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GLOBAL INDEX OF  
ECONOMIC OPENNESS



# Economic Openness

Morocco Case Study

2020

# CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

## ABOUT THE LEGATUM INSTITUTE

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The Legatum Institute is a London-based think-tank with a bold vision to create a global movement of people committed to creating the pathways from poverty to prosperity and the transformation of society.

We seek to do this by raising up leaders of character, restoring an ethical vitality to all sectors of society, and developing the practical solutions and data tools that will help build inclusive and peaceful societies with open economies and empowered people.

- Our Centre for Metrics creates indexes and datasets to measure and explain how poverty and prosperity are changing.
- Our Research Programmes analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our Practical Programmes identify the actions required to enable transformational change.

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## FOREWORD



**Stephen Brien**  
Director of Policy,  
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Our mission at the Legatum Institute is to create the pathways from poverty to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focused on understanding how prosperity is created and perpetuated. Prosperity is much more than material wealth; it also encompasses welfare, security, wellbeing, freedom, and opportunity. Without an open, competitive economy, however, it is very challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential. That is why we view Economic Openness as so important, even in these uncertain times.

With the generous support of the Templeton World Charitable Foundation, we have created a Global Index of Economic Openness to rank over 150 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. Our ambition is that it becomes a valued tool for leaders and advisers around the world, to help set their agendas for economic growth and development. As part of this programme of work, we are undertaking a series of in-depth country case studies based on the Index, including this report on Morocco in which we analyse its performance in the key characteristics of openness to trade, investment, ideas, competition, and talent.

While the coronavirus pandemic has brought much global economic activity to a halt, trade between countries, regions, and communities will be fundamental to the advance of the innovation, knowledge-transfer and productivity that creates economic growth and prosperity. The spread of free trade has enabled more and more people to participate in commerce, allowing them to move from subsistence farming towards a more stable and prosperous existence. More recently, the technological revolution has enabled millions of people to take part in commercial, political, and social discourse thanks to the accessibility and affordability of new technology. Our research shows that economically open countries are more productive, with a clear correlation between increased openness over time and productivity growth. In contrast, in an uncompetitive market, or one that is not designed to enhance the engagement and wellbeing of all, growth stagnates, protected industries become entrenched, and crony capitalism thrives.

While most policymakers focus on the big fiscal and macroeconomic policy tools at their disposal, the microeconomic factors are sometimes overlooked, and their potential to drive openness and growth is underestimated. A notable feature of this Index is a focus on these microeconomic drivers of productivity. By bringing the full range of disparate policy choices that influence and drive openness and competition together in one report, we hope to shift the focus of policymakers, in Morocco and around the world, towards the broader implications of microeconomic policy by emphasising the relationship between productivity and Economic Openness.

On many metrics, Morocco has made good social and economic progress over the last few decades. Its income per capita has increased by 70% in real terms since the turn of the Millennium, and poverty rates have fallen by 40% over the last 10 years. A new constitution in 2011 has set the foundation for further progress, and the recent launching of a Commission for the New Development Model demonstrates the ongoing commitment to further reform.

However, Morocco faces big challenges. Like the rest of the world, the current coronavirus pandemic will mean less trade and larger government deficits for some time. This will add to the challenge of the nation's economic growth, which has been slowing over the last two years. This creates numerous pressures, not least of which are the increased government expenditure, pressure on the labour market, and increased demand for public services.

Despite these challenges, Morocco is well placed to play a leading role in greater Economic Openness across the Maghreb. Morocco has continued to liberalise foreign trade through a wide range of trade deals. It has a strong finance sector, and there have been significant reforms to strengthen intellectual property rights and investor protections.

However, to take advantage of this Morocco will need to find the model that enables the domestic engines of economic growth to flourish. They are currently constrained by poor domestic market contestability and a labour market that is restrictive and burdensome compared to competing nations. This has also contributed to a high rate of informality in the Moroccan economy.

In common with many peer countries, corruption has also been an ongoing challenge, although the government has shown commitment to tackling this issue. For Morocco to move beyond middle-income status, the issues of contestability in the economy and the links between the government and business should be reviewed.

As we have prepared these case studies, we have found that tackling such reforms is never straightforward or politically easy. For Morocco at this point in time, it is especially so, given the major global challenge of the coronavirus. Furthermore, there will always be powerful interest groups that benefit from the status quo and try to impede change.

Nevertheless, we see much cause for optimism. Morocco's important trade arrangements, political stability, and improving infrastructure provide a strong foundation. The government continues to identify a range of economic and legal reforms that will lead to improvements, and we expect the Commission for the New Development Model to provide impetus for further development. We are hopeful that, even in these times, Morocco will be able to start laying the foundations for greater Economic Openness in the coming years.

A handwritten signature in black ink, appearing to read 'Stephen Brice'. The signature is fluid and cursive, with a large initial 'S' and 'B'.





## EXECUTIVE SUMMARY

This report is part of a series of case studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness.

Over the last decade Morocco has been through significant change. In late 2010 the Arab Spring began to sweep across the region, and in Morocco it led to the King introducing a new constitution in 2011. Our Index reveals a picture of a Morocco that has made progress on many fronts since then, climbing in the rankings on three out of our four pillars.

Infrastructure has been improved: virtually the entire population now has access to reliable electricity, and over two-thirds of the population can access the internet as a result of the expansion of competitive mobile networks. Morocco has continued to extend its trading networks by pursuing a wide range of trade deals and through the construction and expansion of the largest container port in the Mediterranean.

The government has also improved the investment environment significantly, through a major revision of the insolvency code in 2018 and by strengthening intellectual property protection. Furthermore, a range of reforms have improved enterprise conditions by substantially reducing the amount of time spent complying with regulation and tax obligations.

Morocco has made significant progress since the turn of the Millennium. GDP per capita has grown by more than 70% in real terms. Between 2012 and 2017, the absolute and relative poverty rates fell from 7.1% to 1.4% and from 21.4% to 19.7%, respectively.<sup>1</sup> Public finances have also been prudently managed.

However, Morocco's ranking for governance has declined. The country ranks poorly for political accountability and government effectiveness, and has seen declines for executive constraints, the rule of law, and regulatory quality. Insufficiently strong governance threatens the progress made elsewhere and highlights the partial implementation of reforms. Morocco's governance issues are often intertwined with market competition, or the lack of it, with state-owned enterprises accounting for a large proportion of economic activity. This, together with financial linkages between the government and major private enterprises, can mean some governance reforms struggle to take root. The economy is characterised by a range of highly concentrated markets, which are often the result of government interventions that restrict entry, facilitate dominance, or create an unlevel playing field.

There is also a large informal and poorer Morocco, with estimates of as much as 40% of all employment being informal.<sup>2</sup> Much of this economy is rural, with the Moroccan government estimating relative poverty at 8% in urban areas, compared to 38% in rural areas in 2017. International visitors and investors may only see the more developed, urban Morocco, where business and political interest align to allow growth. However, beyond this nexus there is a less developed economy that would also benefit more fully from government policy.

This is not generally a recipe for widespread prosperity. Even before the economic impact of the coronavirus pandemic, progress had been slowing; the rate of increase in GDP per capita during 2010-2019 was half that of the previous ten years. Large state-owned enterprises may be able to

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1 "Indicateurs De Suivi Du Développement Humain. Niveau & Tendances à l'échelle Nationale Et Régionale. 2012-2017". *Royaume du Maroc Le Chef du Gouvernement and Observatoire National du Développement Humain*.

2 "An Estimation of the Informal Economy in Morocco" *Bourhaba Othmane and Hamimida Mama, International Journal of Economics and Finance; Vol. 8, No. 9; 2016*

make significant progress on infrastructure, and international companies are attracted to specific areas of Morocco by government incentives. However, the economic system would benefit from more scope for a dynamic, innovative private sector that can allow small effective businesses to challenge for new markets and spread prosperity.

Among a range of exogenous challenges now facing Morocco, two stand out. In the shorter-term, the impact of the coronavirus pandemic threatens both Morocco's dynamic international trade and the large tourism sector. A key long-term challenge is the impact of a recent drought on Morocco's large agricultural sector which has highlighted the country's susceptibility to climate change. While Morocco has a lot of strengths with which to navigate these difficult waters, this report highlights the areas where further reform would prepare the country to build on those strengths and take the next step in economic development.

This report focuses on structural drivers of Economic Openness. We assess the extent to which it has four fundamental characteristics of open economies:

**Market Access and Infrastructure**, such that products and services can be easily produced and delivered to customers;

**Investment Environment**, such that domestic and foreign sources of finance are widely available;

**Enterprise Conditions** that ensure markets are contestable and free from burdensome regulation;

**Governance** that is underpinned by the rule of law, in addition to government integrity and effectiveness.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.<sup>3</sup> This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

## MARKET ACCESS AND INFRASTRUCTURE (MOROCCO RANK: 64<sup>TH</sup>)

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Morocco ranks 64<sup>th</sup> for Market Access and Infrastructure, up four places over the last decade. Infrastructure has improved significantly in particular sectors such as a competitive mobile phone market which has driven up high quality internet access and strong growth in the capacity and quality of seaports, in particular the Tanger-Med port that is now the port with the largest capacity for shipping containers in the Mediterranean region and Africa. Morocco has also continued to liberalise foreign trade through a wide range of trade deals. However, Morocco faces a serious challenge from environmental pressures on its water resources, and an uncompetitive broadband market constrains Morocco's economic development.

## INVESTMENT ENVIRONMENT (MOROCCO RANK: 68<sup>TH</sup>)

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Morocco ranks 68<sup>th</sup> for its Investment Environment, improving 13 places over the last decade with the country rising in the rankings for every element of this pillar. There have been significant reforms to strengthen intellectual property rights and investor protections, improving the confidence with which businesses can invest and innovate in the country. The financing ecosystem is a particular strength for Morocco. Financial sector soundness and the number of commercial bank branches have seen notable improvements, although financing for small and



medium sized enterprises and access to alternative financing could allow further development. Morocco still has some restrictions on international investment that could constrain development, such as capital controls, restrictions on foreign ownership of companies in some sectors, and barriers to obtaining work visas.

## **ENTERPRISE CONDITIONS (MOROCCO RANK: 70<sup>TH</sup>)**

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Morocco ranks 70<sup>th</sup> for Enterprise Conditions, a rise of 23 places from 10 years ago, due predominantly to impressive progress in lowering the burden of regulation through reforms that have reduced the amount of time spent complying with regulation and tax obligations. The environment for business creation has slightly improved, with reforms focused on the ease of starting a business, albeit from a relatively low base. A substantial decline in energy subsidies has also caused a significant reduction in price distortions. However, two major issues constrain Morocco's economic development. The first is that domestic market contestability is poor and worsening. Some important sectors are highly concentrated, and there is a high degree of state participation in the economy with market rules serving to restrict entry, facilitate dominance, or create an unlevel playing field. The second major constraint on Enterprise Conditions is the restrictive and burdensome labour market. Morocco ranks 96<sup>th</sup> for labour market flexibility, with a range of restrictive labour market regulations contributing to a high rate of unemployment and large informal sector.

## **GOVERNANCE (MOROCCO RANK: 98<sup>TH</sup>)**

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Morocco ranks 98<sup>th</sup> for Governance and has fallen 16 places over the last decade, with declines across every element of Governance in our Index. Morocco ranks significantly below comparator countries such as Ghana (55<sup>th</sup>), Indonesia (62<sup>nd</sup>), Rwanda (64<sup>th</sup>), and Tunisia (65<sup>th</sup>). A new constitution was introduced in 2011 and, while yet to significantly improve Morocco's rankings for Governance, it has created a potential pathway to a new era which could — in the long run — see the results of these systemic changes. There is a perception that executive constraints contained within the constitution are not sufficiently strong in practice. The government's effectiveness could benefit from better accountability and stronger governance, which would in turn lower corruption. There are a range of issues with the court system, and there has been a significant deterioration in how experts view the enforcement of regulations in the country over the last few years. The last parliamentary election in 2016 reduced parliamentary fragmentation, and recent reforms show some promising signs on tackling corruption, such as reforms aimed at making public procurement fairer and safer and a new law to protect whistle-blowers.

## **LOOKING FORWARD**

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Morocco's future will be defined not only by the domestic choices it makes, but also by its reaction to major exogenous challenges such as environmental pressures and the pandemic. Its extensive trade deals, political stability, and improving infrastructure provide a strong foundation for development. The government continues to identify a range of economic and legal reforms that will lead to improvements. However, Morocco may remain stuck as a middle-income country if the deterioration in the quality of governance, and the intertwined issue of state-owned enterprises, is not addressed.

The dual challenges of the pandemic and climate change are likely to provide a temptation for more state intervention and control. However, these challenges call too for innovation, change, and flexibility that could only come from greater economic openness in sectors currently dominated by companies in which the state has an interest. Progress for many in Morocco is also only likely to come from reforms that allow many more to move into the formal economy.



## Summary of recommendations

### ***Morocco could continue to invest in infrastructure, with a particular focus on high-tech infrastructure and water resources***

- Invest in the expansion of its broadband network, and continue to invest in improving the density of road and rail infrastructure.
- Morocco has significant opportunities to mitigate the impacts of challenges from declining rainfall, including through:
  - Continuing programmes investing in sustainable irrigation infrastructure.
  - Continuing to take measures to improve the efficiency of water use.
  - Expanding efforts to recycle wastewater and build desalination capacity.

### ***Morocco could steadily increase the role of the private sector in key sectors of the economy and open its agricultural markets***

- Opportunities for state-owned enterprises to benefit from privileged access to markets should be reduced.
- Regarding domestic market contestability Morocco should:
  - Embed competition principles in key enabling sectors such as energy and telecommunications by lifting entry barriers that protect incumbents and reinforcing the role of sector regulators.<sup>4</sup>
  - Ensure competitive neutrality, so that all organisations, whether privately or publicly owned, face the same set of rules.<sup>5</sup>
  - Strengthen public procurement through a clear strategy and associated funding for the National Commission for Public Procurement.
- Gradually open agricultural markets, because agriculture constitutes one of the engines of Morocco's economy. An agricultural strategy should offer better opportunities for small and large operations to transform the agrifood sector into a stable source of growth, competitiveness, and economic development in rural areas.

### ***The labour market could be made more flexible to address high levels of informality, and skills better matched to jobs available***

- Slow the increase of the minimum wage.
- Lower costs of redundancy and make it easier for small businesses to use redundancy.
- Further extend flexibility on temporary contracts.
- Consider introducing a more comprehensive form of unemployment insurance, in exchange for making practices for terminating employment contracts more relaxed.

### ***By strengthening its governance Morocco could underpin more growth***

- Establish legally independent regulators in all utility sectors that can effectively set and enforce existing regulations. These regulators should have a strategic steer from government but no executive branch representation on their boards.
- Through draft law 46-19 (and further measures if necessary) continue to strengthen the role of the anti-corruption body, the National Commission for Integrity and Anti-Corruption, fostering its independence and access to resources. Continue reforms to the judiciary by, for example, providing greater investment in courts and training for judges.

4 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" *World Bank Group*. 2019, p.8.

5 *Ibid*, p.38.







# INTRODUCTION

This case study on Morocco is part of a series of studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness, and comparing the performance of over 150 countries. The purpose of this report is to provide a holistic and systematic assessment of the policy environment underpinning the Moroccan economy and, in doing so, help to identify specific actions that would improve Economic Openness in Morocco.

Defining Economic Openness and measuring its positive effects on prosperity is now a critical task. The benefits of globalisation and Economic Openness have been questioned in the wake of the global financial crisis. We continue to see the impact of the crisis on the public debate 10 years on, in the rise of nationalism and populist politics across the Western world — further exacerbated by the coronavirus pandemic.

The degree of connectivity, the exchange of ideas, and the levels of cross-border trade, and commerce recovered in the decade since the crisis, prior to the most recent shock. Trade between communities, countries, and regions continued to spread innovation and transfer knowledge, to boost productivity, and ultimately foster economic growth.

The coronavirus epidemic has shown both how fragile the system of international trade is, but also its fundamental importance to global prosperity. Therefore, coming out of the current global crisis, one of the choices for policymakers who are seeking to ensure sustainable prosperity is to resist protectionism, and instead reinvigorate the trade liberalisation agenda. In the aftermath of the financial crisis, when global trade flows slowed dramatically, many governments in both developed and developing countries contemplated a range of measures to protect their domestic industries and producers from international competition. It is important that governments do not resort to this after the current crisis.

There is a risk that short-term measures taken to mitigate against the immediate economic impacts of coronavirus, such as financial support provided to industry, could be hard to reverse. However, we are hopeful that governments around the world will recognise that open, dynamic economies are the best route to prosperity for their populations.

Reforms to address these challenges are neither straightforward nor politically easy. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are privileged interest groups that have much to gain out of the status quo, for example, through unfair and non-transparent access to government contracts. Enacting these reforms calls for courage and addressing those vested interests. Furthermore, it requires building agreement around policies that lead to an open and prosperous economy.

This case study reviews the performance of the Moroccan economy, and then examines the policy environment in which it is operating to identify the underlying strengths and weaknesses, as well as highlighting opportunities for improvement.

## **Context**

We have chosen Morocco as an example of a country that has a close intertwining of its major businesses with political power and that has been somewhat successful. Morocco illustrates the types of progress and the types of problems that such a system creates. Large scale infrastructure has improved, as has the environment for small scale business. But good governance, and the benefits that flow from it, are continually undermined by a political elite that is also powerful in economic terms. This worsens the potential for corruption and hampers income growth and a large informal sector of the economy continues to exist. The benefits of such a system also tend

to accrue to the politically powerful, which in Morocco tends to mean the urban, metropolitan areas. The rules and reforms tend not to help poorer, rural areas develop. The leaders of Morocco have recognised that there is scope for further reforms to the country's economic model, establishing the Special Commission on the Development Model (CSMD) in 2019.<sup>1</sup> We hope this report provides helpful insights by taking an international comparative lens to identify the areas where the largest opportunities for beneficial reforms lie.

Looking back over the last two decades the Moroccan economy has generally been stable, and significant progress has been made. GDP per capita has grown over 70% in real terms since the turn of the Millennium and figures published by the Moroccan government suggest the absolute poverty rate fell from 7.1% to 1.4% between 2012 and 2017, with relative poverty also declining to 19.7% from 21.4% over the same time period.<sup>2,3,4</sup>

The country has seen relatively strong macroeconomic management during the past decade. Thanks to prudent monetary policies and declining import prices, inflation has remained low and controlled under 2%.<sup>5</sup> There were five years of strong fiscal consolidation efforts to improve public finances from 2014-2018, but the fiscal deficit widened anew in 2019 to an estimated 4.1% of GDP, driven mainly by lower than forecasted corporate tax revenue and grants from the Gulf Cooperation Council, and by increased spending on goods, services, and capital expenditures.<sup>6</sup>

However, even before the impact of the pandemic, progress had been slowing. In common with other countries in the Maghreb region, there was a burst of fast progress from 2000 until the global financial crash of 2008, with significantly slower progress seen both in the lead up to and aftermath of the 2010 Arab Spring.<sup>7</sup> The rate of increase in GDP per capita in Morocco during 2010-2019 was half that of the previous ten years.<sup>8</sup> Most recently, Morocco's economic growth has been on a downward trend, driven mainly by falling agricultural output caused by water stress associated with the recent drought.<sup>9,10</sup> This highlights that Morocco is susceptible to the impact of climate change, due to its large agricultural sector. Also, the negative economic impacts of the coronavirus pandemic on both government receipts and spending requirements means that the fiscal deficit is now projected to deteriorate to more than 6% of GDP in 2020.<sup>11</sup>

The Moroccan economy also exhibits low productivity when compared to the MENA (The Middle East and North Africa region) average. The most recent World Bank data shows that value added per worker (all figures in 2010 prices) in the major economic sectors is:

- Agricultural, forestry and fishing: \$4,000 in Morocco compared to \$7,000 on average in the MENA region,
- Industry: \$13,000 compared to \$46,000 in the MENA region. This figure includes the oil industry in the MENA region. Comparable figures for the manufacturing sector alone are not published by the World Bank, however value added by manufacturing accounts for 17%

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1 "La Commission Spéciale Sur Le Modèle De Développement" Available at: <https://www.csmd.ma/>

2 Measured using purchasing power parity rates.

3 "GDP per capita, PPP (constant 2017 international \$) – Morocco". World Bank Data. Available at: <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?end=2019&locations=MA&start=2000> (Accessed on August 6 2020).

4 "Indicateurs De Suivi Du Développement Humain. Niveau & Tendances à l'échelle Nationale Et Régionale. 2012-2017". Royaume du Maroc Le Chef du Gouvernement and Observatoire National du Développement.

5 Morocco Overview (1 May 2020)". World Bank. Available at: <https://www.worldbank.org/en/country/morocco/overview> (accessed on 28th July 2020).

6 Ibid.

7 Konrad Adenauer Stiftung (2017) Smart Development Strategy for the Maghreb.

8 "GDP per capita, PPP (constant 2017 international \$) – Morocco". World Bank Data. Available at: <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?end=2019&locations=MA&start=2000> (Accessed on August 6 2020).

9 Morocco Overview (1 May 2020). World Bank. Available at: <https://www.worldbank.org/en/country/morocco/overview> (accessed on 28th July 2020).

10 "African Economic Outlook 2020". *African Development Bank Group*, 2020.

11 "COVID-19 Crisis in North Africa: The Impact and Mitigation Responses", United Nations Economic Commission for Africa, 2020.

Morocco GDP as compared to 14% on average in the MENA region,

- Services: \$13,000 compared to \$21,000 in the MENA region.<sup>12</sup>

There is also a relatively low rate of entrepreneurial activity. Only 5.6% of Morocco's adult population are either in the process of starting or have recently started a business, compared to a MENA average of 10.8%.<sup>13</sup>

Overall, the diversity of Morocco's exports is in line with other countries of a similar income level, with its largest goods exports in low and moderate complexity products — agriculture and textiles respectively.<sup>14</sup>

The labour market is another challenge for Morocco. Although the country has improved its ranking on Labour Market Flexibility in our Index, it still ranks only 96<sup>th</sup> for this element. The World Bank states that Morocco's labour market is characterized by three key challenges:<sup>15</sup>

- i. Lack of inclusion: Young people and women are less integrated into the labour market. Female labour force participation is particularly low (23%) and demographic changes mean that Morocco will see an increase in the working age population as 46% of the population was under 25 years old as of 2017.<sup>16</sup>
- ii. Slow job growth: Job creation has not been sufficient to absorb the inflow of working-age people. Formal employment is concentrated in older and larger firms, while small and medium enterprises face numerous constraints to operate and expand.
- iii. Low quality of jobs: Informality dominates the labour market. The growth of non-agricultural employment is slow, and employment in the services sector is concentrated in low-skilled services.

Before the coronavirus pandemic, the unemployment rate was already elevated at 9.2% and labour force participation has been experiencing a protracted decline to below 46%.<sup>17</sup> This has been holding back progress for particular groups, and for Morocco as a whole.

Now Morocco faces two substantial, yet distinct, exogenous challenges. The coronavirus pandemic outbreak and the effects of drought are expected to cause a recession this year with a projected fall in real GDP of 4%.<sup>18</sup> The post-pandemic economic recovery is projected to be a protracted one, with growth only returning to the pre-pandemic trend by 2022 with particularly severe, if uncertain, consequences for the country's tourism sector.<sup>19</sup>

The economic impact of coronavirus is also expected to see the poverty rate increase by at least 1 percentage point, if not more, which means an additional 300,000 Moroccans are expected to fall into poverty and almost 10 million Moroccans are expected to be at risk of falling in to poverty from even a small negative economic shock.<sup>20,21</sup>

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12 "Value Added Per Worker (constant 2010 US\$). World Bank Data. Available at: <https://data.worldbank.org/country/morocco>. Accessed 11 August 2020.

13 "Middle East and North Africa Report 2017", Global Entrepreneurship Monitor.

14 "Atlas of Economic Complexity: Morocco". *Harvard Growth Lab*. <https://atlas.cid.harvard.edu/countries/134>. Accessed on August 11, 2020.

15 "Labor Market in Morocco: Challenges and Opportunities" *World Bank*, 2018.

16 "Le marché du travail au Maroc : défis et opportunités" (2017) *Haut-Commissariat au Plan et la Banque mondiale*, 2017.

17 Morocco Overview (1 May 2020)". World Bank. Available at: <https://www.worldbank.org/en/country/morocco/overview> (accessed on 28th July 2020).

18 "Middle East and North Africa Report 2017", Global Entrepreneurship Monitor.

19 "Morocco Overview (1 May 2020)". World Bank. Available at: <https://www.worldbank.org/en/country/morocco/overview> (accessed on 28th July 2020).

20 Using a poverty line of 3.2 USD in purchasing power parity terms.

21 "Social and Economic Impact of the Covid 19 Crisis on Morocco" *UNDP, UNECA and World Bank*, March 2020.

This could worsen another important part of Morocco's economy: the urban versus rural divide. The Moroccan government found that between 2012-2017 relative poverty decreased from 10.3% to 8.2% in urban areas, but in rural areas the rate increased from an already high rate of 37.3% to 38.2% in the same time period.<sup>22</sup>

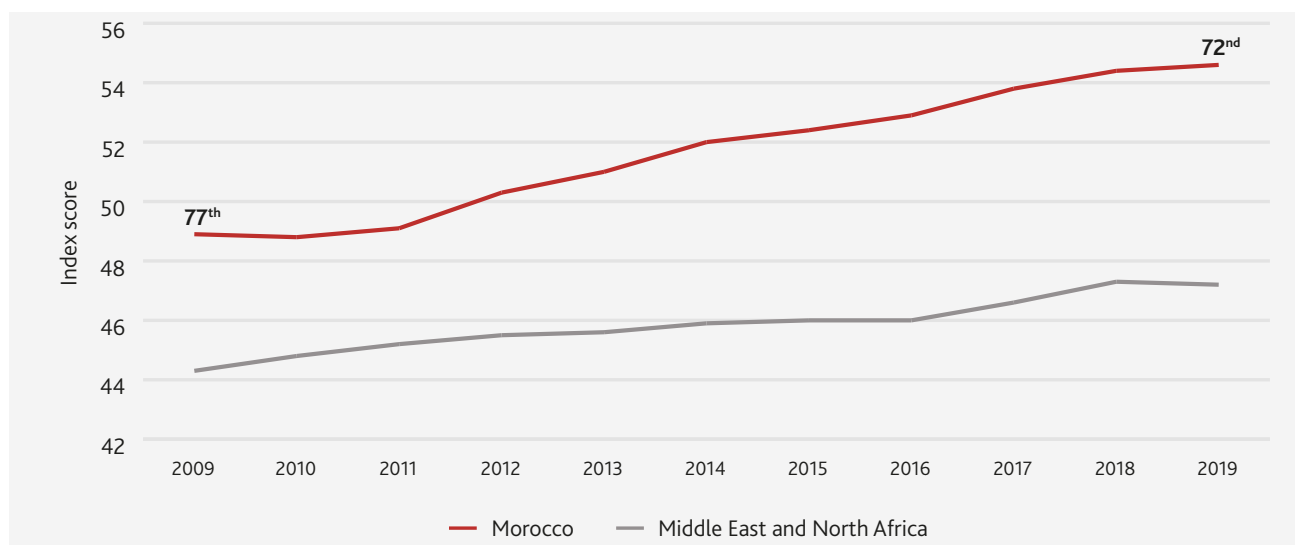
Morocco's future will be defined both by the internal choices and reforms it makes and its reaction to exogenous factors, such as environmental pressures and the pandemic. Its extensive trade deals, political stability, and improving infrastructure provide a strong foundation for development. The government continues to identify a range of economic and legal reforms that will lead to improvements. However, Morocco may remain stuck as a middle-income country if the decline in the quality of governance and the economic distortion caused by large state-owned enterprises are not addressed.

The dual challenges of the pandemic and climate change are likely to provide a temptation for more state intervention and control. However, these challenges call too for innovation, change, and flexibility that could only come from greater Economic Openness in sectors currently dominated by companies in which the state has an interest. Progress for many in Morocco is also likely to be linked to the success of reforms to allow many more to move into the formal economy.

## ANALYSING MOROCCO'S ECONOMIC OPENNESS

In analysing Morocco's Economic Openness, we examine past performance, present conditions, and identify how the government might capitalise on opportunities and neutralise potential threats moving forward. Morocco ranks 72<sup>nd</sup> globally in terms of Economic Openness and 9<sup>th</sup> in the Middle East and North Africa region (see Figure 1).

Figure 1: Economic Openness score



<sup>22</sup> "Indicateurs De Suivi Du Développement Humain. Niveau & Tendances à l'échelle Nationale Et Régionale. 2012-2017". Royaume du Maroc Le Chef du Gouvernement and Observatoire National du Développement Humain.



Our assessment of Morocco's Economic Openness is based on its rankings in global datasets from sources such as the World Bank, World Economic Forum, and International Monetary Fund. (For a complete list of data sources see the appendix.) The analysis of Morocco's performance in this report focuses on what we consider to be the key drivers of economic wellbeing across the world. These are organised around four pillars:

**Market Access and Infrastructure** measures the quality of the infrastructure that enables trade (including Communications, Transport, and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, and commercialised, ultimately benefitting consumers by providing greater variety of goods at more competitive prices.

Morocco ranks 64<sup>th</sup> for Market Access and Infrastructure, up four places over the last decade. Internet access (through mobile phones) and transport infrastructure has improved significantly, and Morocco has continued to liberalise foreign trade through a wide range of trade deals. However, Morocco faces a serious challenge from the impact of environmental pressures on its water resources, and an uncompetitive broadband market constrains Morocco's economic development.

**Investment Environment** measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections, and Contract Enforcement, as well as the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

Morocco ranks 68<sup>th</sup> for its Investment Environment, improving 13 places over the last decade with the country rising in the rankings for every element of this pillar. There have been significant reforms to strengthen intellectual property rights and investor protections, and the financing ecosystem is a particular strength for Morocco. However, Morocco still has some restrictions on international investment that constrain development in this area.

**Enterprise Conditions** measures how easy it is for businesses to start, compete, and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Morocco ranks 70<sup>th</sup> for Enterprise Conditions, a rise of 23 places from 10 years ago, due predominantly to impressive progress in lowering the burden of regulation. The environment for business creation has also slightly improved and a substantial decline in energy subsidies has also caused a significant reduction in price distortions. However, domestic market contestability is poor and worsening, due to the large role of the state in many sectors. Furthermore, there is a restrictive and burdensome labour market.

**Governance** measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's Governance has a material impact on its prosperity. The Rule of Law, strong institutions, and Regulatory Quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Morocco ranks 98<sup>th</sup> on Governance and has fallen 16 places over the last decade, with deteriorations across each element of Governance in the Index, despite the introduction of a new constitution in 2011. Government effectiveness could benefit from better accountability and

improved coordination, which would in turn lower corruption. There has also been a deterioration in how experts view the enforcement of regulations in the country over the last few years.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.<sup>23</sup> This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

Over the last 10 years Morocco's Economic Openness has improved, gaining five places in the global rankings. However, this rate of improvement has been uneven, with significant progress on the Investment Environment and Enterprise Conditions in the country (and some elements of Market Access and Infrastructure) being undermined by a serious deterioration in the state of Governance.

Morocco's ranking highlights the risks of not reforming as well as the opportunity; the impact of the coronavirus pandemic and from environmental pressures will highlight the divides in Moroccan economic success.

The following chapters examine in detail Morocco's performance across the four pillars and the discrete elements that constitute our measure of Economic Openness. We will examine past performance, present conditions, and identify how the government might capitalise on opportunities and neutralise potential threats moving forward.

As part of our analysis, we have chosen a set of regional and global comparator countries that are at a similar level of development, or are there because they provide an aspirational benchmark. From within the MENA region we have chosen Saudi Arabia (56<sup>th</sup>), Turkey (62<sup>nd</sup>), Kuwait (77<sup>th</sup>), Tunisia (87<sup>th</sup>), Egypt (105<sup>th</sup>), and Algeria (123<sup>rd</sup>). From outside the region we have chosen Rwanda (67<sup>th</sup>), Indonesia (69<sup>th</sup>), Colombia (73<sup>rd</sup>), and Ghana (91<sup>st</sup>).

Table 1: Pillars and Elements of Economic Openness

MARKET ACCESS AND INFRASTRUCTURE	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
<ul style="list-style-type: none"> <li>• Communications</li> <li>• Resources</li> <li>• Transport</li> <li>• Border Administration</li> <li>• Open Market Scale</li> <li>• Import Tariff Barriers</li> <li>• Market Distortions</li> </ul>	<ul style="list-style-type: none"> <li>• Property Rights</li> <li>• Investor Protection</li> <li>• Contract Enforcement</li> <li>• Financing Ecosystem</li> <li>• Restrictions on International Investment</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic Market Contestability</li> <li>• Price Distortions</li> <li>• Environment for Business Creation</li> <li>• Burden of Regulation</li> <li>• Labour Market Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Executive Constraints</li> <li>• Political Accountability</li> <li>• Rule of Law</li> <li>• Government Integrity</li> <li>• Government Effectiveness</li> <li>• Regulatory Quality</li> </ul>

<sup>23</sup> See "Global Index of Economic Openness", Legatum Institute, May 2019.





NE RATEZ PAS  
LES BONNES AFFAIRES

SALE

FAITES LE CHOIX DU LEADER, OPTEZ POUR LE MEILLEUR

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## MARKET ACCESS AND INFRASTRUCTURE (MOROCCO RANK: 64<sup>TH</sup>)

*An environment supportive of trade and commerce allows new products and ideas to be tested, funded, commercialised, and delivered easily to customers. Our Market Access and Infrastructure pillar comprises both the critical enablers of trade (Communications, Transport, and Resources) as well as the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions).*

*The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhancing consumer choice. Trade empowers individuals and encourages competition. Offering choices to consumers and businesses about which products and services ideas they can buy domestically and internationally is at the core of free trade.*

*Equally important is the role that trade provides in communicating new ideas and raising productivity.<sup>1</sup> Competition from international trade ensures that even when a business does not export, it is forced to respond to new ideas from the increased competition in domestic markets.*

Morocco ranks 64<sup>th</sup> for Market Access and Infrastructure, up four places over the last decade. Infrastructure has improved significantly in particular sectors, such as a competitive mobile phone market, which has driven up access to high quality internet, and strong growth in the capacity and quality of seaports, in particular the Tanger-Med port which now has the largest capacity for shipping containers on the Mediterranean. Morocco has also continued to liberalise foreign trade through a wide range of trade deals. However, Morocco faces a serious challenge from the impact of environmental pressures on its water resources, and an uncompetitive broadband market constrains Morocco's economic development.

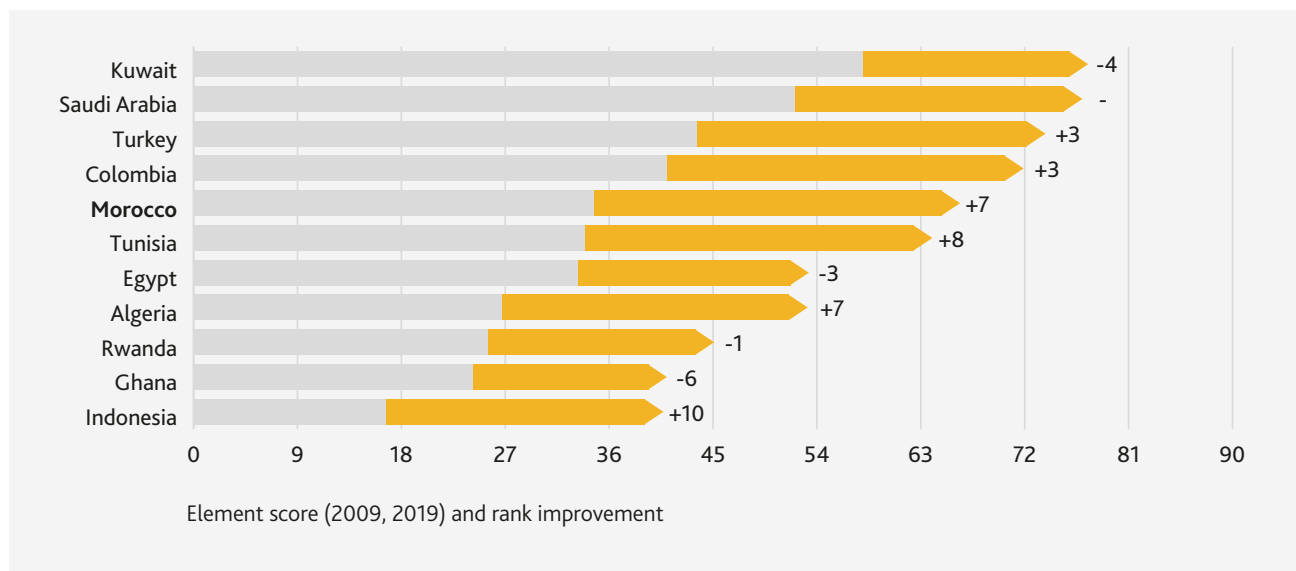
## COMMUNICATIONS (MOROCCO RANK: 74<sup>TH</sup>)

*The free exchange of information, underpinned by good communications infrastructure, is a vital component of Economic Openness. Moreover, the advent of communications technology as an end product has created economic opportunity for innovative companies and countries. Whole societies have been transformed by this evolution in communications technology. Our measure looks at a wide range of forms and measures of communication, from fixed line and mobile telecoms to broadband speeds and penetration rates.*

Morocco ranks 74<sup>th</sup> for Communications, having risen seven places over the last decade. This rise has been driven by marked increases in mobile phone use, with a competitive market delivering affordable and relatively fast connectivity. However, two factors hold Morocco's communications infrastructure back from fast improvement — slow broadband with low subscription numbers and an urban/rural divide.

<sup>1</sup> Sebastian Edwards, "Openness, productivity and growth: What do we really know?" *The Economic Journal* 108, no.447 (1998), p.383-398

Figure 2: Improvements in Communication score in selected countries



Morocco saw a three-fold increase in the penetration of mobile phones between 2006-2018, resulting in 72% of the population now having a mobile phone subscription.<sup>2,3</sup> This in turn has significantly improved internet access. By 2018, over two-thirds of the population had internet access, with mobile internet accounting for 94% of all internet connections.<sup>4,5</sup> The internet is also high quality: the country has been ranked first in Africa in terms of 4G coverage, and with speeds of 33Mbps, Morocco's bandwidth is faster than the global average and most comparator countries.<sup>6,7</sup> Costs are also relatively cheap: Morocco has the 28<sup>th</sup> lowest mobile data cost in the world.<sup>8</sup>

It appears that this success has been driven by increased competition in the mobile market, the encouragement of which has been a key priority for officials overseeing Morocco's ICT sector.<sup>9</sup> The market-share leader, Maroc Telecom, saw their share decline five percentage points between 2012 and 2018, and market competitors Orange and Inwi have innovated with the introduction of LTE-A and upgrade of 4G networks respectively.<sup>10</sup> The introduction of a mobile number portability database by the regulating authority (ANRT) has encouraged this process by enabling users to change operators while keeping their numbers.<sup>11</sup>

However, the picture on broadband is much less positive. Morocco ranks 123<sup>rd</sup> globally for its fixed broadband download speeds (18 Mbps), and fewer than 4% of the population had a fixed broadband subscription in 2019.<sup>12</sup> Although the number of subscriptions increased by 160% over the preceding decade, this is slower than in similar countries.<sup>13,14</sup>

2 "The Report: Morocco 2019". Oxford Business Group. p.183

3 "The Mobile Economy - Middle East & North Africa". GSMA, 2019.

4 Agence Nationale de Réglementation des Télécommunications.

5 "Morocco's fixed broadband market 2019" *Business Wire*, 2019.

6 "The State of LTE (February 2018)". *Opensignal*, 2018.

7 Speedtest Global Index, July 2019.

8 "Worldwide mobile data pricing: The cost of 1GB of mobile data in 228 countries". *Cable.co.uk*. Available at: <https://www.cable.co.uk/mobiles/worldwide-data-pricing/>. (Accessed January 16, 2020).

9 "The Report: Morocco 2019". Oxford Business Group. p.183.

10 Agence Nationale de Réglementation des Télécommunications.

11 "The Report: Morocco 2019". Oxford Business Group. p.183.

12 Speedtest Global Index, July 2019.

13 International Telecommunications Union.

14 Ibid.

Competition in fixed broadband is weak, with Maroc Telecom (which is 22% state-owned) holding a market share of 89% of fixed lines, as of September 2018.<sup>15</sup> As telecommunications are considered a strategic sector for the country, the regulating authority (ANRT), whilst formally independent, acts under the direct supervision of a board of directors comprising the Prime Minister and several other ministers.<sup>16</sup> Risks of interference should be closely monitored to avoid compromising the independence and effectiveness of the regulator when taking and enforcing decisions against the part state-owned Maroc Telecom.<sup>17</sup> There are mixed indications on the power of ANRT. On the one hand ANRT has made decisions regarding access to Maroc Telecom's local loop, but the World Bank reports they are not sufficiently enforced.<sup>18</sup> However, just this year ANRT fined Maroc Telecom 3.3 billion dirhams (equivalent to 10% of its 2018 turnover) for not implementing infrastructure unbundling as required by law.<sup>19</sup> Infrastructure licensing also appears to be a major issue — in contrast to some emerging countries in Central Europe, Morocco has no Internet Access Providers authorised to deploy their own infrastructure.<sup>20</sup>

There is also a marked disparity between urban and rural connectivity: in 2017, over 78% of urban homes had some form of internet access compared to 53% of rural homes.<sup>21</sup> Although this is both mobile and broadband connectivity, a significant reason for this disparity is that the broadband market remains restricted to the country's main urban centres and routes. The World Bank argue that this is due to a lack of competition, incomplete and inefficient regulation, and underinvestment in infrastructure (mainly fixed).<sup>22</sup>

### **Opportunity**

1. Take steps to ensure the decisions of the regulator are independent and fully implemented.
2. Increase competition in the broadband market by, for example:
  - a. Introducing regulation for open and non-discriminatory access to communications networks by telecom operators and alternative infrastructure operators.<sup>23</sup>
  - b. Introducing a regime that authorises market access rather than a licensing regime.<sup>24</sup>
3. Taking inspiration from Eastern Europe, implement reforms to improve fixed-line penetration rates by:
  - a. Promoting private investment in the broadband network by, for example, passing a housing law requiring new buildings to be equipped with optical fibre; and listing and mapping existing infrastructure that could be used to deploy new networks.<sup>25</sup>
  - b. Where incentives for private sector broadband provision are lacking, promote public-private partnerships (PPPs) and use of the universal service fund.<sup>26</sup>

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15 "The Report: Morocco 2019". Oxford Business Group. p.185.

16 "Version consolidée de la Loi n°24-96 relative à la poste et aux télécommunications, telle qu'elle a été modifiée et complétée" *Law 24/96*, available from ANRT website: <https://www.anrt.ma/en/reglementation/lois/telecommunications> (accessed September 2, 2020)

17 "Broadband: the platform of the digital economy and a critical development challenge for Morocco" *World Bank Group*, 2016.

18 *Ibid.*

19 "310 M€ d'amende pour Maroc Telecom" *Econostrum*, February 4, 2020.

20 "Broadband: the platform of the digital economy and a critical development challenge for Morocco" *World Bank Group*, 2016.

21 Agence Nationale de Réglementation des Télécommunications.

22 "Broadband: the platform of the digital economy and a critical development challenge for Morocco" *World Bank Group*, 2016.

23 *Ibid.*

24 *Ibid.*

25 *Ibid.*

26 *Ibid.*



## RESOURCES (MOROCCO RANK: 58<sup>TH</sup>)

*Access to reliable and affordable resources, including water and energy, is crucial for a well-functioning economy. An unreliable energy supply can limit the growth of a potential business and act as an obstacle to effective trade. Our measure of Resources aims to capture the quality, reliability, and affordability of a country's energy network, as well as the access to and use of water resources.*

*Morocco has made significant progress on electricity but faces serious challenges from water stress due to environmental pressures.*

Morocco currently ranks 58<sup>th</sup> globally for Resources, reflecting a fall of 10 places over a 10 year period. Morocco retains a higher ranking than a number of its competitors but, should the trend continue, the Kingdom will soon be outperformed by its peers. Morocco has made significant progress on electricity but faces serious challenges from water stress due to environmental pressures.

There has been significant development in Morocco's electricity industry over the last three decades. Power supply has tripled, and renewable energy has grown to account for one-third of the total.<sup>27</sup> Access to electricity for the entire country has been achieved following the ambitious rural electrification plan, Programme d'Électrification Rurale Généralisé (PERG).<sup>28,29</sup> Reliability is high compared to the average in the MENA region, and the cost of electricity, standing at an average of 12.4 US cents per kWh, is moderately good as it is cheaper than countries such as Colombia, Ghana, and Rwanda, but more expensive than Egypt, Algeria, Tunisia, and Turkey.<sup>30,31,32</sup>

To achieve the increase in access to reliable electricity, Morocco has charted its own distinctive path of power sector reform.<sup>33</sup> The country has selectively introduced private sector participation for generation capacity expansion and electricity distribution, while retaining a strong, state-owned and national power utility operating as a single buyer at the core of the sector. The government set ambitious targets for electricity access, liberalization, and renewable energy investments, which were conceived as an integrated approach to contribute to economic development, by relieving fiscal pressures, reducing external dependence on fossil fuels, and positioning the country as a regional leader in renewable energy, with the world's largest concentrated solar farm.

Until recently there was no independent energy regulator, with regulation carried out by the government directly until the creation of an autonomous regulator, ANRE in 2016.<sup>34</sup> There was also limited competition in energy beyond power generation; although the share of power generation by the national utility ONEE has fallen dramatically from 90% in 1991 to about 30% in 2017, ONEE still dominates electricity transmission and distribution.<sup>35,36,37</sup> This may be a contributing factor to the higher prices than comparator countries in the region.

27 "Usman, Zainab; Amegroud, Tayeb. 2019. Lessons from Power Sector Reforms : The Case of Morocco. Policy Research Working Paper; No. 8969. World Bank, Washington, DC.

28 "Access to electricity, rural (% of rural population) – Morocco" World Bank Data. Available at: <https://data.worldbank.org/indicator/EG.ELC.ACCS.RU.ZS?locations=MA>

29 "What Can Developing Countries Learn from Morocco's Experience with Power Sector Reforms?" *Zainab Usman*, World Bank Blogs, 2019.

30 *Doing Business 2020: Economy Profile Morocco*. World Bank Group, 2020.

31 *Ibid.*

32 "Getting Electricity: Price of Electricity (US cents per kWh)". *Doing Business Data*. World Bank. Available at: <https://www.doingbusiness.org/en/data>. (Accessed April 18, 2020)

33 "Usman, Zainab; Amegroud, Tayeb. 2019. Lessons from Power Sector Reforms : The Case of Morocco. Policy Research Working Paper; No. 8969. World Bank, Washington, DC.

34 *Ibid.*

35 *Ibid.*

36 *Country Nuclear Power Profiles 2018 Edition: Morocco*. IAEA, 2018. Available at: <https://www-pub.iaea.org/MTCD/Publications/PDF/cnpp2018/countryprofiles/Morocco/Morocco.htm> (Accessed August 20, 2020).

37 "Usman, Zainab; Amegroud, Tayeb. 2019. Lessons from Power Sector Reforms : The Case of Morocco. Policy Research Working Paper; No. 8969. World Bank, Washington, DC.

Water resources are an area of much greater challenge. Infrastructure has improved significantly, with the rate of access to drinking water in Morocco increasing from 15% to 97% over the past two decades.<sup>38</sup> However, Morocco is among the 25 most water-stressed countries in the world and faces serious challenges from an estimated 30% decline in rainfall by 2050.<sup>39</sup>

The agricultural sector is the largest user of water (representing 86% of total water withdrawals) and the evidence suggests there is substantial inefficiency in the sector's use of water.<sup>40</sup> It has an efficiency rate of only 48%, indicating significant water losses.<sup>41</sup> There are a range of government projects underway to improve water use, including:

- Increasing desalination capacity.<sup>42</sup>
- Tax incentives for small farmers to take up irrigation equipment and implement water conservation techniques.<sup>43</sup>
- The National Irrigation Water Saving Programme (Programme National d'Économie d'Eau en Irrigation, PNEEI) shifting away from surface irrigation to localised irrigation.<sup>44</sup>
- A World Bank project that provides farmers with high-efficiency drip irrigation.<sup>45</sup>

### ***Opportunity***

#### **Energy**

1. Identify ways to reduce electricity costs, which could include increasing competition in the distribution and transmission of electricity.

#### **Water**

Morocco has significant opportunities to mitigate the impacts of challenges from declining rainfall, including:

1. Continuing programmes investing in irrigation infrastructure.
2. Continuing to take measures to improve the efficiency of water use.
3. Expanding efforts to recycle wastewater and build desalination capacity.

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38 "Country Results Brief 2019: Morocco" *African Development Bank Group*, 2019.

39 "Moroccan Farmers Save Water on Irrigation and Increase Agricultural Production" *World Bank*, 2019; "Kingdom of Morocco: Country Strategy Paper 2017-2021," *African Development Bank*, p.28.

40 "Business Opportunities Report for Reuse of Wastewater in Morocco". *Netherlands Enterprise Agency*, 2018.

41 "Water Quality and Use in Morocco". *Fanack*, 2019. Available at: <https://water.fanack.com/morocco/water-quality-and-use-morocco/> (Accessed August 20, 2020).

42 Ibid.

43 Interview with Simohamed Azzouz, director-general of Magriser, referenced in "The Report: Morocco 2019". Oxford Business Group.

44 "The 'Green Morocco' Plan Strengthens Localized Irrigation" *Morocco World News*, 2019.

45 "Moroccan Farmers Save Water on Irrigation and Increase Agricultural Production" *World Bank*, 2019.

## TRANSPORT (MOROCCO RANK: 60<sup>TH</sup>)

*Transport underpins the ability for products and people to move efficiently, easily, and reliably. An interconnected freight transportation network contributes to economic growth by supporting resource development and expanding interstate commerce. We evaluate both the quality of physical infrastructure, including road, rail, ports, and air, and also logistical performance, which measures the efficiency of shipping products in and out of a country.*

Transport in Morocco has improved slightly over the last 10 years, rising 13 ranks to 60<sup>th</sup> globally, driven mainly by a significant improvement in how experts have rated the efficiency of seaport services. This ranks Morocco significantly higher than its neighbours Tunisia (90<sup>th</sup>) and Algeria (104<sup>th</sup>), but there remains work to be done in order to reach other comparators such as Turkey (43<sup>rd</sup>) and Saudi Arabia (45<sup>th</sup>).

Shipping is a major strength, with the development and growth of the major Tanger Med port since 2007.<sup>46</sup> Tanger Med is now the Mediterranean port with the largest capacity for shipping containers, and is leading the way for the Maghreb region, shifting most trans-Maghreb maritime traffic from other regional ports to Morocco.<sup>47</sup> With 98% of Morocco's foreign trade arriving by sea, investment in ports is crucial for wider economic growth.<sup>48</sup> The government's National Port Strategy 2030 recognises this, with plans to construct five new ports and expand a further four.<sup>49</sup>

Roads, rail, and airports have also been a focus of investment by the Moroccan government. Roads are the major mode of transport within Morocco and are relatively high quality (ranked 49<sup>th</sup> globally), but low density (ranked 113<sup>th</sup>).<sup>50</sup>

Investment in roads has been a priority for the government. There has been an average 30% annual increase in the investment in roads in the 2012-2016 period compared to the preceding four years, and in 2016 a new rural roads programme was announced.<sup>51</sup> Further major investment is planned through the Plan Route 2035 programme.<sup>52</sup> Road safety is an issue, where the country ranks 128<sup>th</sup> in terms of disability-adjusted life years lost due to road traffic accidents.<sup>53</sup>

Rail coverage remains relatively low despite investments to expand the rail network to 3,600 km with 120 stations by 2017. Currently, rail is particularly important for freight with around 70% of rail cargo travelling to or from ports.<sup>54</sup>

There have been improvements in passenger rail, in particular the 2018 opening of the flagship high-speed railway project (the Ligne à Grande Vitesse) between Casablanca and Tangier via Rabat.<sup>55</sup> A second high-speed train link between Casablanca and Marrakech is planned; and Morocco's 2040 rail strategy sets out how rail spending of \$37.5 billion aims to achieve a greater role for rail.<sup>56</sup> With

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*With 98% of Morocco's foreign trade arriving by sea, investment in ports is crucial for wider economic growth.*

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46 "Tanger Med Global Logistics Hub" *Tanger Med Port Authority*. Available at: <http://www.tmpa.ma/wp-content/uploads/2019/04/Brochure-Port-Anglais-1.pdf> (Accessed August 20, 2020).

47 "Morocco now has the largest capacity for shipping containers in the Mediterranean" *The Africa Report*, 2019; "Economic Integration in the Maghreb: An Untapped Source of Growth"; *IMF Departmental Paper*, February 2019.

48 "The Report: Morocco 2019". Oxford Business Group. p.144.

49 "Business opportunities: Dutch companies in Transport & Logistics sector Morocco" *Marco Rensma and Saad Haamoumi for Netherlands Enterprise Agency*, 2018.

50 "FY 2016 Ex-Post Evaluation of Japanese ODA Loan Project: Rural Road Improvement Project" *Takeshi Daimon*, Waseda University, 2016.

51 "Morocco Strengthening Integrity in the Energy, Transportation and Health Sectors" *OECD*, 2018; "Grands Projets: Routes rurales" *Kingdom of Morocco: Ministry of Equipment*, Transport, Logistics and Water. Available at: <http://www.equipement.gov.ma/Infrastructures-Routieres/Grands-Projets/Pages/Routes-Rurales.aspx> (Accessed on August 13, 2020).

52 Business opportunities: Dutch companies in Transport & Logistics sector Morocco" *Marco Rensma and Saad Haamoumi for Netherlands Enterprise Agency*, 2018.

53 Legatum Institute Prosperity Index.

54 "The Report: Morocco 2019". Oxford Business Group. p.141

55 Ibid.

56 Ibid.



respect to rail freight, increased transport expected at Tanger Med may accentuate the relatively low coverage of the country, highlighting the need to reinforce the network.<sup>57</sup>

Air transport has been increasing: following the signing of an open skies agreement with the EU in 2004, the number of air routes and airlines both approximately doubled and 22.5 million passengers travelled through the country's airports in 2018, the highest number ever recorded.<sup>58</sup> Air freight activity also increased by 7% in 2018, but in common with Africa as a whole remains low compared to global benchmarks.<sup>59</sup>

Morocco is expanding airports to accommodate the increased traffic, with plans to establish the Mohammed V Airport in Casablanca as a regional hub, including a new \$2 billion terminal opening in 2019, and to increase the capacity of all airports in the country from the current level of 24 million passengers to 75 million passengers by 2035.<sup>60</sup>

Public-private partnerships (PPPs) are seen as offering an avenue to fund greater investment in transport, with the minister of economy and finance announcing in December 2018 that bolstering investment in the Kingdom was dependent on the development of more PPPs.<sup>61</sup> The new port of Kenitra Atlantique is expected to be carried out as a PPP, and public entities in Fez-Meknes are increasingly looking to finance their projects and initiatives by way of PPPs.<sup>62</sup>

Morocco ranks relatively poorly for logistics performance (84<sup>th</sup>), with the sector being largely informal. The road freight sector is dominated by SMEs (95% of the operating companies) with many of these small companies generally escaping social and tax legislation.<sup>63</sup> The National Logistics strategy (2010-2030) aims to increase GDP growth by lowering logistics costs and increasing competitiveness.<sup>64</sup>

### **Opportunity**

1. Continue to invest in improving the density of road and rail infrastructure, alongside a focus on improving road safety.
2. Ensure the structure for PPPs is both well suited to attracting investment and value for money for the Moroccan public finances.
3. Lower logistics costs by encouraging the formalisation and scaling up of Moroccan firms.

## **BORDER ADMINISTRATION (MOROCCO RANK: 87<sup>TH</sup>)**

*Inefficient and slow bureaucratic trade barriers limit the effectiveness, efficiency, and dynamism of economies, with greater barriers often connected to corruption and cronyism. Our measure of Border Administration considers the time and cost of a country's customs procedures.*

Morocco is ranked 87<sup>th</sup> for Border Administration, falling eight places since 2009 despite a slight improvement in its score. Although this represents an area of weakness for Morocco, it still performs better than the majority of its comparators, and only in Turkey are border regulations and procedures less costly and less time consuming than Morocco.

57 Business opportunities: Dutch companies in Transport & Logistics sector Morocco" Marco Rensma and Saad Haamoumi for Netherlands Enterprise Agency, 2018.

58 "The Report: Morocco 2019". Oxford Business Group. p.142

59 Office National des Aéroports; "The Report: Morocco 2019". Oxford Business Group. p.142

60 Business opportunities: Dutch companies in Transport & Logistics sector Morocco" Marco Rensma and Saad Haamoumi for Netherlands Enterprise Agency, 2018; "The Report: Morocco 2019". Oxford Business Group. p.142

61 "The Report: Morocco 2019". Oxford Business Group. p.31

62 Ibid. p.137 and p.173.

63 Business opportunities: Dutch companies in Transport & Logistics sector Morocco" Marco Rensma and Saad Haamoumi for Netherlands Enterprise Agency, 2018.

64 Ibid.

The launching of PortNet, a single window for trade, has improved border processes across the country's major ports and Morocco's border processes are now relatively quick to comply with.<sup>65</sup> The time to comply with border regulations has fallen from almost 52 hours in 2014 to just 32 hours in 2018, and Morocco ranks 50<sup>th</sup> globally for the cost of complying with border regulations.<sup>66</sup>

However, an area of significant challenge is the efficiency of Morocco's customs clearance processes, for which the country is ranked 128<sup>th</sup> globally.<sup>67</sup>

American companies have cited Morocco's approach to customs valuation and requirement of a certificate of non-manipulation for goods in transit as impediments to the clearance or movement of their shipments.<sup>68</sup> There is also a view that EU standards for products are favoured, and that excessive formal protocols and bureaucracy can lead to long wait times for product launches and openings.<sup>69</sup>

### **Opportunity**

Continue to build on the recent substantial improvements to border processes by ensuring bureaucratic procedures are minimised and further increasing digitisation across stages.

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65 "The Report: Morocco 2019". Oxford Business Group. p.144

66 "Trading Across Borders" World Bank. Available at: <https://www.doingbusiness.org/en/data/exploretopics/trading-across-borders>. (Accessed: January 22, 2020)

67 World Bank's Logistics Performance Index.

68 "National Trade Estimate Report on Foreign Trade Barriers". *US Trade Representative*, 2019.

69 "Morocco - Trade Barriers". *Version published October 13, 2019*. Trade.gov. Available at: <https://www.trade.gov/knowledge-product/morocco-trade-barriers>



## OPEN MARKET SCALE (MOROCCO RANK: 28<sup>TH</sup>)

*The size of the economic opportunity for producers is constrained by the scale of the domestic and international markets that are open to them. Tariffs faced by exporters in many countries can prevent those firms from selling goods, inhibiting their ability to compete in the global market. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets.*

Open Market Scale is a relative strength in Morocco, ranking 28<sup>th</sup> globally. Morocco performs better than the average across the MENA region. It continues to rank well for both the average tariff Moroccan exporters face and the margin of preference in destination markets. With 56 trade agreements, Morocco is among the countries with the most trade agreements in the world.<sup>70</sup>

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*The European Union is Morocco's largest trading partner, accounting for 65% of Morocco's exports in 2017.*

Due to the extensive EU-Morocco Association Agreement that entered into force in 2000, the European Union is Morocco's largest trading partner, accounting for 65% of Morocco's exports in 2017.<sup>71</sup> Morocco also has a free trade agreement with the United States, that has led to the United States becoming Morocco's fourth largest trading partner.<sup>72</sup> Morocco continues to actively pursue new agreements, including beginning negotiations with Canada, several West African states, and the South American trading bloc Mercosur.<sup>73</sup> However, the government has recently expressed disquiet with the level of their trade deficit, and Morocco's trade minister said in January 2020 that the 56 existing FTAs are currently under review.<sup>74</sup>

A number of trade arrangements within the MENA region and sub-Saharan Africa also exist, including agreements with Turkey and with 18 Arab states through the Greater Arab Free Trade Area (GAFTA).<sup>75</sup> There is also the free trade Agadir Agreement between Egypt, Jordan, Morocco, and Tunisia signed in 2004 but this has been seen by business executives and politicians as performing "below expectations".<sup>76</sup> Trade with Morocco's neighbouring countries suffers in particular from restrictive trade policies: trade with Africa accounted for less than 8% of Morocco's overall trade between 2015 and 2018.<sup>77</sup> Moroccan exporters face lower tariffs with Europe than when trading in other Maghreb countries.<sup>78</sup>

Morocco is attempting to tackle this situation; for example, it has applied to join the Economic Community of West African States (ECOWAS).<sup>79</sup> However, the bid has stalled due to a number of geopolitical, legal, and political obstacles, including a clash between ECOWAS' common tariff on European and US imports, and Morocco's free trade agreements with the US and the EU.<sup>80</sup> More successfully, Morocco is one of the 44 African states to sign up to the African Continental

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70 "Morocco Loses up to \$2 Billion in Trade Imbalance with Turkey" *The North Africa Post*, 2020; "Morocco Country Report 2020". BTI Transformation Index.

71 "Trade Policy: Countries and regions: Morocco" *European Commission*. Available at: [https://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/index\\_en.htm](https://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/index_en.htm) (Accessed August 13, 2020).

72 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

73 "Morocco - Trade Agreements" *Version published July 15, 2019*. Export.gov. Available at: <https://www.export.gov/apex/article2?id=Morocco-Trade-Agreements> (Accessed August 13, 2020)

74 "Morocco Loses up to \$2 Billion in Trade Imbalance with Turkey" *The North Africa Post*, 2020.

75 "Business Climate" *Kingdom of Morocco - Moroccan Investment Development Agency*. Available at: <http://www.invest.gov.ma/?lang=en&id=77> (Accessed August 13, 2020); "Greater Arab Free Trade Area (GAFTA)" *Republic of Lebanon Ministry of Economy & Trade*. Available at: <https://www.economy.gov.lb/en/services/trade/international-agreements/gafta> (Accessed August 13, 2020); "GAFTA" *bilaterals.org*. Available at: <https://www.bilaterals.org/?-GAFTA-> (Accessed August 13, 2020).

76 "Agadir Agreement" *bilaterals.org*. Available at: <https://www.bilaterals.org/?-agadir-agreement-> (Accessed August 13, 2020); "Economic Integration in the Maghreb: An Untapped Source of Growth"; *IMF Departmental Paper*, February 2019.

77 "UNCTADstat Data Center" *UNCTAD*. Available at <https://unctadstat.unctad.org/EN/About.html> (Accessed on August 25, 2020)

78 "Economic Integration in the Maghreb: An Untapped Source of Growth"; *IMF Departmental Paper*, February 2019..

79 "Morocco's Ecowas bid sparks African fear and suspicion". *The Financial Times*, January 24, 2019.

80 "The Report: Morocco 2019". Oxford Business Group. p.21.



Free Trade Area, a flagship project of Agenda 2063, the African Union's long-term vision for an integrated, prosperous, and peaceful Africa.<sup>81</sup>

A further issue is the closure of the Moroccan-Algerian border, making it impossible to transport goods from Morocco to Libya, Tunisia, or Algeria by road.<sup>82</sup> There have been several attempts initiated by King Mohammed VI to resolve the dispute, but the situation persists.<sup>83</sup>

Alongside trade deals, the Moroccan government is highly focused on facilitating trade. Recent efforts include incentivising exporting firms through low tax "free zones" and offering a VAT exemption for investors importing materials and tools needed to achieve large investment projects.<sup>84</sup>

Finally, Moroccan firms still face a high number of non-tariff barriers in destination markets, even those with which it has successful trade agreements such as the European Union. Requirements such as strict packaging and labelling regulations, as well as the mandatory transmission of the Entry Summary Declaration before entry of goods to the EU, mean that non-tariff measures under the Morocco-EU agreement have been assessed to still be equivalent to a 12% tariff.<sup>85</sup>

### **Opportunity**

The trade and investment potential between Morocco and sub-Saharan Africa should be explored and developed.

1. Strengthen the trade regulatory framework and seek to unblock and develop free trade agreements with African economic communities such as the West African Economic and Monetary Union (WAEMU), the Economic Community of West African States (ECOWAS), and the Economic and Monetary Community of Central Africa (CEMAC).<sup>86</sup>
2. Expand trade with neighbours, particularly through addressing the border with Algeria.
3. Seek to further improve its trade deals by reducing non-tariff barriers to exports.<sup>87</sup> This may be through trade agreements or by aligning domestic standards with international standards (e.g. aligning domestic agricultural standards to European and American standards).<sup>88</sup>

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81 "Forty-four African countries sign a free-trade deal" *The Economist*, 2018; "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

82 Economic Integration in the Maghreb: An Untapped Source of Growth; IMF Departmental Paper, February 2019.

83 "Open that border" *The Economist*, 2010; "Morocco's king invites Algeria for 'frank, direct dialogue'" *Al Jazeera*, 2018; "Morocco seeks to 'turn page' on tense ties with Algeria" *Arab News*, 2019.

84 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

85 Mustapha Khouilid and Abdellah Echaoui. "The impact of Non-Tariff Measures (NTMs) on Moroccan foreign trade: Comparison between developed and developing countries." (2017).

86 "Relations between Morocco and sub-Saharan Africa: What is the potential for trade and foreign direct investment?" *OCP Policy Center*, 2017.

87 "The impact of Non-Tariff Measures (NTMs) on Moroccan foreign trade: Comparison between developed and developing countries." *Mustapha Khouilid and Abdellah Echaoui*, 2017.

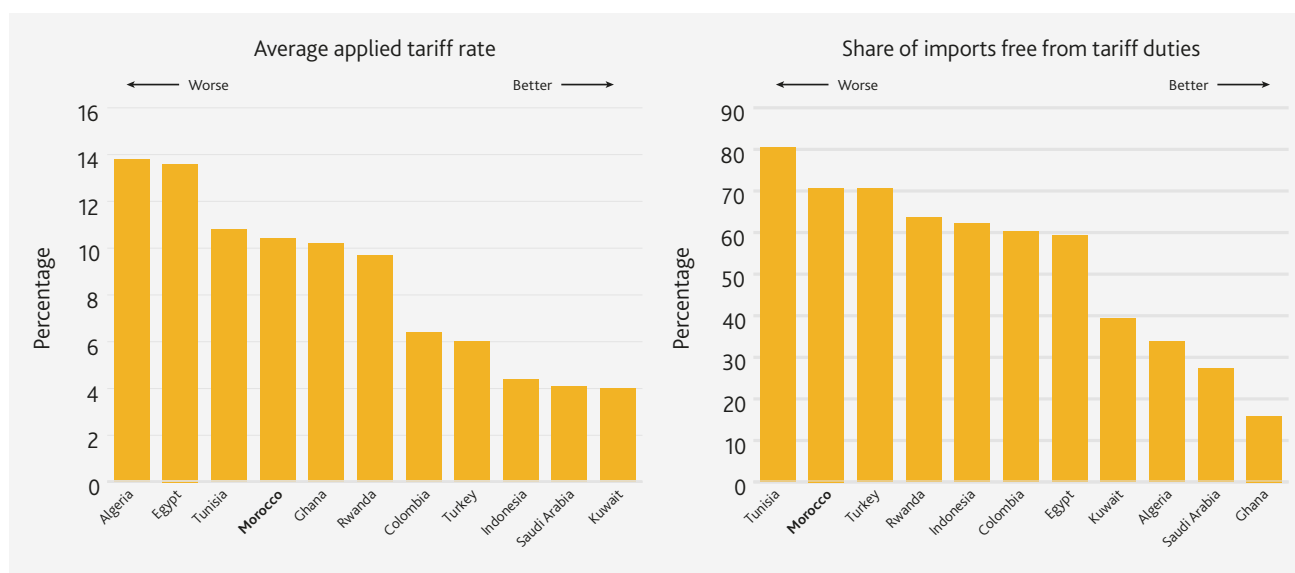
88 Ibid.

## IMPORT TARIFF BARRIERS (MOROCCO RANK: 94<sup>TH</sup>)

Typically, tariffs to trade raise the price of products and reduce the volume of trade, creating barriers between people and the true market value of goods. We evaluate the average applied tariff rate, the complexity of tariffs, and the share of imports free of tariff duties.

Despite improving its rank by seven places over the last 10 years and performing better than the average country in the MENA region, Morocco ranks 94<sup>th</sup> globally for Import Tariff Barriers. On the positive side, fewer than 30% of imported goods face tariffs, ranking 67<sup>th</sup> in the world. However, when import tariffs are applied, they are high compared to other countries. Morocco's average applied tariff rate is 10.4%, ranking 130<sup>th</sup> globally, although this is only marginally lower than its neighbouring countries.

Figure 3: Applied tariff rates and proportion of imports free from tariffs



Source: WEF

A major reason for the high applied tariff rates is the use of tariffs to protect the Moroccan agricultural industry. On average, Morocco charges a 27.6% applied tariff on agricultural products, compared to an average of 8.8% on non-agricultural products.<sup>89</sup> Agriculture is generally more protected than other sectors across the world but many MENA countries use predominantly non-tariff barriers.<sup>90</sup> Only Tunisia and Morocco in the MENA region use tariffs above 20% to protect agriculture.<sup>91</sup> Protection of agricultural trade is often justified on account of protecting lower income jobs, but this is an ineffective poverty reduction tool.<sup>92</sup> Major trade partners, such as the EU, could also work with Morocco to reduce reciprocal agricultural tariff and non-tariff barriers.

An aspect of Morocco's tariff policy that undermines the competitiveness of Moroccan industry is that there are higher duties on intermediate goods. Import duties on raw materials are lower than

89 "World Tariff Profiles 2019" WTO, ITC and UNCTAD, 2019. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles19\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles19_e.pdf)

90 "Africa Agriculture Trade Monitor 2019" IFPRI; Bouet, Antoine and Sunday P. Odjo, eds.

91 "Agriculture and Economic Transformation in the Middle East and North Africa," *International Food Policy Research Institute*, June 2018.

92 "Morocco 2040: Emerging by Investing in Intangible Capital" Jean-Pierre Chauffour, 2017.

those on semi-processed goods, which are in turn lower than those on finished goods.<sup>93</sup> This is particularly pronounced in the textile, clothing, and leather and footwear sectors where producers for the domestic market have access to inputs taxed at low rates, while being protected behind significant export barriers for their finished products.<sup>94</sup> High duties on intermediate products tend to be an obstacle to the productivity of firms and the growth of exports as Moroccan firms need low-cost intermediate goods to remain competitive.<sup>95</sup>

### **Opportunity**

1. Continue to reduce applied import tariffs, particularly on intermediate goods which reduce the competitiveness of Moroccan exporters.
2. Gradually open agricultural markets, because agriculture constitutes one of the engines of its economy. An agricultural strategy should offer better opportunities for the heads of small and large operations to transform the agrifood sector into a stable source of growth, competitiveness, and economic development in rural areas.<sup>96</sup>

## **MARKET DISTORTIONS (MOROCCO RANK: 73<sup>RD</sup>)**

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*Market Distortions hinder one of the most compelling and powerful forces of the market: fair competition. The price of goods changes from their true value through the interference of the state, resulting in a society that supports inefficient and ineffective industries. These distortions can arise from regulatory restrictions and non-tariff measures. By their very nature, Market Distortions can be difficult to measure, and broader conclusions often have to be drawn from proxy measures.*

Morocco has risen 56 ranks over the last decade on Market Distortions. This significant improvement has been driven by the continued liberalisation of foreign trade and has lifted Morocco above the average for the MENA region. This reflects the numerous free trade agreements that Morocco has pursued and signed, in particular the trade agreements with the European Union and the United States.

Morocco ranks less well on the prevalence of non-tariff measures. The country has 396 non-tariff measures, ranking 66<sup>th</sup> in the world. In a company survey, the Morocco Ministry of Industry, Trade and New Technologies found that around 40% of companies reported suffering from non-tariff obstacles to trade such as lengthy procedures to obtain governmental permits.<sup>97</sup> Non-tariff measures are most prevalent in agriculture, but are also frequently applied in the natural resources and manufacturing sectors.<sup>98</sup>

These measures drive up prices in Morocco, and trade deals have tended to focus on the removal of tariff barriers rather than non-tariff barriers.<sup>99</sup> Measures are commonly either technical or standards-based, with about 300 applied technical regulations and almost 12,000 standards developed by the Moroccan Standards Institute (IMANOR).<sup>100</sup>

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93 "Morocco 2040: Emerging by Investing in Intangible Capital" Jean-Pierre Chauffour, 2017.

94 Ibid.

95 Ibid.

96 Ibid.

97 "Morocco Country Report 2020". BTI Transformation Index

98 "Morocco: Food and Agricultural Import Regulations and Standards Country Report". US Department of Agriculture, Foreign Agricultural Service, June 2019.

99 "Non-tariff measures in the MNA region: Improving Governance for Competitiveness" Augier et al, 2012. This research found that among countries in the MENA region, Morocco has the most considerable mismatch introduced by NTMs between domestic and world prices; "The impact of Non-Tariff Measures (NTMs) on Moroccan foreign trade: Comparison between developed and developing countries." Mustapha Khouilid and Abdellah Echaoui, 2017.

100 "Examen des politiques commerciales, Maroc." World Trade Organisation (2016).



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*Moroccan customs are yet to adopt a procedure to regulate self-certification documents to demonstrate compliance*

However, most problems encountered by importers are the delays in proving the conformity of products, not meeting the technical requirements and standards themselves.<sup>101</sup> For example, in 2016 the Moroccan government issued an implementation decree that allowed for the importation of automobiles that meet the U.S. Federal Motor Vehicle Safety Standards (FMVSS).<sup>102</sup> However, Moroccan customs are yet to adopt a procedure to regulate self-certification documents to demonstrate compliance meaning that importers face uncertainty and delays at the border.<sup>103</sup>

### **Opportunity**

1. Continue to reduce the number of non-tariff measures in place for imports, with a focus on the agricultural, natural resources, and manufacturing sectors.
2. Improve procedures for demonstrating compliance to technical and regulatory standards.

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101 "Maroc: perspectives des entreprises." *International Trade Center*, 2012.

102 "2019 Trade Policy Agenda and 2018 Annual Report of the President of the United States on the Trade Agreements Program" *Office of the United States Trade Representative*, 2019.

103 Ibid.







TECNAPLITEX  
الجودة لا تقبل أعذار  
La Calidad NO Admite  
EXCUSAS.

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## INVESTMENT ENVIRONMENT (MOROCCO RANK: 68<sup>TH</sup>)

*Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce. The growth in international financial market sophistication over the last four decades has been considerable. Economists' understanding of the role of capital in economic growth and prosperity has also grown over this period.<sup>1</sup> A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures, allowing micro-enterprises to grow into Fortune 500 companies.*

Morocco ranks 68<sup>th</sup> for its Investment Environment, having risen 13 places over the last decade and improving on every element of this pillar. There have been significant reforms to strengthen intellectual property rights and investor protections, improving the confidence with which businesses can invest and innovate in the country. The financing ecosystem is a particular strength for Morocco. Financial sector soundness and the number of commercial bank branches have seen notable improvements, although financing for small and medium sized enterprises and access to alternative financing could facilitate further development. Morocco still has some restrictions on international investment that could constrain development in this area, with some capital controls, restrictions on foreign ownership of companies in some sectors, and barriers to obtaining work visas.

## PROPERTY RIGHTS (MOROCCO RANK: 50<sup>TH</sup>)

*Property Rights are the key institution that make it possible to accumulate wealth and effectively participate in commerce. Where Property Rights are weak, people avoid taking risks, and this has a substantial impact on investment, the level of effective entrepreneurial activity, and wealth accumulation. The risks to Property Rights range from expropriation to limits on repatriations of profits and restrictions on the sale or transfer of assets. Our measure of Property Rights captures how well rights over land, assets, and intellectual property are protected.*

Morocco ranks 50<sup>th</sup> for Property Rights, having risen 14 ranks over the last decade. Morocco significantly outperforms the regional average on this measure and ranks above its peers in both physical and intellectual property rights. The notable improvement in this element has been driven by major improvements to the protection of intellectual property that has seen Morocco rise from 95<sup>th</sup> to 47<sup>th</sup> globally for intellectual property protection.

Intellectual property protection has been improved through a range of measures including decrees compelling the police to investigate copyright infringement and strengthening the Moroccan Office of Industrial and Commercial Property's capacity to carry out its core mandate of granting industrial and commercial property titles and enforcing intellectual property rights.<sup>2</sup>

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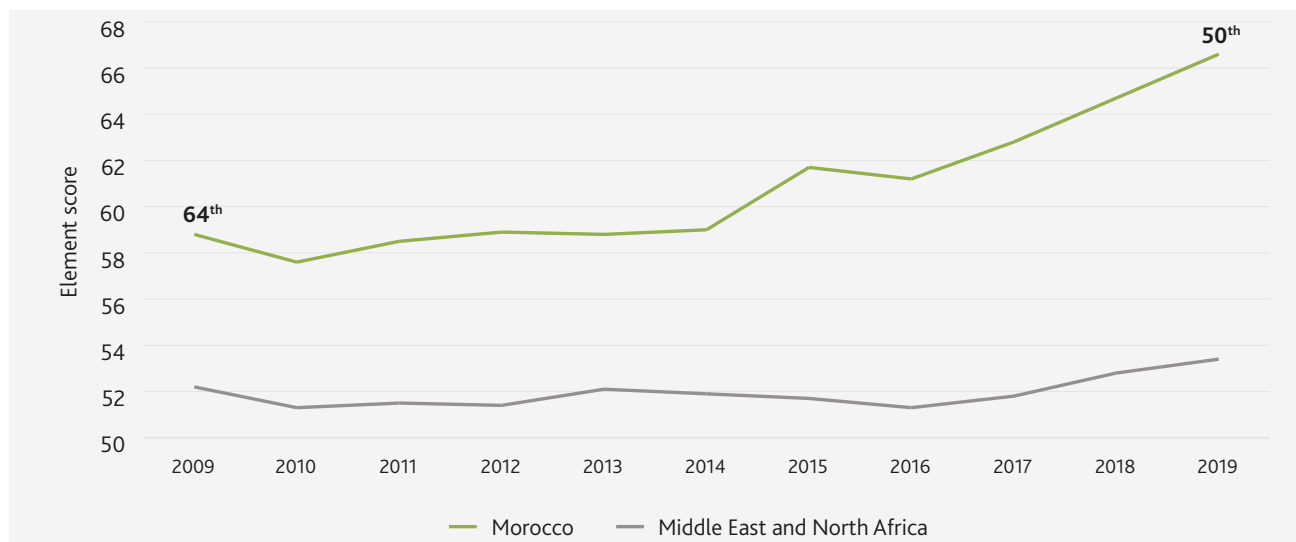
*Intellectual property protection has been improved through a range of measures*

<sup>1</sup> Anne O. Krueger, "Financial markets and economic growth," *International Monetary Fund*, September 28, 2006.; Stanley Fisher, "The importance of financial markets in economic growth," *Citigroup*, Speech by Campos de Jordao, August 21, 2003.

<sup>2</sup> "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.



Figure 4: Property Rights score



Land ownership and registration is more complex, with onerous procedures to register property and poor regulation of property possession and exchange. Morocco ranks 80<sup>th</sup> and 81<sup>st</sup> respectively for these elements, having seen little change over the last decade. Buying and registering land continues to be difficult due to lengthy and complex procedures. Large firms in particular see land access as a major or severe constraint to the expansion of their activities as they are most likely to be seeking land to grow their activities.<sup>3</sup>

Only 30% of land is registered formally, mostly in urban areas, although it is also possible to establish ownership by proving long-term occupancy through a system of customary documents called moukhiya.<sup>4</sup> Over a third of Moroccan land is collectively owned by tribes, but managed by the Interior Ministry, legally belonging to the state.<sup>5</sup>

Morocco has made significant efforts to reduce the complexity of purchasing and registering land. Through a range of reforms, such as increasing the transparency of the land register and streamlining administrative procedures, the time to register land has fallen from 76 to 20 days over the past decade.<sup>6</sup> The government has also sought to improve access to commercial land by investing heavily in the development of industrial zones and through generous land subsidy schemes.<sup>7</sup> However, due to increasing property registration fees, the cost to register a property in Morocco has risen to 6.4% of the property's value from 4.9% in 2009.<sup>8</sup>

3 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" World Bank Group. 2019, p.60.

4 "2019 Investment Climate Statements: Morocco" US Department of State, 2019.

5 "Freedom in the World 2019: Morocco" Freedom House, 2019.

6 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>

7 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" World Bank Group. 2019, p.12.

8 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>

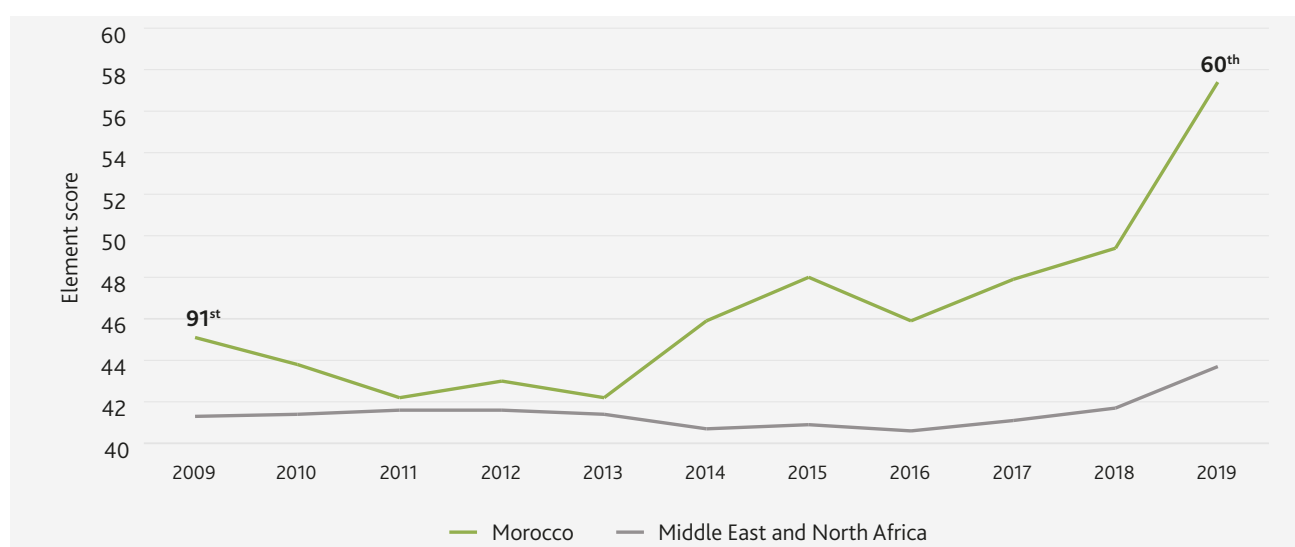
### Opportunity

1. Continue to reduce the cost and administrative burden of registering property by digitising and streamlining procedures.
2. Despite several efforts to improve legal and regulatory frameworks, more improvements are needed regarding property possession and exchange. These should include improving access to information on land and its availability for economic activities.<sup>9</sup>
3. Improve the security of private property through a single property law that encourages the registration of land transactions with the land registry, guarantees the protection of land rights, and clarifies the expropriation system, including its transparency.<sup>10</sup>

## INVESTOR PROTECTION (MOROCCO RANK: 60<sup>TH</sup>)

Investor Protection is key for any country wishing to enjoy sustained economic growth, as they are a necessary enabler of the flow of capital to ventures.<sup>11</sup> Our measure of Investor Protection covers a range of indicators that gauge Investor Protection, from expropriation risk to minority shareholder rights.

Figure 5: Investor Protection score



Investor Protection has improved significantly in Morocco, rising from 91<sup>st</sup> to 60<sup>th</sup> over 10 years. The greatest improvement has been to the strength of the insolvency framework due to a major revision of the insolvency code in 2018.<sup>12</sup>

9 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" *World Bank Group*. 2019, p.62.

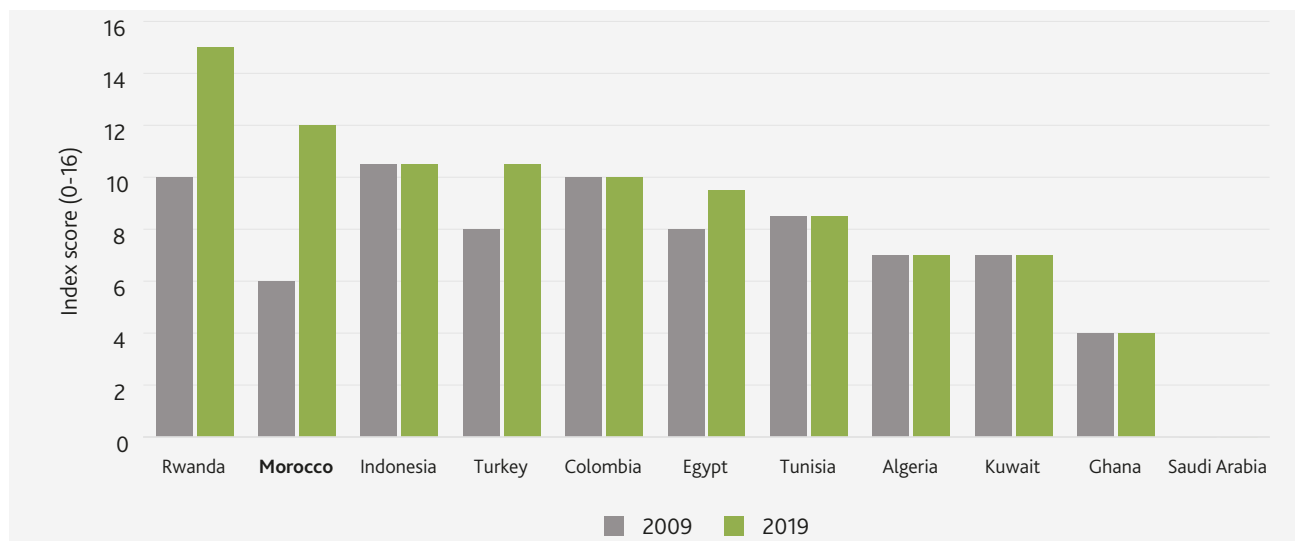
10 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" *World Bank Group*. 2019, p.63

11 Rachisan, Paula Ramona, Cristina Bota-Avram, and Adrian Grosanu. "Investor protection and country-level governance: Crosscountry empirical panel data evidence." *Economic Research | Ekonomska Istraživanja* 30, no. 1 (2017): 806-817.

12 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

Morocco's insolvency framework is now well regarded among its peers because it has made resolving insolvency easier by facilitating the commencement of proceedings, making them more accessible for creditors and encouraging the continuation of the debtor's business during the proceedings.<sup>13</sup>

Figure 6: Strength of insolvency framework in selected countries



Source: WBDB

However, the recovery rate is still low, with investors recovering an average of 29 cents on the dollar (down from 35 cents a decade ago). Whilst this is in line with the average for the MENA region, this rate is lower than all regions of the world except sub-Saharan Africa.<sup>14</sup> The effectiveness of Morocco's strong insolvency framework is undermined by the lack of experience and training of judges and other professionals involved in insolvency procedures.<sup>15</sup>

Morocco's corporate governance code is good relative to its comparators and contains important provisions such as a definition for the fiduciary duties of board directors that is in line with best practice, including recommending companies publish legal and financial information regularly online.<sup>16</sup> All companies are required to disclose their audited financial statements, and in 2016 all 10 largest listed companies complied with this requirement.<sup>17</sup>

However, there is no such requirement in the law for publishing legal information and most companies do not disclose much non-financial information.<sup>18</sup> For example, none of the 10 largest listed companies disclose its articles of association, minutes of the general shareholders' meeting, or board and committee members' qualifications and activities online.<sup>19</sup>

13 "Business Reforms in Morocco" World Bank. Available at: <https://www.doingbusiness.org/en/reforms/overview/economy/morocco> (Accessed August 13, 2020).

14 "Resolving Insolvency" World Bank. Available at: <https://www.doingbusiness.org/en/data/exploretopics/resolving-insolvency> (Accessed August 13, 2020).

15 "Morocco: Collection Profile". Euler Hermes, 2017.

16 Commercial Laws of Morocco: An Assessment by the EBRD. European Bank for Reconstruction and Development, 2013; Corporate Governance in Transition Economies, Morocco Country Report. European Bank for Reconstruction and Development, June 2016.

17 Ibid.

18 Ibid.

19 Ibid.



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*Auditing and reporting standards have improved significantly*

Minority shareholder rights are protected, with protection in law from potential abusive conduct by controlling shareholders, inspection rights, and the right to file a lawsuit against the company's directors and managers for compensation.<sup>20</sup> There are relatively low thresholds for the proportion of shareholders required to call a general shareholders' meeting or nominate board members (10% and 5% respectively of the share capital).<sup>21</sup> These protections were also recently strengthened by expanding shareholders' role in major transactions, promoting independent directors, increasing transparency on directors' employment in other companies, and making it easier to request general meetings.<sup>22</sup>

Auditing and reporting standards have improved significantly, with Morocco rising from 98<sup>th</sup> to 51<sup>st</sup> over the past decade. This is due to the adoption of international standards. The National Accounting Council (Conseil National de la Comptabilité, CNC), established in 1989, initially adopted Moroccan Generally Accepted Accounting Principles (GAAP) which differ significantly from International Financial Reporting Standards (IFRS).<sup>23</sup> However, since 2007, the CNC has been working to require the application of IFRS for listed entities and public interest entities and to allow other entities to apply either the IFRS or the Moroccan GAAP.<sup>24</sup>

### **Opportunity**

1. Strengthen the corporate governance code, to improve the transparency of businesses.
  - a. Introduce stronger obligations and legal requirements in place of recommendations, particularly with regard to the publication of company legal structures, board and committee members' qualifications, and minutes of general shareholders' meetings.
  - b. Introduce sanctions for failure to comply with elements of the code, such as disclosure obligations, which would increase effectiveness.
2. Continue to adapt auditing and reporting procedures in line with international standards.

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20 Commercial Laws of Morocco: An Assessment by the EBRD. European Bank for Reconstruction and Development, 2013; Corporate Governance in Transition Economies, Morocco Country Report. European Bank for Reconstruction and Development, June 2016.

21 Corporate Governance in Transition Economies, Morocco Country Report. European Bank for Reconstruction and Development, June 2016.

22 "Business Reforms in Morocco" World Bank. Available at: <https://www.doingbusiness.org/en/reforms/overview/economy/morocco> (Accessed August 13, 2020).

23 "Morocco" IFAC. Available at: <https://www.ifac.org/about-ifac/membership/country/morocco> (Accessed August 13, 2020).

24 Ibid.

## CONTRACT ENFORCEMENT (MOROCCO RANK: 73<sup>RD</sup>)

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*Contract Enforcement is a critical proxy for trust, allowing economies of scale to grow beyond one's immediate circle of associates and family. Delays and costs in resolving contract disputes benefit neither party. Our measure captures both the efficacy and efficiency of a country's system to enforce the rights of a contract holder.*

Morocco ranks 73<sup>rd</sup> on Contract Enforcement. Over the last decade, the Kingdom has risen six ranks and has consistently outperformed the average for the MENA region. Morocco's courts process commercial cases relatively quickly, ranking 63<sup>rd</sup> globally, due to the existence of eight specialised commercial courts created in 1997.<sup>25</sup> However, litigation costs are comparatively higher, ranking 79<sup>th</sup>, and the quality of judicial administration is ranked relatively poorly at 78<sup>th</sup> globally.<sup>26</sup>

There are a range of issues with the courts in Morocco. We cover these in detail under the Rule of Law element in the Governance pillar, but these issues are likely to explain the relatively low quality of judicial administration. For example, the Ministry of Justice recognises that the level of judicial competence is generally low, and the absence of legal regulation with respect to the publishing of court decisions means there is a lack of transparency.<sup>27</sup>

Morocco also has a relatively well-established system of alternative dispute resolution, which experts assess as having improved over the last few years. It was established in 2008 to provide commercial mediation and to support negotiations, which helps to reduce expensive and lengthy litigation, as well as to unblock assets caught up in disputes.<sup>28</sup>

### **Opportunity**

1. The government should seek to understand the reasons for high litigation fees to identify appropriate reforms to lower costs, which may include increasing competition in the legal sector.
2. Continue to exploit the use of alternative dispute resolution in a wide range of circumstances.

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25 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>; "Update: Introduction to the Moroccan Legal System" *Netty Butera and Kevashinee Pillay*, 2018. Available at: <https://www.nyulawglobal.org/globalex/Morocco1.html#TheJudicialSystem> (Accessed August 13, 2020).

26 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>

27 Dylan Brake, "Morocco: Leadership and Governance," 2017, p.19; Morocco, 2019 Article IV Consultation, IMF Country Report No. 19/230.

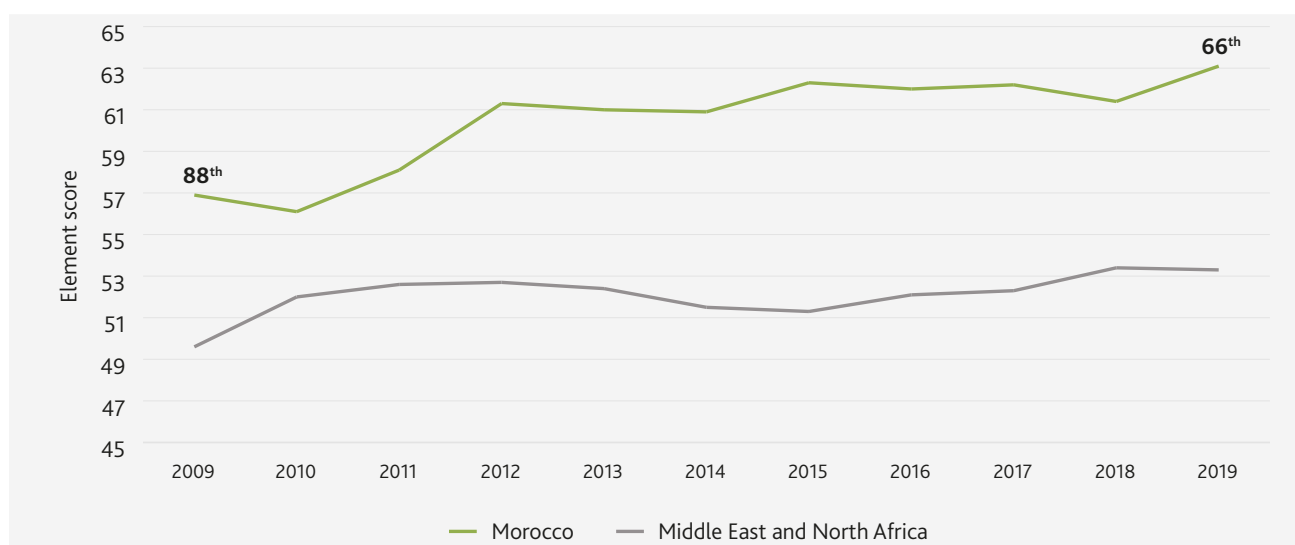
28 "Alternative Dispute Resolution" *ADR Center for Development*. Available at: <https://www.adrcenterfordevelopment.com/2018/06/08/morocco-alternative-dispute-resolution/> (Accessed August 13, 2020).

## FINANCING ECOSYSTEM (MOROCCO RANK: 66<sup>TH</sup>)

The Financing Ecosystem ensures the availability of money for investment from sources including banking and bank debt to corporate debt and more sophisticated financial markets. A wide range of financing options for businesses is also desirable, as each of the basic financing options are better suited for businesses at differing stages of maturity with different revenue and risk profiles. Our Financing Ecosystem measure captures the availability of money, from banking to corporate debt and more sophisticated financial markets.

The Financing Ecosystem is a particular strength for Morocco and it has improved further over the last 10 years, with the country rising 22 places in the global rankings to 66<sup>th</sup>. This is much better than the average for the MENA region. Compared to the rest of Africa, Morocco's banking sector is relatively large, with bank assets in Morocco standing at 84% of GDP which ranks the country 41<sup>st</sup> globally.<sup>29</sup> Financial sector soundness and the number of commercial bank branches per capita have seen notable improvements.

Figure 7: Financing Ecosystem score



Morocco has some of Africa's largest banks, and several are major players on the continent and continue to expand their footprint.<sup>30</sup> This has translated into significant penetration levels for banking services with a wide array of products.<sup>31</sup> The number of commercial bank branches in Morocco almost doubled between 2009 to 2019, rising to 24.5 per 100,000 adult population, and the banking participation rate reaching approximately 60%.<sup>32</sup>

29 Bank assets to GDP - Country rankings" *TheGlobalEconomy.com*. Available at: [https://www.theglobaleconomy.com/rankings/bank\\_assets\\_GDP/](https://www.theglobaleconomy.com/rankings/bank_assets_GDP/) (Accessed August 13, 2020).

30 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019; "Moroccan banks doing well in Africa". *The Arab Weekly*, 2019.

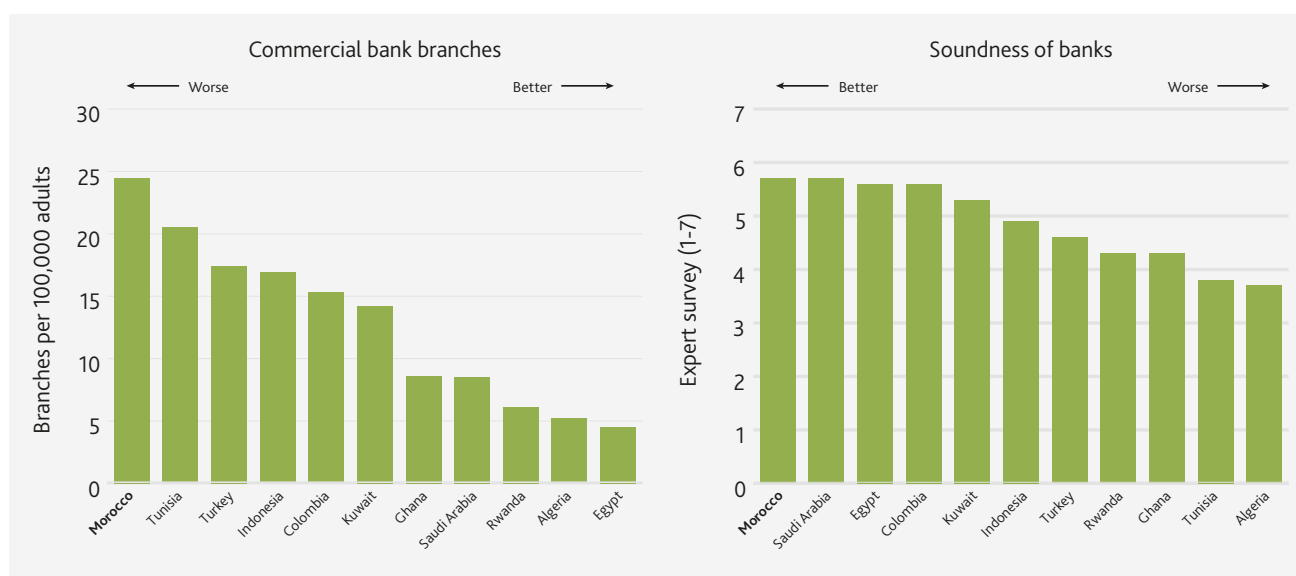
31 "The Report: Morocco 2019". Oxford Business Group. p.51.

32 "Annual Report 2018," *Bank Al Maghrib*, 2019.



The strength of the banking sector has also improved, with the soundness of Morocco's banks increasing from 90<sup>th</sup> to 24<sup>th</sup> in the global rankings over the last decade. Morocco has made significant reforms to the banking system in previous years, including structures and programs for foreign direct investment (FDI), project finance, and trade finance.<sup>33</sup>

Figure 8: Commercial bank branches and soundness of banks in Morocco in selected countries



Source: WBDI & WEF

However, Morocco ranks 105<sup>th</sup> for access to finance. This reflects that, whilst it is easy for all individuals with a formal salary to get access to credit, the large informal economy in Morocco leaves several groups excluded.<sup>34</sup> For example, while 77% of Moroccan men had at least one bank account as of 2017, the percentage of women holding the same was 40% (although this should be seen in the context of labour market participation of only 23%) and it has been suggested that, while banking participation is likely to be around 80% in the cities, it is as low as 30% in rural areas.<sup>35</sup>

Recent regulations overseeing non-banking payment institutions and a new mobile payment system are opening the door for the digitalisation of bank processes and fresh ways for institutions to interact with customers.<sup>36</sup>

Turning to corporate finance, the Casablanca Stock exchange is one of the largest and most important in Africa.<sup>37</sup> According to Fathia Bennis, CEO of Morocco's Central Depository of Securities, "Morocco's capital markets have reached a high level of sophistication."<sup>38</sup> However, there have been some issues: the stock market has been affected by low levels of liquidity, a scarcity of new listings, and an overall mediocre performance.<sup>39</sup> A new stock exchange law has set up the necessary base to provide more financial products, as well as establish an alternative stock exchange focused on small and medium-sized enterprises (SMEs).<sup>40</sup>

33 "Morocco – Market Challenges". Version published October 13, 2019. Trade.gov. Available at: <https://www.trade.gov/knowledge-product/morocco-market-challenges>.

34 Based on expert interview.

35 Ibid, "The Report: Morocco 2019". Oxford Business Group. p.62.

36 "The Report: Morocco 2019". Oxford Business Group. p.51.

37 "Morocco – Banking Systems". Version published October 13, 2019. Trade.gov. Available at: <https://www.trade.gov/knowledge-product/morocco-banking-systems>.

38 "The Report: Morocco 2019". Oxford Business Group. p.69.

39 Ibid.

40 Ibid.

*The Casablanca Stock exchange is one of the largest and most important in Africa.*

Financing for SMEs is moderately good, with Morocco ranking 60<sup>th</sup> and the share of SMEs with access to financing or a line of credit doubled between 2007 and 2015.<sup>41</sup> Bank lending to SMEs (about 17% of GDP) is relatively high by regional standards, but collateral requirements can be very high for smaller enterprises and firms still consider access to finance as a major constraint on doing business in Morocco.<sup>42</sup>

There have been several programmes aiming to increase financial inclusion of SMEs and others, such as the Dar Al Moukawil network (support services for various groups who may struggle to access finance), the MSME Development project (provision of partial credit guarantees) and the recent Integrated Program to Support and Finance Enterprises (the financing and coordination of support actions for entrepreneurship at the regional level, and the financial inclusion of rural populations).<sup>43</sup>

There is a less-developed alternative financing ecosystem, resulting in “an unmet need for private equity and in particular venture capital.”<sup>44</sup> Morocco is lagging behind the rest of Africa on this: a report by the Moroccan Association of Equity Investors shows that businesses requiring seed money and venture capital were the recipients of a mere 6% of all investments made in Morocco in 2015, one of the lowest rates in the MENA region.<sup>45</sup>

The government is seeking to tackle this through the \$50 million Innov Invest Fund launched in 2017, which seeks to plug gaps in equity financing for start-ups and catalyse the venture capital market in Morocco.<sup>46</sup> By March 2019, 68 Moroccan start-ups had benefitted from financing worth around \$5 million from the programme.<sup>47</sup>

### **Opportunity**

1. Improve access to finance in rural areas and for women. This will require a mix of physical branch expansion, digital solutions, and service offers that target certain segments of the population.<sup>48</sup>
2. Build on significant opportunities for fintech:
  - a. Banks could build on recent innovations in credit processes, including the use of large-scale data analysis, to provide small businesses with easier access to credit without collateral and this could also improve rural access to finance.<sup>49</sup>
  - b. The government could review the regulatory framework to ensure it allows for an innovative approach to fintech.
3. Review and expand the current approach to increasing the amount of alternative financing, such as venture capital and private equity.

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41 “The Report: Morocco 2019”. Oxford Business Group. p.69.

42 “Morocco 2019 Article IV Consultation” *IMF*, 2019. p.20.

43 “Attijariwafa bank strengthens its Dar Al Moukawil network with the 9th center in Casablanca” *Attijariwafa bank*, 2019; Small and Medium Enterprises (SMEs) Finance: Improving SMEs’ access to finance and finding innovative solutions to unlock sources of capital. World Bank. Available at: <https://www.worldbank.org/en/topic/sme/finance> (Accessed August 13, 2020); “Morocco Creates MAD 6 Billion Fund to Finance Entrepreneurship.” *Morocco World News*, 2020.

44 Based on expert interview.

45 “Developing venture capital for young startup firms in Morocco” *Randa Akeel*, 2017.

46 Ibid.

47 “Morocco: Innov Invest has financed 68 startups between 2017 and 2019 for 46.3 million dirhams” *Kapital Afrik*, 2019.

48 Based on expert interview.

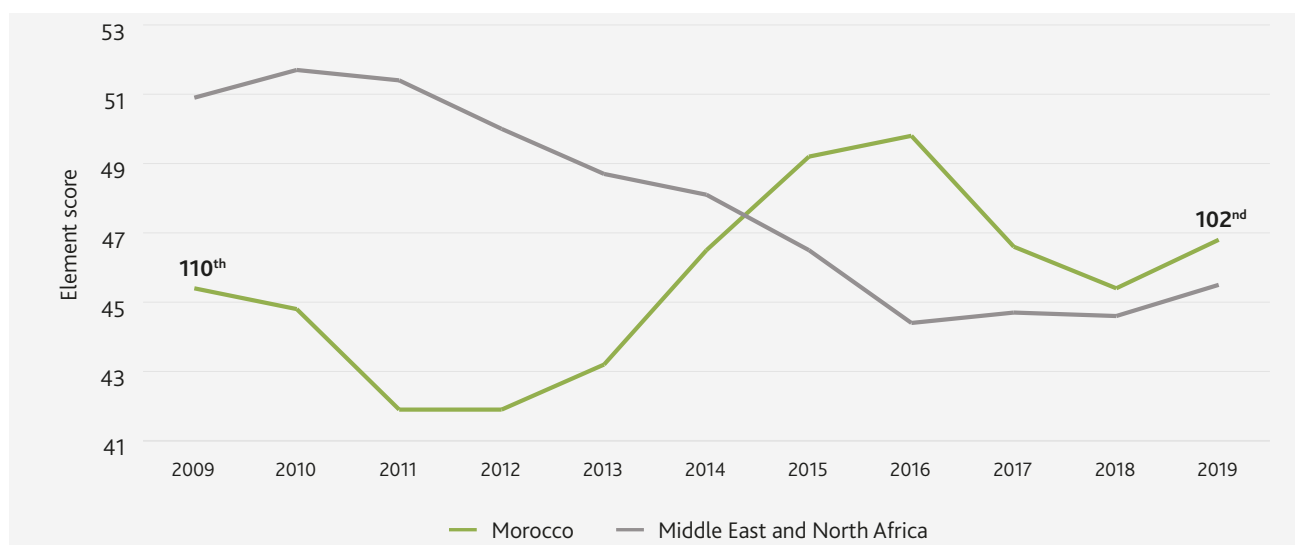
49 Ibid.

## RESTRICTIONS ON INTERNATIONAL INVESTMENT (MOROCCO RANK: 102<sup>ND</sup>)

*International investment has been shown to have a positive overall effect on economic growth. Research suggests that international investment is typically more productive than domestic, given the higher risks it faces. The benefit of foreign direct investment (FDI) is not only the inflow of capital — there is no lack of investment capital available, as noted above — but also the infusion of managerial competence that accompanies such investment. FDI brings healthy competition in the form of product and service innovation, new working practices, and new efficiencies in productivity.*

Morocco ranks 102<sup>nd</sup> for Restrictions on International Investment, reflecting a slight improvement of 8 ranks over the last 10 years and performing just above the MENA average. The country ranks well (36<sup>th</sup>) for the business impact of rules on FDI and for the prevalence of foreign ownership of companies (46<sup>th</sup>). However, restrictions on international investment exist in the form of some capital controls, a lack of freedom to own foreign currency bank accounts, and barriers to obtaining work visas.

Figure 9: Restrictions on International Investment score



During the last decade, Morocco has seen significant foreign direct investment, with a higher average net inflow (as a percentage of GDP) than the MENA region between 2011 and the last available year (2018).<sup>50</sup> Quantum Global ranked Morocco as the most attractive country for foreign investment in Africa in its Africa Investment Index 2018.<sup>51</sup>

There are several attractive policies for international investors, including subsidies, tax incentives, and special economic zones. For instance, Casablanca Finance City (CFC) is Morocco's flagship financial and business hub, launched in 2010, which offers a range of incentives to encourage and facilitate setting up businesses in Casablanca.<sup>52</sup> The financial sector is competitive and

50 "Foreign direct investment, net inflows (% of GDP) - Morocco, Middle East & North Africa" World Bank Data. Available at: <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2019&locations=MA-ZQ&start=2007> (Accessed August 13, 2020).

51 "Country Risk Of Morocco : Investment" Société Générale. Available at: <https://import-export.societegenerale.fr/en/country/morocco/country-risk-in-investment> (Accessed August 13, 2020).

52 "King Mohammed VI of Morocco Builds New Financial City for the World" Forbes, 2013.

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*The issuance of capital market securities, money-market instruments, and collective investment securities by non-residents is subject to authorisation and approval of the Foreign Exchange Office.*

offers a range of financing options, and the Casablanca Stock Exchange does not restrict foreign participation.<sup>53</sup> Foreign and domestic investors are generally treated equally under the law, have identical tax exposure on dividends (10%), and pay no capital gains tax.<sup>54</sup>

The prevalence of foreign ownership of companies reflects that foreign ownership is allowed in many sectors. However, there are significant restrictions in some sectors, such as air and maritime companies, fisheries, and insurance.<sup>55</sup> Morocco does not permit foreign investors to own agricultural land, but they can lease it for up to 99 years.<sup>56</sup>

International investment is hampered by some capital controls, with Morocco ranking 126<sup>th</sup> globally. For example, while non-residents can purchase capital and money-market instruments without limitations, the issuance of capital market securities, money-market instruments, and collective investment securities by non-residents is subject to authorisation and approval of the Foreign Exchange Office (FEO).<sup>57</sup>

There are also bureaucratic barriers to the purchase or sale of foreign exchange and a lack of freedom to own foreign currency bank accounts, with Morocco ranking 139<sup>th</sup> globally.<sup>58</sup> Although there are no restrictions on foreigners' abilities to establish bank accounts, foreigners are required to open a "convertible" account with foreign currency and they may only deposit foreign currency into that account; at no time can they deposit Moroccan dirhams.<sup>59</sup> Generally, investors must also notify the government of any investment that requires currency conversion.<sup>60</sup>

Morocco ranks only 89<sup>th</sup> for the freedom of foreigners to visit. Whilst it is relatively easy for foreigners to enter the country (with U.S. and EU citizens in particular not requiring a visa for entry), there can be barriers to obtaining work visas.<sup>61</sup> Visa issuance is contingent upon a company's inability to find a qualified local employee for a specific position and must be verified with the National Agency for the Promotion of Employment and Competency (ANAPEC).<sup>62</sup> According to some reports, the process for obtaining and renewing visas and work permits can be onerous and may take up to six months, except for CFC members, where the processing time is reportedly one week.<sup>63</sup>

### **Opportunity**

1. Reduce capital controls, particularly reducing the need for Foreign Exchange Office authorisation of most transactions.
2. Reduce the restrictions on foreign involvement in the transport, fisheries, and insurance sectors, as well as the restrictions on foreign ownership of agricultural land.
3. Streamline the process for obtaining and renewing visas and work permits, in particular reducing the disparity between CFC-registered companies and others.

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53 "Morocco". *Heritage Index of Economic Freedom*, 2019.

54 Ibid; "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

55 "Morocco Country Report 2020". *BTI Transformation Index*, 2020.

56 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

57 "Morocco – Foreign Exchange Controls". *Version published October 13, 2019*. Trade.gov. Available at: <https://www.trade.gov/knowledge-product/morocco-foreign-exchange-controls>

58 "Morocco – Market Challenges". *Version published October 13, 2019*. Trade.gov.

59 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

60 Ibid.

61 "Morocco – Business Travel". *Version published October 13, 2019*. Trade.gov.

62 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

63 Ibid.









## ENTERPRISE CONDITIONS (MOROCCO RANK: 70<sup>TH</sup>)

*A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focused on protecting incumbents will experience lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities is critical to its overall Economic Openness.*

Morocco ranks 70<sup>th</sup> for Enterprise Conditions, a rise of 23 places from 10 years ago, due predominantly to impressive progress in lowering the burden of regulation through reforms that have reduced the amount of time spent complying with regulation and tax obligations. The environment for business creation has slightly improved, although from a relatively low base, with reforms focused on the ease of starting a business.

However, two major issues constrain Morocco's economic development. The first is that domestic market contestability is poor and worsening. Some important sectors are highly concentrated and there is a high degree of state participation in the economy, with market rules serving to restrict entry, facilitate dominance, or create an unlevel playing field. The second major constraint on economic development is the restrictive and burdensome labour market. Morocco ranks 96<sup>th</sup> for labour market flexibility, with a range of restrictive labour market regulations leading to a high rate of unemployment and large informal sector.

## DOMESTIC MARKET CONTESTABILITY (MOROCCO RANK: 113<sup>TH</sup>)

*Where open, fair, and competitive markets exist, far more often than not, so too does progress and prosperity. One of the most useful things that governments can do is to ensure that there is competition, both domestic and international, as well as a strong and effective anti-monopoly policy. A fair and effectively enforced competitive market benefits all by helping to stimulate improvements in efficiency and innovation. Our measure of Domestic Market Contestability captures how open the market is to new participants, versus protection of the incumbents.*

Morocco ranks 113<sup>th</sup> for Domestic Market Contestability, a fall of six places over the last decade. Morocco has both a relatively high level of market concentration and substantial state participation in the economy, ranking 92<sup>nd</sup> for market-based competition.

Some important sectors are highly concentrated, particularly transport, energy, telecommunications, and financial services.<sup>1</sup> For example, in the banking sector, the top three banks hold two-thirds of the banking system's assets.<sup>2</sup> In the electricity sector, state owned ONEE dominates the generation, distribution, and transmission of electricity.<sup>3</sup> Competition in fixed broadband is weak, with Maroc Telecom (which is 22% state-owned) holding a market share of 89% of fixed lines as of September 2018.<sup>4</sup>

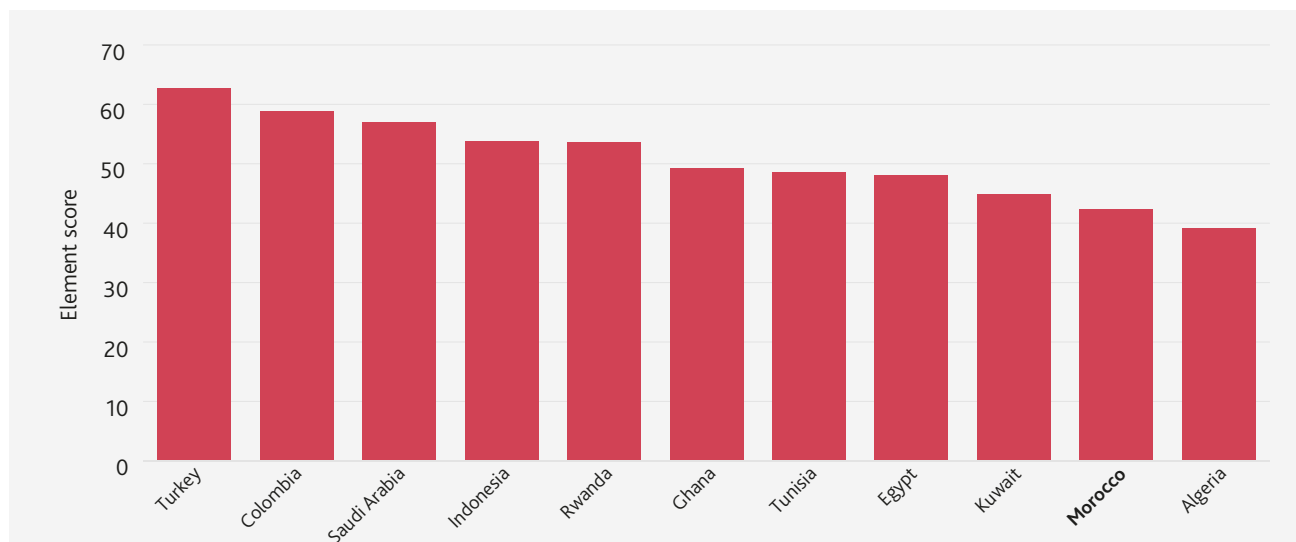
1 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" World Bank Group. 2019, p.34.

2 "2019 Investment Climate Statements: Morocco" US Department of State, 2019.

3 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" World Bank Group. 2019, p.37

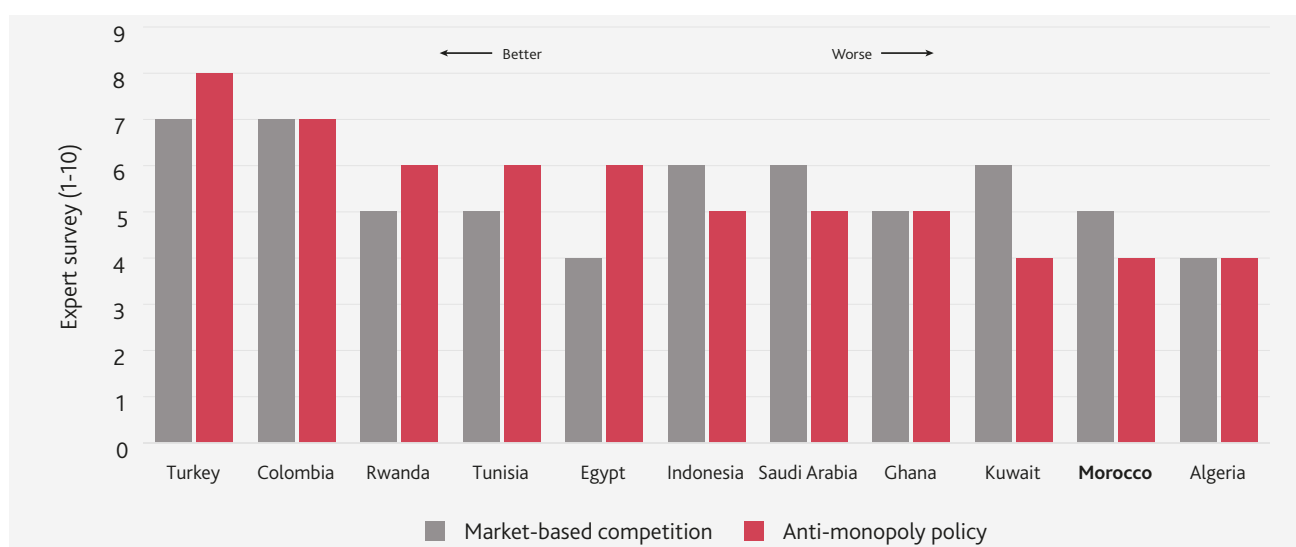
4 "The Report: Morocco 2019". Oxford Business Group. p.185

Figure 10: Domestic Market Contestability score in selected countries



There is also significant state participation in the economy. The World Bank found that 23 out of 29 surveyed sectors, many of them non-infrastructure sectors, had at least one state-owned enterprise, compared to an average of 15 in other countries surveyed.<sup>5</sup> These highly concentrated markets appear to often be the result of government interventions that restrict entry, facilitate dominance, or create an unlevel playing field. For example, the World Bank found that many state-owned enterprises are not required to systematically achieve a commercial rate of return, and they can use non-commercial activities to cross subsidise commercial activities. Some are also exempt from corporate taxes and may receive subsidies from government.<sup>6</sup> State-owned enterprises may also benefit from preferential access to public procurement.<sup>7</sup>

Figure 11: Anti-monopoly policy in selected countries



Source: BTI

5 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" *World Bank Group*. 2019, p.38

6 Ibid.

7 The Global Competitiveness Report 2015–2016. World Economic Forum. As quoted in: <https://www.ganintegrity.com/portal/country-profiles/morocco/>.



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*Stronger institutional frameworks are essential to implementing the constitutional and other legal and regulatory provisions that sustain free competition*

There have been recent attempts to improve procurement processes. In 2014, reforms were passed establishing a national procurement policymaking body, creating a national procurement training strategy, and developing a new national e-procurement system to simplify procurement procedures.<sup>8</sup> In 2018, the government officially installed the 12 members of the procurement regulatory body, the CNCP.<sup>9</sup> The role of the CNCP is to regulate public procurement, control public expenditure, and to “guarantee the principles of transparency and parity in the development and execution of contracts between competitors, while improving the handling of complaints.”<sup>10</sup> The reforms aim to end corruption and irregular payments to access public contracts and licenses.<sup>11</sup>

There has been a lack of enforcement of competition rules, and the World Bank has said that stronger institutional frameworks are essential to implementing the constitutional and other legal and regulatory provisions that sustain free competition in Morocco.<sup>12</sup> The role of the Competition Council was strengthened in 2014 after the government introduced new rules, giving the council the power to sanction certain companies, particularly for anti-competitive practices and merger control.<sup>13</sup> However, the council did not operate until 2018, when the new president and members of the Competition Council were appointed.<sup>14</sup> In 2020, it signed an agreement with the International Finance Corporation (IFC) “to develop an institutional ecosystem to effectively implement the competition policy,” and in July 2020 reached the conclusion of a major investigation of possible agreements between hydrocarbon companies and the Petroleum Group of Morocco.<sup>15</sup> However, following contradictory communications to the King on the outcome of the investigation (initially communicated as a fine amounting to 9% of annual turnover for three of Morocco’s leading oil distributors), he ordered the creation of an ad-hoc commission to investigate the situation.<sup>16</sup> This case is also an example of the financial linkages that exist between the government and major private enterprises, and illustrates the challenges for institutional and governance reforms to take root.<sup>17</sup>

### **Opportunity**

The state should limit its direct involvement in the economy, and opportunities for state-owned enterprises to benefit from privileged access to markets should be reduced.

1. Embed competition principles in key enabling sectors such as energy and telecoms, by lifting entry barriers that protect incumbents and reinforcing the role of sector regulators.<sup>18</sup>
2. Ensure competitive neutrality, so that all organisations, whether privately or publicly owned, face the same set of rules.<sup>19</sup>
3. Strengthen public procurement through a clear strategy and associated funding for the National Commission for Public Procurement.

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8 “Public Procurement Reform In Morocco” *Rachel Lipson*, Salim Benouniche, Abdoulaye Keita, Khadija Faridi, 2014.

9 “Morocco makes Strides in Modernizing its Public Procurement System— Operationalization of the Procurement Regulatory Body” *World Bank*. Available at: <https://wbnpf.procurementinet.org/featured/morocco-makes-strides-modernizing-its-public-procurement-system%E2%80%94operationalization> (Accessed August 13, 2020).

10 “Morocco Launches National Commission for Public Procurement in Rabat” *Morocco World News*, 2018.

11 “*Governing Towards Efficiency, Equity, Education And Endurance: Systematic Country Diagnostic*”. *World Bank*, June 2018.

12 “Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading” *World Bank Group*. 2019, p40

13 “Morocco’s evolving business environment encourages legal reform” *Oxford Business Group*. <https://oxfordbusinessgroup.com/overview/code-practice-evolving-business-environment-has-encouraged-reform> (Accessed August 13, 2020).

14 “The Merger Control Review - Edition 10: Morocco” *The Law Reviews*, 2019.

15 “World Bank to Assist Effective Implementation of Competition Policy in Morocco” *Morocco World News*, ,2020.

16 “King Mohammed VI Orders Probe on Sanctions Against Hydrocarbon Companies”. *Morocco World News*, 2020.

17 *Ibid*.

18 “Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading” *World Bank Group*. 2019, p8.

19 *Ibid*, p.38.

## PRICE DISTORTIONS (MOROCCO RANK: 34<sup>TH</sup>)

*Price distortions can arise from both regulatory restrictions and also subsidies, which damage the prosperity of a nation as the finite resources of the state are being inefficiently managed and diverted from projects that can deliver much greater benefits to society. Our measure of Price Distortions captures how competitive markets are disrupted by subsidies and taxes.*

Morocco ranks 34<sup>th</sup> globally for Price Distortions, up 21 places over the last decade and outperforming both the MENA average and most comparators. This change has been caused by the reduction in energy subsidies in Morocco, with the proportion of its GDP spent on energy subsidies declining from 4.5% in 2013 to 1.6% in 2016.

The country ranks 44<sup>th</sup> globally for the distortive effect of taxes and subsidies. Although the market determines prices for many goods and services, there are some price controls in transport, staple goods (drinking water, sugar, flour, pharmaceutical products, detergent, tobacco), and regulated professional services (notaries, medical, and judicial services).<sup>20</sup>

Agriculture is one sector where there are widespread subsidies, targeted particularly towards export crops. Under the Agricultural Export Subsidy Programme, eligible products have historically made up 75% of Morocco's agricultural exports.<sup>21</sup> Generally, these subsidies benefitted larger food producers rather than small farmers. Subsidies were focused on irrigated areas, which were around 17% of the total agricultural area.<sup>22</sup> This means many smaller farms do not receive the same level of support.<sup>23</sup> However, some agricultural subsidies have been steadily removed, such as those for oilseeds and sugar.<sup>24</sup>

Morocco's tax code has a range of exemptions that can distort business decisions. In particular, the VAT rate varies significantly from the standard rate of 20%: there are reduced rates for transport and solar energy (14%), for gas and banking, financial, and catering services (10%), and for water and animal feed (7%).<sup>25</sup> There are also some goods and services that are exempt, such as those rendered to companies established in free trade zones, as well as agricultural materials and equipment.<sup>26</sup>

There are also other tax exemptions, which can lead to distortions. These exemptions can take different forms, such as reductions in rate, deductions, allowances, lump sum taxation, and liquidity facilities.<sup>27</sup> In 2016, there were 407 exemptions that were mostly aimed at incentivising economic activities, particularly agriculture and fishing, food industries, real estate, or financial intermediation.<sup>28</sup>

### Opportunity

1. Continue to assess and reduce subsidies in the agricultural sector.
2. Where possible, simplify the tax regime by standardising rates of VAT and removing exemptions.

20 "Creating Markets in Morocco: A Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading" *World Bank Group*. 2019, p38..

21 "Morocco: Agricultural Export Subsidy Program Expands" *USDA Foreign Agricultural Service*, 2018.

22 "For food sovereignty in Morocco" *ATTAC/CADTM Maroc*, 2019.

23 Ibid.

24 "Agriculture and Economic Transformation in the Middle East and North Africa," *International Food Policy Research Institute*, June 2018.

25 "Morocco: Tax System" *Santander Trade Markets*. Available at: [https://santandertrade.com/en/portal/establish-overseas/morocco/tax-system?&actualiser\\_id\\_banque=oui&id\\_banque=17&memoriser\\_choix=memoriser](https://santandertrade.com/en/portal/establish-overseas/morocco/tax-system?&actualiser_id_banque=oui&id_banque=17&memoriser_choix=memoriser) (Accessed August 13, 2020).

26 Ibid.

27 "Morocco: Selected Issues," *IMF Country Report No. 18/76*, November 2017, p.7.

28 Ibid.

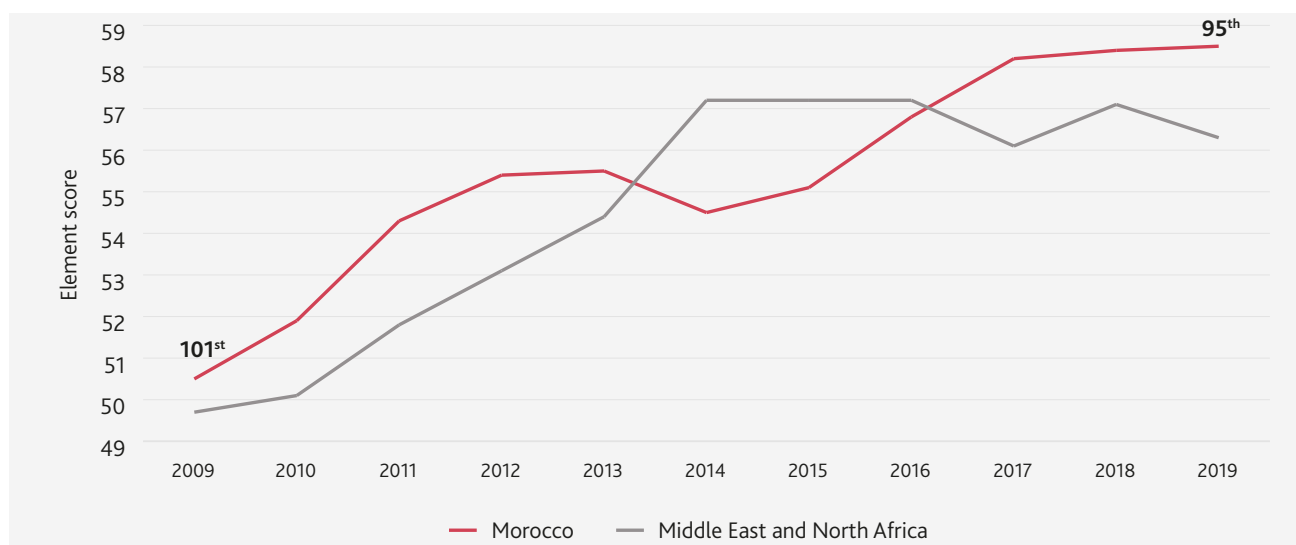
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*Morocco's tax code has a range of exemptions that can distort business decisions.*

## ENVIRONMENT FOR BUSINESS CREATION (MOROCCO RANK: 95<sup>TH</sup>)

*Entrepreneurial activity is the manifestation of a healthy and dynamic society, in which ideas are constantly being created, developed, and tested. It is important that the process of turning ideas into success is as easy and accessible as possible. Government, and hence society, can benefit by providing a supportive environment that appreciates and values the contribution entrepreneurs can make towards improvements in prosperity.*

Figure 12: Environment for Business Creation score



Morocco ranks 95<sup>th</sup> for the Environment for Business Creation, a slight increase of six places over the last decade, in line with other countries in the MENA region. This has been due primarily to the improved ease of starting a business, and the increasing perception that private companies are permitted and protected.

Morocco ranks 30<sup>th</sup> in the world for the ease of starting a business, a slight improvement of three places since 2009. According to the World Bank, the process of registering a business in Morocco takes an average of nine days (significantly less time than the Middle East and North Africa regional average of 21 days).<sup>29</sup> Including all official fees and fees for legal and professional services, registration costs 3.7% of Morocco's average annual per capita income (significantly less than the region's average of 22.6%).<sup>30</sup>

A number of reforms have been implemented to make it easier to start a business, such as streamlining registration procedures and reducing registration fees.<sup>31</sup> The government is developing a Small Business Act and an Investment Charter, which aims to further simplify administrative procedures and support investors.<sup>32</sup>

Morocco also has a relatively advanced cluster development strategy, for which it ranks 83<sup>rd</sup>. Morocco has had a cluster development strategy since 2009, with the first plan aiming to create 15 clusters. The goal has been to provide companies with assistance to make them more

29 The World Bank, as quoted in "2019 Investment Climate Statements: Morocco" US Department of State, 2019.

30 "2019 Investment Climate Statements: Morocco" US Department of State, 2019.

31 "Morocco Country Report 2020". *BTI Transformation Index*, 2020.

32 "Morocco 2019 Article IV Consultation" *IMF*, 2019.p.19.



competitive, as well as improving research and development.<sup>33</sup> Notable examples include the automotive and aeronautical sectors. The creation of an automotive ecosystem has seen exports in the sector double between 2013 and 2018, making the automobile industry the Kingdom's leading export sector.<sup>34</sup> Furthermore, the creation of a dedicated aerospace industrial zone next to Casablanca International Airport has seen more than 110 companies operating in the aerospace industry establish themselves in Morocco.<sup>35</sup>

A major challenge for businesses is labour skills, with 32% of businesses saying lack of skilled labour is a major constraint for businesses.<sup>36</sup> The literacy rate is just 74% and the higher education system also does not teach the skills required by employers, resulting in a large unemployment rate among university-educated workers.<sup>37</sup> For graduates aged 15-24, the unemployment rate is 59%, and for those aged 25-35, it is 30%.<sup>38</sup> Contrary to the experience normally associated with the rest of the world, the rate of unemployment among young graduates is lower than for non-graduates.<sup>39</sup> Morocco also suffers from skilled people leaving the country. An international Arab Barometer poll found that more than 70% of Moroccans want to leave the country for economic reasons or because of the proliferation of corruption and lack of meritocracy.<sup>40</sup>

Morocco has taken steps to improve this situation. It is investing in teachers and schools, with a plan to recruit and train 200,000 new teachers by 2030.<sup>41</sup> There is also an increased focus on professional training. The government opened 27 vocational and professional training centres between 2015 and 2018.<sup>42</sup> Furthermore, between 2017 and 2018 it almost doubled the number of training scholarships awarded.<sup>43</sup>

The country has also tried to improve the match of skills to the jobs available. For example, in 2019, Morocco launched a new strategy focused on the skills of young people and vocational training. The programme aims to create 12 regional training centres that will offer training courses designed in collaboration with professionals to meet the needs of businesses and the expectations of sectoral and regional ecosystems.<sup>44</sup>

In addition, the National Agency for the Promotion of Employment and Skills (ANAPEC) has launched three programmes to increase labour market participation: Idmaj (wage subsidies for unemployed graduates); Te'hil (youth training); and Moukawalati (entrepreneurship promotion through training and financial assistance).<sup>45</sup>

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33 Boumediene Amraoui, Abdesselam Ouhajjou, Salvatore Monni, Najiba El Idrissi, Manuela Tvaronavičienė. Performance of clusters in Morocco in the shifting economic and industrial reforms. *Insights into Regional Development*, 2019, 1 (3), pp.227-243.

34 "HM The King Chairs Inauguration Ceremony Of PSA Group's Ecosystem In Morocco". *Kingdom of Morocco: Ministry of Industry, Trade and Investment and the Digital Economy* <http://www.mcinet.gov.ma/en/content/hm-king-chairs-inauguration-ceremony-psa-groups-ecosystem-morocco> (Accessed August 13, 2020).

35 "Moroccan Aerospace Industry: The Most Competitive Base At The Gate Of Europe" *GIMAS*. <http://gimas.org/pdf/brochuregimas.pdf> (Accessed August 13, 2020).

36 "Enterprise Surveys" World Bank Data. Available at: <https://www.enterprisesurveys.org/en/enterprisesurveys>.

37 "High and Persistent Skilled Unemployment In Morocco: Explaining it by Skills Mismatch" *OCP Policy Center*, 2017.

38 "Morocco 2040: Emerging by Investing in Intangible Capital" *Jean-Pierre Chauffour*, 2017. p.232.

39 Ibid.

40 "La Maroc saigne encore de ses compétences" *Yabiladi*. Available at: <https://www.yabiladi.com/articles/details/80239/maroc-saigne-encore-competences.html> (Accessed August 13, 2020).

41 "The Report: Morocco 2019". Oxford Business Group. p.248.

42 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

43 Ibid.

44 "Le Roi lance les travaux de la Cité des Métiers et des Compétences à Agadir" *Medias24*, 2020.

45 Labor Market in Morocco: Challenges and Opportunities. World Bank, 2018.

### Opportunity

The priority for Morocco is to improve the match of skills gained from the education sector with those required in the labour market.

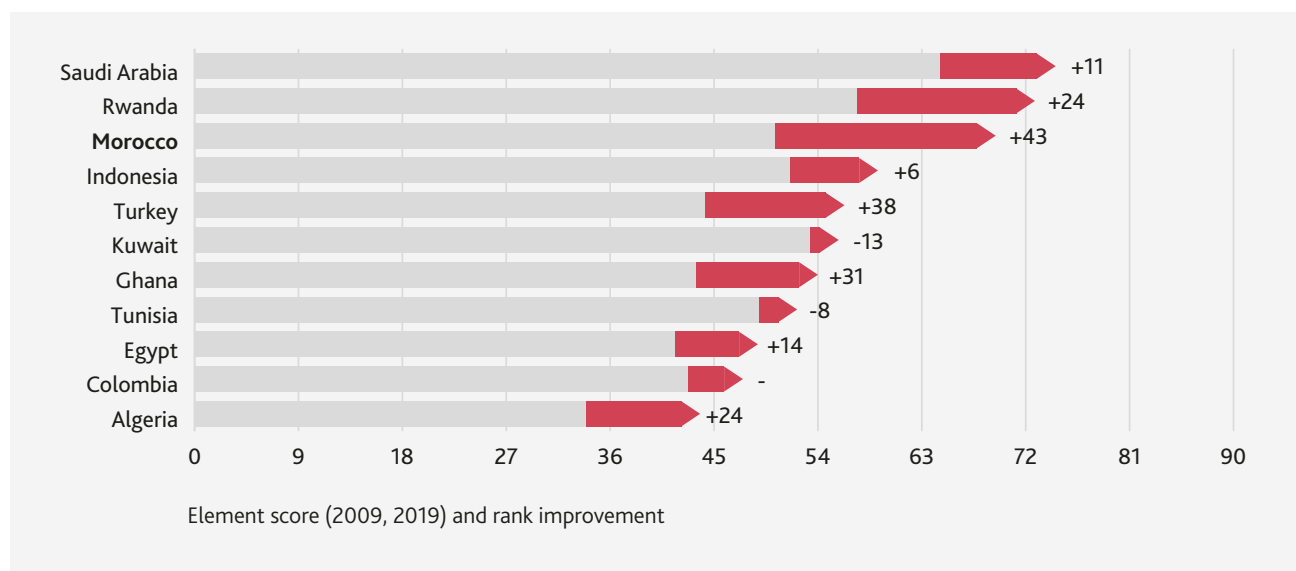
1. Carry out regular evaluations of sectoral strategies and make changes to ensure measures are helping Moroccans acquire the right skills.
2. Vocational training programmes should be continued and potentially expanded.
3. Morocco should aim to reduce the loss of skilled people through stronger efforts to increase fair market competition and to tackle corruption.

## BURDEN OF REGULATION (MOROCCO RANK: 23<sup>RD</sup>)

A large administrative burden results in companies focusing resources on complying with these regulations, rather than innovating and creating. In particular, the process of complying with tax regulations should be uncomplicated and quick. While the possibility of taxation having a detrimental effect on business is well understood, so too is the method of tax collection and the complexity of taxes being levied. Our measure captures how much effort and time are required to comply with such regulations.

Morocco has made impressive progress in reducing the Burden of Regulation, rising from 66<sup>th</sup> to 23<sup>rd</sup> in just 10 years. This has been driven by a range of reforms made by government leading to improvements across all but one of the indicators within this element of the index.

Figure 13: Improvements in Burden of Regulation score in selected countries



The proportion of time that senior management spend dealing with requirements imposed by government regulations has fallen from an average of 11% in 2009 to under 5% in 2019, and the burden of obtaining building permits has been reduced, with Morocco rising 7 ranks to 22<sup>nd</sup> globally. It takes just 12 procedures to get permission to build a warehouse, which compares favourably to both the MENA average (16 procedures) and the OECD high-income average (13 procedures).<sup>46</sup> The time taken to complete these procedures is also low, amounting to 58 days,

46 "Ease Of Doing Business In Morocco" World Bank Doing Business. Available at: <https://www.doingbusiness.org/en/data/exploreconomies/morocco#> (Accessed August 13, 2020).

much less time than the MENA average (124 days) and OECD high-income average (152 days).<sup>47</sup>

Morocco has implemented a series of reforms to improve the process of obtaining building permits. In 2008, Morocco introduced a “one-stop shop” for dealing with construction permits and most recently, Morocco has made it easier to obtain certain certificates of conformity online.<sup>48</sup>

The total number of tax payments required for businesses to complete has also been reduced significantly, from 28 per year in 2009 to 6 per year in 2019 as has the time spent filing taxes, falling from 358 hours per year in 2009 to 155 hours in 2019.<sup>49</sup>

This has been achieved through a range of reforms such as improving the electronic platform for filing and paying corporate income tax, VAT and labour taxes in 2016 and integrating the tax platform with accounting software meaning taxpayers can now review their fiscal status instantly.<sup>50</sup>

### **Opportunity**

1. Continue simplifying business-related administrative procedures by further digitisation and creating one-stop shops.<sup>51</sup>
2. Continue to identify reforms which reduce the amount of time spent filling in taxes.

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47 “Ease Of Doing Business In Morocco” *World Bank Doing Business*. Available at: <https://www.doingbusiness.org/en/data/exploreconomies/morocco#> (Accessed August 13, 2020).

48 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>; “Doing Business 2020: Comparing Business Regulation in 190 Economies” *World Bank Group*, 2020.

49 Doing Business Data. World Bank. Available at: <https://www.doingbusiness.org/en/data>.

50 “Doing Business 2020: Comparing Business Regulation in 190 Economies” *World Bank Group*, 2020; “Paying Taxes 2018” World Bank Group and PWC. p.28.

51 “Report to G20 Compact with Africa – Compact Narrative Kingdom of Morocco” *Compact with Africa*, 2018. p.4.



## LABOUR MARKET FLEXIBILITY (MOROCCO RANK: 96<sup>TH</sup>)

*Labour Market Flexibility helps to simultaneously ensure the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, and available jobs may well be unappealing, with little redress available for those who find themselves in a bad employment situation. Our measure captures how dynamic and flexible the workplace is for both employer and employee.*

Morocco's labour market is one of the most important challenges the country faces. Despite rising 17 places in the global rankings over the last ten years, Morocco ranks just 96<sup>th</sup> for Labour Market Flexibility. This is below the MENA average and worse than most comparator countries, except Ghana, Colombia, and Tunisia.

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*Morocco has high unemployment and low labour force participation rates, particularly among young people and women.*

Morocco has high unemployment and low labour force participation rates, particularly among young people and women. In some areas, youth unemployment is as high as 40%.<sup>52</sup> Female labour force participation is particularly low (23%).<sup>53</sup> In addition to the high unemployment rate, there is a high rate of informality in the labour market, with estimates that it is as high as 40% of all employment.<sup>54</sup>

One of the factors driving the high rates of unemployment and informality is restrictive labour market regulations that make the cost of formal labour high in Morocco. For example, hiring workers is onerous, with Morocco ranking 127<sup>th</sup> for the ease of hiring for three main reasons:

- i. There are stringent barriers against terminating the employment of workers, particularly for small companies. Only businesses with more than 10 employees may terminate for economic, technical, or structural reasons, and applying these rights is bureaucratic and cumbersome.<sup>55</sup> Although Morocco has made good progress reducing the cost of its redundancy payments, from 85 weeks to 21 weeks over 10 years, it still ranks 104<sup>th</sup> in the world. These protections may be kept in place due to the lack of an unemployment insurance scheme in Morocco.<sup>56</sup> Unemployment benefits are difficult to access and do not cover everyone who loses their job.
- ii. The cost of labour is high. The cost of overtime and nightwork is expensive compared to international practices and the minimum wage is high.<sup>57</sup> In urban areas in 2015, it was equal to as much as 50% of the average wage in the formal private sector.<sup>58</sup> These costs are often exacerbated by collective agreements. The government has committed to continue to raise the minimum wage, raising it by 10% over two years (from 2019-2020).<sup>59</sup>
- iii. Until July of 2020 it was prohibited to use fixed-term contracts for permanent tasks, and any fixed-term contract was limited to 12 months.<sup>60</sup> A new law has been passed removing some of these constraints.<sup>61</sup>

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52 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

53 "Labor Market in Morocco: Challenges and Opportunities" *World Bank*, 2018.

54 "An Estimation of the Informal Economy in Morocco" *Bourhaba Othmane and Hamimida Mama*, *International Journal of Economics and Finance*; Vol. 8, No. 9; 2016

55 "Morocco 2040: Emerging by Investing in Intangible Capital" *Jean-Pierre Chauffour*, 2017. p.159.

56 "Institutions and Labour Markets in the Southern Mediterranean Countries: A Survey Of Egypt, Jordan, Morocco & Tunisia" *Euro-Mediterranean Network of Economic Studies (EMNES)*, 2017.

57 "Morocco 2040: Emerging by Investing in Intangible Capital" *Jean-Pierre Chauffour*, 2017. p.158

58 *Ibid.* p.159

59 "Moroccan Government to Increase Wages and Family Benefits" *Morocco World News*, 2019.

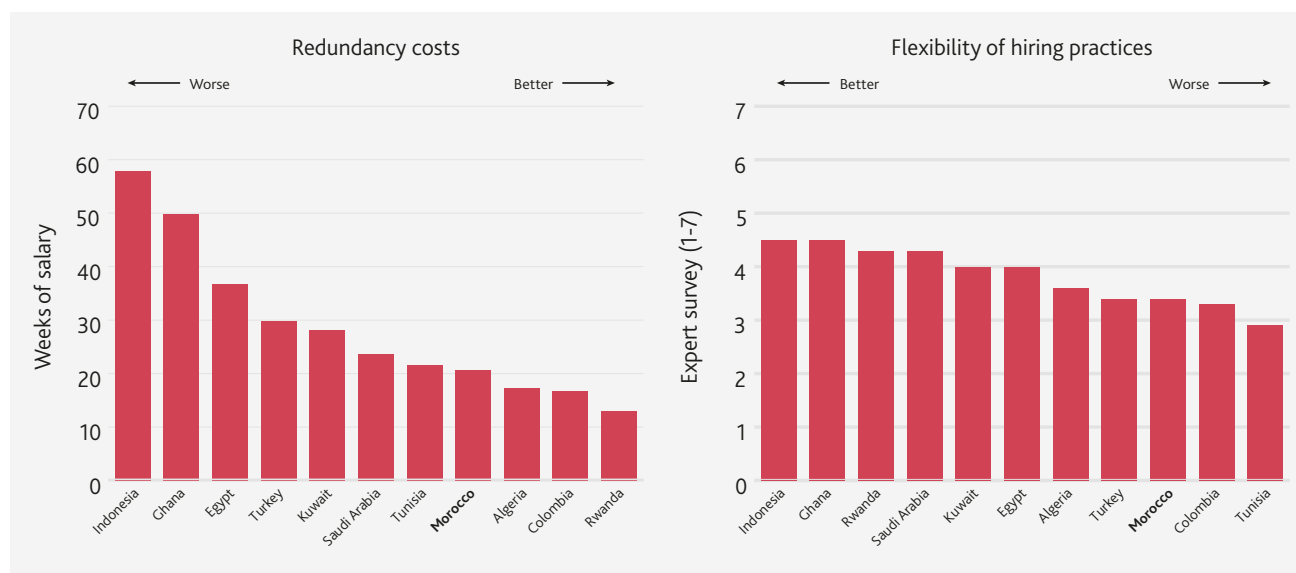
60 "Morocco 2040: Emerging by Investing in Intangible Capital" *Jean-Pierre Chauffour*, 2017. p.158

61 "Contrat à durée déterminée : les situations exceptionnelles connues" *Challenge.ma*. July 21, 2020.



Unions are widely prevalent, and “employers often consider the Moroccan labour market rigid with weighty cooperation in labour-employer relations.”<sup>62</sup>

Figure 14: Morocco redundancy costs and flexibility of hiring practices in selected countries



Source: WEF

Overall, the opportunity from improving labour market flexibility is significant. The IMF has argued that reducing hiring costs alongside other barriers to entry, particularly for SMEs, could “lead to a 2.5% increase in output and a 2.2% reduction in unemployment over the medium term.”<sup>63</sup>

The government has made some steps in this direction: as previously mentioned, the National Agency for the Promotion of Employment and Skills (ANAPEC) has launched three programmes to increase labour market participation. A temporary contracts programme designed to help new entrants into the job market has also been established. The government paid the social security and medical insurance contributions for the employee, and participants were required to hire 60% of the National Agency for the Promotion of Employment and Skills (ANAPEC) interns at the conclusion of the contract.<sup>64</sup>

### Opportunity

1. Slow the increase of the minimum wage.
2. Lower costs of redundancy and make it easier for small businesses to use redundancy to downsize their business when required.
3. Make temporary contracts more flexible.
4. Consider introducing a more comprehensive form of unemployment insurance in exchange for making practices for terminating employment contracts more relaxed.

62 “Labour Market Profile 2018: Morocco” Danish Trade Union Development Agency, 2018. p.ii.

63 “Morocco 2019 Article IV Consultation” IMF, 2019. p.18.

64 “Labour Market Profile 2018: Morocco” Danish Trade Union Development Agency, 2018. p.9.



سوق

mobilier

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مفاجات  
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LES SURPRISES  
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## GOVERNANCE (MOROCCO RANK: 98<sup>TH</sup>)

*The importance of good governance to long run economic growth cannot be overstated.<sup>1</sup> Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants of differences in prosperity across countries.<sup>2</sup> Governance underpins economic activity; unless and until good governance is established, attracting investment and enterprise is nearly impossible. Investment and prosperity require the effective rule of law, which itself is dependent upon trust in a robust set of effective and accountable state institutions.<sup>3</sup> Good governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.<sup>4</sup>*

Morocco ranks 98<sup>th</sup> for Governance and has fallen 16 places over the last decade, with declines across every element of Governance in our Index. Morocco ranks significantly below comparator countries such as Ghana (55<sup>th</sup>), Indonesia (62<sup>nd</sup>), Rwanda (64<sup>th</sup>), and Tunisia (65<sup>th</sup>). A new Constitution was introduced in 2011. While these changes are yet to significantly improve Morocco's rankings for Governance, it has created a potential pathway to a new era which could — in the long run — see the results of these systemic changes. There is a perception that executive constraints contained within the constitution are not sufficiently strong in practice. The Government's effectiveness could benefit from better accountability and improved coordination, which would in turn lower corruption. There are a range of issues with the court system and there has been a significant deterioration in how experts view the enforcement of regulations in the country over the last few years. The last Parliamentary election in 2016 reduced parliamentary fragmentation, and recent reforms show some promising signs of tackling corruption, such as reforms aimed at making public procurement fairer and safer, and a new law to protect whistle-blowers.

## EXECUTIVE CONSTRAINTS (MOROCCO RANK: 69<sup>TH</sup>)

*A well-functioning government relies on clearly defined, separated powers and an appropriate level of external checks and balances on the executive, from bodies such as the judiciary, media, and civil society. Appropriate action also needs to be taken when officials violate their power. Our measure accounts for the extent of institutionalized constraints on the decision-making powers of the executive, such as through the separation of powers into different bodies, and the degree to which there are checks and balances in practice.*

Morocco ranks 69<sup>th</sup> for the quality of its executive constraints, slightly declining from its position of 63<sup>rd</sup> 10 years ago, mainly due to a decline in the score that experts give the country for the sanction of Government officials for misconduct. Morocco ranks 59<sup>th</sup> for the extent to which executive powers are limited effectively by the judiciary and legislature, and 96<sup>th</sup> for Government powers being subject to independent and non-governmental checks.

1 Douglass C. North. *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press, 1990.

2 Daron Acemoglu and James Robinson. "The role of institutions in growth and development." *Leadership and Growth* 135 (2010).

3 Guillermo A. O'Donnell, "Why the rule of law matters." *Journal of Democracy* 15, no.4 (2004): 32-46; Stephan Haggard and Lydia Tiede. "The rule of law and economic growth: Where are we?." *World Development* 39, no.5 (2011): 673-685.

4 Richard V. Adkisson and Randy McFerrin. "Culture and good governance: A brief empirical exercise." *Journal of Economic Issues* 48, no.2 (2014): 441-450.

As a constitutional monarchy, power in Morocco has historically been concentrated, although many formal institutions that effectively constrain an executive have been and are present. Morocco's current constitution was introduced in 2011 following the Arab Spring and sets out a separation of powers between parliament, the judiciary, and the government.<sup>5</sup>

However, since the introduction of the new constitution, Morocco's ranking for executive constraints has not yet improved, with slight declines in the score across the last five years.<sup>6</sup>

An important aspect of the Constitution is the set of powers still reserved for the Monarch, including the power to appoint and dismiss Ministers and to preside over the Superior Councils of both Security and Judicial Power.<sup>7</sup> The rankings reflect the practical level of engagement by the Monarch in contrast to the less substantive exercise of discretion in other constitutional monarchies.

## POLITICAL ACCOUNTABILITY (MOROCCO RANK: 131<sup>ST</sup>)

*Political Accountability is important for promoting democracy and ensuring prosperity. It provides a democratic means to monitor government conduct and prevent both the concentration of power and collusion between the state and big businesses. Our measure of Political Accountability captures the degree to which the public can hold institutions to account, and covers a range of mechanisms of accountability such as periodic elections and the degree of political pluralism.*

Morocco ranks 131<sup>st</sup> for political accountability, down from 124<sup>th</sup> 10 years ago. Since its liberation from France in 1956, the monarchy has made a continuous effort to transform the country from a hereditary sultanate into a modern constitutional monarchy with legislative elections and the convening of parliament on a regular basis.<sup>8</sup> The latest step in that process was the introduction of the 2011 Constitution that transferred some governing authority from the monarch to parliament.<sup>9</sup>

On the basis of international benchmarking, political accountability is in an area where Morocco can make further improvements. For example, the Center for Systemic Peace rankings for the level of democracy reflected a move towards democracy following the 2011 constitution, but overall the country still ranks 141<sup>st</sup> in the world. The trend in turnout at parliamentary elections is an indicator of public trust and voting turnout for general elections in Morocco has declined from 82% in 1977 to 43% in 2016, limiting the strength of political accountability through parliament.<sup>10</sup> Morocco does have a vibrant multiparty political system, but to such an extent that this can cause a lack of coherence to the government and the official opposition.<sup>11</sup> In that light it has been seen as a positive development that parliament became less fragmented at the 2016 election, with only 12 parties winning seats in parliament compared to 18 in 2011.<sup>12</sup>

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*Voting turnout for general elections in Morocco has declined from 82% in 1977 to 43% in 2016*

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5 "Morocco's Gradual Political and Economic Transition" *Rafik Hariri Center for the Middle East*, 2015.

6 "Morocco: Constraints on Government Powers" *World Justice Project*, 2020. Data accessed August 28, 2020.

7 "Morocco's Constitution of 2011 – English Translation" *Constitute Project*, 2012.

8 "Polity IV Country Report 2010: Morocco" *Center for Systemic Peace*, 2010

9 "Polity5 Regime Narratives 2018: Morocco" *Center for Systemic Peace*, 2018

10 "Morocco: Voter Turnout by Election Type (Parliamentary)" *International Institute for Democracy and Electoral Assistance*. Available at: <https://www.idea.int/data-tools/country-view/200/40> (Accessed August 20, 2020)

11 Freedom in the World 2020. Freedom House.

12 "Morocco Country Report 2018". *BTI Transformation Index*, 2018.

## RULE OF LAW (MOROCCO RANK: 56<sup>TH</sup>)

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Despite a slight deterioration of eight ranks over the last 10 years, Morocco ranks relatively well for the rule of law at 56<sup>th</sup>. Its overall score is well above the MENA regional average. However, the deterioration has been due primarily to the decline of the integrity of the legal system over the last few years. In 2009, Morocco was among the leading countries in the world for this element, ranked 14<sup>th</sup> globally by the PRS group's International Country Risk Guide's assessment. The most recent assessment now ranks Morocco 48<sup>th</sup>.

A major issue is the independence of the judiciary, for which Morocco ranks 75<sup>th</sup> despite constitutional safeguards. However, in this area there has been a recent positive development on the independence of public prosecutions. In 2017, Morocco moved the office of the public prosecution from the oversight of the Ministry of Justice (part of the executive branch), to the Court of Cassation (part of the judicial branch). According to Abdellatif Chentouf, head of the Morocco Judges' Club, this change "signals the end of an era of tight executive oversight of the public prosecution."<sup>13</sup>

There are also issues with the court system. The Ministry of Justice recognises that the level of judicial competence is generally low, a consequence of the poor training of judges by the National Institute of Judicial Studies, which lacks staff and resources, and because of shortcomings in court internships.<sup>14</sup> A Transparency International survey also shows that 26% of Moroccans think that judges and magistrates are corrupt, with instances such as the removal of a judge at the Rabat Court of Appeal after accepting a bribe.<sup>15</sup> The magistrate was arrested in the context of an operation carried out under the supervision of the Public Prosecutor's Office.

### **Opportunity**

There are a range of detailed studies setting out how to reform the judiciary in Morocco. For example, the International Commission of Jurists set out a full programme of reform in 2013.<sup>16</sup> High priority actions included:

1. Strengthening judicial independence by creating a panel to appoint judges that is more independent of Government. The "Conseil Supérieur du Pouvoir Judiciaire", which is independent from the Justice Ministry, was created in 2017 and this should continue to be supported.<sup>17</sup>
2. Providing greater investment in the court system and greater training for judges.

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13 "Morocco's Pursuit of Judicial Independence" *Carnegie Endowment for International Peace*, 2017.

14 Dylan Brake, "Morocco: Leadership and Governance," 2017, p.19.

15 Global Corruption Barometer Middle East & North Africa 2019: Citizens' Views And Experiences Of Corruption" *Transparency International*, 2019; "Un magistrat à la Cour d'appel de Rabat pris en flagrant délit de corruption" *Maghreb Arabe Press*, 2017.

16 International Commission of Jurists (2013) *Reforming the Judiciary in Morocco*.

17 "SM le Roi reçoit et nomme les membres du Conseil supérieur du pouvoir judiciaire" *Maroc-Diplomatique*, 2017



## GOVERNMENT INTEGRITY (MOROCCO RANK: 79<sup>TH</sup>)

*Corruption has a serious and significant negative economic impact, reducing public trust and the legitimacy of the state. It raises inequality, discourages private sector development, and, by reducing government revenue, limits the ability of governments to invest in productivity-enhancing projects. Transparency supports public accountability and helps build trust in the government, which in turn supports social stability and economic growth. Our measure considers corruption within each branch of government and public office, and it also measures transparency, capturing the degree to which government fosters citizens' participation and engagement through open information and transparent practices.*

Morocco ranks 79<sup>th</sup> for government integrity, having fallen six places in the last decade, and 11<sup>th</sup> out of 19 MENA countries.

Based on cross-country surveys and comparisons, Transparency International find that a lack of political will, low accountability, and poor governance allow systemic corruption to thrive. According to their 2019 report, 53% of people thought corruption had increased in the previous 12 months, and 74% thought the government was failing to fight corruption effectively.<sup>18</sup>

There is also clientelism, meaning patronage or special influence through connections. In common with some other MENA countries, access to public procurement can favour those with deep political connections.<sup>19</sup>

Although the judicial system does prosecute some corruption cases, these can be lengthy processes. An example of delayed justice is the Casino Es Saadi case, where a local government official was allegedly bribed to cheaply sell municipal land to a business. In 2015 the official was sentenced to five years in prison. However, the appeal is still not concluded and has had to restart after the judges who were hearing the appeal were replaced.<sup>20</sup>

There is also a large informal sector in Morocco, boosted by a desire to evade tax and social contributions that derive from conforming to regulations. Some estimate the informal economy to be 43% of GDP in 2015, and this both enables and is to an extent sustained by corruption.<sup>21</sup> The most common type of corruption is in the form of bribes for public services. According to Transparency International, 31% of people paid a bribe for public services in the last 12 months, of which 32% paid bribes to clinics and public health centres.<sup>22</sup>

There are some promising signs that Moroccan officials are increasingly keen to address corruption.<sup>23</sup> In 2016, the National Strategy for Anti-Corruption was launched, and two years later a head of the National Commission for Integrity and Anti-Corruption (NCIAC) was appointed, although this was seven years after the institution was set up. There have also been reforms aimed at making public procurement fairer and safer, and a new law to protect whistle-blowers was introduced in 2019, intending to fulfil Morocco's obligations under the UN Convention against Corruption.<sup>24</sup>

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*31% of people paid a bribe for public services in the last 12 months, including 32% to clinics and public health centres.*

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18 Global Corruption Barometer Middle East & North Africa 2019: Citizens' Views And Experiences Of Corruption" *Transparency International*, 2019.

19 Bauer, Marcus, "Public Anticorruption in Morocco and Tunisia : a Comparative Study" (2019). International Immersion Program Papers. 99

20 Global Corruption Barometer Middle East & North Africa 2019: Citizens' Views And Experiences Of Corruption" *Transparency International*, 2019. p. 36.

21 Bauer, Marcus, "Public Anticorruption in Morocco and Tunisia : a Comparative Study" (2019). International Immersion Program Papers. 99

22 Global Corruption Barometer Middle East & North Africa 2019: Citizens' Views And Experiences Of Corruption" *Transparency International*, 2019. p. 36.

23 Bauer, Marcus, "Public Anticorruption in Morocco and Tunisia : a Comparative Study" (2019). International Immersion Program Papers. 99

24 "Morocco: Draft Law Introduced to Protect Whistle-Blowers in Corruption Cases" *Library of Congress*, 2019.

There are also rules around transparency. To comply with the UN Convention against Corruption, Morocco passed its 2018 Access to Information Law.<sup>25</sup> The law allows Moroccans to ask for permission to receive access to certain government documents. Some features of the rules on transparency include the requirement for public officials, such as Parliamentarians, judges, and civil servants, to declare assets. There is also the requirement for budgets and financial information to be published online.<sup>26</sup>

### Opportunity

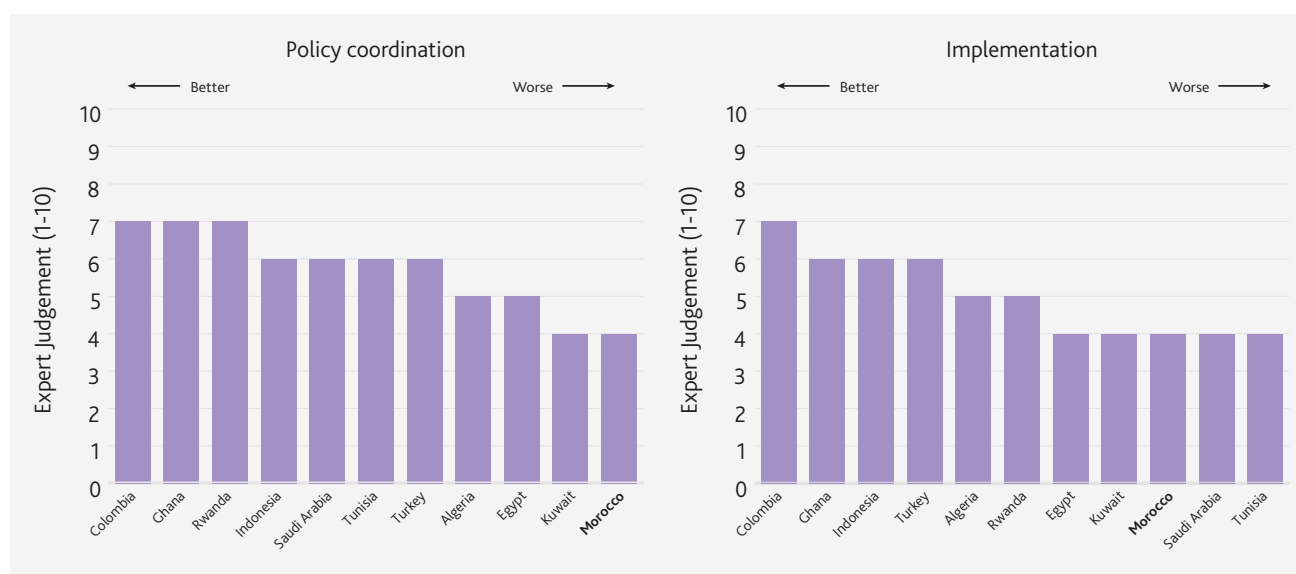
1. Continue to strengthen the role of the anti-corruption body — the National Commission for Integrity and Anti-Corruption — by fostering its independence and access to resources.
2. Reduce the role of the informal sector in Morocco to remove opportunities for corruption.
3. Enact new whistle-blower legislation to ensure there is strong protection for those who report corruption in the public sector.

## GOVERNMENT EFFECTIVENESS (MOROCCO RANK: 114<sup>TH</sup>)

*Government Effectiveness includes, but extends beyond, the efficient use of resources and spending through effective government policy design and implementation, to also consider the ability of a government to enact its stated strategies. Our measure includes the quality of public services, the capability of government officials, and their independence from government pressures.*

Morocco has consistently ranked poorly on government effectiveness throughout the last decade, declining seven places to its current rank of 114<sup>th</sup>. Of the comparator countries, only Egypt performs worse on this measure. Morocco has a particularly low ranking for policy coordination and implementation (117<sup>th</sup> and 119<sup>th</sup> globally respectively).

Figure 15: Policy coordination and implementation in selected countries



Source: BTI

<sup>25</sup> Bauer, Marcus, "Public Anticorruption in Morocco and Tunisia : a Comparative Study" (2019). International Immersion Program Papers. 99

<sup>26</sup> "Freedom in the World 2019: Morocco" *Freedom House*, 2019.



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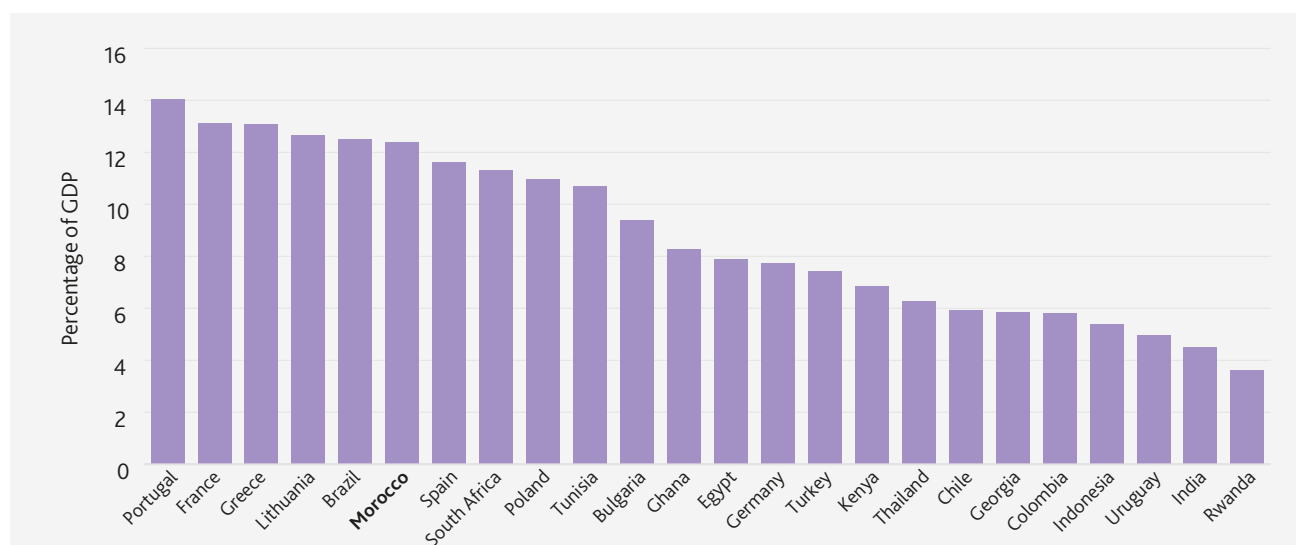


There are several barriers to better implementation of government policy. These include failures of the Government to coordinate policy effectively, the fragmented party system, inefficient allocation of public resources, and difficulties with delivering decentralised services. The Bertelsmann Transformation Index (BTI) and the World Bank argue that there are a flurry of reform/development activities and political initiatives in Morocco, but they lack overall coherence and they are not often effectively implemented.<sup>27</sup>

Infrastructure projects tend to be relatively well delivered, such as the Tanger port redevelopment and the construction of the Tangier-Casablanca railway (see Transport). Morocco's industrial strategy has also been particularly successful. First launched in 2005 (and updated in 2009 and 2014), it has attracted several large companies to Morocco, including Boeing and Peugeot-Citroën.<sup>28</sup>

However, there is inefficiency in the public sector. According to the Worldwide Bureaucracy Indicators (WWBI), the central government wage bill represents 40% of the government budget and 12.4% of GDP, which is very high compared to many other countries (see Figure 16). The fragmented party system hampers efficient and effective government. The government is often made up of multiple parties who struggle to coalesce around policy proposals and will often compete for particular ministries.<sup>29</sup>

Figure 16: Public sector wage bill in selected countries



Source: WWBI

27 "Morocco Country Report 2020". *BTI Transformation Index*, 2020 and "Morocco 2040: Emerging by Investing in Intangible Capital" *Jean-Pierre Chauffour*, 2017.

28 "Maroc : comment le plan d'accélération industrielle a dépassé les objectifs fixes" *Jeune Afrique*, 2017.

29 "Morocco Country Report 2020". *BTI Transformation Index*, 2020.

Another major challenge is the public financial management system. In general, the system ensures overall fiscal discipline. However, according to the World Bank, it needs “more attention to enhance the strategic allocation of resources and ensure the provision of quality public services.”<sup>30</sup> For example, despite 30% of the annual budget being allocated to education, outcomes remain disappointing. In general, the Bank notes that “without fundamental improvements in the efficiency of the public spending (capital and recurrent), at all levels, the quality of public services might remain stagnant.”<sup>31</sup>

Existing reforms, such as performance budgeting, have not been fully implemented. Reforms to decentralise the Moroccan public service since 2011 are seen as not having led to an increase in accountability or performance, but rather have resulted in “expensive double structures where every representative institution (e.g., municipal council), is monitored by the equivalent of a regime-appointed executive.”<sup>32</sup>

Some areas of government expenditure also remain low. For example, in 2017, Morocco spent \$160 per capita on health, which was 123<sup>rd</sup> in the world, behind Tunisia, (\$250), Algeria (\$258), and Jordan (\$340).<sup>33</sup>

### **Opportunity**

1. Accelerated and additional public sector reforms would secure durable public savings while strengthening the efficiency and quality of public services, including simpler and more flexible statutes and salary structures, and merit-based career progression (in line with recommendations from the Cour des Comptes in 2017).<sup>34</sup> These reforms would:
  - a. Aim to make all recruitment fill vacant positions responding to clearly defined needs.
  - b. Ensure there is the “systematic use of benchmarks for the positions and skills sought.”<sup>35</sup>
  - c. Combat absenteeism through clearer disciplinary procedures.
  - d. Manage civil servants based on results.
  - e. Introduce a system of remuneration that is “motivating, consistent, and transparent and compensates for the effort and degree of complexity of the job performed”.<sup>36</sup>
  - f. Facilitate better training of civil servants to ensure that skills match the tasks required of them.

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30 “International Bank For Reconstruction And Development, International Finance Corporation, Multilateral Investment Guarantee Agency: Country Partnership Framework For The Kingdom Of Morocco For The Period FY19–FY24” *World Bank Group*, 2019. p.64.

31 Ibid.

32 “Morocco Country Report 2020”. *BTI Transformation Index*, 2020.

33 “Current health expenditure per capita (current US \$)”. World Bank Data. Available at: <https://data.worldbank.org/indicator/SH.XPD.CHEX.PC.CD> (Accessed on August 19 2020).

34 “Morocco 2019 Article IV Consultation” *IMF*, 2019. p.17.

35 “Morocco 2040: Emerging by Investing in Intangible Capital” *Jean-Pierre Chauffour*, 2017. p 206

36 Ibid.

## REGULATORY QUALITY (MOROCCO RANK: 74<sup>TH</sup>)

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*Regulatory Quality encompasses all aspects of the running of the regulatory state — whether it is burdensome and impedes private sector development, or whether it is smoothly and efficiently run. Our Regulatory Quality measure encompasses both the quality of, and burden imposed by, governmental regulation.*

Morocco ranks 74<sup>th</sup> globally for regulatory quality, above the MENA regional average, and outperforms its peers such as Tunisia (100<sup>th</sup>), Algeria (119<sup>th</sup>), and Egypt (147<sup>th</sup>). However, it has declined markedly from 59<sup>th</sup> in 2009, driven in large part by a significant decline in expert perceptions of the enforcement of regulations over the last few years, for which Morocco has fallen from 56<sup>th</sup> to 97<sup>th</sup> over the last 10 years.

Generally, enforcement depends on the sector. For example, the National Telecommunications Regulatory Agency (ANRT) regulates telecommunications by participating in the development of the legislative and regulatory framework, whereas in electricity, the first board members of the national regulatory authority (ANRE) have only recently been appointed.<sup>37</sup> Even where there is an established regulation, government representation on the board (as for ANRT) mean that risks of interference should be closely monitored to avoid compromising the independence and effectiveness of the regulator when taking and enforcing decisions (as discussed in the Market Access and Infrastructure section of this report).

There is an increased recognition that a good regulatory environment is important for businesses in Morocco and attracting foreign investment, and in 2015 a law introduced regulatory impact assessments into Moroccan law.<sup>38</sup> However, the law did not lay out what the details and conditions of those assessments needs to be, and there is no body tasked with reviewing and monitoring the statements.<sup>39</sup>

On the positive side, regulations developed by various ministries are usually approved by the relevant minister, and every draft regulation is made available for public comment.<sup>40</sup> Regulations are then published in Arabic and French in their entirety and published on the website of the General Secretariat of the government.<sup>41</sup>

### **Opportunity**

1. Establish legally independent regulators in all utility sectors that can effectively set and enforce existing regulations. These regulators should have a strategic steer from Government, but no executive branch representation on their boards.
2. Establish an independent body tasked with oversight of regulatory impact assessments.

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37 "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019; "Maroc/ANRE: Un régulateur du secteur de l'électricité" *2M.ma*, August 14, 2020.

38 "Modernization of the Business Legal System" MICJ. Available at: <https://micj.justice.gov.ma/2019/09/19/modernization-of-the-business-legal-system/>

39 "Global Indicators of Regulatory Governance: Worldwide Practices of Regulatory Impact Assessments" *World Bank Group*, 2019. p.10; "2019 Investment Climate Statements: Morocco" *US Department of State*, 2019.

40 *Ibid.*

41 *Ibid.*





## CONCLUSIONS

While true prosperity is about much more than economic success and material wealth, every nation still needs a successful economy to build sustainable prosperity. Our intention in publishing this case study of Morocco's Economic Openness has been to identify the country's achievements, while also highlighting further opportunities for reform.

Morocco faces two substantial challenges: tackling the impact of coronavirus and declining rainfall in the region. However, the country has several strengths and significant economic potential. The country is a trading nation, with extensive trade deals and a port infrastructure that, together with its geographical location, makes it a regional hub. Through a programme of reforms, the government has improved the investment environment by strengthening both the insolvency and intellectual property regimes, and substantially reduced the amount of time spent complying with regulation and tax obligations leading to an improvement in enterprise conditions.

Virtually universal access to electricity and widespread access to the internet creates opportunities within the country for growth and together with an active industrial cluster development strategy, there are significant opportunities for national and international businesses. Prudent macroeconomic management provides the basis for a state that could enable future prosperity.

Despite these strengths, Morocco has several structural challenges that must be overcome. Following our analysis across four pillars and 23 elements, we have identified the following four constraints to further Economic Openness in Morocco.

**Firstly, Morocco could continue to invest in infrastructure, with a particular focus on water resources and broadband infrastructure.**

Morocco faces significant challenges from declining rainfall in the region, the associated availability of water resources, and the impact this has on its large agricultural sector. This is already undermining economic growth. Although this is a substantial challenge, there are opportunities to mitigate the impacts because there appears to be substantial inefficiency in water use. Morocco has already begun to invest in programmes to improve irrigation infrastructure and improve water efficiency — these should be continued and evaluated to further improve their effectiveness. Efforts to recycle wastewater and build desalination capacity are also being made; these should be expanded.

Three other areas of infrastructure are relatively poor by international standards: the coverage of broadband, road, and rail infrastructure. For broadband in particular there is a significant opportunity to increase fair competition in the provision of infrastructure. Morocco should take steps to make the National Telecommunications Regulatory Agency independent from Government Ministers and to increase competition by introducing a market access regime instead of a licensing regime and regulation to establish open and non-discriminatory access to communications networks. To improve national broadband coverage, Morocco should consider a range of measures including promoting public-private partnerships and making full use of the universal service fund.

**Secondly, Morocco could seek to increase growth and dynamism in the economy by steadily increasing the role of the private sector in key sectors of the economy.**

Morocco's economy is hampered by a lack of competition. Some important sectors are highly concentrated and there is significant state participation in the economy. These highly concentrated markets are often the result of government interventions that restrict entry, facilitate dominance, or create an unlevel playing field.

To increase economic growth and dynamism, the state could limit its direct involvement in the economy and reduce the opportunities for state-owned enterprises to benefit from privileged access to markets. In particular, Morocco can embed competition principles in key enabling sectors such as energy and telecoms, ensure that privately and publicly owned companies face the same set of rules, and strengthen public procurement.

The agricultural sector is also highly protected through tariff and non-tariff measures. Morocco can gradually open agricultural markets because agriculture constitutes one of the engines of its economy. An agricultural strategy should offer better opportunities for small and large operations to transform the agrifood sector into a stable source of growth, competitiveness, and economic development in rural areas.

**Thirdly, the labour market could be made more flexible to address high levels of informality, and skills better matched to jobs available.**

The labour market is a key weakness for Morocco with low inclusion of young people and women in particular, slow job growth, and a high degree of informality. Before coronavirus, the unemployment rate was already elevated at 9.2% and labour force participation had been experiencing a protracted decline to below 46%. Entrepreneurial activity and productivity are also low.

To improve the labour market, Morocco can take a range of actions. To make the labour market more flexible, the country can slow the increase of the minimum wage, lower the costs of redundancy, make it easier for small businesses to use redundancy, and make the use of temporary contracts more flexible. To facilitate these changes Morocco should introduce a more comprehensive form of unemployment insurance.

Morocco also has a poor match between skills and the jobs available, with a relatively low literacy rate but also a low a large unemployment rate among university-educated workers. Morocco has started putting in place vocational training programmes, which should be continued and potentially expanded.

**Finally, by strengthening its governance Morocco could underpin a growth and broadening of economic activity throughout the country.**

Morocco's governance issues risk undermining the progress made in other areas. Corruption undermines both domestic and international investment and poor government effectiveness hampers delivery of broader reforms to unleash growth and broaden economic activity.

To realise the potential strengths of the Moroccan economy, the state could tackle both corruption and significantly reduce the prevalence of state-owned enterprises in the economy and the related distortions. To do this, the role of the National Commission for Integrity and Anti-Corruption should be strengthened by enhancing its independence and access to resources, and Morocco could establish legally independent regulators in all utility sectors that can effectively set and enforce existing regulations. These regulators should have a strategic steer from Government but no executive branch representation on their boards.

Government effectiveness could be significantly improved by a less fragmented parliamentary system. And finally, a range of reforms to the judiciary could improve their independence and effectiveness, including supporting the independent panel created in 2017 to appoint judges, publishing all court rulings shortly following determination, and providing greater investment in courts and training for judges.

In a country such as Morocco, the challenge of securing impetus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful interest groups. For example — as in other countries — labour market reform is challenged by trade unions; market liberalisation is opposed by incumbent enterprises that run the existing systems; liberalisation of foreign investment is resisted by dominant domestic firms; changes to land policy are viewed with suspicion by traditional and regional authorities; and finally subsidy reform is opposed by recipients, even those who as citizens would benefit from the resulting higher levels of public investment and lower prices of e.g. agricultural products.

Nonetheless, Morocco's recent history and development has shown that, with political will, it can deliver reform. Continuing down that road, with the additional reforms identified in this case study, will help Morocco to compete successfully in the world economy.



# APPENDIX



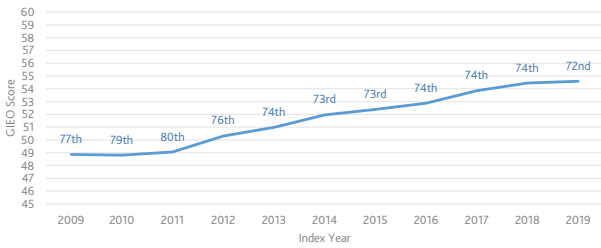




# Morocco: GIEO Score 54.6 (72nd)



## Economic Openness over time



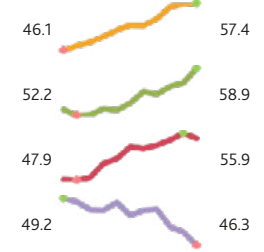
## Pillar Performance

- Market Access and Infrastructure
- Investment Environment
- Enterprise Conditions
- Governance

Rank - Global PI (1 to 167)  
2019

Market Access and Infrastructure	64
Investment Environment	68
Enterprise Conditions	70
Governance	98

Score  
2009 10-year trend 2019



## Breakdown of performance

	2009	Score 10-year trend	2019	Rank - Global PI (1 to 167) 2019	10-year rank change
<b>Economic Openness</b>	<b>48.9</b>		<b>54.6</b>	<b>72</b>	<b>▲ 5</b>
<b>Market Access and Infrastructure</b>	<b>46.1</b>		<b>57.4</b>	<b>64</b>	<b>▲ 4</b>
Communications	34.7		66.4	74	▲ 7
Resources	61.9		61.0	58	▼ 10
Transport	37.6		42.8	60	▲ 13
Border Administration	41.7		44.8	87	▼ 8
Open Market Scale	66.5		65.0	28	▼ 21
Import Tariff Barriers	55.2		61.1	94	▲ 7
Market Distortions	49.6		62.3	73	▲ 56
<b>Investment Environment</b>	<b>52.2</b>		<b>58.9</b>	<b>68</b>	<b>▲ 13</b>
Property Rights	58.8		66.6	50	▲ 14
Investor Protection	45.1		57.4	60	▲ 31
Contract Enforcement	48.0		50.5	73	▲ 6
Financing Ecosystem	56.9		63.1	66	▲ 22
Restrictions on International Investment	45.4		46.8	102	▲ 8
<b>Enterprise Conditions</b>	<b>47.9</b>		<b>55.9</b>	<b>70</b>	<b>▲ 23</b>
Domestic Market Contestability	42.8		42.3	113	▼ 6
Price Distortions	56.3		65.6	34	▲ 21
Environment for Business Creation	50.5		58.5	95	▲ 6
Burden of Regulation	50.3		69.4	23	▲ 43
Labour Market Flexibility	42.2		46.5	96	▲ 17
<b>Governance</b>	<b>49.2</b>		<b>46.3</b>	<b>98</b>	<b>▼ 16</b>
Executive Constraints	58.5		55.1	69	▼ 6
Political Accountability	42.3		39.2	131	▼ 7
Rule of Law	59.8		55.3	56	▼ 8
Government Integrity	46.4		45.4	79	▼ 6
Government Effectiveness	42.1		39.0	114	▼ 7
Regulatory Quality	49.5		46.1	74	▼ 15



Italics: indicator contains imputed values

		Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019			Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019
<b>Communications (74th)</b>										<b>Resources (58th)</b>									
25%										20%									
34.7										61.9									
66.4										61.0									
81										48									
74										58									
International internet bandwidth	ITU	kilobits per capita	1.0	1.6		30.5	73	73	Installed electric capacity	UNESD	kilowatts per capita	1.5	0.2		0.2	105	111		
2G, 3G and 4G network coverage	GSMA	index, 0-100	2.0	59.1		96.3	100	43	Ease of establishing an electricity connection	WB-D8	index, 0-100	1.0	75.0		79.3	62	72		
Fixed broadband subscriptions	ITU	number/100 population	1.0	1.5		3.9	74	99	Reliability of electricity supply	WB-D8	index, 0-7	1.0	7.0		6.0	1	32		
Internet usage	ITU	percentage	1.0	21.5		61.8	65	72	Gross fixed water assets	IBNET	USD per population served	1.0	153.7		153.7	83	83		
									Water production	IBNET	litres per capita per day	0.5	701.2		701.2	9			
									Reliability of water supply	WEF	expert survey, 1-7	1.0	5.7		5.7	44	44		
<b>Transport (60th)</b>										<b>Border Administration (87th)</b>									
25%										5%									
37.6										41.7									
42.8										44.8									
73										79									
60										87									
Logistics performance	WB-LPI	index, 1-5	1.5	2.4		2.7	111	84	Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	2.2		2.2	111	128		
Airport connectivity	WEF	index, 0-100	2.0	2.0		2.0	86	86	Time to comply with border regulations and procedures	WB-D8	hours	1.0	51.8		32.0	76	66		
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	4.2		4.9	64	29	Cost to comply with border regulations and procedures	WB-D8	USD (current)	0.5	151.8		151.8	48	50		
Liner shipping connectivity	UNCTAD	index, rebased to 100 in 2004	0.5	29.8		71.5	49	18											
Quality of roads	WEF	expert survey, 1-7	1.0	4.5		4.5	49	49											
Road density	FAO	km per 100 sq km of land area	0.5	13.0		13.1	111	113											
Rail density	UIC	km per sq km of land area	0.5	0.0		0.0	89	83											
<b>Open Market Scale (28th)</b>										<b>Import Tariff Barriers (94th)</b>									
5%										5%									
66.5										55.2									
65.0										61.1									
7										101									
28										94									
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	53.9		48.4	1	16	Share of imports free from tariff duties	WEF	percentage	1.5	65.6		70.7	67	67		
Domestic and international market access for services	WTO	percentage of global GDP	2.0	23.3		21.2	55	73	Average applied tariff rate	WEF	percentage	2.0	11.7		10.4	142	130		
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	3.7		3.5	41	52	Complexity of tariffs	WEF	index, 1-7	0.3	5.2		5.6	106	89		
Margin of preference in destination markets	WEF	index, 1-100	0.5	48.5		54.7	43	32											
<b>Market Distortions (73rd)</b>																			
15%																			
49.6																			
62.3																			
129																			
73																			
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	6.0		8.0	114	63											
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	4.1		4.3	119	88											
Non-tariff measures	UNCTAD	number	0.3	396.0		396.0	66	66											




*Italics: Indicator contains imputed values*

	Source	Unit	Weight	Value		Global PI Rank			Source	Unit	Weight	Value		Global PI Rank			
				2009	10-yr trend	2019	2009					2019	2009	2019			
<b>Property Rights (50th)</b>			<b>30%</b>	<b>58.8</b>		<b>66.6</b>	<b>64</b>	<b>50</b>	<b>Investor Protection (60th)</b>		<b>20%</b>	<b>45.1</b>		<b>57.4</b>	<b>91</b>	<b>60</b>	
Protection of property rights	WEF	expert survey, 1-7	1.0	4.7		4.9	67	41	Strength of insolvency framework	WB-DB	index, 0-16	1.0	6.0		12.0	109	27
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.6		0.6	44	43	Insolvency recovery rate	WB-DB	percentage	1.5	35.1		28.5	67	101
Intellectual property protection	WEF	expert survey, 1-7	2.0	3.3		4.6	95	47	Auditing and reporting standards	WEF	expert survey, 1-7	2.0	4.3		5.1	98	51
Reliability of land infrastructure administration	WB-DB	index, 0-8	1.0	7.0		7.0	24	26	Extent of shareholder governance	WB-DB	index, 0-10	1.0	5.3		6.0	67	67
Procedures to register property	WB-DB	index, 0-100	1.0	66.0		72.0	87	80	Conflict of interest regulation	WB-DB	index, 0-10	0.5	5.0		6.0	93	55
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	6.0		6.0	87	81									
<b>Contract Enforcement (73rd)</b>			<b>20%</b>	<b>48.0</b>		<b>50.5</b>	<b>79</b>	<b>73</b>	<b>Financing Ecosystem (66th)</b>		<b>20%</b>	<b>56.9</b>		<b>63.1</b>	<b>88</b>	<b>66</b>	
Quality of judicial administration	WB-DB	index, 0-18	1.5	8.0		8.0	68	78	Access to finance	WB-ES	percentage	1.0	31.6		27.7	109	105
Time to resolve commercial cases	WB-DB	days	1.0	170.0		170.0	66	63	Financing of SMEs	WEF	expert survey, 1-7	1.0	3.9		3.9	60	60
Legal costs	WB-DB	percentage	0.5	8.8		8.8	79	79	Venture capital availability	WEF	expert survey, 1-7	1.0	3.0		2.8	70	93
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.6		0.7	111	74	Quality of banking system and capital markets	BTI	expert survey, 1-10	1.0	6.0		7.0	97	82
									Commercial bank branches	IMF-FAS	branches /100,000 adult population	1.0	12.6		24.5	78	35
									Soundness of banks	WEF	expert survey, 1-7	1.0	5.2		5.7	90	24
									Depth of credit information	WB-DB	index, 0-8	0.5	6.0		7.0	59	41
<b>Restrictions on International Investment (102nd)</b>			<b>10%</b>	<b>45.4</b>		<b>46.8</b>	<b>110</b>	<b>102</b>									
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	5.1		5.1	76	36									
Capital controls	FI	percentage	1.0	0.0		7.7	146	126									
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	0.0		0.0	137	139									
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	0.2		0.2	106	103									
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	5.1		4.9	1	46									
Freedom of foreigners to visit	FI	index, 0-10	1.0	7.2		7.4	30	89									



*Italics: indicator contains imputed values*

Domestic Market Contestability (113th)						Price Distortions (34th)									
Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019	Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019
		<b>30%</b>	<b>42.8</b>		<b>42.3</b>	<b>107</b>	<b>113</b>			<b>10%</b>	<b>56.3</b>		<b>65.6</b>	<b>55</b>	<b>34</b>
Market-based competition	BTI expert survey, 1-10	1.0	5.0		5.0	99	92	Distortive effect of taxes and subsidies	WEF expert survey, 1-7	1.0	4.2		4.2	44	44
Anti-monopoly policy	BTI expert survey, 1-10	1.0	4.0		4.0	121	123	Energy subsidies	IMF percentage of GDP	1.0	4.5		1.6	86	42
Extent of market dominance	WEF expert survey, 1-7	1.0	3.8		3.7	68	73								
<b>Environment for Business Creation (95th)</b>						<b>Burden of Regulation (23rd)</b>									
		<b>25%</b>	<b>50.5</b>		<b>58.5</b>	<b>101</b>	<b>95</b>			<b>25%</b>	<b>50.3</b>		<b>69.4</b>	<b>66</b>	<b>23</b>
Private companies are protected and permitted	BTI expert survey, 1-10	1.0	5.0		6.0	123	106	Burden of government regulation	WEF expert survey, 1-7	1.0	3.5		3.8	60	39
Ease of starting a business	WB-DB index, 0-100	1.0	86.0		93.0	33	30	Time spent complying with regulations	WB-ES percentage	1.0	11.4		4.6	136	61
State of cluster development	WEF expert survey, 1-7	1.0	3.2		3.8	98	83	Number of tax payments	WB-DB number per year	1.0	28.0		6.0	74	9
Labour skill a business constraint	WB-ES percentage	0.5	30.9		31.8	128	136	Time spent filing taxes	WB-DB hours per year	1.0	358.0		155.0	126	47
Availability of skilled workers	WEF expert survey, 1-7	0.5	3.8		3.8	119	119	Burden of obtaining a building permit	WB-DB index, 0-100	1.0	73.5		81.1	29	22
								Building quality control index	WB-DB index, 0-15	0.5	13.0		13.0	12	17
<b>Labour Market Flexibility (96th)</b>															
		<b>10%</b>	<b>42.2</b>		<b>46.5</b>	<b>113</b>	<b>96</b>								
Cooperation in labour-employer relations	WEF expert survey, 1-7	1.0	3.9		3.9	137	133								
Flexibility of hiring practices	WEF expert survey, 1-7	0.5	3.9		3.4	81	127								
Redundancy costs	WEF weeks	0.5	85.0		20.7	139	104								
Flexibility of employment contracts	WB-DB index, 0-1	1.0	0.4		0.4	59	73								
Flexibility of wage determination	WEF expert survey, 1-7	1.0	5.1		5.5	81	27								



*Italics: Indicator contains imputed values*

	Source	Unit	Weight	Value		Global PI Rank			Source	Unit	Weight	Value		Global PI Rank			
				2009	2019	2009	2019					2009	2019				
<b>Executive Constraints (69th)</b>			<b>15%</b>	<b>58.5</b>		<b>55.1</b>	<b>63</b>	<b>69</b>	<b>Political Accountability (131st)</b>			<b>15%</b>	<b>42.3</b>		<b>39.2</b>	<b>124</b>	<b>131</b>
Executive powers are effectively limited by the judiciary and legislature	WJP	expert survey, 0-3	2.0	1.8		1.7	56	59	Consensus on democracy and a market economy as a goal	BTI	expert judgement, 1-10	1.0	6.0		5.0	96	117
Government powers are subject to independent and non-governmental checks	WJP	expert survey, 0-3	1.0	1.4		1.4	98	96	Political participation and rights	FH	coding, 1-7	0.5	5.0		5.0	108	106
Transition of power is subject to the law	WJP	expert survey, 0-1	1.0	0.6		0.6	73	72	Democracy level	CSP	expert judgement, -10-10	1.0	-6.0		-4.0	143	141
Military involvement in rule of law and politics	FI	index, 0-10	0.5	6.7		6.7	71	67	Complaint mechanisms	WJP	expert survey, 0-1	1.0	0.6		0.5	74	128
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	1.0	0.6		0.5	43	68									
<b>Rule of Law (56th)</b>			<b>15%</b>	<b>59.8</b>		<b>55.3</b>	<b>48</b>	<b>56</b>	<b>Government Integrity (79th)</b>			<b>20%</b>	<b>46.4</b>		<b>45.4</b>	<b>73</b>	<b>79</b>
Judicial independence	WEF	expert survey, 1-7	1.0	3.9		3.8	68	75	Use of public office for private gain	WJP	expert survey, 0-4	2.0	1.4		1.4	81	89
Civil justice	WJP	expert survey, 0-6	3.0	3.0		3.2	75	67	Diversion of public funds	WEF	expert survey, 1-7	0.5	3.6		4.0	59	47
Integrity of the legal system	FI	index, 0-10	2.0	8.3		6.7	14	48	Right to information	WJP	expert survey, 0-1	0.5	0.5		0.5	90	87
Efficiency of dispute settlement	WEF	expert survey, 1-7	0.5	3.9		3.6	60	73	Publicised laws and government data	WJP	expert survey, 0-1	1.0	0.5		0.4	58	86
									Transparency of government policy	WEF	expert survey, 1-7	0.5	4.4		4.4	50	49
									Budget transparency	IBP	index, 0-100	0.5	28.0		45.0	118	87
<b>Government Effectiveness (114th)</b>			<b>20%</b>	<b>42.1</b>		<b>39.0</b>	<b>107</b>	<b>114</b>	<b>Regulatory Quality (74th)</b>			<b>15%</b>	<b>49.5</b>		<b>46.1</b>	<b>59</b>	<b>74</b>
Government quality and credibility	WCI	index, -2.5 - +2.5	2.0	-0.2		-0.2	81	83	Regulatory quality	WCI	index, -2.5 - +2.5	1.0	-0.2		-0.2	81	88
Prioritisation	BTI	expert judgement, 1-10	1.0	5.0		5.0	87	89	Enforcement of regulations	WJP	expert survey, 0-1	1.0	0.5		0.5	56	97
Efficiency of government spending	WEF	expert survey, 1-7	0.5	3.8		3.6	46	55	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	1.0	3.9		3.5	55	60
Efficient use of assets	BTI	expert judgement, 1-10	1.0	4.0		4.0	106	103	Delay in administrative proceedings	WJP	expert survey, 0-1	1.0	0.5		0.5	65	67
Implementation	BTI	expert judgement, 1-10	1.0	4.0		4.0	123	119									
Policy learning	BTI	expert judgement, 1-10	1.0	5.0		4.0	86	120									
Policy coordination	BTI	expert judgement, 1-10	1.0	5.0		4.0	93	117									

## List of data sources and acronyms

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<b>Code</b>	<b>Organisation</b>
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

You can find the Global Index of Economic Openness report and methodology at <https://li.com/research/open-economies/global-index-of-economic-openness/downloads/>





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