

IDENTIFICATION OF BARRIERS TO THE INTEGRATION OF MOROCCAN SMEs IN GLOBAL VALUE CHAINS

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Identification of barriers to the integration of Moroccan SMEs in global value chains

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Introduction

The previous FEMISE Euromed report, published in June 2019 and entitled “ The private sector in Mediterranean countries: main dysfunctions and opportunities for social entrepreneurship ”, reviewed the economic dynamics of these countries over the past 20 years and analysed the main factors that were holding back business development. The scope of application, so far common to all Euromed reports, was that of the region, covering more specifically 8 of the 10 partner countries of the European Union, namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia (Libya and Syria were not included due to the lack of available data). The interest of this previous report was to provide a summary of all the factors that could potentially explain the lack of growth and job creation in Mediterranean countries. However, in covering the entire region, it adopted a general approach that did not allow for specific situations in each country to be taken into account. Although there are similarities between the Mediterranean economies, national specificities cannot be ignored if we seek to understand the specific difficulties of companies and to propose economic policy recommendations that are more operational and more likely to be effective.

This new report is a continuation of the previous one because it again deals with issues that concern the private sector. However, this time it offers a more detailed analysis by targeting a specific problem, the integration of Small and Medium Enterprises (SMEs) in global value chains, in the case of one country in particular, Morocco. This choice enabled us (i) to carry out an in-depth analysis on a given problem, (ii) to work in close collaboration with a Moroccan institution (ISCAE) and with the African Development Bank (AfDB) office in Rabat and (iii) to enhance our report with case studies of Moroccan SMEs and with a series of interviews and working meetings with representatives of business associations and heads of national organizations concerned with the issue. Before the finalization of the economic policy recommendations, this study was also the subject of a workshop organized in Rabat in the presence of decision makers, entrepreneurs and senior civil servants.

The premise of this report is based on two main findings. The first is that despite the strong political will that has led to the implementation of active sectorial policies and a certain number of reforms, the dynamics of Moroccan exports remain insufficient considering the efforts undertaken. While SMEs represent 95% of Moroccan companies, about 40% of GDP and 46% of total employment, they account for only 31% of exports. The second finding is that international trade is increasingly structured around global value chains. Indeed, 80% of world trade is carried out between companies within the framework of these international production networks. To develop exports, therefore, Moroccan companies must be provided with support to integrate these global value chains.

The objective of this report is to **identify the barriers to improving the business environment and to the integration of exporting Moroccan SMEs in global value chains.**

The first section presents the situation of the Moroccan economy, and more particularly its export dynamics. The second section discusses the current state of the business environment, while noting recent measures adopted and progress achieved. The third section is devoted to global value chains, the ability of SMEs to integrate them and, above all, to identifying the limits and difficulties encountered by Moroccan SMEs when seeking to integrate international production networks. This work is based on an analysis of the literature and on existing data at the macro and microeconomic levels, and above all, as described above on a series of interviews conducted among Moroccan SMEs.

Executive summary

The Moroccan economy faces a certain number of interrelated challenges: (i) insufficient growth to absorb high unemployment rates, (ii) insufficiently developed industry and (iii) export growth rates below those of countries with comparable incomes.

Support for the development of Moroccan exporting SMEs would be among the ideal responses to these challenges. This document seeks to analyse, firstly, the constraints relative to the creation and development (the business climate) of SME and, secondly, the barriers to their integration in global value chains (to stimulate exports). In addition to a review of the literature and the use of available databases (Doing Business, COMTRADE, Enterprise Survey), the study is based on case studies conducted at the end of 2017

Although much progress has been made in improving the business climate, a number of challenges remain. First, a comparative analysis of the Doing Business indicators highlights the need to improve at least three areas in particular: regulations surrounding insolvency, corporate finance and the protection of minority investors. According to the surveys (Companies Survey and our own case studies) companies consider the main barriers to be related to corruption, unfair competition from the informal sector, access to finance and inadequate staff qualifications

The assessment of Morocco's level of integration in Global Value Chains (GVC) reveals it to be low as compared to other countries of the region or similar income countries. Of even greater concern, the share of Moroccan value added in gross exports has declined, falling from 81% in 1995 to 74.4% in 2011. The share of domestic value added is lower than the national average in the following sectors: automotive (41%), refining (42%), computers, electronics and optical products (47%), electrical appliances (58%) and textiles and clothing (58%)

The literature review shows that, in comparison with large companies, SMEs are at a disadvantage when seeking to integrate a GVC. However, it is estimated that about 80% of world trade is carried out through GVCs and that this fragmentation of production brings new opportunities for the SMEs of developing countries as it allows them to produce and export part of the chain according to their comparative advantages, yielding positive impacts, in particular in the field of competitiveness.

Interviews and case studies conducted in 2017 highlighted a number of challenges relative to the integration of SMEs in GVCs.

- **Regarding imports**, the main constraints are burdensome customs procedures, the cost and availability of currency hedging and financing.
- **Regarding exports**, the strongest challenges lie in the ability to penetrate markets, obtaining financing, transport costs, burdensome customs procedures, the cost of hedging against exposure to exchange rate fluctuations, weak R&D, the difficulty of upgrading products to the standards imposed by foreign markets and the difficulty of hiring labour
- **Moroccan SMEs face 5 major challenges with regard to their principals:** the lack of efficient logistics services, low product competitiveness, a difficulty in meeting customer requirements, a difficulty in upgrading products or production processes to comply with imposed norms and standards and the lack of qualified manpower.
- **Finally, companies declared that their greatest needs, to help them integrate GVCs, are:** support establishing contact with foreign companies, access to bank loans and support for upgrading products and/or production processes to comply with imposed norms and standards.

I. Situation of the Moroccan economy

I.1. General overview

Morocco's economic growth has been heterogeneous over the last 20 years. During the 1990s and 2000s, the GDP growth rate rose, on average, from 3.2% to 4.7%. During this period, the country was able to control its macroeconomic balances and improve its business environment. It pursued a strategy based essentially on the expansion of domestic demand stimulated by public investment. The effects of this strategy were undeniably positive. Indeed, the growth achieved was close to the potential rate, access to basic infrastructure services (drinking water, electricity and roads, particularly in rural areas) improved, life expectancy increased, and poverty and vulnerability declined, whilst inflation was maintained at relatively low levels.

Although this growth strategy was beneficial for the country in a number of ways, it may note that many indicators would suggest that it reached its limits during the period 2010-2016. Indeed, the distinguishing characteristics of the country's economic situation are as follows:

- **Growth**, during the period 2010-2015, averaged only 4% and then 1.2% in 2016 (3.7% in 2017), while the objective announced was 5.5%. This growth remains volatile and largely dependent on climate hazards whilst failing to sufficiently stimulate job creation, according to HCP
- The **unemployment rate** remains high, reaching 10.8% in 2017 according to ILO estimations, in particular among young people between the age of 15 and 24 with an unemployment rate of 21%.
- At the social level, this period has been characterised by persisting inequalities. The fact that the Gini coefficient has stagnated at around 0.4 for 30 years, that 5 million people still live on less than 12 Dirhams per day (the latest HCP survey), and the poor positioning of the country in the HDI rankings, all testify to the country's social vulnerability.
- There has also been a substantial increase in the ratio between public investment and GDP. Although the impact on production capacity has been positive, these investments have suffered from problems of efficiency. Moreover, productive private investment, particularly in the manufacturing sector, has not increased as much as expected.
- The growth model promoted in the 2000s and geared towards the **domestic** market, relying upon household demand as a growth vector, is gradually running out of steam. Indeed, while there was a strong increase in household consumption during the 2000s, thanks to increased incomes, the tendency in recent years has been towards stagnation, due to declining household purchasing power, in turn due to stagnating wages.
- This growth model is the main explanation for the structural increase in the current account deficit of the balance of payments, due to increased import volumes (energy bill, capital goods and consumption). Household consumption actually benefited imports due to a lack of domestic production to meet internal demand.

This structural deficit in the balance of payments largely reflects the main problems faced by the Moroccan economy. The deficit is indeed linked to two major factors that the public authorities are trying to tackle:

- Firstly, **the lack of fossil resources**, which forces Morocco to import 95% of its energy consumed. To reduce its oil dependency while exploiting its significant potential in renewable energies (especially solar and wind), the country has developed an ambitious energy diversification strategy that plans to increase the share of renewable energies to 42% by 2020 and 52% by 2030.
- Secondly, a weak productive base, insofar as **the contribution of industry to GDP has not exceeded 16% for several decades**. There is little industrial innovation and SMEs are

insufficiently active. After the “Plan Emergence” (Emergence Plan)¹ launched in 2005, followed by the “Pacte National pour l’Emergence Industriel (National Pact for Industrial Emergence)”² (PNEI) launched in 2009, Morocco has, since 2014, developed the “Plan d’Accélération Industriel (Industrial Acceleration Plan)” (PAI) whose aim is to: i) create 500,000 jobs, ii) increase the share of industry in Morocco's GDP to 23% by 2020 and iii) promote exports from this sector in order to improve the trade balance (box 1).

Box 1. The Industrial Acceleration Plan (PAI) (2014-2020)

The purpose of this new plan is to lead the industrial sector towards a more assertive role in the national economy. To this end, a number of actions have been identified and developed, and are organised according to three main approaches:

The first is based on an ecosystem approach, the primary purpose of which is to reduce fragmentation and promote greater integration of the industrial sector. The approach consists in raising the qualification of human resources, establishing and leading new relationships between "locomotive" companies and SMEs. In this context, an integration scheme is planned to encourage the regularisation of the informal sector by creating a sole trader status, adopting an adjusted tax policy, introducing social security coverage and setting up appropriate financing methods. The aim of this component, by introducing offset or industrial compensation, is to optimise the impact of public procurement in order to leverage investment and improve the balance of payments by encouraging the purchase of locally manufactured products.

The second, involves the development of tools to support and galvanise private enterprise as a driving force for growth, to boost its efforts towards competitive restructuring and to support its investment efforts and its quest for a secure share in external markets. It also includes the leverage of required financing, through the allocation of a dedicated investment fund (20 billion Dirhams by 2020, in addition to preferential interest rates), the flexibility/availability of land (availability of 1,000 hectares for lease in addition to the Integrated Industrial Platforms) and the implementation of a tailored training system based on the positive experience of the national industrial champion, the “Office Chérifien des Phosphates”. For example, the endowment fund will initially be used to help launch several ecosystems by supporting the financing of major investment projects. Priority is given to the textile and automotive industries, as well as to the identification of new industrial niches. Particular attention will be paid to supporting the development of industrial areas with rental land.

Finally, the third approach aims to strengthen Morocco's international reputation by improving its attractiveness as a destination for foreign investment in the industrial sector. A focus will be placed on improving the competitiveness of the Kingdom's exportable goods by directing support essentially towards sectors with high export potential. Specific backing will be given to amplify the African vocation that prefigures the new direction to be taken by the country as it opens to the outside world.

With regard to the actions carried out under this plan, we may already note that:

- Regarding the qualification of human resources, a detailed training plan has been drawn up for the 427,000 potential jobs, broken down by year and region, in order to meet the skills required within the industrial ecosystems. Thus, Morocco now has an unprecedented mapping of industrial needs for human resources, which will in turn allow the improved planning of training by sector, profile and region;
- With regard to land supply, the efforts made by the public authorities have mobilised 1,147 hectares of industrial land across all the regions of Morocco. In addition, the public authorities are pursuing their regional development policy by supporting local stakeholders in the creation of economic activity zones and the rehabilitation of former industrial zones to ensure a balanced regional development

¹ The Emergence Plan sought to redirect Morocco's industrial fabric towards Métiers Mondiaux du Maroc ((MMM) (Morocco 's Global Professions) with a strong sectoral focus on 7 sectors, including traditional sectors (Seafood Processing, Textiles and Agri-food) and sectors that rely on foreign direct investment (Offshoring, Automotive, Aeronautics and Electronics).

² The National Pact for Industrial Emergence) was defined as an extension of the Emergence Plan strategy (without the Seafood Processing sector).

I.2. Dynamics of Moroccan exports

In volume 1 of *the Analysis of Morocco's Trade Policy* (BAD, 2017), the dynamics of Moroccan exports over the past 20 years were the object of detailed analyses, from which a number of positive developments have emerged:

- **The destinations of Moroccan exports are becoming more diversified.** Although Europe remains the main market for Moroccan exports, its relative importance has declined in favour of other countries with which Morocco did not traditionally trade (referred to here as the "rest of the world" or RoW). Thus, the share of exports to the European Union, representing an average of 72% between 1995 and 2007, fell to 55%³ in 2012. If we analyse the export dynamics between 1995 and 2005 and between 2005 and 2015 (Figure 1), we can clearly see that over the first sub-period, export growth was driven by the European market. However, in the second sub-period (2005-2015), the growth rate of exports to RoW and exports to Mediterranean countries far exceeded the growth rate of Moroccan exports to Europe. Moreover, within the RoW, whereas only 3 countries predominated in 1995 (Japan 23%, India 20% and USA 10%), the 2015 figures show the introduction of Brazil (15%), India (14%), USA (11%), Singapore (4%), Pakistan (4%), China (3%) and Senegal (3%) (Figure 2).
- **New technology-intensive products have emerged among the main exports.** The industries showing the highest increase in exports are vehicles, fertilisers, etc.⁴ (in particular di-ammonium fertilizers), as well as electrical wires, cables and conductors. These 3 products represented 21.6% of total exports in 2012 compared to only 1% in 1990. The sectors that have experienced the strongest growth are newcomers to export markets. They are also characterised by higher technological intensity (machinery and electrical equipment, with an increase of 3,740% between 1995 and 2015, vehicles, with an increase of 11,302% over the same period). It is therefore clear that this very strong increase in exports in these sectors is linked to foreign direct investment (FDI) carried by major groups (Figure 3).

Nevertheless, these positive points should be nuanced. Firstly, the geographical diversification of Moroccan exports seems to be slowing down. Graph 4 shows that in 2015, the share of exports to the European market rose to 63% and that of exports to the RoW fell to 31%. The share of exports to Mediterranean countries, however, increased by 2 points between 2012 and 2015, from 4% to 6%. Secondly, the growth rate of Moroccan exports remained well below that achieved by comparable income countries: between 1995 and 2015, Moroccan exports increased by 367%, while those of middle- and low-income countries and other Mediterranean countries increased by 650% and 373% respectively, over the same period (Figure 5). It can also be added that, according to the AMDIE, out of 5,200 companies that exported in 2012, only 58% were still exporting in 2015, which shows that major weaknesses remain.

On the international scene, the pace of changes has gathered speed in recent years, in particular with the eastward shift of new sources of global growth. The risk for Morocco is to find itself "caught in a tight spot" between rapidly growing low-income countries (Cambodia, India, Viet Nam, Indonesia, some African countries), benefiting from an abundant and cheap labour force, and middle-income countries (Brazil, Turkey, Russia, etc.), capable of innovating fast enough to scale the global technological frontier. Favourable conditions must therefore be created so that Moroccan companies can escape this "trap" in a way that will benefit the entire economy, which necessarily implies advances in productivity.

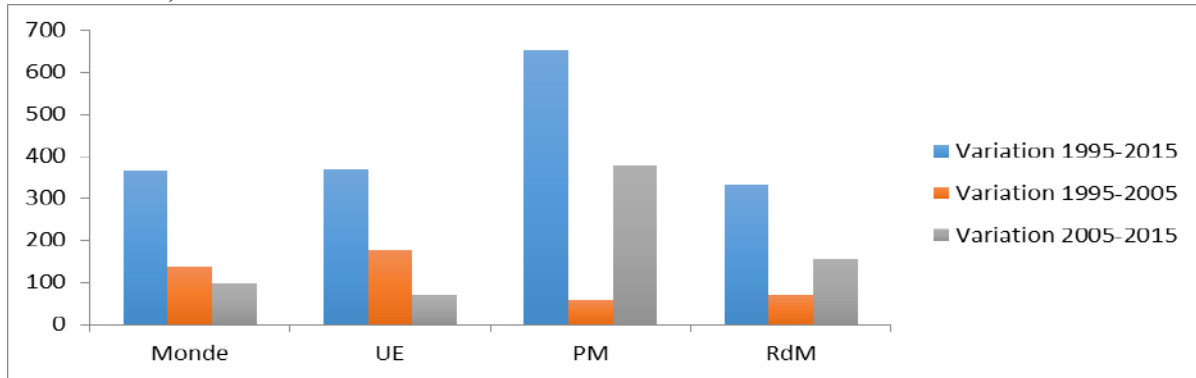
Finally, Morocco must take advantage of its privileged political, economic and geographical position with regard to African countries, not only to develop export markets in their direction, but above all to develop common co-production systems. Establishing synergies with sub-Saharan countries is of great importance as the Maghreb region has not yet been a source of expansion for foreign trade and FDI

³ The adjusted COMTRADE data now indicate a percentage of 57% for 2012 (see Figure 1).

⁴ Fertilisers belonging to category 5629 in the SITC Rev3 nomenclature.

and has therefore not been used as an engine for growth. It should be noted here that the cost of this non-engagement with Maghreb is estimated to represent a loss in revenue of around 2 GDP points per year.

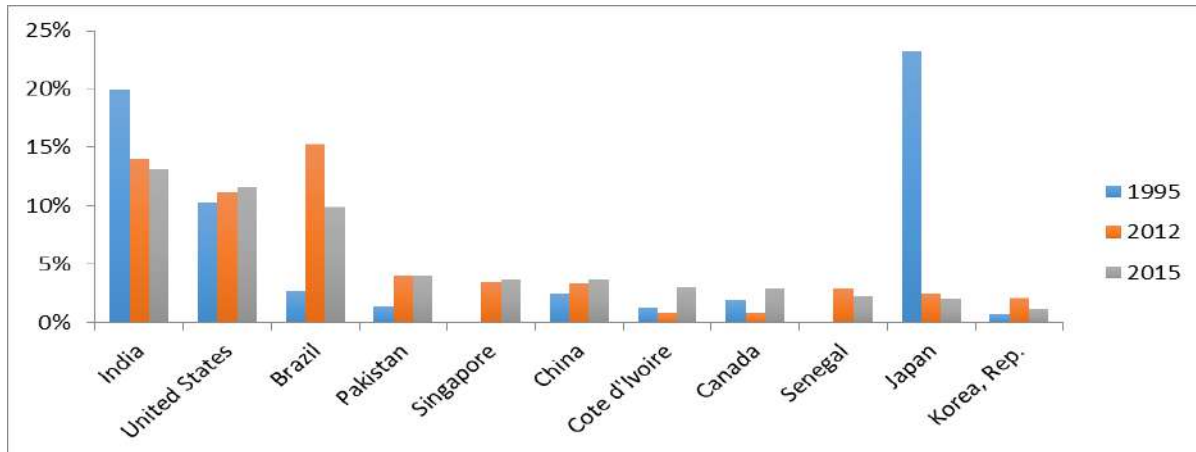
Graph 1. Rate of change of Moroccan exports to the World, the EU, Mediterranean countries and the RoW, in %



Source : CNUCED – COMTRADE data base.

* RoW is defined here by removing exports to the European market, Mediterranean countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, Turkey and Palestine) from total exports

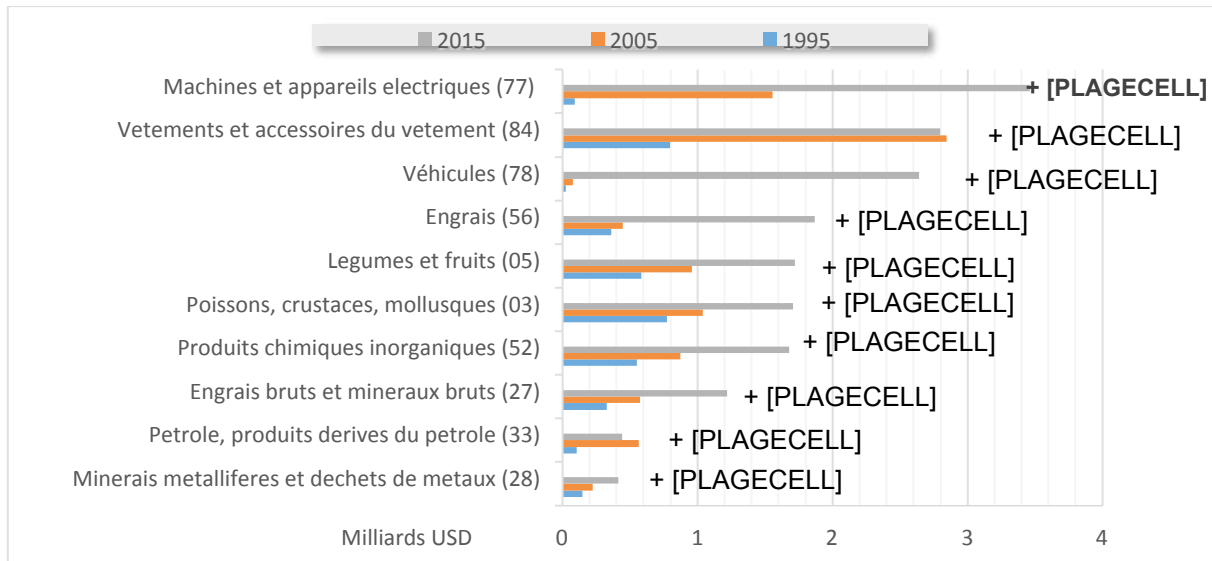
Graph 2. Distribution of the main Moroccan export markets throughout the RoW* in 1995, 2012 and 2015



Source: CNUCED – COMTRADE data base.

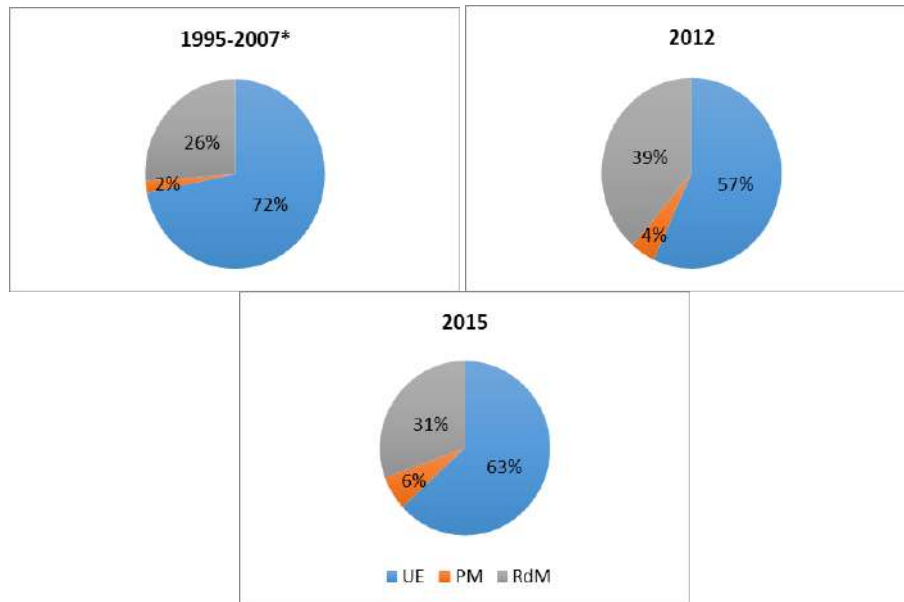
* As in graph 1, RoW is defined by removing exports to the European market, Mediterranean countries from total exports.

Graph 3. Growth rates between 1995 and 2015 of the 10 main Moroccan export sectors in 2015



Source: CNUCED – COMTRADE data base.

Graph 4. Evolution of the share of Moroccan exports to the EU, Mediterranean countries and the RoW**

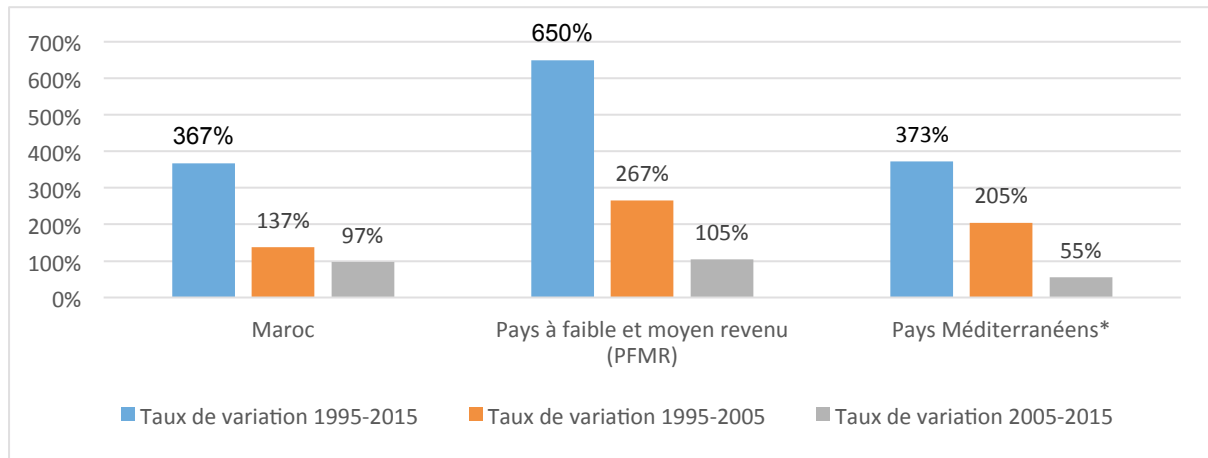


Source: CNUCED – COMTRADE data base.

* These shares are the average annual shares between 1995 and 2007, during which time the share of Moroccan exports to the EU increased or remained stable.

** RoW is also defined here by removing by removing exports to the European market, Mediterranean countries from total exports

Graph 5. Rate of change of Moroccan exports in comparison with other countries of the region and equivalised income countries



Source: CNUCED – COMTRADE data base.

The Mediterranean countries are Algeria, Egypt, Israel, Jordan, Tunisia, Turkey and Egypt. Data for 2015 are missing for Lebanon and the Palestinian Territories.

II. The business environment in Morocco

II.1. General findings

Morocco has been extremely keen, in recent years, to improve its business environment in order to strengthen the competitiveness of its national economy and attract sustainable inward FDI flows

At the institutional level, an SME master plan was developed in 2008 to clearly define the allocation of responsibilities in the field of enterprise policies. Maroc PME, formerly the National Agency for the Promotion of Small and Medium Enterprises (ANPME), under the aegis of the Ministry of Industry, Trade, Investment and the Digital Economy (MICNT), is the institution responsible for overall SME policy and covers all of the country's sectoral strategies. The Ministry of Foreign Trade oversees trade policy and the promotion of exports, while the Ministry of the Interior regulates the action undertaken by the regional investment centres, which are under the control of local authorities. The Ministry of General Affairs and Governance is responsible for improving the business climate and coordinates activities carried out in this area by other ministries.

The National Business Environment Committee (CNEA) was set up in December 2010 to strengthen the coordination and consultation among these institutions around enterprise policies. This committee is chaired by the Head of Government. Its mission is to propose measures, to the government, that are likely to improve the environment and legal framework for business, to coordinate their implementation and to assess their impact on the relevant sectors. This is one of the most significant decisions regarding enterprise policies. Following the memorandum of understanding signed between the Head of Government and the General Confederation of Moroccan Enterprises (CGEM) in March 2012, a platform on the business climate and public-private partnership was launched to increase the involvement of the private sector in the CNEA's action plan.

The results of the reforms and measures undertaken are encouraging, as they have enabled Morocco to make considerable progress in the Doing Business ranking⁵ carried out each year by the World Bank: **from 128th place out of 183 countries in the overall ranking in 2010, Morocco reached 69th place out of 190 countries in the 2018 Doing Business report⁶ and is ranked third among the**

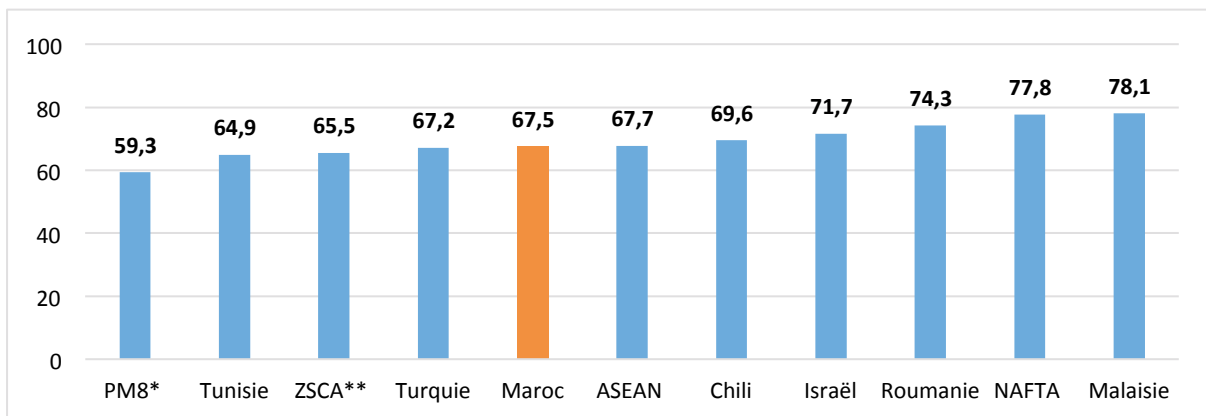
⁵ Although this ranking, which has existed since 2004, has a large number of limitations (see the 2013 Trevor Manuel Commission Report), it remains an undeniable benchmark for assessing the ease of doing business in almost every country in the world. Its specificity resides in its focus on regulations that promote economic activity and those that limit it, considering only ten main areas. The indicators provided by Doing Business are used as a sort of reference barometer on the business environment for international private investors

⁶ Morocco's Doing Business 2018 data are very similar to those of 2017.

Southern and Eastern Mediterranean Countries behind Turkey and Israel. Morocco is also the only country in the region that has maintained a positive and regular evolution of its ranking in recent years.

Also, although there is still a gap of more than 10 percentage points with Malaysia and 7 percentage points with Romania, **Morocco's overall situation regarding business regulation, measured by the country's distance from the best practices⁷ observable in all economies, is equivalent to that of the ASEAN countries, better than that of the Central and South American countries and, above all, well above that of the Mediterranean partner countries as a whole** (cf. graph 6). With a score of 67.5, Doing Business estimates that, when aggregating all the dimensions that characterize the business environment of an economy, Morocco is 32.5 percentage points from the frontier of best practices observable in the world since 2005, which places it within the average of comparative regions and countries.

Graph 6. Overall evaluation of the business environment in Morocco in comparison with other countries in 2016 (Distance to frontier of best practices)



Source: Doing Business 2017, World Bank.

*PM8: Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Territories, Tunisia and Turkey.

** ZSCA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru)

ASEAN: Association of Southeast Asian Nations (Brunei Darussalam, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Viet Nam).

NAFTA: North American Free Trade Agreement (Canada, United States and Mexico).

The calculation of this aggregate indicator, in 2009 and 2016, for each of the ten main topics used by the Doing Business to assess business regulation (see Annex 1), shows that the most significant progress in Morocco has been in the **protection of investors** and in **taxation**. We may also note that Morocco's situation regarding business regulation is highly heterogeneous:

- For certain topics, Morocco's score is close to the frontier, insofar as it lies within 20 percentage points of the best practice benchmark for all countries. These topics are: **business creation, obtaining a construction permit, connection to electricity, payment of taxes and duties and cross-border trade.**
- For other topics, the distance to frontier is greater, between 20 and 40 percentage points. This is the case for **the transfer of ownership and the execution of contracts.**

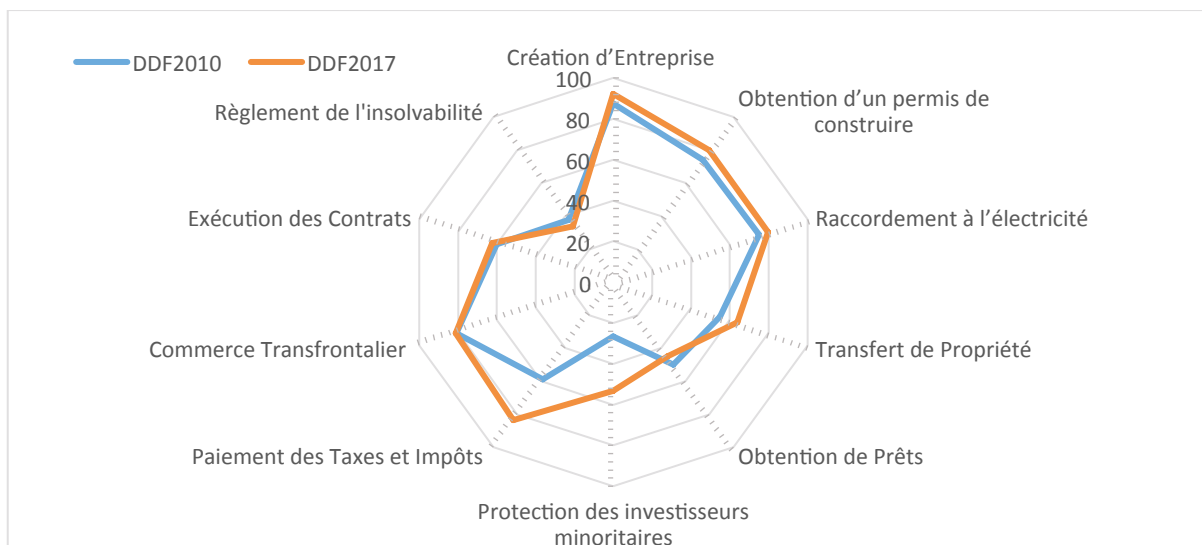
⁷More precisely, this is what the Doing Business calls the distance to frontier score. This measure captures the gap between an economy and a "frontier" that represents the best performance observed across all countries covered by Doing Business since 2005. The distance to frontier thus establishes a benchmark against the best practices observed (whatever the country and whatever the year), and not against a reference country. An economy's distance to frontier is calculated on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the "frontier". A score, for example, of 75 for any country calculated by the Doing Business for a given year means that it is 25 percentage points from the frontier determined by the best performance recorded for all economies measured over time. A score of 80 the following year means that its regulatory framework will have improved.

Note that to present the evolution of the business environment through Doing Business indicators for each major topic, we prefer to use the distance to frontier score rather than the ranking itself, since the latter depends not only on the changes made in Morocco but also those made in other countries. Since the "border", as defined, changes little, a modification in the distance to frontier score is most likely to be entirely due to changes specific to Morocco.

- Lastly, there are even more distant topics, which are at least 60 percentage points from the frontier of best practices. This is true for **insolvency settlement, access to loans (in both areas there was even a slight deterioration in their score between 2009 and 2016) and protecting minority investors (although this indicator has improved).**

In all, we may observe that in 2017, half of the ten topics reviewed by Doing Business have a good score, while the other half remain far from best practices.

Graph 7. Evaluation of the main components of the business environment in Morocco in 2010 and 2017



Source: Doing Business 2017, World Bank.

II.2. Doing Business results are positive for five topics

This obvious progress is the result of numerous actions.

II.2.1 Starting a business

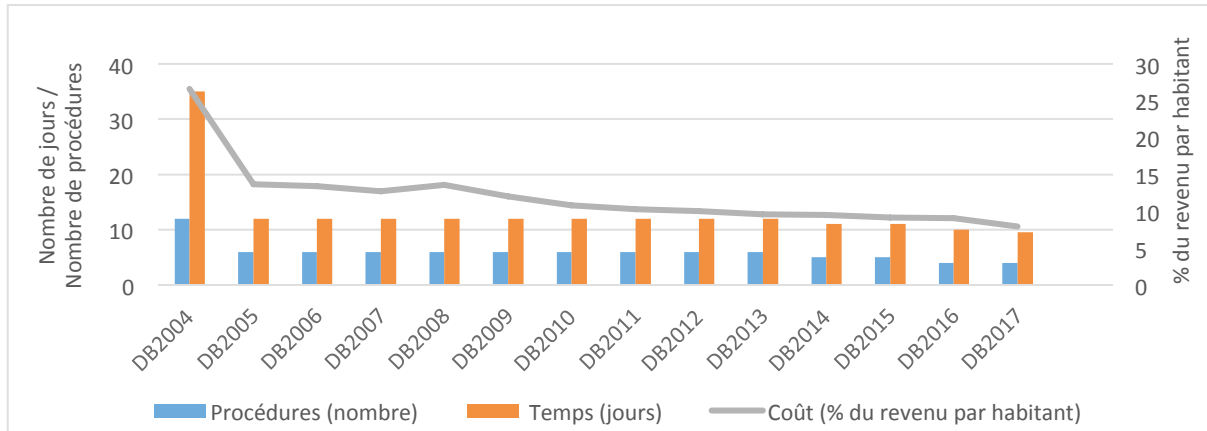
The main measures implemented to facilitate business creation are the elimination of a minimum capital requirement, the reduction of registration fees (with a fixed fee of DH 1,000, i.e. approximately €90, instead of a proportional fee of 1%), the suppression of the declaration filing process with the Ministry of Employment, the creation of an online platform (ON LINE CREOL) and the creation of a sole trader status in March 2015.

1. **Sole-trader status.** At the end of 2016, just over 38,000 people were registered in the national sole trader register. In total, between 2004 and 2017, the number of procedures was cut from a dozen down to four, the number of days required to start a business fell from 35 to less than 10 and the cost fell from more than 25% of average income per capita to around 8% (see Figure 8). In comparison with other developing regions/countries, the number of procedures, the number of days required, the costs incurred and the minimum capital required (Figure 9), shows that Morocco is particularly well positioned in this area.
2. **Common company identifier.** “L’identifiant commun d’entreprise (ICE)” (common company identifier) was created in 2011 and made mandatory in June 2016. This measure aims to (i) facilitate inter and intra-administration communication ⁸, (ii) provide real opportunities for the simplification and facilitation of access to public services for businesses, (iii) reduce the number of

⁸ Until then, each administration used its own identifier (fiscal identifier for taxes, RC n° for the Trade Register, affiliation number for the CNSS), without any convergence between the databases of the administrations holding its information.

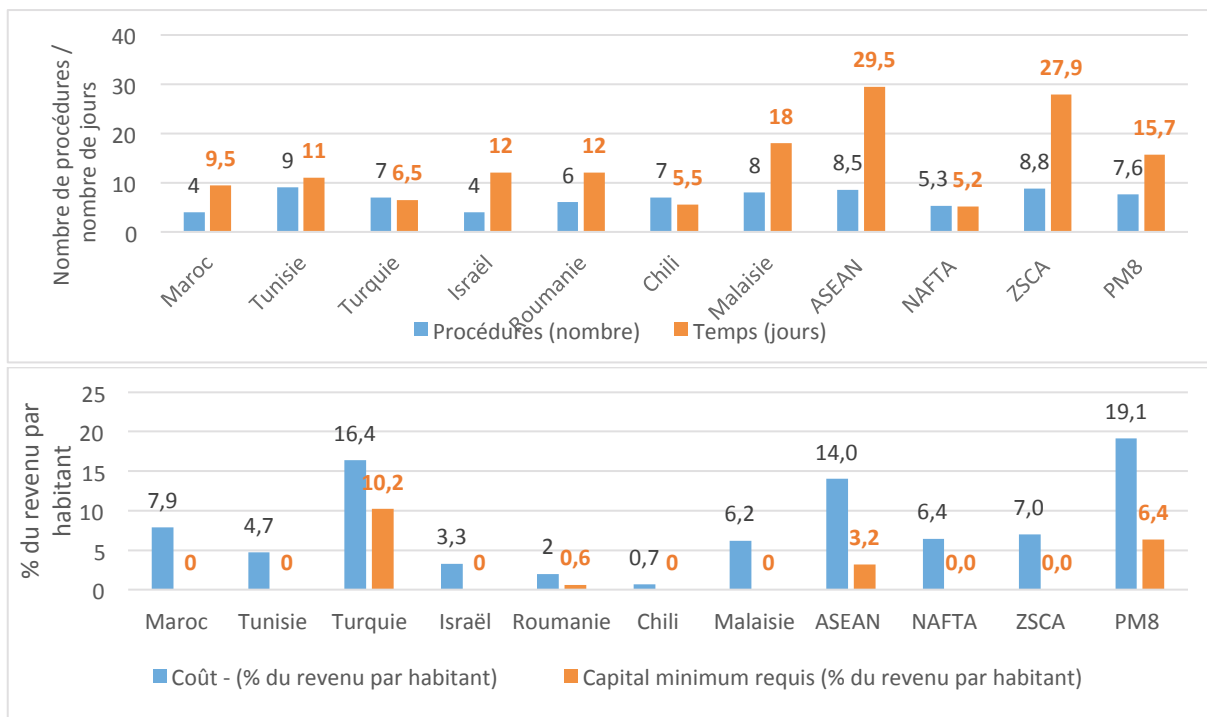
documents and credentials required by different administrations, (iv) facilitate the creation of a VSME Observatory, (v) allow the online creation of a company. This ECI must also appear on invoices issued by companies and on all accounting documents.

Graph 8. Evolution of business creation procedures in Morocco between 2004 and 2017



Source: Doing Business, World Bank.

Graph 9. A comparison of business creation in Morocco and in developing regions/countries in 2017



Source: Doing Business 2017, World Bank.

II.2.2 Payment of taxes.

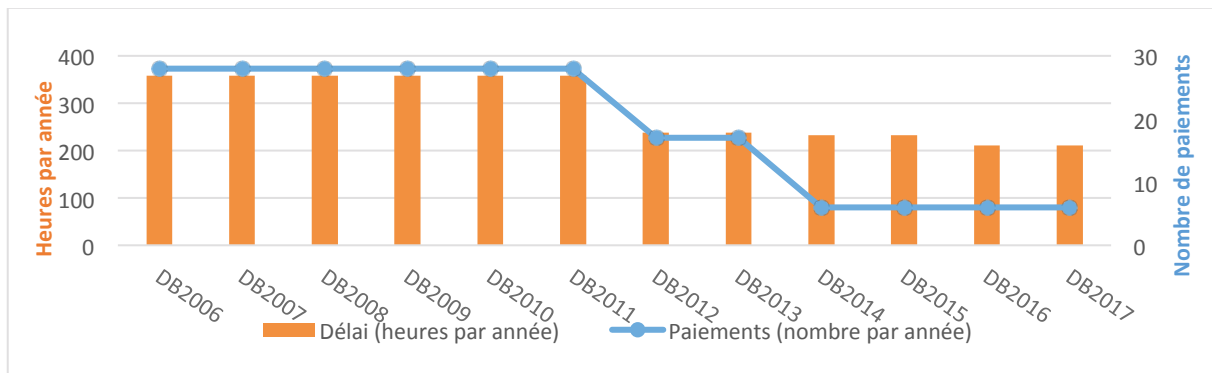
The Moroccan authorities have considerably simplified procedures, in particular by providing on-line access. The time spent by companies on these procedures, estimated to be more than 350 hours in 2006, fell to 211 hours in 2017 (see graph 10). Similarly, the number of taxes to be paid each year, was reduced from almost 30 to 6. Regarding tax rates, however, tax on profits amounts to 25% while social security contributions are just under 23%; these figures are above the average for all Mediterranean countries and most other regions (except for Latin and Central America for the tax rate on profits) (see Figure 11).

Nevertheless, after having implemented proportionality for Corporate Income Tax (CIT) from January 2016,⁹ the 2018 Finance Act introduced the principle of progressiveness. Corporate tax is now 10% for any net taxable profit below 300,000 DH, 20% for profits between 300,001 and 1 million DH and finally 31% for any net profit above 1 million DH. The expected effect of this shift from proportionality to progressiveness is a reduction in the corporate tax burden on companies, which should strengthen their cash flow and their ability to finance investment projects.

Also on the tax front, major changes have been implemented since January 2016 to support industry and in particular exports. The three main measures are as follows:

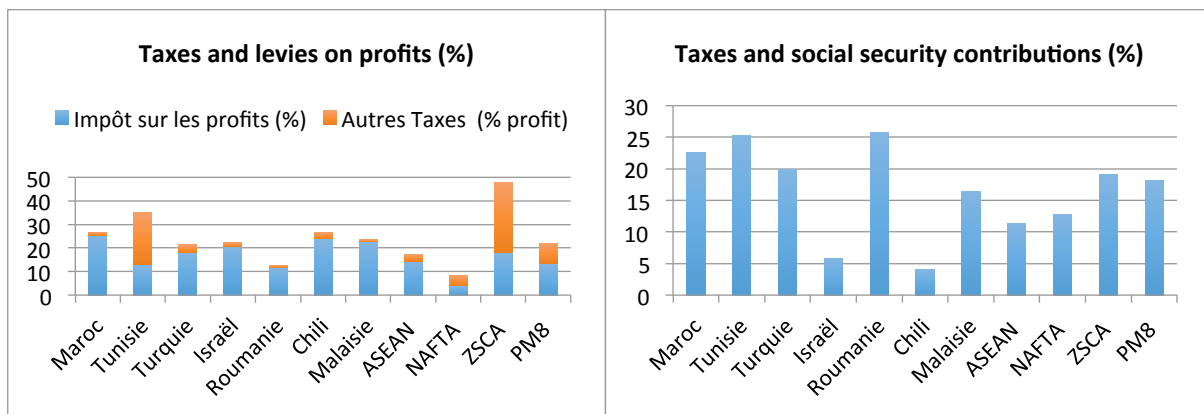
- Before January 2016, only export turnover in foreign currency was exempt from tax for the first five years of export and benefited from a reduced corporate tax rate of 17.5% thereafter. Henceforth, the turnover of industrial companies related to the sale of products used in the manufacture of final export products, and the turnover in foreign currency of industrial and service companies working with companies located abroad or in Export Processing Zones (EPZs) benefit from the same advantages.
- The privileges enjoyed by companies located in EPZs - exemption from corporate tax for the first 5 years, followed by a reduced rate of 8.7% - have been extended to all companies, wherever they are located, provided they comply with the same rules: transfer of products under a suspension customs procedure for *in fine* export.
- Industrial companies that are less than 5 years old also benefit from total CIT.

Graph 10. Evolution of tax payment procedures in Morocco between 2006 and 2017



Source: Doing Business, World Bank.

Graph 11. Tax rates in Morocco in 2017 compared to other developing countries/regions



Source: Doing Business 2017, World Bank.

⁹ Between January 2016 and December 2017, the CIT rates were 10% for companies with a net taxable profit of MAD300,000 or less, 20% for companies with a net taxable profit between MAD 300,000 and MAD 1 million and 30% for companies with a net profit between MAD 1 million and MAD 5 million. A rate of 31% applied to companies generating more than MAD 5 million in net taxable profit.

II.2.3 Electrical connection

Morocco has made progress mainly in the improvement of services provided to companies in terms of processing times for connection to the electricity grid and the publication of service commitments.

II.2.4 Obtaining a construction permit

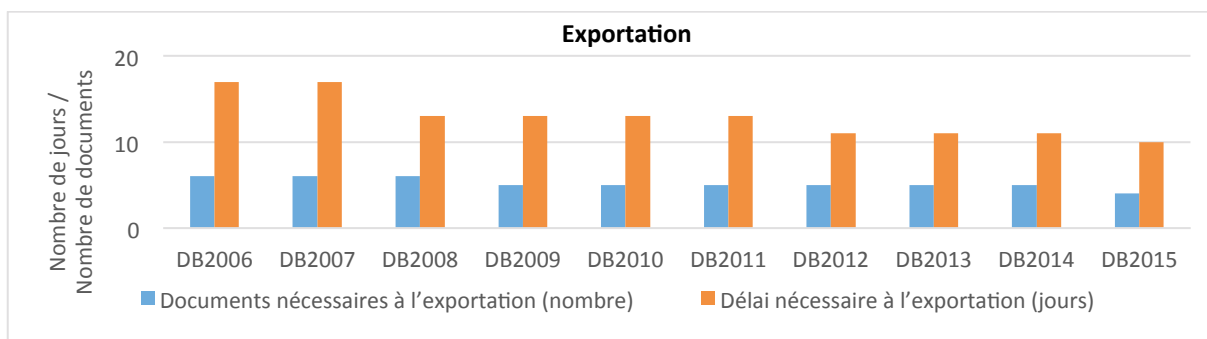
Morocco has set up a one-stop shop, a mechanism that reduces the time to obtain a construction permit and the number of on-site inspections, while ensuring the online traceability of files. An online platform provides Moroccan companies with access to information on laws and regulations governing construction.

The four procedures mentioned above (i.e. business set-up, tax payment, electricity connection and construction permit), as well as the transfer of ownership (discussed below), were the object of a reform project leading to the creation of an “e-regulation” platform. The reform intends to make administrative procedures more transparent for companies, and to provide them with a mechanism for appeal and enforceability when the posted procedures are not respected by the administration.

II.2.5 Cross-border trade

Morocco is considered by Doing Business as one of the countries that has led the most reforms in this field. Within the framework of both the WTO and the Euro-Mediterranean Association Agreement, the country has undertaken ambitious trade reforms and significantly reduced its customs duties, especially since 2005¹⁰. In October 2008, Morocco was granted an "Advanced Status" which provides for regulatory convergence, in the economic field, towards the *acquis communautaire*. In addition, the country has recently reduced the number of export and import documents required and has more recently developed a one-stop system, thus reducing the time required for export and import procedures (Graph 12).

Graph 12. Evolution of Moroccan cross-border trade procedures between 2006 and 2015*



Source: Doing Business, World Bank.

* The last year here is 2015, and not 2017, as the methodology used to assess lead times and costs was modified after 2015 to take into account trade by land between neighbouring economies, thus reflecting regional trade facilitation agreements in reforms.

II.3. Five topics display weaknesses in the Doing Business evaluation

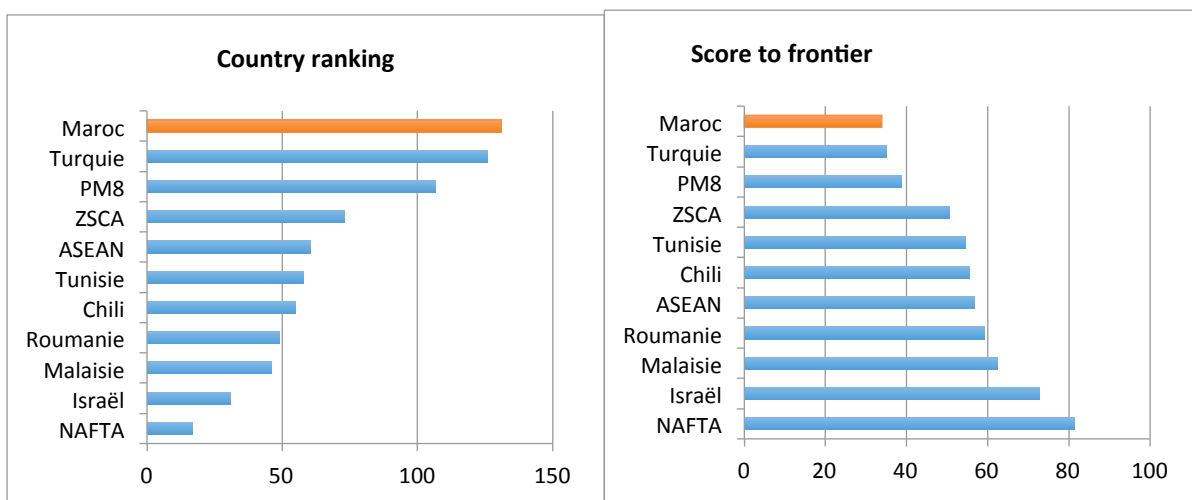
Two of these five topics showed slightly deteriorated scores between 2010 and 2017 in the overall analysis: **insolvency settlement** and **the securing of loans**. Two, however, improved (transfer of ownership and especially investor protection) and one remained stable (contract enforcement).

¹⁰ For a detailed presentation of the evolution of Moroccan customs duties, see the AfDB report (2017) on the Analysis of Morocco's trade policy (Vol 1: Impact of Morocco's tariff policy on its competitiveness)

II.3.1 Insolvency settlement

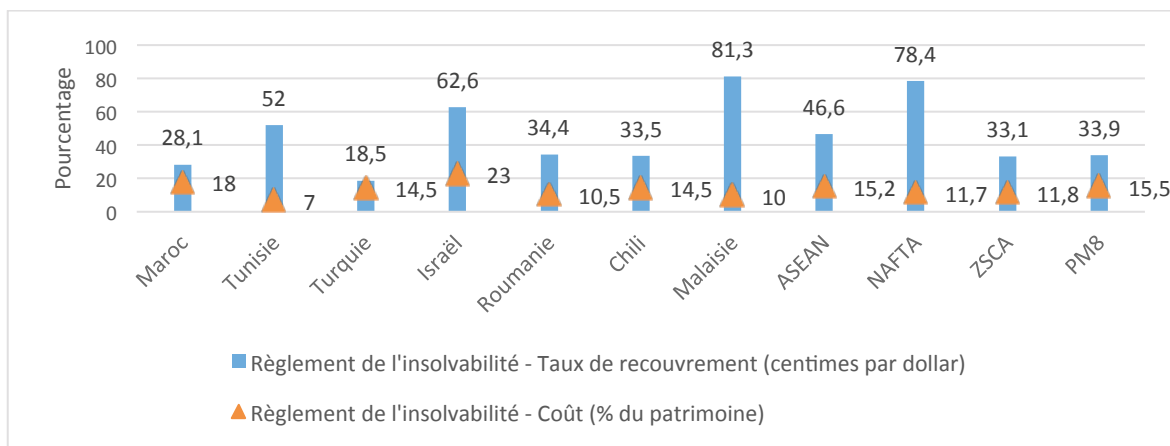
Law N°15-95 of the trade legislation constitutes the framework for bankruptcy in Morocco. Although improvements have been made or are underway ¹¹, further progress is expected in comparison with comparator countries and other Mediterranean countries (see Figure 13). In particular, insolvency settlement (Figure 14) takes three and a half years ¹², which is, after Turkey, the longest duration compared to other countries or groups of countries with comparable incomes. Yet, until the liquidation procedure is completed, an entrepreneur is unable to continue doing business in a more appropriate legal and organisational form or to set up a new business. Furthermore, only 28% of the receivables are recovered, which is also one of the lowest rates in comparison with other countries (except Turkey where the rate is 18.5%) (Graph 15). As for the costs of bankruptcy proceedings in Morocco, these are estimated at 18% of the assets, a very high figure compared to other countries.

Graph 13. Insolvency settlement – Global Doing Business evaluation for 2017



Source: Doing Business, World Bank.

Graph 14. Insolvency settlement – Recovery rate and cost in 2017

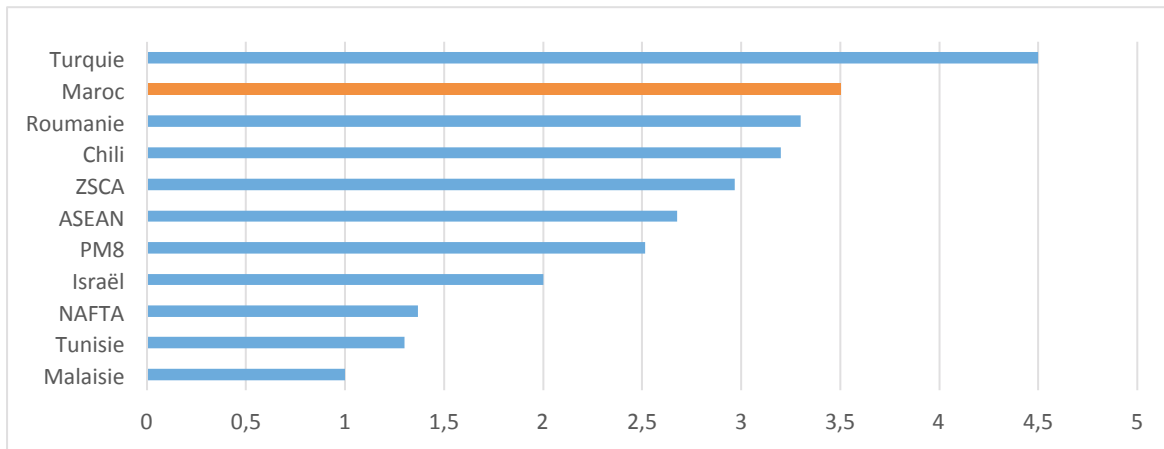


Source: Doing Business, World Bank.

¹¹ A trade Legislation reform governing the settlement of corporate insolvency is under way and should lead to the improved handling of cases concerning firms in difficulty within the Commercial Courts, in particular by ensuring a stronger legal framework and greater efficiency in the handling of cases within the competent courts, in terms of lead times, procedures to be followed and guaranteed access to information for all stakeholders

¹² Doing Business takes the case of an indebted hotel the largest city of each country.

Graph 15. Insolvency settlement – Duration of the procedure in 2017 (expressed in number of years)



Source: Doing Business, World Bank.

II.3.2 Corporate financing

It should first be noted that significant progress has been made. The Moroccan banking system provides SMEs with loans amounting to 24% of total loans contracted (Farazi *et al.*, 2011), which is close to the level achieved in developed countries, and the share of credit granted to the private sector increased from about 40% in 2003 to 79% in 2017. Generally speaking, the public authorities have continued to facilitate access to finance for businesses through two complementary approaches: (i) The diversification and modernisation of economic financing instruments and, (ii) The promotion of the financial inclusion of VSMEs

Since 2008, **credit guarantee schemes** have increased in number, rising from 11 in 2008 to around 20, some of them targeting specific sectors, such as the Hassan II Fund for high-tech industries (automotive, electronics, aeronautics). Financed by public and private resources, these systems are managed by two specialized entities, the Central Guarantee Fund (CCG) and Dar Addamane.

New rules now guarantee borrowers the right to examine the data available in the **public credit register**. At the institutional level, a Moroccan credit information office was created in 2009. The latter is regulated by the Central Bank, but is managed by a private company selected through an open tender process (Farazi *et al.*, 2011). The credit bureau's activity has gradually improved, with more systematic consultation of credit reports before loans are granted and an improvement in the quality of data provided by credit institutions. However, credit bureau coverage remained limited to 25% of the adult population in 2017, a level that remains well below the OECD average of 66.7% (IFC/World Bank, 2014).

In 2017, a **new banking law** was promulgated, broadening the number of financial actors and products (participatory financing) and strengthening the banking supervision framework (in particular micro-credit associations).

With regard to **seed funding for companies**, Morocco has (i) business angel associations such as Atlas Business Angels, MNF Angels, Réseau Entreprendre Maroc, Association Marocaine des Investissements en Capital, Impact Lab and New Work Lab,, (ii) financing methods for start-ups and innovative companies (creation of the "Innov INvest" seed fund), (iii) support for the development of crowdfunding (collaborative funding, which aims to connect young project leaders with a wide audience via an Internet platform) and, (iv) a reflection on the definition of a legal framework governing collaborative funding activities. It should also be noted that a support fund for VSMEs was

set up in 2013, benefiting from MAD1.2 billion in funding, 43% of which was directed towards industry and distributed among 183 projects.

While **market capitalization** has increased from 68% to 90% of GDP, which is relatively high, capital markets in Morocco do not seem to act as a significant complement to bank financing for SMEs: whereas different compartments of the Casablanca Stock Exchange have been created to allow lower-capital companies to enter the market, the vast majority of companies still do not meet the criteria. A draft amendment to the Financial Markets Act, which aims to create an alternative market dedicated to SMEs, has been in place since March 2017.

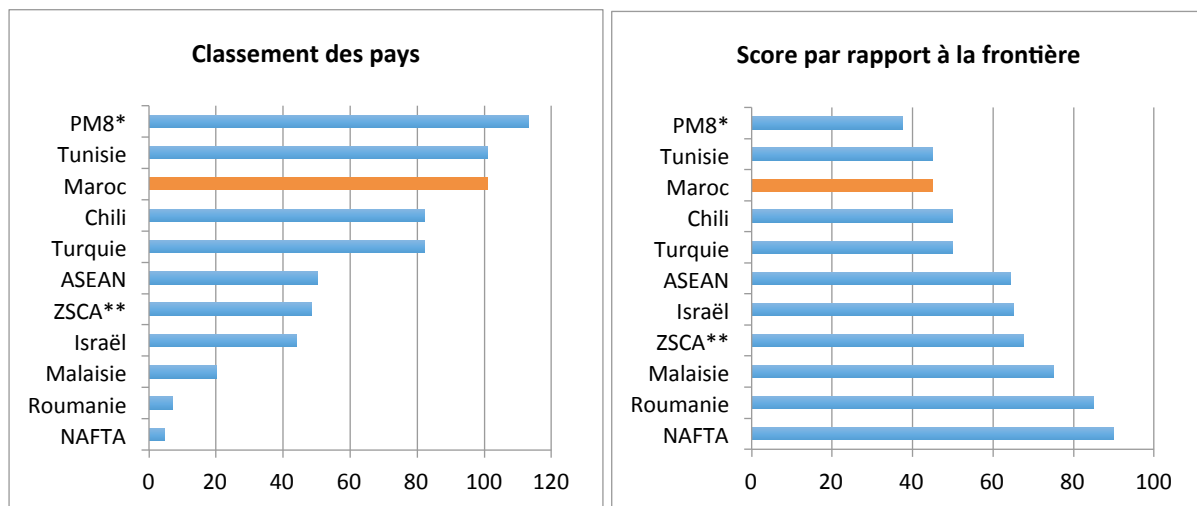
Meanwhile, the Moroccan government set up a foundation in 2012 to implement a strategy to improve financial education for citizens. One of the objectives is to improve the information provided to entrepreneurs (or potential entrepreneurs) on the diversity of financial instruments available to them.

Despite this progress, there are still a number of weak points: banking concentration (defined as the ratio of the three largest banks to total bank assets) is still relatively high (this ratio was 90% in 2011) and, above all, stakeholder rights (lenders, borrowers) and their enforcement, as well as the excessive collateral requirements, remain a crucial issue in Morocco, as reflected in the latest Doing Business assessment, through the indicator "obtaining loans".

This indicator measures the legal protection of borrowers and lenders. The comparison of the overall indicator with other neighbouring countries or groups of countries (see the two parts of Graph 16) confirms that Morocco is lagging behind in this area. As for the guarantee reliability index, which is one of the components of the loan availability indicator, the position of Morocco is even worse (Figure 17).

The latest opinion survey conducted by the World Economic Forum among Moroccan executives confirms that, from a general point of view, access to finance remains a major problem in Morocco (Figure 18). Among the 5 main problem factors (out of a list of 16), access to finance is clearly at the top, followed by a poorly trained workforce, inefficient bureaucracy, taxation, insufficient capacity for innovation and corruption.

Figure 16. Securing of loans – Global Doing Business Evaluation for 2017



Source: Doing Business 2017, World Bank.

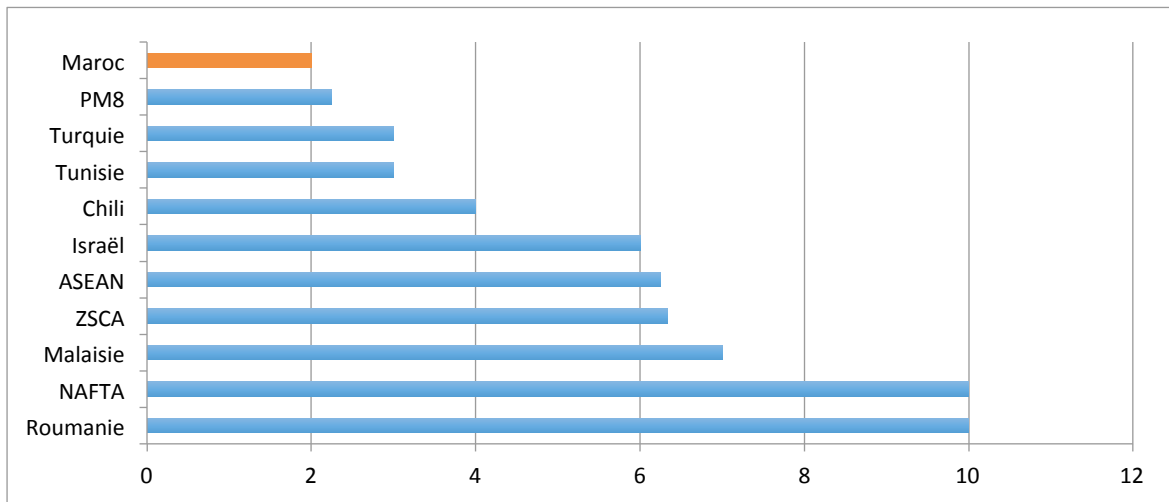
* MC8: Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Territories, Tunisia and Turkey.

** SACA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru).

ASEAN: Association of Southeast Asian Nations (Brunei Darussalam, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Viet Nam).

NAFTA: North American Free Trade Agreement (Canada, United States and Mexico).

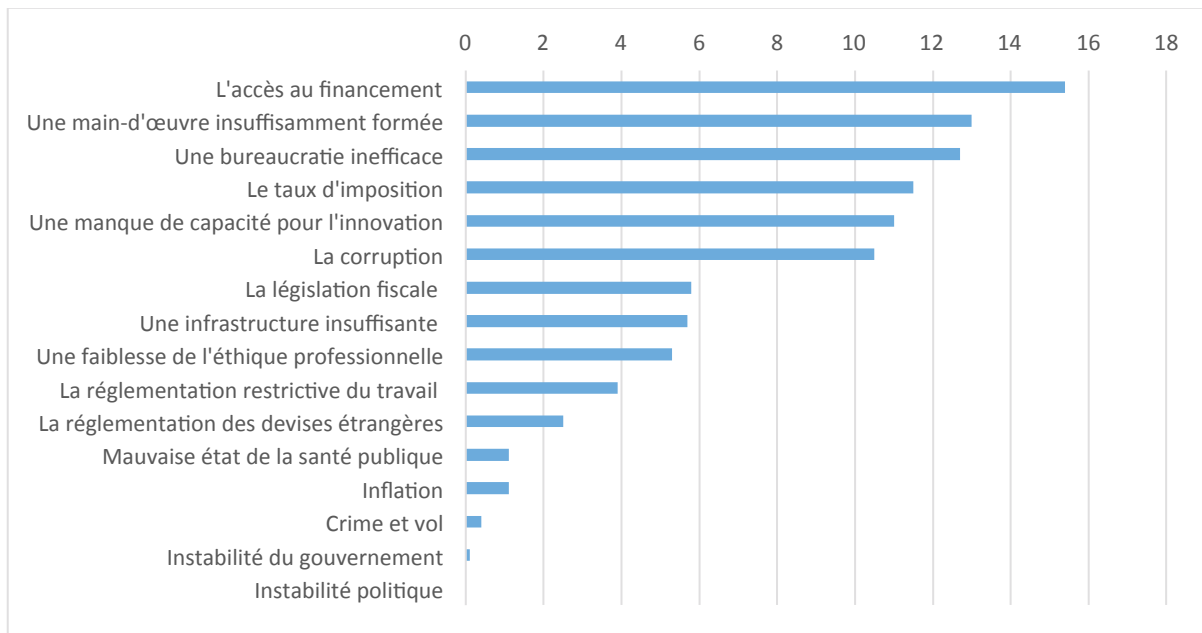
Figure 17. Securing of loans – Financial Guarantee Reliability Index * in 2017



Source: Doing Business, World Bank.

* This index measures the legal protection of borrowers and lenders and assesses the extent to which collateral and bankruptcy laws facilitate lending. A better protection corresponds to a higher index, the latter being between 0 and 12.

Figure 18. The most problematic factors for doing business according to * Moroccan senior executives (Survey carried out in 2016)



Source: World Economic Forum – Global Competitiveness Indicator 2017.

* These results come from the World Economic Forum's executive opinion survey, in which executives are asked, from a list of 16 factors, to select the 5 factors that make it difficult to do business. Each factor is assigned a certain number of points ranging from 0 to 20 (the higher the number of points, the more critical the factor).

II.3.3 Protection of minority investors

A certain amount of progress has been made: the country has clarified ownership and control structures and demands greater corporate transparency. Minority shareholders are now allowed to obtain any non-confidential documents from the company during a trial, and the obligation to disclose annual reports has also been imposed (see figure 19). In addition, the enactment of the Public Limited Companies (SA) legal reform further facilitates and simplifies the procedures for setting up and

operating public limited companies (strengthening shareholders' rights, ensuring transparency in the event of mergers or divisions, etc.). But there is still room for improvement.

II.3.4 Transfer of ownership

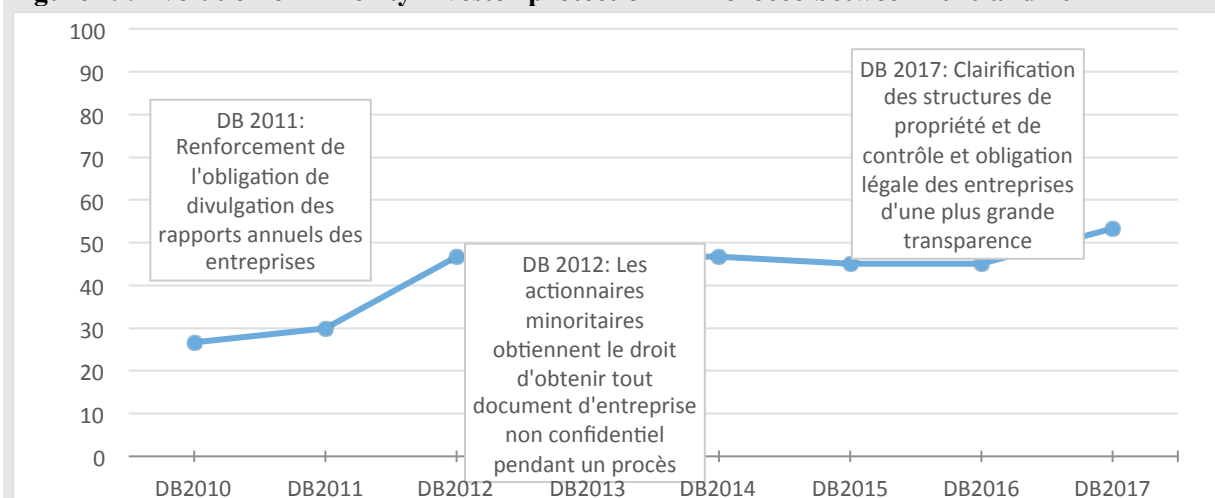
Morocco has made progress in this area, mainly by dematerializing the exchange of data between the various tax services and reducing the time required to register a transfer deed with the tax administration.

II.3.5 Contract enforcement

No progress seems to have been made regarding trade dispute resolution since 2004. A claim still takes 510 days to resolve and costs 26.5% of the amount disputed. Although there has been no significant progress in this area, Morocco is relatively well positioned. In terms of number of days of proceedings, only Chile, Malaysia and, on average, ASEAN have fewer than 510 days of proceedings. Regarding the cost of proceedings, Morocco is just behind Tunisia (where this cost represents 21.8% of the amount of the claim) (see Figure 20)) In total, Morocco has an overall score¹³ to frontier above the average of other Mediterranean countries, Central and South American countries and South East Asian countries (Graph 21). However, we know that among the problems commonly encountered by Moroccan companies is that of payment delays, which create significant cash flow problems, in particular for SMEs. A law reform on payment terms was adopted at the end of 2016 and entered into force in 2017. This reform also concerns public procurement and public companies. Its main provisions are as follows:

- The payment period must not exceed 60 days (or 90 days if both parties agree in writing);
- Extension of the scope of the law to private parties that hold public service concessions;
- The creation of an observatory on payment terms to provide public authorities with precise indicators on compliance with payment periods and to carry out statistical studies on business practices in this area;
- The use of mediation, in the event of disputes between parties, as an alternative method to resolve disputes in accordance with the provisions of the Civil Procedure Code.

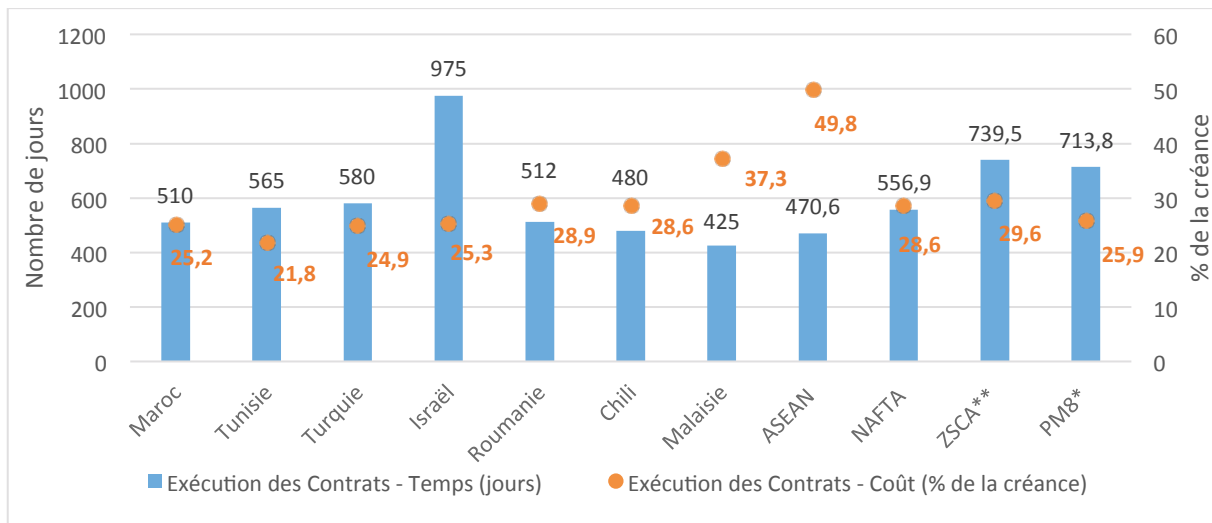
Figure 19. Evolution of minority investor protection in Morocco between 2010 and 2017



Source: Doing Business, World Bank.

¹³ The overall score also takes into account an index that assesses the quality of court proceedings.

Figure 20. Contract Enforcement - Number of Days and Cost of Proceedings in 2017



Source: Doing Business, World Bank.

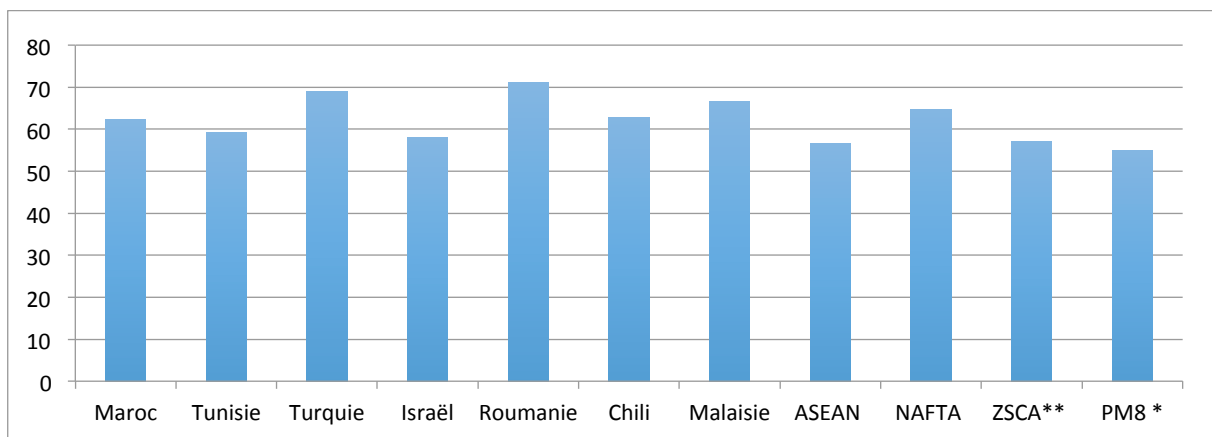
* PM8: Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Territories, Tunisia and Turkey.

** ZSCA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru).

ASEAN Association of Southeast Asian Nations (Brunei Darussalam, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Viet Nam).

NAFTA: North American Free Trade Agreement (Canada, United States and Mexico).

Figure 21. Contract enforcement – Global Doing Business evaluation in 2017



Source: Doing Business 2017, World Bank.

* PM8: Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Territories, Tunisia and Turkey.

** ZSCA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru).

II.4. Other progress in the area of business climate

Parallel to these measures that have helped to improve Morocco's Doing Business ranking, other decisions have recently been adopted in favour of the private sector.

II.4.1 Public procurement

The reform on payment terms (introduced in 2016) now imposes strict payment periods and sanctions for non-compliance. It extends default interest to all public orders and local authorities and the obligation to respect a 60-day payment deadline for companies. Other measures have also been taken. A law on public procurement was adopted in 2013 to devote 20% of public procurement to SMEs. With regard to foreign competition in public procurement, Moroccan companies have priority over foreign companies if their offer does not exceed the smallest foreign offer by more than 15%. Finally, the new decree of the National Commission on Public Procurement, adopted in September 2015,

provisions for the creation of an administrative entity, called the National Commission on Public Procurement (CNCP), composed of experts in the field of public procurement who are independent of the principals (authorising officers, contracting authorities). This reform illustrates the public authorities' determination to ensure that the award of public contracts respects the principles of freedom of access to public procurement, equal treatment and transparency of procedures. The task of this new Commission will be to ensure the proper application of the rules relating in particular to public procurement and, in general, the award of public contracts, to examine complaints from competitors who consider that they have been illegally eliminated from public procurement procedure and to examine the legal difficulties encountered in the enforcement of public contracts.

II.4.2 Innovation

Since June 2009, Morocco has had a national innovation strategy, the Maroc Innovation Initiative, which has been operational since March 2011. A number of public and private stakeholders are involved, such as the Ministry of Industry, Trade, Investment and the Digital Economy, the Ministry of Higher Education and Scientific Research and Executive Training, the General Confederation of Moroccan Enterprises (CGEM), universities, and financial institutions. Since 2011, the innovation strategy has been coordinated by the Moroccan Innovation Centre, which serves as a one-stop shop for innovative project leaders and manages innovation support programmes and funds. Efforts have been made to improve coordination between the relevant institutions. Indeed, a National Inter-Ministerial Committee for Scientific Research and Technological Development was created in 2011 to coordinate public action in the field of research.

There is a wide network of technology and innovation centres: four innovation centres are being developed with the objective of reaching 14 centres in 2016-2018, 10 competitiveness clusters are already operational in different regions and sectors such as agri-food, microelectronics and mechanics; and 10 industrial technical centres help promote innovation. Several programmes have been set up to support cooperation with universities and research centres such as Protars, Innovact, Iresen and Tatwir and the PTR instrument (of the Programme to support innovation and technological development) managed by Morocco PME. In addition, Morocco has developed a network of technological incubators through the Réseau marocain d'incubation essaimage (Moroccan Spin-Off Incubation Network) (RMIE). The P2I programme, plans to develop science parks and aims to gradually set up a network of 22 integrated industrial platforms. Certain technological parks (Haliotis, Technopolis, Agropolis and Chemparc) are already up and running.

Morocco has good access to information on innovation support services for SMEs. An online database, the Innovation Club, provides information on selection criteria for companies wishing to participate in innovation support programmes. Several financial mechanisms exist in Morocco to support the promotion of innovation, such as the National Fund for Scientific Research and Technological Development, the Advanced Technology R&D Fund, the Sindibad and Intilak seed funds, PTR and the programmes mentioned above from Morocco PME. It is also worth noting the creation of the "Innov invest" fund with a sum of 50 million dollars financed by a loan from the World Bank (contracted in July 2016).

In 2016, the new "Morocco Digital 2020" Plan was adopted. It aims to align the institutional framework with actions implemented in the field in view of integrating the new systems, the support mechanisms in force and best international practices in the field of the digital economy. The objective of this Plan is, in the medium term, to bring Morocco into the closed club of technology producing countries, to allow the emergence of an economy with high value added but also to strengthen Morocco's international image and therefore its attractiveness for investment. An Agency dedicated to the digital economy will be responsible for implementing the State's strategy and promoting the dissemination of digital tools and the development of their use among companies and individuals. In coordination with the other bodies concerned, it will implement the strategy for the development, promotion and encouragement of investment in the digital economy sector.

Finally, in addition to all these reforms, which have undoubtedly brought a large number of improvements to the Moroccan business environment, it should also be stressed that Moroccan companies benefit from a well-developed support service provided by public bodies

(Maroc PME and Maroc Export whose activities are briefly presented in Box 3) and by associations (CGEM, ASMEX, AFEM, Réseau Maroc Entreprendre, etc.).

Box 2. Maroc PME and l'AMDIE (ex Maroc Export)

Maroc PME, whose actions are based on the Industrial Acceleration Plan (PAI) is the former National Agency for the Promotion of Small and Medium Enterprises (ANPME), created in 2002. It provides SMEs with support for modernisation and increased competitiveness. It offers a number of assistance and support programmes, among which:

- ISTITMAR: investment support for VSEs.
- MOUSSANADA / TAHFIZ : support for upgrading productivity, certification, business development, organization, innovation management and access to finance; support for certification and labelling, upgrading of cost/quality/deadlines, common customs and tax categories and computerisation; support for the transfer of technical skills and digital transformation ; support for governance and performance optimisation, supply chain, innovation and access to markets and information systems; support for the repositioning of the company, the cost reduction.
- IMTIAZ: investment support for SMEs.

Maroc Export helps Moroccan companies to enter international markets by providing market information, advice and assistance, offering support for the prospection of new markets and an export audit programme for exporters.

Maroc Export recently merged with the Moroccan Investment Development Agency to become **AMDIE (Agence Marocaine de Développement des Investissements et des Exportations) (Moroccan Agency for the Development of Investment and Exports)**.

To complete this general analysis of the Moroccan business climate, the following section reports on opinions expressed by the companies themselves.

II.5. Evaluation of the business climate by companies

II.5.1 World Bank Enterprise survey (2007-2013)

The World Bank's Enterprise survey¹⁴ provides information on how companies perceive the business environment in which they operate.. Among a list of 15 barriers, companies are asked to indicate which they consider to be the greatest.

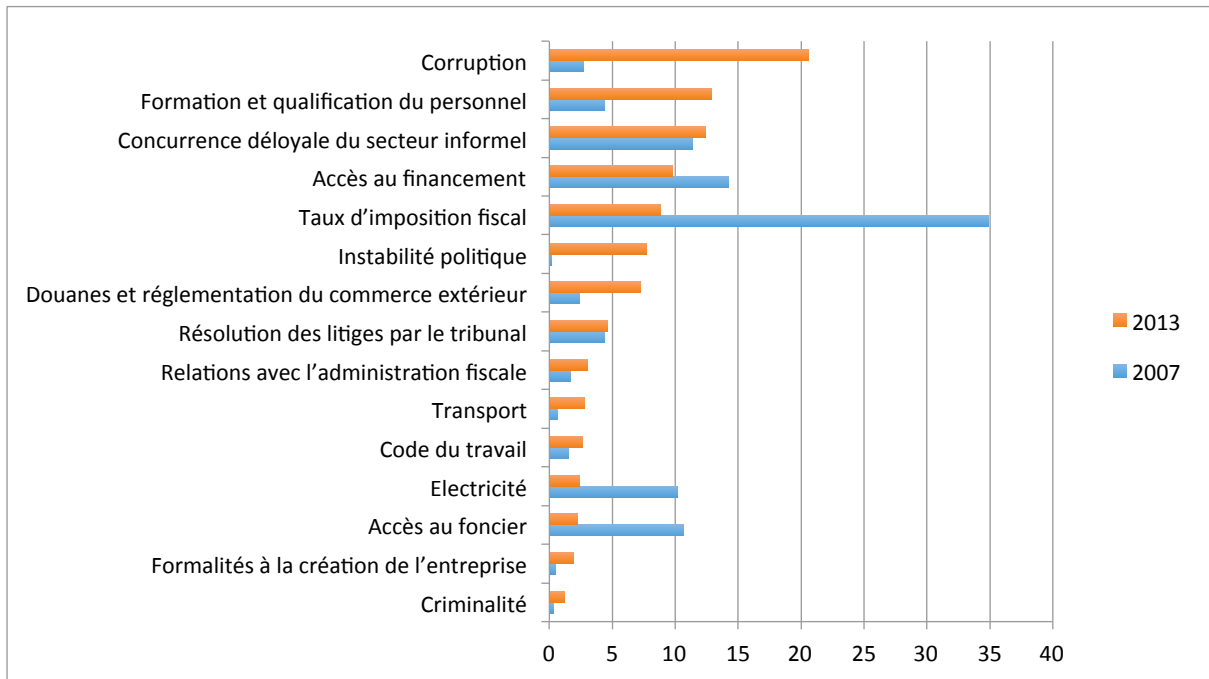
In 2007, the constraints that appeared to weigh most heavily on companies were tax rates, access to finance, unfair competition from the informal sector, access to land and access to electricity (blue bars in Figure 22). Following the reforms and measures implemented in Morocco over the past 10 years (the most important of which are described in the previous section), in 2013, the ranking of the greatest barriers for companies has changed significantly. **The most significant barrier for companies was corruption, followed by staff training and qualification, unfair competition from the informal sector, access to finance, tax rates, political instability and customs and foreign trade regulations (orange bars in Figure 22).**

A comparison of companies' perceptions between 2007 and 2013 shows that the most significant progress made was in the area of tax rates (even though, as seen above, further measures were implemented after 2013), access to electricity, access to land and access to finance. However, companies considered that the barriers formed by corruption, training and professional qualifications,

¹⁴ Enterprise Surveys (<http://www.enterprisesurveys.org>).

political instability, customs & foreign trade regulations and transport were greater in 2013 than in 2007.

Figure 22. Greatest barriers according to companies in 2007 and in 2013



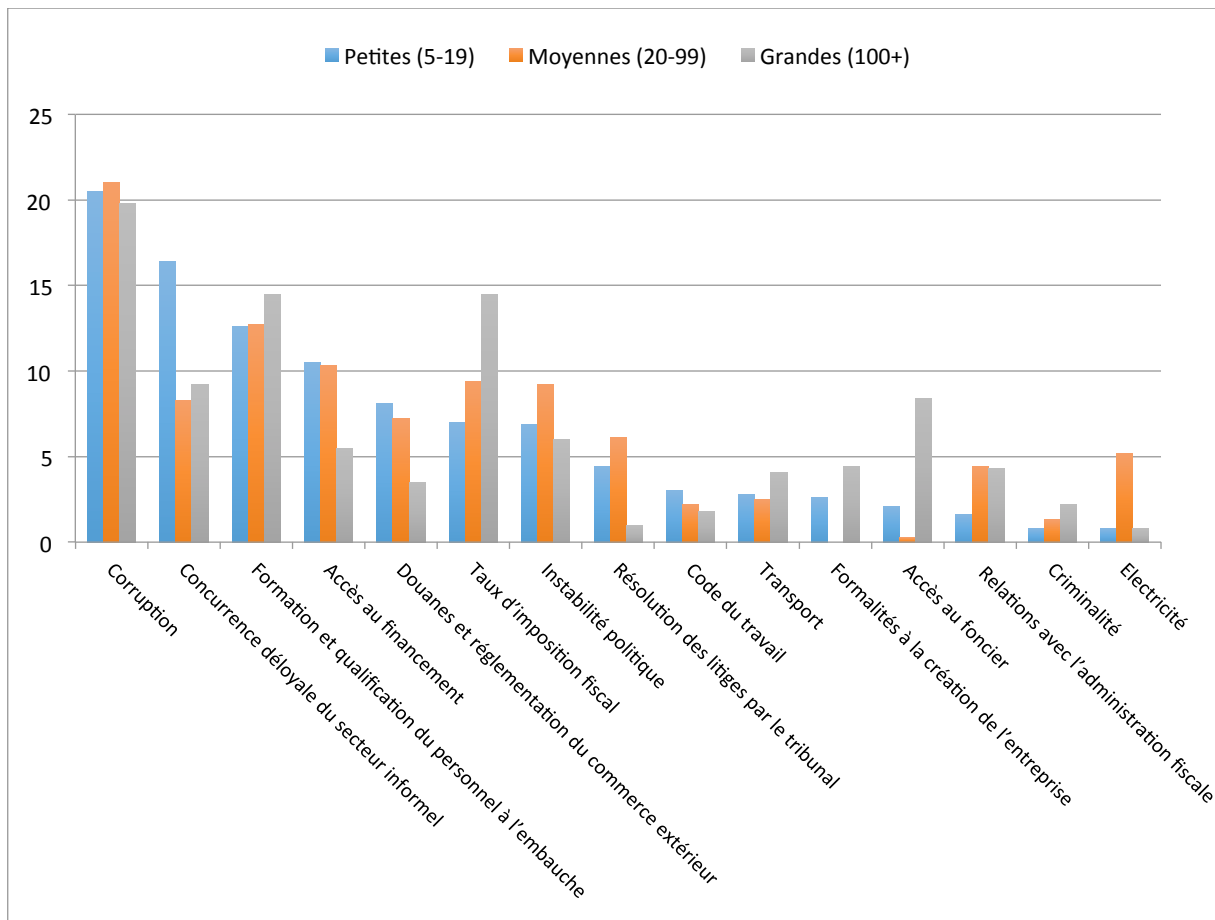
Source: Entreprense Survey, World Bank.

Beyond the general opinion of all firms, the following three graphs highlight the heterogeneity of perceptions expressed by firms according to their size (small, medium and large, graph 23), their export status (exporters and non-exporters, graph 24) and the ownership of their capital (entirely domestic or partially held by foreign capital, graph 25)

Corruption remained the most important constraint regardless of the size of the company, but only for non-exporting and domestic companies (i.e. without foreign capital). Apart from corruption, small and medium-sized firms, such as domestic and non-exporting companies, were also hampered by unfair competition from the informal sector, followed by **the training and qualification of staff**. The fourth most common barrier expressed by small and medium-sized enterprises and non-exporters was **access to finance**.

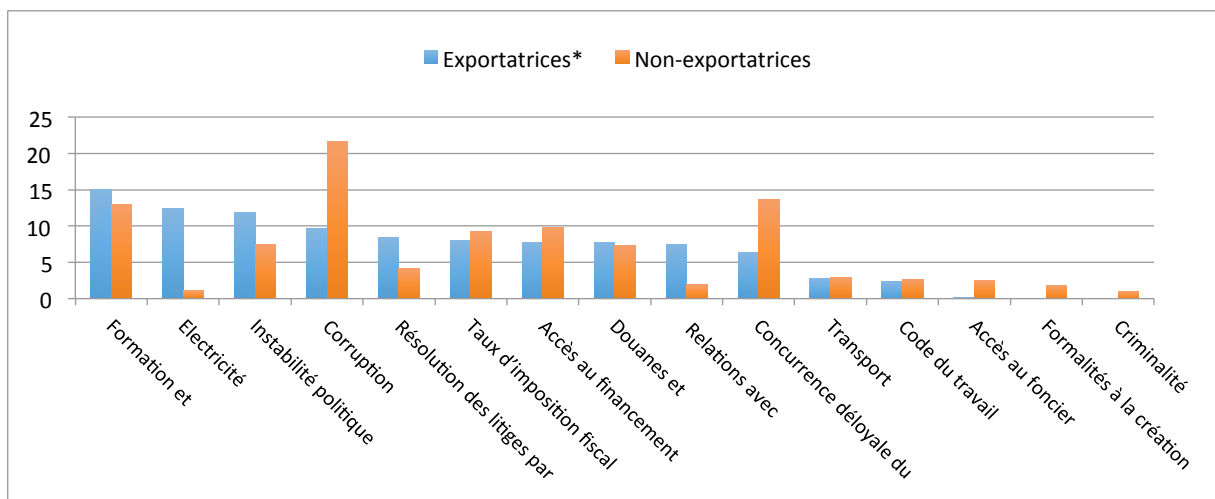
For companies with a more international dimension (either because they have foreign capital or because they export), corruption only appeared in third or fourth position. For exporting companies, the most frequently expressed barrier was the **training and qualification of staff**, followed by **access to electricity** and **political instability**. For companies whose capital was partly owned by foreign investors, the main barrier was **access to finance**, followed by **staff training and qualification**, **corruption** and **transport**.

Figure 23. Greatest barriers expressed by companies in 2013 according to their size



Source: Enterprise Survey, World Bank.

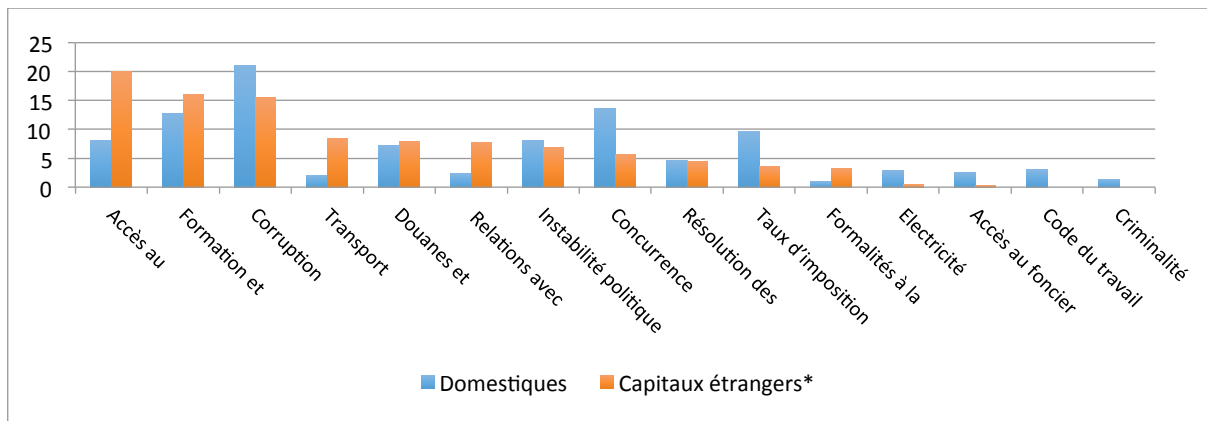
Figure 24. Greatest barriers expressed by companies in 2013 according to export status



* Companies are classified as exporters when their export business counts for more than 10% of their turnover.

Source: Enterprise Survey, World Bank.

Figure 25. Greatest barriers expressed by companies in 2013 according foreign shareholding



* Companies are considered to have “foreign shareholding” when at least 10% of their capital is held by foreign shareholders.
Source: Enterprise Survey, World Bank.

II5.2 Cas study results (BAD – ISCAE – FEMISE)

We submitted the same question to two business federations, the Moroccan Textile and Clothing Industry Association (AMITH) and the Moroccan Automobile Construction Industry Association (AMICA), in November 2017. Among the barriers considered to be severe or major, figure the four barriers also considered to be the greatest by SMEs in the 2013 World Bank survey, **namely corruption, unfair competition from the informal sector and the issue of financing (both access and cost) and inadequate staff qualifications** (expressed only by AMITH). Our results also show the following to be severe or major barriers:

- for AMITH: access to land, labour legislation and, in the "other" category, parafiscal rates, smuggling and local taxes;
- for AMICA: the courts.

Table 1. Greatest barriers to the business and growth of Moroccan SMEs according to AMICA* and AMITH representatives (Nov. 2017)**

Perception of barriers	Perceptions of AMICA	Perceptions of AMITH
Severe barrier	<u>Corruption</u> <u>Unfair competition from the informal sector</u> <u>Access to finance</u>	<u>Corruption</u> <u>Unfair competition from the informal sector</u> <u>Access to bank loans (e.g. guarantees, conditions, etc.)</u> Access to land Labour legislation Other: - Parafiscal rate (CNSS) - Smuggling
Major barrier	<u>Cost of bank loans</u> <u>Access to bank loans (e.g. guarantees, conditions, etc.)</u> Courts	<u>Cost of bank loans</u> <u>Access to finance</u> <u>Inadequate staff qualifications</u> Tax rate Other : local taxes

Source: Case studies carried out by the authors in November 2017.

* Moroccan Association of Automobile Construction Industries

** Moroccan Association of Textile and Clothing Industries

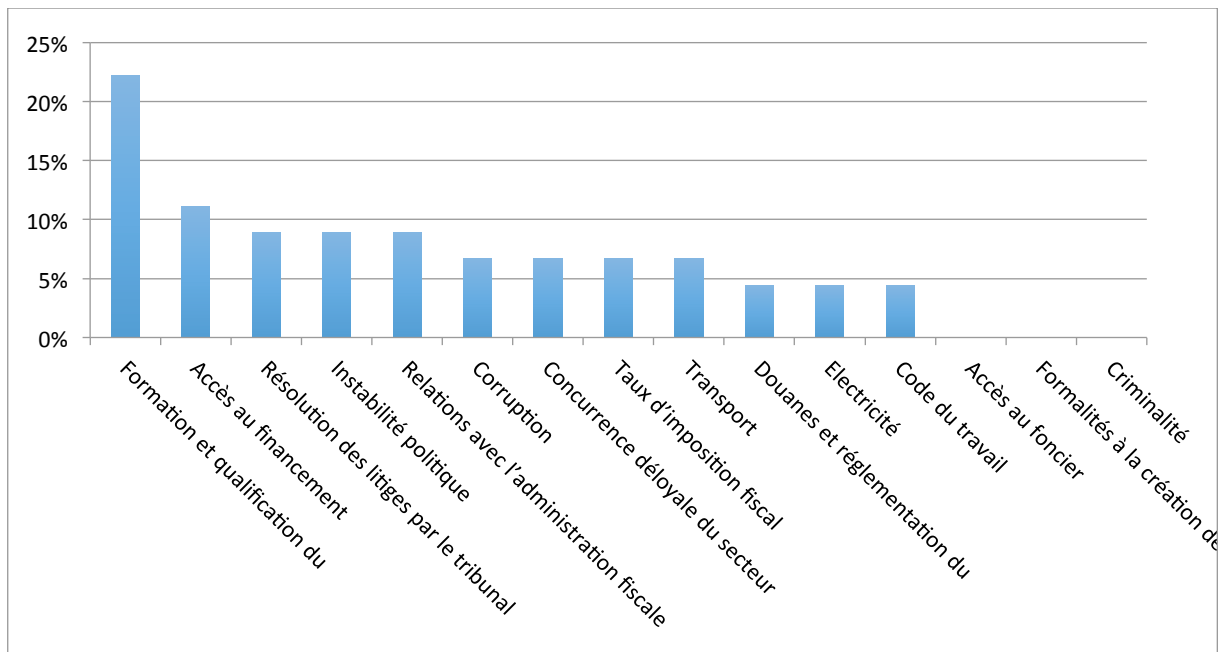
Note: The highlighted barriers are greatest barriers as expressed by companies considered as small and medium-sized by the World Bank in the 2013 survey (see Chart 23).

When asked which economic policy measures would be most likely to reduce the barriers identified by each Federation of companies, AMITH proposed “**a zoning policy (with accessible business parks, at affordable prices in employment areas) with tariff, tax and CNSS advantages** related to job and value creation”. AMICA, considered it would be useful to **review the banking offer and taxation**.

Regarding the perception of Moroccan companies, there is therefore a strong coherence between the results obtained in 2013 by the World Bank Survey and the responses we obtained from AMIH and AMICA representatives.

As this report specifically targets **Moroccan exporting SMEs**¹⁵, we looked at which barriers, for this category of firms, were perceived to be the greatest in the 2013 World Bank Survey, by adopting a definition of SMEs that is more in line with the Moroccan definition, i.e. by considering companies with fewer than 200 employees. The greatest barrier for these exporting SMEs was **staff training and qualifications** (largely dominant), followed by **access to finance**, then by the resolution of disputes by the court, political instability, relations with the tax administration, corruption, unfair competition from the private sector, tax rates and transport.

Figure 26. Greatest barriers expressed by Moroccan exporting SMEs* in2013



* Exporting SMEs are defined as those having fewer than 200 employees and whose direct exports represent more than 10% of their turnover.

Source: Enterprise Survey, World Bank.

In conclusion, the greatest barriers to business for SMEs are corruption, unfair competition from the informal sector (including smuggling), access to finance and inadequate staff qualifications

On the more specific subject of corruption, the Business Federations pointed out that this had very concrete impacts: "a lack of credibility of the administration, a lack of trust, the difficulty in asserting one's legal rights as a citizen, the entrepreneur status which people look down on in an economy where rent, clientelism and privileges are unfortunately still omnipresent". The Federations consider that the measures that might reduce the corruption barrier, which is a major problem for the daily operation and development of companies, are:

- Administrative reform based on competence, responsibility and a culture of accountability

¹⁵ In the last World Bank Enterprise Survey (2013), SMEs (defined as having fewer than 200 employees) represent 87.5% of the sample. Among these SMEs, 14.6% were exporters, and 12.6% had partially owned foreign capital.

- Digitisation and electronic declaration
- Transparency in public procurement
- Strengthening the obligation of banks and companies to identify their customers and report shell companies or suspicious practices
- The implementation of exemplary sanctions.

Before more specifically analysing the barriers that can prevent Moroccan SMEs from integrating global value chains (GVC), we will begin the following section by defining exactly what we mean by GVC, how we can measure Morocco's level of integration in these value chains and what we know about SMEs and GVCs. We will then analyse the series of case studies and interviews that we carried out with Moroccan exporting SMEs and their representatives to focus on the issue of obstacles.

III. Challenges faced by Moroccan SMEs in integrating global value chains

III.1. Overview of the global value chain concept

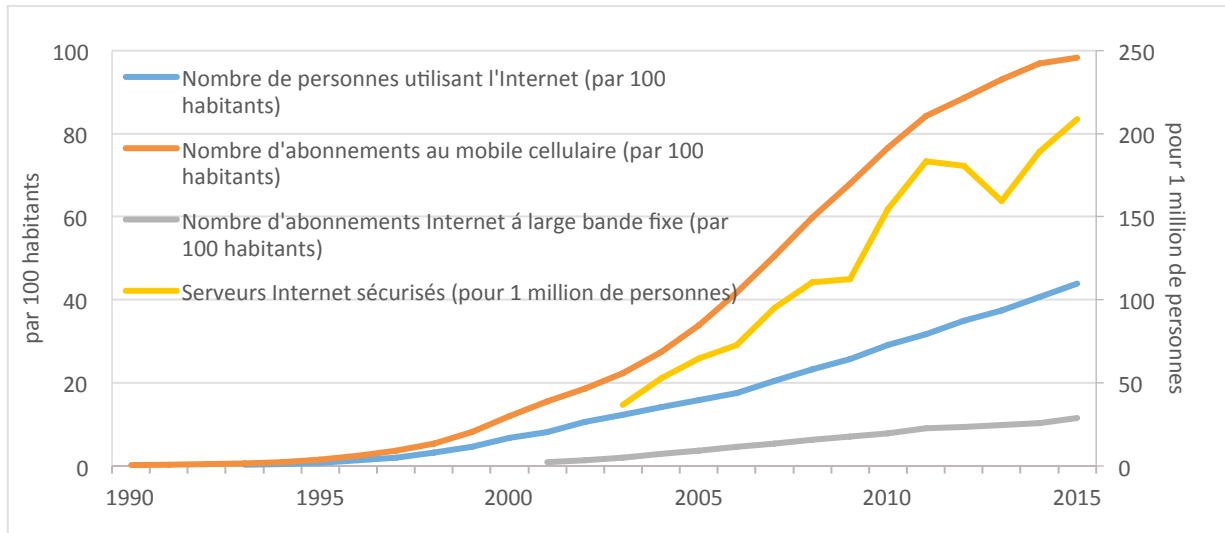
III.1.1. Reminder on the factors driving the development of value chains

Before the development of transport, countries mostly consumed only what they produced. The advent of railways and steamboats gave rise to the spatial separation of consumption and production. Companies tapped into the comparative advantages and economies of scale to make this separation profitable. In addition to the trade in consumer goods, intra-industry trade gradually developed, with the purchase and sale of inputs produced by companies located in different countries. This intra-branch trade developed primordially between industrialised countries; the stakeholders involved in the production chain were limited in numbers and frequently by the distance that separated them in order to keep coordination costs down.

From the mid-1990s, a general reduction in customs duties in addition to a continued reduction in transport costs encouraged companies to further internationalise the production of their inputs, by purchasing them abroad, from their own subsidiaries or from independent companies. This delocalized fragmentation mainly concerned less complex production processes, the components of which were labour-intensive. The choice made by firms to move towards the more or less strong internationalisation of their production process was essentially the result of an arbitration made between the gains to be made and the coordination costs induced by this internationalisation (Baldwin, 2013). The technological progress that has revolutionised information and communication systems around the world, also played a very important role in the development of global value chains, by significantly reducing coordination costs and helping to lower transaction costs (or exchange costs), in particular by reducing transport times. At the same time, the reduction of political and economic barriers to trade in goods and capital movements also contributed to the internationalisation of production processes. These main factors, which have led to the development of international fragmentation, are summarized in Figure 1. This internationalisation of production processes may have been facilitated by foreign direct investment, as the latter, as discussed below, can support integration in global value chains, but only in a single type of operation, namely insourcing (or vertical integration).

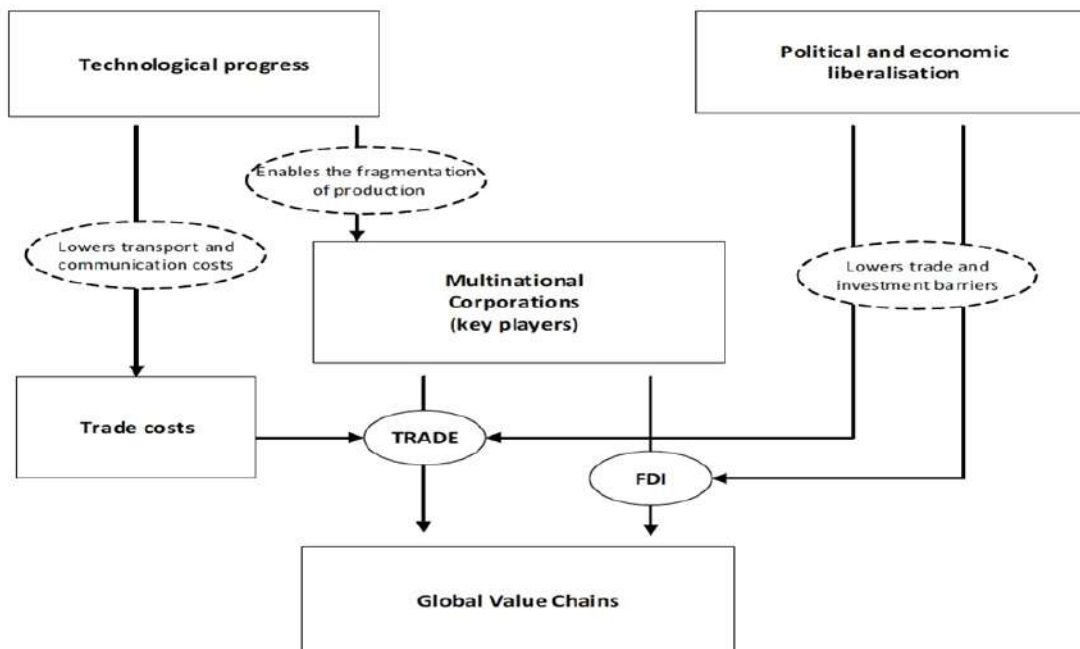
This production fragmentation existed before the mid-1990s but initially concerned only the clothing and electronics industries. It then rapidly spread to almost all industries (automotive, machinery, aviation, agri-food, consumer goods, etc.), including in cases where production processes were complex and required a high level of technology. **What is new, and has marked international trade over the past two decades, is the extent of this phenomenon and the dominant place occupied by these processes in global trade.** In 2013, **60% of global trade was carried out through global value chains** Unctad, 2013). Some even estimate this share to be 80% (Keane, 2014).

Figure 27. Indicators of the global diffusion of information and communication technologies, 1990 – 2015.



Source: World Bank.

Diagram 1 Illustration of the main factors that have enabled the development of GVC



Source: Amador and Cabral (2014).

III.1.2. Definition and organisation of global value chains

What we refer to as “global value chains” corresponds not only to the fragmentation of production processes but also to the international dispersion of tasks and activities (R&D, conception, design, marketing, manufacturing, assembly, packaging, distribution, etc.) **organised within these processes**. Their cost reduction strategy leads companies to produce goods using inputs manufactured in different countries, creating borderless production systems. This international fragmentation of production has led to profound upheavals for companies in the way they produce and sell.

Several terms are used to qualify these global value chains (vertical specialisation, offshoring, outsourcing, internationalisation of production, international sharing of production, disintegration of production, multi-stage production, intra-product specialisation, value chain division, international segmentation of production, production network, co-production for which some of the definitions¹⁶ can be a little more restrictive or slightly more specific than the term “value chain”.

The term **outsourcing** refers to the purchase of goods and services that were previously produced by the company. The latter now buys its inputs from another independent company, which can be located either in the same country (domestic outsourcing) or in a foreign country (international outsourcing)

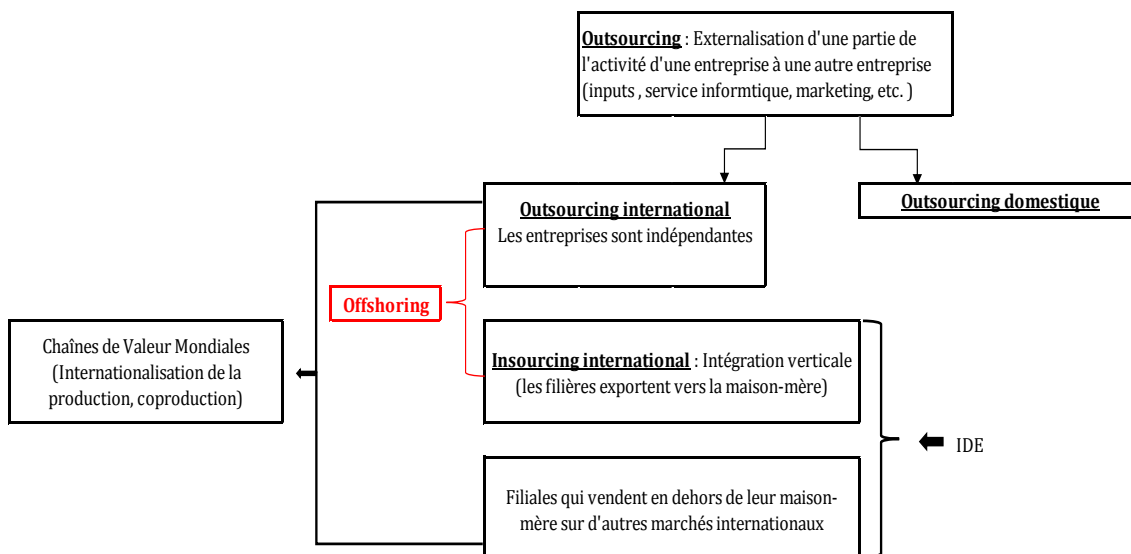
Offshoring, like outsourcing, also refers to the purchase of goods and services that were previously produced within the company, but this concept is broader than outsourcing. Offshoring refers to the relocation of the production of inputs abroad, either by independent firms (international outsourcing) or by subsidiaries of the company (which results in foreign direct investment and which corresponds to what is also called **international insourcing or vertical integration**)

The internationalisation of production refers to the establishment of subsidiaries abroad. These subsidiaries may export to the parent company (this is international insourcing or vertical integration) or sell goods and services to the domestic or to foreign markets. The goods and services produced by these subsidiaries were not necessarily previously produced by the parent company.

Co-production is a form of industrial compensation or, even more broadly, offsets, which consist in agreeing on “a shared responsibility for the manufacture and/or marketing of goods whose recipients may be either one of the two partners or a third country” (CGEM, 2014).

In short, these GVCs are either international outsourcing or international insourcing. It is nevertheless clear that they are most commonly set up and managed by large companies, which may be multinationals.

Diagram 2. Definition of the different terms used to refer to GVC



Source: Les auteurs.

From an organisational standpoint, the networks mobilised within GVCs can be very complex, involving firms in a wide variety of fields (manufacturing, logistics, transport, insurance, etc.). These GVCs are characterised, on the one hand, by their form, i.e. the spatial and sequential organisation of the functions and inputs produced and, on the other hand, by their governance mode, i.e. by the

¹⁶ The definitions of outsourcing, offshoring and the internationalisation of production are from Amador et Cabral (2014).

distribution of power between the leading firm (sometimes a multinational) and the other stakeholders in the chain.

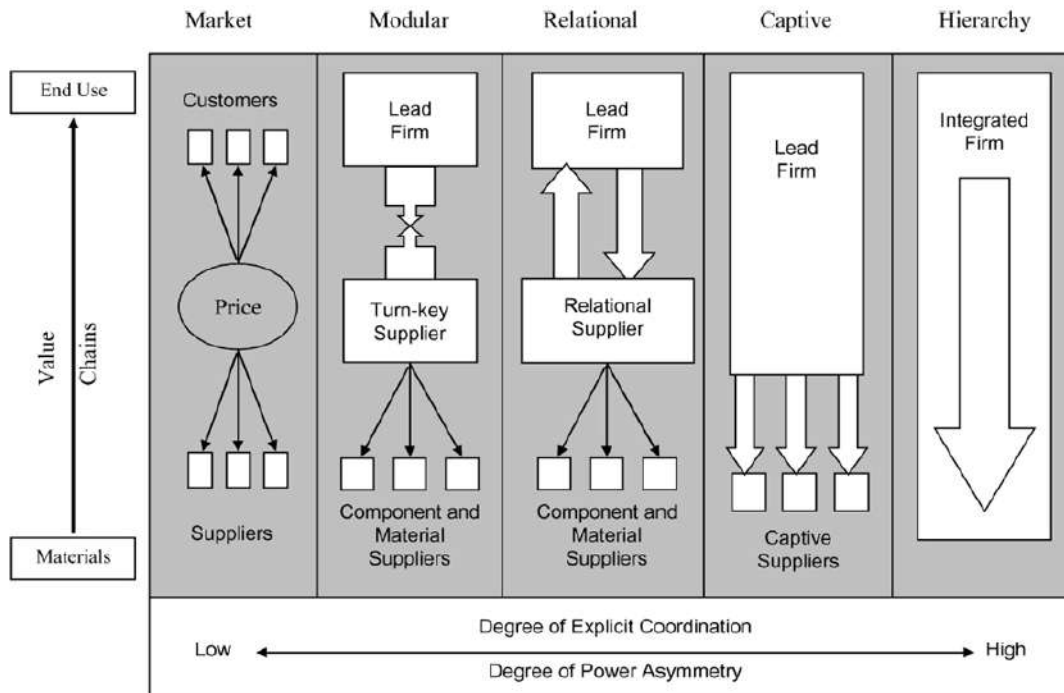
- **Regarding their form, the organisation of the different tasks in the chains depends mainly on technical considerations**, i.e. the nature of the production process, more precisely its ability to be fragmented and also, therefore, to be connected. These GVCs can thus take the form of (i) sequential chains, also referred to as "snakes" (Baldwin & Venables, 2013), where goods move successively from upstream to downstream stages with value added along the chain or (ii) complex networks, which Baldwin and Venables also refer to as "spiders", where the production process consists of various inputs and components that are assembled without any particular order in the chain. Most GVCs are a mix between these two forms.
- Regarding the **governance mode**, while, as mentioned above, almost 80% of trade flows are carried out within CVGs, it is estimated that **one third of global trade is intra-firm trade (subsidiaries belong to a single parent company), which means that about half of the flows are carried out between firms that are independent in terms of ownership structure, but which may be bound by a contractual relationship**. The nature of contractual relations between these two parties (suppliers and buyers) affects the long-term development of companies in developing and/or emerging countries. A typology of governance modes has been proposed by Gereffi *et al.* (2005). The five main types of relationships identified (and presented in Box 4 and Diagram 3), ranging from a very low level of coordination ("Market") to the case where the leading company owns, at least in part, the capital of the supplier company ("Hierarchy"), demonstrates that the governance mode depends essentially on the products and their technological characteristics¹⁷ and on the suppliers' level of skills. Thus, between the two classic forms of relationship already mentioned, namely market-based governance and vertical integration (or international insourcing), three other modes of governance can be established, governed by specific power relations and a specific level of coordination between the supplier and the buyer. In the Modular Value Chain, suppliers produce intermediate goods or provide services that meet the buyer's requirements. Suppliers take full responsibility for process technology and often use generic machines that can meet the needs of a wide range of customers. In the Relational Value Chain, interactions between buyers and sellers are characterised by close proximity and transfers based on mutual dependence conditioned by reputation, social and spatial proximity, family and ethnic ties, etc. Despite mutual dependence, buyers exercise some control over suppliers due to their dominance in higher value-added sectors. Finally, in the Captive Value Chain, small suppliers depend on a few buyers who often hold a great deal of power over them. These networks are characterised by a high degree of monitoring and control on behalf of the leading company. Asymmetric power relations in this governance mode force suppliers to bind themselves to their buyer under conditions that are determined by - and often specific to - that particular buyer.

This typology shows that within the framework of GVCs in emerging or developing countries, companies – particularly small ones- might find themselves in a dependent relationship with foreign principals. There might be strong competition between suppliers, whereas buyers will more likely enjoy a situation of oligopsony.

Finally, we may note that in the literature on modes of governance relative to GVCs, the role of public authorities in defining these contractual relations is never mentioned. In reality, however, their role can be very important and may partly condition the beneficial effects that a country can derive from its integration in value chains, in particular for insourcing (i.e. when a foreign company is established in the country).

¹⁷ Gereffi *et al.* speak more specifically about the complexity of transferring information to suppliers and the ease with which this information can be coded.

Diagram 3. Different governance modes for GVC



Source: Gereffi *et al.* (2005)

Box 3. Description GVC governance structures

“Market governance”: This governance mode is adapted to transactions that are easily codifiable (and therefore easily transferred between two parties), the products are simple and suppliers are able to deliver the requested production with little involvement on behalf of the buyers. Prices are set by the vendors.

“Modular governance”: This governance mode is encountered in the case of complex products where suppliers are able to meet the buyers' requirements (product quality, flexibility, speed). The cost of switching suppliers remains low.

“Relational governance”: In this case, the product is also complex but the supplier's required competences are such that there is an interdependent relationship between the two parties and the level of coordination is high; this, in turn, increases the cost of switching partners.

“Captive governance”: Here again the product is complex, but this time the supplier's competences are weak, which implies significant intervention and control by the leading firm. Suppliers are therefore in a situation of relative dependency with regard to the leading firm (hence the term "captive"). They are mostly allocated relatively simple operations in the production process.

“Hierarchical governance”: The products are also complex and competent suppliers are difficult to find, which leads the leading firm to relocate part of its production by setting up abroad.

Source: Adapted from Gereffi *et al.* (2014)

III.1.3. The value of global value chains for developing and emerging countries

From an economic point of view, the expansion of GVCs is linked to the concept of comparative advantage at the level of production processes. By deciding to relocate or purchase certain inputs or have certain tasks performed in different countries, large companies can benefit from the best human or physical resources available, on an almost worldwide scale, and thus increase their productivity

while minimizing costs. The optimal choice, made at each stage of the production chain, regarding the localisation place and method (domestic outsourcing/international outsourcing/international insourcing), while taking into account coordination costs, maximises the competitiveness of the final product (consumer goods or capital goods). As a result, it is becoming increasingly difficult to compete with large multinational companies in the consumer and capital goods ballgame.

However, **this fragmentation of production provides companies in developing and emerging countries with an unprecedented opportunity to produce and export part of the chain (process or inputs) according to their comparative advantages, whether these companies are under the majority, or only partial, ownership of foreign firms, or whether they are entirely independent.** Given the importance of GVCs in the structure of world trade, it is by integrating GVCs that a firm in a developing or emerging country is most likely to export. In addition, producing and exporting within a GVC is likely to result in improved productivity and better international positioning for the company. Indeed, the use of foreign inputs, the obligation to meet certain production and quality standards, a close relationship with the foreign principal, access to new technologies, the possibility of improving employees' skills, access to new information – in particular concerning consumer preferences in high-income foreign markets – access to new productive organisations, etc., contribute to increasing the company's competitiveness and hence that of its products.

Baldwin et Yan (2014) found that Canadian companies that integrated a GVC increased their productivity by 5% more than other companies in the first year and by 9% more after 4 years. Companies that left a GVC lost 1% of productivity in the first year and accumulated an 8% loss of productivity over a 4-year period. To our knowledge, no empirical studies have yet been published on the effects of integration in GVCs on the performance of companies in developing or emerging countries¹⁸.

Thanks to the resulting external effects on the productive system (through skills brought by employees who change companies, the geographical or sectoral proximity of firms, their possible customer/supplier relationships, the development and improvement of certain services, etc.), a widespread integration of companies into GVCs has a positive impact on the country's entire economy. It is not, therefore, surprising to note that public authorities in developing and emerging countries are showing a growing interest in these GVCs. Some are willing to encourage their private sector to integrate them.

III.1.4. Measuring global value chains

The fragmentation of production on an international scale raises two main questions:

- How can one measure the value of gross trade flows in which the entire economic community is involved?
- How can one measure a country's participation in GVCs?

As we will see, these two questions are linked.

If a good's components are produced in different countries, the gross trade data, traditionally used by the economic community as a whole, account for several times the value of intermediate goods. The only way to avoid this multiple counting of inputs is to measure trade by the value that is added by a country in the production of any exported good or service. It should be noted that it is this value added that truly represents the creation of wealth in a national economy and which is used by companies to pay wages, generate profits and to pay their charges, taxes and duties.

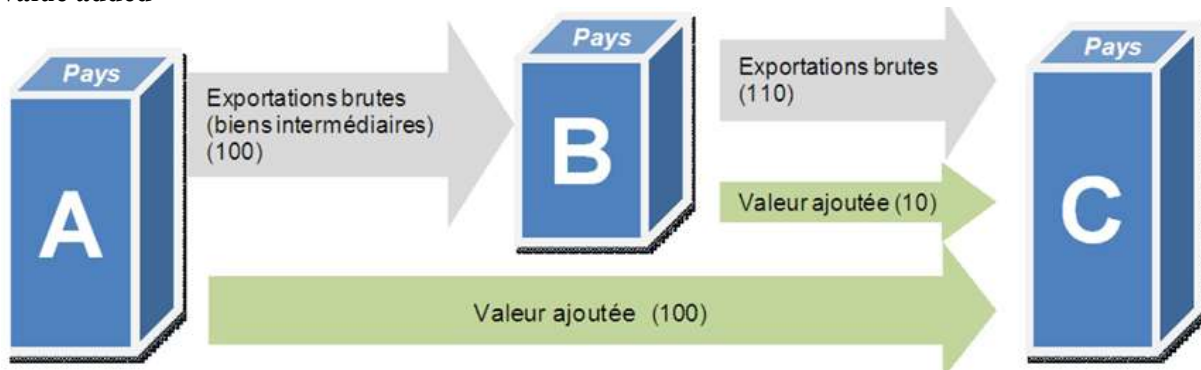
¹⁸ A working paper by Pel Prete et al. (2016) highlights the positive effect of the integration of Moroccan and Egyptian firms in GVCs on their productivity, based on data from the World Bank's Enterprise Survey. This result should, however, be viewed with circumspection as the proxy used to identify if a firm is part of a GVC is the adoption of internationally recognized quality certification (such as ISO).

Let us take the example proposed by the OECD and the WTO (2013), used in the WTO World Trade Report (2014) and illustrated in Diagram 4: country A exports intermediate products worth €100 to country B, country B adds a processing step and exports the final good worth €110 to country C where the good is consumed.

Conventional measures of trade flows in this case estimate the total amount of world exports and imports at €210 (exports from country A (100) + exports from country B (110)), whereas the total value added created is only €110 (100 by country A and 10 by country B). In addition, the value of country B's gross exports is 110€, but this export has only produced a value added of 10€ for the country. Similarly, traditional trade data consider that there is no trade between country A and country C, although country A is the main beneficiary of country C's consumption.

In terms of trade balance, traditional measures indicate a trade deficit for country B vis-à-vis country A amounting to €100, and a deficit for country C vis-à-vis country B of €110. If flows are recorded as value added, the deficit of country C with respect to country B is reduced to €10 and its deficit with respect to country A amounts to €100.

Diagram 4. Illustration of the measurement of gross trade and the measurement of trade in value added



Source: OECD-OMC (2013)

Unlike gross trade data collected directly from each country's customs declarations, value-added data require national input-output tables and extensive statistical processing. This data¹⁹ is neither available for all countries, in particular for the smaller emerging and/or developing countries, nor for long periods.

¹⁹ Several initiatives (GTAP, WIOD, OECD-WTO, UNCTAD-Eora, IDE-JETRO) have been undertaken to compile this type of data. Among them, the TiVA (Trade in Value Added) database, jointly developed by the OECD and the WTO, is one of the most comprehensive. The 2016 edition covers 63 countries, 16 manufacturing sectors, 14 service sectors, for 7 years between 1995 and 2011 (1995, 2000, 2005, 2008, 2009, 2010, 2011) and provides several indicators to measure countries' involvement in VCMs. The TiVA database is freely accessible on the OECD website <http://dx.doi.org/10.1787/tiva-data-fr>

To evaluate a country's integration in GVCs, two complementary measures can be used:

A) Share of intermediate consumption in trade

The share of intermediate consumption in trade is a very approximate measurement of integration in GVCs. It is based on the use of traditional trade statistics (which are, it should be recalled, based on gross flows). It has the advantage of being available for all countries, for each year and over a long period of time. In addition, it is easily compiled by using the category of intermediate goods proposed by UNCTAD and available in the COMTRADE data.

B) New value-added trade measures

The second method by which a country's integration in GVCs can be measured is to calculate a **participation index based on the new measurements of value-added trade**. This index, proposed by Koopman et al (2010) and calculated, from the TiVA (Trade in Value Added) data base, by the OECD and the WTO, must take into account both the content of exports in imported products (**upstream participation or Backward participation** or "purchased from") and domestic value added incorporated as intermediate consumption in the gross exports of its trading partners (downstream participation or "Forward participation" or "sold to"). **The CVM participation index is the sum of the foreign value added incorporated in a country's exports and the domestic value added exported indirectly, expressed as a percentage of the country's gross exports.** This index therefore reflects upstream and downstream participation in international production networks.

An important feature of this index is that it assumes that the GVC consists of at least three successive phases that take place in three different countries. Thus, this index takes into account neither the imports of inputs used in the production of locally consumed goods, nor the exports of inputs that are not used in the production of goods that will be exported by a trading partner country

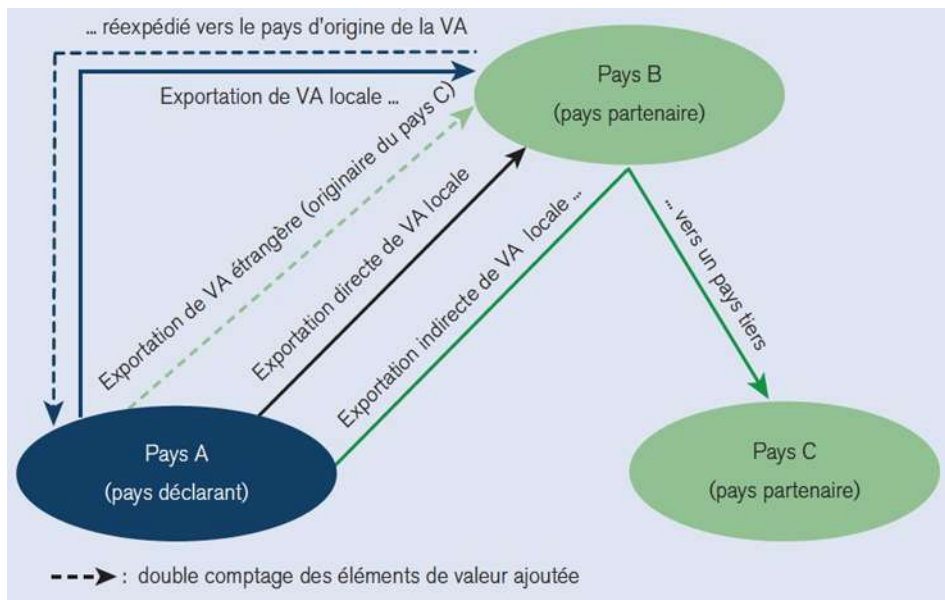
Thus, the GVC participation index will be even higher:

- If, in domestic exports, there is a lot of imported foreign value added and/or,
- If, in the exports of other countries (its trading partners), there is a lot of value added created in the domestic country (indirect export of domestic AV).

Diagrams 5 and 6 break down gross exports into different elements of value added and help to better identify the content of the GVC participation index. Suppose we have three countries, A, B and C and we try to measure the participation of country A in the GVCs. The solid black line, which runs from A to B, represents the value added created in country A and consumed directly in country B. Diagram 6 shows that this value is not included in the participation index. However, the participation index will include (i) the foreign value added contained in the gross exports of country A (which corresponds to the upstream or backward participation and which may, for example, be rubber that A imported from country C and which has been used to produce tyres exported to B, this is represented, in Diagram 4, by the dotted green line that goes from A to B), (ii) the domestic value added exported from country A that will be incorporated into exports from country B, either to country

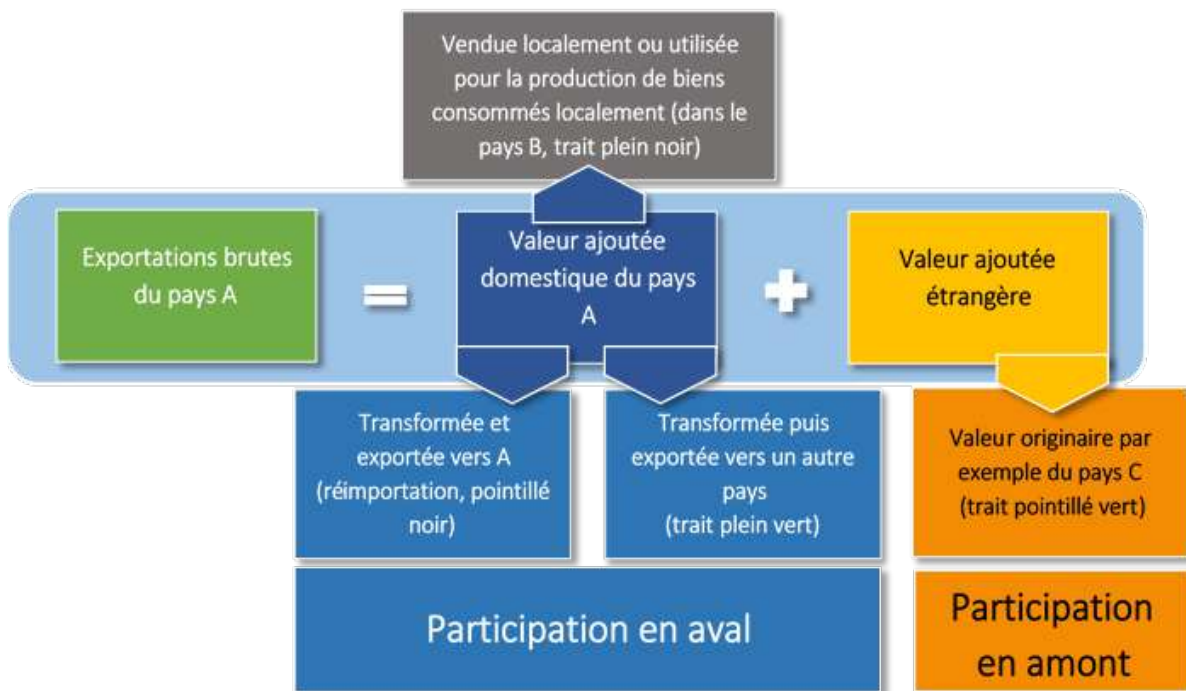
A (re-importation, this is the solid black line from A to B) or to a third country, such as country C (this is the solid green line from A to B, and then to C)

Diagram 5. Value-added content of gross exports



Source: WTO (2014)

Diagram 6. Representation of the participation index based on the value-added content of gross exports



Source: Created by the authors.

Diagram 6 also shows that the CVM participation index does not measure the amount of value added created in a country as a result of this integration in global production networks, since it also includes the imported foreign value added contained in its exports (backward participation). On the other hand,

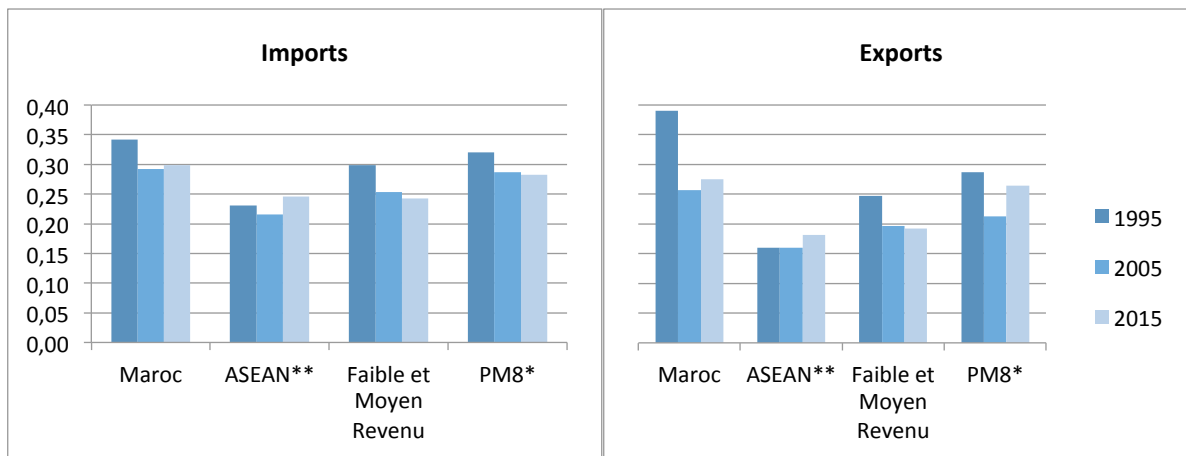
the indicator that measures its downstream (forward) participation is directly related to the creation of domestic value added.

III.2. An assessment of Morocco's level of integration in global value chains

When we use the **first measure**, i.e. when we estimate the level of integration in global value chains by the share of intermediate consumption in trade, the share of intermediate consumption in gross imports and in gross exports can be calculated, as shown in graph 28 for Morocco, as well as for 3 groups of comparative countries (the other Mediterranean countries, all low- and middle-income countries and the 10 ASEAN countries).

Although it has decreased since 1995, the share of intermediate consumption in both imports and exports remains relatively high, as for the average of the other Mediterranean countries (For imports, it amounts to 30% in 2015, compared to 28% for MC8, 25% for ASEAN and 24% for the whole). For exports, this share is 28%, compared to 26% for MC8, 19% for all low- and middle-income countries and 18% for ASEAN countries. These high proportions may suggest that Morocco, like all Mediterranean countries, is well integrated into international production networks.

Graph 28. Share of intermediate consumption in total gross imports and total gross exports



Source: UNCTAD - COMTRADE database.

MC8: Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Territories, Tunisia and Turkey.

ASEA: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Vietnam, Thailand.

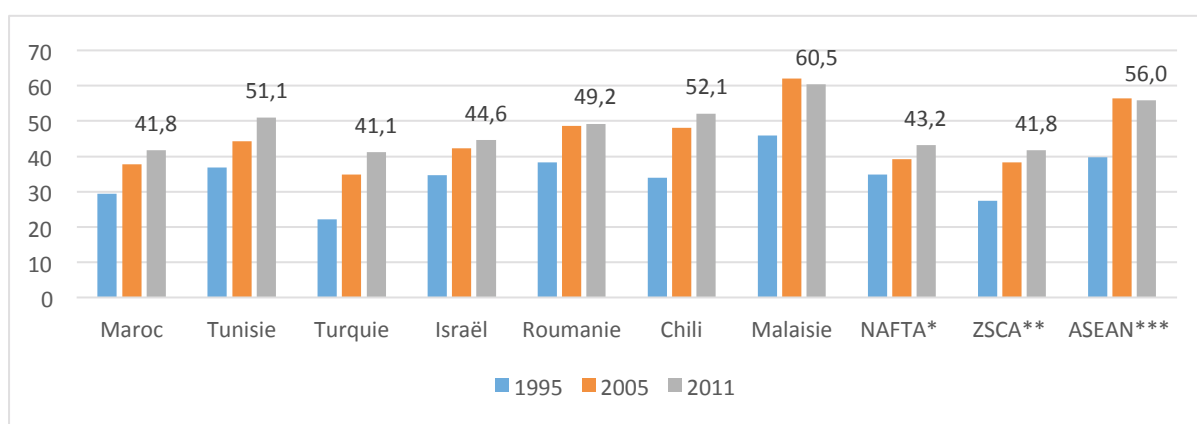
For the second measurement, namely the participation index based on the new measurements of value added in trade, the Moroccan statistics were entered into the TiVA database in 2016. The data is available for the full period between 1995 and 2011. Graph 29 shows the level of this indicator in 1995, 2005 and 2011, for the four Mediterranean countries for which data is available (Morocco, Israel, Tunisia and Turkey) and for some comparative countries or groups of comparative countries. As for all countries, **integration in CVGs has increased very significantly for Morocco, since the participation indicator rose from less than 30% in 1995 to 41.8% in 2011**. The level achieved for this last available year is equivalent to that of Turkey and the countries of Central and South America, and is close to the NAFTA countries (43.2%) and Israel (44.6%). It is, however, lower than Tunisia (51.1%), Romania (49.2%), Chile (52.1%), Malaysia (60.5%) and the ASEAN countries (56%). The GVC participation growth rate is stronger for all countries in the first period (1995-2005) than in the second. This is due, on the one hand, to the different duration of the two comparative periods (10 years and 6 years) and, on the other hand, to the economic crisis of 2007-2008, which caused a significant slowdown in GVC integration.

Even though Morocco's integration within international production networks has progressed, when placed in perspective with comparative countries, this second measurement fails to confirm what the first measurement might have suggested: **the relatively high share of intermediate consumption in**

Moroccan exports and imports, as shown in Graph 28, does not, in the case of Morocco, mean a high participation in GVCs.

Graph 30 presents the two components of the participation indicator, distinguishing between the levels of backward and forward integration. **In Morocco, backward integration, i.e. the share of foreign value added contained in Moroccan exports, is the greatest contributor to the GVC participation indicator.** The same is observed for the other countries in the region (Tunisia, Turkey and Israel), Malaysia and the ASEAN countries. In Chile and in the countries of Central and South America, it is the forward participation, i.e. the share of domestic value added contained in the exports of the other countries, that dominates. For Romania and NAFTA countries, the two components are approximately equal.

Graph 29. Indicators for Moroccan GVC participation and that of comparative countries in 1995, 2005 and 2011



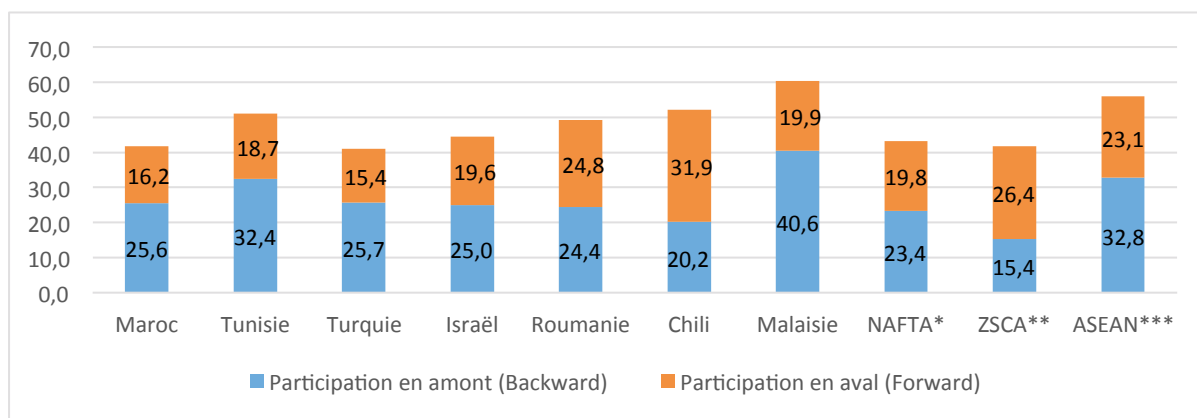
Source: OECD. Stat - TiVA (Edition December 2016)

* NAFTA: North American Free Trade Agreement (Canada, United States and Mexico)

** SACA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru)

*** ASEAN: Association of Southeast Asian Nations (Brunei Darussalam, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Viet Nam)

Graph 30. Backward and forward participation of Morocco and of comparative countries in 2011



Source: OECD.Stat - TiVA (Edition December 2016).

* NAFTA: North American Free Trade Agreement (Canada, United States and Mexico)

** SACA: Central and South America (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru)

*** ASEAN: Association of Southeast Asian Nations (Brunei Darussalam, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Viet Nam)

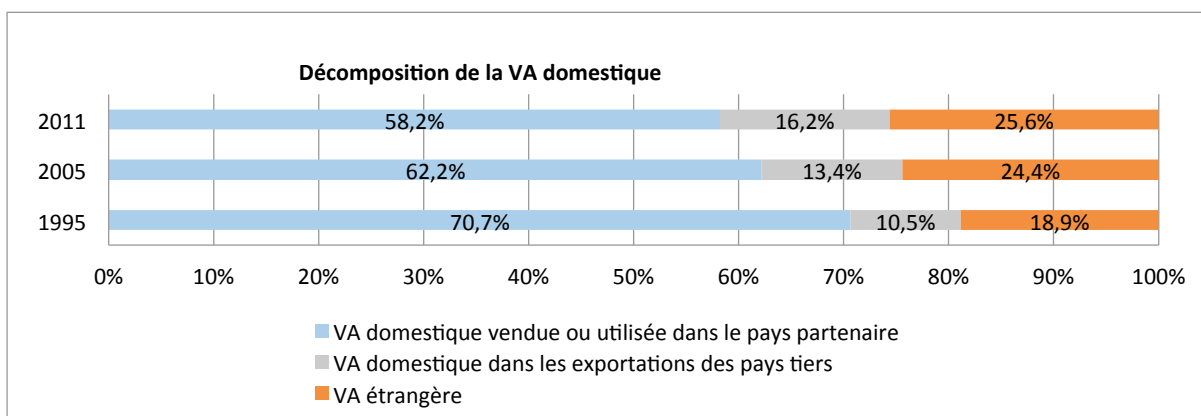
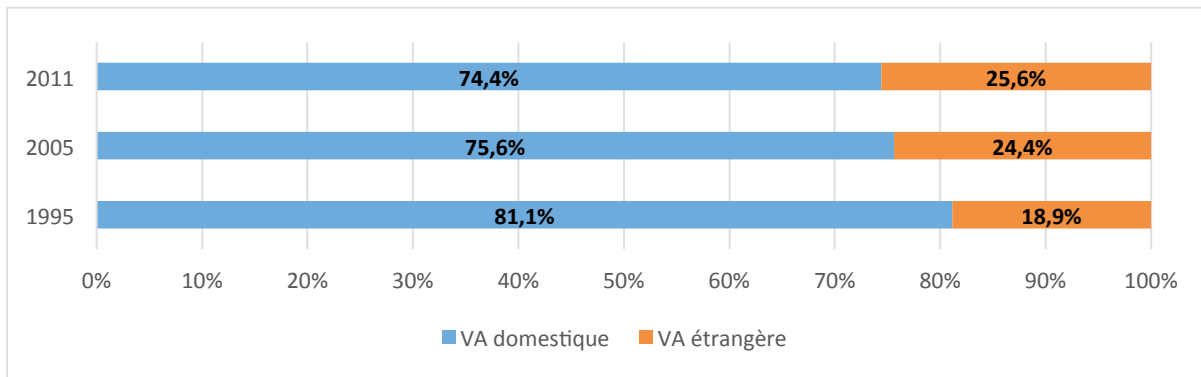
These indicators analyse gross Moroccan exports, firstly in terms of foreign and domestic value added (first part of Graph 31, where we see that **the share of domestic value added in gross exports has decreased from 81% in 1995 to 74.4% in 2011**), and secondly, in terms of the distribution of

domestic value added broken down into (i) that sold (in the form of final consumption) or processed in the partner country into final goods to be sold in the same partner country and (ii) that contained in exports from countries other than Morocco (second part of Figure 31). It is clear that **the share of final and intermediate goods exported by Morocco, to be sold directly, or processed and then sold, on the partner market has decreased from almost 71% of gross exports in 1995 to just over 58% in 2011**. As we have seen, the share of foreign value added and the share of domestic value added contained in exports from countries other than Morocco (i.e. Moroccan inputs contained in products exported by third countries) have increased; these two elements form the GVC participation index.

This average distribution of domestic and foreign value added in gross exports masks a very heterogeneous distribution by sector. Among the 10 main Moroccan export sectors in 2011 (see graph 32), almost all of them have a share of foreign value added that is significantly higher than the average observed above (25,6%): 59% for vehicles, 58% for coking & refining, 42% for electrical machinery and textiles, 38% for chemicals and 37% for base metals. Only food products (including beverages and tobacco) with 21% and, of course, primary products, i.e. agriculture & fisheries (8%) and mining (7%), are below the average share. **The foreign value-added content in gross Moroccan exports (i.e. backward participation in GVCs) for the main Moroccan export sectors is therefore very high**. This data suggests that **the dynamics of Moroccan exports are strongly linked to relations between domestic and foreign firms established within the context of the internationalisation of production processes**.

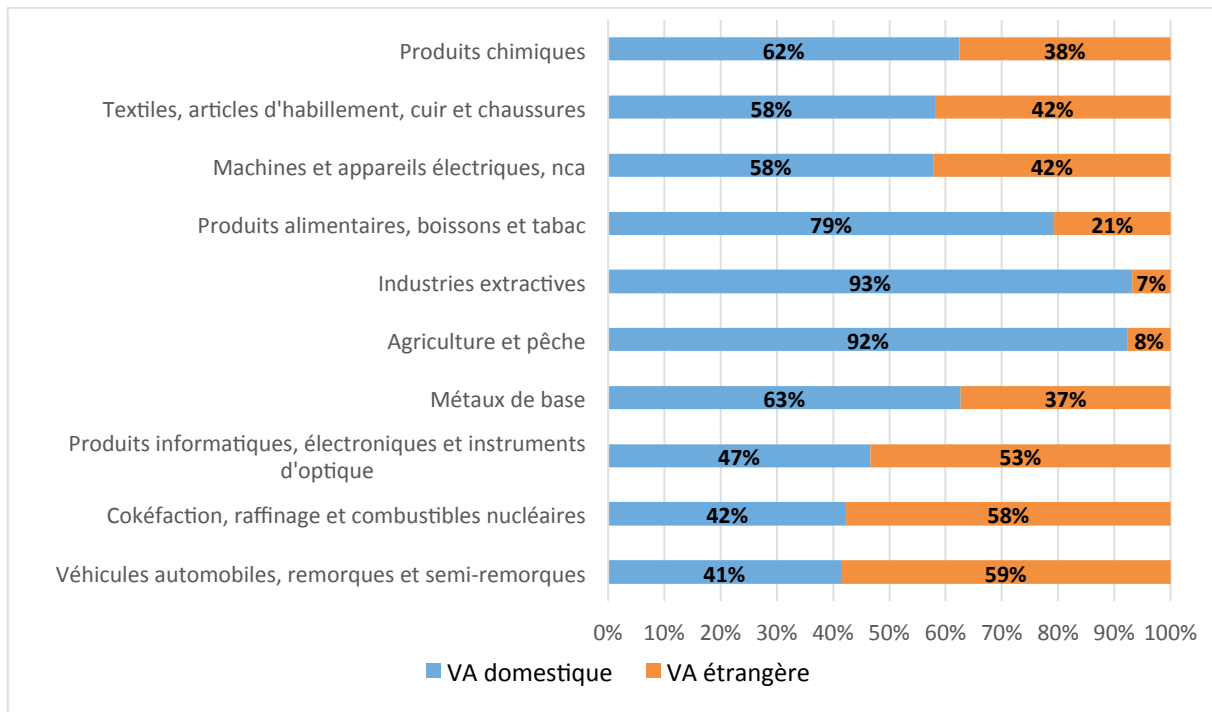
The conclusion of this part is that Morocco should increase its participation in GVCs and, above all, increase the share of value added contained in exports, as this is a source of wealth creation for the country. This can be achieved by a greater involvement of SMEs in GVCs and by the upgrading of its production systems. The rest of the report will focus on the question of SME involvement in GVCs.

Graph 31. Breakdown of Morocco's gross exports between domestic and foreign value added in 1995, 2005 and 2011



Source: OECD.Stat – TiVA (Edition December 2016).

Graph 32. Breakdown of Moroccan gross exports between domestic and foreign value added for its 10 main export sectors 2011



Source: OECD.Stat – TiVA (Edition December 2016).

III.3. SMEs and global value chains

III.3.1. What does the economic literature say about the integration of SMEs in CVGs?

There is very little literature available on this subject. On the theoretical level, “the “New” New Trade Theory” driven by Melitz's work (2003²⁰), whose central assumption is the heterogeneity of companies²¹, shows why some firms export and others do not: according to this theory, companies must have a certain level of productivity to be able to cover the sunk costs associated with entering the export market. Therefore, according to this type of model, only the most productive companies will export. For the Evolutionist Theory that focuses on technological change, the ability of firms to absorb and acquire new technologies determines the probability that they will export and their evolution on the export market. At the same time, the empirical literature has shown that the most productive and innovative firms are the largest ones. These theoretical insights therefore confirm what one might intuitively assume: **SMEs are at a disadvantage compared to large companies for the integration of GVCs.**

However, it is essential for developing and emerging companies that GVCs be accessible to small exporting companies and not just large ones: this involvement of SMEs in international production networks provides an opportunity to create a positive link between the inclusive dimension of growth and the international integration of countries. Secondly, given the place of SMEs in these economies, this involvement can contribute to improving the competitiveness of the entire production system. Finally, it could be a unifying, structuring and stimulating objective for the development of relations between domestic companies, in particular between large companies and SMEs, to develop their indirect exports in particular.

²⁰ Many variants of the model initially proposed by Melitz have been developed. For a summary of this literature, see the chapter “Heterogeneous Firms and Trade”, Melitz & Redding (2015).

²¹ Companies are heterogeneous because they have different marginal costs (i.e. the increase in costs resulting from the creation of an additional production unit is specific to each firm), which implies that companies have different levels of productivity.

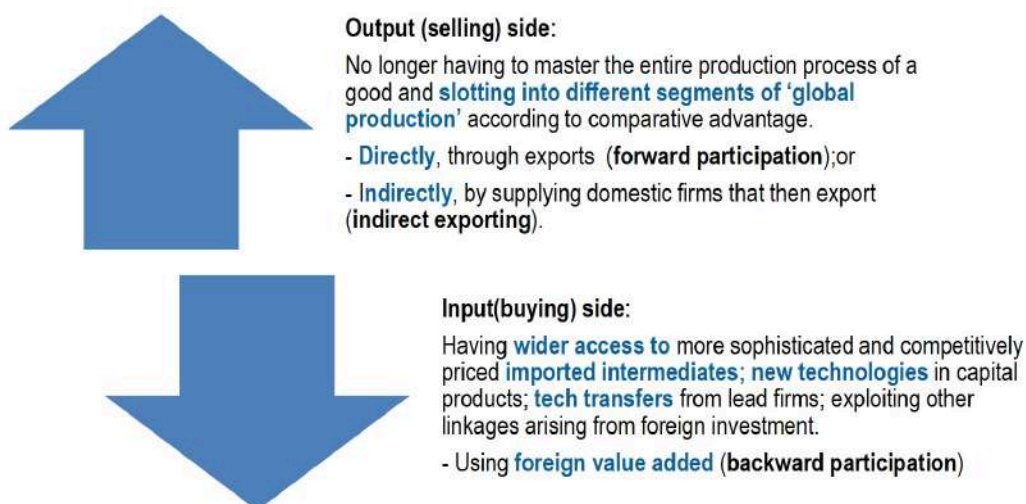
III.3.2. What can SMEs gain from GVCs?

SMEs integrate a GVC either as a buyer of imported intermediate goods, or as a vendor of intermediate or final (or at least quasi-final) goods to other companies, or most frequently as both. As illustrated in Figure 7, the potential contributions of GVCs are of two types, depending on whether the company's participation in the GVC is backward or forward.

- Backward participation, means that exporting domestic firms use imported intermediate goods, thus providing SMEs in developing or emerging countries with access to more sophisticated inputs, integrating a higher technological level than domestic inputs. We know that this access to better quality intermediate consumption increases the productivity of companies, regardless of their size (Bas & Strauss-Kahn 2015, Augier *et al.* 2013). This effect on productivity and on the general dynamics of the company is partly related to the types of relationships that exist between the foreign firm and the domestic SME, which also raises the question of governance. In some cases, the foreign company may participate in employee training, provide help to bring manufactured products up to standard and to internationalise the SME.
- Forward participation, as mentioned above, provides companies with new opportunities to access global markets. By fragmenting the production of final goods, GVCs not only expand the number of exportable goods, but also the nature of these goods. Companies may specialise in a segment of the manufacturing process of a product, for which a firm, particularly one operating in a developing or emerging country and, even more so if it is small firm, is more likely to be competitive than if it had to produce a final good. This expansion of the number of exportable intermediate goods provides SMEs with greater opportunities to exploit their comparative advantages in international markets. As for backward participation, the benefits that domestic SMEs can derive depend to a large extent on the relationship established between the foreign company and these SMEs. Here again, foreign companies can partially meet financing needs, participate in upgrading employee skills, improving production processes, setting standards, etc.

In short, **GVCs provide SMEs with greater opportunities to enter international markets. Integrating these GVCs can also help to improve the competitiveness of SMEs and facilitate the upgrading of their goods for export.**

Diagram 7. The contributions of global value chains for SMEs



In the context of the ASEAN Strategic Action Plan, Lopez-Gonzalez (2017) looked at the involvement of SMEs in GVCs; for this purpose, company data was combined with that from the EVA database for 4 countries in the region for which data is available (Indonesia, Singapore, Thailand and Viet Nam). His research shows that SMEs in this region, (i) have a lower backward participation rate than large companies, which means that they tend to use less foreign value added when exporting, (ii) have a higher forward participation rate than large companies, reflecting the fact that they are more specialised in the production of intermediate goods, and (iii) that indirect exports, i.e. sales of intermediate goods to domestic companies that export, represent a significant proportion of their activity. **These indirect exports can play an important role for SMEs because they may be the first step towards future internationalisation.**

Finally, to try to understand how certain SMEs have managed to integrate GVCs, certain studies have sought to identify their characteristics. Harvie *et al.* (2010) find that in the case of ASEAN, the distinctive factors are size, productivity, foreign capital share, innovation effort and managerial ability. For Malaysia (Rasiah *et al.* 2010), size and labour productivity are the distinguishing factors for SMEs that have integrated GVCs as compared to those that have not. An econometric analysis conducted by Wignaraja (2013) on a large number of developing and emerging economies, using the World Bank's Business Survey, concludes that the probability that an SME will be involved in a GVC is positively dependent on size, the presence of foreign capital, the level of employee skills, the entrepreneur's experience, the technological capacities present in the company and its access to bank loans. These empirical results are consistent with the conclusions that can be drawn from the theoretical literature summarised above

Following on from the analysis of SME characteristics, we will now focus on the environment and the direct action that can be taken by public authorities to improve it.

III.4. Barriers to the integration of Moroccan SMEs in GVCs

This part is based on a series of interviews with Moroccan SMEs and representatives of business groups, in this instance, la Confédération Générale des Entreprises Marocaines (CGEM), l'Association Marocaine de l'Industrie du Textile et de l'Habillement (AMITH), l'Association Marocaine de l'Industrie de la Construction Automobile (AMICA)²² and l'Association Marocaine des Exportateurs (ASMEX). Two types of questionnaires were developed: one directly for SMEs (Appendix 2) and the other for business representatives (Appendix 3). Box 4 outlines our survey procedure and the sample of companies that were interviewed

Box4. Presentation of the BAD - FEMISE - ISCAE case study

To add to the information that can be obtained from the World Bank's Enterprise Survey and to develop a counterfactual argument, we carried out our own field study, targeting mainly medium-sized exporting companies. Our sample included 100 companies, covering the whole of Moroccan industry, in different cities (Casablanca, Settat, El Jadida, Rabat, Kénitra, Berrechid, Nouasseur, Témara, etc.). The interview acceptance rate was about 30%. Face-to-face interviews were carried out in companies between May and June 2017

Interviews with representatives of business groups were conducted between October and December 2017.

The companies surveyed were divided between 14 sectors, with a slightly higher share in clothing (19%), leather & shoes (19%), electrical equipment (14%), pharmaceuticals (10%) and rubber & plastic (10%). All were located in the Casablanca-Settat area. 76% of them were located in an industrial zone. None of them benefited from a free zone. The number of employees of the companies surveyed ranged from 756 to 4, but the majority of companies had between 50 and 99 employees. Regarding their status, 20% of companies were owned by a larger firm or subsidiary. Half of them were owned

²² The automotive and textile/clothing sectors have been priority sectors in the Emergence Plan and the National Pact for Industrial Emergence. However, their eco-system and their relationship with the principals are very different.

by foreign shareholders, with between 20% and 30% of the company's capital held by foreign shareholders. The other companies were independent. The oldest were created in 1967, and the newest was created in 2014. 66% had international certification (mainly ISO type). Among these companies, about 10% had received technical assistance in the form of an export growth contract over the past 5 years and 20% had received financial assistance in the form of an export growth contract, export subsidies, reimbursement of travel expenses abroad, participation in the financing of exhibitions and training.

Concerning the export activity, 37% of the companies surveyed exported only 1 product, while 18% exported 3. The other companies exported 2, 4, 6, 10 or 45 products. The main export destination was Europe (32% of the destinations shown), followed by Africa (25%), the MENA region (18%), the United States (14%), Japan (7%) and China (4%).

The vast majority of the companies surveyed had self-financed the costs following the launch of their export activities. Only 28% of firms had received a bank loan. In addition, this bank loan was most often accompanied by self-financing. Only 9% financed the costs following the launch of their export business solely through a bank loan. 5% were supported by Maroc Export.

Before discussing integration in global value chains, we will report the overall results we obtained concerning the export and import businesses.

III.4.1. The barriers to export as expressed by Moroccan SMEs and their representatives

For 81% of firms, **developing exports was difficult or very difficult** and for 57% of them, starting out in the export business was considered to be difficult or very difficult.

For 57% of the companies surveyed, the **difficulty of entering markets** was a major or severe barrier to launching their export business. For 38% of them, **the major or severe barriers were obtaining financing, transport costs and burdensome customs procedures**. For 33%, **the cost of hedging against exchange rate risk, the absence of national support bodies, and weak R&D** were cited as major or severe barriers by 33% of firms. Next came **obtaining information on the foreign market, for 29%** (see graph 33). Companies also added, among the constraints: the European certificates required, the cold chain and the budget devoted to the export sector.

The point of view expressed by AMITH representatives was close to that expressed by SMEs. Once again, **weak R&D** was considered to be the most severe barrier, **difficulty in obtaining financing, the cost of hedging against currency risk, and transport costs**. AMITH also considered that there were two additional major barriers: **the difficulty of adapting products to the standards imposed on foreign markets and the difficulty of hiring labour**.

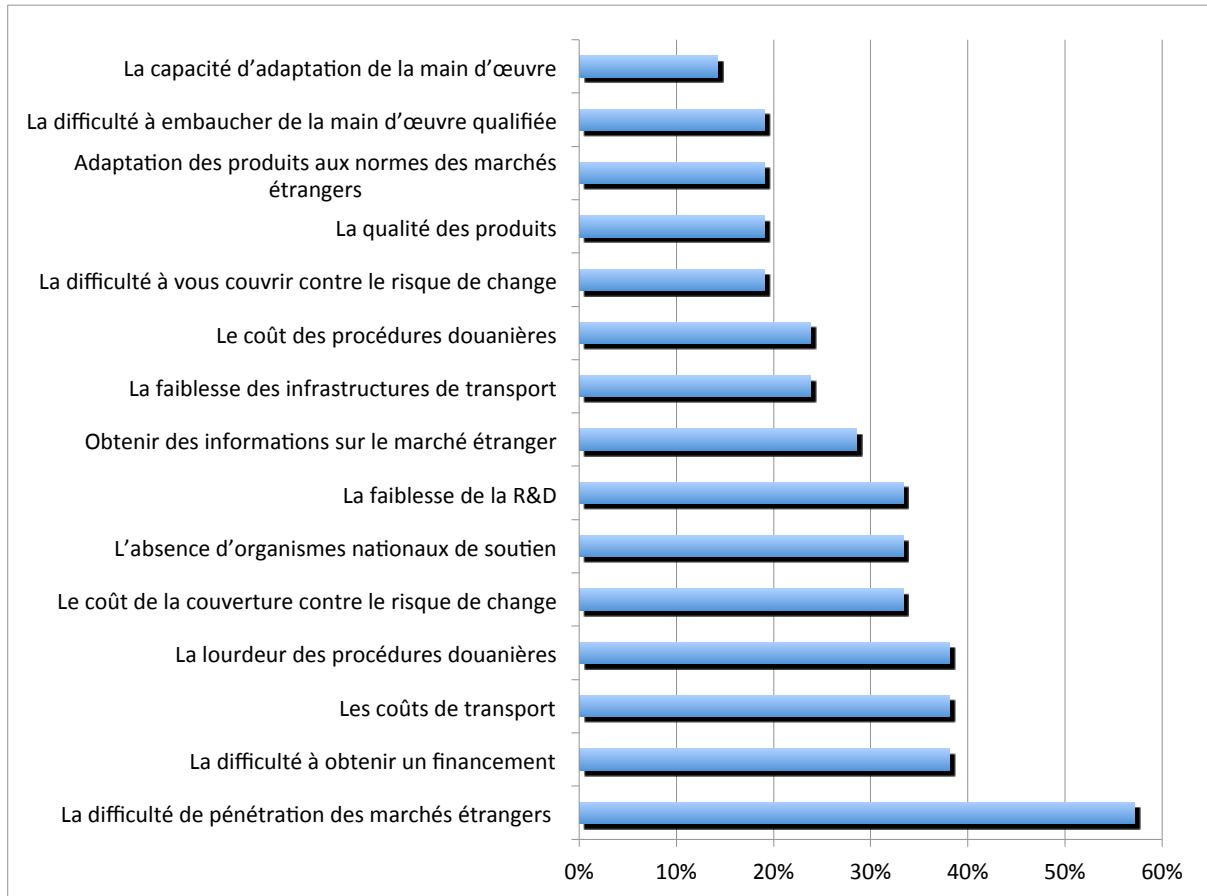
However, the answers given by AMICA representatives differed. They considered that there were no severe or major barriers and that the most limiting ones were merely average barriers. These were, according to them, the difficulty in obtaining financing, the difficulty in hedging against currency risk, the difficulty in obtaining information on the foreign market and the difficulty in penetrating foreign markets.

When asked what economic policy measures would best facilitate the launch of an export business, the answer provided by AMICA representatives was **“the establishment of representatives in the target markets and increasing the resources given to economic advisors of diplomatic representations in foreign countries”**.

To help exporting companies to develop their export market, AMICA recommended **“the organisation of a greater number of prospecting missions and appropriate communication in traditional markets”**.

AMITH representatives considered that, “**the establishment of a specialised bank to finance export businesses** (for example, according to the Eximbank model²³), **the development of aggregators**²⁴ **for export** and **the development of skills for export activities** would be the most useful measures to facilitate the launch of export businesses and the development of companies already working in the export market.

Graph 33. Identification of limiting factors when launching an export business (Percentage of firms perceiving this factor as a major or severe barrier)



Source: Case studies carried out by the authors.

²³ Eximbank (Export-Import Bank of the United States) is a credit agency for American exports. Its objective is to support and encourage exports of American products to world markets. It offers guarantees and insurance on the purchase of goods and services in the USA from economic operators who are unable to bear the exchange rate risk. Eximbanks have been developed in several countries around the world (China, Angola, Turkey, Vietnam, etc.). There is one for Africa (AFREXIBANK) located in Cairo. It has branches in Harare (Zimbabwe) and Abuja (Nigeria).

²⁴ What we mean here by "aggregator" is a relatively large company that exports and has, compared to Moroccan SMEs or VSMEs, a better visibility of the future and the evolution of global markets. Its role is to act as a driver for a group of subcontractors or suppliers, who will be able to export indirectly, through this larger company. The aggregator is able to help its network of suppliers to upgrade, finance their investments and even train employees.

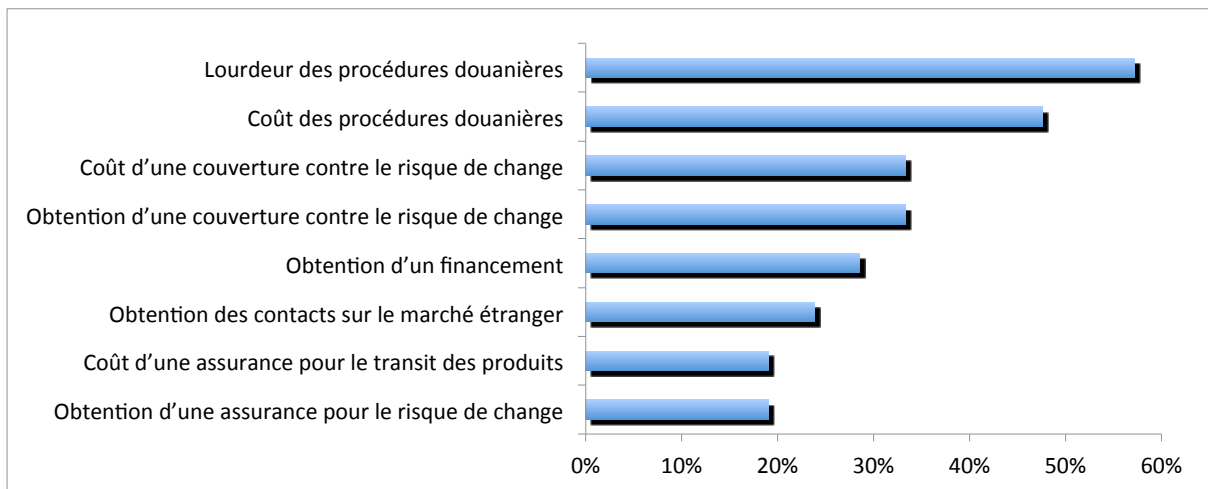
III.4.2. The barriers to importing as expressed by Moroccan SMEs and their representatives

SMEs considered the major or severe barriers to be **the burdensome customs procedures** (perceived as a major or severe barrier by 57% of the companies surveyed), **costs of customs procedures** (pour 48%), **costs of hedging against exchange rate risk** (for 33%), **obtaining currency hedging** (for 33%) and **obtaining financing** (for 29%) (see graph 34).

For AMICA, the greatest barriers to import operations were **obtaining financing** and the **costs of hedging against exchange rate risk**.

The point of view of AMITH representatives on the issue of imports was quite different. They considered that there were no significant barriers to import operations and that governments should follow a policy to promote “the **local production of imported products and industrial compensation**”.

Graph 34. Identification of the barriers to import operations (percentage of companies perceiving the element to be a major or severe barrier)



Source: Case studies carried out by the authors.

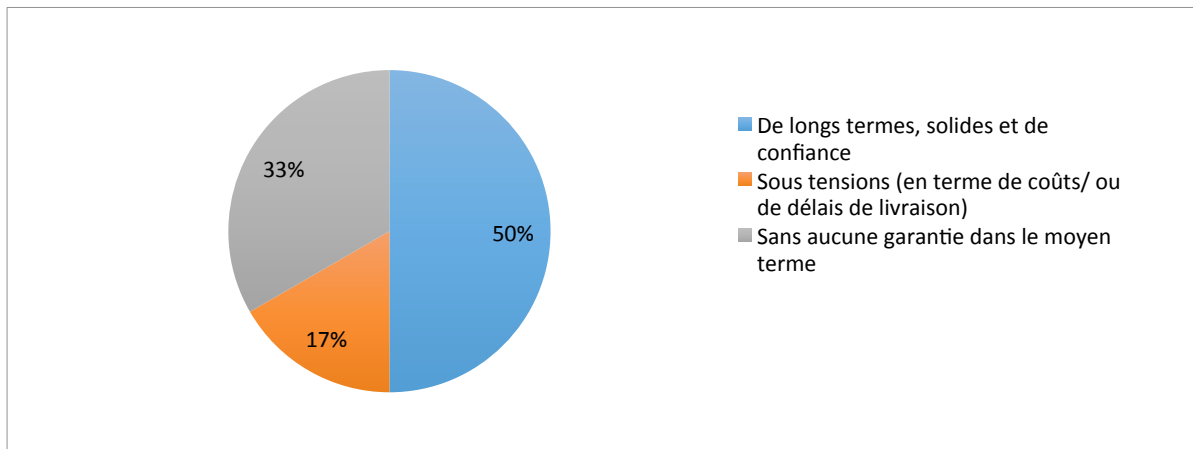
III.4.3. Barriers to the integration of value chains as expressed by Moroccan SMEs and their representatives

Just under half of the companies surveyed were part of a value chain and their number of principals ranged from 0 to more than 50. Both business federations, AMITH and AMICA, considered that **Moroccan SMEs are not sufficiently integrated into international value chains**, which corroborates Morocco's estimated level of integration presented above.

Even for SMEs that are not integrated in a value chain, the principals are quite often multinational companies. The relationship with the principals generally takes the form of commercial partnerships.

Concerning the type of relationship with principals, **50% of companies described them as long-term, solid and trustworthy relationships**, **33% considered them to be without any guarantee in the medium term** and **17% consider them to be subject to tension** (in terms of costs or delivery times, etc.) (see graph 35).

Graph35. Type of relationship with principals

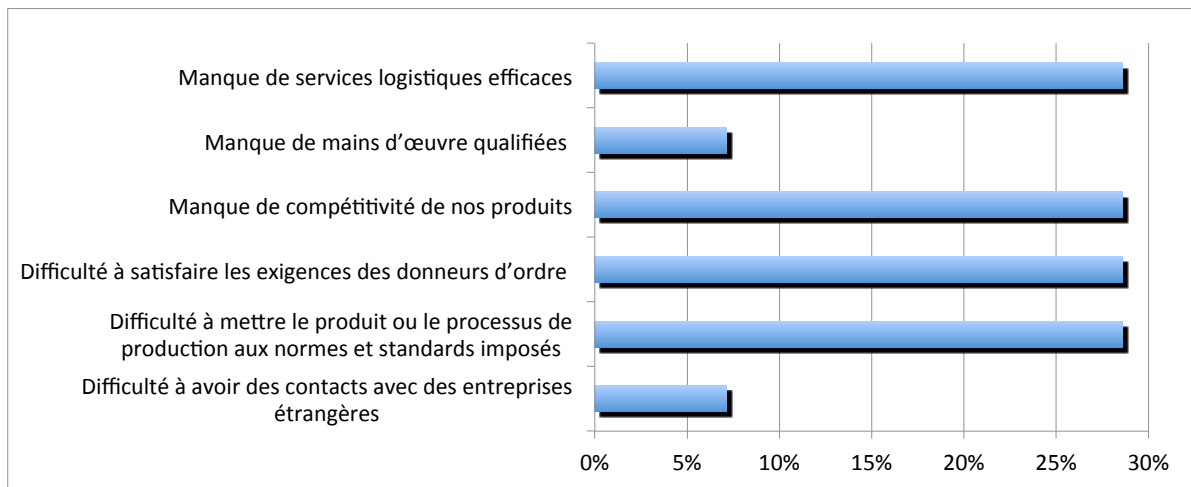


Source: Case studies carried out by the authors.

Companies were first asked about the difficulties they encounter with their clients. 4 types of difficulty were identified as great or very great by about 30% of companies. These were: **the lack of efficient logistics services, the lack of product competitiveness, the difficulty in meeting the contractors’ requirements and the difficulty in bringing the product or production process up to the required norms and standards** (Graph 36).

AMICA and AMITH representatives generally noted the same difficulties (with the exception of the lack of competitiveness of Moroccan products) and also added the lack of skilled labour.

Graph 36. Difficulties with principals as perceived by Moroccan companies



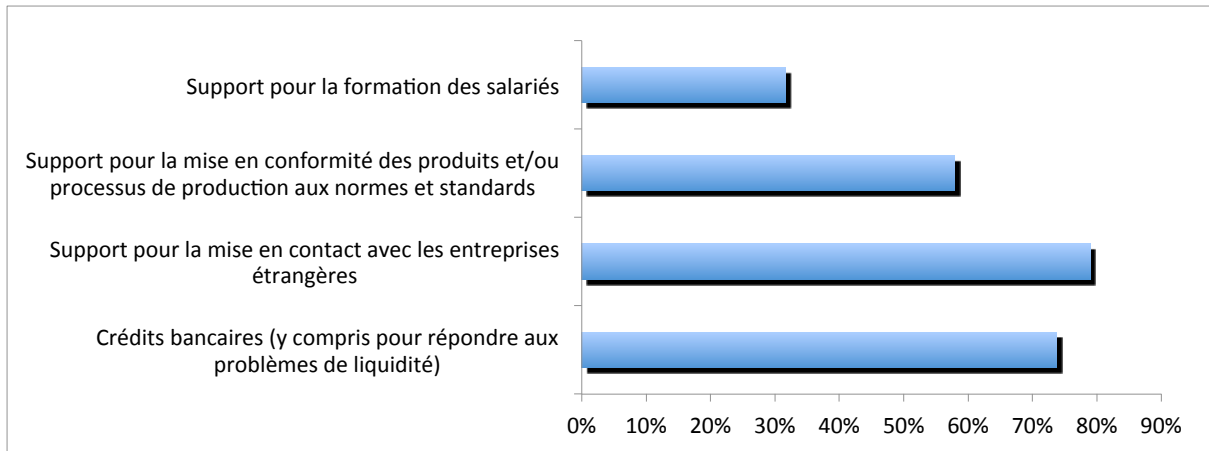
Source: Case studies carried out by the authors.

When asked what SMEs most need to help them integrate GVCs, the most common answer (almost 80%) was **help to make contact with foreign companies**, followed by the **need for bank loans** (74% of responses) and **support for bringing products and/or production processes into compliance with norms and standards** (58%). The need for support to train employees represented only 32% of the responses. (see graph 37)

These four types of needs were also expressed by AMITH and AMICA. When asked what economic measures would best facilitate the integration of SMEs in global value chains, AMICA believed that it would be necessary to, (i) “**look at the key operating principles of other businesses and identify the company’s own limits and barriers with regard to these** (such as, for example, the lack of real-time warehouse stock management, the requirement for delivery within 48 hours for some customers, etc.)” and, (ii) “**analyse the needs and purchasing behaviour of customers through the marketing**

and sales functions”. According to AMITH, “**facilitating, encouraging and supporting industrial investment project leaders and FDI**” were the measures that would best facilitate the integration of SMEs in GVCs.

Graph 37. Requirements to integrate GVCs as expressed by companies



Source: Case studies carried out by the authors.

III.4.4. The impacts of integrating value chains on Moroccan SMEs

In 36% of the companies that replied, examples of the principal’s intervention were to carry out audits, verify the implementation of European production standards and ethical and social standards, provide technical assistance or carry out a social audit.

For more than half of the companies surveyed, integration in a GVC had had a positive effect on the company's financial results, mainly thanks to improved product quality (46% of responses), improved ability to export to new markets (38%) and better productivity (15% of responses).

However, **25% of companies considered that integrating a GVC had negative effects** on the company due to greater competition, requirements imposed by principals who "pass on and outsource must be dedicated to something other than pure productivity and workshop performance. An increasing amount of paperwork/reports/control must be carried out for the principals, without any financial return on these additional tasks (material control, site audit, survey on production before export / special quality control according to each country / lab analyses, etc. ...)", and postponements of delivery times.

III.4.5 Summary of results

Overall, as expected, export barriers appear to be far greater than import barriers.

- **For imports**, the main barriers would be cumbersome customs procedures, the cost and availability of currency hedging and financing.
- **For exports**, the main barriers would be the ability to penetrate markets, obtaining financing, transport costs, cumbersome customs procedures, the cost of hedging against exchange rate risk, weak R&D, difficulties in adapting products to the standards imposed on foreign markets and the difficulty in hiring qualified labour.

It may be noted that companies seeking to export or develop their markets come up against a high number of barriers.

Regarding their relationships with clients, Moroccan SMEs face 5 major difficulties: the lack of efficient logistics services, the lack of product competitiveness, the difficulty in meeting customer requirements, the difficulty upgrading the product or production process to comply with imposed norms and standards and the lack of qualified manpower.

The greatest needs expressed by companies to help them integrate GVCs were: support for establishing contact with foreign companies, the need for bank loans and support for upgrading products and/or production processes to comply with imposed norms and standards.

IV. Public policy recommendations

In the context of increasing living standards and wages in Asian countries, companies will no doubt be tempted to take their business to countries where labour costs are lower. Environmental issues, rising energy costs and other concerns relative to business strategy (such as the need for quality) are likely to lead European countries to prefer relocations that are geographically closer, thus opening up new opportunities for countries such as Morocco. However, the ability of companies to integrate, remain and progress in global value chains depends largely on the quality of the overall environment developed by public decision-makers.

This study has identified **the 5 main areas** in which improvements could significantly help Moroccan SMEs to join the international playing field. **These are logistics, financing, market knowledge, human resources and innovation.** The proposed recommendations are based on information gathered from interviews and work sessions with operators and representatives of business associations. They also result from discussions held during a study day organised in Casablanca²⁵ which brought together operators, academics, senior civil servants, representatives of public bodies (CNEA, AMDIE, Maroc Export, SMAEX, etc.), representatives of business associations (CGEM, AMICA, AMITH, ASMEX), students and journalists.

IV.1 Logistics

The question of **logistics** includes multiple dimensions: transport time, costs, quality (especially when products need to be refrigerated), service efficiency and reliability, quality of road, rail, maritime or air infrastructure, etc. It thus covers the organisation of transport, the actual transport of goods, warehousing and storage, meaning both services and infrastructures. These issues concern both domestic logistics and cross-border trade (export and import logistics). A number of empirical studies have shown that transport infrastructure plays an important role in the integration of countries in value chains and that, the quality of regional infrastructure (i.e. taking into account neighbouring countries) is a particularly important factor (Shepherd, 2016, Saslavsky et Shepherd, 2012)²⁶.

The implementation of the national logistics competitiveness strategy, over the period 2010-2015, led to a number of improvements²⁷. Among others, we may note the creation of the AMDL (Moroccan Logistics Development Agency), the development of logistics platforms within industrial zones, the mobilisation of private funds (between 20 and 25% of investments for the construction of quality logistics buildings were made by private operators) and an increase in the logistics training offer (from 2,500 places in 2010 to more than 7,200 in 2014-15).

²⁵ This Study Day entitled "Integration of Moroccan exporting SMEs into global value chains: constraints and opportunities" was organised at ISCAE on 22 February 2018 (Casablanca) in collaboration with the AfDB, CGEM, IM and FEMISE. It was an opportunity to present the main findings of the report and to discuss the proposals for economic policy recommendations.

²⁶ Other studies can be mentioned. Freund and Rocha (2011), for example, estimate that each additional day added to the time required for a good to pass from seller to buyer, was equivalent to 1.5% additional tax. Djankov, Freund et Pham (2010) show that an additional day of export time reduces bilateral trade by at least 1%. Hoekman et Shepherd (2015) show that SME exports were more sensitive to a decrease in the time required to export than exports from large companies. The role of time spent obtaining trade certifications in cost reduction is also highlighted, particularly for intermediate goods, which are the type of goods that are the main components of value chains (Feenstra et Ma, 2014; Zaki, 2015).

²⁷ For a more in-depth analysis of the assessment of the national logistics competitiveness strategy and the constraints faced by Moroccan SMEs, see the AfDB analysis entitled "Logistics Constraints to SME Development in Morocco". (2017).

However, these programmes have mainly benefited two regions: Greater Casablanca (with DH 3.2 billion invested between 2010 and 2016, a logistics offer that has increased by a factor of 3.5) and Tangier (with DH 0.5 billion invested over the same period).

Transport infrastructure has also been developed in recent years. Morocco has 33 ports (13 of which are dedicated to foreign trade). In 2017, Morocco's maritime connectivity ranking rose from 84, before the opening of the Tangier Med port, to 16. In just a short time, Tangier Med's capacity was doubled. Although Morocco has 15 airports (Casablanca being the first hub between Europe and Africa), as well as 2,109 km of railways (with, in 2018, the creation of the Tangier - Casablanca line, the first High Speed train in Africa), these means of transport are largely underused for freight, as 90% of freight is transported by road.

The recommendations relative to logistics are as follows:

- At the national level, it would be useful to **review the design of integrated platforms (P2i) to tailor them to the needs of SMEs** (many empty platforms, prices are high, need for more rental opportunities while most of them are for sale, purchase of platforms mobilizes corporate capital that cannot be used elsewhere, etc.), in order to **encourage SMEs to group together in specific zones to rationalise the cost of services**. Generally speaking, logistics services are not adapted to SMEs (and even less to VSEs), particularly in terms of costs.
- At the national level, once again, these integrated logistics zones should be closer to living areas (housing, schools, transport, etc.). The idea here is to bring greater coherence to housing policy and the location of industrial areas and transport (not only of goods but also of people).
- At the international level, it would seem urgent to **align a freight development strategy (maritime, air, road) with the Authorities' stated commercial ambitions**, whether in terms of relations with sub-Saharan Africa or integration in global value chains. How can economic actors develop trade with Africa without a robust road network, defined sea routes and adequate air freight? Finally, to avoid placing companies in untenable situations – such as that of banning the shipping of citrus fruits to Europe even before the season has begun because the quotas set have already been reached – it would be necessary to improve the coordination between the private sector and the senior officials who negotiate freight agreements.

IV.2 Finance

With regard to **trade finance**, it is widely acknowledged that access to finance is a key factor for the development of firms and also for their integration in GVCs, in particular for SMEs.

Access to finance for SME growth could be improved, (i) **by extending the Support Fund system** to mitigate the negative effects of late payments on businesses, (ii) **by developing methods of funding that are complementary** to bank loans (capital market, microfinance, venture capital, etc..) and (iii) **on behalf of SMEs, by improving accounting and financial practices**, in particular by mainstreaming a reliable and mandatory accounting certification system to provide banks with more accurate risk assessments.

With regard to the financing of international trade, it could be beneficial to **increase public - private bank co-financing** with credit lines dedicated to the internationalisation of SMEs, **to create a specialised public bank** (as has been done in many countries with, for example, BpIFrance, Eximbank in the United States, China, Asia, etc.), to set up an insurance and hedging system against exchange rate risks (similar to COFACE in France) and to **ensure the evaluation of actions carried out by public bodies** (Morocco SME, AMDIE, etc.).

IV.3 Market knowledge

To improve **market knowledge**, the proposals are as follows: (i) establish representatives in target markets,, (ii) increase the resources allocated to economic advisers undertaking diplomatic missions in foreign countries, (iii) organise a greater number of prospecting missions, (iv) create an international market monitoring system to prepare for market targeting (v) identify, at the local level, companies that wish to integrate the targeted markets (already in compliance with standards, for example, with products that are adapted and competitive to meet the targeted demand, etc.) and support for SMEs that are not sufficiently advanced in the upgrading process to prepare them for target market integration et, (vi) more generally speaking, to increase Moroccan exports, one should not rely solely on isolated international opportunities but **favour a structured approach based on market penetration and GVC integration.**

IV.4 Innovation

Regarding **innovation**, it would be necessary to **promote technology transfer through the creation of links between foreign direct investment and SMEs (joint-ventures, co-production agreements, creation of databases of potential local suppliers according to products and services to promote business partnerships)**, improve / continue / strengthen actions in favour of innovation and more generally R&D, to create partnerships between universities and the private sector, better assess the specific needs of companies in the field of innovation and continue to attract foreign direct investment that creates jobs and co-production agreements (e.g. by facilitating dividend remittances).

IV.5 Human capital

Finally, regarding **human resources** and, more specifically, the difficulty for companies to hire skilled labour, it is commonly acknowledged that skilled and well-trained employees condition the ability of companies to absorb technological progress incorporated in imports and that they also condition the ability to adapt when integrating global value chains. Also, in order to raise the value of human capital, we recommend that a priority be given to the following actions: (i) **better identify the needs in relation to the country's strategic development choices**, i.e. better align sectoral strategies with the provision of training and to adopt a general approach based on the development of skills ; (ii) **encourage young people to work in SMEs** by, for example, mainstreaming social responsibility charters to help build a trustworthy relationship between employees and their employers, helping to improve the governance of SMEs and develop their human resources ; (iii) **facilitate student mobility** ; (iv) **develop professional training while taking into account the specific constraints of SMEs**. For example, it may be difficult for a small company to use existing systems to train their employees because they cannot do without their employees for extended periods of time; (v) **develop entrepreneurship training** to promote the emergence of SMEs with good internal management skills.

As we have seen, there are a large number of support and assistance schemes for SMEs and VSEs in Morocco, in the form of financing, support or insurance systems. These systems are generally well designed and there is no doubt as to their value. However, we do believe that it would be useful to carry out an audit on their overall coherence and on the question of access to information, concerning these mechanisms, by SMEs and regardless of their location. We would also stress the importance of a systematic and regular evaluation of all these systems.

Finally, we must underline the very positive role played by the different forms of industrial compensation²⁸, or more broadly, that of offsets (creation of joint-ventures, technical assistance agreements, co-production agreements, etc..) which act transversally across the above 5 fields by encouraging the development of new industrial activities, upscaling and technological transfers. An agency dedicated to offsets could help to boost Morocco's industrial fabric while facilitating the integration of Moroccan companies within global value chains.

²⁸ On industrial compensation, see the CGEM Information Guide of March 2014.

Appendix 1

The 10 areas covered by Doing Business to assess countries' business environments

Starting a business

Doing Business identifies all the procedures officially required or commonly performed, as well as the time and cost involved in starting an industrial or commercial business, including the payment of the minimum capital required.

Obtaining a construction permit

Doing Business records all the procedures, time and costs that are necessary for the construction of a commercial warehouse by a construction company. Since last year, Doing Business has introduced a new measure, the Construction Quality Control Index. This index assesses the quality of building regulations, the effectiveness of quality control and safety mechanisms, liability and insurance regimes for hidden defects, and professional certification requirements. Information is collected through a questionnaire administered to construction experts, including architects, civil engineers, construction lawyers, construction companies, utility service providers and officials responsible for construction regulation, including approvals, issuance of building permits and inspections.

Connection to electricity

Doing Business lists all the procedures that a company must perform in order to obtain a permanent electrical connection and the supply of a standard warehouse. These procedures include applications to and contracts with power companies, all inspections and authorisations to be sought from power companies or other organisations, and connection and commissioning work. The study divides the electricity connection process into different procedures and measures the time and cost associated with each of these procedures.

Transfer of ownership

Doing Business tracks all the procedures, delays and costs for a company (the buyer) to buy a property from another company (the seller), including the transfer of title to the buyer's name, so that the buyer can use the property as security to take out new loans for the expansion of his business, and, if necessary, transfer ownership to another business. Doing Business also measures the quality of the land administration system in each economy. This index has five dimensions: infrastructure reliability, information transparency, geographical coverage, land dispute resolution and equal access to property rights.

Obtaining loans

Doing Business assesses the legal protection of borrowers and lenders in secure transactions using a set of indicators, as well as the reporting of credit information using another indicator. The first set of indicators examines whether certain measures to facilitate lending exist within applicable pledge and bankruptcy laws. The second series measures the coverage, scope and accessibility of credit information available from credit reporting agencies, such as credit bureaus or credit registers.

Protection of investors

Doing Business assesses the level of protection of minority investors, in the event of conflicts of interest, through a set of indicators and shareholders' rights in corporate governance. The data are based on a questionnaire submitted to business and corporate lawyers and are based on securities regulation, corporate law, civil procedure and evidence rules.

Payment of taxes and duties

Doing Business takes into account all taxes and duties, including the mandatory contributions that are deducted or paid by medium-sized companies each year, the administrative work required for their payment and compliance with post tax return procedures. The taxes, duties and contributions identified include, in particular: profit or corporate income tax, social security contributions and employer's charges paid by the employer, property tax, transfer taxes, dividend tax, capital gains tax,

financial transaction tax, rubbish collection tax and motor vehicle and road taxes and any small taxes, duties or miscellaneous charges.

Cross-border trade

Doing Business lists the delays and costs associated with the logistics of exporting and importing goods. In accordance with the new methodology introduced this year, Doing Business measures the time and costs (excluding customs duties) associated with three categories of procedures — compliance with documentation requirements, cross-border trade and internal transport procedures — which are part of the overall process of exporting or importing a cargo of goods.

Enforcement of contracts

Doing Business measures time, the cost for the resolution of a commercial dispute by a court of first instance and the quality of judicial proceedings index, assessing whether each economy has adopted a set of good practices that promote the quality and efficiency of the judicial system. Data is collected from the study of civil procedure codes and other court regulations as well as questionnaires completed by local lawyers and judges.

Insolvency settlement

Doing Business examines the timeliness, cost and outcome of insolvency proceedings for domestic companies, and the soundness of the legal framework for liquidation and receivership proceedings. Data for insolvency settlement indicators is obtained from survey responses provided by local lawyers and court administrators, and verified through a review of existing laws and regulations, as well as public information on insolvency proceedings.

Source: doingbusiness.org

*Doing Business also assesses some aspects of labour market regulation, but does not take them into account in the distance to frontier score or in the ease of doing business score

Appendix 2

Integration of Moroccan industrial SMEs within global value chains

Questionnaire for exporting Moroccan SMEs

I- Respondent profile:

<p>Surname and first name:</p> <p>Position within the company:</p> <p>Name of company:</p> <p>Address of company:</p>

II- General information:

1- In which business sector does your company operate? (tick the branch)

- 10 Food industries
- 11 Manufacture of beverages
- 12 Manufacture of tobacco products
- 13 Manufacture of textiles
- 14 Clothing industry
- 15 Leather and footwear industry (except leather clothing)
- 16 Woodworking and manufacture of wooden and cork products, except furniture; manufacture of straw articles plaiting materials
- 17 Paper and cardboard industry
- 18 Printing and reproduction of recordings
- 19 Coking and refining
- 20 Chemical industry
- 21 Pharmaceutical industry
- 22 Manufacture of rubber and plastic products
- 23 Manufacture of other non-metallic mineral products
- 24 Metallurgy
- 25 Manufacture of metal products, except machinery and equipment
- 26 Manufacture of computer, electronic and optical products
- 27 Manufacture of electrical equipment

- 28 Manufacture of machinery and equipment
- 29 Automotive industry
- 30 Manufacture of other transport equipment
- 31 Manufacture of furniture
- 32 Other manufacturing industries (to be specified):

2- In which region is your company located?

- Rabat- Salé- Kénitra
- Casablanca- Settat

3- Is your company located in an industrial area?

- Yes
- No

If so, mention the name:

4- Is it in a free zone?

- Yes
- No

If so, since which year? If so, mention the name:

5- What is the total number of employees during the 2016 financial year (permanent and temporary)?

6- Is the company:

- An independent company
- A subsidiary belonging to a larger company or group

If yours is a foreign subsidiary, please specify the company's country:

7- What is the share of capital held by foreigners:

8- In which year was the company created?

9- Does the company have an international certification (ISO 9000, ISO 14000, etc.)? Yes No

If so, which ones?

10- What is the total number of products sold by the company ?.....

11- What are these products (specify the name of the products) ?.....

12- What is the turnover for the last fiscal year (2016) ?.....

13- In the last 5 years, has your company received any specific technical assistance?

Yes No

If so:

- Specify the nature of these aids (export audit, export synergia...) :
- Specify the origin of this assistance (international programs, government programs...) :

14- During the last 5 years, has your company received any specific financial assistance?

Yes No

If so:

- Specify the nature of this assistance:.....
- Specify the origin of this assistance (international programs, government programs) :

III- Exports:

15- What is the number of products exported by the company ?.....

16-

Name of product	Destination	Start-up year	Amount of exports (in Dirhams, last fiscal year, 2016)	Type de products			
				Low end	Mid-range	Top end	Innovative products

17- Do you adapt export products to standards imposed on export markets??

Yes No

18- Specify the nature of these standards

- Social Environmental Technical
 Plant health Other:

19- How did you finance the costs following the launch of export activities?:

- Bank loans Self-funding Public subsidies
 Others (please specify) :

20- How did you get the opportunity to export?

- Personal network
 The initiative of an employee in your company
 Contacts obtained at trade fairs where you went at your own initiative
 Contacts obtained at fairs or any other promotional initiatives organized by Maroc Export (or by another national organisations)
 Contacts provided by appropriate national bodies (Morocco Export, Chambers of Commerce, Chambers of Agriculture, etc.), etc.)
 Other:

21- When you export to countries with which Morocco has signed trade agreements,

a. Do your exports benefit from:

- A preferential customs duty : Yes No
 Total exemption from customs duties: Yes No

b. If this is not the case, what is the reason?

- Your exports do not meet the rule of origin (and are therefore not considered as originating from Morocco)
 The procedures for proving the origin of products are too cumbersome
 The costs associated with the procedures to prove origin are higher than the payment of Most Favoured Nation (MFN) customs duties

22- Do you hedge against currency risk? Yes No

If not: Why ?.....

23- Morocco is gradually moving to a flexible exchange rate regime. Do you think this is a good thing for the competitiveness of our SMEs?

- Yes No

b. If not, why?

24- Have you made any arrangements to prepare for this? Yes No

▪ If so, which ones?

▪ If not, why?

25- To which next foreign market(s) do you plan to export to?

26- Do you plan to launch new products in foreign markets?

Yes No

27- Are you aware of the existence of the Label Made in Morocco ? Yes No

▪ If so, do you use this label ? Yes No

▪ Have you noticed any beneficial effects on your company following the use of this Label?

Yes No

▪ What are the positive effects that your company has derived from the use of this Label?

Increase in export turnover Improved product quality

Increase in the number of foreign customers Others (please specify):.....

IV- Barriers to exportation:

28- How would you rate the following actions:

Please rank these elements according to the following scale:

1: Easy

2: Fairly easy

3: Difficult

4: Very difficult

Action	1	2	3	4
Start exporting				
Managing your daily export business				
Developing your exports (new markets, new products etc.)				

29- When you started your export business, what was the greatest barrier for you:

Please rank these elements according to the following scale:

0: Is not a barrier

1: Minor barrier

2: Average barrier

3: Major barrier

4: Severe barrier

Theme	Criterion	0	1	2	3	4
Finance	Difficulty obtaining funding					
	Difficulty hedging against currency risk					
	The cost of hedging against currency risk					
Access to markets	Difficulty obtaining information on the foreign market					
	The difficulty penetrating foreign markets (specify, if applicable, the barriers):.....					
Support / Assistance	Lack of national support organisations					
Logistics	Weak transport infrastructure					
	Costs of transport					
Innovation and R&D	Quality of products					
	Difficulty adapting products to the standards imposed on foreign markets					
	Weak R&D					
Regulations	Burdensome customs procedures					
	Cost of customs procedures					
Human capital	Difficulty hiring qualified labour					
	The adaptability of the workforce					
Others, to be specified (corruption, etc.)					

V- Importations:

30- Does the company import inputs? Yes No

If so: What types of products does the company import?

- Capital goods (machines, etc.)
- Raw materials
- Intermediate consumption
- Others (please specify):

31- Specify the share (as a percentage of total purchases) of each of the following types of purchases in overall purchases:

- Capital goods (machines, etc.): %
- Raw materials: %
- Intermediate consumption: %

32- Since which year has the company been importing:

- Capital goods:
- Raw materials:
- Intermediate consumption:

33- From which countries does the company import?

VI- Barriers to importations:

34- Please rate, according to the following scale, the severity of the following barriers related to your import operations:

- 0: Is not a barrier 1: Minor barrier 2: Medium barrier
- 3: Major barrier 4: Severe barrier

Criteria	0	1	2	3	4
Obtaining funding					
Making contacts in the foreign markets					
Hedging against currency risk					
Cost of hedging against currency risk					
Obtaining hedging cover against currency risk					
Cost of insurance for the transit of products					
Burdensome customs procedures					
Cost of customs procedures					
Others (please specify).....					

VII- Integration in global value chains:

35- Are you part of a global value chain?

- Yes No

36- How many principals do you have?

37- Are these principals multinational companies?

- Yes No

38- What type of relationship do you have with your principals?

- Business partnerships Institutional partnerships
- Short term contracts Others (please specify):

39- How would you describe the relationship with your principals?

- Long-term, solid and trustworthy
- Tense (in terms of costs/ delivery deadlines)
- Without any guarantee in the medium term
- Others (please specify):

40- Please assess the level of difficulties you encounter with your principals, among the following criteria:

0: Very low 1: Low 2: Medium 3: High 4: very high

Criterion	0	1	2	3	4
Difficulty making contact with foreign companies					
Difficulty in bringing the product or production process up to the required norms and standards					
Difficulty in meeting the requirements of the principals					
Lack of competitiveness of our products-					
Lack of skilled labour					
Lack of effective logistics services					
Others (please specify)::					

41- What do Moroccan SMEs need most to help them integrate global value chains?

- Bank loans (including to cope with cash flow issues)
- Support for contacting foreign companies
- Support for products and/or production processes to comply with norms and standards
- Support for staff training
- Others (please specify):

42- Has the principal intervened in the organisation of your company (to train employees, to check certain production processes, to provide you with financial support, etc.)

- Yes No

If so, specify the type of intervention or assistance:

43- Has the integration of a global value chain contributed to improving the company's performance?

- Yes No

If yes, thanks to:

- Improved productivity
- Improved product quality
- Improved capacity to export to new markets

44- Has the integration of a global value chain had negative effects on the company?

- Yes No

If so, which ones?

Appendix 3

*Integration of Moroccan industrial SMEs
in global value chains*
Questionnaire for professional organisations and federations

Surname and first name:

Position within the company:

Name of company:

Address of company:

I. The business environment in Morocco

1- What do you believe to be the greatest barrier to the business and growth of Moroccan SMEs?

For each point/criterion that constitutes a barrier, indicate the degree of severity on a scale of 1 to 4
/

0: Is not a barrier
3: Major barrier

1: Minor barrier
4: Severe barrier

2: Medium barrier

Criterion	0	1	2	3	4
Access to financing					
Access to land					
Formalities for business creation					
Corruption					
Courts					
Crime, theft and violence					
Customs and foreign trade formalities					
Electricity					
Inadequate staff qualifications					
Labour legislation					
Political instability					
Unfair competition from the informal sector					

Tax administration					
Tax rates					
Transport					
Cost of bank loans					
Access to bank loans (e.g. guarantees, conditions), etc.)					
Others (please specify).....					

2- What concrete economic policy measures would best reduce the greatest barrier(s)?

.....
.....

3- A survey of companies revealed that, according to the perception of Moroccan firms, the greatest barrier to their daily operations and development was corruption. In your opinion, what is the concrete reality of this barrier?

.....
.....
.....
.....

4- What concrete economic policy measures would be most effective in reducing this corruption-related barrier?

.....
.....
.....
.....

II- Exportations:

5- In your opinion, what provides companies with the opportunity to export?

- Their personal network
- Initiatives taken by the companies' employees
- Contacts following trade fairs where the company manager goes on his own initiative
- Contacts following fairs or any other promotional initiatives organised by Maroc Export (or by another national organisation or associations)

Connections established with the help of by appropriate national bodies (Morocco Export, ASMEX, Chambers of Commerce, Chambers of Agriculture, etc.)

Other:

6- Do you think that companies generally hedge against currency risk?

Yes No

If not, why?.....

7- Morocco is gradually moving to a flexible exchange rate regime.

a. Do you consider this to be a good thing for the competitiveness of SMEs?

Yes No

b. If not, why?

8- Do you think companies are taking steps to prepare you for this?

Yes No

▪ If yes, which ones?

▪ If not, why?

III- Barriers to exportation:

9- How would you rate the following actions:

Please rank these elements on the basis of the following scale:

1: Easy 2: Fairly easy 3: Difficult 4: Very difficult

Action	1	2	3	4
Start exporting				
Manage your daily export business				
Develop exports(new markets, new products, etc.)				

10- When companies start exporting, what do you think is the greatest barrier:

Please rank these elements on the basis of the following scale:

0: Is not a barrier

1: Minor barrier

2: Medium barrier

3: Major barrier

4: Severe barrier

Theme	Criterion	0	1	2	3	4
Finance	Obtaining funding					
	Making contacts in the foreign markets					
	Hedging against currency risk					
Access to markets	Difficulty of obtaining information on foreign markets					
	Difficulty of penetrating foreign markets (specify, if applicable, the limiting factors) :					
Support / Assistance	Lack of national support organisations					
Logistics	Weakness of transport infrastructures					
	Cost of transport					
Innovation and R&D	Quality of products					
	The difficulty of adapting products to the standards imposed on foreign markets					
	Weakness of R&D					
Regulations	Burdensome customs procedures					
	Cost of customs procedures					
Human capital	Difficulty hiring qualified labour					
	The adaptability of the workforce					
Others, to be specified (corruption, etc.)					

11- What concrete economic policy measures would best facilitate :

- The launch of export business by companies?

.....

.....

- The development of export business for companies already exporting?

.....

.....

IV- Barriers to importations:

12- Please rate the severity of the following items related to import operations on the following scale:

- 0:** Is not a barrier **1:** Minor barrier **2:** Medium barrier
3: Major barrier **4:** Severe barrier

Criterion	0	1	2	3	4
Obtaining funding					
Making contacts in the foreign markets					
Hedging against currency risk					
Cost of a currency hedging					
Obtaining hedging cover against currency risk					
Cost of insurance for the transit of products					
Burdensome customs procedures					
Cost of customs procedures					
Others (please specify)...					

13- What concrete economic policy measures would best facilitate business imports?

.....

.....

V- Integration in global value chains:

14- Do you think that Moroccan SMEs are sufficiently integrated within international value chains?

- Yes No

15- Do you consider that the relations of exporting SMEs with their principals are:

- Long-term, solid and trustworthy
- Tense (in terms of costs/ delivery deadlines)
- Without any guarantee in the medium term
- Others (please specify):

16- Please assess the level of difficulty encountered by exporting SMEs with their principals, based on the following criteria:

0: Very low **1:** Low **2:** Medium **3:** High **4:** Very high

Criterion	0	1	2	3	4
Difficulty establishing contact with foreign companies					
Difficulty upgrading products or processes to comply with imposed norms and standards					
Difficulty meeting the principals' demands					
Products are not sufficiently competitive					
Lack of qualified labour					
Lack of effective logistics services					
Others (please specify):					

18- What do Moroccan SMEs need most to help them integrate global value chains??

- Bank loans (including to mitigate cash flow problems)
- Support in making contact with foreign firms
- Support in upgrading products and/or production processes to comply with norms and standard
- Support in training employees
- Others (please specify):

19- What concrete economic policy measures would best facilitate the integration of SMEs in global value chains?

.....
.....

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