

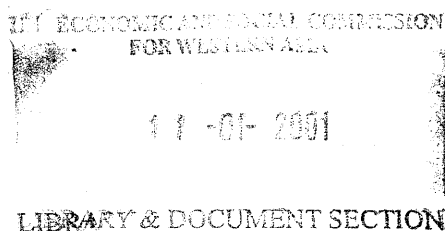


**ECONOMIC AND SOCIAL
COUNCIL**

Distr.
LIMITED
E/ESCWA/ID/2001/WG.1/4
3 January 2001
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia

Expert Group Meeting on Review of Industrial
Policies Aimed at Increased Productivity and
Competitiveness within the Global Context
Amman, 14-17 January 2001



**THE MOROCCO EXPERIENCE:
LESSONS FOR IMPROVING SME-GOVERNMENT RELATIONS**

by

Richard N. Dreiman
and
Kenneth A. Smarzik

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01-0003

Name: Richard N. Dreiman

Position: Acting Senior Vice President, Middle East

Organization: Chemonics International Inc.

Address: 1133 20th Street, N.W. #600
Washington, D.C. 20036

Tel: 1-202-955-7415

Fax: 1-202-955-7540

E-mail: rdreiman@chemonics.net

Website: www.chemonics.com

ABSTRACT

The Morocco Experience: Lessons for Improving SME-Government Relations

In the late 1980's the Government of Morocco decided to focus on small business development as part of its overall economic growth strategy. Previously, the Government had emphasized macroeconomic policy adjustments, but there had been few concerted efforts to stimulate and support SME growth. Indeed, in a middle-income country such as Morocco, where small business represented more than 90% of all registered businesses, small businesses contributed only about 10% of all GDP, and just about 16% of total wages.

In the early 1990's the Government of Morocco collaborated closely with the U.S. Agency for International Development (USAID) in designing and initiating an integrated small business development program. Chemonics International Inc., a Washington D.C.-based consulting firm, was hired by USAID to manage the Morocco small business development project and provide long-term technical assistance.

Starting in 1992 and ending in 2000, this program included components to enhance the business environment, improve business support services, and increase access to SME financing. The overall aim was to build a positive business environment wherein small businesses could thrive and prosper.

A decade later, it is valuable to look at Morocco to see what impacts and benefits accrued as a result of the Morocco small business project. Notably, the Government of Morocco has simplified business registration procedures and tax forms, created business incubators and expanded industrial parks, and enhanced SME loan guarantee programs. It has also developed a new Small Business Law which articulates the Government's strategy and support for SMEs.

Most importantly, and especially as a result of years of work through the small business project, the needs and interests of SMEs have become the focus of attention, rather than the government's own internal agenda. Government now not only listens to small businesses and their representative organizations, but works closely with them in designing and implementing new assistance programs. And business and trade associations representing SMEs have taken on a substantial role in advocating and lobbying for policy changes.

Morocco is now small-business friendly, encouraging Moroccans to create their own small businesses at a growing rate, and attracting foreign investors to Morocco. The Government has become a partner to small business, letting the latter take the lead in creating its own prosperous future.

The Morocco Experience: Lessons for Improving SME-Government Relations

Summary: In the late 1980's the Government of Morocco decided to focus on small business development as part of its overall economic growth strategy. Previously, the Government had emphasized macroeconomic policy adjustments, but there had been few concerted efforts to stimulate and support SME growth. Indeed, in a middle-income country such as Morocco, where small business represented more than 90% of all registered businesses, small businesses contributed only about 10% of all GDP, and just about 16% of total wages.

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The New Enterprise Development (NED) Project was part of USAID/Morocco's overall strategy in the 1990's to assist the Government of Morocco in liberalizing its economy and opening up private sector opportunities to the general population.

NED was designed to increase employment and output through the development of the small- and medium-sized enterprise sector. The overall aim was to build a positive business environment wherein small businesses could thrive and prosper.

From 1992 to 2000, the NED project put into place a series of programs designed to reduce the barriers to entry for **new entrepreneurs** and to facilitate the expansion of **existing** small and medium-sized businesses. The NED project focused on achieving three primary outcomes:

- Enhanced small business environment through reformed procedures, codes, laws and policies related to the creation and expansion of SMEs
- Improved business support services by strengthening private sector capacity to provide such services
- Increased access to SME financing.

To achieve these results, NED vigorously and continuously applied several complementary approaches throughout its eight years of implementation:

- Integrated, with reform, business support services and SME financing initiatives
- Business-like, based on demand- and market-driven products and services
- Participatory, consensus-building, to create win-win strategies and lasting partnerships

- Capacity-building, that favored and highlighted the existing capacity in Morocco
- Decentralized, that reached out to SMEs and their service providers throughout Morocco (outside the Casablanca-Rabat corridor)
- Local, private sector, to maintain SMEs as the center of NED's focus and favor local SME involvement
- Solution-oriented aimed at sustainable impacts.

NED Achievements: Building on these various approaches, NED's most significant accomplishment was in fostering a new SME culture in Morocco. This new focus placed SMEs, and business support organizations, rather than the Government itself, at the center of attention. NED played a significant role in Morocco from 1992 to 2000 in helping to focus public and private sector attention on the importance of SMEs, and in centering the public discussion on improving SME performance through best business practices and a dynamic business services environment.

USAID's initial approach assumed that NED would be building institutions and programs on a supposedly existing foundation of common language, good will, and best practices. Instead, NED ended up laying the foundations upon which these institutions and programs can be built.

NED fostered a common language for discussing SMEs, introduced participatory methodologies for building consensus, catalyzed public-private dialogue on SME issues, promoted best practices through an existing supply of business support organizations and consultants and trainers, strengthened the capacity of scores of private business service providers, introduced innovative SME loan guarantee mechanisms, and helped improve the performance of hundreds of SMEs.

It is on this NED-based foundation that even more important reforms, results and impacts will be produced to help SMEs thrive and prosper in Morocco.

Improved Business Environment. NED streamlined and simplified business registration procedures, as well as other government formalities related to SMEs, and introduced a new system for providing up-to-date, reliable business information. It was estimated that key reforms in these areas developed by NED, and now being implemented by the Ministry of Industry, Commerce and Artisanry, will produce the following impacts :

- Increase Morocco's GDP by 2.3% per year, or an annual gain of roughly 7.34 billion dirhams (approximately \$750 million)
- Increase tax revenues by more than 2 billion dirhams (\$200 million) annually
- Increase exports by more than 1 billion dirhams (\$100 million) annually
- Increase employment by 2.8% per year, or an annual gain of approximately 31,100 jobs.

At the same time, NED strengthened the institutional capacity of leading Moroccan business, trade and economic development associations so that they could better represent their members' interests. These organizations now advocate and lobby actively for an improved business environment.

Strengthened Private Sector Capacity. NED developed an informal, national network of private consulting firms, not-for-profit associations and chambers of commerce, and private business trainers that is now capable of selling modern business consulting and training services to SMEs throughout Morocco.

NED's capacity-building trainings resulted in:

- More than 260 consultants in some 55 consulting firms in 12 cities and towns throughout Morocco trained in modern business planning and other management tools;
- more than 250 managers and training specialists in some 30 chambers of commerce and business associations in 26 cities and towns throughout Morocco trained in the organization and marketing of business management trainings;
- 72 business trainers trained in modern, interactive, adult training techniques.

As a direct result of this capacity building initiative, 90 Moroccan SMEs who purchased consulting and training services from NED-supported business support organizations generated the following impacts over an 18-month period:

- \$8.8 million of new SME investments
- \$11.3 million in projected first-year revenues
- 627 new jobs
- 74 new small enterprises.

Increased Access to SME Financing. NED designed and initiated an innovative working capital loan guarantee facility, Oxygene, in collaboration with a private credit guarantee corporation, Dar Ad-Damane. Once fully operational, it is estimated that the current \$5.0 million Oxygene fund will assist approximately 1,250 SMEs and enable them to access more than \$40 million of working capital credits from the Moroccan banking system.

A) Morocco in 1992: A Social Focus on Jobs for the Young

At the time NED began implementation in June 1992, the focus in Morocco on SMEs was on their social value for creating jobs. Public discussion in Morocco about SMEs centered on helping "young entrepreneurs" create their own businesses to create their own jobs. The aim was to decrease the unemployment rate and discourage young people from seeking a diminishing number of jobs in the public sector. The main government response at the time was "Credit Jeunes Entrepreneurs," which offered subsidized investment credits to college and technical school graduates to set up new

businesses. No one was talking about improving the performance of SMEs with better business planning and management practices.

The only public discussions about SME financing concerned the high cost of interest rates, and what was commonly perceived as an urgent need to offer subsidized credit to young entrepreneurs. No mention was made about improving access to SME financing, or the fact that the Moroccan economy and banks were highly liquid.

In addition, in 1992 the Government of Morocco was talking primarily about large-scale, long-term legislative reforms to improve the economy. Little was mentioned about reforming systems, regulations or procedures to make the government more business-friendly. People were just beginning to talk about the appropriate role of government in a market-led economy, and little was mentioned about the private provision of public services. Rather, the Government was still focusing its efforts on imposing more restrictive and demanding regulations on SMEs, particularly with regard to tax compliance and revenue collection.

Finally, NGOs in general, and small business and community development associations in particular, were considered at best as being unreliable and unprofessional, and in the worst case, as being politically motivated and subversive.

Perhaps most importantly, missing in Morocco at that time were any regular, systematic public-private discussions about SME issues, particularly about the importance of SMEs for the Moroccan economy and the need to improve their enabling environment. Business associations rarely met with the GOM, and when they did it was usually to demand exonerations or waivers, not to seek to identify and achieve common objectives.

In effect, SMEs as businesses, rather than social tools, were little understood, and even less was understood about effective ways to improve the business environment and SME performance.

B) NED introduced a participatory methodology for identifying priority reforms and building public-private consensus.

Following our private-sector and locally-led approaches, Chemonics initiated an Organizational and Administrative Reform process by using local private sector experts to conduct a detailed diagnostic of SME constraints. Then, with assistance from a long-term Moroccan subcontractor, Chemonics helped the Government of Morocco elaborate a comprehensive methodology for implementing the Reform component. This ensured that NED's government counterparts, as well as leading private sector experts and organizations, shared a common view of the process and expected outcomes. This strategy and methodology also included using private, Moroccan experts to work closely with Government officials in analyzing policy issues and drafting concrete reform proposals.

Overall NED organized seven focus groups to develop and validate a priority reform agenda. 133 business and association leaders and public sector officials (of whom 14% were women) participated in these focus groups throughout the country, including in Casablanca, Rabat, Tangiers and Marrakech.

The focus groups brought together a diverse group of experts and officials who were used to complaining about persistent problems, rather than identifying priority issues and proposing solutions. With a rigorous methodology focusing on clear objectives and expected results, the focus groups helped build a coalition of potential reformers who appreciated NED's positive and systematic approach.

NED made certain to include these same participants in follow-up focus groups one to two years later, so that they could appreciate the progress made and hear how their inputs had been valued.

As a result, NED assisted the Government of Morocco and an expanding group of private sector experts develop a prioritized reform agenda focusing on SME development issues. From 70 initial SME issues, the public and private sectors reached consensus on 7 priority reforms that were viewed as being urgent and important for the private sector, and feasible (in terms of political will, time, and cost) for the public sector. All of these reform proposals were viewed as being high impact for SMEs and the government, win-win proposals at low cost.

C) A Consultative Committee for SME Reform was never formed, but Reform efforts continued with a broad coalition of public and private organizations

While NED was undertaking its preliminary reform work, the Government of Morocco was supposed to have created a Consultative Committee for SME Reform. This Committee was to have included high-level public officials and private sector leaders who were to validate and promote SME-related reforms. This would increase the likelihood that reforms would be adopted and implemented. Despite the fact that the creation of the Consultative Committee was a condition precedent for disbursement of USAID funds, and despite considerable efforts by USAID, the Ministry and the NED contract team over three years, this Committee was never formed.

Various reasons suggest why it was not formed. The Ministers in office in the early years of NED seemed to lack the interest and conviction to create the committee. As they delayed, the World Bank began to push its own efforts to promote private sector development in Morocco. The World Bank seized on the NED strategy of creating a high-level, mixed public-private committee, but aimed their efforts at private sector development in general.

So while NED's Consultative Committee remained unformed, the Prime Minister issued a decree creating the Steering Committee for Private Sector Development. This was a direct impact of the World Bank and the Government of Morocco adopting NED's strategy for public-private dialogue.

NED's Ministry of Tutelage consequently viewed the Consultative Committee for SME Reform as being redundant. It then decided to have NED submit its reform proposals to the Steering Committee for Private Sector Development for validation. The Ministry also attempted, again unsuccessfully, to create a Commission for the Simplification of Business Formalities through a Decree of the Prime Minister. (This idea of a permanent commission for reform was subsequently developed by the Ministry of Industry and Commerce, which is now promoting a law for the creation of a similar Commission for Simplification).

Eventually, NED's reform proposals were validated by the NED project oversight committee. Yet this committee, composed of ministry directors and association managers, lacked the high-level administrative support and political visibility to move NED's reforms quickly and effectively through the system.

As a result of these delays and lack of high-level support, USAID, the Ministry and NED agreed to have NED pursue a flexible, parallel approach to reform validation and promotion. While reforms necessarily have to be approved and implemented by the Government, it was necessary to have commitment and agreement from the private sector.

NED began to reach out to a broad group of nationally recognized and respected associations and private sector organizations – all potential champions of reform. These included the General Confederation of Moroccan Enterprises (CGEM), the Federation of Moroccan Chambers of Commerce, the Textile and Garment Association, and the Steering Committee for Private Sector Development. NED presented its reform proposals to them, and gained support not only for the specific reforms, but for the participatory, public-private dialogue that NED was fostering.

D) Five SME-related Reform Proposals were Developed, Promoted and Adopted by the Government of Morocco in Phase I of NED (June 1992 through June 1996)

From its priority reform agenda, NED initially developed four reform proposals. All of these reform proposals included specific, implementable measures, draft official legislative and regulatory texts, economic impact analyses, and proposed action plans for implementation. They covered:

- *Official Guide of Business Creation and Start-Up Formalities*. Identified as being the single most important reform for business, and as being feasible for government, the Official Guide aimed at compiling all of the requirements (steps, forms, costs,

deadlines) for business registration in a single, official document. Most importantly, as an official document decreed by the Prime Minister, the Official Guide would create a climate of transparency and certainty for business creators, by specifying the obligations of the government in terms of business registration. It was expected that the Official Guide would become the basis for a subsequent government effort to simplify the numerous registration requirements and related paperwork.

NED estimated that the economic impact from the publication of the Official Guide, and the resulting certainty and transparency, would generate productivity gains for SMEs of approximately 440 million dirhams (\$44 million) per year, and employment gains for SMEs of approximately 5,800 jobs per year.

The Official Guide was validated by the NED Steering Committee, and adopted by the Moroccan Government in its Priority Short-Term Reform Agenda of 1998. It has now been incorporated into the Ministry of Industry's One-Stop Business Registration Center law and program (see below).

- *Simplification of Business Tax Forms.* As with the Official Guide, this reform proposal focused on administrative simplifications that would benefit SMEs. The purpose of this initiative was to combine 10 business tax forms into three. It was estimated that with fewer and simpler tax forms, SMEs would gain some 31 million dirhams (\$3.0 million) annually in time savings and increased business activity, while the National Tax Authority would gain approximately 44 million dirhams (\$4.4 million) per year through time savings and increased revenues.

This reform proposal was validated by the NED Steering Committee, and adopted by the Moroccan Government in its Priority Short-Term Reform Agenda of 1998. It has now been incorporated into the National Tax Authority's overall fiscal reform program that is currently being implemented.

- *Special Legal Statute for Business Associations.* The objective of this proposal was to give business associations a special legal status with certain financial and fiscal advantages, as well as certain fiscal reporting obligations. It is expected that this law will give business associations more financial autonomy and ability to raise funds, and an increased role in economic policy dialogue and business development initiatives.

The draft association proposal was validated by the NED Steering Committee, and adopted by the Moroccan Government in its Priority Short-Term Reform Agenda of 1998. It is currently being reviewed by the Cabinet and Parliament.

- *Legal Framework for Business-Government Relations.* The aim of this proposal was to create a formal, official process for business-government dialogue on all proposed laws, regulations, procedures, policies, etc. or reforms of existing laws, etc. concerning business and private sector. A standardized checklist was developed that outlined the administrative procedures for ensuring that the government adhered to the

principles of transparency, dialogue, simplification, and harmonisation on all business-related legislation and policies. This framework was also validated by the NED Steering Committee, and adopted by the Moroccan Government in its Priority Short-Term Reform Agenda of 1998. Its principles were incorporated into a number of government and association actions.

In Phase I NED also implemented a fifth reform, or administrative improvement, directly with the Ministry of Industry and Commerce:

- *Computerization of Morocco's Central Business Registry.* The aim of this initiative was to create a complete, accurate, up-to-date computerized database of all registered Moroccan enterprises (individual and corporate). It was expected that computerization of the Central Business Registry would speed up the first step in the business registration process, that of the business name registration.

NED introduced what was then an innovative approach in Morocco, by encouraging the Ministry to subcontract the work out to a local, private firm specializing in data entry. NED prepared an RFP, and selected and hired what was the only Moroccan firm truly specialized in volume data entry. This firm was unknown in Morocco at that time, as it had previously worked only with French companies. The Moroccan data entry firm worked under a fixed-price, performance-based contract, and was paid only upon the entry and validation of each lot of 50,000 records entered. The subcontract included penalties for delays. The subcontractor provided its own equipment, software, and data entry operators, who it hired and trained within six weeks of the signing of the contract. No advances were paid.

The data entry firm entered 617,000 records (225 million characters) in 16 months, using double data entry to ensure 100% of the official data. It completed the work two months ahead of schedule.

To ensure the accuracy and sustainability of the database, the Ministry of Industry signed a follow-on contract with this firm for data entry and database management while the initial NED-funded contract was still ongoing.

E) Four Follow-On SME-related Reforms were Identified, Developed and Adopted in Phases II and III of NED (through June 2000)

NED continued under Phases II and III to develop specific, practical reforms that were built on the reform proposals developed during Phase I. NED specifically sought to work with those dynamic and proactive Ministries where the chances were greatest of seeing these reforms implemented.

NED also organized 7 training courses and 1 Observation Study Tour for 110 participants in all. These activities focused on policy reform, association strengthening, and the appropriate role of the government in a market-led economy.

The four follow-on SME-related reform proposals included:

- *One-Stop Business Registration Centers.* This was the logical follow-on to the Official Guide, which sought to simplify the business creation process from the businessperson's viewpoint. The aim was to create a one-stop business registration center where business creators could complete a single set of registration forms, and obtain a single business identification number. These forms would be dispatched by the One-Stop Centers to other government agencies for review and approval within a defined period of time. It was expected that the One-Stop Centers would reduce the time it took to create an SME from an average of 6 months to one month or less.

NED provided assistance in the initial design of this proposal. NED's involvement was stopped after about one year by the Ministry of Industry, which chose instead to work only with the Versailles Chamber of Commerce. This One-Stop Center was validated by the NED Steering Committee, and adopted by the Moroccan Government in its Priority Short-Term Reform Agenda of 1998. The Ministry of Industry subsequently prepared a draft law to create the One-Stop system, which including testing and incorporating the Official Guide process in its entirety. The One-Stop law is currently being reviewed by the Cabinet and Parliament.

- *Small Business Information Unit.* This was a logical follow-on to the Central Business Registry computerization. Its aim was to create a complete, accurate, and up-to-date database on all enterprise activity in Morocco. By linking and compiling legal information from the Central Business Registry, economic data from the National Tax Authority, and employment data from the Social Security Administration, the Information Unit would provide statistics on all Moroccan enterprises, including creations, expansions, failures, size (sales and employment), sector and region, currently and over time. The final product was modeled after the U.S. SBA Publication, "State of Small Business."

It was expected that this comprehensive statistical database would provide invaluable information to public and private decision makers: for government policy and decision makers it would offer information on economic trends; for investors, business operators and consultants it would deliver up-to-date market information; for bankers it would improve their risk assessments; and for associations and chambers of commerce it would highlight sectoral and regional business activity.

NED initiated this proposal with the Ministry of Industry (which supervises the Central Business Registry), and provided technical assistance to an interministerial working group that included the National Tax Authority and the Social Security Administration. The proposal was adopted by the Ministry of Industry, and has been included in its entirety in the draft law to create a permanent Commission for the Simplification of Business Formalities.

- *Centers for Approved Management Accounting.* NED was called upon to provide technical assistance, through its Moroccan subcontractor, to assist the Ministry of Industry and its public-private working group develop the regulatory and procedural framework for the 1992 law.

The purpose of the Accounting Centers was to simplify the preparation and submission of tax declarations by small businesses, especially merchants and traders, while offering them tax breaks as incentives. The expected impact of these centers is that small (often informal) businesses would enter the formal tax system and improve the transparency and management.

As an indication of how slow and laborious implementation of Moroccan laws can be, and how SMEs are unable to benefit in the short-term from legislative changes, the project for the Accounting Centers was proposed in 1998. The law was passed in 1992, the implementing decree was signed in 1997, and the entire system was made operational in 2000.

The Moroccan subcontractor was instrumental in coordinating the technical work of the working group, and in drafting the legal documents, procedures, manuals and contracts for the operation of the Accounting Centers. Their work served as a model for the Ministry of Industry on how a consulting firm could contribute to and collaborate with the government in implementing a business-related law.

- *SME White Paper and SME Charter Law.* Finally, NED coordinated a participatory process of focus groups in which more than 60 leading private and public sector specialists participated and contributed. The result was a consensual *SME White Paper* that offered a global vision and public-private consensus of what was needed to promote and support SME development in Morocco.

The NED-organized focus groups helped define the government's approach to SME development, which was based in large part on NED's reform and business service initiatives and experiences. The *SME White Paper* was debated in a National SME Seminar in Rabat in December 1999 that was sponsored by the Ministry of Tutelage, USAID and NED.

The SME White Paper then served as the basis for NED experts to draft the first Moroccan SME Framework Law. Specifically, this draft law will legislate a legal framework that highlights the importance of SMEs for the Moroccan economy, defines SMEs for policy and programmatic purposes, and specifies government commitments for programs and policies to promote SMEs.

The draft law is now under review by the Government and Parliament, and will lead to substantial administrative reforms in favor of SMEs over the next few years.

F) Impacts of SME Reform:

- **NED's participatory, consensus-building approach and focus on specific administrative reforms for SMEs have been incorporated into the policies, strategies, and operations of numerous Moroccan Ministries, business and private sector organizations, and international donors.**

These include:

- The Ministry of Industry's 5-year Strategic Plan of 1996 specified the One-Stop Business Registration Center, Small Business Information Unit, and Central Business Registry modernization as key actions.
 - The Steering Committee for Private Sector Development validated and promoted NED's reform proposals in 1996.
 - The World Bank's private sector development efforts throughout the 1990's based their administrative reform agenda on NED's approach and proposals.
 - The Government of Morocco specified all of NED's reform proposals in its Priority Short-Term Reform Agenda in October 1998.
 - The Ministry of General Government Affairs approach to developing *the SME White Paper* and SME Charter Law was based on a participatory approach to building public-private consensus.
 - The Focus Group that prepared the *SME White Paper* in December 1999 identified the Official Business Guide and Small Business Information Unit as priority actions.
 - USAID consultants and the Government-sponsored Focus Group which collaborated on the Investor's Road Map Phase II in March 2000 validated the NED focus on administrative and organizational reforms and the NED's reform proposals.
 - The Ministry of Industry and Commerce has continued to organize interministerial committees regularly, with private sector assistance from a local consulting firm to advance the projects for the Approved Management Accounting Centers, the One-Stop Registration Centers, and the Commission for the Simplification of Business Formalities.
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- **NED's systematic emphasis on the importance of administrative reform for improving SME performance, and its concerted efforts to develop practical, feasible reform proposals, changed the public debate about SMEs and reform.** As recently as December 1999, in the National SME Seminar, both H.M. Mohammed VI and the Minister of General Government Affairs highlighted the importance of administrative reform as key to creating a positive environment for SME growth. This was not the case in 1992, when the emphasis was on subsidized credit and government-led SME development programs.

- **The Central Business Registry computerization produced significant impacts on numerous levels, and is now held up as a model for administrative modernization and e-government.** These impacts include:

- For SMEs:

- The business name registration process has been reduced from 48 hours to 15 minutes.
- A decentralized registration service is now available to businesses via email and fax in regional government offices throughout Morocco.
- This service will soon be web-based and fully interactive.
- The Central Business Registry offers more efficient, business-friendly and customer-oriented services in a modern, attractive facility.
- The first comprehensive database of all Moroccan registered enterprises is available for consultation by SMEs seeking market information.

- For the Government of Morocco:

- The Central Business Registry serves as a model for sustainable public-private collaboration, by subcontracting its specialized data entry and information technology requirements to private firms on long-term basis.
- The Central Business Registry is now a semi-autonomous government service, keeping 70% of its revenues from fees for business name registrations and consultations of data base.
- The Central Business Registry will soon be integrated into fully autonomous government agency for intellectual property, patents, and business name registration.
- The Central Business Registry serves as the information and e-government model for the Small Business Information Unit as well as the computerization and modernization of the Commercial Court Registries.

- **Estimates of the economic impact of NED's reforms to streamline and simplify business registration procedures and provide reliable business information confirmed the importance and value of administrative reforms.** NED's impact assessment of the OAR component estimated that implementation of the Official Business Guide, One-Stop Registration Center and Small Business Information Unit alone will produce the following impacts :

- Increase Morocco's GDP by 2.3% per year, or an annual gain of roughly 7.34 billion dirhams (approximately \$750 million)
- Increase tax revenues by more than 2 billion dirhams (\$200 million) annually
- Increase exports by more than 1 billion dirhams (\$100 million) annually
- Increase employment by 2.8% per year, or an annual gain of approximately 31,100 jobs.

- **The General Confederation of Moroccan Enterprises (CGEM) fundamentally transformed its focus from one aimed exclusively at supporting the owners of large enterprises, to one that now emphasizes the importance of SMEs and better business-government relations.** NED's informal relations with senior economic advisors in the Royal Cabinet helped put SMEs on the national agenda in 1995. SMEs were a theme that was incorporated into the Royal Speech in May 1995, as H.M. the late Hassan II exhorted the CGEM to represent all Moroccan enterprises, especially SMEs. Since then the CGEM has continually and expressly included themes and approaches from NED reforms in its policies and programs.

NED presented its reform proposals to the CGEM Executive Board in late 1995. Subsequently, the themes of NED's General Framework Law for Business-Government Relations, *dialogue, consultation, simplification, certainty, transparency, and sanctions*, formed the basis for the "Gentlemen's Agreement" signed between the CGEM and the Government of Morocco in June 1996. This spelled out the rights and obligations of public and private sectors with the aim of creating a favorable enabling environment for economic and enterprise development. The CGEM also created a Federation of SMEs in 1996, and incorporated SME reforms into its action agenda. As recently as May 2000 the President of the CGEM cited those same principles in a public speech.

G) Lessons Learned from SME Reform:

- **Transparency and certainty are the keys to building a strong enabling environment for SMEs.** Through its regular focus groups and numerous reform proposals, NED repeatedly heard that the two most important concerns for businesses regarding government were to have a *transparent* and *certain* enabling environment. Transparency means that businesses know exactly what administrative formalities are required of them, and why, and certainty suggests that they can accurately estimate the cost and time of completing these formalities. While simplification is also important, businesses emphasized that it is less urgent, and can only occur once the existing requirements are clearly and definitively stated.

- **Administrative reforms are critical in the short-term for SMEs, and oftentimes more difficult to accomplish than legislative reforms.** NED found that administrative reforms, which were universally considered more critical for improving SME competitiveness, are far more difficult and time consuming to adopt and implement than changing a law. These reforms involve changing the systems and procedures of government offices, and the habits and practices of government workers. Indeed, the ultimate result will be to reduce the time between the passage of a law and the implementation of related regulations and procedures (which is often five years or more).

- **Most administrative reforms concern improving the quality and availability of information to SMEs.** Most of NED's SME reform proposals essentially involved making complete, up-to-date, and accurate information on business registration formalities, tax requirements, or market conditions readily available to SMEs. This is a key area in which the government has a major role to play, albeit one which should be developed in close partnership with private sector information technology firms. The Central Business Registry now serves as an excellent model for quality government information services, in partnership with leading private information technology firms.

- **SMEs stand to benefit the most from NED-initiated reform proposals, given that they represent more than 90% of all Moroccan businesses, though most of the proposals were not specific to SMEs.** Most, if not all, enterprise-related reforms and administrative improvements benefit all private firms, and not just SMEs. Yet given that 95% of all businesses in Morocco are SMEs, they would stand to be the greatest beneficiaries from any improvements in the business environment. Moreover, as opposed to large enterprises, SMEs have limited or no access to government decision makers. So any reforms to make systems and processes transparent and certain would primarily benefit SMEs.

- **Strong government leadership, commitment and will is needed to move consensual reform initiatives from the proposal stage to implementation.** NED's reform efforts were often delayed and stalled because of a lack of government leadership. Leaders need not only to acknowledge the importance of the reforms, but they must be willing to make the difficult and demanding decisions required to implement administrative reform.

- Patience, flexibility and timeliness are required by donors and project staff to identify and seize real reform opportunities as they arise. Reform is a slow process that requires time to build effective coalitions and partnerships around common objectives, to develop reform measures, and then to implement them. Being flexible allowed us to keep all options open, so that we could seize on the most appropriate, attractive, or feasible approach at any given time. Finally, this meant that the project was able to provide the right information to the right decision makers at the right time.

- **Use interministerial working groups with clear purposes and technical roles, when necessary, rather than trying to create high-level interministerial committees for advocacy and promotion.** NED learned firsthand that trying to create a supervisory, interministerial committee for promotion of reforms was fraught with political and administrative problems. The lengthy delays, detours and ultimate failure to create the OAR Steering Committee argue against such an approach. Only with the highest political will and support do such committees get created; and even when created, they often have no clear mandate to function effectively. On the other hand, NED found it easier to help create and be involved with interministerial working groups that had specific objectives and technical tasks, as with the SME Information

Unit and Approved Management Accounting Centers. A clear purpose and definite timeline for each working group made it easier for the Moroccan government to form and motivate such groups.

- **Stress capacity building in key ministries and departments that show a willingness to undertake reform.** NED found some key government officials lacked the skills and approach needed to implement reforms in a market-led economy. Training and study tours to enhance their understanding of the proper role and actions of the government in promoting private-sector led growth will be beneficial for accelerating the process.
- **A demand-driven, market-oriented, private sector approach is as valid and applicable to Organizational and Administrative Reform initiatives as it is to business support services or SME financing initiatives.** NED required government offices to compete (albeit informally) for scarce project resources, which obliged them to work on specific, practical, feasible measures. In turn, NED's partners gained credibility by achieving short-term results, rather than merely talking about broad and general programs that are difficult and time-consuming to implement.
- **Subcontracts with private firms for the computerization of the Central Business Registry and for ongoing technical assistance to the Ministry of Industry serve as models for effective public-private collaboration.** NED encouraged and supported private Moroccan firms that provided technical assistance to the Ministry of Industry. These proved to be highly successful collaborations because they were based on the Government's clear understanding of its roles, interests, and responsibilities, and its recognition and appreciation of the specialized services that the private sector could provide more effectively. It also gave both public decision makers and private experts ownership of the process and products.

H) Related efforts to strengthen business associations' capacity to advocate and lobby for SMEs supported a bottom-up approach to SME reform.

In addition to its specific efforts focused on SME-related reforms, NED played a significant role in Morocco in the 1990s in lending credibility to the association and NGO movement. Whereas NGOs and associations were viewed in the early 1990s as being unknown risks, by the end of the decade they were universally viewed by USAID, the Government of Morocco, the Palace, the private sector and international donors as being key to Morocco's private sector and community development. Indeed, association strengthening has now become an integral element in virtually all development projects and local development initiatives in Morocco.

NED was one of the early projects that identified, supported, and strengthened numerous local NGOs and business associations throughout Morocco. NED's Association Grants program allowed us to assist dynamic organizations in producing tangible, practical results. The immediate effect of these collaborative efforts was that

associations became more practical and results-oriented, which in turn changed the way that they were perceived by local and regional authorities and international donors.

NED also made a concerted effort to highlight and promote these association accomplishments with Ministers, Permanent Secretaries, USAID Mission Directors and the U.S. Ambassador. This lent enormous credibility to local association initiatives, and helped NED's most dynamic association partners form lasting alliances with local and regional authorities, businesses, and international donors.

NED's work with business and trade associations revealed them to be important organizations for promoting business reforms, as well as offering training services to their members. Small business and young entrepreneur associations, on the other hand, showed enthusiasm and energy, but because of a lack of clear focus and management experience their sustainability was questionable.

Dynamic local community development associations offered important means for promoting the association movement, implementing more sophisticated integrated development projects, and providing business services to their members.

Finally, as government-funded and supervised organizations, most of the chambers of commerce lacked dynamism and a clear focus of their role as business support organizations. Most of them tended to be political springboards for their elected board members.

I) NED introduced a modern, positive language for SME development in Morocco that has been key to improving SME-Government relations.

Through its business capacity trainings, SME trainings, and its workshops and seminars, NED constantly repeated the message of improving SME performance. We did so by regularly using such positive terms as *dynamic enterprises, business plans, keys to success, best business practices, and modern management*. By repeating these messages, we helped change the focus on SMEs in Morocco from a negative, reactive one highlighting SME problems and constraints, to a positive, proactive one emphasizing the tools and market conditions needed to ensure SME growth.

Perhaps the best example was NED's introduction of the modern business plan to Morocco. We insisted on calling it "Le Business Plan," with its North American focus on products, markets, and sales projections. This was in contrast to traditional SME investment plans which covered only the financial and credit requirements of Moroccan SMEs seeking bank credit. NED offered training in business planning to consultants and SMEs alike. Eventually, "Le Business Plan" was published and 2,600 copies were distributed to banks, consulting firms and SMEs. "Le Business Plan" was also included as a basic requirement for SMEs applying for the working capital loan guarantee.

General marketing and informational events, as well as repeated visits to partner organizations, also had tremendous value in disseminating a clear, consistent message about dynamic SMEs and best management practices. We found that to make the message positive, and to get everyone to speak the same business language, we needed to constantly push the message. We conducted regional seminars throughout Morocco on a semi-annual basis. These seminars involved all of our clients and partners: SMEs, consulting firms, associations, chambers of commerce, banks, and local government.

As a result of this repeated campaign, the current Moroccan political leadership, as well as numerous Ministries in the Moroccan Government, are now focused on improving the enabling environment of SMEs as a key means for increasing economic productivity and job creation. This focus is being translated into a comprehensive framework of specific legislative, administrative and organizational reform measures to help SMEs. Implementation of these NED-initiated laws and other administrative reform proposals are bringing concrete, practical benefits to Moroccan SMEs in the near-term.

Moreover, more than 20 business, trade and economic development associations supported by NED and representing SMEs at the national, regional and local levels now advocate and lobby effectively on behalf of their SME members. These associations are carrying out such activities as producing business directories to market their members' services, developing policy and position papers on key SME issues with economic impact analyses, and discussing ways to improve the enabling environment for SMEs with Ministers, Governors and other leading officials. The business-government dialogue is now positive, proactive, results-oriented, as all of these lobbying actions are aimed at improving the productivity and competitiveness of SMEs throughout Morocco.

J) How NED Helped Enhance SME-Government Relations

To get a qualitative sense of what NED accomplished, we spoke with SME clients, business support organizations and specialists, and local, regional and national authorities. We found a convergence of opinions:

- **Clear and Constant Focus on SMEs.** NED was first and foremost a project aimed at helping SMEs, by strengthening and supporting their many partners. The NED team was viewed as being untiring activists for the SME cause.
- **Practical and Concrete.** NED didn't produce studies; it helped Moroccan partners produce tangible, useful results through concrete actions.
- **Transparent.** NED established clear procedures and systems for all of its components and activities. NED's partners and clients always knew what was

expected of them, and they expected the same professional and prompt responses from NED.

- **Catalyst and Partner.** NED was appreciated as a catalyst, helping and supporting Moroccan partners and clients achieve common objectives and produce numerous and various results. NED viewed all groups as partners and clients, and always emphasized their accomplishments and results over NED's inputs.
- **Innovative:** NED did things differently than were traditionally done in Morocco, in order to do them better. NED was known for holding participatory workshops, building partnerships, and showing Moroccans what was happening elsewhere in Morocco. Our partners and clients valued these approaches as they became more productive, and learned that they have more fun when everybody benefits.
- **Persistent Presence.** NED worked with partners and clients in nearly every major and secondary town and city in Morocco. The team was known and respected because we kept coming back, time and again, and we honored our word and agreements.

K) Future Benefits from Improved SME-Government Relations

NED was an investment in Morocco's SMEs and their enabling environment that will keep providing returns in the future. Some benefits will be reaped in the next few years, and some by those beyond NED's immediate clientele. These include:

- **More competitive SMEs.** SMEs, their management consultants and their bankers now talk about business plans, cash flow analyses and market share in increasingly competitive markets, instead of requesting investment loans with subsidized credit. With modern business planning and management tools, Moroccan SMEs will become increasingly better managed and financed, more productive, and hence more competitive in national and international markets.
- **More Effective National Dialogue on SMEs.** The 8-year effort of NED has created a more friendly small business environment that will continue to gain importance and exposure as the economic benefits of a vibrant SME sector are increasingly understood. Pending SME legislation will be approved by the Government and Parliament more quickly, because these leaders now appreciate the importance of such laws for stimulating the national economy. Private-public dialogue, once an elusive goal, has now become common practice among business associations and the government and will lead to more rapid, substantial and effective improvements in the SME enabling environment.
- **More Practical Government Reforms and Improvements.** NED's insistence on non-legislative reforms, primarily organizational and administrative, has filtered into

the strategies and daily operations of key ministries dealing with the private sector. These Ministries, including Industry and Commerce, Finance and the Tax Authority, and General Government Affairs, now implement reforms and improvements that will simplify, streamline and harmonize government formalities for SMEs. Such projects as the One-Stop Business Formalities Center and the Commission for the Simplification of Business Formalities will improve the business environment as well as accelerate the pace of business reform.