

UPGRADING ECONOMY

UPGRADE IN THE MENA REGION: CASES OF ALGERIA, EGYPT, MOROCCO AND TUNISIA

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ABSTRACT: The concept of upgrading is new in the economic literature, very few theorists are focused on explaining this concept, but all agreed on the relationship of upgrading with the competitiveness of companies. In the context of increasingly competitive environment the countries of the MENA regions including Algeria, Egypt, Tunisia and Morocco have established several programs to upgrade their businesses. Efforts to revitalize these programs have nevertheless been undertaken in recent years, raising hopes for a favorable impact on the competitiveness of companies.

Moreover, we can say that the Tunisian upgrade program is called successful due to the involvement of his government and the importance given to vocational training. Conversely, Morocco seems to have adopted a more liberal approach, its government seeks to act on market imperfections. The Egyptian program is highly structured, with strong government control and intervention of two foreign bodies, the EU and UNIDO. The pre-selection of intervention areas is also an Egyptian specificity, as well as the payment of an incentive amount for each company.

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Introduction

Generally in developing countries, and especially the countries of the MENA region, companies are regarded as drivers of economic development and major contributors to the creation of sustainable jobs and increasing value. But these companies noticed that their intervention areas are decreasing due to irreversible globalization. Some of them are just under threat on their own market because of customs tariff dismantling and other future actions imposed by both the Association Agreement with the European Union and the future accession to the WTO. The upgrade is needed to ensure the survival and sustainability of companies in the MENA region to face the global competition. Such upgrade will also enable these companies to grow further in this new geopolitical environment.

Upgrade programs to support the adjustment to international environment

The transition from a situation of protection to a situation of liberation and opened competition has required the implementation of an upgrade program of industry for an effective adjustment of the company and its environment. Indeed, competitiveness depends on both the performance of the company and its environment.

The concept of "upgrading companies" was born from the Portuguese experience. Initiated in 1988 as part of accompanying measures of Portugal integration in Europe, The PEPID (strategic program to stimulate and modernize the Portuguese economy) objectives were:

- Accelerating the modernization of infrastructure support to the industrial sector;
- Strengthening the foundations of vocational training;
- Directing funding towards productive investment of enterprises, especially SMEs;
- Improving productivity and quality of the industrial fabric.

To respond to the many requests from these countries, UNIDO (United Nations Industrial Development Organization) has implemented in recent years an overall comprehensive and multidisciplinary approach integrating the industrial company and its environment. The approach takes into account both the experience of UNIDO in the implementation of several projects of industrial restructuring in recent years and some experiences of adjustment and industrial restructuring successful (Chile, Korea Sur, Mexico, Portugal, and Turkey).

The lessons learned from these experiments focus on the importance of preventive measures and support, decided in consultation with the operators directly involved and carried out before and during the implementation of the adjustment and industrial restructuring program. The strategic choice of liberalization in these countries was not a "wild" liberalization, but gradual, measured and accompanied for a transitional period by a program of support and appropriate assistance to the main industries. Transition periods are necessary to enable companies to have enough time to adapt to the opened market. It should be the same for industrial companies operating in developing countries that have enjoyed strong protection and need, in risk of disappearing, to adapt, integrate and to compete in international markets. For reference, we note that the agreement of free trade zone between the countries of the southern Mediterranean countries (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia) and the European Union expect a customs dismantling of inputs and industrial products in a phased manner and spread over time to achieve the effective free trade.

The concept of upgrading is new in the economic literature; very few theorists are focused on explaining this concept, but all agreed on the relationship of upgrading with the competitiveness sought by companies. Upgrade, better products, produce more efficiently, or changed to more profitable activities - have often been used in research on competitiveness (Kaplinsky and Readman, 2001; Porter, 1990) and linked with innovation. Piertrobelli and Rabellotti (2006) defined the upgrade as the ability of the company to innovate in order to increase its value. According to the authors, companies resort to upgrade for various reasons, namely the penetration of new markets and/or to engage in a new production line. According Lamiri (2003) "The upgrade is an operation that involves Benchmarking raise the productivity of the company at its best competitors". The upgrade is also characterized by the development in the company of a control system, even simplified management, by the systematic use of information, the renovation of production processes and

installation of systems of quality management through the use of process decision support and the development of innovation management (Manader, 2004).

According to Economists UNIDO (2002), the upgrade "... is a continuous process to prepare and adapt the company and its environment requirements of free trade." The concept of upgrade (based on two main ideas: progress and calibration) is very controversial for some people, it is an impossible task, for others it is a reductive concept, and for others it is a fuzzy concept which contours are not yet specified.

Upgrade in Algeria

To promote the competitiveness of their important industries the Algerian government implemented a variety of programs to upgrade, some of them are completed and others are in ongoing process. "These programs are independent of each other and operate in the absence of any defined national scope and coordination by the government" (Azouaou, 2011, p.141). It is also important to note that these upgrade programs are delivered and managed under various institutional frameworks. First the upgrade appeared with the pilot program of UNIDO and the Ministry of Industry and Restructuring. Then the Ministry of SMEs and Craft drew support programs for SME development in cooperation with foreign partners - UNIDO, World Bank, AFD (French Development Agency), the European Commission (MEDA) and GTZ (German Cooperation Agency).

Developed after a programming mission in September 1998, the pilot program was approved in December 1998 by the General Director of UNIDO and in March 1999 by the Ministry of Industry and Restructuring (MIR). The pilot program was part of the first wave of UNIDO integrated programs. UNIDO ensured during the 1990s the continuity of interventions to support the liberalization and opening of the Algerian economy in a process of transition from a command economy to a market economy (Haddad and Abbassi, 1998).

The pilot program was launched in 2000 using the various support mechanisms put in place. Through this program 20 industrial companies (5 public companies and 15 private companies) benefited upgrade action funded by UNIDO for a total amount of 1 269 000 Dollars. 28 companies (12 public companies and 16 companies private) benefited of upgrade operations were supported by MIR with the budget of 120 million DA (MDIPI, 2003).

The program led by the Ministry of Industry and Restructuring (MIR) was launched in January 2002. It was aimed at Algerian financially healthy companies with positive net assets, which displayed at least two operating positive results over the last three years. These companies must belong to the industrial production sector or provider of services related to the industry. These firms had to employ at least 20 employees for production companies and 10 employees for companies related to services industry.

The program support to the development of private SMEs/SMIs in Algeria is a co-managed and co-funded by the Ministry of Small Business and Crafts and the European Commission, through a stand-alone management program, called Euro SME Development (EDPME), including 25 permanent experts (21 Algerian and European 4).

The program EDPME persuades upgrading to an intangible content, for behavioral change of the businessman to his company, to its markets and to its institutional and financial partners. Indeed, if the MIR program aims to modernize production and introduce the concept of quality, EDPME program aims to inform the business owner on the issues related to the market and to push him to adopt good management practices. This is to help companies to set up a system of management control, even simplified, by the systematic use of information, by the renovation of production

processes and the installation of systems quality management, through the use of process decision support and the development of innovation management.

The statistics since the start of the EDPME until 31 May 2007 (after 4 years and 8 months of activity) allowed us to see the following results broken down by the three components of programs:

Direct support to SMEs reached 716 SMEs. Among these 716 companies the 256 SMEs (35.8%) gave up after the diagnostic phase or pre-diagnosis. 442 SMEs (EC, 2007) (61.7%) completed at least one upgrade phase and started operations in 2008 within this program in the country.

This new program is part of a synergy scope, complementarity and continuity with existing devices (Boughadou, 2006). It is characterized by the integration of upgrading the environment of the SMEs; expanding sectors of SMEs not yet or insufficiently covered by other devices (including SMEs with less than 20 employees) and the primacy of intangible investments.

Launched in February 2007 for a period of six years, the program has as its main objective to upgrade 6,000 SMEs. An envelope of one billion dinars per year is devoted to its implementation in accordance with the decision of the Council of Ministers at its meeting on March 8, 2004 and section 71 of the Finance Act 2005¹.

For effective control of this enormous project, the state has promulgated the establishment of the National Agency for Development of SMEs (ANDPME). ANDPME is the instrument of the State for implementation of the national policy for the development of SMEs/SMIs (Brahiti, 2006). Its role refers to, like EDPME, reviewing applications for companies wishing to benefit from the upgrade (including very small businesses - TPE - with a workforce of 10 employees or less) and provide bonuses to the upgrade.

The national program for upgrading SMEs conducted by ANDPME has attracted interest from 375 companies that have issued requests for membership, 305 companies of this number have joined the program.

Observing the results of ANDPME program reveals a predominance of pre-diagnosis/diagnosis actions with a total of 135 actions representing 73% of total interventions delivered by DPSs². The financial intermediation activities made 16%, individual or group upgrade actions - 9%, and the training represented only 2% of interventions.

A new support SMEs/SMIs and the control of information and communication technologies (PME II) program was signed in March 2009 between the Algerian Ministry of Small Business and Crafts and the European Commission continuing activities already undertaken in the program (MEDA I). Program proponents are MPMEA in one hand, and the European Commission in the other. However, the Ministry of Industry and the Post and Telecommunications plays an important role in coordinating the activities of the PME II program. The program is jointly funded by the European Union (40 million Euros) and the Algerian government (€3 million), assumes the contribution of one million from SMEs.

The SME program provides direct support to nearly 100 SMEs selected on the basis of clearly defined criteria, active in five predetermined sectors: food and beverages,

¹ Law No. 05-16 of 31/12/2005 in the opening books of the Treasury; A special account entitled "National Fund for upgrading SMEs".

² DPS is a consulting firm for the mobilization of experts to work on one or more tasks for the benefit of SMEs

mechanics, construction materials, chemicals and electrical/electronic products. The proposed expert intervention is based on a comprehensive approach tailored to meet the specific needs of SMEs. In fact, the "pilot actions" designed to support the modernization of various sectors, development of human capital and the use of information technology and communication in SMEs.

Moreover, even if the program focuses primarily on SMEs, it also provides support to departments, institutions and quality control organizations and industry associations. In fact, the PME II program extends its support to the environment of each company, which is unable to develop its activities and be competitive in international markets.

The Algerian-German program called "sustainable economic development" was implemented by GTZ (German Agency for Technical Cooperation). Initiated in 2006, the program targets Algerian SMEs with have fewer than 20 employees in 10 regions of Algeria.

The difficulty of the upgrade comes at the macroeconomic level; the private companies' environment is not conducive to strengthening the firms' competitiveness and their development: difficult access to bank credit, issues related to land issues industrial, slow and cumbersome administrative procedures, lack of information system and "business" competition of the informal economy. At the microeconomic level, entrepreneurs are reluctant to worry about the future and expected market developments. They often work alone, without experienced human resources. The failure of government in upgrading policy is due to the absence of specific strategies identifying the strengths and weaknesses of each company according to its specificities and its environment. For this, it requires concentration of upgrading programs and rehabilitation at the micro level.

Tunisian upgrade

The Tunisian upgrade program is the first major program implemented in Africa for the upgrade of industrial companies. Tunisian authorities have chosen to accompany the process of opening of the economy by making upgrading national enterprises a priority of their economic policy. The Tunisian upgrade program covered two sections: a comprehensive upgrade of the company¹ so that it becomes competitive and its environment improvement (transport, infrastructure, cost factors, the financial system, institutions, administration, training, etc.). However, some shortcomings were identified in parallel to progression of the upgrade program; this triggered extension of upgrade policies on SMEs, as well as strengthening of intangible investments and development services related to the industry (Yacoub, 2008).

The total cost of the program reached 2.5 billion dinars (1.8 billion Euros) between 1996 and 2006 to generate about 6 billion dinars (4.4 billion Euros) investment (60% enterprise sector) (Marniesse and Filipiak, 2003). Various donors involved in this program, the European Union and the AFD (French Development Agency) which finances restructuring of companies and upgrading program of training.

The Tunisian upgrade program (PMN - Programme pour la Mise à Niveau) can be regarded a successful: 45% of companies with more than 10 employees joined the process. Intangible investments remain well below tangible investment (about 88% of

¹ Companies eligible for the program must have a growth potential, an activity for two years, and should not be experiencing economic difficulties. They fall within industries or sectors services related to the industry.

the total amount). A total premium granted by FODEC (Competitiveness Development Fund) is estimated at 836 billion Tunisian Dinars until late 2011.

To assess the impact of the Tunisian upgrade program on industry, World Bank conducted a study (Banque Mondiale, 2003). The report shows that the efficiency of the upgrade policy is considered mixed: the rate of disbursement of premiums remains low for benefiting firms in the sectors of food, construction materials, and textiles and clothing. Further, PMN have an ambiguous impact on investment if the companies participating in the program have higher overall industrial performance, these performances are not necessarily caused by PMN but reflect the better performance of selected companies (Bougault and Filipiak, 2005). The report also highlights the fact that premiums were paid on the basis of the physical realization of investments and not on criteria of improving the competitiveness of firms (improving added value, increased export revenue, output per employee, etc.).

Despite some shortcomings, the Tunisian program is exemplified. Beyond the quantitative aspects and the number of companies having adhered to the program, the program's success was mainly due to the realization that it has initiated a process of facing irreversible tariff dismantling and its ability to create a dynamic adaptation of the productive and financial structure of firms.

Significant changes in the modes of management were achieved, particularly in large companies where it was observed a change in the mental conditions of business leaders, an awareness of the need to modernize, have an open public capital, move from an autocratic leadership style to a participative management, and establish an information system.

Upgrading companies in Morocco

From the aftermath of the agreement with the European Union, a program of "upgrading" of the Moroccan company was developed for this purpose. It should develop the performance capacity of the Moroccan economy as a whole, so that it can withstand competition from EU countries and Southern Mediterranean countries. Actions are focused on various areas such as building infrastructure, vocational training, export promotion, strengthening professional associations, technological infrastructure, business diagnostics, funding of upgrade, etc.

According to Agency for the Promotion of Small and Medium Enterprise (ANPME, 2004) all companies wishing to benefit from the program must establish a pre-diagnosis and a thorough diagnosis that determines the impact of tariff reduction on the competitiveness of the company and the strengths and weaknesses of it. Thereafter the company must undertake various actions to improve competitiveness: technical, financial, commercial, human, administrative, organizational, etc. These actions are detailed in a development plan or business plan that should be accompanied by a financial plan and a timetable for completion.

The upgrade program did not reach the level expected. Only 1% of companies understood the challenges of upgrading. The Moroccan upgrade program was facing difficulty to start; this slowness was caused by ineffective state regulation. Upgrade programs notes on limited results. Thus, the balance of Euro Morocco Enterprise (EME)¹ project, which can be considered as the central element of the Moroccan program until 2004, 363 companies took part from a total of 7 714 industrial firms with more than 10 employees surveyed in 2003. About 60% of companies supported

¹ EME is a completely EU-funded project, it was established in 1997 and launched in 1998.

by upgrade programs are located in the Casablanca area, followed distantly by the region of Rabat (10%), the rest is divided among the other 15 regions of Morocco.

ANPME conducted study on economic efficiency of upgrading programs; the study was conducted on a sample of 84 companies out of 363 companies covered by upgrade programs during the period 2002-2004. The results of the study showed that for $\frac{3}{4}$ of companies joining the program resulted in a significant improvement in terms of their strategic repositioning, cost control, reducing time and management quality. The majority of companies were able to strengthen their commercial aggressiveness, increase their tangible and intangible investments. Almost $\frac{2}{3}$ of companies surveyed achieved a growth rate of over 6% in sales. In addition, 80% of companies surveyed improved their overall productivity and more than half improved their cash flow.

Upgrading companies in Egypt

To improve the competitiveness of Egyptian enterprises and prepare the industry to face competition, the Industrial Modernization Center (IMC) was created for this purpose as an independent body whose main role is to coordinate and monitor the process of modernization of Egyptian industry.

The modernization program managed by the IMC is funded jointly by the EU, Egyptian government and national private sector. The goal of this program is to strengthen and consolidate the international role of the Egyptian industrial and manufacturing sector. To accelerate economic growth through a focus on international markets, greater attention is given to industries with high added value and having competitive advantages and growth prospects. Ministry of Industry and Technology formulated a complementary program - "Egyptian National Program for Modernization Industry" whose purpose is to support the government in the process of modernization and strengthening competitiveness.

The overall assessment of upgrade program (IMC, 2007) shows that 10,319 companies with a focus on small businesses having employees in the 10-49 range benefited from the program; it makes around 70.7% of total number of beneficiary companies. The middle class of beneficiary firms with 50-199 employees represents 21.2% of the benefiting companies, while only 8.1% of the participating companies have a workforce of over 200 employees. The program upgrade (for the period July 2005-May 2007) covered the majority of firms in industries with a total of 3,473 businesses served.

Conclusion

In the context of increasingly competitive environment, and to prepare to compete will result from the removal of customs tariffs on the import of EU products and catch up which characterizes their production systems, the countries of the MENA regions including Algeria, Egypt, Tunisia and Morocco have established several programs to upgrade their businesses. Tunisian upgrade program is called successful due to the involvement of his government and the importance given to vocational training. Conversely, Morocco seems to have adopted a more liberal approach, the government seeking to act on market imperfections. The Egyptian program is highly structured, with strong government control with the intervention of two foreign bodies, the EU and UNIDO. The pre-selection of intervention areas is also an Egyptian specificity, as well as the payment of an incentive amount for each company.

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