss-making off-taker and ONEE's continues to face challenges since the merger of electricity and water activities. This raises uncertainty for IPPs. Delays in establishing the independent regulator for the sector further increase uncertainty. Transmission is entirely public, under ONEE. Reforms to stimulate private investment in the small and medium-size renewable energy market should be pursued.

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

What's working well?

Morocco's telecoms connectivity is comparable to middle income peers in Africa and Asia. Morocco's score of 58 out of 100 on the Global System for Mobile Communications (GSMA) Connectivity Index, which measures quality of infrastructure, affordability of services and devices, consumers' readiness, and the relevance and availability of local content and services is similar to Egypt's (56.5), Algeria (55.9), and India (53.7). Morocco performs well on affordability (68) and content (66.5). The mobile phone market has now reached saturation (122 percent in 2016) as measured by the number of SIM cards relative to the population. The quality of connection and internet speed are also considered to be good.

Where are the gaps?

Broadband penetration is low. As notes in previous sections, Morocco has one of the lowest broadband penetration in MENA and is well behind other comparable emerging countries. Moreover, a survey conducted by the regulator, ANRT, points to a digital divide between urban and rural areas: while 76 percent of urban households owned internet access equipment in 2015, only 47 percent of rural households did. Infrastructure coverage is significantly lower in secondary cities than in the larger ones.

Public sector presence in the ICT sector is high, with stakes in two of the three sector operators. The government owns 22 percent of Maroc Telecom while CDG holds 25.5 percent ownership in Orange. The third operator, Inwi is 69 percent owned by Société Nationale d'Investissement (SNI), the royal holding. The sector suffers from lack of competition, incomplete and inefficient regulation, and underinvestment in fixed infrastructure. Optimizing the use of existing digital infrastructure owned by SOEs through infrastructure sharing is still needed.

WATER

What's working well?

Morocco ensures basic water services for domestic, industrial, and agricultural purposes. An estimated 99 percent of the urban population has access to improved (mostly piped) water services. For the rural population, there is a significant discrepancy between the official figure provided by ONEE for drinking water access, at 95 percent in rural areas, and that put out by the World Health Organization/United Nations Children's Fund Joint Monitoring Programme, which, based on household surveys, estimates drinking water access at 64 percent.

Demand-side measures are being put in place to contain agricultural uses of water and to make more water available for domestic and industrial uses. In an effort to increase the productivity of water in agriculture, a national plan promotes more productive water use via efficient irrigation technologies (mainly drip irrigation) to be introduced over 555,000 hectares of irrigated land by 2020. This process is to be supported with significant subsidies for the adoption of drip and micro-sprinkler irrigation, and with 70 percent subsidies for sprinkler irrigation. Morocco has one of the lowest levels of agricultural and industrial water productivity—a few cents per dollar compared with far higher amounts among its neighbors, perhaps due to the use of water-intensive crops such as watermelons and citrus in arid regions.

Where are the gaps?

The pressure on water resources has worsened, with successive droughts and reduced water availability. Morocco's water availability, at 800 m^3/capita/year, is well below the global water scarcity threshold of 1,000 m^3/capita/year. The current water deficit is estimated at around 2 billion cubic meters (BCM) per year and could reach 3.8 BCM in 2030 and 5.4 BCM in 2050. Climate projections in Morocco indicate that climate change is likely to result in an increase in summer temperatures of up to 3.7°C by 2030, and a reduction in rainfall in the region by 5 to 15 percent by 2030 and 10 to 25 percent by 2050. These changes could reduce the available groundwater recharge by 33 to 45 percent by 2030 (World Bank, 2013). Morocco has one of the lowest levels of agricultural and industrial water productivity—a few cents per dollar compared with far higher amounts among its neighbors. This may be due to the use of water-intensive crops such as watermelons and citrus in arid regions.

Morocco needs to develop nonconventional methods of increasing water resources. While the number of wastewater treatment stations increased from 21 in 2005 to 70 in 2014, the share of treated reused wastewater in overall water resources is still less than 5 percent. Complex environmental regulations, and the difficulty of treating both municipal and domestic wastewater in the same plant, have slowed the expansion of wastewater reuse for agriculture in Morocco. While Morocco has commissioned a sizeable desalination plant as a PPP (for Chtouka), and ONEE currently operates 10 small desalination plants, desalination has not yet made a dent in the country's water availability. The capacity to procure private projects in this area is weak.

E. RECOMMENDATIONS

- Encourage the origination of projects suitable for private sector investment including by strengthening the capacity of the civil servants in the responsible entities.
- Identify viable infrastructure services to outsource to the private sector including considering opening parts of ONCF's operations to private sector participation and reviewing options for private sector participation in the ports and airports sub-sectors.
- Establish clear guidelines for granting state guarantees to SOEs and encourage SOEs to finance investment on a commercial basis.
- Apply program contracts more uniformly across infrastructure SOEs: e.g. finalize the program contract between the State and ONEE
- Improve transparency in sector regulations and eliminate overlap between PPP law and sector specific laws.
- Eliminate/limit exceptions from the PPP law.
- Improve financial information and information on performance in sectors where private investment is needed. Ensure transparent and competitive procedures to enter public-private JVs.
- Unify procedures to grant/extend concessions. ■

VI. Sector Deep Dives

Constraints to competition, entrepreneurship, and infrastructure finance have a real impact on firm entry and growth in Morocco. The remaining sections of this CPSD illustrate the impacts of the constraints that were described in previous chapters on private enterprise in specific sectors: tertiary education, vocational training, and the automotive and aerospace industries. These four sectors are vital to Morocco's vision of itself as an exporter of high value-added goods and services and as a hub for investment, manufacturing, finance and education, linking Europe and Africa. As noted in the 2019 World Development Report, education systems tend to be resistant to change, and a significant part of human capital and skills supply upgrading across countries today is happening outside compulsory education or formal jobs. Tertiary education and adult learning outside jobs (as well as early childhood learning), are increasingly important in meeting the skill demands of future labor markets. (World Bank, 2018b)

Public policy has tended to limit private investment in tertiary education and vocational training, although reforms are under consideration. Tertiary education and vocational training are critical to allowing Morocco's youth to take part in the modernization of the economy, while ensuring a supply of skilled human capital for the development and growth of emerging industries. As noted here and in numerous other studies, Morocco underperforms its peers in educational outcomes (World Bank,2016a); employers cite skills mismatches as an important constraint to growth, a fact also reflected in the poor employment outcomes that are typical of much of the public education system. The Moroccan private sector has been engaged in both tertiary education and in technical and vocational training and has the potential to significantly contribute to the human capital and skills upgrading that the country is in urgent need of. Yet policies have not always favored the private sector's participation in either sector. The deep dives on tertiary education and technical and vocational training describe some of the policy constraints on greater participation of the private investment in these sectors and suggest options to address them.

The automotive and aerospace industries have experienced remarkable growth in recent years, yet very few domestic firms have succeeded in joining these value chains. Foreign firms in both sectors have located in Morocco, attracted by proximity to Europe, low wages, and a raft of incentives[88] put in place by the government (as part of the *Plan emergence industriel Maroc 2020*), as noted in previous chapters. Substantial clusters have emerged, with growing numbers of foreign suppliers moving to Morocco to establish production units, particularly in the auto sector. But only a handful of local suppliers have joined these value chains and clusters. Despite the incentives offered by government to join these productive sectors, Moroccan investors have preferred to place their resources in non-tradable sectors where profits are more secure and competition less demanding. Integrating Moroccan firms into value chains would multiply the benefits to the domestic economy through the creation of employment and spillovers. The automotive and aeronautics deep dives review the development of both sectors and outline some of the challenges that face local firms attempting to enter these value chains, as well as some recommendations to address these hurdles.

A. TERTIARY EDUCATION

Context

The massification of higher education in Morocco has resulted in significant pressure on public universities, whose capacities in terms of quality and quantity do not match the social demand. Tertiary education enrollment in Morocco has increased dramatically over the past decades. The number of students in higher

education increased from 284,346 in 2000–01, to 825,121 in 2016–17. This was due to the increasing number of secondary education graduates resulting from the implementation of the Education Emergency Plan 2009–12. The number of new baccalaureate holders increased by 50 percent between 2010 and 2016, from 136,721 to 206,016. In 2014, the Higher Education Council reported that the capacity utilization of open access public universities was 175 percent. The quality and relevance of tertiary education has also suffered due to overcrowding and a lack of permanent teaching. In this context, the development of the private sector is considered relevant to complement public efforts to increase the system's enrollment capacity.

The private sector accounts for just 5.3 percent of student enrollments, far from the 20 percent national objective set by the National Charter for Education for 2010. Since 2010, enrollment of new students in private tertiary education institutions has progressed slowly in Morocco. In 2016–17, the Moroccan tertiary education system enrolled 825,121 students, of which 83 percent were enrolled in public open-access facilities, while 12 percent of students were enrolled in public limited-access facilities. The private tertiary education sector comprises a total of 164 institutions (Table 10 and Table 11). These include 150 higher education institutes, six private universities, seven universities or institutes created in the context of a partnership, and Al Akhawayn university, which is a public university created by royal decree but with a private management mode. In 2016–17, almost two-thirds of students enrolled in private tertiary education institutions were concentrated in the cities of Grand Casablanca and Rabat. The private tertiary education sector accounts for 13 percent of student enrollments in Casablanca, 11.6 percent in Rabat, 6.3 percent in Marrakech, 3.4 percent in Fes, 2.3 percent in Tangier, 1.6 percent in Agadir, 2.2 percent in Meknes and 1.7 percent in Oujda.

TABLE 10 Composition of Morocco's student population, 2018

	# Institutions	# Students enrolled	% Female	% Foreign students
Higher education institutes	150	28,493	44.2%	18.7%
Private universities	6	7,032	48.2%	19.3%
PPP universities	7	6,030	53.0%	5.5%
Al Akhawayn	1	2,061	54.2%	2.8%
Total	**164**	**43,616**	**46.5%**	**16.2%**

Source: Authors.

Constraints

The new regulations for state recognition introduced in 2014 and deemed necessary to upgrade the quality of private providers, distorted the market for both existing and new players, affecting the enrollment of students in private institutions (Annex 8). State recognition is particularly crucial in Morocco as it is necessary to obtain a job in the public administration and is, therefore, a key determinant for parents and students in the selection process. Institutions without state recognition are clearly disadvantaged when jobs in the public administration are still perceived as safer. The new regulations are creating distortions for two main reasons:

1. Some criteria to obtain state recognition seem excessively stringent and geared toward large universities rather than private tertiary education institutions which are more prone to be established by private providers. For example, private tertiary education institutions need to have at least 400 students enrolled when they apply for state recognition (it is unclear whether this means in each campus or in total). Also, the legal text does not make a distinction between the types of institution (large multidisciplinary universities versus specialized institutions). This is important because there are some space requirements, such as the need for a cafeteria, parking, specific minimum

TABLE 11 Selected Universities in Morocco

	Status	Type of institution	State recognition	Created	No. of students	No. of foreign students	Fees (MAD '000)	Location
HEM Casa	Private	H.E. Institute	No	1988	1,019	12	70	Casablanca
ESCA	Private	H.E. Institute	Yes	1992	740	50	72	Casablanca
HEM Rabat	Private	H.E. Institute	No	1993	306	15	70	Rabat
Université Mundiapolis	Private	University	No	2009	926	299	50-70	Casablanca
UIC	Private	University	Yes	2010	1,701	148	60–72	Casablanca
UPM	Private	University	Yes	2012	2,235	497	25–74	Marrakech
Ecole d'Architecture de Casablanca	PPP	H.E. Institute	Yes	2004	239	60	78	Casablanca
UIR	PPP	University	Yes	2010	2,766	59	72–101	Rabat
Université Euro-Méditerannéenne de Fès	PPP	University	Yes	2012	278	12	70	Fès
Ecole Centrale	PPP	H.E. Institute	Yes	2013	104	25	50	Casablanca
Université internationale Abulcasis des Sciences de la Santé	PPP	University	Yes	2014	892	36	24–94	Rabat

Source: compiled by authors.

capacity for teaching space, and administration and education support space, that may be discriminatory for private institutions. All institutions also need to have a research department, many publications, and need to be constructed or under construction (no long-term lease is possible) in an urban area (where land is scarce and expensive).

2. New private tertiary education institutions may apply for state recognition only after at least three years of operation (unless the universality has a partnership agreement with the state to provide training or for research), creating a *de facto* advantage for the incumbents. In the absence of state recognition, a new private tertiary education institution may not be able to attract as many students as needed.

Consequently, the new regulation has allegedly diverted some students toward large universities, often established in partnership with SOEs or their subsidiaries (the number of new students in private universities has stagnated) and squeezed the profit margins of the private tertiary education institutions. While the use of stringent standards to obtain accreditation and recognition pursue a justified public policy rationale, the differential treatment between institutions including those building upon partnerships with subsidiaries of SOEs and those building upon private capital could create an unlevel playing field. On

the one hand, this type of treatment may distort the incentives for private operators to enter the market and provide education services. On the other hand, while the role of SOE subsidiaries in the provision of these services might not be compliant with the subsidiary role of the state in the economy, these universities have the ambition to provide high quality education standards with a focus on scientific research and innovation and are developing a strong network of international partnerships, deploying large resources that are not affordable for smaller private operators.

Fees remain high and student financing instruments are scarce (Table 11). Most private universities charge on average MAD 50,000–70,000 (about $5,200–$7,940), excluding housing and other daily charges, for a four-year curriculum. These fees are affordable for the Moroccan elite, who can also afford to study abroad. Interviews with selected private providers acknowledge that parents often take (commercial) loans to pay for their children's studies in private institutions. IFC has supported Institut des Hautes Etudes de Management (HEM) in establishing a new private university in Casablanca targeting middle-income youth and offering bachelor, and in the future master, degrees in various "arts and trade" disciplines that are within employable sectors. The new entity offers more affordable annual tuition fees at the lower rate of $3,400 (recent interview with the CEO of HEM indicates that even these fees remain relatively high for most Moroccan youth).

Private university enrollment is undermined by the lack of indicators on the quality of education and student outcome of public versus private institutions. With little information provided to students and parents when selecting universities, including public versus private, state recognition becomes crucial and high fees a deterrent, shedding doubt on the worthiness of the investment in education in private institutions. Most institutions track only employment after six months and rarely publish these numbers. Dashboard indicators may consist of a variety of measures that generally are related to the strategic mission of the institution. They may include indicators on admissions, student outcome (retention rates, graduation rates), faculty, satisfaction (student, faculty and employment), and peer assessment data.[89]

Recommendations

The regulatory environment should be improved to level the playing field. The new process of state recognition of private tertiary education institutions is intended to ensure high quality standards in the private sector. However, state recognition should be provided based on criteria that ensure a high quality of education more than physical and infrastructure criteria.

The government through SOEs should target segments of the markets that are not served by the private sector and that could help addressing a public service. At present, most private tertiary education institutions and PPP universities, which are institutions intended to enroll the largest number of students, implement relatively high tuition fees not easily affordable to the Moroccan middle class (around MAD 70,000 per year). Private providers could also target the larger middle-class pool offering lower student fees and a shorter curriculum (Bac+3) such as investment by HEM that benefitted from IFC investment.

Greater enrollment in the private sector would likely be achieved if financing instruments were made more widely available to students, including through merit-based scholarships. In the current system, students may apply for credits to fund their education in private institutions. Several commercial banks (such as BMCE, Société Générale, Attijari Wafa Bank) offer student loans, with an interest rate of between 6.5 and 8.5 percent. However, as reported by many stakeholders, the guarantee scheme is not adapted to ensure adequate functioning of student loans. A government student loan guarantee was made available in 2015 (through Caisse Centrale de Garantie, or CCG), but commercial banks do not use this scheme, and the information is not well disseminated among the population. The CCG guarantee covers only 60 percent of the credit and commercial banks require other guarantees from students. A few external entities provide scholarships to students wishing to pursue education in any private tertiary education institution, such as the Fondation de l'Etudiant Marocain. Many private universities award scholarships that offer a discount on tuition fees for their academic programs, but due to concern over financial sustainability this option is limited.

Public and private institutions should be mandated to publish student outcome and satisfaction data of their different programs to improve the quality of information available to students and parents when selecting schools. They should publish statistics on graduate employability beyond six months.

B. VOCATIONAL TRAINING

Context

Vocational training is offered by both private and public institutes, as well as PPPs, and there is an untapped potential to increase PPPs in order to enhance quality and as a bridge for future training. Vocational training consists of two main levels: initial training and continuing education. The former is structured according to four levels, starting with candidates having at least completed Grade 6 at primary school to candidates holding the baccalaureate degree (Figure 30). Bridges are possible with higher education through the licence professionnelle. Continuing education is intended for company employees. It allows employees to keep their employment by developing their professional skills and qualifications to match the market's needs and evolutions, and to benefit from career advancement. It also allows companies to improve their productivity and competitiveness. Continuing education activities are funded by a fraction of the TFP (vocational training tax/levy).

Although the number of private TVET providers exceeds by far the number of public TVET institutions, enrollment in public institutions accounts for almost 80 percent of total enrollment in the TVET subsector (Figure 31). In 2017–18, the non-academic TVET system consisted of 584 public institutes, 1,221 private institutes, including 403 accredited, 103 training centers operated by NGOs (48) and firms (55), and 125 residencies. Private institutes are in general small, mostly not accredited and offer training for self-employment.

Most fully private TVET institutions are authorized to operate but are not accredited and tend to deliver initial vocational training focusing more on training for the tertiary/service sector, requiring less investment in infrastructure and equipment. Many private institutes do not feel the need to go through the administrative process for accreditation, as they mainly provide short-term training for self-employed activities in the private sector (such as hairdressing and dress-making) and in fields such as marketing, accounting, and ICT for people who do not aim to enter the public service. Most accredited private TVET institutes offer residential training, usually work closely

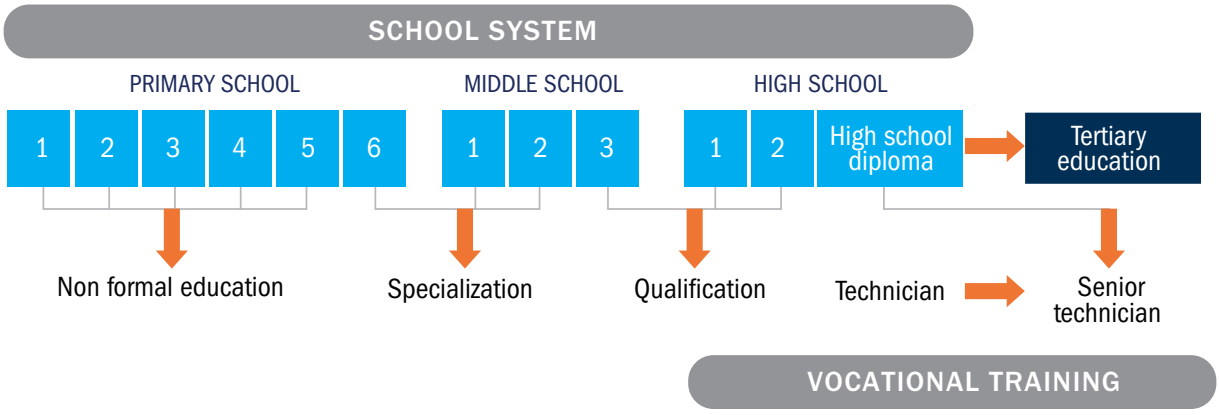


FIGURE 30 Overview of the vocational training system

Source: CSEFRS, 2014.

with the Département de le Formation Professionnelle and the Office de la Formation Professionelle et de la Promotion du Travaille (OFPPT), and mostly cater to the many thousands of youth who do not pass the OFPPT admission test.

At present, the private sector landscape is dominated by PPPs or Instituts à Gestion Déléguée (IGDs—delegated management institutes), which have primarily helped attract foreign investors in sectors that needed a highly skilled, specialized workforce. There are currently 10 operating IGDs, which have been created in partnership with national and international private professional organizations (Table 12). The government covers all the costs of establishing and running the institute, including salaries, learning materials, maintenance, and so forth (no official amount available). Typically, the management is outsourced to the association of private enterprises within the sector. The state has no role in day-to-day management, and the institutes are free to define the contents of the training according to the specific needs of the partners, as in the case of IMA (Box 4). In addition, there are also instances of public-private collaboration in TVET in the form of CFA-IE (Centre de Formation par Apprentissage Inter-Entreprise), where the state subsidizes some of the student fees. Also, five OFPPT centers are being co-managed with the private sector. Although there are scattered examples of training institutions that have received equipment from private partners, this is not a common phenomenon and not something OFPPT is promoting at present. Apparently, there are no plans to open more IGDs before a comprehensive evaluation of the system has been conducted.

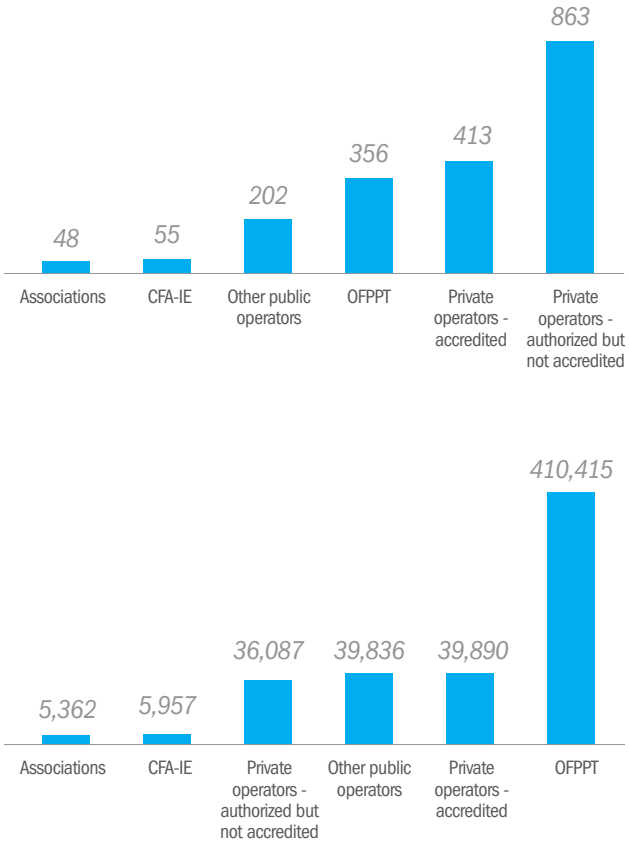


FIGURE 31 The number of institutions and trainees, 2016–17

Source: Authors with data from Department of Vocational Training at the Ministry.

Strategy 2021 is also considering new forms of PPPs: (a) development of mixed institutes (*établissements mixtes*) with a public-private co-investment and a private mode of management; and (b) development of a contractualization system (on the basis of specification requirements) with private TVET institutes that are accredited, including the institutes targeting disadvantaged populations (low-income, living in poor and/or rural areas), as a means to achieve the national objectives of TVET. The accreditation offers more possibilities to the graduates from accredited private TVET institutes because they can apply for equivalence of their diploma with public ones and, therefore, work in the public administration, and benefit from bridges with higher education of training abroad.

The government took the following measures to regulate and further stimulate the role of the private sector in TVET: (a) introduction of the accreditation process for private training institutes to allow to distinguish those institutes that provide quality training from others. Accreditation of programs means that graduates from private institutes may ask for equivalence of their degrees with public ones and, therefore, apply for positions in the public administration; (b) provision of scholarships to

TABLE 12 Institutes à Gestion Déléguée (IGDs) in Morocco

SECTOR	INSTITUTE	PARTNERS	START DATE
AERONAUTICS	Institut des Métiers de l'Aéronautique (IMA) de Casablanca	GIMAS UIMM/Bombardier	2011
AUTOMOTIVE	Institut de Formation aux Métiers de l'Industrie Automobile (IFMIA) de Tanger Med	Renault	2011
	Institut de Formation aux Métiers de l'Industrie Automobile (IFMIA) de Casablanca	AMICA Koica (Corée)	2013
	Institut de Formation aux Métiers de l'Industrie Automobile (IFMIA) de Kénitra	Consortium Industriel Espagnol/AMICA	2014
	Institut de Formation aux Métiers de l'Industrie Automobile (IFMIA) de TFZ	AMICA	2016
TEXTILE/LEATHER	École Supérieure de Création et de Mode (ESCM) de Casablanca	AMITH/ESITH	2013
RENEWABLE ENERGY	Institut de Formation aux Métiers de énergies renouvelables et de l'efficacité énergétique (IFMREE) d'Oujda	FIMME, FENELEC, MAsEN, ONEE	2015
	Institut de Formation aux Métiers de énergies renouvelables et de l'efficacité énergétique (IFMREE) de Tanger		2017
	Institut de Formation aux Métiers de énergies renouvelables et de l'efficacité énergétique (IFMREE) d'Ouarzazate		2018
TRANSPORT AND ROAD SECURITY	Institut de formation dans les métiers du transport et de la sécurité routière	Fédérations du secteur du transport	2018

Source: Authors.

Note: Some IGDs are increasing the number of facilities, such as automotive, with the heavy support from the government and adapting to the recent establishment of PSA in Morocco. The established automotive IGD has also become almost financially independent from government contribution. However, the aerospace IGD seems to still rely heavily on the government's contribution for about 40 percent of its operating cost. The aerospace industry has clearly identified the need to increase the number of training programs for at least two new clusters, but it is waiting for the government's contribution (land, infrastructure).

students from poor households to register in any TVET institute, including private ones (but at a limited scale: one-third of training costs up to MAD 4,000 a year, and at the level of specialized technician only); and (c) tax exemption for private TVET institutes on all pedagogical investments.

His Majesty King Mohmmed VI has given priority to revamping the vocational training offer to adapt to the labor market requirement and equip Moroccan youth with skills that would help them more readily find jobs. A roadmap for the development of the vocational training sector is being put into place. It includes a City of Professions and Skills that will be set-up in every region of the Kingdom. These multi-sectoral and multifunctional structures aim at boosting competitiveness and contributing to job creation. These are multi-sectoral and multifunctional structures that will become a strategic lever for competitiveness and a major factor of the integration of the youth into working life. These new facilities will focus on training that is in line with the specificities and potential of each region. A particular focus will be given to tomorrow's jobs, including digital-offshoring. These spaces will host specific structures, such as simulation centers and technological halls, to recreate a conducive professional environment. Training related to digital-offshoring

BOX 4 Institut des Métiers de l'Aéronautique (IMA)

The institute was the first of the now 10 IGDs. Management of the institute is in thehands of Groupement des Industries Marocaines Aeronautiques et Spatiales (GIMAS), the professional association of companies in the aerospace industry in Morocco. Similar to other IGDs, the government, through the Ministere de l'Education Nationale, de la Formation Professionnelle, de l'Enseignment Superier et de la Recherche Scientifique provides the funding for IMA. The Institute has also received funding from AFD and has a twinning arrangement with a French aerospace training center. Apparently, IMA has become a model for other IGDs, which frequently seek the advice of the institute.

IMA is equipped with state-of-the-art equipment and appears as a well-managed center with a committee and competent management team. Through GIMAS, the management maintains very close ties to the aerospace companies operating in the country. The training courses, which have a duration of six to nine months, are tailored to the specific needs and standards of the individual companies. The companies select the trainees through an admission test (roughly 10 percent of applicants pass the text) and pay them a stipend during the training. It is based on the alternate model, that is, about 50 percent of the training takes place as on-the-job training. Upon completion of the training, the trainee receives a Certificate of Qualification. The certificate does not provide accreditation for further training, however. More than 95 percent of those completing the training find a job in the industry.

Although the clients of IMA would be entitled to have part of the training sponsored under the Continuing Education scheme, they do not appear to take advantage of this opportunity. The application procedure is considered too bureaucratic and cumbersome, and not in line with the potential financial contribution.

Source: Base on interviews with the management of IMA and GIMAS.

jobs will be provided in the twelve regions of the Kingdom, while those related to artificial intelligence will be offered in the regions of Rabat-Salé-Kenitra and Casablanca-Settat.

Constraints

While the Government recognizes the importance of the private sector in its 2020 Vocational Training Vision, it may have distorted the market by being at the same time funder, provider, owner, and regulator. The public sector has extended its role by offering initial training, previously offered by private training institutes only, through the OFPPT (Office de le Formation Professionnelle et de la Promotion du Travail) starting in 2000.[90] Its scope of action was also progressively extended to most sectors and today it operates a network of 371 institutes across the country. The OFPPT offers specialist training for technicians. Furthermore, it deals with issues such as curriculum development, job-placement of graduates, and accreditation of private training providers.

Interviews with the private sector suggest that the OFPPT has diverted students away from private TVET providers and that their graduates lack practical skills. The OFPPT delivers training for industry/ fabrication and services sector to about 500,000 youth (initial training) in 320 different professions and produces on average 230,000 laureates per year. The OFPPT estimates that about 72 percent of graduates find employment within one year of graduation. Most graduates are employed (self-employed) in the private sector. In terms of student intake, the OFPPT reports that it receives four applications for every place available (1 million applicants for 250,000 places in initial training). Moreover, all public TVET is free in Morocco at present, except for a nominal administration fee to be paid upon enrolment. The access criteria are also less stringent than in the IGDs. Consequently, many potential trainees tend to go to OFPPT training centers first, then a few of them enroll in the IGDs.

Moreover, there seem to be inadequacies in the allocation of TVET resources, dedicated more to the initial training than to continuing training. The TVET system in Morocco is funded by a combination

of government direct funding through the national budget, the training levy/tax, and development partners. The Vocational Training Levy (TFP) initially established to fund the continuing education has been diverted toward initial training over the years. All private and public organizations with more than 10 employees must contribute 1.6 percent of their total aggregated monthly payroll toward professional training.[91] However, in accordance with government decree, 70 percent of the levy is now earmarked for contributing to the financing of initial training programs provided by the network of TVET institutions under the purview of the OFPPT, while 30 percent is reserved for financing of continuing skills development needs of companies. Access to these funds is also cumbersome to SME which employees cannot benefit from continuing training to develop and acquire new skills.

The OFPPT training institutes reportedly face several challenges, including a lack of financial, human, and material means to provide quality training to all the trainees/students. The OFPPT is financially autonomous with a MAD 3.4 billion budget in 2018. About 60 percent will be covered by the TFP, while the remaining 40 percent will come from sources such as student administrative registration fees (MAD 600–800), consulting services, development partners, part-time and fee-based training for external clients, and conventions/agreements with some of the Regional Councils. The budget covers all operational costs, including salaries, related to the network of training institutes managed by the OFPPT. Institutes under the OFPPT are facing serious quality challenges and suffer from a lack of flexibility, which is hampering the labor market relevance of the training.

Recommendations

- **PPPs require a redefinition of the traditional role of government from being funder, provider, owner, and regulator to one in which the government remains funder and overarching regulator but partners with the private sector in the provision and ownership of education.**
- The government should focus on emulating IGD model across the strategic industries, identify the specific needs for additional training programs to be developed and the budget required. Then, financing solutions can be identified with the help of firms, development partners, and the government.
- **The government should reduce the scope of publicly offered initial training and build more partnerships with the private sector.** The government could reduce this inefficiency by cutting the number of public initial training programs. It should also increase the autonomy of the OFPPT from the regional delegation and the central administration to improve its labor market relevance. OFPPT can conclude MOUs with the private sector by which OFPPT avails its facilities to partners from the private sector who can conceive and train trainers and young Moroccans in skills of immediate need.
- **The government should promote fee-based commercial training and provide mitigating solutions to offset the socials effects of training fees runs**. The fact that a considerable number of young people attend fee-based private TVET programs suggests that the public TVET system primarily attracts youth from low-income households. However, given the great interest in public TVET (the OFPPT admits only one-quarter of the applicants and the IGDs even less), this shows that the introduction of a training fee may dampen demand for TVET from low-income households and lead to social implications. Several countries have introduced mitigating strategies targeted at youth from low-income families including the following:
  - Offering subsidized loans to cover tuition and living expenses, which must be repaid after graduation, when the trainee starts earning an income. These schemes, often introduced in the context of higher education, tend to be costly to manage and suffer from a low repayment rate due to the difficulty of tracing the graduates.
  - Exempting poor trainees from paying fees based on a means test. This instrument requires transparent and non-corrupt methods of means-testing. It is more likely to function in decentralized systems, where major management responsibilities are with the training institutions.

» **The government should facilitate the usage of the vocational training tax (taxe de formation professionnelle, TFP for continuing training and involve the private sector in the management of the TFP.** Training levies collected from formal sector employers could serve as a vehicle for cross-subsidization of training, especially from the formal to the informal sector. However, given their training needs, many firms, particularly small ones, do not benefit from the scheme; this breeds resentment and opposition, and compromises the status of training levies as unfair taxation, as is also the case in Morocco. In countries where the private sector has a real say on how the levy is spent and the collection takes place in a transparent manner, the resistance appears to be less pronounced.

C. AUTOMOTIVE INDUSTRY

Context

The outlook for the Moroccan automotive sector is bright, with steady growth, and the country is projected to become the largest car manufacturer in Africa by 2020, surpassing South Africa. Cars have already overtaken phosphates as the country's largest export. A number of important advantages have supported the industry's growth. Morocco has leveraged its geographic position and resources to promote its industrial base. What began as a cheap outlet for European companies to assemble vehicles has evolved into a dynamic hub between East and West. And as sub-Saharan Africa develops, Morocco has positioned itself as an ideal hub for automotive manufacturers to reach it. Morocco's close geographic link to Europe, with just 16 kilometers separating the Tanger Med port from southern Spain, facilitates links to 37 ports in 21 countries. Free trade agreements such as those signed with the European Union and the United States have positioned Morocco well. Labor costs are about one-third of those in Romania or Turkey. And last but certainly not least, government policy has been far-sighted and supportive. That said, Morocco's automobile production remains modest compared with that of other major players. Its 2016 exports ranked only 27 globally, behind many of its Eastern European competitors, and captured only 0.4 percent of world market share. Nevertheless, if Morocco can effectively capitalize on this momentum, it has the potential to become a leading automotive manufacturer in the region.

The automotive sector has experienced strong growth in FDI, jobs and exports, and is one of the main drivers of industrial development and employment in Morocco. In 2017, vehicle production stood at about 400,000 units with a sector turnover of €6 billion and a total of 150,000 jobs (Figure 32). The positive performance of the automotive industry in Morocco is also reflected in the import-export ratio for the sector. In 1998, imports were more than 20 times the value of exports. By 2016, the ratio of imports to exports had declined to 1.4. Morocco has been gaining world market share in a growing market, selling principally to France (which absorbs almost half of all its automotive exports), Spain, Italy and Germany (Vidikan-Auktor and Hahn, 2017).

As part of the sector strategy, the government and the professional automotive association, AMICA, agreed in 2014 to a set of ambitious objectives for 2020 with mutual commitments. The private sector committed to generate 66,500 additional jobs, increase local value addition by 21 percentage points, and add €2.2 billion in additional exports (details per ecosystem in Table 13). For its part, the government has undertaken to provide an additional 110 hectares in rental land at

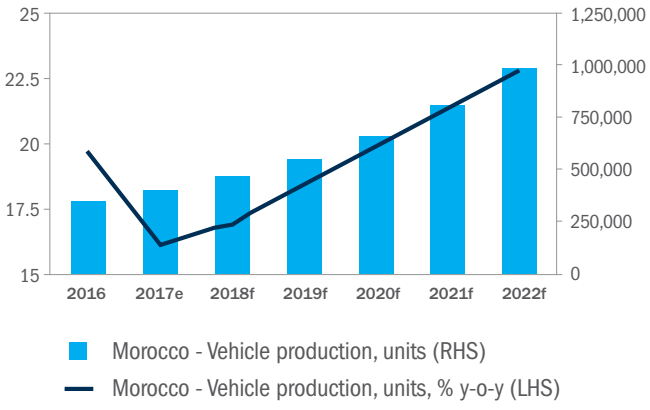


FIGURE 32 Vehicle production, 2016-22

Source: OICA, BMI.

attractive prices, train about 66,500 people according to ecosystem needs, deliver €170 million in investment subsidies, and commit to specific measures to support greater value addition locally.

TABLE 13 Public-private pact in the automotive sector

Clusters		2014	Objective 2020	As of 2017
Wire harness	Jobs	39,800	70,000	82,080
	Local VA	*33%*	*66%*	*50%*
Interior and seating	Jobs	10,500	30,000	22,708
	Local VA	*26%*	*65%*	*45%*
Metal stamping	Jobs	1,000	5,000	4,670
	Local VA	*30%*	*76%*	*55%*
Batteries	Jobs	1,200	1,500	1,570
	Local VA	*30%*	*90%*	*85%*
Power train	Jobs	1,200	10,000	5,180

Source: AMICA presentation February 2018.

However, Morocco captures only small market shares in France, Spain, Italy and Germany, and there potential to sell more cars. Moreover, while automotive exports are currently heavily concentrated, the potential for export diversification seems high given the position of cars in the product space, connecting products that are likely to be co-exported and can be used to predict the evolution of a country's export structure. Primary connections include lifting machines, iron springs, other rubber products, vehicle parts, safety glass and seats. An outlook of continued growth is supported by Renault's announced plans in 2016 to invest over €900 million to support its ecosystem, allowing companies to source 65 percent of components locally (up from 32 percent) and generating an estimated €2 billion in additional revenues and 50,000 new jobs by 2023. The entry into production of Peugeot's new plant in 2019 will add 100,000 vehicles per year to Morocco's total production in the near term, rising eventually to 200,000 vehicles per year by 2023, employing 4,500 workers and sourcing at least 80 percent of its components locally.

Morocco's local supplier base is growing; the continued growth of the supplier base is critical to the creation of a virtuous circle to sustain the industry. With the imminent start of production at PSA, and the emerging clarity regarding Chinese manufacturer BYD's industrial plan, suppliers are able to enjoy greater economies of scale and to diversify risks across OEMs, making Morocco a very attractive location. A deep and growing supplier base is essential for automakers to maintain the pace of their growth, and to take advantage of reduced costs and lower barriers, including supply delays and time-consuming import regulations. The number of players in Morocco's automobile ecosystems has been increasing steadily since the mid-2000s with Renault's acquisition of the state-owned company SOMACA in 2003 (Figure 33). The opening of Renault's Tangiers plant in 2012 provided a boost to Morocco's wider auto supply chain, as this plant builds cars from scratch rather than assembling them from completely-knocked down kits. Since then, the supply base has become denser, as Renault's investment has helped to entice over 30 auto-component suppliers to Morocco. The entry of Groupe PSA Peugeot Citroen is further attracting suppliers to locate in Morocco. Meanwhile, Ford plans to increase its local sourcing from Moroccan suppliers for use at its plant in Valencia, Spain, while China and India have both entered the Moroccan market with significant investments. As Morocco's value chain develops, it will be better able to ramp up its vehicle output further to satisfy growing demand from Europe and the MENA regions. Industry forecasts[92] vehicle sales in the European and MENA regions to grow on average by 2.9 percent and 8.5 percent, respectively, over 2018–22, reaching a vehicle sales volume high of 24.3 million units and 5.3 million units, respectively, by 2022. This highlights the significant growth potential for automakers in Morocco.

Although Renault has been crucial in triggering this dynamic, sectoral policies of the Moroccan Government have facilitated successful development by improving conditions, providing incentives to international supplier companies and fostering skills development. More recently, policies have also focused on upgrading and deeper integration along the value chain. All these measures have contributed toward attracting a larger number of suppliers, beyond those that followed Renault. By way of comparison, Morocco's nearest competitor in the region in terms of

automotive exports is Tunisia, but it hosts no vehicle Original Equipment Manufacturers (OEM). Egypt has a much smaller sector of basic assembly that produces only for the local market (exports amounting to $400 million in 2012), whereas Algeria's automotive sector is even smaller (Vidikan-Auktor and Hahn, 2017).

Moving forward, the government aims to boost the local addition in the automotive industry and attract new car manufacturers and suppliers. The government concluded new agreements with the Spanish car manufacturer, SEAT, in 2016 and with the Chinese auto manufacturer, BYD, in 2017. The latter will be the third automobile manufacturer in the country, and Morocco's first electric vehicle project. Morocco aims to add a fourth major automaker plant before the end of 2021 and to have capacity to produce 1 million vehicles a year by 2025. Achieving these goals will dramatically alter the business context, creating significant economies of scale to attract additional large suppliers.

Constraints

The main challenge for the future of the automotive sector in Morocco lies in the stronger inclusion of local firms in the value chain and a gradual shift toward higher value-added. However, the automotive industry in Morocco remains dominated by labor-intensive activities, such as vehicle assembly and wiring. It is only now beginning to expand toward activities that create higher value-added, such as engines (the agreement with Peugeot includes not only vehicle assembly, but also engine production (Vidikan-Auktor and Hahn, 2018). Achieving higher levels of competitiveness on global markets will depend on deepening the level of local integration, closing gaps in the supply chain, upgrading along the supply chain, and building up capabilities through technology transfer and learning (Vidikan-Auktor and Hahn, 2018). The next challenge—getting small, local firms to flourish—is likely to prove more difficult than attracting big foreign firms. Moreover, suppliers are expected to share in

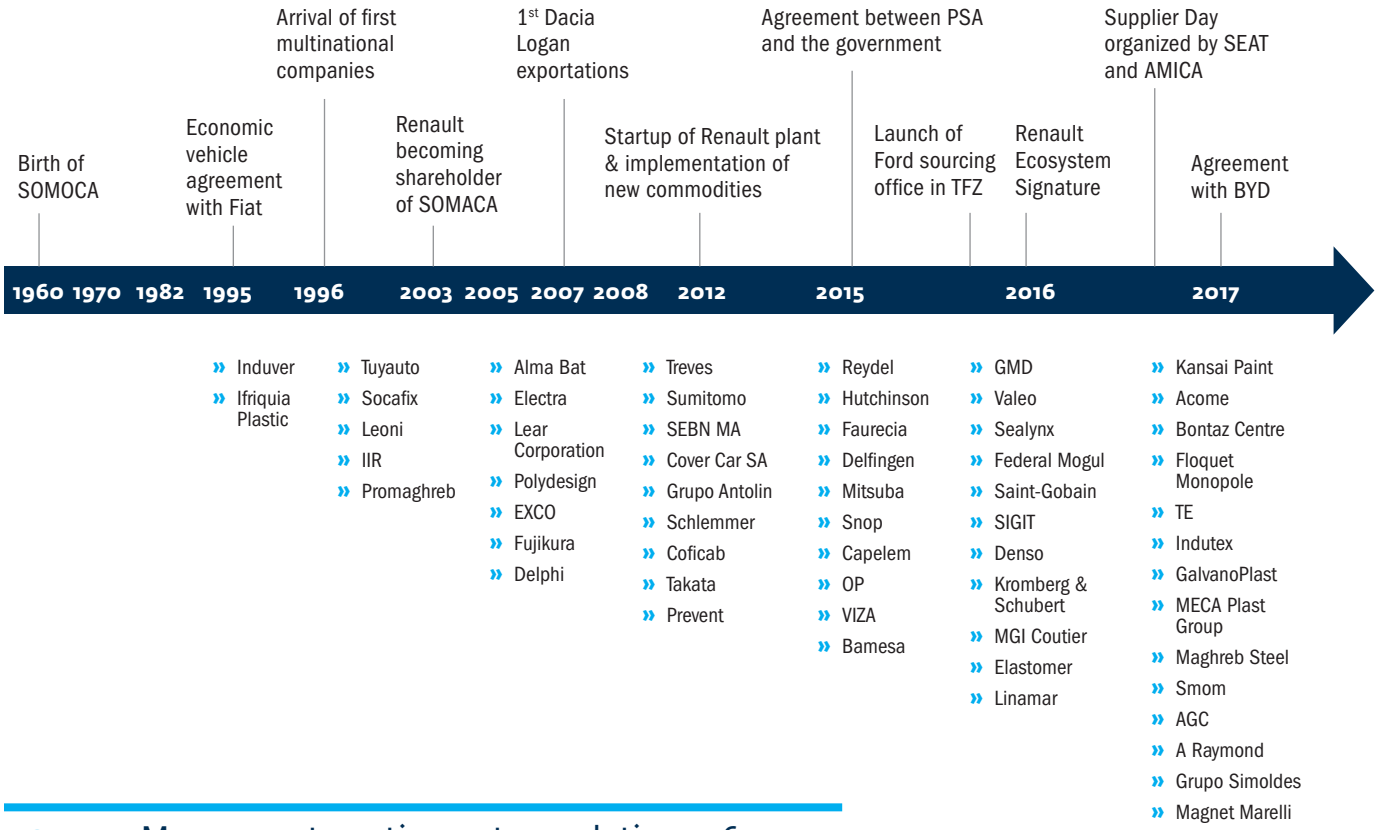


FIGURE 33 Morocco automotive sector evolution, 1960 - 2017

Source: AMICA presentation, February 2018.

the investment costs and risks of developing new components (*The Economist*, 2016).

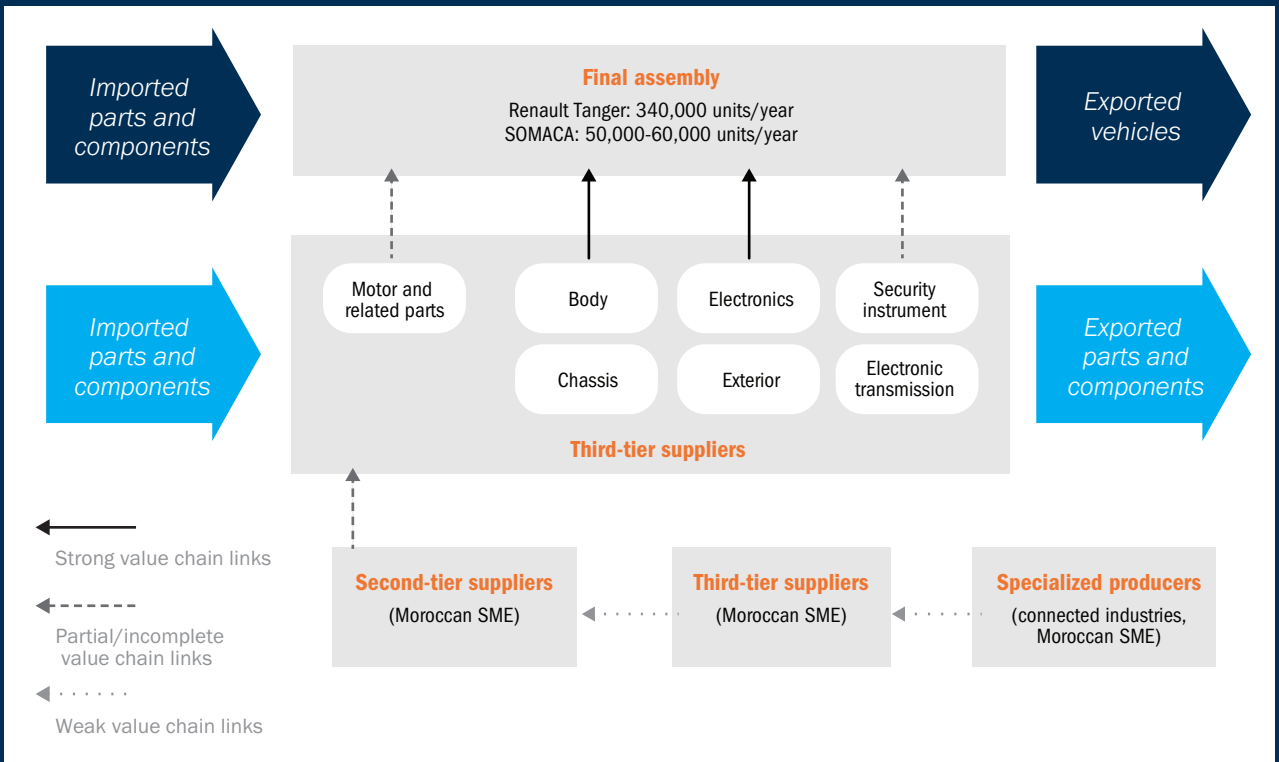
Success in integrating local firms into supply chains will require an explicit shift in policy toward supporting potential suppliers, particularly smaller Tier 2 and Tier 3 suppliers (Box 5). The arrival of more Tier 1 suppliers to Morocco necessitates a focus on Tier 2 and Tier 3 firms to make the automotive industry "package" successful. In other words, the automotive industry in Morocco is reaching a size large enough to attract complete supply chains, implying the need for rapid growth in the number of Tier 2 and 3 suppliers. Tier 2 and 3 suppliers gain significantly from producing in Morocco, as the proportion of their costs

BOX 5 Tiered organization of the automotive industry

The automotive industry is organized into ecosystems and includes two large French car manufacturers (Renault and more recently PSA) and suppliers in Tier 1, Tier 2, and Tier 3. It comprises about 160 firms, mostly foreign firms and a few joint ventures (Figure below and Annex 9). The exception is the batteries ecosystem, which is entirely composed of Moroccan firms.

The tiered supply chain model prevails in industries where the final product consists of complex components and sub-assemblers (such as in the automotive and aeronautics sectors). Companies that make the final product for sale to the consumer are referred to as original equipment manufacturers (OEMs). First-tier (or Tier 1) suppliers provide components directly to the OEM. Tier 2 suppliers provide their products (goods or services) to the first-tier suppliers, not directly to the OEM. Lower tiers provide less-processed products (sub-assemblies, components, materials, all the way to raw materials).

The Automotive Supply Chain in Morocco



Source: Vidikan-Auktor and Hahn 2018, adapted from JICA.

attributable to labor can come close to 50 percent; for Tier 1 and larger Tier 2 suppliers the labor cost content is often only 4–8 percent of total costs, meaning that the direct advantage of producing in Morocco is limited.[93] This is compounded by the relatively low competitiveness of steel and electricity costs. Thus, a key objective for car manufacturers is to localize purchased components in Morocco. At the same time, car manufacturers, as well as Tier 1 and major Tier 2 suppliers, are well-prepared to take advantage of special conditions from government incentives, special financing conditions, and support for training and education. The same cannot be said for smaller Tier 2 companies and Tier 3 players. The development of these smaller suppliers will require significant financial resources, as well as technical and commercial support.[94]

Local firms contemplating entry into the automotive sector face some common constraints in moving into the automotive market: (a) restricted access to finance for investment and working capital, and lack of financial advice; (b) the need to structurally change their approach to quality, which can be dramatically more demanding but achievable with the right investments; (c) a lack of planning, including all aspects of the new business; and (d) underestimating the cost of investigating this new market and learning the automotive business. Should they reach a critical size, Tier 2 and Tier 3 suppliers would be able to serve European car manufacturers, thanks to competitive prices and logistics advantages allowing "just-in-time" delivery, potentially displacing the current Asian suppliers. Nevertheless, the challenges they face, including those discussed in the first section of this report, limit the incentives for local companies to enter the exporting market. (See Box 1 for two examples of local firms entering the automotive sector.)

Recommendations

Challenges remain, especially with relation to deepening local integration, intensifying the levels of technology and knowledge transfer, and diversifying export markets. Greater policy attention and technical assistance for local firms is needed to proactively assist them in accessing financing and improving their quality and skills standards to integrate more easily into the automotive supply chain. To date, the policy focus has been almost solely on attracting large foreign Tier 1 companies; this would need to change if the benefits of spillovers and greater job creation are to be realized, and if the Moroccan automotive industry is to become more embedded and linked to the domestic economy.

Firm-level assistance

The participation of Moroccan firms in the auto supply chain remains limited, mainly due to difficulties in satisfying quality standards and keeping up with international cost and price levels.

1. Put in place technical assistance for quality upgrading for existing firms interested in entering automotive and aerospace value chains. This assistance would focus on improving access to information on required certifications, the implications in terms of machinery and skills, and the cost and length of the process. (There is an upgrading program put in place by the Ministry of Industry and Commerce, the professional association, and car manufacturers, which aims to identify potential suppliers and assist with the standardization and certification processes.)[95]
2. Provide technical assistance to existing SMEs that have the potential conclude joint ventures with foreign firms to improve their financial readiness. JVs and licensing would assist in the technology acquisition necessary to allow these firms to continue moving up the value chain toward more technology-based manufacturing and away from being a low-cost manufacturing hub.

Policy-level assistance

3. Level the playing field among exporters by providing the same incentives to all exporters regardless of their location and whether they are new or existing firms.
4. Analyze the logistics costs of firms based outside the automotive clusters. A draft decree is reportedly being prepared to reimburse logistics costs of firms shipping goods to Tangiers Port or firms based in the Tangiers industrial zone.
5. Strengthen local capabilities by expanding training programs and facilitating the replication of

successful public-private training to meet demand, currently much higher than available supply.

6. Increasing export diversification. Morocco's reliance primarily on European export markets increases its vulnerability to changes on the global market. The European car market sharply declined between 2007 and 2014 and is only now starting to slowly recover. Morocco's success depends on diversifying its export markets to other developing and emerging countries. The African market presents promising opportunities for such expansion in the medium term, which would also help ensure economies of scale.

D. AEROSPACE INDUSTRY

Context

Global industry trends

The commercial aircraft sector is seeing significant growth globally, supported by expanding middle classes and booming passenger travel demand. Revenue growth of 4.8 percent is expected in 2018,[96] primarily driven by growing aircraft production as manufacturers strive to meet the increases in aircraft demand. Traveler demand, or revenue passenger kilometers (RPKs), has also seen constant annual growth rates of 5 percent over the past 10 years, and similar trends are projected for the coming two or three decades.[97] The number of people flying per year has quintupled between 1981 and 2017, and annual passenger enplanements rose from about 2.5 million to more than 4.0 billion over the past decade.[98] According to Boeing, demand in the commercial market is forecast to more than double over the next two decades. To meet this demand, the number of aircraft is also forecast to nearly double to 47,000, and more than 41,000 new aircraft deliveries will be needed for growth and replacement over the next 20 years, valued at over $6 trillion.[99]

The aerospace market is likely to see significant changes in the coming years, particularly in terms of increasing cost competition. Continuous global growth of both passenger and freight air transport is generating an increase in demand and massive backlogs for new aircraft orders. Deep market penetration of low-cost carriers in the aviation industry has caused conventional carriers to cut flights and lower prices. Macroeconomic factors volatility in fuel costs have pressured larger carriers to adapt by reducing prices and developing new strategies to cope with the fierce competition. As a result, aerospace suppliers have had to become more innovative, competitive and flexible to keep up with change and meet the increasing pressure on production costs. In addition, the combination of competition between manufacturers and growth of airline orders is pushing major OEMs and suppliers to refocus their activities, outsource manufacturing parts and extend their supply chain footprints to emerging countries to reduce costs.

Moreover, the convergence of OEMs with each other is a trend that may increase the challenges facing their smaller suppliers. Airbus has already taken control of the Bombardier C-Series program, and a potential association between Boeing and Embraer could lead to further changes in the structure of this end of the market. The larger the OEM, the more important its impact on suppliers. Aeronautics is one of the few sectors in which companies with a $50 billion turnover deal directly with companies with a turnover of $50 million. This increasingly unequal balance of power is pushing suppliers toward greater mergers and acquisitions in an effort to create viable suppliers able to cope with the shifts in the industry, obtain certifications more easily, and gain leverage over larger equipment manufacturers and OEMs.

OEMs are restructuring supply chains in response to growing demand, changing global conditions, rising raw material prices, and raising lead times. As aerospace companies pursue opportunities to help satisfy demand, they search for the most advantageous locations for business expansion. In deciding where to outsource, aerospace majors evaluate several criteria, including quantitative and qualitative factors. Currently, a key attraction of emerging countries are their lower labor costs. Based on a recent study conducted by McKinsey, the cost of labor—on average is three to five times lower in emerging countries than in the developed ones—makes emerging markets attractive for labor-intensive maintenance and repair services. Moreover, even after accounting for logistics costs and the complexity of coordinating management

and supply chains, the global cost of manufacturing aircraft structures can still be roughly 20 to 25 percent lower in emerging markets. Today, however, emerging countries are not only "low-cost destinations." They are reaching beyond their established maintenance, repair and overhaul (MRO) services to become suppliers of aircraft, engines and equipment. They are also developing advanced aerospace assembly and manufacturing operations, as well as research and development (R&D) activities.

However, the lower cost advantage remains an insufficient reason to attract major players in the aerospace industry. Only a small percentage (11 percent) of aerospace production takes place in emerging markets, compared with 33, 18 and 85 percent in the automotive, large-scale equipment, and consumer electronic goods sectors, respectively. The reasons for this are the need for a high level of regulatory quality, safety requirements, the complexity of the industry technology, and the importance of protecting intellectual property, especially when it comes to avionics or engine design. Since emerging markets represents significant risk, companies consider each country's specific regulations, intellectual property protection law, and tax policies before making their choice. Also, companies look closely at human resource issues, such as training, talent recruitment and retention. Box 6 reviews some of the main emerging players in the aerospace industry.

The Moroccan aerospace industry

In the past 15 years, the aerospace industry in Morocco has grown significantly to take its place in a very competitive market, and today is one of the country's emerging sectors for growth and job creation. According to AMDI, the sector recorded a growth rate of 17 percent in 2017, with over 130 aerospace companies, 15,500 employees and $1.22 billion in revenue.[100] Geographically, the Moroccan aerospace industry is concentrated in three locations: Casablanca, Tangier and Kenitra. The industry is supported by dedicated industrial platforms such as Midparc and specialized training institutes, such as the Moroccan Aerospace institute (IMA), the Institute of Aeronautics and Airport Logistics (ISMALA) and Mohammed VI International Academy of Civil Aviation (AIAC). Today, the Moroccan Aerospace Industry Association (GIMAS) is the main partner for the development of all aerospace industrial ecosystem and aims to consolidate and strengthen the competitiveness of the Moroccan industry and contribute to its global exposure.

The development of diversified aerospace subsectors is positioning Morocco as a competitive subcontracting and aerospace supply chain destination, attracting major players in the field. The main integrated capabilities of the industry are: machining, surface treatment, aerostructure, aeronautic equipment, engineering, electrical wiring, MRO and sheet metal work. Until recently, the industry had focused on four industrial ecosystems: aerostructure assembly, MRO, electrical wiring interconnect systems, and engineering. In October 2017, the minister of industry announced the launch of two new ecosystems, namely in engines and composites, to complement and strengthen the existing ecosystem. This development is expected to significantly increase value addition and improve the 29 percent local integration rate (AMDIE, 2017). Expectations are that by 2020 these industrial ecosystems will represent 23,000 jobs, increase export turnover to $1.6 billion, raise the local integration rate to 35 percent, and attract more than 100 new suppliers.

Government support and incentives

Morocco's early success is due to several factors, including a relatively stable political and business environment and macroeconomic conditions, including low inflation and competitive labor costs (averaging $3.57 per hour). Morocco's geographic position is also privileged, at the crossroads of continents, allowing access to European and African markets. This proximity has a direct impact on logistics and transport costs, which represent an important part of the total outsource costs. Moreover, Morocco has developed its commercial relations through the conclusion of numerous free trade agreements. Large investments in infrastructure are also key, and Morocco boasts 18 airports and 44 ports, with Tanger Med being one of the most important in the Mediterranean zone, as well as thousands of kilometers of highways and railroads.

BOX 6 Emerging players in the aerospace industry

China's aviation sector is expected to be the world's largest by 2024, producing not only aircraft parts, but also fully manufactured commercial aircraft. The Chinese market, large and expanding, is highly attractive to major companies, and both Airbus and Boeing have moved parts of their manufacturing supply chains to China, a country the U.S. firm estimates will require $1.1 trillion worth of aircraft over the next 20 years. However, growth is moderate, possibly due to sharply rising labor costs. China is aiming for higher quality production, which causes the cost-competitive factor to fall. Hourly manufacturing wages have increased by 12 percent annually since 2001, and productivity-adjusted manufacturing wages nearly tripled from 2004 to 2014. In 2018, manufacturing wages average $4.71 per hour (Trading Economics), higher than those in most other emerging countries.

Malaysia is seeking to become the region's leading aerospace nation within the next 15 years, when the sector is predicted to contribute $7.7 billion in revenues and provide 32,000 high-income jobs. This growth is based on an expansion of the country's fleet size and the rising migration of commercial maintenance, repair and overhaul (MRO) activities to the Asia-Pacific region; the MRO segment now accounts for 55 percent of the Malaysian aerospace industry. The country is at the forefront of several markets, including composites design and manufacturing; aircraft components design and manufacturing, avionics and systems design and manufacturing. Remaining challenges include rising labor costs, with a manufacturing wage per hour averaging $5.32, some quality and logistics concerns, as well as volatility of the trade policy and regulatory environment.

The Indian aerospace industry is one of the fastest-growing aerospace markets in the world in terms of the number of aircraft orders and is likely to be the third-largest aviation market by 2025. Demand will primarily support growth of low-cost carriers, which account for more than 60 percent of the total flights in the country. The airline industry has been growing by 20 percent annually and ordering new aircraft at a rapid pace. Importantly, the Indian government requires OEMs to source some of the components from Indian suppliers. Moreover, India's strategic location in South East Asia, and its rapidly developing engineering workforce, services and R&D, position it as a potential global hub for both manufacturing and MRO. India's very low production costs, with manufacturing wages averaging $3.40 per hour, give it a major competitive advantage. Nevertheless, the country has little track record in the aerospace industry, particularly in the design and integration of commercial aircraft, limited scale in all segments of the industry's value chain, and no significant supplier base.

The Mexican aerospace industry boasts annual exports of $8 billion, supporting more than 60,000 jobs, and comprising more than 330 aerospace companies, a 65 percent increase since 2009. Growth of the sector rests on Mexico's proximity to the United States and Canada, and the existence of bilateral agreements such as NAFTA that allow exemptions from import duties, which have allowed the decentralization of aerospace components and assembly manufacturing activities. Mexico is one of the most competitive countries in terms of aerospace manufacturing labor costs, with an average wage of just $2.50 per hour in 2018. The Mexican government has strengthened and developed national suppliers, supported the creation of clusters, infrastructure, and certifications. A sourcing council made up of major suppliers was established to determine the missing links in Mexican supply chains and to attract talent and promote the establishment of international supply businesses. The aerospace industry is still relatively young and has yet to see the rise of all support industries that are a necessary complement for the major suppliers to consider outsourcing to Mexico. There is also a lack of coordination between operators and authorities, and a lack of connectivity through logistics infrastructure, which tend to affect the production distribution nodes.

Through targeted training programs, Morocco has also been able to ensure a qualified workforce for the sector. The Moroccan Aerospace Institute (IMA) offers flexible training programs with a dual apprenticeship system that fit the needs of companies and accompanies them from the selection process of candidates to their final skill qualification. IMA uses governmental subsidies to support the costs of training. The Institute of Aeronautics and Airport Logistics (ISMALA), which was established to quickly redirect and complement Morocco's public sector educational system in aerospace, is another important resource. Finally, Mohammed VI International Academy of Civil Aviation (AIAC), a public aviation university, was created to train air-traffic controllers, air-traffic safety electronics personnel and aerospace engineers.

The development of free trade zones mainly in Casablanca, Tangier and Kenitra, and the creation of integrated industrial platforms (P2I) such as Midparc or MedZ are additional incentives to strengthen Morocco's attractiveness to investors and its competitive advantage. These platforms represent one-stop shops bringing together the various key administrative departments for investors. As for other large investors, the incentive package also includes financing to cover land rental or acquisition costs, rental or construction of buildings and purchasing of new capital goods; tax incentives in the free zones (with shorter reduced exemptions outside the zones); and training. More recently, the Boeing ecosystem was offered uncapped financing for up to 20 percent of tangible and intangible investments.

Aircraft Lifecycle and Presence in Morocco

Morocco is present in every part of the aerospace value chain, albeit at differing levels of maturity (Figure 34).

a. DESIGN

Design engineering is a field that requires significant expertise and experience. OEMs develop most of the concept and major systems of an aircraft and own the designs. This is considered a core competency and is very well-protected. Some major component and system manufacturers can obtain the delegation of design authorities, but they usually have a strong track record in the design field.

Morocco has no clear strategy or ambition to position itself as an aircraft designer. However, there is a clear interest to be part of the solution in creating a competitive design engineering capacity in an offshoring mode. Current capacity in Morocco comprises European subsidiary companies that have developed some low-cost capacity in Morocco aligned with such an offshoring strategy. Also, Moroccan universities offer a complete training program for engineers, from conceptual design to the detailed design phase; students are well-trained but there are few linkages between the education and training content, and the real needs of the industry. In order to be able to work in co-development mode with the OEMs and system manufacturers, programs will need to be created in a more structured, rather than opportunistic, manner to support the development of design engineering competency centers.

b. BUILD

Manufacturing is the main strength of the Moroccan aerospace industry. The country possesses an appropriate level of maturity and expertise for developing a complete manufacturing supply chain. The key challenges and recommendations in this area are covered in the following section.

c. MAINTENANCE, REPAIR AND OVERHAUL (MRO)

The global MRO market is expected to reach $60 billion by 2023, and Morocco can explore positioning itself to serve part of this market. Growth will mainly come from the Asia-Pacific and China markets. Aircraft models that will represent the largest MRO costs are the A320, A321 and A330 from Airbus, and the 737 and 777 from Boeing.

The potential market for MRO is calculated using the geographical area covered by a full tank of fuel, which represents four hours of flight for any model. Based on this rule, the potential market for Morocco as a regional MRO hub would be Europe, the Middle East and most African regions except southern Africa. This market represents about 9,200 commercial aircraft surrounding Morocco and 6,104 commercial aircraft within four hours of flight.

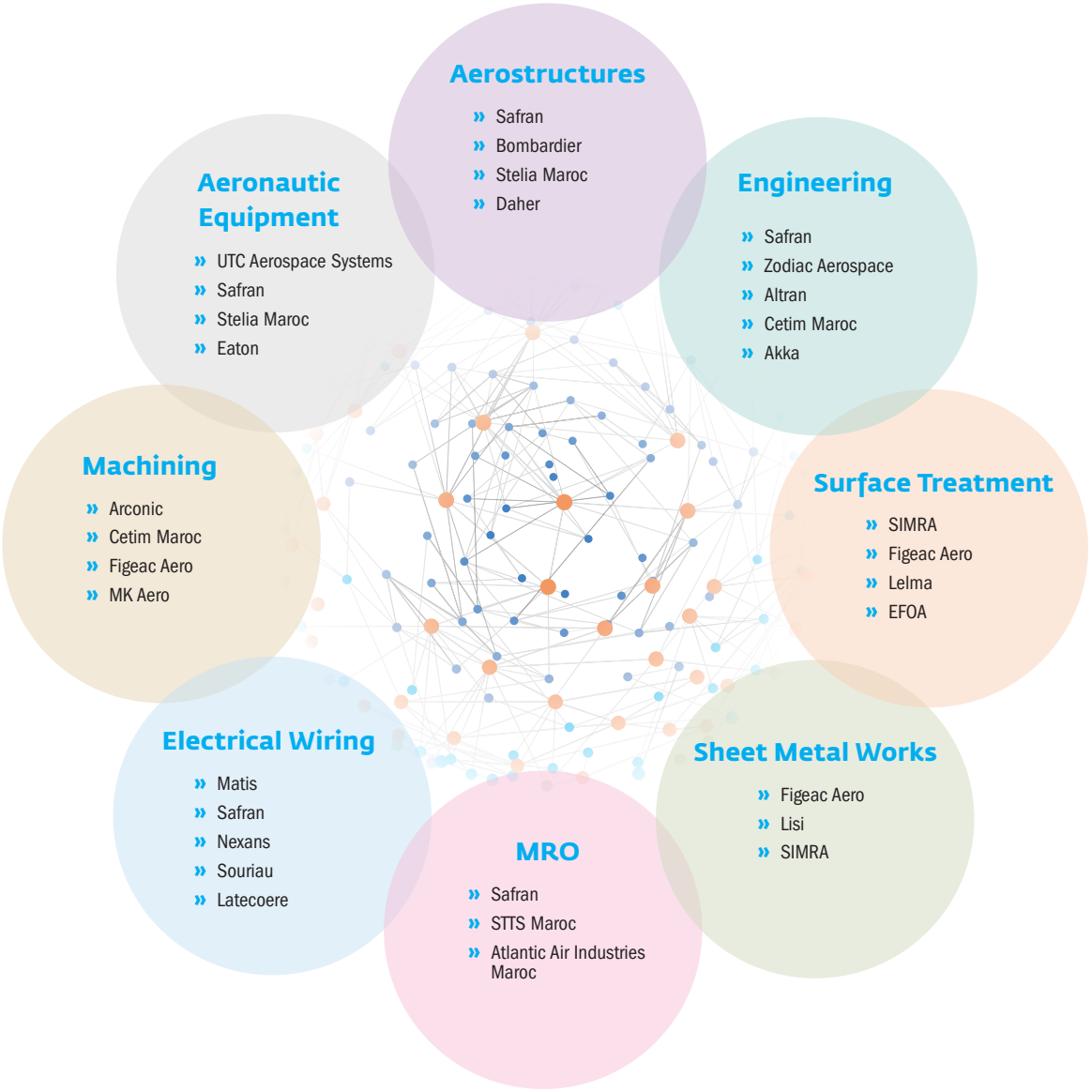


FIGURE 34 The aerospace ecosystem in Morocco

Source: AMDIE, 2017.

Morocco has a long history and business culture with MRO, led by Royal Air Maroc (RAM). RAM has, since 1958, built technical departments for its maintenance requirements. In 1999, RAM, SNECMA and Matis created a co-enterprise, SMES (Snecma Morocco Engine Services), that can perform the complete maintenance on aircraft engines powering Boeing 737 and the Airbus A320 family. Morocco enjoys numerous advantages with respect to MRO: labor costs vs. Europe in this highly labor-intensive sector are very attractive; operating costs related to heating and air-conditioning requirements are advantageous, due to the mild climate; and there is a well-established MRO culture with complex maintenance skills.

As a result, an MRO cluster could potentially be created in Morocco, in four potential sites with differing advantages:

- Tangier: Nearest site to Europe; free zone; international airport; all infrastructures ready
- Rabat: Proximity to army bases; international

airport; all infrastructures ready

- Ben-Slimane: Proximity to Rabat and Casablanca; affordable land; near the aerospace cluster at Casablanca (Nouacer); low-cost landing
- Casablanca: proximity to the aerospace industry, the IMA training center, Royal Air Maroc hangers; international aviation hub for Africa; free zone

Morocco has not, however, been able to attract major players into this field. Existing companies were built to benefit from the needs of RAM, and it is unlikely that new MRO investors will locate in Morocco without some guarantee of market share with RAM or through military contracts. Most airline companies grant maintenance contracts via calls for tender to companies with actual capacity and not based on potential installation. Moreover, the European market is currently well served with 560 MRO companies within four hours of flight from Morocco. Given that there is a lack of local contracts for an MRO investor to consider Morocco, a financing program would help in bridging the creation of new competitive capacity to win new calls for tender. This could resolve the "chicken-and-egg" situation and propel the emergence of a real African MRO hub.

d. DISMANTLING

The Aircraft Fleet Recycling Association estimates that, over the next 20 years, 12,000 aircraft, or 600 to 750 per year, worth $1.3 billion, will be at the end of their service life. In the past five years, the average life of an aircraft has fallen from 32 to 26 years, and Boeing evaluates the annual rate of renewal of fleets at 2 to 3 percent. This shortened duration of use, coupled with the increase in traffic, raises the issue of dismantling and recycling of aircraft. The growing market for dismantling and recycling is a large one and could represent a significant opportunity for Morocco. The country is in a good position to promote this sector, mainly due to its geographical advantages, a favorable climate and the unlimited space in the desert. However, the technique and expertise for dismantling and recycling processes are not developed in Morocco and would need to be supported.

Recommendations

Despite these positive factors, Morocco continues to face challenges similar to those in the automotive sector in creating linkages between OEMs and large suppliers, and smaller domestic firms. Some problems affect both foreign and domestic investors, while others are specific to a given segment.

REAL ESTATE. Today, the main problem regarding real estate for the aerospace sector is the increasing demand for land around Casablanca. This area is very attractive due to its proximity to other aerospace companies, and to the port and the airport. As a result, prices have risen significantly, affecting mainly smaller companies. Making matters more difficult, the duration of leases in the Casablanca Technopole ONDA is only 10 years, creating high uncertainty for industries, and preventing the Technopole from being considered as a good location option despite attractive costs. Solutions to this issue need to be explored, including the possibility OF ALTERNATIVE LOCATIONS.

Recommendation: Consider alternatives to Casablanca. For instance, the Tangier Free zone is such an alternative with the competitive pricing, as well as proximity to the airport and the Tanger Med port. An incentive program could be considered to attract companies to locate in Tangier.

Certifications of new suppliers. The high level of regulation, certification and auditing specific to the aerospace industry is a major barrier to the entry of new suppliers into the sector and for their expansion into new business lines. The complexity of the process and the length of the certification cycle are in sharp contrast to the constant pressure on costs and the pace that suppliers must meet. There is also an imbalance of power between OEMs, Tier 1 companies and their suppliers regarding the conditions applied and the certifications imposed. This balance of power puts potential suppliers in a weak position because they need to follow a very long, expansive and uncertain process to meet their customers' requirements.

Recommendation: An external organization acting as a centralized and specialized intermediary between OEMs, Tier 1 companies and their suppliers, could play an important role in promoting efficiency by performing audit and certification functions to help

new suppliers in their processes and reduce certification times.

TRAINING. Specialized training centers appear to be responding to industry demand with a very high level of success. The Moroccan Aerospace Institute (IMA) offers a flexible training program with a dual apprenticeship system that adequately fits companies' needs. The Institute of Aeronautics and Airport Logistics (ISMALA) is more focused on a generic diploma, however, which may not respond adequately to industry needs. Some outstanding issues to be addressed include a significant gap for Bac+3 technicians. In terms of expertise, they are located between operators and engineers, and can perform a supervision role. In addition, the practical training in high-tech fields that comply with international standards is also missing. Although the number of graduate engineers from different universities is significant, students lack practical training.

Recommendation: The technician Bac+3 training issue can be addressed through, for example, a partnership with an institution experiences in training at this level and which enjoys international recognition. Regarding practical training, a structured program could be reproduced to enable students to become interns with companies while pursuing their studies.

TRANSFER COSTS. Transfer costs for foreign investors are high and could be prohibitive for some firms. These costs include the cost to transfer the machinery and work packages to another country, the cost to install machinery and to train the new employees in their use, the learning curve of performance and the scrapping of material during the learning curve, and expatriation costs. Due to the complexity of the aerospace industry, these costs are particularly high. Moroccan subsidy programs do not cover these two costs.

Recommendation: Consider expanding the incentive programs to cover transfer costs, which could have a major impact on growth in the Moroccan aerospace industry.

ACCESS TO FINANCING. To benefit from subsidies, local companies and entrepreneurs are required to work with Moroccan banks. However, local banks do not provide investment or cash-flow support, charge high interest rates and require significant collateral. This creates a major barrier to entry for new firms into the aerospace sector. Without proper financial support, it is difficult for start-ups to emerge and SMEs to invest in innovations.

Recommendation: Evaluate the possibility of a well-designed support program for local companies and entrepreneurs, perhaps along the lines of assistance currently provided to the SME sector (for example, guarantees, co-financing). ■

Annexes

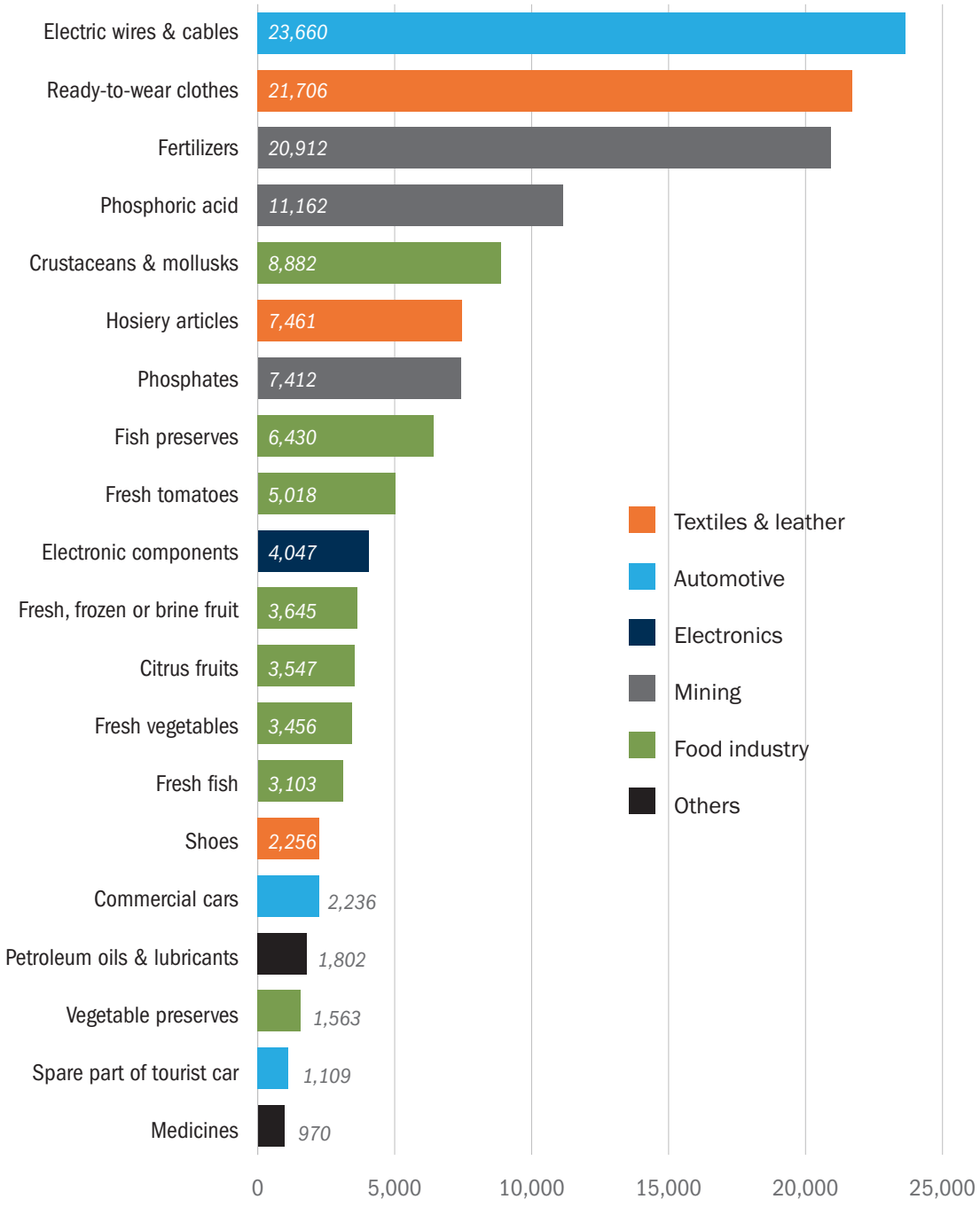
ANNEX 1: LARGEST EXPORT SECTORS IN MOROCCO

TABLE A1.1 Most Competitive Sectors

Sector	Description	Export Volume 2015	Attractiveness	Growth differential to global 3Y CAGR (%pts)	Growth differential to global 5Y CAGR (%pts)
CHEMICALS	Phosphoric acid & polyphosphoric acids, whether/not chemically defined	$1,780,090,415	0.42	0%	-1%
	Diammonium hydrogenorthrophosphate (diammonium phosphate)	$597,301,599	0.45	0%	2%
	Ammonium dihydrogenorthrophosphate (monoammonium phosphate) & mixtures thereof with diammonium hydrogenorthrophosphate (diammonium phosphate)	$589,802,183	0.46	-9%	-5%
MACHINERY AND ELECTRICAL	Ignition wiring sets & other wiring sets of a kind used in vehicles/aircraft/ships	$2,066,489,965	0.37	10%	-2%
MINERAL PRODUCTS	Natural calcium phosphates, natural aluminium calcium phosphates & phosphatic chalk, unground	$915,886,201	0.13	-4%	-4%
	Natural calcium phosphates, natural aluminium calcium phosphates & phosphatic chalk, ground	$549,319,330	0.13	9%	4%
TRANSPORTATION	Vehicles principally designed for the transport of persons (excl. of 87.02 & 8703.10-8703.24), with C-I internal combustion piston engine (diesel/semi-diesel), of a cylinder capacity >1500cc	$851,676,594	0.69	12%	73%
	Vehicles principally designed for the transport of persons (excl. of 87.02 & 8703.10-8703.24), with C-I internal combustion piston engine (diesel/semi-diesel), of a cylinder capacity >1500cc but not >2500cc	$583,549,485	0.90	54%	148%
VEGETABLE PRODUCTS	Tomatoes, fresh/chilled	$671,877,825	0.18	4%	4%
SERVICES	Travel, Personal	$5,977,864,471	<0.01	-8%	-13%
	Transport, Passenger	$1,504,872,206	<0.01	-6%	-8%
	Manufacturing services on physical inputs owned by others	$1,256,416,309	0.12	-10%	-11%
	Transport, Freight	$1,211,478,141	<0.01	11%	8%
	Government goods and services n.i.e.	$571,129,630	<0.01	11%	1%
	Construction	$549,581,496	0.03	155%	50%

Source: IFC

TABLE A1.2 Top 20 exporters by product



Source: Elaborated by authors from HCP data, "Le Maroc en Chiffres (2017)."

ANNEX 2: SELECTED DATA ON SOES AND LARGE PRIVATE SECTOR COMPANIES

TABLE A2.1 Strategic SOEs as defined by the Organic Law No 02.12

	A – STATUTORY PUBLIC ESTABLISHMENTS
1	Caisse de dépôt et de gestion
2	Fonds Hassan II pour le développement économique et social
3	Agence nationale de la conservation foncière, du cadastre et de la cartographie
4	Agence nationale de réglementation des télécommunications
5	Agence Maghreb Arabe Presse
6	Agence nationale des ports
7	Agence pour l'aménagement de la vallée du Bou Regreg
8	Agence pour l'aménagement du site de la lagune de Marchica
9	Office national des chemins de fer
10	Office national des aéroports
11	Agence marocaine de développement de la logistique (AMDL)
12	Office national de l'électricité et de l'eau potable "ONEE"
13	Office national des hydrocarbures et des mines
14	Agence nationale pour le développement des énergies renouvelables et de l'efficacité énergétique
15	Caisse nationale de sécurité sociale
16	Office de la formation professionnelle et de la promotion du travail
17	Fondation Hassan II pour les Marocains Résidant à l'Etranger
18	Institut Royal pour la recherche sur l'Histoire du Maroc
19	Fondation nationale des musées
20	Archives du Maroc

	B – STATE COMPANIES
1	Royal Air Maroc
2	OCP S.A.
3	Barid Al-Maghrib
4	Crédit Agricole
5	Crédit Immobilier et Hôtelier
6	Moroccan Financial Board chargée du projet "Casablanca Finance City"
7	Holding d'aménagement Al Omrane
8	ITHMAR AL MAWARID (Former Fonds marocain de développement touristique)
9	Société nationale des autoroutes du Maroc
10	Société d'Exploitation des Ports
11	Agence spéciale Tanger-Méditerranée
12	Société Marchica pour le développement
13	Moroccan Agency for Solar Energy (MASEN)
14	Société d'investissements énergétiques
15	Sociétés nationales de l'audiovisuel public
16	Société Royale d'encouragement du cheval

Notes: This list was established in 2012. Many updates have been made since that year and need to be taken into consideration (the updated list of this Law is not available on internet). For example, the organic law No 17.08 added three new public establishments to this list:

1. *Agence marocaine de développement des investissements et des exportations*
2. *Agence de développement numérique*
3. *Fonds de solidarité contre les événements catastrophiques*

In addition, in 2014, the Moroccan state, the CDG as well as the OCP sold their shares in BCP. Only the CMR (Caisse Marocaine des Retraites) remains shareholder with 5.89 percent as of December 2017 (company's annual report 2017). This company, which appeared in the 2012 list, will likely be deleted .

TABLE A2.2 List of the 43 large limited liabilities controlled by the state and ownership rights

	Company	Direct ownership by the treasury (%)	Total direct and indirect ownership of the state (%)
ADER	AGENCE POUR LE DEVELOPPEMENT ET LA REHABILITATION DE LA MEDINA DE FES	100.0	100.0
ADM	SOCIETE NATIONALE DES AUTOROUTES DU MAROC	68.5	98.9
AGA INGENIERIE	SOCIETE POUR L'INGENIERIE DES INDUSTRIES AGRICOLES ET ALIMENTAIRES	24.3	24.3
ASMA	ASMA INVEST	50.0	50.0
BAM	BARID AL-MAGHRIB	100.0	100.0
BIOPHARMA	SOCIETE DE PRODUCTIONS BIOLOGIQUES ET PHARMACEUTIQUES VETERINAIRES	100.0	100.0
CAM	CREDIT AGRICOLE DU MAROC	75.2	87.2
CASA TRANSPORTS	SOCIETE CASABLANCA TRANSPORTS SA	89.0	99.7
DIYAR AL MADINA	DIYAR AL MADINA	16.0	99.7
FONCIERE UIR	FONCIERE UNIVERSITE INTERNATIONALE DE RABAT	16.7	83.3
HAO	HOLDING D'AMENAGEMENT AL OMRANE	100.0	100.0
IAM	ITISSALAT AL-MAGHRIB	30.0	30.0
IDMAJ SAKAN	IDMAJ SAKAN	55.0	88.1
ITHMAR AL MAWARID	ITHMAR AL MAWARID	66.6	100.0
JZN	JARDIN ZOOLOGIQUE NATIONAL SA	100.0	100.0
LABOMETAL	LABORATOIRE METALLURGIQUE D'ETUDES ET DE CONTROLE	7.5	10.6
MAROCLEAR	MAROCLEAR	25.0	56.1
MASEN	MOROCCAN AGENCY FOR SUSTAINABLE ENERGY	25.0	100.0
MIA	MOROCCO INVESTISSEMENT AUTHORITY	100.0	100.0
MDJS	LA MAROCAINE DES JEUX ET DES SPORTS	90.0	100.0
NWM	NADOR WEST MED	36.3	100.0
OCP	OCP SA	94.1	95.2
RAM	RAM COMPAGNIE NATIONALE DE TRANSPORT AERIEN ROYAL AIR MAROC	53.9	98.0
SADM	SOCIETE D'AMENAGEMENT ET DE DEVELOPPEMENT DE MAZAGAN	49.0	97.5
SALIMA HOLDING	SOCIETE ARABE LIBYO-MAROCAINE HOLDING	24.3	24.3
SAPT	SOCIETE D'AMENAGEMENT POUR LA RECONVERSION DE LA ZONE PORTUAIRE DE TANGER VILLE	50.0	100.0
SAR	SOCIETE D'AMENAGEMENT RYAD	100.0	100.0
SIE	SOCIETE D'INVESTISSEMENTS ENERGETIQUES	71.0	100.0
SMAEX	SOCIETE MAROCAINE D'ASSURANCE A L'EXPORTATION	35.0	40.6
SMIT	SOCIETE MAROCAINE D'INGÉNIERIE TOURISTIQUE	77.9	100.0

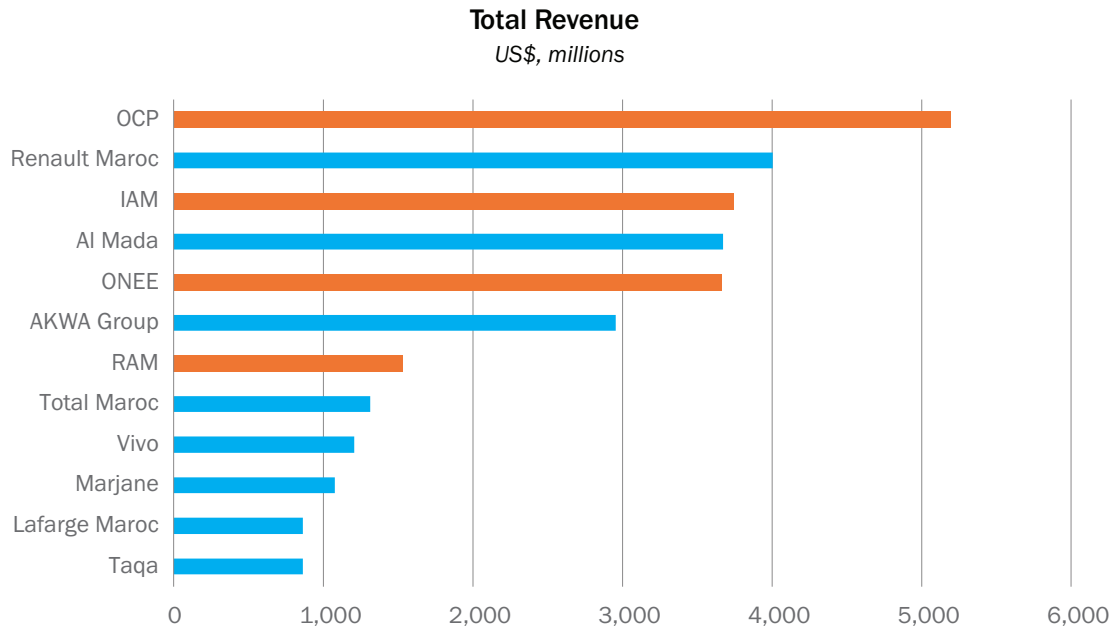
	Company	Direct ownership by the treasury (%)	Total direct and indirect ownership of the state (%)
SNED	SOCIETE NATIONALE D'ETUDES DU DETROIT DE GIBRALTAR	100.0	100.0
SNRT	SOCIETE NATIONALE DE LA RADIO ET DE LA TELEVISION	100.0	100.0
SNTL	SOCIETE NATIONALE DES TRANSPORTS ET DE LA LOGISTIQUE	100.0	100.0
SODEP	SOCIETE D'EXPLOITATION DES PORTS	100.0	100.0
SONACOS	SOCIETE NATIONALE DE COMMERCIALISATION DE SEMENCES	90.2	96.0
SONADAC	SOCIETE NATIONALE D'AMENAGEMENT COMMUNAL	19.7	97.8
SONARGES	SOCIETE NATIONALE DE REALISATION ET DE GESTION DES STADES	100.0	100.0
SOREAD	SOCIETE D'ETUDES ET DE REALISATIONS AUDIOVISUELLES "SOREAD" SA	76.0	76.1
SOREC	SOCIETE ROYALE D'ENCOURAGEMENT DU CHEVAL	99.7	99.7
SOTADEC	SOCIETE TANGEROISE D'EXPLOITATIONS COMMERCIALES	40.0	40.0
SRRA	SOCIETE RABAT REGION AMENAGEMENT	66.7	84.6
TM2	TANGER MED	50.0	100.0
TMSA	AGENCE SPECIALE TANGER MEDITERRANEE	8.2	100.0
	Mean	**64.7**	**85.5**
	Median	**68.5**	**99.7**
	Min	**7.5**	**10.6**
	Max	**100.0**	**100.0**

TABLE A2.3 Major investors among SOEs in 2016

	Investments in 2016 (MAD million)	Investments in 2016 (US$, millions)	% of total investments by SOEs	Sector
OCP	10 872	1 184	15%	Energy, Mining, Water and Environment
ONEE	10 213	1 112	14,1%	Energy, Mining, Water and Environment
HAO	5 875	640	8,1%	Housing and urban development
ONCF	5 796	631	8%	Infrastructure and Transportation
CDG	5 457	594	7,5%	Finance
RAM	2 516	274	3,5%	Infrastructure and Transportation
TMSA	2 177	237	3%	Urban development
TOTAL	**72 675**	**7 915**	**59,0%**	

Source: Established by authors from MINEFI data (MINEFI Morocco, 2017).

TABLE A2.4 Revenue of Largest Moroccan Companies, Excluding Financial Institutions, in 2016–17



Source: Elaborated by Ben Abdelkader from company annual reports, DEPP Report on SOEs and www.maroc1000.net

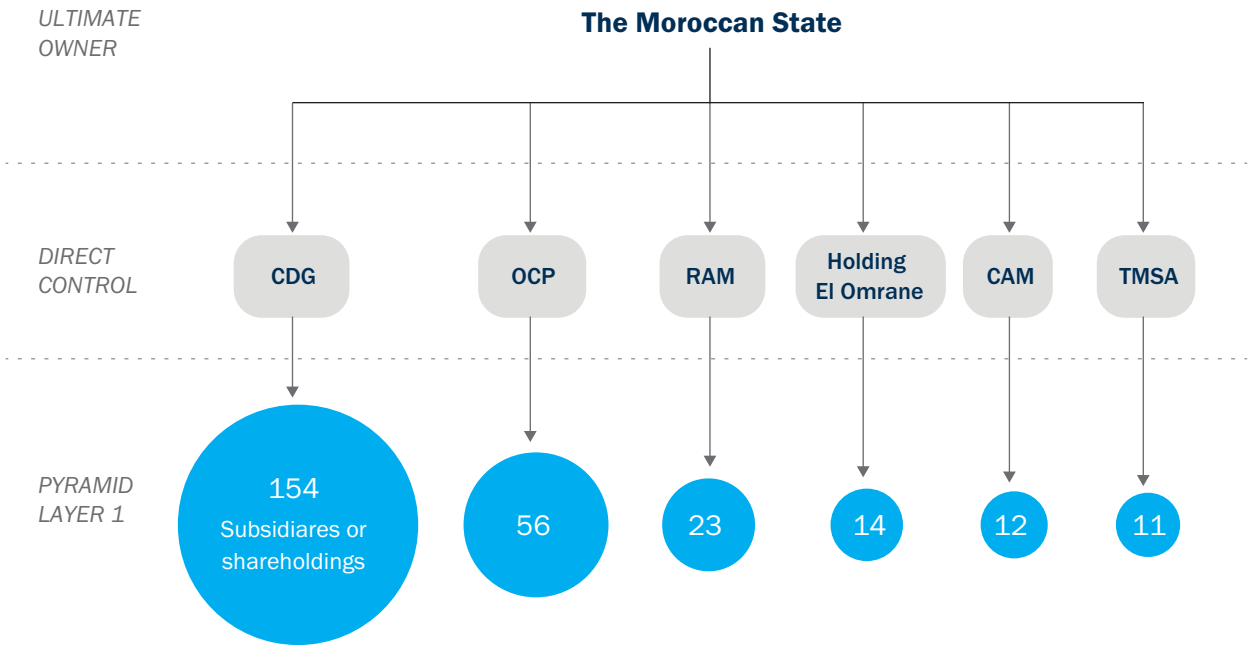
TABLE A2.5 TOP 10 non-financial Moroccan companies by revenues in 2016–17

		Company	Total Revenue (US$, millions)	Total Revenue in % of GDP (2017)	Industry	Year	Data source
1.	**OCP**	Office chérifien des phosphates *	5,194	4.3%	Mining	2017	Company annual report
2.	**RENAULT MAROC**	Renault Maroc (Tanger exploitation + Renault commerce)	4,006	3.3%	Automotive	2017	Company annual report
3.	**IAM**	Ittisalet El Maghreb (Maroc Telecom) *	3,744	3.1%	Telecom	2017	Company annual report
4.	**AL MADA**	Al Mada since 2018 (Fomer SIN - royal holding)	3,675	3.0%	Holding with Several industries	2017	Company web site
		Including					
		Marjane holding (subsidiary of Al Mada)	1,076		Retail sector	2016	www.maroc1000.net
		LafargeHolcim Maroc (Al Mada owns 50%)	866		Construction materials	2017	Press release of the company
5.	**ONEE**	Office national de l'eau et de l'électricité *	3,663	3.0%	Utilities (Water and Energy)	2016	DEPP, Report on SOEs
6.	**AKWA GROUP**	Afriquia (SMDC: Sté marocaine de distribution de carburants) & Afriquia gaz	2,958	2.4%	Hydrocarbon sector	2016	www.maroc1000.net
7.	**RAM**	Royal air Maroc *	1,531	1.3%	Air transport	2016	DEPP Report on SOEs, P181
8.	**TOTAL MA**	Total Maroc	1,316	1.1%	Hydrocarbon sector	2017	Company annual report
9.	**VIVO**	Vivo Energy Maroc	1,206	1.0%	Hydrocarbon sector	2016	www.maroc1000.net
10.	**TAQA**	Taqa Morocco	865	0.%	Utilities (Power production)	2017	Company annual report
		TOTAL	**24,969**	**23.2%**			

Source: Elaborated by Ben Abdelkader from company annual reports, DEPP Report on SOEs and www.maroc1000.net.

*Notes: * Companies in which the Moroccan state owns shares directly or indirectly. This list does not include companies operating in the financial and insurance sectors, namely the three biggest financial institutions: Attijariwafa Bank, BCP, and BMCE Bank.*

FIGURE A2.6 How are subsidiaries owned in 2014[101] (6 SOEs control 67% of total subsidiaries)



Source: Established from (Belfahmi, 2014). Latest data available.

TABLE A2.7 Listed companies with direct and indirect state shareholdings as of May 2018

Company	Sector	Market cap (US$, millions)	% of total market cap	State direct share-holding	Public Funds/equity investment (via CDG pension funds)	Indirect shareholding via statutory establishment	Ownership	Total ownership rights	Cash flow rights (US$, millions)
Itissalat Al-Maghrib	Telecom	14,214	20.5%	30%	0%	0%	The State	30%	4,264
Attijariwafa Bank	Financials	10,526	15.2%	0%	1.7%	9.4%	RCAR, CIMR, CMR	11.1%	1,171
Banque Centrale Populaire	Financials	5,659	8.2%	0%	6.1%	8.7%	RCAR, CIMR, and CMR	14.8%	838
BMCE Bank	Financials	4,070	5.9%	0%	9.5%	4.0%	CIMR	13.5%	549
Ciments du Maroc	Financials	2,744	4.0%	0%	5.9%	8.2%	FIPAR Holding & CIMR	14.1%	387
Cosumar	Consumer goods	1,863	2.7%	0%	0%	24.1%	CIMR, RCAR, CMR	24.1%	449
Managem	Basic materials	1,763	2.5%	0%	0%	8.2%	CIMR	8.2%	145
Marsa Maroc	Industrials	1,462	2.1%	60%	3.3%	3.3%	The State, CDG, CMR	66.7%	974
CIH Bank	Financials	912	1.3%	00%	65%	3.8%	Massira Capital, and RCAR	68.8%	627
Lydec	Utilities	523	0.8%	0%	16%	0%	FIPAR Holding	16%	84
Miniere Touissit	Basic materials	324	0.5%	0%	0%	12%	CIMR	12%	39
	TOTAL	**44,059**	**64%**						**9,527**

Source: Ben Abdelkader, 2018, from Casablanca Stock Exchange.

Notes: The list of companies with state shareholdings is not exhaustive. This study focused on the largest companies with a significant market capitalization (higher than MAD 3 billion). The market capitalization was recorded on May 15 2018; CIMR: Caisse Interprofessionnelle Marocaine de Retraites ; CMR: Caisse Marocaine des Retraites ; RCAR: Régime Collectif d'Allocation de Retraite ; FIPAR Holding is a private equity owned by the CDG with an investment strategy designed to provide support for both national operators promoting major projects and international operators seeking to establish a presence or develop strategic partnerships in Morocco." FIPAR is a leading private equity investor in Morocco, managing 7 MAD billion of assets; Massira Capital is a private equity owned by the CDG; cash flow rights are the percentage of shares owned in the total issued shares. They can be defined as the total claim of the shareholder on each Euro of earnings generated by the controlled firm.

TABLE A2.8 Top 10 private companies by revenue (excluding SOEs)

		Company	Total revenue in MAD, millions	Total revenue in US$, millions	Total revenue in % of GDP	Industry	Year	Data source
1.	RNO MAROC	Renault Maroc (Tanger exploitation + Renault commerce)	37,415	4,006	3.3%	Automotive	2017	Company annual report
2.	AL MADA	Al Mada since 2018 (Fomer SNI) (Holding royale)	34,320	3,675	3.0%	Several industries	2017	Company website
		Including						
		Marjane holding (subsidiary of Al Mada)	10,051	1,076	0.9%	Retail sector	2016	www.maroc1000.net
		LafargeHolcim Maroc (Al Mada owns 50%)	8,083	866	0.7%	Construction materials	2017	Press release of the company
3.	AKWA GROUP	Afriquia (smdc: Sté marocaine de distribution de carburants) & Afriquia gaz	27,620	2,958	2.4%	Hydrocarbon sector	2016	www.maroc1000.net
4.	TOTAL MAROC	Total Maroc	12,288	1,316	1.1%	Hydrocarbon sector	2017	Company annual report
5.	VIVO	Vivo Energy Maroc	11,264	1,206	1.0%	Hydrocarbon sector	2016	www.maroc1000.net
6.	TAQA	Taqa Morocco	8,082	865	0.7%	Utilities (Power production)	2017	Company annual report
7.	SMT	Société marocaine des tabacs	7,635	818	0.7%	Tobacco sector	2016	www.maroc1000.net
8.	PETROM	Petrom	7,016	751	0.6%	Oil products, petrochemicals	2016	www.maroc1000.net
9.	DANONE	Centrale Danone	6,519	698	0.6%	Agri-Food	2017	Annual report
10.	ADDOHA	GROUPE ADDOHA	5,917	634	0.5%	Real Estate	2017	Annual report
		TOTAL	**158,076**	**16,926**	**13.9%**			

Source: Elaborated by authors from company annual reports, the Casablanca Stock Exchange, and http://www.maroc1000.net.

ANNEX 3: SOE PRESENCE AND ROLE IN SELECTED SECTORS

TABLE A3.1 Moroccan sectors/subsectors with SOE presence among those reviewed by the PMR questionnaire

NATIONAL, STATE OR PROVINCIAL GOVERNMENTS CONTROL AT LEAST ONE FIRM IN THE SECTOR	YES	NO	COMPANY
Electricity generation, import, transmission, distribution and supply	X		The National Electricity and Drinking Water Company (ONEE)[102]
Gas generation, import, transmission, distribution and supply	X		ONEE, National Office of Hydrocarbons and Mine (ONHYM)[103]
Telecommunication fixed line, mobile and internet services		X[104]	
Post basic and courier services	X		Barid Al-Maghrib[105]
Railways transport	X		The Moroccan National Railways Office (ONCF)[106]
Air transport	X		Royal Air Maroc
Road transport—freight transport by road	X		Societe Nationale des Transports et de la Logistique (SNTL)[107]
Water transport—freight and passenger transport		X	
Operation of air transportation infrastructure	X		The Office National des Aéroports (ONDA)[108]
Operation of water transportation infrastructure	X		Société d'Exploitation des Ports (Marsa Maroc), Tangier Med Port Authority[109]
Operation of road infrastructure	X		Société Nationale des Autoroutes du Maroc (ADM)[110]
Operation of rail infrastructure	X		Moroccan National Railways Office (ONCF)[111]
Water collection, treatment and supply	X		National Office of Drinking Water (Office National de l'Eau Potable), Marrakech Water Agency (RADEEMA)[112]
Manufacture of tobacco products		X[113]	
Manufacture of refined petroleum products	X		Société Nationale Des Produits Pétroliers (SNPP)[114]
Manufacture of basic metals	X		AOULI Metals[115]
Manufacture of fabricated metal products, machinery and equipment		X	
Building and repairing of ships and boats	X		L'Agence Nationale des Ports (ANP)[116]
Manufacture of railway and tramway locomotives and rolling stock		X	
Manufacture of aircraft and spacecraft	X		SMES: a JV between RAM & Safran[117]
Construction	X		IDMAJ SAKAN, Al Omrane (HAO), [Ciments du Maroc CIMA][118]

NATIONAL, STATE OR PROVINCIAL GOVERNMENTS CONTROL AT LEAST ONE FIRM IN THE SECTOR	YES	NO	COMPANY
Wholesale trade, incl. of motor vehicles	X		Société Nationale de Commercialisation des Semences au Maroc (SONACOS)[119]
Retail trade, incl. of motor vehicles	X		Maghreb Arab Trading Company (MARTCO), Coopérative Vinicole Des Béni Snassen (Vinicoop)[120]
Accommodation, food and beverage service activities	X		SMIT
Other urban, suburban and interurban passenger transport	X		CASA TRANSPORTS, RATS, RATAG, RATC, RATF, RATM, RATMA, RATR, RATT[121]
Financial service activities, except central banking, insurance and pension funding	X		Crédit Agricole du Maroc Deposit and Management Fund (CDG)[122]
Insurance, reinsurance and pension funding	X[123]		The Central Reinsurance Corporation (SCR)
Other business activities		X	
Human health activities	X		CH5
Motion picture distribution and projection		X	
TOTAL	**23**	**7**	

Source: PMR questionnaire for Morocco.

ANNEX 4: A GRADUAL PATH TOWARD SUCCESS: LESSONS FROM THE CORPORATIZATION OF THE OCP IN MOROCCO

The Office Chérifien des Phosphates (OCP) was transformed into a limited company (société anonyme) in 2008, after operating as an ad hoc statutory SOE under conditions of great opacity. Through the corporatization process, the OCP underwent a series of restructuring measures geared toward enhancing its ability to compete in international markets.[124] The OCP is a leading producer and the world's largest exporter of phosphate rocks, phosphoric acid, and phosphate fertilizers. It is also the largest company in Morocco (public and private) and has over 20,000 employees. The OCP is an interesting example of SOE reform in which the four SOE reform principles were implemented to different degrees. OCP management has definitely gained managerial autonomy and the financial means to invest and recruit, while the company continues to have a large developmental mandate for the country.

The OCP remains heavily controlled by the state; its board is composed exclusively of political appointees (no independent board members), but its chief executive officer (CEO) has a managerial profile. The state (through the Ministry of Finance) remains the sole shareholder, and a small stake in the capital (about 5 percent) is held by the Banque Centrale Populaire (BCP), a partially privatized state bank. The OCP's board, the unitary type, has 10 members, in addition to its chair and the CEO. Its functions are comparable to those of private sector entities. Directors, however, remain essentially politicians and senior officials: three are ministers, five are secretaries general of various ministries, and the remaining two are the head of the Treasury and the CEO of BCP. All are appointed by the government or the king. By contrast, the executive team is composed of a series of professionals with a business background. They are recruited by the board, which also sets their remuneration.

The OCP assumes a vast developmental mandate in a variety of areas alongside its commercial mandate. This includes the promotion of agriculture (such as mapping fertile lands in Morocco, promoting the sustainable use of fertilizers by small farmers, or promoting innovative agricultural projects through its innovative agricultural fund), the promotion of employment (such as a large training programs for youth known as OCP Skills and an initiative to fund small and medium enterprise development), the promotion of the chemical industry sector (with the proposal that some OCP facilities be made available to the industry such as laboratories for research and development), and its overall participation in a debate on how to promote food security worldwide (conceived as a public policy mandate).

The OCP has gained autonomy in day-to-day management and has reformed its organizational structure to look like that of a private sector firm. It has also become much more transparent, in particular in the area of financial disclosure. It was able to borrow money from financial markets without a state guarantee and to invest massively. In a difficult world economic context, it was also able to maintain its lead exporter position.

When corporatized, the OCP was granted monopoly status through Law 46-07. The law also provides that the conditions for the exploitation of phosphates will be set in a separate contract to be concluded with the state. Such a contract, however, was never concluded, and the exact scope of the monopoly granted to the OCP is therefore not very clear.[125] No debate is documented as well on whether opening the exploitation of phosphates in Morocco to the private sector was considered.

All labor contracts were transferred without any change (Law 46-07 specified that this transfer could not result in a less favorable situation for employees, including pensions and medical coverage). No massive departure program was implemented further to the corporatization, although a voluntary departure program resulted in the departure of about 800 employees. A significant reorganization of human resources management was also launched with the objective of instilling market dynamics into labor

relationships. The employment regime was clarified with the establishment of employee profiles and clear pay policies. Important resources were allocated to training, both technical and managerial (in partnership with top international academic institutions) and to modernizing information systems to allow for transversal communication. A recruitment campaign was also launched to cope with the increase in production (expected to generate thousands of new jobs in the near future), rejuvenate the workforce, and replace retiring employees, resulting in a net growth of the workforce. Similarly, the externalization of the pension system, initiated in 2001, was completed. Overall, the cost of the workforce has slightly increased since corporatization (which is probably traceable to a series of social measures implemented in 2011 in the wake of the Arab Spring). As of 2012 it still represented the third highest line of expense.

It is extremely difficult to link governance reforms with specific performance changes. However, from interviews of various stakeholders, the recent reforms of OCP management had enabled better performance. For example, the OCP's contribution to the Moroccan state is increasing. As of 2012, the OCP's total financial contribution to the state (taxes and dividends) amounted to DH 4.72 billion (or over $500 million), making it the main contributor among SOEs to the state budget. Today, the OCP remains the world's largest exporter of phosphate products, and it holds stakes in the capital of several subsidiaries, mostly in the chemical industry but not exclusively (e.g., real estate), including a series of joint ventures in emerging markets such as Brazil, India, and Turkey.

Source: extracted from Middle East and North Africa: Governance Reforms of State-Owned Enterprises (SOEs) Lessons from four case studies (Egypt, Iraq, Morocco and Tunisia), August 2015 http://documents.worldbank.org/curated/en/829511468279359781/pdf/P143247-AAA-Final-Output.pdf

ANNEX 5: LAND TENURE IN MOROCCO

Land Tenure is a complex issue in Morocco and is often criticized for the excessive diversity of its statutes and oversight authorities. Land ownership in Morocco is subject to a dual system, due to the coexistence of a "traditional" system governed by Muslim law principles and local customs, and a "modern" land registration system (which dates back to the year 1913). The latter system has legal, economic and social benefits. There are five distinct categories of land that have widely differing characteristics and exhibit administrative asymmetry. These five types are the following:

1. *Melk*—privatized and titled land: According to USAID, 28 percent of Morocco's land, and 76 percent of agricultural land is classified as *melk*, although officials at the Moroccan Ministry of Agriculture put a higher figure of one-third of all land in Morocco as formally titled, privatized land (USAID 2011). Melk properties are most heavily concentrated in modern urban areas and large-scale agricultural operations. The other four types of land cannot be registered as *melk* as a result of legal codes and historical *dahir* (royal decrees). *Melk* land is the only land to be comprehensively taxed by the government. *Melk* is the preferred mode of ownership, since it allowed landowners the greatest control over their land—outside of modest zoning laws, could sell or rent it, and could pass it on to their children without interference.
2. *State-owned public and private land* makes up about 30 percent of land in Morocco, and includes parks, forests, rangelands, government installations, and agricultural land seized by the state in the post-independence era, mostly from French colons (Berkat and Tazi 2004). State-owned public land is mainly under the oversight of the Ministry of Equipment, Transport and Logistics although it may be occupied and managed by public enterprises (such as transport enterprises) and local authorities. State-owned private land is under the oversight of the Department of State Lands at the Ministry of Economy and Finance; this land may also be occupied and managed by various public organizations. The government is estimated to hold about 260,000 hectares of agricultural land, all of which has been rented out as part of the Plan Maroc Vert (PMV). These numbers might under-estimate the size of the state-owned land as the King's holding company, ONA, holds significant investments in land throughout the country, although the assets it controls are not publicly available.
3. *Guiche*—land granted historically to members of the military supporters of pre-independence Alaouite sultans by the monarchy. *Guiche* land is still under the purview of the state, with residents enjoying usage rights as a result of their ancestors' military service. *Guiche* land cannot be sold or officially rented but can the usage rights are inheritable. While USAID estimates that *guiche* takes up about 210,000 hectares today, although at the beginning of the Protectorate period it included 768,000 hectares (USAID 2011, Bouderbala 1999). This shrinkage is partially explained by rounds of privatization that occurred during the Protectorate period, but also by the government's expulsion of rights-users to facilitate urban and peri-urban expansion (Bouderbala 1999).
4. *Habous,* religious land endowments which can be leased but not sold (known as waqf in the rest of the Islamic world). Habous are religious endowments granted to an Islamic institution to fund public service projects. Habous land is owned in perpetuity by the institution it was granted to, and is leased out at an ostensibly modest price with the dual goals of raising funds for the religious institution and increasing access to land. habous has been for the most part co-opted by the Moroccan government and has been situated underneath the Ministry of Habous and Islamic Affairs (MHIA), which administers the majority of habous land in Morocco. habous are concentrated in the medinas and the countryside. Habous does not make up a significant amount of land area - while the MHIA

does not publish official figures on the amount of habous land, it is estimated at about 100,000 hectares (Bouderbala 1999).

5. *Collective tribal land* (soulaliya or jema'a) held for the tribe in trust by the state (the Ministry of the Interior—MoI) and is characterized by highly asymmetric forms of administration that can vary from one village to the next. USAID estimates that 42 percent of Moroccan land is categorized as collective land, but interviews with MoI officials found that they identify 15.4 million hectares of land, or 34.5 percent, as collectively managed, with another 300,000 hectares of irrigated land that has since been privatized (USAID 2011, MoI). This land is managed in a combination of central control with local administration, resulting in a highly complex and opaque system of tenure practice, which is often unintelligible to outsiders (Scott 1998).

Source: Balgley, David, 2015.

ANNEX 6: ROLE OF THE STATE IN THE DEVELOPMENT OF INDUSTRIAL ZONES

The success of industrial zones has been mixed depending on their location in Morocco. A large proportion of land parcels in public industrial estates remains undeveloped long after their allocation to investors. The high vacancy rate in industrial zones in unattractive areas implies that land price or availability alone is not enough to attract investment. Moreover, the available supply of land for industrial investment does not necessarily match investors' various demands: location near transportation infrastructure and labor markets; adequate land parcel sizes and planning to ensure future expansion; reliable utilities and access to roads; adequate industrial zone organization, maintenance, and management; and affordable cost of land acquisition and more financing (World Bank 2008).

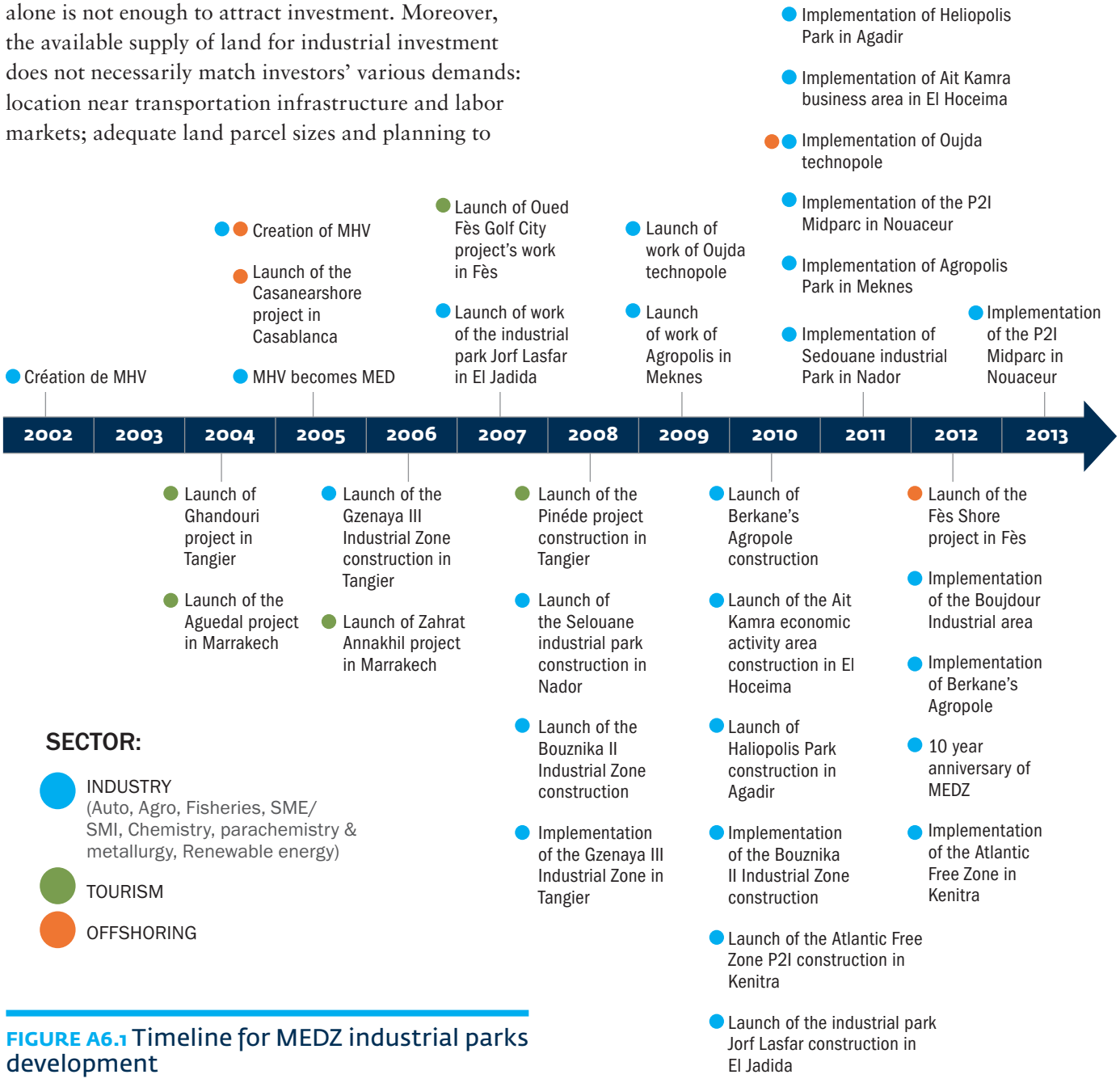


FIGURE A6.1 Timeline for MEDZ industrial parks development

ANNEX 7: PORT OF TANGIERS' INSTITUTIONAL SET-UP

The organizational structure of the maritime sector, and in particular the Ports and the associated zones, in Morocco, is complex with intertwined participation of the state, SOEs, and the private sector. The National Port Authority (ANP) is the state agency which is responsible for implementing and controlling of the maritime policies set by the Ministry. Although it is a public institution and supervised by the Ministry, the ANP has its own financial authority and responsibility. Public tenders for all national ports (construction, services, equipment), excluding Tanger Med and Nador West Med, are supervised by ANP. The Port of Tanger Med is not subject to ANP, but has its own port authority namely Tanger Med Special Agency (TMSA). Day to day business at Tanger Med Port is the responsibility of Tanger Med Port Authority (TMPA), which is a public limited company with a board of directors, and a capital of 1,250 billion dirhams (approximately 118 million euros). The capital is allocated as follows: 70 percent for TMSA and 30 percent for FIPAR, the investment company of CDG Group. The development of the new energy port Nador West Med falls under the supervision of TMSA.

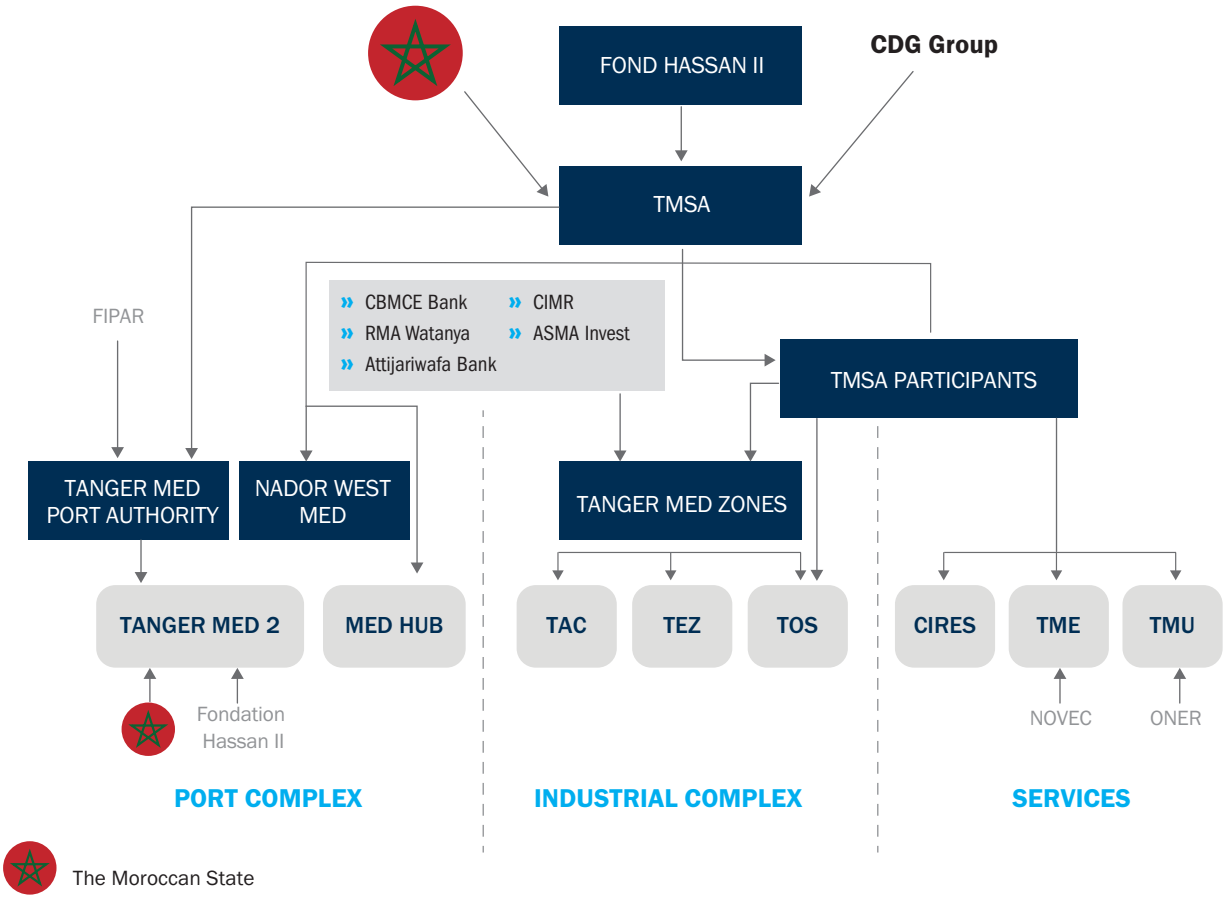


FIGURE A7.1 Port of Tangiers industrial zones: key players

Source: Netherlands Ministry of Foreign Affairs, 2018

ANNEX 8: REGULATORY ENVIRONMENT IN TERTIARY EDUCATION

Private tertiary education institutions (universities, faculties, schools, institutes or centers) work under the pedagogical and administrative supervision of the public administration, which regulates mainly through the Commission for Coordination for Private Higher Education.[126] The Commission: (a) provides an opinion on authorization to open new private tertiary education institutions and requests for accreditation of academic programs, (b) develops quality standards for private tertiary education and ensure their implementation, (c) sets up monitoring mechanisms, define strategies and action plan to develop the private sector, (d) promotes cooperation among private, public, and PPP tertiary education institutions, and (e) contributes to maintaining in operation any private tertiary education institution that would be failing or temporarily unable to function by its own means. The Commission is chaired by the representative of the government authority in charge of tertiary education and consists of the following members: (a) two ex-officio members, the director for private tertiary education and the director for tertiary education at the Ministry of Higher Education; (b) six elected members representing private tertiary education institutions; (c) appointed members from public tertiary education institutions: two presidents, three deans, two directors; and (d) two appointed members from economic and social sectors.

The regulation of the private sector includes three stages. While the first stage of authorization is mandatory to operate a private tertiary education in Morocco, accreditation and recognition are optional. However, they do impact the capacity of private institutions to attract and enroll students since state recognition is necessary to obtain a job in the public administration.

1. **Authorization** to open a private institution is granted by the authority responsible for higher education, following an opinion of the Commission for the Coordination of Private Higher Education (*Article 61 of Law 01-00 on the Organization of Higher Education*) and of the National Commission for the Coordination of Higher Education (*Article 81 of Law 01-00*).
2. **Accreditation:** Authorized private tertiary education institutions may be accredited for one or more academic programs, at the proposal of the Commission for the Coordination of Private Higher Education, based on an application file for each program. Accreditation of an academic program constitutes a recognition of quality[127] for this pathway and is granted for a fixed term, by the Ministry, following an opinion of the National Commission for the Coordination of Higher Education. Qualifications awarded for accredited courses are likely to be admitted as equivalent to national qualifications (but not systematically), according to methods determined by regulation.

Recognition: Private tertiary education institutions may be recognized by the state. Recognition is meant to be the acknowledgement of the high level of quality of the training provided by this institution. It is awarded to a private institution based on an opinion of the National Commission for the Coordination of Higher Education, based on the application file provided by the institution. Qualifications issued by recognized private tertiary education institutions are automatically admitted as equivalent to national qualifications. However, a request for recognition is only possible after a private institution has been operating for at least three years (unless one has a partnership agreement with the state to provide training or for research), creating a *de facto* advantage for the incumbents. Indeed, a new private education institution may not be able to attract as many students as needed while not having the state recognition. Moreover, private tertiary education institutions need to have at least 400 students enrolled when they apply for state recognition. Finally, the legal text does not make a distinction among the types of institutions (large multidisciplinary universities versus specialized institutions). This is important because there are some space requirements such as need for a cafeteria, parking, specific

minimum capacity for teaching, administrative, and educational support space that may be discriminatory for institutions. All institutions need a research department, publications, and must be constructed (as no long-term leases are possible) in urban areas (while land is scarce and expensive).

The appointment of an educational director at any private tertiary education institution is subject to the agreement of the Ministry of Higher Education. These institutions must have permanent teaching staff in sufficient number and with qualifications appropriate to the nature and duration of the training they provide. Students of recognized private tertiary education institutions may be authorized to access courses and participate in examinations of public tertiary education institutions, and access civil service position in the public administration.

While the use of stringent standards to obtain accreditation and recognition pursue a justified public policy rationale, the differential treatment between institutions building upon partnerships with subsidiaries of SOEs and those building upon private capital unduly unlevel the playing field. On the one hand, this type of discriminatory treatment distorts the incentives for private operators to enter the market and provide education services. On the other hand, the role of SOE subsidiaries in the provision of these services might not be compliant with the subsidiary role of the state in the economy.

ANNEX 9: MAIN PLAYERS IN AUTOMOTIVE ECOSYSTEMS

WIRE HARNESS

Tier 1

- 1 Kromberg & Schubert
- 1 YURA
- 1 Cofat
- 2 Fujikara
- 3 Yazaki
- 3 Lear Corp.
- 4 Delphi
- 5 Leoni
- 8 Sumitomo

Tier

- Coficab
- Acome
- NP Morocco
- Teknia
- GMD Groupe
- SIGIT
- Hirschmann Automotive
- Cablisys
- ATG Italy
- Relats
- Kostal
- Delfingen
- Schlemmer
- Elastomer Solutions
- Premo
- Frankische
- Sacred
- One Tech
- Delphi
- Gecam
- TE
- Federal Mogul
- A Raymond
- Cofat

Subcontractors

MAINTENANCE	ENGINEERING	PACKAGING	ASSEMBLING	SPECIAL MACHINES
Malintech	EngiMA	PWL	Promacab	Emdep Engineering
Elopar	Akka	Sonofet	Sulimet	Komax
EMDS	Altran	Helios Dica	Taza Cables	Schleuniger
		Sonacar		Dinefer

	Situation 2014	Situation end 2016	Engagement 2020
Turnover	1.5B Euros	2B Euros	2.5B Euros
Jobs	39.800	82.080	70.000
Local Value Addition	33%	50%	66%

INTERIOR AND SEATING

Tier 1

- 1 Indutexa
- 1 Treves
- 1 Polydesign
- 1 Faurecia
- 1 Takata
- 1 Denso
- 1 Sigit
- 1 GMD
- 1 Antolin
- 1 Reydel
- 1 Viza
- 1 Gergonne
- 3 Trèves
- 5 Lear Corp.

Tier 2

- Nova Erum
- Sintex NP
- Jobelsa
- CoverCar
- Dolidol
- Mafaco
- Proinsur
- Leman Industrie
- One Tech
- Savoy Moulage
- MecaPlast
- Galvarplast
- Gergonne
- Natur
- Inotecha
- Teknia
- CIE Automotive
- AutoPlast
- FaW
- Automotive
- Ifriquia Plastic
- Socafix
- Polyfil
- Treves
- Viza
- ProMaghreb
- Elastomer Solutions
- QAPI

Subcontractors

MAINTENANCE	ENGINEERING TOOLING	PACKAGING	TESTING CENTRE	LOGISTIC SERVICES
SITES	Altran	GPC	Cetiev	UPS
Hispamoldes	EngiMA	Sonacap		Decoexsa
Aida	Simoldes	Tecnicarton		Marcotran
		Novecia		
		LMN		

	Situation 2014	Situation end 2016	Engagement 2020
Turnover	300M Euros	655M Euros	1M Euros
Jobs	10.500	22.708	30.000
Local Value Addition	26%	5.180	65%

METAL STAMPING

Tier 1

- Viza
- Snop
- GMD
- Socafix
- Tuyauto
- Gestamp

Renault
PSA Groupe

Tier 2

- ProMaghreb
- Baldwin Filters
- Tools Press
- Bamesa
- Restagraf
- Leman Industrie
- Maghreb Steel
- MMB
- Aeroauto Maroc
- Batifer

Subcontractors

MAINTENANCE

- EMDS
- EM Energie
- Nordi Service
- EM Energie

ENGINEERING

- Altran
- MMO
- SMOM
- SITES
- Akka

PACKAGING

- GPC
- Tecnicarton
- Comega

SURFACED TREATMENT

- Yometal
- Kansai Paint
- FMTM
- GalvanoPlast
- Promaghreb
- Mecatim

SPECIAL MACHINES

- ABB
- Aida
- Kuka
- Sara Technologies

	Situation 2014	Situation end 2016	Engagement 2020
Turnover	100M Euros	250M Euros	500M Euros
Jobs	1000	4670	5.000
Local Value Addition	30%	55%	76%

BATTERIES

Tier 1

- Electra
- Tecna
- AlmaBat
- Maribat

Tier 2

- Ifriquia Plastic
- SCD
- Accumalux
- Accuma

Subcontractors

MAINTENANCE

- CCetiev
- Laboratoire Public d'Essais et d'Etudes

ENGINEERING

- Somasic

LOGISTIC SERVICES

- SJL Maghrev
- SNTL

SPECIAL MACHINES

- Rimet

	Situation 2014	Situation end 2016	Engagement 2020
Turnover	30M Euros	46M Euros	150M Euros
Jobs	1.200	1.570	1.500
Local Value Addition	30%	85%	90%

POWERTRAIN

Tier 1

- MecaPlast
- CFD Cooling
- Denso
- Bontaz
- JTEKT
- Nexteer
- PSA Group
- Floquet Monopole
- Xiezhong International
- OIIR
- Sogefi
- MGI Coutier
- Baldwin Filters

Tier 2

- Mecalp
- ARaymond
- Capelem

Subcontractors

MAINTENANCE	ENGINEERING	LOGISTIC SERVICES	SPECIAL MACHINES
Cetiev	Altran	SJL Maghreb	ABB
		Arkas	Sara Technologies
		SEC	Kuka
		M&M	
		Gefco	

	Situation 2014	Situation end 2016	Engagement 2020
Turnover	50M Euros	357M Euros	600M Euros
Jobs	1.200	5.180	10.000

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1 The automotive industry is organized into ecosystems with suppliers in Tier 1, Tier 2, and Tier 3. Companies that make the final product for sale to the consumer are referred to as original equipment manufacturers (OEMs). Tier 1 suppliers provide components directly to the OEM. Tier 2 suppliers provide their products (goods or services) to the first-tier suppliers, not directly to the OEM. Lower tiers provide less-processed products (sub-assemblies, components, materials, all the way to raw materials).

2 "Average public wages in the GCC and Morocco are about 2–3 times higher than average private sector wages. […] These gaps would probably be even higher if substantial nonwage benefits in the public sector, such as various allowances, retirement benefits, and job security were included—information that is generally not available." IMF, 2018, *Public Wage Bills in the Middle East and Central Asia*.

3 Necessity entrepreneurs are individuals who start small enterprises out of necessity. While they range from street sellers to those with higher education but with little access to formal employment what unites them is the need to survive. Entrepreneurs by choice are typically characterized by their willingness to take risks and by a motivation to achieve. They drop other viable sources of income and a comfortable lifestyle to create something of their own.

4 This is the third attempt after Maroc Telecom launched the Mobicash service in 2010 in partnership with Attijariwafa Bank, Meditel (now Orange) and BMCE Bank jointly started a cash platform in 2013. These two services are not widely used in Morocco.

5 Operation and maintenance spending associated with this public infrastructure investment is projected at an additional 9.5 percent of GDP, assuming a medium growth scenario.

6 Bank credit to SOEs has remained stable at 5 percent.

7 Physical capital accumulation has dominated GDP growth in Morocco, accounting for over two thirds of non-farm GDP growth, while the contribution of labor is at 25 percent, a sharp decrease over its 1990 levels (World Bank, 2016a).

8 ILO, Social Protection, 2017. http://www.social-protection.org/gimi/gess/ShowCountryProfile.action?lang=EN&id=312.

9 Concluded in December 2014.

10 TEA measures the percentage of the adult population (18 to 64 years) that are in the process of starting or who have just started a business (Source: Global Economic Monitor 2018).

11 Defined as the number of newly registered corporations per 1,000 working-age people (those ages 15 to 64).

12 Although these are likely to be significantly under-counted in due to imprecise records on the informal sector. It should also be noted that the level of recorded employment in SMEs is lower as a percentage of total employment in the MENA region than other regions. (IFC, 2012).

13 No date indicated but most likely between 2014–16.

14 The 2012–14 data do not coincide with the industry census data in Table 1; similarly, the government website http://www.mcinet.gov.ma/fr/content/automobile indicates 92,000 jobs in the automotive sector in 2016.

15 Jaud. 2012. "Dynamique et performance des entreprises marocaines," working paper.

16 The concept of hidden capabilities is used in economic complexity and fitness analysis: a country's productive structure shines a light on the capabilities it possesses, and the new opportunities that can be reached. This line of research portrays economic growth as the evolution of an ecosystem of technologies and industrial capabilities. Analytical approaches offer new opportunities to empirically map these ecosystems within countries and industries in order to understand their dynamics and measure their fitness. The approach is based on historical data and represents a filter of potential opportunities. To determine concrete investment areas, it combines results with a forward-looking market demand analysis.

17 The law distinguishes three main categories: public organizations, limited liability companies in which the state holds shares, directly or indirectly, exclusively or partially, and joint-ventures with a concession contract (companies entrusted with operating a service of general economic interest, pursuant to a concession contract in which the state in the contracting authority).

18 OCP (Office chérifien des phosphates); ONEE (Office nationale de l'eau et de l'électricité); HAO (Holding d'amenagement Al Omrane) ; ONCF (Office national de chemins de fer); CDG (Caisse de dépôt et de gestion); RAM (Royal Air Maroc); TMSA (Agence speciale Tanger Mediterranee).

19 By law, CDG manages two of Morocco's four pension funds (for employees of SOEs, and salaried and non-salaried employees of private companies).

20 See CDG's Annual Report 2016, page 22, that include land management among its core activities. At the same time, several sources report difficulties for private investors to access land. This is considered one of the main constraints for investment. See *Morocco's Growth Diagnostic. Identifying Morocco's Binding Constraints to Broad-Based Growth*, African Development Bank, page 172 available at https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Diagnostic_de_croissance_du_Maroc_%E2%80%93_Analyse_des_contraintes_%C3%A0_une_croissance_large_et_inclusive.pdf.

21 In discussions with SOEs and legal professionals advising on public-private JVs, there is a general consensus that SOEs enter into these types of agreements as if they were private operators, that is, on the basis of the reputation of a company or their position as market leaders abroad, without considering open/competitive appeals/tenders that could provide the opportunity for other firms to offer better conditions in terms of efficiency, innovation.

22 For instance, in the United Kingdom, following general EU procurement rules, SOEs should follow a competitive selection process, including a prequalification of bidders, to enter into JVs. See "Joint Ventures: a guidance note for public sector bodies forming joint ventures with the private sector," UK HM Treasury (2010) at p. 3 on how competitive procedures apply for "Joint Ventures (JVs) where both a public sector body and the private sector contribute to a commercial venture and agree to develop and manage that business on a joint basis." These JVs are governed by company law. Moreover, on p. 8 the report discusses some regulated exceptions in which EU procurement rules do not apply. However, generally, the selection of JV partners consists of different steps such as issue of information memorandum, pre-qualification of bidders, dialogue phase, agreement on initial form of business plan, agreement on forms of document, calls for final tenders, identification of preferred partner(s), and due diligence. Available at http://webarchive.nationalarchives.gov.uk/20130102211814/http://www.hm-treasury.gov.uk/d/joint_venture_guidance.pdf.

23 Amegroud, Tayeb. 2017. "Rethinking Power Sector Reform (P157376) Initiative Information Collection to Support Country Case Studies: Morocco Inception Report." November 26. (As mentioned in the World Bank Report, 2018, p. 33.)

24 Art. 7 Law 69-00.

25 RAM is in charge of connecting certain parts of the country by maintaining unprofitable routes for which it receives a compensation by the regions. It should be noted that regions can enter into these types of agreements with other carriers and not only RAM.

26 Article 23 of Law 69-00.

27 2012. Towards New Arrangements for State Ownership in the Middle East and North Africa, Paris: OECD Publishing.

28 Following the standard in the literature, market power is proxied using the price–cost margin, which is derived from the Lerner Index. The PCM measures margins (that is, the difference between price and marginal cost) as a proportion of price. In the absence of information on price and marginal cost, the extent of pricing power in an industry is proxied by the difference between value added and labor costs as a proportion of sales (all measured in current prices), as follows: $$PCM_i = \frac{(sales_i - cost - materials_i - labor - cost_i)}{sales_i}$$

Sales, material cost, and salaries are all taken from the Enterprise Survey. Financial costs of capital are not included in the average costs.

29 Enterprise Survey was conducted in 2013 in Tunisia, and in 2016 for Egypt.

30 Higher market power proxied by markups could also be explained by other factors such as product innovation, differentiation and cost efficiency, and should be seen just as an indication of potential non-competitive outcomes for more in-depth analysis at the market level.

31 A cross-section regression was estimated to explain price cost margin performance using the following firm characteristics as covariates: labor intensity (measured as the number of full time employees), age (measured in age categories), ownership (if foreign owned or not), sector of operation (captured through two digit sector fixed effects) and country (captured by Morocco, Tunisia and Egypt dummies). The predicted value of the price cost margin for Morocco, Tunisia and Egypt, after controlling for all those covariates is displayed in Figure 17. These results are robust when restricting the analysis to manufacturing firms only.

32 In an effort to promote competition, ANRT prioritized the issue of local loop unbundling as early as 2004 through a decision resulting in negotiations with the incumbent Maroc Telecom which needed to provide technical specifications about its legacy copper infrastructure and pricing options for operator access. However, it was not until an order from the Prime Minister that dates were set for implementation of local loop unbundling. A final agreement on full unbundling was reached on December 27, 2007 after a series of correspondence between ANRT and Maroc Telecom. This also included new modifications to pricing of partial unbundling. See also Decision ANRT/DG/No.19 (December 26, 2014).

33 Decree No. 2-94-503 of 23, September 1994.

34 Law 48-15 available at https://www.droit-afrique.com/uploads/Maroc-Loi-2015-48-regulation-secteur-electricite.pdf. Recent analysis suggests that Morocco lags its peers in terms of implementing intended reforms in the electricity sector. According to a Global Power Sector Reform Index, Morocco is ranked 55 out of 88 on four dimensions of reform (regulation, competition, private sector participation and restructuring). The areas of weakest reform efforts are regulation and restructuring. When compared to its middle-income peers, Morocco's progress in enhancing competition is not that strong—countries such as Argentina, Turkey, Guatemala, Mexico, Romania and Ghana have all done more to promote competition (World Bank, 2017a). As for restructuring, draft legislation to unbundle the sector and introduce competition in generation and commercial activities was prepared by the government in the early years of 2000 and ONE went as far as floating a tender for developing generation capacity with no guarantees as to purchasing the power produced. This process came to a halt in 2008 with the emphasize shifting to generation projects-based reforms instead of pushing for deep institutional reforms (Amegroud, 2016).

35 See Article 2 of Law No. 104-12 on freedom of prices and protection of competition. Available at http://adala.justice.gov.ma/production/legislation/fr/Nouveautes/Libert%C3%A9%20des%20prix%20et%20de%20la%20concurrence.pdf

36 In late 2014, Morocco eliminated subsidies for gasoline, diesel, and fuel oil, dramatically reducing outlays that weighted on the country's budget and current account. However, Decision No. 3086.14 of the Deputy Minister at the Prime Minister issued on 29 December 2014 (http://www.mag.gov.ma/index.php/ar/2014-11-10-11-21-42/2014-11-27-17-11-54.html) lists the following goods, products and services whose prices can be determined by the state as follows: National flour for soft wheat; Sugar; Tobacco industry; Electricity; Drinking water; Liquid cleansing; Butane gas; Transportation of road passengers; Pharmaceutical products; Business and medical services in the private medical sector; Work done by private nurses and nurses in the private sector; School books; Contracts of judicial commissioners; Notaries' fees; Urban transport by bus; Transportation by taxis of Classes I and II; Return transport of persons; Legal, administrative and judicial declarations.

37 Although Morocco is not included in the PMR dataset, the team based this mapping on the Product Market Regulation questionnaire applied to Morocco as compared with the OECD dataset for OECD and OECD enlarged countries and the OECD-World Bank Group dataset for less developed economies. Additional information available at http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm.

38 OECD, Roundtable on Competition Neutrality, Issues paper by the Secretariat, 2015, 4.

39 This is a preliminary assessment mainly focused on what is "on the books." Accounting for a detailed assessment of implementation across sectors could identify additional concerns.

40 There is no formal definition of public services/non-commercial activities and this constitutes a critical gap in the Moroccan for the implementation of the competitive neutrality principle in Morocco. While Article 6 of the Law 15-95 (Commercial Code) establishes 18 activities identified as commercial acts, some of them could also correspond/be provided as public services, that is, transportation, distribution of water, electricity and gas, or posts and telecommunications.

41 Law No. 69-00 makes no distinction on the SOEs based on the nature of the activity: both institutions with a commercial purpose and institutions focusing on "social activities" are included within the scope of application of the law (World Bank 2015). While there is no general requirement to separate commercial and non-commercial activities of SOEs, some of them identify "public service" obligations for which they get a compensation. This is the case of RAM that holds different accounting lines for unprofitable routes served on the basis of agreements with different regions to ensure connectivity. The lack of separation between commercial and non-commercial activities implies lack of separation between costs and revenues related to commercial/no-commercial activities. However, given the advanced accounting obligations of SOEs, when there is clarity on the provision of a given good/service as per non-commercial obligation, then costs and revenues of this services are clearly allocated. This is the case of non-profitable domestic routes for RAM.

42 There is no general obligation for SOEs to separate commercial and non-commercial activities and this impacts the ability to supervise the allocation of costs and capital return to commercial activities. SOEs are not accountable for the return of their investments. However, positive NPV is required for SOEs when creating a new subsidiary. To do so, SOEs must have the approval of the Ministry of Finance and they are asked to provide a business plan with an estimation of the NPV. Moreover, while SOEs present a positive operating balance as a group, the amount of operating deficit accrued by under-performing SOEs has increased during the last three years (Ministère de l'Economie et des Finances du Maroc 2017).

43 Only certain SOEs are subject to corporate tax. Although Article 2 of the General Tax Code explicitly subjects "Companies regardless of their form and purpose" as well as public institutions to corporate income tax, Article 6 exempts some SOEs from its application.

44 While no reference has been found to preferential rates applied to SOE loans by state-owned banks, the Court of Audits report that internal debt of SOEs is declining and only represents 33.9 percent of total debts by SOEs. In contrast, the Court draws the attention to the considerable amount of external debt that is being accrued by SOEs in the last years. It is noteworthy that a considerable majority of such external debt is guaranteed by the state.

45 Some SOEs (either in general or for specific types of contracts) are exempted from the application of the public procurement law (Articles 2 and 4 of Decree 2-12-349); however, they report to follow similar procedures in order to ensure their position before the *Cour de Comptes*. SOEs also enter into a variety of agreements with private operators (for example, JVs, concessions) that are expressly exempted from the public procurement law.

46 Instituted by Dahir n° 1-02-02 of January 29, 2002.

47 The sectors are automotive, aerospace, electronics, chemical and para-chemical industries, pharmaceuticals, and manufacturing activities linked with nanotechnologies, microelectronics and biotechnologies. http://lavieeco.com/news/economie/ou-va-le-fonds-hassan-ii-12749.html.

48 World Bank, 2017. Améliorer la gouvernance économique pour relever le défi de la compétitivité, l'investissement et l'emploi." CEM Background Paper).

49 The gradual introduction of taxation in the agriculture sector began in 2016, with an initial focus on large producers.

50 Al-Dahdah, E. et al., 2016. Rules on Paper, Rules in Practice: Enforcing Laws and Policies in the Middle East and North Africa. The World Bank Group.

51 IMF, Morocco Selected Issues, report 18/76, November 2017.

52 Dependence on import customs duties in total tax revenues has declined substantially between 2000 et 2015, dropping from 13 percent in 2000 to three percent in 2015 (https://stats.oecd.org/Index.aspx?DataSetCode=REVMAR).

53 The seven countries are Croatia, Egypt, Iran, Morocco, Puerto Rico, South Africa, and Uruguay.

54 GEM 2016.

55 14 million adults between 25-54 years old (42 percent).

56 GEM 2015.

57 World Bank (2017) *Igniting Climate Entrepreneurship in Morocco, Findings from the Climate Entrepreneurship and Innovation Ecosystem Diagnostic*, World Bank, Washington DC.

58 Arab World Competitiveness Report 2018, https://www.weforum.org/reports/arab-world-competitiveness-report-2018.

59 See http://womenpreneur-initiative.com/.

60 A previous assessment noted that 41 percent of Moroccan adults use a formal financial product or service, also above both regional and income group averages (World Bank, 2016d). The difference in figures reflects different methodologies.

61 La dynamique entrepreneuriale au Maroc 2016, Global Entrepreneurship Monitor, Rapport du Maroc 2016.

62 91 percent of loans call for financial guarantees in Morocco, and banks require collateral levels that average more than 220 percent from small firms, significantly higher than the case in peer countries on both counts.

63 Starting February 2018, payment delays from the public sector to SMEs are being addressed by the authorities, banks and BAM through a factoring scheme by which (a) the Ministry of Finance certifies the IOUs; (b) banks pay SMEs the IOUs minus 3 percent; (c) BAM refinances the banks; and (d) MEF pays the banks as and when the IOUs fall due. This factoring scheme removed one cause of payment delays starting in 2018.

64 Following the publication of Decree No. 2-17-696 of 30 November 2017

65 https://www.elite-network.com/it/news/casablanca-stock-exchange-welcomes-fourth-elite-cohort

66 Bank al-Maghrib, Annual Report on Financial Stability for 2017.

67 Trade credit insurance creates distinct benefits for SMEs and other beneficiary firms, notably: (a) Balance-sheet protection. Sales receivables are a major (often the largest) item in a firm's balance-sheet. Like fixed assets and inventories, receivables need to be insured. Insuring receivables against credit risk increases the stability and predictability of sales cash flows, thus reducing the likelihood of insolvencies and their knock-on effect on the supply chains; (b) Access to finance. Receivables backed by credit insurance may be used by sellers to raise finance without pledging fixed assets to their bank. Forms of receivable financing (also called invoice financing) include invoice discounting and invoice factoring. Invoice discounting may be with or without recourse to the seller in case of payment default of the buyer. In the case of invoice factoring, invoices are acquired by a factoring company (in Morocco, typically the subsidiary of one of the leading banks) which is in turn insured by a credit insurer. Market sources indicate that Morocco could still further expand invoice discounting and factoring.

68 Maroc Telecom has undergone several rounds of privatization, starting in January 2001, when it transferred 35 percent of its capital, and the management control, to Vivendi Universal for MAD 23.3 billion ($2.3 billion). Vivendi's share increased to 53 percent before it sold it in 2014 to Etisalat, the Gulf's biggest telephone operator, which is majority owned by the Abu Dhabi government (Financial Times, 2013). These reforms brought significant benefits for the Moroccan economy and led to the spectacular development of mobile telephony extending even to remote and disadvantaged regions.

69 IAM for its Arabic name, Itissalat Al Maghrib.

70 Earlier this year, one of the operators filed a damage claim of $620 million against Maroc Télécom for lack of infrastructure sharing before the commercial courts. While fixed line access is limited in Morocco, this move reflects the need for a regulatory/institutional framework able to foster competition in the sector.

71 This is the third attempt after Maroc Telecom launched the Mobicash service in 2010 in partnership with Attijariwafa Bank, and Meditel (now Orange) and BMCE Bank jointly started a cash platform in 2013. These two services are not widely used in Morocco.

72 The application of those preferences is referenced in tender documents.

73 Measures to support local content can be indirect or indirect For example, in the energy sector, indirect measures include investments for the creation of new generation capacity, maintenance activity, engineering or a research and development center, and direct measures include: (a) the acquisition of equipment produced in the country with a defined minimum value-added in the country; (b) the contracting of services in relation to the construction of plants, to be performed locally, with companies incorporated locally; and (c) the accommodation and catering expenses, works and furniture supplies, office material and supplies, telecommunication system installation, temporary office supplies, office electrical supplies, fuel supply, office rental, among others.

74 Through Title II and Title XII (Title II on conflict of interest, misconduct in public procurement, misuse of public funds, greater transparency, accountability, and the fight against fraud and corruption, and Title XII on good governance.

75 World Bank, 2008.

76 World Bank, CEM, 2017.

77 World Bank, 2018. *Opportunities for catalyzing private sector investment and creating jobs: Tackling the remaining ICT reforms in Morocco*. Mimeo.

78 CEM, 2017.

79 CEM, 2017.

80 This section is largely based on the World Bank Group's *Maghreb infrastructure Diagnostic: Enabling Private Investment and Commercial Financing in Infrastructure in Morocco*, draft, August 2018.

81 World Economic Forum: Global Competitiveness Report.

82 Electricity is noted as a major constraint by 24.5 percent of manufacturing firms in the most Morocco recent enterprise survey.

83 Infrastructure is defined here as the sum of all transport networks (airports, ports, rail, and roads) and of all utilities (energy, ICT, and water and sanitation). It excludes social infrastructure (chiefly education and health).

84 According to OECD estimates, ODA disbursements to Morocco's infrastructure amounted to 1.7 percent of GDP in 2016. Other official flows (OOF—those with a concessionality below 25 percent) amounted to another 0.8 percent of GDP. Relative to the size of its population, Morocco receives higher ODA flows (particularly for financing infrastructure) than most other countries.

85 The leading SOEs engaged in infrastructure are: ONEE (electricity and water supply), ADM (highways), ONCF (railways), Masen (renewable energy), ONDA (airports), ANP (ports), and TMSA (ports). In addition, the state also has a 22 percent stake in Maroc Telecom, one of the three major telecom operators in the country. The state also still owns 60 percent of the port operator Marsa Maroc, which was partially privatized in 2016.

86 About 30 PPPs were undertaken between 1986 and 2017, almost all of them as concessions or involving the delegation of services in commercial sectors, including highways, urban transport, water and electricity distribution, sanitation, household solid waste collection, electricity generation, irrigation, and the management of agricultural land. These PPPs were negotiated either by local collectives or by contract with the state on a case-by-case basis. While urban transport concessions have not all proved successful, concessions for water and electricity distribution and sanitation have shown good results.

87 The first proposal was for the construction and maintenance of the Bab Ouendar Dam, which was rejected. The second was for the construction, co-financing, operation, and maintenance of a desalination station and a wind park in Dakhla. The project was approved by the commission for preliminary evaluations and the Minister of Finance, and a call for tenders is underway.

88 Although the incentives offered to firms investing in the automotive and aeronautics sectors create an uneven playing field (and contribute to a more complex tax system via tax exemptions) since they are not available to all investors, it is important to note that their objective is to attract the entry of leading firms in support of globally competitive exports. The instances described in Chapter III, an uncompetitive playing field leads to the opposite result, namely protecting incumbents and discouraging of entry of new firms.

89 Terkla, Dawn. 2011. "The Most Common Performance Indicators for Institutions and their Boards." *AGB Trusteeship Magazine*. January/February. https://www.agb.org/trusteeship/2011/januaryfebruary/the-most-common-performance-indicators-for-institutions-and-their/.

90 Established in 1971, the OFPPT was initially dedicated to continuous training for employees. Then, the OFPPT received a social mandate and became an instrument for the inclusion of youth (outside of the education system) in the job market. All training is designed with the participation of the relevant industry professionals. Its executive board includes representatives from the state, the private sector, and the unions.

91 The levy is collected at source (from the employer) by CNSS (Caisse Nationale de Sécurité Sociale) along with other taxes and social contributions. Moreover, the budget spent on TVET corresponds to 0.2 percent of GDP (excluding budget spent on PPPs). For comparison purposes, the government spends about 27 percent of its budget on education, or 5.3 percent of GDP.

92 BMI, Morocco Q3 2017 report.

93 Although many European Tier 1 suppliers, as part of their strategy, and to protect their European market shares against newcomers, are moving more of their activities to Morocco.

94 As an example, for Tier 2 and Tier 3 suppliers, the local content increase imposed by the government on car manufacturers, and the development of the metal and stamping, and engines and transmissions, ecosystem implies accelerating the development of new suppliers, particularly for following areas: heat treatment, surface coating, machining, cast iron foundry, aluminum casting, plastic parts and plastic part coating, and coil springs. The automotive industry lacks companies able to design and manufacture press tooling, plastic molds, machining and assembly tooling. Most of these products rely on medium or heavy investment (cast iron foundry, aluminum casting) and more importantly, depth of knowledge. This means that it will be necessary to either negotiate an alliance/joint venture with existing players, or provide significant technical support to local players. The development of Tier 2 firms should be based on association with existing players, or through relocation to Morocco by specialist companies. In the case of Tier 3 firms, the type of assistance would depend on the capital intensity of the activity. For highly capital-intensive products or processes, such as cast-iron foundry or plastic molding, significant knowledge and high levels of investment are required, implying the need for a merger with a specialist firm or direct investment by such a firm. For suppliers of less capital-intensive products, association with specialist firms is not critical.

95 "La complexité de la remontée des Chaînes de valeur Mondiales: Cas des industries automobile et aéronautique au Maroc et en Tunisie," Larabi Jaidi and Yassine Msadfa, OCP Policy Center working paper, September 2017.

96 Deloitte Analysis—On a solid profitable growth path: 2018 Global aerospace and defense industry outlook.

97 Deloitte analysis of the following data: The Boeing Company Current Market Outlook (2017–36), July 2017.

98 Deloitte Analysis—On a solid profitable growth path: 2018 Global aerospace and defense industry outlook.

99 Boeing, CURRENT MARKET OUTLOOK 2017–36.

100 *The Aerospace Industry in Morocco*, Moroccan Investment and Export Development Agency 2017.

101 In 2017, there are some inconsistencies regarding the number of subsidiaries between those provided in the annual reports on SOEs and those that appear in the different company annual reports.

102 We understand that currently IPPs account for 45 percent of generated energy in Morocco. The rest of the segments, transmission and wholesale distribution, as well as transport, are a monopoly of ONEE. Interview with Mr. Abderrahim El Hafidi, Director General of ONEE, on Tuesday, May 8, 2018. For more information see http://www.one.org.ma/FR/pages/index.asp (last accessed May 15, 2018).

103 The ONEE imports gas mostly from Algeria. The WB, Infrastructure in Morocco: Creating Opportunity out of Progress1 February 2018. In addition, production of natural gas in Morocco is undertaken mainly by two private companies in collaboration with ONHYM. Norton Rose Fulbright, A guide to LNG markets Morocco, November 18, 2015. Available at https://www.insideafricalaw.com/publications/a-guide-to-the-lng-market-in-morocco (last accessed May 15, 2018). For more information see http://www.onhym.com/onhym-en-bref/presentation.html (last accessed May 15, 2018).

104 The government of Morocco has 30 percent ownership in Maroc Telecom, with no evidence of control. Maroc Telecom, Q1 2018 Consolidated Results. Available at https://www.iam.ma/Lists/TelechargementFinance/Attachments/1084/Maroc%20Telecom_PR-Q1%20 2018%20Results_EN.pdf (last accessed May 15, 2018).

105 For more information see https://www.albaridbank.ma/wps/portal/GPM/NotreGroup/NosDomaines (last accessed May 15, 2018).

106 The Moroccan National Railways Office "is responsible for all passenger and freight traffic on the national railway network. See for details https://www.oncf.ma/en/Company/Oncf-profile/Missions-values (last accessed May 15, 2018).

107 The SNTL is a limited company founded on January 1, 2007 under Law 25-02, replacing the NTO (National Transport Office). The SNTL is the national leader in transportation and logistics. See http://sntlgroup.ma/home-en/sntl-group/ (last accessed May 15, 2018).

108 The ONDA manages Morocco's airport. See https://goo.gl/NW5F6v (last accessed May 15, 2018).

109 The government of Morocco owns 60 percent of Marsa Maroc. See Marsa Maroc Capital distribution. Available at http://www.sodep.co.ma/en/web/marsamaroc/repartition-du-capital (last accessed May 15, 2018). It also owns 70 percent through TMSA in Tangier Med Port Authority. See http://www.tmpa.ma/en/autorite-portuaire/complexe-portuaire/ and http://www.tmsa.ma/en/organisation/ (last accessed May 15, 2018).

110 The government of Morocco owns (directly and indirectly) a total of 98.63 percent in ADM. Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

111 The Moroccan National Railways Office "ONCF is a Public Establishment with an industrial and commercial character (EPIC) with financial autonomy. It is responsible for all passenger and freight traffic on the national railway network. See for details https://www.oncf.ma/en/Company/Oncf-profile/Missions-values (last accessed May 15, 2018).

112 Answer based on ONEE activities. See http://www.one.org.ma/FR/pages/index.asp (last accessed May 15, 2018). See also on RADEEMA https://www.radeema.ma/accueil (last accessed May 15, 2018).

113 Our understanding is that the relevant public company was privatized, and parliament passed law to liberalize sector since 2005. See http://elaphjournal.com/Web/Archive/10432453714113371 00.htm (last accessed May 15, 2018).

114 The SNPP is under consideration for divestiture. Government of Morocco ownership is not disclosed under the Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

115 The AOULI is under consideration for divestiture. Government of Morocco ownership is not disclosed under the Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

116 See https://www.anp.org.ma/Ar/Grandschantiers/Pages/Chantiersinfrastructures.aspx (last accessed May 15, 2018).

117 See http://gimas.org/pdf/brochuregimas.pdf (last accessed May 15, 2018).

118 The government of Morocco owns 88.13 percent in IDMAJ SAKAN and 100 percent of HAO. The CIMA is under consideration for divestiture. Government ownership is not disclosed under the Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

119 The National Seed Marketing Company SONACOS is a state-owned company created in 1975 under the auspices of the Ministry of Agriculture and Maritime Fisheries. Its purpose is to purchase, including the importation, packaging and sale of fertilizers, seeds, plants and trees or any other plant parts used for breeding purposes, among others. We understand this includes wholesale activities. See http://www.sonacos.ma/fr/missions-de-la-sonacos last accessed May 15, 2018).

120 Both entitles are under consideration for divestiture. Government of Morocco ownership is not disclosed under the Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018). https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Rabat_Morocco_12-28-2017.pdf

121 The government of Morocco owns 99.65 percent in CASA Transport and RATS. The Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

122 The government of Morocco owns 87.2 percent in Crédit Agricole du Maroc and 100 percent in CDG. The Ministry of Finance Report regarding Public Establishment, 2016. Available at http://www.chambredesrepresentants.ma/sites/default/files/depp_ar.pdf (last accessed May 15, 2018).

123 See Supervisory Authority of Insurance and Social Welfare (ACAPS) Annual Report 2016. Available at http://www.acaps.ma/wp-content/uploads/2018/02/Rapport-ACAPS-2016-ENG.pdf http://sntlgroup.ma/home-en/sntl-group/ (last accessed May 15, 2018).

124 Despite significant improvements in disclosure in Morocco, information remains insufficient and sometimes difficult to verify. The developments described in the rest of this section are subject to this general caveat.

125 The monopoly applies to exploitation but also to the distribution and commercialization of phosphates and their by-products.

126 Despite provisions of the Law 01-00 enacted in 2000, private universities had to wait the implementing decree enacted in 2010 to formally obtain the name of university and be recognized as such by the public administration. Prior to this, they were operating only as schools, institutes, or centers.

127 However, the requirements included in the specifications for accreditation tend to be more input-based and do not ensure quality of student outcomes.

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