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# The Potential for ICT-Development in Morocco <sup>#</sup>

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February 2007

## ABSTRACT

Morocco has made offshoring the number one economic development priority within its “Emergence” program. The government is heavily investing in human and physical capital and has undertaken important regulatory reforms in order to move the country towards becoming a knowledge economy. Many of these investments in, for example, telecommunication networks and higher education are now sunk and do not have to be considered any more when deciding on future-oriented governmental initiatives. What remains to be determined, though, is how public authorities can further improve the regulatory set-up and provide an enabling business environment in order for the private sector to take over the lead in propelling Morocco in the desired direction of becoming the “nearshoring” destination of choice for companies in francophone (and to a lesser extent hispanophone) Europe. This paper aims to contribute to the policy dialogue by describing and evaluating recent and prospective developments concerning ICT-enabled services exports in the context of Morocco’s growth and competitiveness agenda. The discussion is thereby comprehensive, covering software production, back-office processing, and call centers. The findings are being related to the performance of comparator countries in order to put them into a broader perspective.

## KEYWORDS

Services trade, outsourcing, offshoring, European Neighborhood Policy

## JEL CLASSIFICATION

F13; F14; F15; O24

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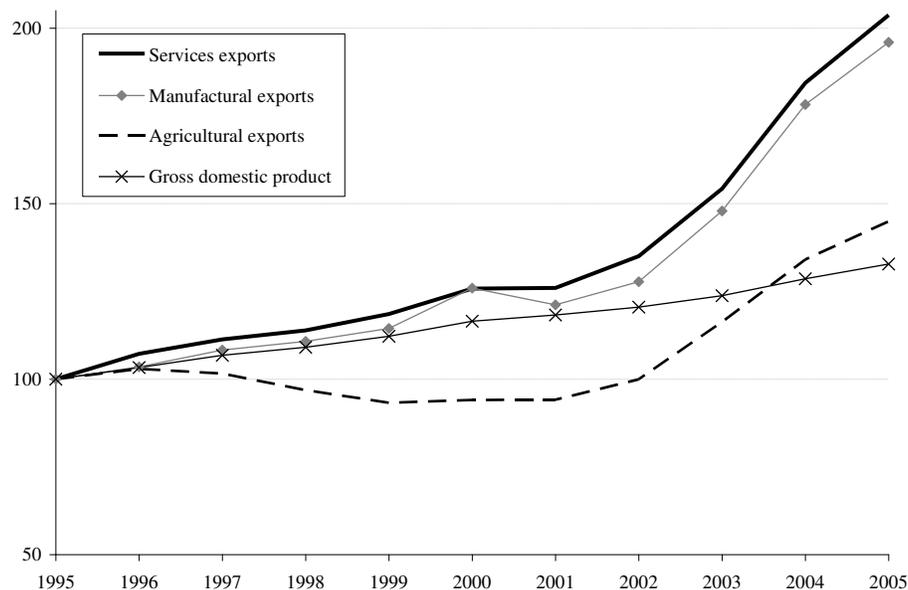
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## 1. ICT-EXPANSION, ECONOMIC GROWTH, AND POVERTY REDUCTION

While the coverage of provisions in the Euro-Med Agreements that are specifically aimed at services exports is limited, services trade has been of increasing importance for Morocco, the European Union, and beyond. World trade in commercial services has grown considerably in recent years, such that services accounted for 19 per cent of global exports in 2005. Services exports more than doubled during the decade from 1995 to 2005, outpacing GDP as well as exports of agricultural products and manufactures (Figure 1). About 7 per cent of all services trade is related to communication, computer and information services (WTO, 2006).

**Figure 1: World services exports have expanded rapidly**  
(1995 = 100)



Source: WTO, 2006.

The expansion of services trade has been driven by considerable reductions in communications, transport and transactions costs. Rapid advances in information and communication technologies and the ongoing global liberalization of trade and investment in services have increased the tradability of many service activities and created new kinds of tradable services. Many service sector activities are thus becoming increasingly internationalized, especially since ICT enable the production of services to be increasingly location-independent. This development has led to the globalization of services activities, with associated changes in trade, cross-border investment, and employment patterns (OECD, 2006).

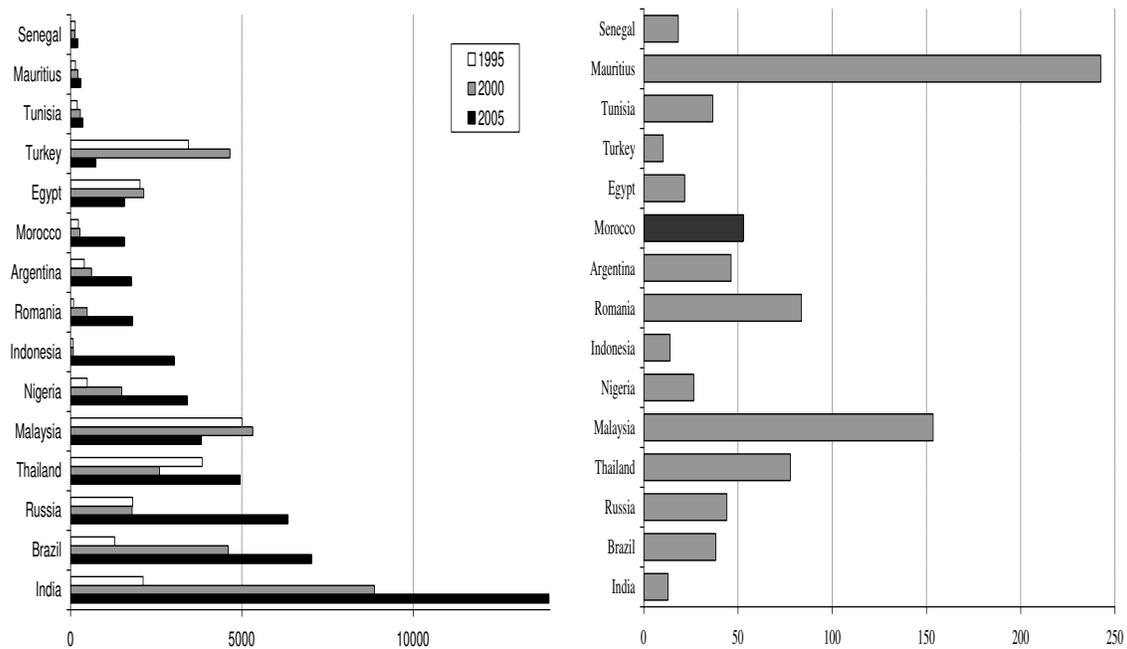
Moreover, demand for services has a high income elasticity, so that services activities tend to expand more than proportionally as countries grow richer. As a result, the services sectors in high income countries are relatively bigger than those in middle income economies, which in turn are more sizable than those in low income countries. With the world economy projected to continue to grow at a strong pace, the prospects for service providers and services trade look bright.

## 1.1 Outsourcing is a major driver of trade

More than 80 per cent of global exports of ICT-enabled services continue to originate in OECD countries. Yet, a number of developing countries have experienced very dynamic trade patterns in recent years. Unfortunately, compiling consistent and comparable statistics on services trade remains a major challenge. Balance of payment data on telecommunication, and computer and information services are not readily available for all countries. For some, such as India, these data are included under “other business services”, along with other items.

If an aggregate of balance of payment information on telecommunications, computer and information services, and other business services is taken as a proxy for ICT trade, India emerges as a dominant and dynamically growing exporter. But other developing countries have also experienced substantial expansions of their ICT exports over the past decade. Moreover, if country size is taken into account, many medium-sized economies, including Morocco, show higher export per capita ratios than population-rich India does (Figure 2).

**Figure 2: Exports of ICT-services have gained importance in many developing countries**  
(Exports in million USD) (Exports per capita in USD, 2005)



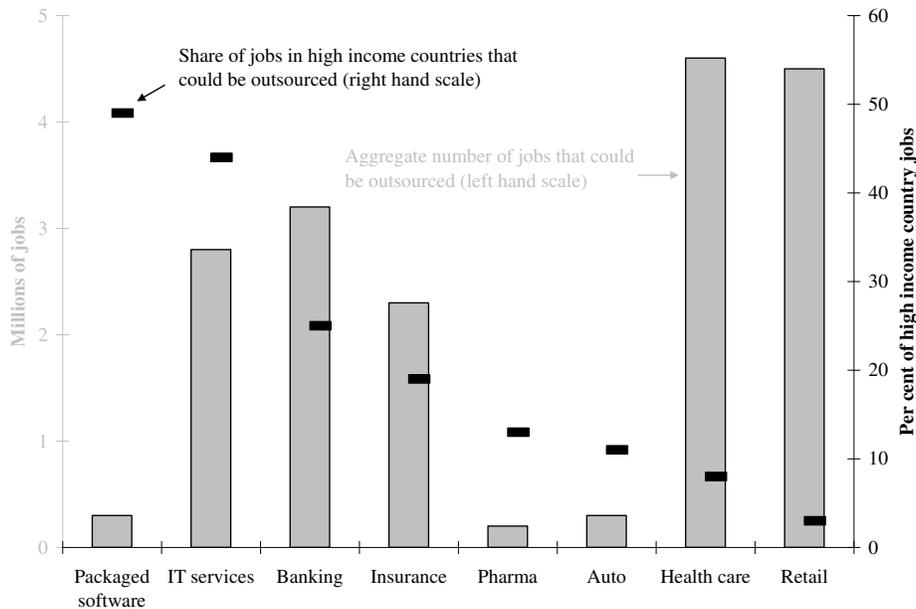
*Note:* Data combine Balance of Payment entries for Telecommunications, Computer and Information Services, and Other Business Services.

*Source:* World Bank staff based on IMF Balance of Payment Statistics, 2006.

One development that has fuelled the growth of ICT-enabled services is the growing trend in high income countries for firms to outsource back office and information technology functions to take advantage of advanced skills and lower labor costs of specialized service providers. Most of the contracting-out is still undertaken with companies in the country of origin (“onshoring”), but cross-border arrangements (“offshoring”) have been becoming increasingly common. Some observers predict that the value of offshoring activities to low wage locations will almost quintuple over the period from 2003 to 2008 (McKinsey Global Institute, 2005a).

The aggregate potential for outsourcing to low wage locations has been estimated to reach more than 18 million jobs by 2008. Due to the limited need for direct client contact, regional knowledge, and complex interactions, IT services and packaged software are activities that are particularly amenable to being moved abroad (Figure 3). About 3 million jobs, i.e. 44 per cent of all ICT employment, could potentially be outsourced (McKinsey Global Institute, 2005a). For some location-insensitive ICT-activities, such as call centers, the outsourcing rate could be even higher and reach more than 90 per cent.

**Figure 3: ICT-services are highly amenable to outsourcing**



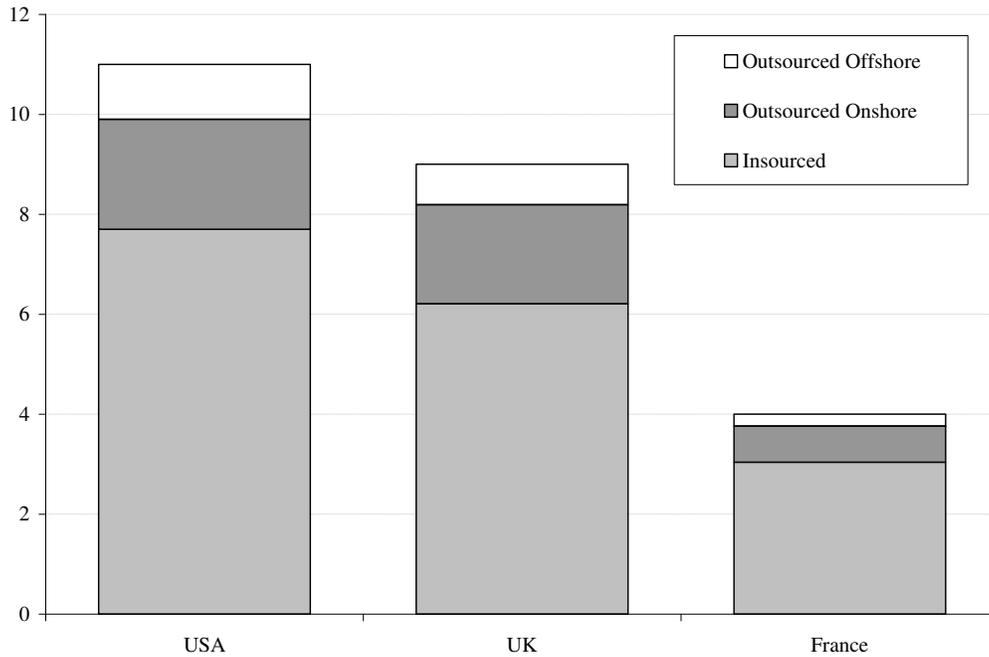
Source: McKinsey Global Institute, 2005a.

By 2003, about 7 per cent of ICT jobs in high income countries had indeed been outsourced. The process is most advanced in the United States, the United Kingdom, and Germany. These three countries account for three-quarters of global outsourcing demand.

## 1.2 Offshoring for francophone markets shows significant potential

In contrast, companies in francophone countries have been more timid to move employment abroad, and have limited their offshoring activities largely to call centers. Estimates indicate that more than 90 per cent of all back-office process outsourcing in French-speaking offshoring locations consisted of call centers in 2005, while in India the corresponding share amounted to less than 30 per cent (Roland Berger Strategy Consultants, 2006). Despite this focus on call center offshoring, France shows a substantially lower call center intensity and outsourcing ratio than the United States or the United Kingdom (Figure 4). This low degree of outsourcing might partly reflect political and trade union resistance to moving employment abroad, but it could also suggest that France might experience an acceleration and catch-up in sourcing talent abroad in the medium-term future.

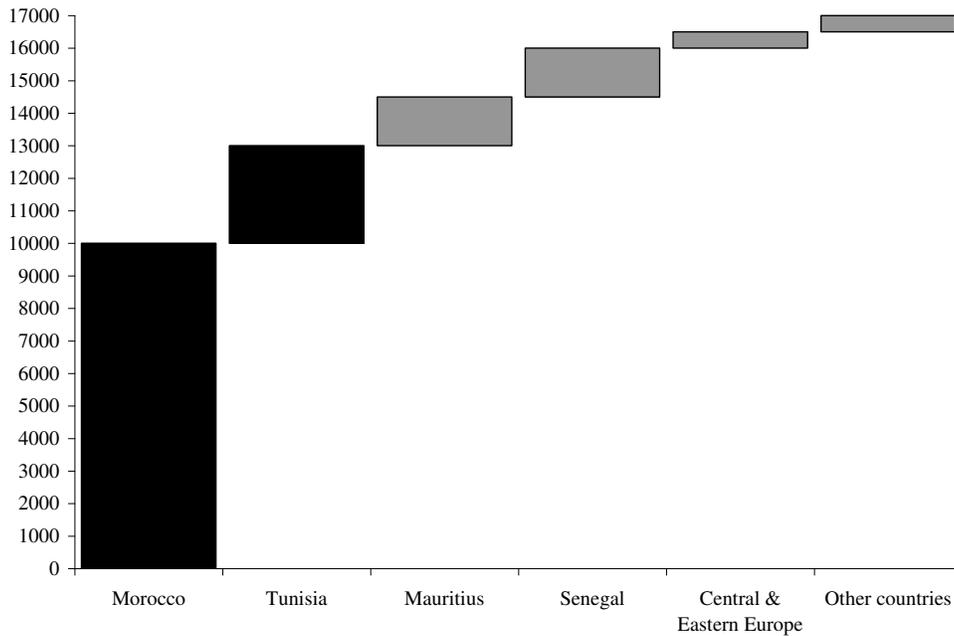
**Figure 4: Outsourcing and offshoring in France has yet to take off**  
(Call center seats per 1000 inhabitants, 2005)



*Source:* Roland Berger Strategy Consultants, 2006.

There are about 17 000 call center staff serving French speaking markets, of which more than three-quarters are located in Morocco and Tunisia (Figure 5). North Africa's wage advantage over Europe is not as pronounced as that of competitors in East Asia, but geographical and cultural proximity, well-established commercial ties, and the strong French-speaking communities make the Maghreb the destination of choice for "nearshoring" of French and other francophone companies. Outsourcing from the French market is projected to grow at an annual rate of 12-13 per cent over the next five years, i.e. at twice the rate of insourcing.

**Figure 5: North Africa is the prime offshore platform for French-speaking markets**  
(Call center seats serving francophone clients, 2006)

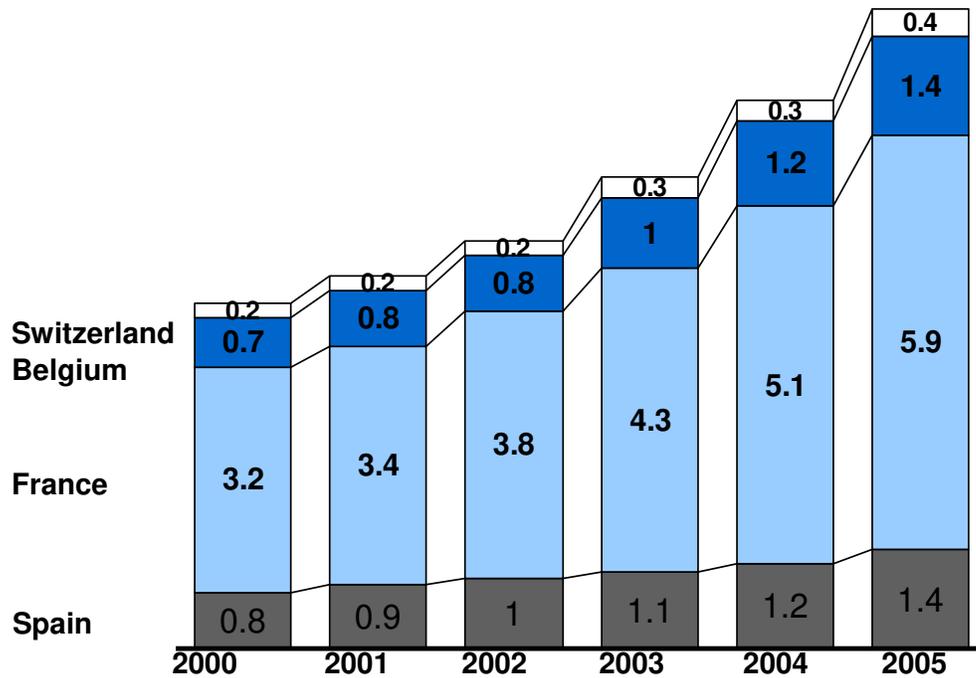


*Source:* Roland Berger Strategy Consultants, 2006.

Similarly, back-office processing in continental Europe is not yet as advanced as in the United States and the United Kingdom, but expenditure on outsourcing to francophone locations has increased by an average of 13 per cent annually during the period 2000-2005 and shows an accelerating trend (Figure 6). The main reasons for the relative delay in outsourcing from continental Europe are tight labor market regulations and political opposition to economic restructuring. In a survey of French companies conducted by Forrester Research, 92 per cent of respondents mentioned geopolitical risk and trade union resistance as an obstacle to moving offshore. In the short-term, offshoring can indeed have painful consequences for displaced workers that cannot be ignored by policy makers. However, offshoring of service jobs should also be viewed as an opportunity. It can help to boost productivity and ensure that the outsourcing country remains competitive in global markets. But to realize the potential value from offshoring, policy makers must pursue structural reforms to increase labor market flexibility and spur innovation.

In this context of the politically controversial impacts of offshoring, the ENP can provide a welcome anchor for open markets and a safeguard against potentially protectionist regulations of services trade. It can help for participating countries to perceive each other as partners that specialize in activities of their respective comparative advantage rather than competitors that scramble over a fixed number of ICT-jobs. As much of the back-office processing activity is based in any case on recent FDI and intra-firm trade within large-scale international firms, the standards for the transactions are basically determined by the practices prevailing in the home country of the outsourcing firm, so that there are few issues of regulatory mis-alignment that could impede services exports from Morocco.

**Figure 6: Offshoring to francophone markets has accelerated over time**  
 (Back-office processing expenditure for francophone markets, billion EUR)



Source: Gartner & McKinsey.

While companies in high income countries that outsource some of their ICT functions can realize cost reductions and thereby improve their international competitiveness, the receiving countries benefit through enhanced employment opportunities, including for women, increased FDI inflows, and improved service quality for the domestic market. In addition, there can be positive spillover effects through technology and knowledge transfer, and stronger incentives for individuals to invest in education.

On the other hand, competition among low wage countries to host outsourcing activities is fierce, and supplier countries generally have to invest heavily to become and remain attractive locations. ICT-enabled services are relatively skill and capital intensive activities. Large investments in higher education and information infrastructure, often undertaken by public authorities, are necessary to become an important international player. In this context, policy makers have to consider the opportunity costs of embarking on an ICT-led development strategy. They have to gauge the benefits in terms of additional income for ICT firms and employees against the potential benefits from investments in alternative means. The prospects for growth in North Africa's ICT sector look good, but ICT expansion is unlikely to create many jobs for the unskilled and poor, so that any poverty reduction aim would have to be realized through trickle-down effects of general economic growth.

### **1.3 Forward-looking policies can help to grasp opportunities**

Morocco has made offshoring the number one economic development priority within its “Emergence” program. The government is heavily investing in human and physical capital and has undertaken important regulatory reforms in order to move the country towards becoming a knowledge economy. Many of these investments in, for example, telecommunication networks and higher education are now sunk and do not have to be considered any more when deciding on future-oriented governmental initiatives. What remains to be determined, though, is how public authorities can further improve the regulatory set-up and provide an enabling business environment in order for the private sector to take over the lead in propelling Morocco in the desired direction of becoming the “nearshoring” destination of choice for companies in francophone (and to a lesser extent hispanophone) Europe.

The analysis in the following aims to contribute to the policy dialogue by describing and evaluating recent and prospective developments concerning ICT-enabled services exports in the context of Morocco’s growth and competitiveness agenda. The discussion will thereby be comprehensive, covering software production, back-office processing, and call centers, as far as the availability of disaggregated information makes this possible. The findings will be related to the performance of comparator countries in order to put them into a broader perspective.

The remainder of the chapter falls into three parts: First, Morocco’s recent performance in ICT-enabled services and their potential for further growth will be discussed. Then, the international position of Morocco’s exporters of ICT services will be examined in order to identify priorities for growth-enhancing reforms. And finally, a set of issues that might warrant the attention of policy makers will be assembled.

## **2. MOROCCO COULD POTENTIALLY BECOME A MAJOR PLAYER IN ICT-SERVICES EXPORTS**

Over recent years, the government has made substantial efforts to promote computer and internet use by households and in the public sphere. In particular, the government launched an initiative in 2005 to generalize the use of information technology in primary, secondary and tertiary education, with the aim of providing all educational establishments with internet access and multimedia centers by the end of 2008. The initiative aims to equally develop IT-related infrastructure, training programs, and substantive content.

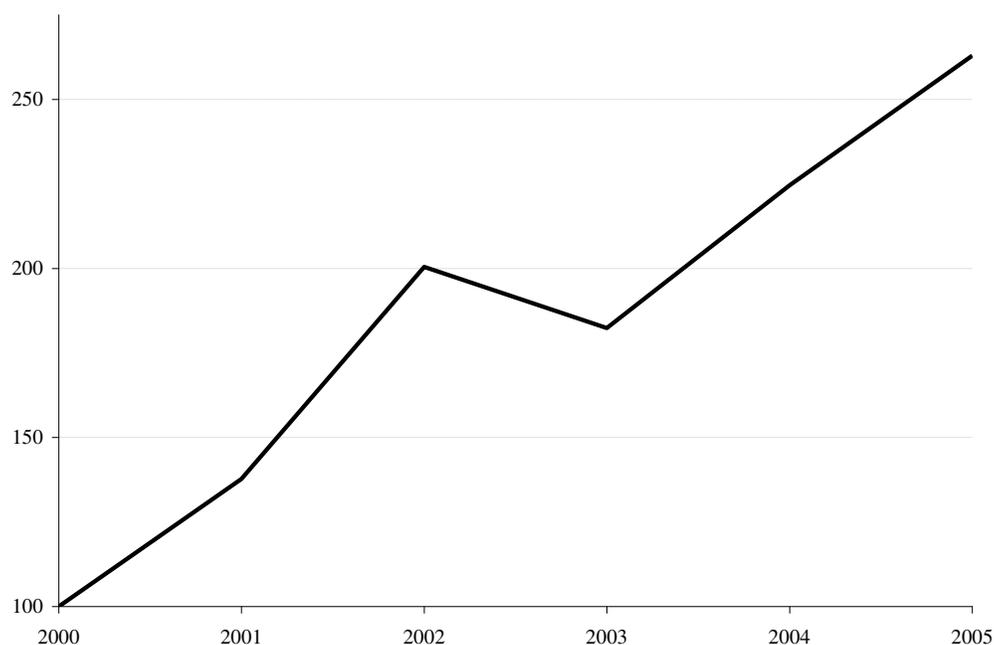
In part as a result of these efforts, the use of information technology has increased steadily. Household penetration rates of personal computers inched up between 2004 and 2005 from 11.0 per cent to 13.2 per cent. For internet access, the corresponding penetration rates amounted to 2.1 per cent and 4.3 per cent. The dynamic trend in internet access seems to continue, with the number of internet subscriptions more than doubling between June 2005 and June 2006.

While the level of IT use and IT spending per capita remains low in comparison with most OECD countries, Morocco’s ICT-sector has grown strongly in recent years. Sectoral GDP more than tripled since 1998, reaching 35 billion MAD in 2005. This expansion suggests average nominal growth of 20 per cent per year. About 80 per cent of total revenues in the sector occur in telecommunications, and the remaining 20 per cent in ICT infrastructure and services.

Exports of telecommunication services have also expanded strongly, with receipts increasing from 1.21 billion MAD to 2.91 billion MAD during the five-year period from 2000 to 2005. Morocco thereby almost tripled its world market share (Figure 7). These numerical figures relate to general telecommunications and do not incorporate and reflect the growth of call center activity, since the latter has been captured in the Balance of Payments under “Other Services”.

**Figure 7: Export statistics show a strong increase in Morocco's world market share in telecommunications services**

(Index of world market share in export receipts, 2000 = 100)



*Note:* World market taken as consisting of all countries that report corresponding export statistics in all years from 2000 to 2005.

*Source:* WB staff based on IMF Balance of Payment Statistics, 2006.

However, the increasing importance of call centers has recently induced the *Office des Changes* to report the export receipts from call centers separately. This breakout shows for 2005 call center export receipts of 1.05 billion MAD compared with 2.91 billion MAD in (other) telecommunications receipts. Hence, call centers accounted for export revenues that corresponded to about 36 per cent of the country's exports of telecommunications services. For the first half of 2006, this ratio had risen to 57 per cent, with call center and telecommunications receipts amounting to 0.85 billion MAD and 1.50 billion MAD, respectively. Unfortunately, no disaggregated information on exports of computer and information technology services is available to date, but given the relatively less advanced state of the back-office processing and software industries in Morocco, the export receipts from these services sub-sectors are unlikely to have been as important and as dynamic as those from call centers.

The underlying growth in the ICT sector is also reflected in the creation of thousands of small-scale enterprises. At the end of 2006, there were more than 12 000 firms providing ICT-services in Morocco, mostly in distribution. Offshoring is still a relatively nascent sub-sector, with some 50 mostly small firms generating an estimated turnover of about 1 billion MAD (data for 2005). Concerning services directed at domestic retail consumers, about 11 000 cybercafés and 46 000 phone stores have emerged in the country, creating about 75 000 jobs that did not exist a decade earlier.

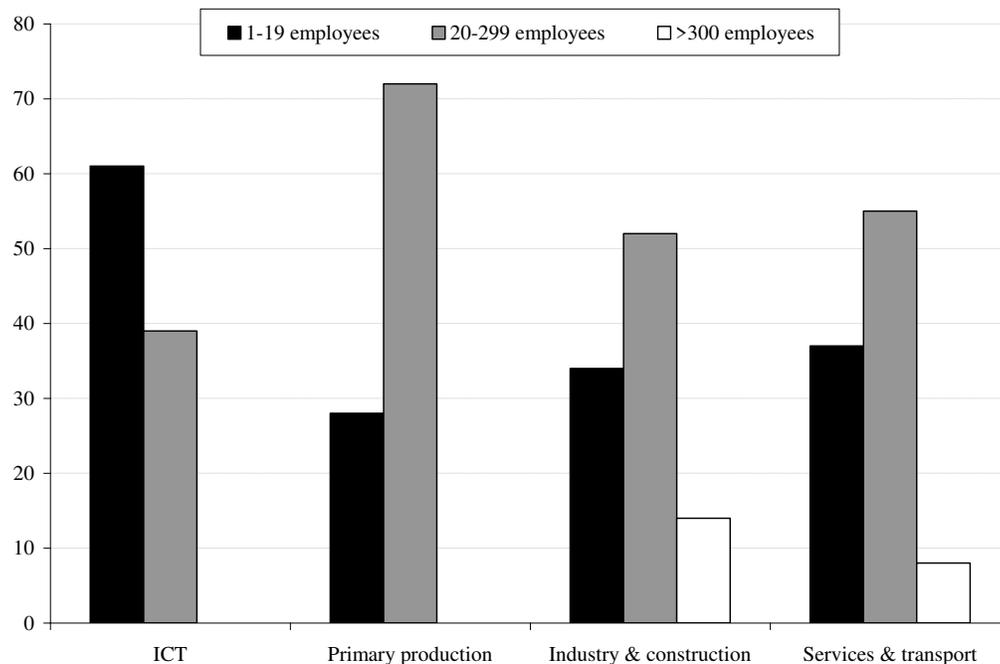
Moreover, there are 150 active call centers, and a further 85 are scheduled to commence operation in the short to medium term. Increasingly, centers open up outside of the axis Casablanca-Rabat and locate in Fès, Marrakech, and Tanger, in order to take advantage of lower

labor costs and special skills in these regions. Indeed, Spain-based Telefónica has established a sizable call center in northern Morocco, where Spanish is spoken as the second language.

Employment in call centers is estimated to amount at about 20 000 full time office workers. Most employees are on fixed term contracts (“Contrat à durée déterminé”) and receive net salaries of 3 500 to 4 500 MAD per month. Supervisors and call center directors earn about 7 500 MAD and 13 000 MAD per month, respectively. These salaries are clearly above the average in Morocco and reflect the higher skills required to perform the call center jobs, but are nevertheless considerably below the salary-level for similarly qualified staff in western Europe.

In the ICT-sector outside telecommunications, total employment was estimated at about 14 800 office workers in 2004/05 (Apebi, 2005). About half for these employees work in ICT-enterprises and the other half deal with ICT-issues in non-ICT firms. Most ICT-specific enterprises are relatively small (Figure 8), and show an average size of about 10 employees. ICT activity is highly concentrated, with two-thirds of all ICT jobs being located in Casablanca and a further fifth in Rabat.

**Figure 8: ICT firms are relatively small**

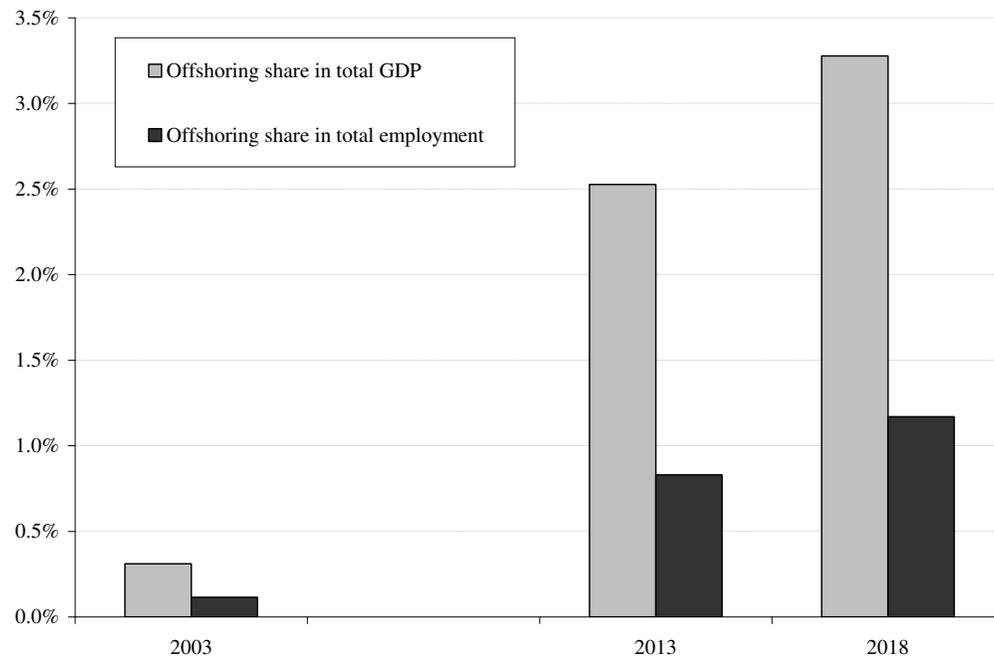


Source: ANRT.

The government sees considerable potential for developing offshoring and other ICT activities in Morocco and has given the sector a prominent place in its “Emergence” program. The latter draws to a considerable extent on analytical support provided by the consulting firm McKinsey. The consultants investigated the growth potential of six sectors in Morocco (offshoring, car parts, electronics, food industry, fish processing, handicraft) and concluded that offshoring could be an important engine of output and employment growth over the next 10-15 years. In particular, they estimated that value-added and employment could increase by more than 30 per cent annually over the period 2003 to 2018. As a result, the contribution of offshoring to GDP and employment would increase ten-fold (Figure 9), amounting by 2018 to almost 30 billion MAD and more than 150 000 jobs, respectively. Moreover, export revenues

from offshoring activities are projected to reduce Morocco’s trade deficit by more than a quarter. This optimistic scenario is based on Morocco’s favorable geographical location close to Western Europe, the country’s cultural and linguistic proximity to francophone and hispanophone Europe, and the existing labor cost advantage.

**Figure 9: Morocco has considerable potential in offshoring activities**



Source: McKinsey.

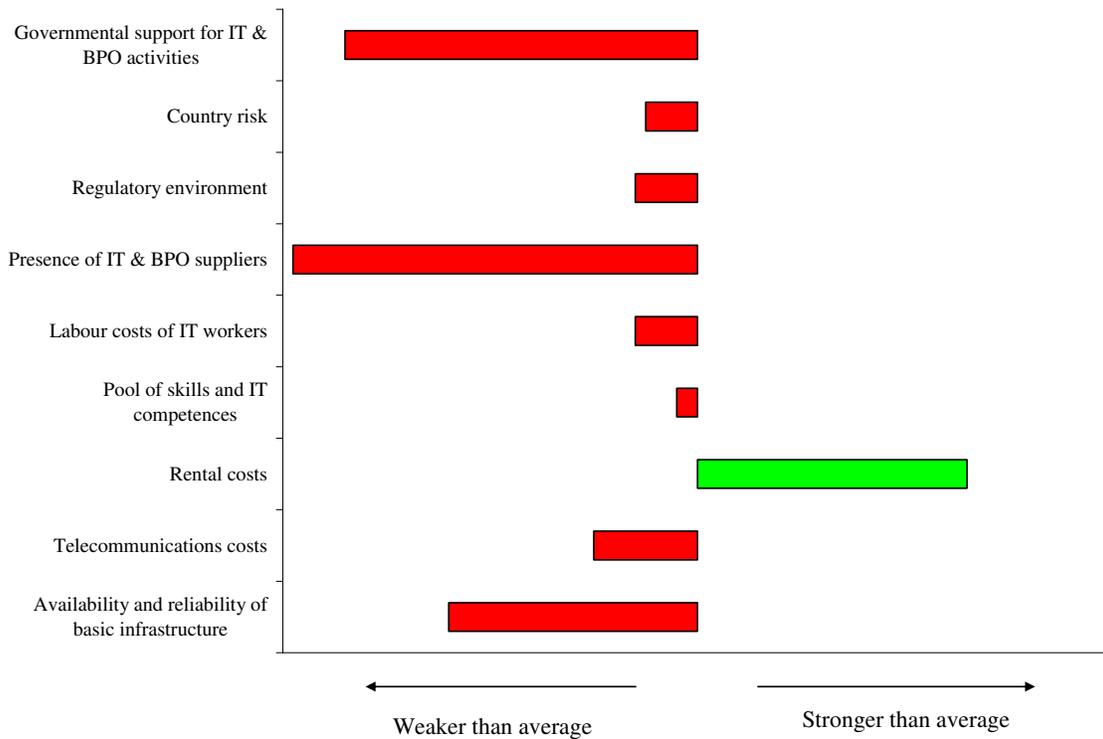
However, despite the marked potential in offshoring, the overall benefits for employment would not be as pronounced as those for economic growth. The 14 800 jobs existing in the ICT sector in 2004/05 correspond to less than 0.2 per cent of the economically active population. Hence, even the projected strong expansion of the sector will only have a modest effect on absorbing the considerable number of young people entering the workforce and bringing down the overall unemployment rate, even though it would certainly help to provide opportunities for graduates of technical schools and universities. Nevertheless, strong growth of ICT-jobs could make an indirect contribution to poverty reduction, as the value-added per ICT-employee is about three times as high as the national average, so that ICT expansion adds considerable purchasing power to the economy. The latter will tend to be partially exercised for the purchase of goods and services that are or could be produced by the poor and underemployed.

### 3. MAJOR ISSUES NEED TO BE ADDRESSED TO REALIZE ICT OPPORTUNITIES

In order for a location to become a dynamic and internationally important ICT-services exporter, several conditions need to be fulfilled. Offshoring attractiveness notably depends on financial structure, people skills and availability, and the business environment. Some observers assign a higher importance to financial considerations (compensation costs, infrastructure costs, real estate costs, and regulatory costs) as the main driver of offshoring decisions, but the other two dimensions are similarly relevant (AT Kearney, 2004).

McKinsey’s projections for strong growth in offshoring are based on the assumption that Morocco can quickly overcome a number of disadvantages that the country currently has *vis-à-vis* its direct competitors and bring its structural strengths (e.g. geographical, linguistic, size) to fruition. Indeed, in a comparison with nine other potential offshoring locations, Morocco ranks above average only for its low rental costs. In other important dimensions, the country trails its international competition (Figure 10).

**Figure 10: Morocco lags behind in several dimensions**



*Note:* The comparator group consists of Tunisia, Czech Republic, Poland, Romania, Mumbai/India, New Delhi/India, Hyderabad/India, Malaysia, and the Philippines.

*Source:* McKinsey.

The finding of major challenges is confirmed by Morocco’s relatively poor performance in the Network Readiness Index. This indicator measures the propensity for countries to be able to exploit the opportunities offered by information and communications technology, and is published annually by the World Economic Forum. The latest edition puts Morocco in the 77th place among 115 countries. It is flanked by Ukraine and Namibia, and ranks lower than all of the country’s competitors for attracting offshoring business (Table 1). Moreover, Morocco lost ground in 2005/06 compared with the previous two years.

**Table 1: Morocco scores poorly in terms of network readiness**  
(country ranking in the Network Readiness Index)

	2005/06	2004/05	2003/04
Estonia	23	25	25
Czech Republic	32	40	33
Tunisia	36	31	40
Hungary	38	38	36
India	40	39	45
Turkey	48	52	56
China	50	41	51
Poland	53	72	47
Romania	58	53	61
Egypt	63	57	65
Bulgaria	64	73	67
<b>MOROCCO</b>	<b>77</b>	<b>54</b>	<b>64</b>

*Note:* The number of ranked countries amounted to 115 in 2005/06, 104 in 2004/05, and 99 in 2003/04.

*Source:* World Economic Forum.

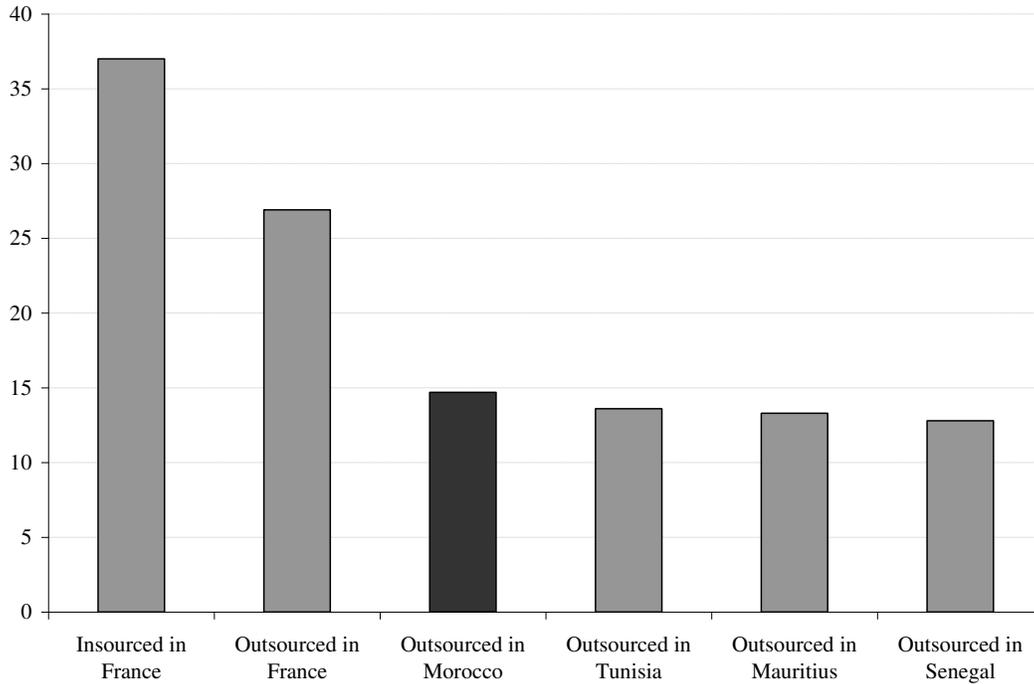
However, broad based indicators, such as the Network Readiness Indicator, should be interpreted with care, as they are not directly related to ICT sector performance. In particular, it is not necessary for the entire country to be highly skilled and linked to the internet through high-speed telecommunication networks in order to develop a small sector such as ICT-export services. Also, in a dynamically developing economic environment, historically-based indicators do not always capture the most recent situation correctly. But the findings point to the need to continue and strengthen the regulatory reform process, notably with respect to telecommunications infrastructure (Table 2).

**Table 2: Regulation of trade in ICT services**

<i>Already liberalized</i>	<i>Regulatory obstacles to trade</i>	<i>Regulatory gaps</i>
- Mobile telecommunication services.	- lack of top quality data services and applications. - entry restrictions for international voice communications.	- Effective enforcement of competition law vis-à-vis monopolist providers of data transfer services

Available information on operating costs shows significant saving potential for companies to locate ICT activities in Morocco rather than, for example, in France. On the other hand, Morocco appears slightly more expensive than Tunisia, Mauritius, and Senegal (Figure 11). This cost differential might reflect a higher quality of service, though, as Morocco has a reputation of focusing on more sophisticated call center and other offshoring services.

**Figure 11: Morocco's costs are slightly higher than those of some main competitors**  
(EUR per hour per call center operator, 2005)

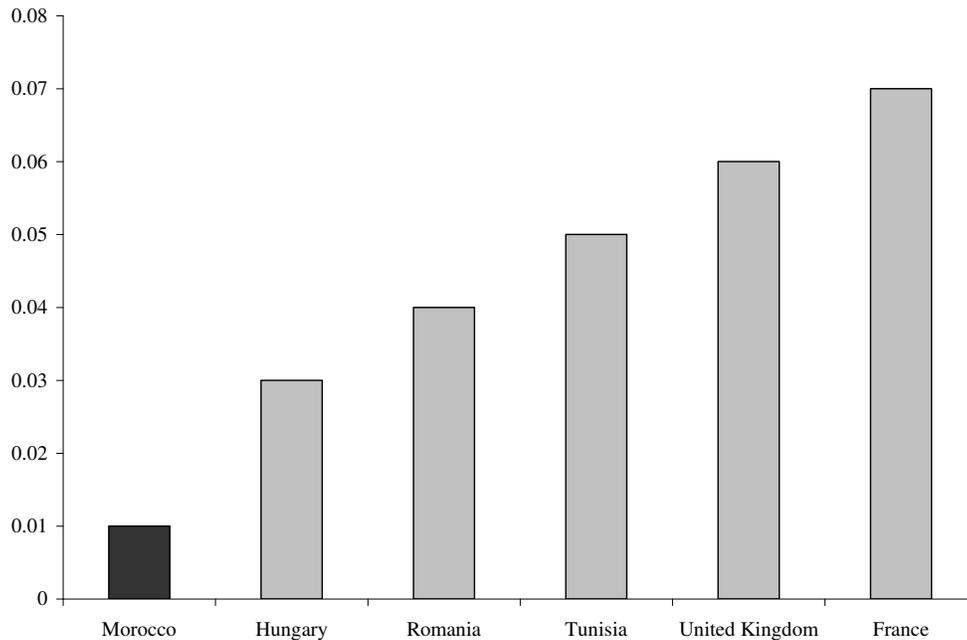


*Source:* Roland Berger Strategy Consultants, 2006.

But rising labor costs could potentially put a brake on ICT development in Morocco. ICT service provision is a labor and skill intensive activity, so that access to a rich supply of well trained technical graduates that are willing to work at moderate wages is fundamental for a strong international position. The recent expansion of call center and other ICT services in Morocco has relied on the supply of well trained graduates and professionals, but bottlenecks in satisfying the demand for qualified employees could drive up wage rates and undermine the attractiveness of Morocco as an offshoring location.

In relation to the size of its population, Morocco produces relatively few technical graduates (Figure 12), and the rapid growth of call centers has at times already revealed a shortage of qualified personnel. One problem is insufficient knowledge and practice of French. Most students are used to speak Arabic at home and get only truly immersed in the French language when they enter university. Since language skills are crucial in call centers, operators have been forced to hire university graduates even for tasks that did not require two or more years of study. There have been press reports that some French call centers have left Morocco soon after starting operations, due to communication difficulties of their phone operators and related customer complaints.

**Figure 12: Morocco currently has relatively few engineers**  
 (ratio of engineering graduates to economically active population, per cent)



Source: FIPA, 2006.

The Moroccan government is well aware of the challenges ahead for creating an attractive business environment for multinational companies and offshoring activities. In particular, in July 2006 it launched a strategy for offshoring development that rests on the three pillars education, fiscal incentives, and infrastructure development. Until 2015, the country's technical schools and universities are to produce more than 100 000 managers, engineers, and administrative staff (Bac+2 and Bac+4), as well as 8 000 hispanophone graduates. Moreover, additional efforts concerning skill upgrades and retraining are going to be launched with substantial state support in order to meet the projected demand for highly skilled employees.

The second pillar concerns sector-specific fiscal and administrative incentives. This includes tax reductions (e.g. flat rate of 20 per cent for the IGR, exemption from the IS, a special tax regime for expatriates), as well as simplified administrative procedures (e.g. single window approach, labor code flexibility, visa assistance). Moreover, early investors in targeted subsectors can benefit from exceptional "pioneer premia". These premia are sought to entice key players to locate in Morocco and serve as a reference for later entrants. Some early success has recently already been achieved, with major French companies, such as *Axa* or *Caisse de Dépôt et de Gestion*, announcing the creation of several hundred offshoring jobs in Morocco.

The third pillar relates to infrastructure development in "nearshoring centers," notably CasaShore, Rabat Technopolis, TangerShore, and MarrakechShore. The aim is to provide investors with world class telecommunication and office infrastructure and comprehensive support services at very competitive rental rates. The CasaShore project is already well advanced and is intended to ultimately house 30 000 offshoring workers on office space of 250 000 square meters.

#### **4. WHICH ISSUES MERIT THE ATTENTION OF POLICY MAKERS?**

The preceding discussion suggests the existence of a number of opportunities and challenges that warrant further reflection and action by policy makers:

- Offshoring for francophone markets has been lagging and shows considerable catch-up and development potential, so that there is a window of opportunity for Moroccan service providers to exploit these markets, in which they have a geographical, cultural, and linguistic advantage. However, international competition to attract these activities is fierce, and a consistent and comprehensive approach to improving the business environment therefore at a premium.
- The recent growth in output and exports of ICT services is largely related to telecommunications (including call centers) and not yet to back-office processing and software development. Little statistical information on the different elements in the ICT sector is currently available, and given the diversity of underlying activities, a more disaggregate presentation of statistical indicators would provide policy makers with a better basis for decision-making.
- Even though analysis by McKinsey reveals major challenges for Morocco to catch-up with and overtake its competitors, the consultants project very strong potential in the offshoring sector if the current disadvantages can be overcome. As long term projections of economic potential are always subject to considerable uncertainty, developments in the ICT sector should be closely monitored and the projections updated in order to avoid a misorientation of policies and resources.
- Despite the identified potential for annual growth of about 30 per cent, the contribution of the ICT sector to poverty reduction is bound to be limited, as it is a relatively small sector that tends to provide employment to highly skilled personnel. Hence, complementary policies are called for to improve the situation and outlook of the poor.
- The ambitious “Emergence” program with its educational, infrastructural, and fiscal components for offshoring development seems promising, but policy makers should make sure that the promised programs and incentives are consistent and transparent, and that the committed resources are used effectively.

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***Annex: Rigid labor market conditions in France have impeded offshoring***

In France, industrial restructuring and the offshoring of particular tasks that can be better and less costly performed in other countries has been impeded by strict Employment Protection Laws. The latter consist mainly of highly restrictive dismissal procedures laid down in the Labor Code for permanent contracts – which is the standard form of contract allowed by the law, and is presumed when there is no written agreement. Temporary contracts, which allow some flexibility around the constraints of the standard contract, are in turn constrained in their application, but their use has nonetheless developed strongly in recent years (Jamet, S.,2006, “Improving Labour Market Performance in France”, Economics Department Working Paper No. 504, Paris: OECD.).

Provisions concerning **permanent contracts** mainly cover how to terminate them. There are three categories identified: dismissal, retirement or resignation. Dismissals can take two broad forms, dismissal for “personal” reasons or for an “economic” reason.

Dismissal for “personal” reasons can take two forms, either for “real and serious” reasons, including refusal of a change in the labor contract or the inability to meet objectives set by the employer, or for “fault”. In the latter case, the employer does not have to pay severance payment.

A dismissal for economic reasons can be “individual” if it concerns a single worker or “collective” for two or more workers. In both cases, allowable justifications for such dismissals are strictly defined. It should not be inherent in the person but caused by economic difficulties or technological changes. Moreover, since 1995 jurisprudence has further narrowed the reasons for an economic dismissal. It can be used only if it is necessary to preserve the competitiveness of the firm i.e. it cannot be used to *improve* competitiveness or profitability.

Administrative procedures for layoffs for economic reasons are complex and long, more so when the layoff concerns many workers:

- General provisions: employers must respect a mandatory notice period and have interviews with the worker. Employers are obliged to help employees deal with changes in their jobs and finding another job. Firms also have to negotiate with the works council in the case of a collective dismissal.
- For a dismissal of more than 10 workers, an “employment preservation” plan (plan de sauvegarde de l’emploi), which includes measures such as encouraging the search for jobs outside the firm, creation of new activities, training programs, etc., must be put in place by the dismissing firm.
- Firms with more than 1 000 employees have to offer a “reclassification leave” which is a four to nine month period before the employee is dismissed during which firms have to provide their employees with training and other help to find a job.

Severance payments depend on the number of years spent in the firm and on the reason for the dismissal:

- For an employee with less than 10 years of experience in the firm: 1/10 of a month’s wages by year of seniority and 2/10 in case of dismissal for economic reasons.
- For an employee with more than 10 years of experience in the firm: 1/10 of a month’s wages by year of seniority for the first 10 years and 1/15 by year of seniority after 10 years. In case of a dismissal for economic reasons, the rates are respectively 2/10 and 2/15.

Dismissed workers have priority in any re-hiring done by the firm. Employees can bring the case before a court (the “Prudhommes”) if they contest the reason for the dismissal or the procedures followed. If the reason for the dismissal is not serious and justified according to the court, firms have to pay the worker an allowance equal to at least six months of wages.

**Temporary contracts** cannot be used to fill a permanent job linked to permanent activity of the firm. Therefore, their use is restricted to specific situations:

- to replace an employee on leave
- temporary increase in firm activity
- seasonal jobs or jobs in specific sectors with a lot of fluctuations in their activity. In this case, they are called “common use temporary contracts”, and there is a list of sectors which can use them.

The framework of the contract is strictly set:

- the duration of the contract must be written in the contract. It can be renewed once only.
- maximum duration is 18 months (including renewal), 9 months in certain cases, and 24 months for very specific reasons

After a dismissal for economic reasons, for a period of six months it is not possible to hire a worker on temporary contract for temporary increases in activity or seasonal tasks.

A worker on a temporary contract cannot be paid less than a worker on a permanent contract in the same firm with equivalent skill and position. Firms have to pay the employee a one-time premium of 10% of the gross monthly wage when a fixed-term contract expires and is not transformed into a permanent one.