

Effect of the COVID 19 health crisis on the evolution of industrial companies' activity in Morocco

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Abstract

The crisis linked to the spread of Covid-19 has had a considerable impact on the world economy. Indeed, this health crisis soon turned into a real economic crisis, calling on governments to be vigilant but also flexible in order to adapt to this unstable context.

In Morocco, drastic measures were taken from the very beginning of the health crisis. The country's companies reviewed their managerial tools and experienced a slowdown in activity.

Thus, this article seeks to explore the economic recovery during the state of health crisis COVID-19 in Morocco. To this end, an exploratory study targeting 5 companies in the industrial sector was conducted in order to shed light on the impact of the measures undertaken by the Moroccan state to deal with this crisis situation.

Keywords: Health crisis; Covid 19; Economic impact; Industrial enterprises; Morocco.

Résumé

La crise liée à la propagation du Covid-19 a eu un impact considérable sur l'économie mondiale. En effet, cette crise sanitaire n'a pas tardé à se transformer en une réelle crise économique, appelant ainsi les gouvernements à faire preuve de vigilance mais également de flexibilité afin de s'adapter à ce contexte instable.

Au Maroc, des mesures drastiques ont été prises dès le début de la crise sanitaire. Les entreprises du pays ont revu leurs outils managériaux et ont connu un ralentissement d'activité.

Ainsi, le présent article cherche à explorer la relance économique pendant l'état de crise sanitaire COVID-19 au Maroc. Pour ce faire, une étude exploratoire visant 5 entreprises du

secteur industriel a été conduite afin de mettre la lumière sur les l'impact des mesures entreprises par l'état marocain pour faire face à cette situation crise.

Mots clés : Crise sanitaire ; Covid 19 ; Impact économique ; Entreprises industrielles ; Maroc.

Introduction

Started in Wuhan, capital of Hubei province in China in December 2019, the corona virus landed in Morocco in March 2020. The latter was less affected than other European , Asian countries, or even the United States. This is thanks to the efforts of all official actors who have fulfilled their role with great dedication as well as the strategies and initiatives launched or adopted at the right time by the Moroccan government under the guidance of the King Mohammed VI to fight this pandemic.

The current crisis does not pass quietly without having significant repercussions on the economic and social situation around the world, and will always have consequences as long as the situation is not yet under control. Morocco is not spared from its consequences which are very difficult to assess and which will be felt over several years later.

From a macroeconomic point of view, all the indicators have fallen severely, therefore releasing a very pronounced budget deficit, an increase in public debt, a worsening of the balance of payment gap and a drastic fall in gross domestic product and reserves in currency for the year 2020.

Also, many service or production companies operating in different sectors such as tourism or industry have been temporarily or permanently shut down causing a decline or even a stoppage of activity and consequently many job losses.

The public health sector was among the first victims of emergency imposed by the country. This is justified by the deterioration in the number of vaccines for children and in the management of chronic and long-term illnesses.

In order to cope with this complicated situation, the Moroccan state has made a lot of efforts to deal with the first phase of this pandemic. Quick, courageous and far-reaching decisions were taken, which allowed it to be ranked among the first countries which managed this crisis and devoted high financial means to deal with it.

An economic guard committee was set up in order to discuss and decide on the measures to be taken in order to preserve the economic and social situation of the country against this pandemic.

It is in this context that we have chosen to conduct an exploratory study of the Moroccan context in order to answer the following question:

"What is the impact of the COVID 19 health crisis on the development of industrial companies' activity in Morocco? And how did they benefit from the measures taken by the state? "

To do this, we started our article with a presentation of the macro and microeconomic impact of the COVID 19 health crisis on the Moroccan economy, then we presented an inventory of the measures taken by Morocco to face this crisis situation, and finally we conducted an exploratory qualitative study on a sample of 5 companies operating in the industrial sector.

1. Literature review

1.1. The economic impact of the COVID 19 crisis on the Moroccan economy

No one will be able to deny the fallout and the economic and financial consequences of the COVID 19 crisis on the economy in general and on Moroccan companies in a more specific way.

The impact of this pandemic on a national or regional scale is very difficult to identify. At present, the studies carried out, whether qualitative or quantitative, are based only on rough and partial estimations because of the vagueness that still reigns. The correctness of the figures will only be achieved with better prospective visibility into collateral damage.

1.1.1. Consequence from the crisis on the Moroccan economy

According to a study conducted by the delegation of the European Union on March 26, 2020 on the economic impact of COVID 19 in Morocco, the Moroccan economy has suffered from the fallout of this pandemic.

From a macroeconomic point of view, all economic aggregates show a regression which only gets worse over time. We are talking about:

- A drop in Moroccan growth from 3.8% to 2.3%, i.e a drop of 39.47%, while the Moroccan economic center estimates growth limited to 0.8% in 2020;
- A deterioration in GDP estimated at -3.8 points, i.e. a decrease of 10.9 billion MAD in the second quarter of 2020;
- An export decrease of 22.8% instead of an estimated increase of 1.1% ;

- A worsening of the trade balance deficit, i.e. an increase of 23.8% at the end of the first quarter of 2020.

From a sector perspective, the main sectors affected are:

- **tourism** with 94% of classified hotel establishments which were shut down until the end of May 2020, the estimated loss of this sector is 34 billion dh in 2020 in terms of overall tourism turnover, and 14 billion MAD of Turnover for the hotel industry, ie a loss of 98% of tourists.

According to the national tourism confederation, the estimated loss of the sector can be around 138 billion MAD between the year 2020 and 2022 with a loss of 39% in the number of tourists which has activated the alarm sounder.

- **Air transport** with a loss of 4.9 million passengers and a loss of 728 billion dollars according to the International Air Transport Association.

Road and rail transport was also impacted by this crisis because of the prohibition of the circulation of passengers and all types of transport vehicles from March 24 until June 10, 2020.

- **Automotive** following the decision to suspend Renault and PSA's activity, which had a considerable impact on almost all sectors and which affected 180,000 employees working in the automotive industry.

Considered to be the leading exporting sector in Morocco, any deterioration in its activity will have a negative impact on the country's trade balance.

Nationally, sales in Morocco show a decline following the deterioration of family consumption as well as the postponement of the Auto Expo which was scheduled for June 2020. Internationally, the automotive industry has experienced a decline. sharp drop of 89% of its exports.

- **Textile** which suffers from a double problem. The first concerns supply, a good part of which comes from China. The second concerns the export of the final product which is less demanded by the European countries, particularly Spain and France, which absorb nearly 60% of Moroccan exports. The textile and leather industry recorded a cumulative fall in exports of 74% at the end of May 2020.

But this does not exclude the impact of this pandemic on other sectors at different levels.

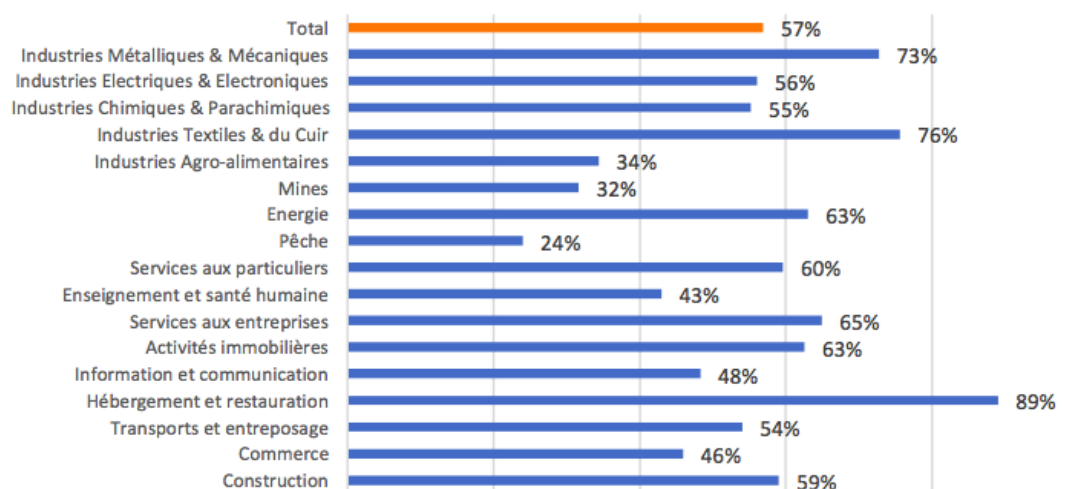
1.1.2. Impact of the crisis on businesses in Morocco

According to the study carried out by the High Commission for Planning on April 1, 142,000 companies, or 57% of companies in Morocco, have stopped their activity. 3% of these companies have proceeded to a final shutdown, ie 6,300 companies against 54% have temporarily stopped their activity, ie a total of 135,000 companies.

The sectors most affected by this crisis and have suffered from the consequences of stopping their activity are as follows: The accommodation and catering sector with a rate of 89% of shutdowns followed by sectors textile and leather industries and metal and mechanical industries with rates of 76% and 73%, respectively, finally the construction sector which comes last with a rate of 60% of shutdowns.

The graph below shows in detail the distribution of the 57% of companies in permanent or temporary shutdown according to their activity sector.

Graph 1: Proportion of companies in temporary and permanent shutdown by activity sector



Source: High commission for planning (2020)

With regard to the companies which remained in activity and which represent 43% of the total of companies in Morocco, they were directly or indirectly influenced by this crisis. This has resulted in the loss of jobs, the regression of production, and the deterioration of exports for exporting companies.

- **Consequences on employment:** 27% of active companies have temporarily or permanently reduced their workforce. The sectors most affected by job losses are the service sector 34% followed by the industrial sector 27%, then the construction and trade sectors with rates of 23% and 16% respectively.
- **Consequences on production:** out of the 43% of companies remaining in activity, whether they are small businesses or large companies, we find that on average 40% of companies have faced a decrease of 50% and more in their production in order to adapt to the conditions imposed by the situation. While an average of 10% of companies have reduced their activity but a reduction of less than 50%. The sectors that have experienced the most fall in production are as follows: the construction sector 62%, followed by the service sector 54%, then the industry sector 46% and finally the trade sector 41%.
- **Consequences on exporting companies:** The export sector is considered one of the sectors most affected by this pandemic because of the restrictions put in place by the majority of countries at the international level. After not even a month of border closures, only 1/3 of Moroccan exporting companies remained in activity but with a drop in production. This resulted in the loss of more than 133,000 jobs, which represents 18% of the total jobs reduced in all sectors.

1.2.Measures taken by the State to manage the consequences of COVID 19

Morocco was among the first countries to declare the health emergency and impose lockdown. This decision is explained by the fact that the state has learned from the experiences of other neighboring countries. Aware of the gravity of the situation and the importance of proactive measures in order to anticipate the short, medium and long term consequences of this pandemic on the Moroccan economy, the Moroccan government has implemented several initiatives to moderate the shock of this crisis and accelerate the recovery of national economic activity.

1.2.1. The creation of the Economic Guard Committee CVE

It is an interministerial unit responsible for studying the economic repercussions of the pandemic, and for defining the measures to be adopted in order to mitigate the impact.

Among the measures taken by this committee to ease the impact of this crisis on businesses are:

- Postponement of tax declarations and payment of corporation tax, from March 31st until the end of June for companies with turnover less than 20 million MAD. This deadline has been extended until September 30th, 2020 for companies with cash flow difficulties and which cannot honor their commitment to the tax authorities.
- Establishment with the central guarantee fund a new guarantee mechanism called "DAMANE OXYGENE". It is mainly aimed at companies not exceeding a turnover of 200 million MAD or companies with a turnover of between 200 million and 500 million MAD suffering from a deterioration of their cash flow due to the decrease in their activity.
- This credit can go up to 20 million MAD in order to cover up 3 months of current expenses related to the operation. For companies that do not have short-term financing lines, this exceptional overdraft can reach 5 Million MAD.
- Postponement of persons declaration of the total income from April 30th to June 30th, 2020, in respect of their professional income, determined according to the system of actual net income or that of simplified net income, and / or in respect of their farm income. This deadline has been postponed like the legal persons mentioned above until September 30th, 2020 for people with payment difficulties caused by the pandemic, but this postponement only concerns the payment of the tax and not the declaration.
- Launch of a guarantee mechanism for bank loans in favor of auto-entrepreneurs who have not benefited from the "DamaneOxygene" guarantee called "Covid 1 Auto-entrepreneurs Guarantee" by the central guarantee fund.
- Proposal of 0% rate credits for auto-entrepreneurs impacted by the COVID 19 crisis, up to 15,000 Dhs repayable over 3 years with a deferral of one year.
- The reduction of charges through the suspension of social security payments.

1.2.2. the amending finance law

It should be noted that since the 1990s no amending law has been filed. The procedure for its adoption is identical to the Finance project law. The latter consists of the correction of the annual budget also promulgated in Parliament. It is about a change in legal provisions and

envelopes. It should also be noted that the deadline for discussing the amending law under the organic finance law of 2015 is set at 15 days.

In order to comply with the provisions of article 77 of the Constitution which make Parliament and the Government accountable for preserving the balance of the State's finances, the use of an amending budget law for the year 2020 is required especially with the situation of the current health crisis.

Following the intervention of the head of government on May 18th2020 before the two chambers of parliament, the amending finance law aims to:

- Update and clarify both national and international assumptions, taking into account economic aggregates, in particular the decline in the growth rate, the budget deficit, the effects of drought, the decline in tax revenues, etc.
- Adjust revenue and expenditure forecasts, taking into account the impact of changes in the health and economic context.
- Define a multi-year work plan to revitalize economic activity.
- Preserve jobs.
- Accelerate the implementation of administrative reforms through digitization, deconcentration and the simplification of administrative procedures and formalities.

The key provisions of this law are as follows:

- a. Postponement of the deadlines until December 15th in some cases or December 31th 2020 in the other cases for the derogatory measures relating to the spontaneous regularization of the tax situation concerning taxpayers;
- b. 50% reduction in registration fees applicable to acquisitions of immovable property intended for residential use, and those for acquisitions made between July 27, 2020 until December 31, 2020, when the purchase price does not exceed 2.5 million DHS
- c. 100% reduction in registration fees applicable to deeds for the first acquisition, against payment, of premises built for social housing or housing with low real estate value.
These provisions cited in b and c are also applicable to acquisitions via the products of participatory banks (Mourabaha, IjaraMountahiaBitamlik, Moucharaka).
- d. Extension of one year of the deadline in favor of property developers who have concluded agreements with the State for the implementation of social housing construction programs and whose building permit was obtained before March 20th, 2020;
- e. The exemption from Salary Income Tax for vacation tickets granted to employees;

- f. One-year extension of the construction period for hotel establishments for land acquired for this purpose before March 20th, 2020;
- g. One year extension of the exemption period from Value Added Tax for entities that have signed an agreement with the State concerning the projects whose amount is greater than or equal to 100 million MAD;
- h. Cancellation of surcharges and late penalties for declarations filed at the end of June 2020, for companies whose turnover is under 20 Million MAD as well as companies subject to income tax for the year 2019.
- i. Encouragement of mobile payment;
- j. Deductibility of donations granted to the State as part of the management of the Covid19 pandemic.

2. Exploratory study

In order to conduct our study, we have chosen to get closer to the field through an exploratory approach concerning Moroccan companies from the industrial sector. A qualitative approach will be adopted through a semi-structured interview guide with 5 industrial companies.

2.1 Sampling and conduct of the study

Our sampling is based on the principle of targeted sampling as well as the recommendations of Eisenhardt (1989) suggesting that between four and ten interviews are sufficient in a professional context.

Thus, our sample is composed of 5 Moroccan firms that are part of the 43% of companies that remained in business during the crisis period.

The table below presents these firms.

Interviewees	Sector of activity
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1	Transit and national and international transport
2	Cement's industry
3	Agri-food's industry
4	Design and assembly of electronic equipment for the aeronautical industry
5	Assembly of electronic components

Table 1 : Presentation of the companies in the sample

Source: Authors

Our semi-structured interview guide consists of 8 questions (Appendix 1) that were divided into two main themes:

- ✓ The impact of the health crisis on the Moroccan economy and on the company;
- ✓ The measures undertaken by the Moroccan government during the health crisis.

Three interviews were conducted by telephone, the restrictive context of the health crisis has imposed this mode, while the other two were conducted face-to-face, taking into account the sanitary measures.

In addition, our interviews took place during the period starting from 1st June to June 30, 2020, with an approximate duration of 10 to 20 minutes.

As for the processing of our data, we opted for manual content analysis. The objective of this method is to report what the interviewees said in the most objective way.

2.2 Results and discussions

All our interviewees described the current situation as a crisis that has caused a deep economic recession. In fact, and despite their activity having continued during the crisis period, they note a decrease in turnover and activity ranging from 20% to 50%.

Our five interviewees also stressed that the level of impact of the pandemic depends on the type of activity: “ For the cement sector, the impact was felt during the first and second containment periods due to the partial shutdown of construction activity, especially for the large structured sites that stopped their activity during this period, and as soon as the containment ended, the demand for cement quickly resumed.” (Respondent 2)

Also, three of our respondents mentioned the impact of the health crisis on different elements such as the adoption of telecommuting, the way they interact with their stakeholders,

the observation of an effect of dematerialization and accelerated digitalization of processes:
“This crisis has pushed companies to rethink life, consumption, and work” (Respondent 1).

As for the measures undertaken by the State, the 5 companies did not benefit from them because they were less impacted in comparison to other companies in the industrial sector, especially that they weren't forced to stop their activity during this period. *“We did not benefit from the state aid despite the slowdown in our activity and the drop in of the customers demand. Tough despite everything, we have not been seriously affected by this crisis compared to other companies” (Respondent 5).*

Also, although these measures are commendable for all our interviewees, they unanimously consider that it would be necessary to consolidate this aspect, particularly for VSEs and SMEs, so that the state can fully play its role as regulator. *“We should help the small structures because they are the ones who have suffered the most from this crisis. The state must commit itself to their side in order to guarantee a healthy recovery” (Respondent 3).*

Two of our respondents mentioned the need to reduce tax burdens (lowering corporate income tax and VAT rates) during this period of crisis in order to relieve companies.

As far as post-crisis development is concerned, our five respondents emphasize the need to invest in managerial elements such as:

- Digitalization ;
- E-learning ;
- Promote distance communication's tools.

This investment will therefore allow Moroccan companies to ensure the transition to digital technology in order to better adapt to this crisis context and to consider a solid recovery.

Finally, all of our respondents believe that the situation is still unclear and that we should be vigilant toward the uncertain environment of the industrial sector.

Conclusion

Even though specialists concede that, the Moroccan industrial sector has been less affected by the repercussions of the Covid-19 crisis than other world powers, the industrial companies suffered from the drastic demand drop.

Indeed, the Moroccan government has undertaken measures in order to revive this neuralgic sector by proposing help to companies affected by this crisis.

Also, and despite these initiatives, various operators in the sector believe that these measures are insufficient to guarantee a solid recovery for the economy as a whole and for the industry specifically.

In 2021, public finances are expected to come under budgetary pressure as a result of a tax revenues impacted mainly by the declining results of Moroccan companies, thus threatening to lower the budget allocated to economic recovery.

Also, during the royal speech of July 29, 2020, His Majesty King Mohamed VI mentioned the implementation of an economic recovery plan for the country. The sovereign announced the injection of 120 billion DH, equivalent to 11% of GDP. *“This rate places*

Morocco among the most daring countries in terms of post-crisis economic recovery policy.”

This investment fund will therefore create a wave of economic recovery for all sectors in the Cherifian kingdom: *“We felt that a strategic investment fund should be created to fulfill a mission of support to the activities of production and financing of the major public-private investment projects in a variety of fields”.*

From a managerial point of view, the importance of upgrading the working tools used by the Moroccan companies should be stressed. The health crisis has also put to the test the managerial functioning of companies with the imposed digitalization. This mode required by the dictates of this crisis has pushed Moroccan companies to rethink their management model by opening up to new technologies and notably by adopting telecommuting or remote work.

Also, the state is called to set up a solid support coupled with a transparent communication. The awareness of this change will allow to reassure the economic actors and to accompany the digital transition.

Indeed, the implementation of a communication towards the various stakeholders will have to *“demonstrate a high level of empathy and authenticity and show the consumer that we understand their pain, and to stop any automated dissemination”* (Amin and Ouahi, 2020) could build trust with the various levels of government and provide for a real economic recovery.

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Appendices

Interview Guide

1. Presentation of the company (anonymity possible)
2. How do you define a state of crisis? Is an economic recession considered as crisis?
3. How has the industrial sector been affected by this pandemic?
4. What impact this pandemic had on the evolution of your business?

5. Have you benefited from the measures undertaken by the Moroccan government?
6. What do you think of the initiatives undertaken by the State? Are they sufficient? Do you think the government has fulfilled its regulatory role?
7. In your opinion, should other measures be undertaken to mitigate the impact of COVID 19 on your company's sector of activity?
8. In your opinion, what are the axes of development related to your activity in the next months?