

ECONOMIC
RESEARCH
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منتدى
البحوث
الاقتصادية

2016

working paper series

**MOROCCAN CRONYISM:
FACTS, MECHANISMS AND IMPACT**

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Working Paper No. 1063

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November 2016

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First published in 2016 by
The Economic Research Forum (ERF)
21 Al-Sad Al-Aaly Street
Dokki, Giza
Egypt
www.erf.org.eg

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Abstract

The purpose of this paper is to shed some light on Moroccan cronyism by studying its manifestation and impact in the manufacturing sector. More specifically, it attempts to find out whether the lopsided and cronyistic business-government relations have a positive or negative influence on competition and economic growth. The paper shows that political connectedness has always been part and parcel of a large patronage network that has helped the political power, the makhzen, to strengthen its control on Moroccan society and to prevent any countervailing power from taking root, especially in the economic sphere.

JEL Classification: L5, L1, D7

Keywords: Cronyism; Manufacturing Sector; Business-Government Relations; Morocco

ملخص

الغرض من هذه الورقة هو إلقاء بعض الضوء على المحسوبية المغربية من خلال دراسة مظهر وتأثيرها في قطاع الصناعات التحويلية. وبشكل أكثر تحديداً، فإنه يحاول معرفة ما إذا كانت العلاقات التجارية للحكومة غير متوازنة لها تأثير إيجابي أو سلبي على المنافسة والنمو الاقتصادي. وتبين الصحيفة أن الترابط السياسي كانت دائما جزءا لا يتجزأ من شبكة الرعاية الكبيرة التي ساعدت على السلطة السياسية، في المخزن، لتعزيز سيطرتها على المجتمع المغربي، ومنع أي قوة تعويضية من التجذر، وخاصة في المجال الاقتصادي.

1. Introduction

Studies that address the issue of cronyism and economic growth in Morocco are rare. While facts and analyses on cronyism are available (for example, Cammett, 2007; Denoeux, 2007 and Moore, 2010), no attempts have been made so far to quantitatively measure the extent and impact of political connectedness and patronage. Problems of access to data regarding firm ownership, as well as the ‘sensitivity’ of the topic as it relates to the interpenetration of politics and economics, have deterred scholars from approaching this strategic and crucial topic.

The purpose of this paper is to shed some light on Moroccan cronyism by studying its manifestation and impact in the manufacturing sector. More specifically, it will attempt to find out whether the lopsided and cronyistic business-government relations have a positive or negative influence on competition and economic growth.

Close state-business relations play a key role in explaining the successful East Asian growth strategies (for example Amsden, 1989). However, in analyses of other parts of the world, close state-business relationships may result in some problems such as corruption and rent-seeking. Examples of such abuses are easy to find (for example Hutchcroft, 1998 for the Philippines under President Marcos). The cases of countries like Tunisia and Egypt after the Arab Uprisings have been well-documented by discerning scholars (Rijkers B, Freund C.L., Nucifora A, 2014; Diwan I, P Keefer, Schifbauer M, 2013).

In the Moroccan case, whilst some policy-makers (for example Minister Moulay Hafid Elalamy, in Michbal M, 2014) hail the royal policy aiming at promoting national champions in the local and international markets (especially Sub-Saharan Africa), others have raised doubts about its efficacy and its impact on industrialization and development is rather limited. (Ait Benhamou Z, interview, in Michbal, 2014).

As a matter of fact, Morocco has been implementing some form of industrial policy, seeking to nurture a new generation of businessmen since the 2000s (see later, Section 1). The royal private sector - mainly the ONA/SNI conglomerate and its financial arm, Attijariwafabank, supplemented this policy - with the palace’s support so as to promote Moroccan “multinationals” fit to compete on the African market. In this respect, King Mohamed VI directly involves himself in this policy, as some close businessmen are selected to take part in his visits abroad. In addition, a high-level steering committee, which comprises ministers and businessmen, meets once a month in order to remove obstacles and speed up investment procedures (Michbal, 2014).

Seen from this angle, such an interpretation seems to support the “good cronyism” hypothesis, as connected firms are empowered to overcome coordination failure and their investments create demand externalities for new economic activities. This synergetic approach to the government-business nexus is a reminder of the positive role that close state-business relations had played in the success of East Asian growth strategies (Amsden, 1989).

On the other hand, the so-called national champions not only focus their strategies on non-tradable sectors, such as real estate and finance, but they can also lobby for inefficient protection from competition (subsidies, licenses). These close deals can discourage innovation and entrepreneurship and suppress growth opportunities of the majority of non-connected firms that do not grow.

As for the Moroccan case, some studies suggest that the modest economic growth is due in part to the concentration of economic power in favor of large firms. The latter “tend to be less dynamic, and they also experience lower gains in productivity” (Sekkat and Achy, cited in Cammet, Diwan and Alii, 2014 545). Because of the domination of large firms, small firms are squeezed and prevented from growing, resulting in a “missing middle,” (i.e., the segment of

the private sector in other countries that contributes the most to economic dynamism and innovation).

The objective of the paper is to investigate whether cronyism has contributed or hampered economic growth, competition and innovation in Morocco. Economic research on this topic in Morocco seems to be almost non-existent. Therefore, this paper should be considered as a modest contribution to unveil some aspects of this complex and sensitive issue.

To draw a big picture of political connectedness in this sector, assess the superior performance of politically connected firms, and analyze the capture mechanisms that make it possible, this study will focus on three important areas: regulatory policy uncertainty, trade protection, and privileged access to finance.

A quantitative approach is adopted to explore the relationships between capture mechanisms and the performances of politically connected firms.

Lastly, it will address the issue of the impact of cronyism on the Moroccan manufacturing sector by studying the extent to which political connectedness influence firm dynamism and job creation.

This paper is structured as follows. Section One documents how Moroccan cronyism has become a pillar of Morocco's political economy. Section Two presents the big picture of political connectedness in the manufacturing sector, using a unique database we managed to collect. Section Three is dedicated to comparing the performance of connected firms and unconnected firms. Section Four investigates the mechanisms through which political privileges are granted to connected firms, while Section Five focuses on the impact of political connectedness on competition, innovation, and growth in the manufacturing sector.

1. Moroccan Cronyism as A Pillar of the Moroccan Political Economy

The historical development of state-business relations shows that rent-seeking, cronyism, and patronage have long been features of Morocco's political economy. Like other Arab countries, Morocco's political economy is a classic case of neo-patrimonialism, "a system in which political power determines access to economic resources, not the other way around" (Hertog et al., 2013). This access is made possible through state patronage over business or direct control of means of production by the *makhzen*.¹

The centrality of the state is associated with a subordinate role of the Moroccan bourgeoisie, which stems from the necessity for the *makhzen* to maintain its power² in order to endure. Therefore, it could not accept the autonomous emergence of any social force - especially an economic one - that would threaten its dominance over the whole of society. Through patronage, corruption and sometimes, repression (Cammatt, 7-8), the *makhzen* has managed to get control over the Moroccan bourgeoisie and obtain its alignment with its objectives.

This resulted in the permanent interference of the *makhzen* in the economic sphere, not only to pick up the winners and losers, but also to gain high stakes in the most lucrative economic sectors.

While the lopsided (i.e., 'informal, purely reactive, and including only close businessmen to the rulers', Hertog) and cronyistic characteristics of the state-business nexus have been a permanent feature of the Moroccan political economy, some scholars (Cammatt, 2007 and Catusse, 2004) contend that business mobilization can alter established patterns of business government relations in a more liberalized environment. Yet, the Moroccan case shows that

¹ In Moroccan Arabic, *makhzen* means "storehouse"-the palace quarters where goods offered to or expropriated by the sultan's representative were stored. In Moroccan political jargon, the *makhzen* refers simply to the palace as the ultimate seat of power (cf. J Waterbury,1970)

² The primacy of power maintenance prevailing in the Middle East in general is highlighted in Schlumberger O (2008).

such a situation can happen only at the margins, making true independence from the *makhzen* unthinkable, as will be shown later.

1.1 During the pre-colonial period

The *makhzen* used to extend its control over the trade traffic with foreign countries, while allowing some close merchants to set up their businesses as “*Tujar Sultan*” [Sultan’s merchants]. Likewise, the *makhzen* families, who were not particularly wealthy in their own right, gained leverage because of their closeness to the state in order to get influence.

This situation changed somewhat in the mid-19th century, as hundreds of merchants, unsatisfied with the *makhzen*’s dominance over the economy, left Morocco in search for better opportunities in Europe, Africa, and the Middle East.

During the colonial period, “colonial cronyism against the Moroccan bourgeoisie triggered the involvement of the latter in the fight for independence. In fact, the prospects for Moroccan bourgeoisie’s development were strictly constrained not only by rules and regulations, but also by discriminations” (Marais O., 1964). Nevertheless, some families amassed huge fortunes, especially by taking advantage of the opportunities offered by World War Two’s economy of scarcity (Belal A, 1980, 54).

1.2 Cozy capitalism under the Import Substitution era

After independence, the *makhzen* was confronted with pressure from the national movement - standard bearer of the urban bourgeoisie and the working class - aiming at transforming political and socioeconomic structures so as to build a strong and modern state through regime democratization, industrialization, and agrarian reform. Feeling that this situation could put its political power at risk, the monarchy shifted its alliances toward rural areas (Leveau, 1976, p 83). This political evolution resulted in the strengthening of the *makhzen* and its allies, mainly the high bureaucracy, the fraction of business community closely linked to foreign interests, and big landlords (Belal, 46).

Despite being a constitutional monarchy, the political regime was actually dominated by the palace and by policies devised by the King and his close advisors (Cammatt, 83).

On the economic front, some form of state capitalism was implemented, where the state acted as both an anchor to the private sector and a stopgap to its failure in different sectors (Belal, 54). This strategy gave rise to an agrarian bourgeoisie and an industrial class that benefited extensively from state protection as well as multiple public incentives: the palace’s derogating permission to acquire French settlers’ properties (Leveau, 241), agricultural public investments in irrigation areas, trade protection, equipment bonus, tax breaks and subsidized loans to set up import substitution industries, and public-private partnerships. Furthermore, the high level administration put pressure on foreign firms to take Moroccan capitalists as business partners (Belal, p 55). These economic policies received strong support from the World Bank (Daoud, 1981).

While the strengthening of the Moroccan big bourgeoisie was mainly due to state patronage, it was also promoted by business penetration of the state, as some families (M. A. Kettani, L. Sekkat, Berrada, Tazi, etc.) managed to appoint their children and relatives in strategic positions within the Moroccan public administration, national banks, and semipublic organizations, mainly to get privileged access to economic and financial resources (Saadi, 1989).

More broadly, while under the *makhzen*’s strict control, business associations such as the General Confederation of Enterprises of Morocco (*Confédération Générale des Entreprises du Maroc*, GEM) and the Moroccan Union of Agriculture (*Union Marocaine Agricole*, UMA)

were dominated by big business. In addition, their presidents were former ministers³ (Bensalem Guessous for CGEM and Ahmed Ben Mansour Nejjaï for UMA) (Benhaddou, 1997, 118), a position that allowed business associations to shape policies through close ties with public officials, so much so that Gattaz Y. (the then President of the French business association, *Confédération Nationale du Patronat Français*, CNFP) declared in 1985 that “Moroccan entrepreneurs are not aware of the chance they have to be heard and followed by their government” (Afrique-Expansion, April 9, 1985, cited in Berrada A and Saadi M.S., 1992).

A “critical juncture” in the making of Moroccan crony capitalism was “Moroccanization.” While this public policy was designed to officially transfer the majority ownership of French-owned companies to Moroccan hands, they primarily enabled the pre-existing economic elite to cement its holdings through its closeness to the *makhzen*. Not only did the Moroccan central power help some members of the urban bourgeoisie to get hold of important economic sectors, but it also managed to be the main “Moroccanizer”, by taking over important foreign companies, particularly the French group called “*Omnium Nord-Africain*” (ONA) and Unigral Cristal (an agro-processing company). Likewise, some prominent businessmen close to the *makhzen* (e.g., MK Lamrani, former prime minister and CEO of the public phosphate producer *Office Chérifien des Phosphates –OCP*) and/or having privileged access to finance were among the main beneficiaries of this policy. Hence, some family business groups such as Karim Lamrani group, Kettani group, Chaâbi group, Agouzzal group, etc., were formed (Saadi M S, 1989). It is worth noting that King Hassan II also took over some of the richest lands previously owned by French settlers and became the kingdom’s largest landowner (Moore, 2010).

1.3 Liberalization and the persistence of Moroccan cronyism

Although the state-led growth (state capitalism) that characterized the ISI era brought about significant economic outcomes, it led to insurmountable contradictions and to the accumulation of debt and fiscal imbalances (Cammatt, Diwan and Alii 464). To deal with this mounting economic and financial crisis, the Moroccan state adopted neoliberal policies inspired by the Washington Consensus and promoted by international financial institutions (World Bank and International Monetary Fund). However, contrary to neoliberal economics that predicts a retreat in cronyism caused by the state rollback, Morocco has witnessed the persistence of lopsided and unbalanced cronyistic state-business relations. Yet, attempts at autonomy have been noticed, as business organizations tried to voice their concerns and claims about the rule of law, corruption, favoritism, and bad governance.

The neoliberal reforms initiated during the 1980s and the 1990s were enacted in a manner that they reinforced and extended the patronage and clientelist network of the “*makhzen*” (Denoeux G P, 2007)⁴. In this context, the way privatization was conducted is very instructive. Specifically, the Moroccan regime was able to channel the privatization process in a way that benefited the incumbent economic elites, which were the only segment of the Moroccan society to possess the necessary capital to privatize state owned enterprises. Consequently, the *makhzen*’s patronage network was reinforced at the expense of a potential class of “more independent entrepreneurs that might eventually challenge its control of the Moroccan system” (Najem, 2001).

³As Benhaddou (1997, p118) put it “all of the leaders of the CGEM used to be statesmen. Both Mohamad Amor and Bensalem Guessous were minister of work and social affairs, and minister of finance respectively. They were nominated ambassadors and later provincial governors. ... Driss Qeytouni, successor of the second, was director of the Finance Ministry’s cabinet and then president of the economic commission in parliament. The fourth president, Mohamed Smirès Bannani, ... was director of the Ministry of Health’s cabinet, and later director of general affairs within the Ministry of the Interior”

⁴ Denoeux develops a conceptualization of the Moroccan society itself as “a gigantic patronage machine—a web of patronage networks... at the top of which sits the king who, in addition to his intertwined roles of religious leader, final authority on government matters... and leading entrepreneur and landowner in the country, can also be viewed as Morocco’s ‘Patron-in-chief.’”

In this regard, the royal family was the main beneficiary of the privatization process, which allowed it to tighten its grip on entire branches of the Moroccan economy. Through ONA holding, the Royal family took over important state owned enterprises such as *Société Nationale d'Investissement* (SNI, an important public holding with large stakes in manufacturing, mining, commerce, and services), the largest sugar refinery company, all sugar production firms, and corporations operating in the mining sector (Saadi, 2013).

In the meantime, the *makhzen* channeled the privatization process so that it benefited specific MBGs, ignoring the entire institutional framework meant to monitor this. In this regard, the privatization of large state-owned corporations in the banking and chemical industries is very instructive (for more details, Saadi).

During the 2000s, a shift in the *makhzen's* strategy towards the private sector was noticed. Under the pretext that the private sector was reluctant to invest when the new King came to power in 1999⁵, the *makhzen* decided to co-opt and promote new economic actors, hoping that they will be the schumpeterian entrepreneurs that he has purportedly been looking for since the 1960s.

The rise of the largest real estate developer during the 2000s is worth explaining in this regard. According to some prominent businessmen we interviewed, this real estate leader managed to acquire huge public land plots, thanks to mutual agreement (*de gré à gré*) for the symbolic sum of 1 dirham per square meter.

The same group was also chosen in 2011, on a discretionary basis, to set up a joint venture with the military agency in charge of housing. According to this agreement, 320 ha were mobilized to build 37,000 dwellings.

Regarding the financing mechanism, the case of the state owned financial institution "*Crédit immobilier et hôtelier*" (CIH) is very telling (Saadi, 2013). After decades of bad management and exaggerated largesse - evident in the non-payment of loans - a parliamentary inquiry began looking at the CIH's possible bankruptcy in 1998 (Transparency International, 2007). They determined that DH 9 billion (US \$1 billion) in debts still needed to be recovered. The chairman of CIH, who had fled abroad, admitted that the most dubious loans and inequitable transactions that he had had to authorize were at the request or instruction of well-placed individuals in the state.

Given this empirical evidence, it comes as no surprise that international organizations pointed out pervasive corruption as an important obstacle to fair competition and economic dynamism. As a matter of fact, the corruption rating of Morocco in Transparency International's Corruption Perception index (CPI) worsened during the 2000s (Table 1).

In addition, according to GAN Integrity (Jan. 2014), "foreign as well as Moroccan entrepreneurs identify corruption as a large obstacle to investment", while "the royal family and well connected individuals control large companies and are likely to win public procurement tenders." Moreover, "allegations persist that companies owned by highly influential persons are rarely disciplined by regulatory agencies if they infringed investment regulations, and that regulations shown to jeopardize the entrenched interests of the high circles of political and economic power are disregarded."

Two important factors help explain why cronyism persisted or even strengthened despite the state rollback induced by the implementation of neoliberal policies. Firstly, in the absence of parallel political liberalization, authoritarian rulers were able to interfere in the privatization process so as to privilege their cronies or to gain benefit for themselves. From this perspective,

⁵ According to Hibou B (2004), "after a strong 'clean up' campaign aiming at 'disciplining' the private sector, the later was frightened and tended to stop investing, which was interpreted by the new reign as an inimical reaction".

cronyism can be thought of as “the central mechanism that resolved the contradictions created by the gradual liberalization of the economy in countries where political power remained highly autocratic” (Cammett, Diwan and Alii 508).

Secondly, economic liberalization implies that “the State’s role does not disappear but becomes redefined... [and] the State remains an important actor in the economic arena and decisions of state or quasi-state institutions play an important role in determining the quantum and distribution of economic benefits” (Mazumdar S, 2008, 15).

Yet, the persistence of cronyism, in a context where the private sector has come to be given the widest possible responsibility for generating growth and development, has caused segments of the non-crony bourgeoisie to voice their claims for the rule of law, a level-playing field, and transparency. Two case studies are worth mentioning in this regard. The first relates to the conflict among industrialists regarding trade liberalization in the manufacturing sector, as apparel exporters perceived that a well connected and entrenched ISI elite was an obstacle to further integration in the global economy (Cammett). Thus, young apparel entrepreneurs decided to organize and adopt a proactive role in industrial and trade policy-making. Collective action was fostered by a shared belief that exporters’ interests were marginalized, which helped cement their unity. As Cammett M. (p 6) put it, “Moroccan producers organized powerful collective lobbying efforts through producer associations and expressed policy goals through public channels such as the media and regularly scheduled official business-government meetings.” Thus, business mobilization resulted in a notable shift towards more formalized and institutionalized relations between business associations and government.

The same vein of political protest was visible in the CGEM’s reaction to the “anti-fraud campaign” carried out by the *makhzen* in 1995/1996. Actually, the CGEM had been very vocal about economic policies, especially when it came to issues such as the awarding of public procurements or the way privatization was conducted (Denoeux, 2007). This proactive and political role became more visible when the “anti-fraud campaign” turned into an arbitrary operation against the private sector and CGEM at large (For a detailed account of this issue, Sater J, 2002). The CGEM’s leadership firmly stood up against the so-called campaign, which led to negotiations with the government and the recognition of the private sector as an official partner on matters regarding transparency and the rule of law. However, this assertive position of the business Federation did not last long, as the *makhzen* maneuvered to regain control over it through a new leadership having the blessing of the palace. As Denoeux (148) put it, “CGEM appears to have been neutralized by those who stand to benefit from the persistence of at least some degree of opacity in key economic transactions, particularly those that involve elements of the royal entourage.”

2. The Big Picture of Political Connectedness

2.1 Political connection data

Due to personal acquaintances I managed to get a database belonging to the public administration in charge of annual surveys of manufactures, which comprises 8,372 manufacturing firms with their company names and some economic indicators (turnover and number of employees) for the period 2003/2012, which represents around 83,725 observations.

I also gathered data on the 20 largest manufacturing firms (but with coded company names) operating in each of the 22 industries (2 digits) that form the manufacturing sector. Firm-level data, which covers the period 2003/2012, comprises equity amount, turnover, production, number of permanent employees, investment, gross income (i.e., before taxes, interest and depreciation), net income, and added value.

What needed to be done then was matching the two databases in order to uncover the company names of around 400 firms for every year. This was made possible thanks to the firm's code and the turnover and employment figures, which were available for both datasets.

While it was beyond our capacity to study up to 4000 firms (around 400 firms for each year covering the period 2003-2012). We chose to focus on three significant years: 2003 as the first year for which firms' data were available, 2006 which was a buoyant year for the Moroccan economy, and the year 2012 in order to take into account the economic impact of the Arab Spring.

Our final sample is composed of 618 manufacturing firms: 395 firms for 2003 to which we added 92 and 121 new firms for the years 2006 and 2012 respectively. The latter have joined our list of the 20 largest firms of all manufacturing subsectors.

The identification process of the politically connected firms (PCFs) took into account my personal knowledge of the private sector as well as the Moroccan political landscape. I picked up shareholders and managers' names from the commercial court's website and complemented it with data from the Moroccan Office Industrial and Commercial Property's website, the Casablanca Stock Exchange and newspapers.

I also took into account closeness to and/or friendship with the palace as reported by some businessmen I met with as well as by some newspapers to identify some firms as PCF.

All these data are stored by company names. It is worth noting that I tried to validate the PCFs' list by matching shareholders and top managers' names with politicians' names (more than 1100 names). For technical reasons, my attempt turned out to be unsuccessful.

One reason why the identification process is made easier is that some important manufacturing firms belong to the royal family, who controls the ONA/SNI conglomerate as well as the SOMED group.

Our results show that 81 out of 618 manufacturing firms that compose our sample were politically connected (13.1%).

2.1.2 Who are PCF?

Table 2 presents the characteristics of PCFs' shareholders. The most salient point is the royal family's preeminence as the main economic actor. As King Mohamed VI is positioned according to the Moroccan Constitution at the heart of the political system, he perfectly exemplifies the deep interpenetration between politics and economics.

The royal holding SNI/ONA controls 31 (38.2%) of all PCFs and spans over varied manufacturing industries including food and beverages, textile, fabricated metal products, nonmetal mineral products, and motor vehicles.

The second most important group of shareholders comprises two former Prime Ministers and several former or current ministers; they control 20 (24.7%) of all PCFs. Moroccan parliamentarians own 17 out of 83 PCFs (21%).

Businessmen known for their closeness to the king control 7 PCF (8.6%) while multinationals or members of Moroccan political parties own the remaining 6 PCFs (3.7%)

2.1.3 In what sectors do PCF operate?

It is noticeable that PCF have a rather diversified presence in the manufacturing industries, with relative focus on food and beverages, paper and paper products and textile and wearing (import substitution industries).

It is also worth noting that most sectors that have asked for antidumping and safeguard measures and succeeded to get them implemented are dominated by politically connected firms (SNEP, SONASID, CERAME, etc.) (*Le Matin* newspaper, April 3, 2013).

Another important consideration is that ceramics, non-metallic mineral products and fabricated metal products-sectors where PCFs operate concentrate the major part of energy subsidies dedicated to the manufacturing sector (Moroccan Court of Auditors, Jan 2014).

2.2 Do PCF outperform NCF?

Since the vast majority of PCFs (62.3 %) is controlled by the royal family and prime ministers or ministers (former or acting), we will focus our performance analysis on the latter (i.e., firms with strong connections) in comparison with NCFs. We will present some descriptive statistics before taking into account the influence of firm characteristics along with political connectedness on performance, using simple econometric tests.

2.2.1 Descriptive statistics

Our purpose is to investigate whether politically connected firms are more successful in terms of performance measures. We examine differences in market share, added value per employee, export rate, net and gross income ratios, and turnover to investment ratio** (investment is defined as the new fixed assets acquired during a given year).

Market share: firms with strong connections (PCFs) largely outperform non-connected ones. Their market share is twice as high as NCFs' market share in 2012. Performance differential is significant at the level of 5% in 2003, and 1% in 2006 and 2012. Furthermore, performance differential tends to increase over time. Lastly, NCFs' market share experienced a decline between the years 2003 and 2012.

Added value per worker: PCFs considerably outperform NCFs. Their performance is 2.39 times that of NCFs in 2003, 2.61 times in 2006 and 3.77 times in 2012. Performance differential is significant at the level of 1% and tends to increase over time. This differential seems to be related to PCFs' market power and, by extension their size.

Related to these two first performance indicators are net and gross income ratios as they are influenced by firm's market power. Net margin is higher for PCFs in comparison with NCFs and tends to increase over time, but the performance differential is statistically significant in 2003 and 2006 only. The same goes for Gross income ratio, the performance gap being statistically significant in 2003, 2006 and 2012.

Export rate: PCFs outperform NCFs, but the performance differential is statistically significant in 2006 and 2012 only.

As for the efficiency ratio we have chosen (i.e., investment turnover ratio), no trend towards PCFs' superior performance is noticeable. On the contrary, NCFs largely outperform their connected counterparts. However, the performance differentials are not statistically significant.

Our findings hitherto show that politically connected firms have a higher market share, higher net and gross margins, and a higher added value per worker. On the whole, these performance differentials are statistically significant.

On the other hand, PCFs do not seem to be more efficient than their non-connected counterparts, as the performance differentials are not statistically significant.

As a concluding remark, descriptive statistics show a trend towards economic and financial concentration of wealth and power in favor of royal family and prime ministers and ministers.

2.2.2 Econometric tests: data and methods, performance measures, control variables

In this section we examine to what extent political connectedness contributes to explain firm's performance. We use an OLS model by which we regress market share (MS), labor productivity (LP), export rate (X rate), net income and gross income ratios (respectively NI and GI), turnover to investment ratio (TI) on political connection as well as key control variables, namely size (SZ), age (AG), sector (S) and year.

Since the vast majority of PCFs (62.9%) are controlled by the royal family and prime ministers or ministers (former or acting), we will focus our performance analysis on the latter in comparison with NCFs.

Do firms' performance change when connections are stronger, that is when firms are politically connected to the royal family or prime ministers and ministers (former or acting)?

Regression models

Using an OLS model we regress market share, added value per worker, export rate, net income and gross income ratios on strongly connected firms (firms controlled by royal family and prime ministers/ministers, PC') as well as key control variables, namely size, age, sector and year.

$Performance_{it} = \alpha + \beta_1 PC'_{it} + \beta_2 PC * YearDummy + \beta_3 Size_{it} + \beta_4 Age_{it} + Sector Dummy + Year Dummy$

- Market share model: strong political connection positively affects market share. This influence is statistically significant at the level of 5%. Likewise, the controlling variables size, age, and sector significantly impact market share.
- Added value per worker model: being strongly connected to political rulers positively and significantly affects a firm's added value per worker. This influence is consolidated over time as the combined effect of political connection and time dummy is positive and statistically significant. Similarly, all control variables (size, age and sector) exert an effect on added value per worker.
- Export rate model: political connection to the royal family or prime ministers and ministers has no impact on export performance. On the other hand, the combined effect of political connection and time dummy is associated with a positive and statistically significant influence on export rate. In addition, the controlling variables size and sector influence significantly firms' export performance.
- Turnover to investment model: connected firms do not appear to be more efficient than connected ones. Only the combined effect of political connection and time dummy is correlated with this efficiency model. Alternatively, age and sector variables are associated with a better and statistically significant efficiency.
- Income rate model: Results indicate that strong political connection do not significantly influence income rate. In contrast, control variables size and sector are closely associated with firms' profitability.
- Gross income model: only control variables (size, age and sector) exert an effect on this indicator.

On the whole, regression results are mixed as political connection is strongly associated with market power and added value per worker, whereas it does not seem to exert a significant effect on the other performance indicators, especially efficiency ones.

3. Cronyism and Capture Mechanisms

Politically connected firms can outperform their competitors due to the privileges they have access to. These capture mechanisms comprise differential implementation of rules and regulations, preferential access to subsidies, trade protection, access to state land, financial resources or to government contracts. We focus on three possible mechanisms: privileged

access to finance protection from foreign competition and discriminatory implementation of rules and regulations.

3.1 Does the leverage effect help politically connected firms outperform their unconnected counterparts?

3.1.1 The role of institutions (such as financial markets, legal traditions, bankruptcy codes and corporate ownership structures) has been identified as an important determinant of leverage ratio, along with other factors such as size, profitability, and tangible assets etc. (Rajan and Zingales, 1995).

Economic research has added to the growing literature on how, in some situations, political connections can have a significant impact on a firm's value and access to bank finance.

It shows that political connections help provide preferential access to finance (Claessens, 2008). Preferential bank loans are characterized by lower interest rates (Khwaja and Mian, 2005) and higher leverage ratios (Faccio, 2006 Khwaja and Mian, 2005). Charumilind, Kali and Wiwattanakantang (2006) present similar evidence for lending preferences in Thailand. Dinç (2005), for a larger set of emerging countries, also finds that “government owned banks are often subject to capture by politicians.”

This influence stems from the “organizational design of government banks that enables politicians to threaten bank officers with transfers and removals, or reward them with appointments and promotions” (Khwaja, 2005).

However, political connections may also induce some costs. For example, political intervention might weaken managerial practices and harm a firm's performance (Fan et al., 2007).

3.1.2 The Moroccan economic and financial environment is also prone to discriminatory lending practices motivated by closeness to political power.

Morocco's financial system is bank-dominated and highly concentrated. With total assets of 140 percent of GDP—up from 111 percent in 2008—banks comprise about half of the financial system (International Monetary Fund, 2016). Among the 19 banks operating in Morocco, locally owned banks accounted for 82.3% of industry assets as of June 2014. The largest three banks accounted for 66.1% of sector assets in 2014 and 65.3% of the sector's deposits (Oxford Business Group-OBG, 2014).

Among the nice main banks, three are public (Banque Populaire, Crédit Agricole du Maroc et Crédit Immobilier et Hôtelier), two are Moroccan private owned banks (Attijariwafa Bank and BMCE) and three foreign-owned banks (table 7). The share of public banks has declined steadily from 40% in 2002 to 28.6% in 2008 and 14.1% in 2015.

It is worth mentioning that larger clients get the bulk of loans, the ratio of lending to major borrowers (those whose loans individually account for more than 5% of a bank's capital) standing at 3.3 in 2013 according to Bank Al-Maghrib (OBG 84). On the other hand, small and medium-sized complain of difficulties acceding credit as they get the smallest share-around 24% (Rocha et al., 2011).

According to OBG's Report, the largest bank in Morocco is Attijariwafa Bank. Part of Attijariwafa finance group, its major shareholder, with a 47.9%, is Société Nationale d'Investissement (SNI), which is majority-owned by the royal family.

The second-largest bank is Groupe Banque Ppopulaire, which is made up of 10 regional cooperative banks, known as banques populaires. The latter together own a stake of around 52% in the institution that acts as their parent.

The third-largest bank in the country is BMCE Bank, which is controlled by the FinanceCom group.

On the other hand, the narrowness of the Moroccan financial market is reflected in its downgrading in June 2013 from emerging to frontier market, based on poor liquidity, shallow float, and the virtual absence of new listings since the market peak of 2008 (World Bank, 2014).

It is worth mentioning that despite stock market narrowness, banks are important issuers of shares. For example, ONA group and its banking subsidiary, *Attijariwafa* Bank, managed to mobilize up to 13 billion dirhams -- which represented 17.3% of the whole saving amounts provided by Casablanca Stock Exchange -- during the 2000s (Saadi 2013).

Different banks are becoming parts of financial conglomerates incorporating insurance and leasing sectors.

Therefore, it is critically important for investors to have access to bank lending and to set up political ties with the Moroccan central power.

This is especially true since the state plays a strategic role in banking and finance.

The state controls three important banks as well as government-sponsored institutional investors, mainly *Caisse de Dépôts et de Gestion (CDG)* and *Fonds Hassan II de Développement économique et social*.

Given the patrimonial nature of Moroccan political power, it goes without saying that these public financial tools have been mobilized to strengthen patronage networks. In this regard, the aforementioned CIH's case is very telling

Most research papers focus on government-owned banks being more easily influenced by politicians, giving preferential financing treatment to PCFs.

One may ask whether the situation is the same for privately owned banks and if they are also biased towards PCFs. There are several arguments that this may be the case.

Firstly, private banks may expect some benefits in exchange for providing loans to PCFs. For example, "incumbent banks may need state regulatory support to oppose financial development because it creates more competition. To maintain their rents, incumbents use political channels to retard financial development," (Rajan and Zingales 2003).

Secondly, three of the most important Moroccan banks -- AWB, BMCE/Bank and *Credit du Maroc* (a former prime minister is shareholder in this bank and used to be the chairman of its board of directors before her daughter took over) -- are politically connected, and two of them constitute the nucleus of big business groups such as ONA/SNI and FinanceCom.

Politically connected private banks may channel funds to specific firms according to priorities and/or considerations defined by the political power that is the *makhzen*.

For example, bank loans can be allowed to strengthen the competitive positions of member firms of the patronage system, so as to reinforce the social basis and alliances of the *makhzen*. They can also partly contribute to financing certain infrastructural projects.

As a matter of fact, AWB seems to have strongly backed up Akwa group, which is controlled by the current Minister of Agriculture, to take over its local competitor *Somepi* (Amhal group) so as to give birth to a "national champion" in the strategic hydrocarbons sector (Michbal). Strong support from the same bank helped the President of Saham Group and currently Minister of Industry and Commerce to take over CNIA's insurance company.

Thirdly, there are some ownership interlinkages as the state has a stake in some private banks (Competition Authority of Morocco, 2013).

3.1.3 We already know that banks are inclined to finance incumbents that have achieved a certain size and control tangible collateral (World Bank, 2014).

Therefore, we expect that politically connected firms benefit from privileged access to bank lending, so that they strengthen their market power and achieve better performance relative to non-connected firms. More specifically, we would like to find out if political connectedness is a discriminatory variable among large firms, and if PCFs have access to more debt relative to non-connected large ones.

In order to confirm banking preferential treatment in favor of connected firms and sectors, we used the World Bank Enterprise Survey (2004) and focused our attention on the finance section. We studied the ownership of 673 interviewed enterprises and managed to identify 52 politically connected firms versus 521 non-connected firms.

We focused our attention on two main questions:

1. The proportion of the establishment working capital that was financed by internal funds, overdraft, loans from Moroccan banks, and credit from foreign banks.
2. The same question was asked about the financing sources of fixed assets.
3. The interest rate applied by the lending bank.

The results are shown in Figure 2.

The general picture shows that banks tend to favor politically connected firms. To be more specific, we will first compare the leverage ratio for politically connected firms versus the non-connected firms before doing the same exercise for connected sectors versus non-connected sectors.

Bank lending: PCF/NCF

The data from the World Bank Enterprise Surveys (2004) show that bank loans represented on average 60.09 % (9.93 as standard deviation) of working capital needs of politically connected firms while this proportion was only 37.8% (7.43 as standard deviation) for non-connected firms.

For the financing of fixed assets, politically connected firms are again privileged as they financed up to 79.5% (12.3 as standard deviation) of their needs through bank lending in comparison to only 45.8% (10.11 as standard deviation) for non-connected firms.

Bank lending: Connected sectors versus non-connected sectors

Our hypothesis is that the leverage ratio in the connected sectors will display a higher variance due to the preferential lending treatment reserved to politically connected firms and the drive of banks to privilege them in connected sectors so that competition from outsiders is limited or minimal.

Our results show that this is the case for investment financing for which connected sectors benefit from higher leverage (53.7%) and standard deviance (11.12) in comparison to non-connected sectors (39.4%) and (8.82). The same holds true for to bank financing of working capital needs, as the standard deviation for connected sectors is higher (7.68) compared to only (7.55) for unconnected sectors. However, the leverage ratio is slightly higher (41.1%) for unconnected sectors while it is only 38% for connected sectors.

Lastly, and more importantly, is the fact that PCFs managed to obtain a more favorable interest rate (8.86 %) in comparison with NCFs (9.74%). Given our aforementioned results on leverage, it appears that politically connected firms are not only more levered than non-connected ones; they also enjoy other advantages, especially in the form of reduced debt financing costs. This result contrasts with Faccio's findings, which indicate that "the average interest rate on debt

(interest paid/total debt) is only marginally lower for connected firms (a difference of -0.07%) and far from significance” (Faccio, 2010).

As expected, connected sectors have to pay a higher interest rate (9.74%) in comparison to non-connected ones (9.43%). On the other hand, the standard deviation is higher in unconnected sectors (1.95), compared to connected sectors (1.73).

3.2 Does trade protection benefit cronies (PCF)?

3.2.1 Trade policy as an integral component of the patronage system in Morocco

Morocco has adopted a trade liberalization policy since the 1980s. Tariffs were reduced, NTB phased-out, and foreign trade simplified. While the proclaimed objective of trade liberalization is to enhance economic growth, exports and productivity, it may also hurt vested interests in many import substitution industries where rents and monopolistic positions are commonplace.

Therefore, it is expected that connected firms will struggle in order to protect their advantages. To this end, they are able to take advantage of their closeness to political power to access the decision-making process and influence trade policy. Actually as stated by an official public document (Department of Studies and Forecast, 2008, 22) “products benefiting from a high level of protection are, for the most part, manufactured products that offer competition to domestic production, particularly products of the foodstuff industry, plastic, paper, textile, leather, shoes and metallic products.” And Gradual duties and tariff peaks offering effective protection to import substitution industries are not uncommon (ibid, p 23).

The making of Moroccan trade policy is an ideal opportunity for vested interests to voice their claims and get heard in this regard. According to the OECD report on Business climate in Morocco (2011, 14-15), “even though the Ministry of Foreign Trade formulates, implements and coordinates trade policy with the ministries concerned, the Palace and the Prime Minister’s Office play a preeminent role in the policy-making process.”

In addition, an important role is attributed to the private sector that is closely involved in the formulation of trade policy. Two important organs are worth mentioning in this respect. Firstly, there is the *Commission consultative des importations* (CCI: Advisory Commission on Imports), whose brief is to provide advice on all matters relating to requests for tariff protection or the adoption of contingency measures.

The CCI is chaired by a representative of the Minister of Foreign Trade and is composed of representatives of different administrations as well as business associations (namely, the Federations of agriculture, commerce, industry and services, and handicrafts).

Secondly, the *Conseil national du commerce extérieur* (CNCE: National Foreign Trade Council), established in July 1996, is composed of representatives of the Government and the private sector. Its main function is to provide advice on matters relating to foreign trade relations, and to suggest ways of improving the competitiveness of Moroccan products and services.

Both bodies are greatly influenced by big business. The Ministry of Foreign Trade is committed to consulting the private sector about all trade matters (laws, directives, trade agreements, etc.). The private sector is represented only by three major associations: the Federation of Chambers of Commerce, the Moroccan General Confederation of Enterprises (CGEM), and ASMEX, all of which are dominated by big corporations. Likewise, some sectors have greater representation than others (OECD, 16).

3.2.2 Does trade protection benefit politically connected firms?

To investigate this question, we gathered a unique dataset of trade tariffs at the 4-digit level covering the period 2000/2012.

Figure 3 presents the evolution of the average nominal tariffs at the 4-digit level over the period 2000/2013. We can see a sharp decline in tariff protection on manufacturing products.

Tariff differential helps us answer the question about potential discrimination in tariff protection that would benefit sectors where politically connected firms operate in comparison with non-connected sectors.

Figure 4 clearly shows that connected sectors have benefited from higher trade protection during the period 2003/2012, except for 2006 where tariffs rates were roughly equal (15.76% for non-connected sectors versus 15.61% for connected ones). Thus, average tariff rates were 24.88% for connected sectors in 2003, in comparison to only 21.57% for unconnected sectors. While decreasing on the whole for both sectors in 2012, connected sectors seem to be more resilient as they continued to benefit from higher tariff rates (8.27%), compared to 5.06% for unconnected ones. Furthermore, measured by standard deviation, tariff scattering in 2012 is higher (14.95%) in connected sectors, compared to only 6.72% in unconnected ones. This higher dispersion of average tariff rates seems to hide gradual duties and tariff peaks that would benefit connected sectors.

Anecdotal evidence also suggests that PCFs are able to obtain political privileges when it comes to phasing out trade tariffs. This is for example the case of SNEP (*Société nationale d'Electrolyse et de Pétrochimie*) -- branch of the Moroccan industrial group *Ynna* -- whose owner, an influential politician and businessman, managed to maintain its monopolistic position under substantial tariff protection, despite a provision in the privatization agreement to decrease tariff rate on PVC in 1999 to 17.5%, then 10% (*l'Economiste*, 22/9/1999). Ten years later, the nominal tariff was 25 %, a tariff rate higher than what PM Jettou's government had decided -- that is 2,5% (*l' Economiste*). After much hesitation, the government brought it down to 17.5% in 2008 (Forum Bourse Casablanca, 3/8/2009).

3.2.3 Do PCFs profit from non-tariff protection?

During the last decade, a significant, though differentiated, decline in tariffs has led to intensified competition in the domestic market, pushing some local producers to ask government to react and protect their rent positions. While it is difficult to document all the measures taken by the government in this regard, a significant decision was the adoption of the "Trade Defense Law" in 2012. This law allows the government to take antidumping, safeguarding, and compensatory measures in case of prejudice or damage to national production.

It should be noticed that different measures of trade protection have been adopted since the mid-2000s as different manufacturing sectors voiced their claims against increasing "unfair" foreign competition. Of special interest in this regard are the cases of ceramic and steel sectors -- where politically connected firms are very active.

Claiming that the ceramic industry faced serious injury and damage due to increasing imports, the Moroccan government implemented in 2005 a safeguard measure that lasted more than five years. However, it was not clear that the problems of the Moroccan ceramic tile industry were only caused by imports, as it seems to also suffer from the inefficiency of Moroccan production methods, for instance the continued use of propane gas (European Ceramic Tile Manufacturers Federation, 2012).

In addition, the number of mandatory quality control tests by the Moroccan laboratory for trials and studies (Laboratoire Public d'Essais et d'Etudes, LPEE) increased from 3 to 20 over the period 2008/2013 apparently without a valid reason (*l'Economiste*, 18/09/2013).

Under the pretext of serious damage induced by over-increasing imports, the Moroccan Steelmakers' Association (ASM, *Association des Sidérurgistes du Maroc*), pushed the

Moroccan government to impose safeguard measures for a period of four years (*l'Economiste*, 03/12/2013).

These measures seem to be grounded in a false diagnosis of the steel industry; more profound reasons may explain its deteriorating situation. First and foremost, this manufacturing industry has been suffering from an excess capacity caused by a decline in domestic demand. This is due to a decrease in public infrastructure investment, the real estate sector, and in building and public works, as well as the mounting pressure of local newcomers in the industry. In addition, this sector suffers from a lack of competitiveness (insufficient vertical integration, logistics, mismanagement, etc.). A third factor is the obstinate persistence of the main operator (a subsidiary of the royal family's group and sector leader) in maintaining a high price policy in a changing and more competitive environment. (BMCE Capital Research, SONASID, 15/3/13). In other words, increased foreign competition is not the only factor that explains Moroccan steel crisis, and antidumping measures may not be the right answer to it.

To summarize, it is clear that the Moroccan government relaxed its commitment to reduce tariffs through the adoption of safeguard, compensatory and antidumping measures in the face of political economy pressures, coming mainly from well-connected big business.

3.3 Do politically connected firms benefit from regulatory policy uncertainty relative to non-connected firms?

3.3.1 In weak organizational and institutional environments, firms consider "regulatory and economic policy uncertainty as a major obstacle to their growth." (Warrick S and Mary Hallward-Driemeier, 2005).

This deficient institutional environment is particularly detrimental to small and medium enterprises and high growth firms, as the burdens of regulations and uncertainties over their implementation block their economic dynamism and their capacity to create jobs.

This in turn constitutes a major obstacle to innovation and economic growth.

Like many other Arab countries (World Bank, 2009), investors suffer from "discretion and arbitrary implementation of policies, which reduce credibility of reforms for economic actors."

In Morocco, a recent World Bank report (2014) has shown how "greater administrative burdens, less transparent and predictable tax authorities, more obstacles in the judicial system, and higher corruption levels and less domestic competition badly affect the growth opportunities for younger and to a lesser extent, smaller manufacturing."

On the other hand, connected firms manage to take advantage of their closeness to political power in order to profit from flexible implementation of regulations and rules (e.g. waiving compliance with certain regulations, with the tax collector, safety regulations, land use, labor, etc.), increasing their competitive advantage relative to non-connected firms.

3.3.2 While very interesting and informative, the World Bank report confines the study of de facto discriminatory implementation of rules and policies to the comparison between large versus small and medium firms.

In other words, the connectedness factor has not been taken into account. To fill this gap, we intend, first, to provide new evidence on how the arbitrary implementation of rules by the Moroccan administration benefits politically connected firms and, second, to relate this discrimination to better performance that PCFs enjoy relative to non-connected firms.

My main instrument is the World Bank Survey (WBES) on the investment climate in Morocco, where the Bank conducted two surveys in 2004 and 2006. Enterprise surveys carried out by the World Bank contain both subjective assessments by firms about the obstacles to their growth, and also quantitative information about how long it takes to get various things done and how much they cost.

My objective was to identify politically connected firms in the surveys on Moroccan investment climate, and compare their answers to those of unconnected firms. We used the same database as for the above mentioned finance section.

To investigate the differential responses with regard to connectedness, I focused my analysis on the following questions: -- proportion of exports required to be inspected by customs (d 14); -- proportion of imports required to be inspected by customs (d 15); -- wait time for a construction- related permit (g 3); -- senior management's time spent on dealing with regulations (j 2); -- number of times inspected or met with tax officials (j 4) ; -- wait time for operating license (j 14).

This figure shows that, on the whole, connected sectors have to face fewer regulatory requirements relative to non-connected sectors. Contrary to our expectations, however, standard deviance indicators are lower for connected industries compared to non-connected ones. All regulation indicators are in favor of connected sectors. Hence, proportion of exports required for inspection by customs is only 23.3% for connected sectors compared to 26.2% for unconnected industries. Likewise, proportion of imports required for inspection is 48.8% for connected industries in comparison to 91.6% for non-connected ones.

As for the "g 3" indicator, connected sectors have to wait 36.63 days to get a construction-related permit, compared to 43.07 days for unconnected sectors.

The gap between regulation indicators is also true for the time that managers devote to regulatory compliance activities. The j2 question shows that the managers in connected industries spend 10% of their time dealing with regulations, as opposed to 11.83% for managers in unconnected industries. Lastly, number of times inspected or met with tax officials is 4.52 for connected industries in comparison with unconnected ones (4.88).

The comparison on the firm level confirms the above results. All regulation indicators show that PCFs are privileged when it comes to regulatory compliance activities in comparison with NCFs, except for "g 3" indicator.

4. Political Connectedness, Innovation and Firm Dynamics

4.1 Firm Turnover

According to the economic literature, firm dynamics, employment growth, innovation and productivity increases are largely contingent on the creative destruction process. In this regard, firm turnover is considered as a prime driver of productivity growth through the shedding of unproductive firms and the entry of more productive firms, and has additional indirect benefits through agglomeration externalities or through increasing the contestability of markets (Hallward-Driemeier M and Fraser Thompson, 2009).

High firm entry and low destructive exit also contribute to a more vibrant environment, conducive to job creation. This seems to be especially the case of young firms that manage to sell output in foreign markets, were founded based on new products, or have created more employment since their start-up than the median firm in their countries (Acs, Z., and L. Szerb, 2011).

Yet, the working of Schumpeterian mechanisms may be impeded by political interferences, especially those that directly benefit politically connected firms (Diwan et al., 2013). Due to exogenous competitive advantages, these firms manage to strengthen their market power and leading competitive positions, preventing young firms from entering or thriving.

In this section, we investigate to what extent the presence of PCFs stifles competition and innovation capacity (information and communication technology in particular), and impede the creative destruction process.

4.2 Political connectedness stifles competition and innovation⁶

The empirical analysis makes use of the World Bank Enterprise Surveys (WBES) database, referring to the years 2004 and 2007. Our study focuses on a sample of 668 manufacturing enterprises, from which 48 were identified as politically connected. The PCFs' identification process was in line with the approach we described earlier in the previous sections.

Figure 6 synthesizes our results about political connectedness, competition and innovation. The PCFs' market power we have already highlighted is confirmed by WBES data. Thus, 30% of PCFs declare facing more than two competitors on average, in comparison to 65% of NCFs. Likewise, 11% of PCFs declare they have been constrained to lower prices in response to an increase in domestic competition, compared to 37% of NCFs. When it comes to foreign competition, the answers are quite similar as 20% of PCFs declare having been constrained to lower prices in response to an increase in foreign competition, in comparison to 21% for NCFs.

These results are confirmed at the sector level. 59% of firms in connected industries declare facing more than two competitors against 65% of firms in non-connected industries. Similarly, 33% of firms in connected industries declare facing domestic competition compared to 54% in unconnected ones. On the other hand, connected industries are more exposed to foreign competition -24% of firms operating in these industries, in comparison with 12% of firms only in unconnected industries.

PCFs' market power seems to allow them to be more innovative, though at the expense of unconnected firms operating in the same industries. 42% of PCFs declare implementing innovative technologies while only 29% of unconnected ones do so. Likewise, about 40% of PCFs have their own website, compared to 35.12% of NCFs. In addition, 100% of PCFs declare having access to the internet, in comparison to 93% of NCFs.

On the other hand, firms in connected industries perform less than their counterparts in unconnected industries. Thus, 28% of firms in connected industries implement innovative technologies, while 37% of firms in unconnected ones declare doing so. Furthermore, 32.18% of firms in connected industries have a website, in comparison to 40.48% of firms in unconnected ones. Lastly, 68% of all firms operating in connected industries declare having access to the internet, compared to 72% of firms in unconnected industries.

4.3 Analysis on turnover rates

To investigate the issue of firm dynamics in a cronyistic environment, I focused our analysis on turnover rates (e.g., entry rates+ exit rates) and job creation over the period 2003/2012. I first explore the general trend of these indicators by size before taking into account the impact of political connectedness.

Table 7 shows that the turnover ratio in the Moroccan manufacturing sector is very average for micro and small firms relative to international standards (Ministry of Economy and Finance, 2008). In contrast, the turnover rate is very low for medium and large firms, reflecting a serious lack of dynamics. The dismal turnover rate (6.8) for large firms is of major concern as it attests to incumbents' domination, which acts as a barrier to upward mobility. Since politically firms are large, we expect that they contribute to this lack of competitive dynamics.

This weak creative destruction process seems to impact job creation badly. In Table 8 we can observe how dismal the aggregate employment creation is - around a modest 1.16% per year over the period 2003/2012. Worse than that, small and medium enterprises experienced significant employment losses over the period, 3.73% and -3.89% per year respectively. In

⁶ This paragraph draws on our working paper "Innovation, Political Connectedness, and Competition" Background paper, World Development Report 2016, World Bank, Washington, DC.

contrast, large firms experienced an increase of 8.65 % per year on average over the same period.

Table 9 presents market share changes over the period 2003/2012. We can see that large firms have consolidated their market power and their share in total manufacturing, with revenues increasing from 74.96% in 2003 to 81.37% in 2012. In contrast, small firms' share have shrunk (4.79% in 2003 and 2.64% in 2012). Medium firms have not performed better; their turnover share has fallen from 19.99% in 2003 to 16.03% in 2012.

To what extent have politically connected firms contributed to firm dynamics and job creation? Following the methodology adopted by Diwan et al., (2013), we use firm census data in 2003 and 2012, aggregated to the 4-digital sector level, to investigate this issue. According to these scholars, politically connected sectors tend to have a lower turnover, be more concentrated and present a higher skewness within sectors.

Our results show a lower turnover (e.g., sum of entry and exit rates) within industries where politically connected firms operate. Table 10 indicates that the entry and exit rates into politically connected sectors in 2012 were 1% and 3%, compared to 1% and 5% to non-connected sectors. Therefore, the turnover rate in connected industries is lower (4%) relative to non-connected ones (7%).

Table 10 also shows that average firm size in politically connected sectors tends to be bigger, while size dispersion is roughly similar. This means that politically connected firms are more concentrated, the market share of the four largest firms is 8% compared to 7% for non-connected firms.

However, contrary to what was expected, the coefficient of skewness - an indicator of resource misallocation - is smaller in connected sectors in comparison with non-connected sectors. This unpredicted result means that the share of micro and small firms is smaller when few large connected firms operate in the same industries. One explanation is that relatively higher barriers to entry characterize politically connected sectors. In addition, presence of sunk costs of entry as well as political privileges seems to deter micro and small firms from entering these sectors.

It is worth noting that connected sectors contribute, though at a smaller rate, to negative job dynamics. Actually both sectors destroy jobs, exacerbating the unemployment issue in Morocco.

The dynamic effects highlight the increasing gap between connected sectors and non-connected sectors in terms of firm dynamics, confirming the negative impact of politically connected firms on the creative destruction process and the weak pressures they face to exit when they lose their competitiveness. In the meantime, connected sectors became more concentrated, while the coefficient of skewness tends to increase significantly in non-connected ones. In addition, connected sectors contribute to job destruction in the manufacturing sector.

5. Conclusion

This research is a modest attempt to shed some light on the interpenetration between politics and economics and their impact on the Moroccan manufacturing sector. The main interest was to find out whether or not Moroccan cronyism has contributed to unleash economic growth and job potential.

The paper shows that political connectedness has always been part and parcel of a large patronage network that has helped the political power, the makhzen, to strengthen its control on Moroccan society and to prevent any countervailing power from taking root, especially in the economic sphere.

After Morocco became independent, the state-business nexus was consolidated through three important mechanisms: "Morocconization", import-substitution strategy, and privatization.

The royal family and some families closely related to the palace were the main beneficiaries of these public policies. They managed to set up important business groups and to become important economic actors in various sectors such as manufacturing, real estate, banking and finance, telecommunications, etc.

The unique dataset helped in highlighting the main characteristics of politically connected firms in the Moroccan manufacturing sector. They constitute approximately 13% of the sample and are owned by either the royal family or by parliamentarians, prime ministers, and ministers. These politically connected firms operate in various manufacturing industries and outperform their non-connected counterparts. The superior performance of connected firms is due, in part, to the privileges they enjoy because of their political connectedness.

The study helps to highlight three major mechanisms in the areas of trade protection, the implementation of regulations and rules, and access to external finance.

As for access to finance, the study has highlighted the extent to which the Moroccan banking and financial system was prone to discriminatory lending practices motivated by closeness to political power. While economic research is used to focus on the state-owned bank as the locus of cronyism, attention was drawn to the role that private banks may play as well, as a driver of preferential treatment granted to politically connected firms. The study provided some evidence in support of this statement. It has shown that politically connected firms were more levered in comparison with non-connected firms, which helps explain their strong market power.

Due to their close involvement in trade policy decision-making, connected firms manage to have their say and protect their interests from import competition. While trade liberalization tends to lower the tariff differential in favor of PCFs, evidence is presented that these firms take advantage from non-trade barriers, mainly anti-dumping and compensatory and safeguard measures.

Regarding regulations policy, the study has shown that politically connected firms benefit, on the whole, from the discriminatory implementation of policies and rules....

The last point of the research suggests that cronyism stifles competition and innovation and hinders firm dynamics.

Due to data scarcity and limitations, it is worth emphasizing that the findings are indicative rather than conclusive and have to be interpreted with great caution. In addition, the extension of this research to non-tradable sectors such as telecommunications and real estate, where cronyistic state-business relations should be more entrenched, would yield some interesting results. Lastly, there is a need to reassess Moroccan cronyism in the aftermath of the Arab uprisings.

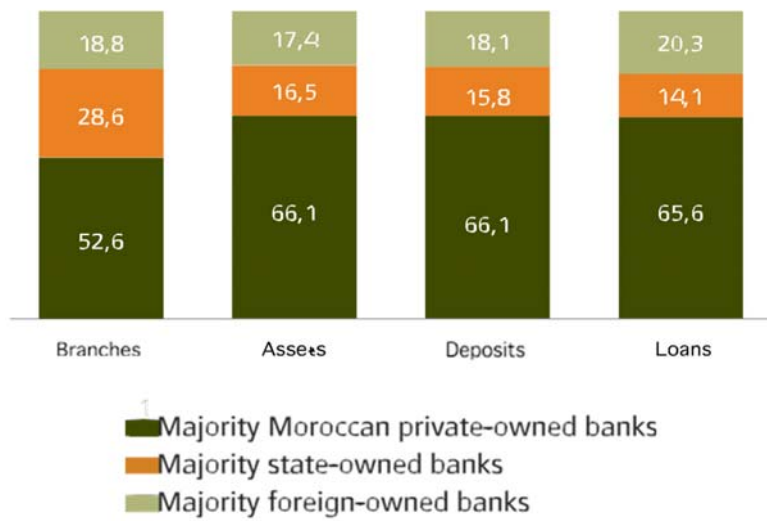
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Figure 1: Banks Ownership's Concentration (%)



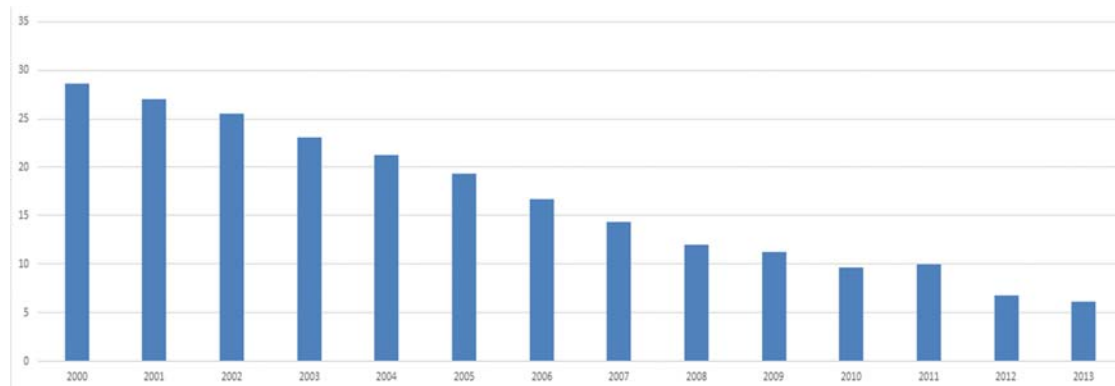
Source: Bank AL-MAGHRIB, June 2015

Figure 2: Bank Lending and Political Connectedness



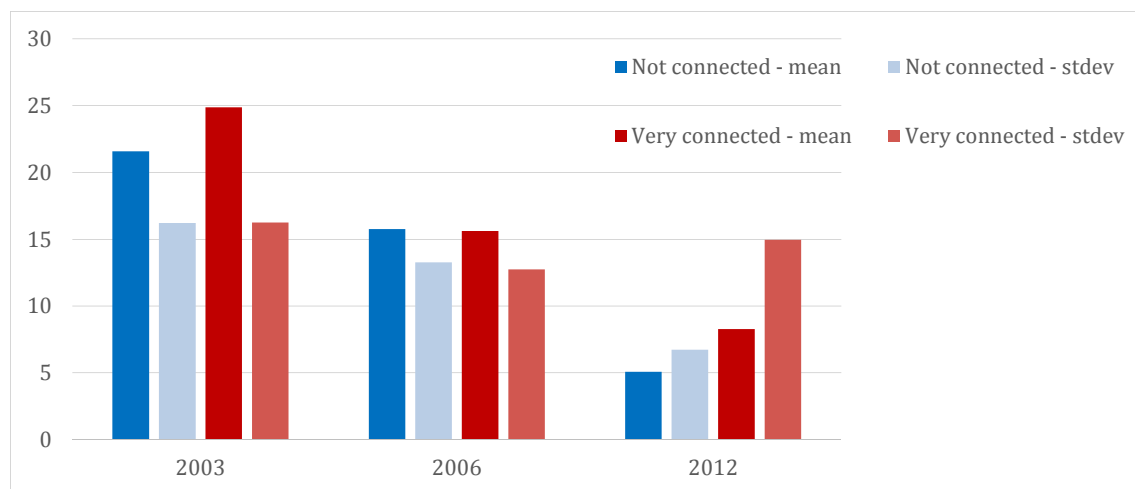
Source: Author's calculations of WBES data.

Figure 3: Evolution of Average Nominal Tariffs 2000-2013



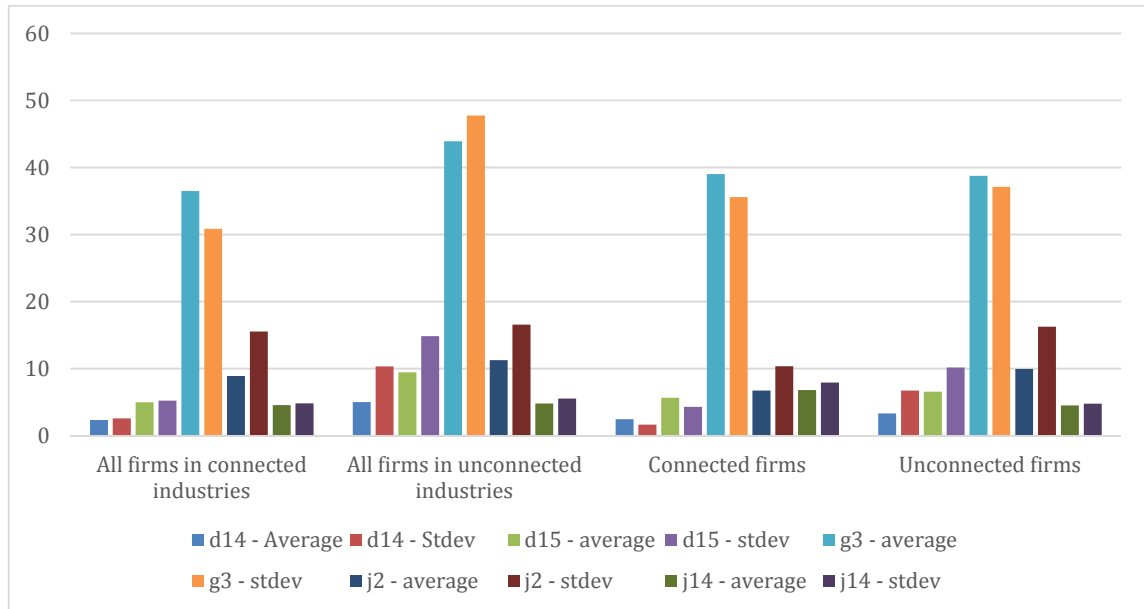
Source: Customs Administration Statistics

Figure 4: Tariff Differentials Connected Sectors/Unconnected Sectors (Years 2003/2006/2012)



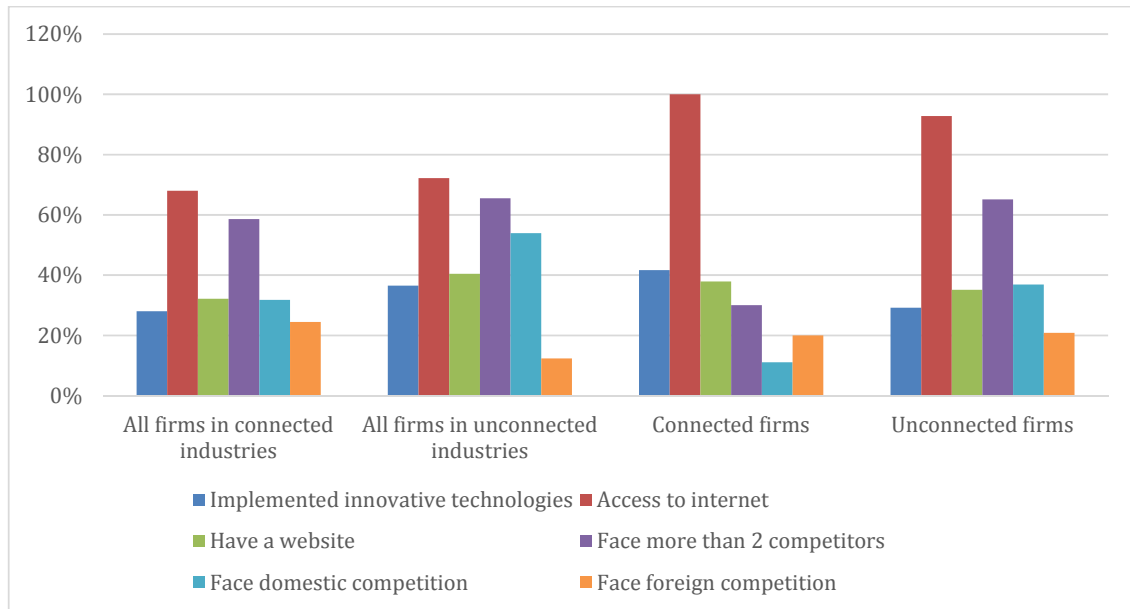
Source: Author's calculations of information collected from the Moroccan Customs Administration and matched with my database on the manufacturing sector

Figure 5: Answers (Mean and Standard Deviation) of Respectively Politically Connected Firms, Non-Connected Firms as Well as Connected Versus Non-Connected Industries



Source: Author's calculations of WBES data (2004 and 2007)

Figure 6: Political Connectedness, Competition, and Innovation



Source: Author's calculations of WBES data (2004 and 2007)

Table 1: Corruption Perception Index (CPI) Morocco 2003-2012

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Rank	70	77	78	79	72	80	89	85	80	88
Score	3.3	3.2	3.2	3.2	3.5	3.5	3.3	3.4	3.4	3.7

Source: Transparency International reports

Table 2: Number of PCF by Year (2003, 2006, 2012)

	Sample	PCF
2003	398	67 (17%)
2006	402	49 (12%)
2012	402	40 (10%)

Table 3: Characteristics of PCFs' Shareholders

Shareholding types	Firms' number	%
Royal family	31	38.2
Ministers/PM	20	24.7
Parliamentarians	17	21
King's friends (closeness)	7	8.6
Political parties	3	3.7
Foreign ownership	3	3.7
Total	81	100

Table 4: Distribution of the 81 Politically Connected Firms of Our Sample by Industry

Food and beverages	11 (13.6%)
Textile	10 (12.3%)
Wearing apparel	3 (3.7%)
Leather products and footwear	3 (3.7%)
Wood products	4 (4.9%)
Paper and paper products	11 (13.6%)
Printing and publishing	4 (4.9%)
Coke, refined petroleum products	2 (2.4%)
Rubber and plastic products	7 (8.6%)
Nonmetallic mineral products	6 (7.4%)
Fabricated metal products	8 (9.9%)
Machinery and equipment	1
Electrical machinery and apparatus	3 (3.7%)
Motor vehicles, trailers, semi-trailers	6 (7.4%)
Measuring and control instruments	1
Railroad rolling equipment	1
Total	81(100%)

Table 5: Performance Differentials PCF vs NCF

Year	Variable	Mean		Test	St.Dev	
		PCF	NCF		PCF	NCF
2003	Market power	8.76	5.5	0.026	8.55	9.25
2006		9.91	5.43	0.003	10.24	8.33
2012		10.37	5.39	0.005	10.3	9.62
2003	Added value per employee	23.67	9.89	0	31.11	13.67
2006		28.56	10.94	0	33.28	16.13
2012		47.46	12.7	0	72.04	20.71
2003	Export rate	5.88	5.68	0.92	11.75	14.52
2006		10.24	5.14	0.03	22.15	12.16
2012		12.52	4.92	0.007	26.12	14
2003	Net income/ Turnover	0.003	0.001	0.04	0.01	0.05
2006		0.005	0.001	0.03	0.009	0.009
2012		0.004	0.001	0.1	0.01	0.01
2003	Gross income/Turnover	0.006	0.003	0.03	0.017	0.007
2006		0.007	0.003	0.02	0.008	0.01
2012		0.007	0.002	0.02	0.01	0.01
2003	Turnover/Investment	81.1	149.32	0.52	103.6	676.78
2006		43.39	180.63	0.18	47.62	589.06
2012		130.64	250.61	0.67	264.66	1638.6

Table 6: Pooled OLS Regressions

	Market Power	Export rate	Turnover to investment	Added value per worker	Net income ratio	Gross income ratio
PC'	2.536 (2.03)*	-1.063 -0.43	-75.258 -0.39	9.942 (2.90)**	0.001 -0.71	0.002 -1.22
PC*Year2006	1.745 -0.98	6.417 -1.8	-72.248 -0.27	4.984 -1.02	0.002 -1.02	0.001 -0.57
PC*Year2012	0.368 -0.2	7.843 (2.18)*	-142.357 -0.52	16.013 (3.22)**	0 -0.01	0 -0.08
Size	0.006 (14.53)**	0.008 (8.92)**	-0.075 -1.19	0.012 (10.07)**	0 (3.21)**	0 (3.24)**
Age	0.031 (2.56)*	-0.006 -0.24	5.018 (2.71)**	0.109 (3.29)**	0 -1.65	0 (1.96)*
Sector	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummy	no	no	yes	no	no	no
Constant	4.181 (3.34)**	6.507 (2.62)**	-136.026 -0.68	2.088 -0.61	0.001 -0.49	0.002 -1.09
R ²	0.32	0.11	0.04	0.34	0.1	0.11
N	957	937	843	957	957	957

Notes: * $p < 0.05$; ** $p < 0.01$

Table 7: Banks' Ownership

Banks	Shareholders
AWB	Royal family: 53.61% Institutional investors: 18.95% Free float: 14.33%
BCP	State and institutional Investors: 38.03% Regional popular banks :34.7% Free float : 10.8%
BMCE BANK	RMA Watanya* 30% FinanceCom : 6% Banque Federative du Credit Mutuel; 26,2%
BMCI BANK	BNP Paribas : 66,74%
CIH	CDG Group * 71,22%
CREDIT DU MAROC	Groupe Credit Agricole (France) : 77,03%
SOCIETE GENERALE	Groupe Societe Generale : 56,94%
CREDIT AGRICOLE	Etat Marocain : 75,17%

Notes: * CDG state investment fund. *RMA WATANYA belongs to Finance Com Group

Source: Competition Council report (2013) and Oxford Business Report (2014)

Table 8: Turnover Rates (%)

	Average	2004	2005	2006	2007	2008	2009	2010	2011	2012
Micro	19.1	15.2	19.2	20.5	26.8	18.4	26.7	16.0	11.7	17.2
Small	13.7	20.1	14.5	14.0	14.8	11.0	16.2	10.2	9.9	12.8
Medium	9.6	12.8	11.5	9.8	11.0	7.7	11.5	9.3	6.1	6.9
Large	6.8	9.3	8.6	7.5	6.4	5.3	9.2	6.0	4.3	4.2

Source: Firm census data, Ministry of Industry and Commerce.

Table 9: Employment Growth Rates (%)

	Average	2004	2005	2006	2007
MICRO	7.00	15.77	7.95	9.16	0.61
SMALL	-3.73	0.76	1.36	2.09	-0.06
MEDIUM	-3.89	-1.57	0.54	-1.89	-2.82
LARGE	8.65	3.57	-2.52	3.24	3.42
	2008	2009	2010	2011	2012
MICRO	0.61	13.22	8.55	8.05	-0.91
SMALL	-5.50	-5.32	-4.06	-7.94	-14.94
MEDIUM	-4.97	-5.75	-3.77	-5.07	-9.76
LARGE	7.66	7.01	14.64	20.51	20.30

Source: firm data census, Ministry of industry and commerce.

Table 10: Changes in Market Shares (Turnover in %)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Micro	0.3	0.3	0.3	0.29	0.3	0.25	0.3	0.25	0.34	0.21
Small	4.79	4.67	3.89	3.89	3.59	3.15	3.28	2.94	2.64	2.37
Medium	19.99	19.58	19.54	18.47	19.88	17.1	17.87	17.32	16.23	16.03
Large	74.96	75.4	76.25	77.33	76.21	79.5	78.5	79.4	80.86	81.37

Source: firm data census, Ministry of commerce and industry.

Table 11: Change in Firm Dynamics Among Politically Connected and Non-Connected Sectors 2003-2012

Level effects in 2012 (at 4-digit level)	PCF	NCF
Employment total	226870	351111
Average size	97	66
Entry rate	1%	1%
Exit rate	3%	5%
Turnover	4%	7%
Job creation	-5733	-9999
(share)	(-2,5%)	(-2,8%)
Market share (4 largest enterprises)	8%	7%
Coefficient of variation	3,5	3,48
skewness	9,0	17,88
Dynamic effects in 2003-2012 (at 4-digit level)	PCF	NCF
Change in employment	51620	8549
Entry rate	10%	23%
Exit rate	13%	29%
Turnover	23%	52%
Job creation	-2896	-29327
Change in market share	1,19%	0,63%
Change in CoV	0,54	0,08
Change in skewness	- 0,21	- 2,88

Source: Author's calculations of firm data census, Ministry of industry and commerce.