

## **Obstacles to investment in a context of tax exemption: case of the region LAAYOUNE SAKIA EL HAMRA**

### **Les obstacles à l'investissement dans un contexte d'exonération fiscale: cas de la région LAAYOUNE SAKIA EL HAMRA**

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**Abstract**

In order to improve the investment climate, Morocco has established a new development model for the southern provinces, by committing to a vast reform program. In which Promotion of investment is the crucial axis. However, despite the efforts made and the total exemption of corporate tax in the region of laayoune sakia el hamra, the level of investment is still low due to many constraints on establishment and development. companies. Therefore, the object of this paper, is to study the different obstacles that hinder investment in the region and to study the impact of each obstacle on the level of investment using a sample of 40 companies established in the region. The results revealed a negative impact that differs from one obstacle to another on the decision to invest. At the end of this article, we present a model that associates the decision to invest with the investment obstacles of companies operating in the region.

**Keywords :** Investment climate ; tax exemption ; Regional attractiveness ; development model ; Obstacles to investment.

**Résumé**

Ayant comme objectif l'amélioration du climat d'investissement, le Maroc a instauré un nouveau modèle de développement des provinces du sud, pour lequel un vaste programme de réformes audacieuses a été engagé, dont La promotion de l'investissement était son crucial axe. Toutefois, en dépit des efforts déployés par les pouvoirs publics à tous les niveaux et particulièrement sur le plan fiscal en l'occurrence l'exonération totale de l'impôt sur la société, dont bénéficient les régions du sud, le niveau d'investissement est encore faible , cette stagnation du rythme d'investissement serait due particulièrement aux contraintes bloquant les entrepreneurs de s'installer ou de développer leurs activités. Nous focalisant donc notre étude sur la région de Laayoune Sakia El Hamra comme étant la région centrale dans la zone du sud. L'objet de cet article est d'étudier un ensemble d'obstacles qui entravent l'investissement dans la région et l'impact de chacun sur le niveau d'investissement, à l'aide d'un échantillon de 40 entreprises installées dans la région et opérant sur des activités différentes. Les résultats ont dévoilé un impact négatif des obstacles sur la décision d'investir, et qui se diffère d'une entrave à une autre. A la fin de cet article, nous présentons un modèle qui associe la décision d'investir avec les obstacles d'investissement des entreprises opérantes dans la région.

**Mots clés :** Climat d'Investissement ; Exonération Fiscale ; Attractivité régionale ; modèle de développement ; obstacles à l'investissement.

## Introduction

Like other countries in the world, Morocco has implemented several reforms aimed at promoting investment, While putting in place a new model of sufficiently inclusive economic development, capable of absorbing the existing deficits, and improve the competitiveness of the region. Given the geopolitical and economic context, the southern regions are at the heart of royal and governmental concerns benefiting from a set of prerogatives and fiscal and non-tax incentives. In particular, the total exemption from corporation tax. In addition, a new development model for the southern provinces has been implemented through a Southern Provinces Development Program (PDPS), whose investment is its primary lever.

In these southern provinces The region of Laâyoune-Sakia el Hamra occupies a central position among the three regions. Despite the reforms and tax incentives, the Laayoune Sakia El Hamra region has not yet been able to mobilise enough investment. Indeed, the assessment of investment in the region reveals a level that does not reflect the efforts made. This can be explained by obstacles to the development of investment. The persistence of these barriers in such an environment, invites us to deepen the analysis to identify the obstacles that paralyze investment, despite the various reforms and incentives. In this research work, we seek to identify the obstacles that investors face when making decisions to set up or expand their businesses.

As such, we have chosen as our main question: Despite the tax incentives, **What are the barriers to investment in the Laayoune Sakia El Hamra region, and how much influence do they have on investment decisions in this region?**

To answer this main question, it is necessary to ask sub-questions:

- Is the Laayoune Sakia El Hamra region taking full advantage of its investment attractiveness?
- Are tax incentives sufficient to promote investment in the Laayoune Sakia El Hamra region?

In the first part we will clarify the theoretical framework in which the different concepts will be addressed and we will list the investment obstacles, while in the second part we will state the state of the investment. In the second part, we will present the case study of the region that was processed by questionnaire for local entrepreneurs. And we end this study with a discussion of the results. The objective of this study is to identify investment barriers for companies

operating in the region. In particular, it will be a matter of identifying the elements of the business environment that constrain business growth and measuring their degree of importance.

## **1. Terminology**

Investment is a central topic in research, which occupied a special place in management, and which aroused the interest of researchers. The literature has revealed many and different thoughts that have dealt with this term, Now, The investment decision is one of the most strategic decisions for the company, which conditions its survival as well as its development. It is not exclusive to the economic or financial aspects. It takes place in a financial, political, economic and human context. We will try in this part to present the main obstacles of investment and their impact on the decision to invest.

### **1.1. Definition of Investment**

Faced with a multiplicity of concepts, many authors have defined the concept of investment from its various dimensions, economic, accounting, fiscal...ect (Y. Gaillard G. Thuillier1968). Investment in the economy is an immediate direct expenditure aimed at generating wealth and a positive long-term effect. It can be achieved through increased productivity through the acquisition of additional machine tools and can also save time and costs (Mr. Joseph Kergueris, 2002-2003; Patrick Villieu, 2019).

According to Mr. Joseph Kergueris (2002), investment in the accounting sense is an acquisition of a durable asset that will increase the value of the company's assets (asset on the balance sheet), and is measured by the aggregate of Gross Fixed Capital Formation (GFCF), translating all tangible or intangible acquisitions intended to contribute to the production process for a minimum period of one year.

Investment is divided into three main categories:

- tangible investments present the acquisitions of movable and immovable property by the company as means of production (buildings, industrial equipment, etc.), intended for sustainable use (ENSEE, 2019).
- intangible investments: acquisitions that increase the value of the company's assets but are not tangible, such as patents, licenses, goodwill, and that must meet three criteria, First, the development of the production capacity of the enterprise; and must have the quality of a depreciable capital; and thus a patrimonial value offering the possibility of sale on a market (ENSEE, 2006).

- financial investments: it is the purchases of shares, bonds, etc., that increase the financial wealth of the company.

### 1.2. The investment climate

The World Bank (2005) defines the investment climate as the set of local factors influencing opportunities and incentives that enable companies to invest profitably, create jobs and grow their businesses. Thus, the investment climate includes the following four dimensions: Stability and security, Regulation and taxation, Finance and infrastructure, Labour and labour market. The Organisation for Economic Co-operation and Development (OECD) (2006) has identified the ten factors that directly influence investment decisions: investment policies, investment promotion and support, trade policy, competition policy, tax policy, corporate governance, the behaviour of business leaders, human resources, financial sector development, infrastructure and public governance.

### 1.3. Tax Incentives

The tax advantages dubbed the tax niches present tax incentives which correspond to tax reductions offered by the public authorities for certain investments and miscellaneous expenditures. Whose objective is to boost particular sectors of economic activity, or to encourage specific activities. According to Nicholas Staines (2017), tax incentives are considered an exception to the tax system put in place to compensate for an economic handicap such as remoteness, poor infrastructure or for political reasons favouring a sector, a disadvantaged region, a category of taxpayers.

Karim Daher (2019), adopts Keynesian and post-Keynesian theories in the definition of tax incentives, according to him, these are mechanisms of taxation used by States for various purposes. In particular, the development and orientation of the economy as well for the redistribution of wealth. However, these tax incentives can be counterproductive, especially at the sectoral level. In modern public finances, they are called fiscal burdens which are subject to the same treatment of budgetary expenditure and are set up for an economic and social purpose. In addition, Jonathan O and Andrew B (2014) discuss tax incentives for the three main categories of relief, tax credits and shelters.

- **Tax breaks:** these are tax incentives on production expenditure and not a relation to investment levels; they represent a percentage of eligible production budget items that are financed from the State budget. Their payment is made after completion and certification of production expenses from a dedicated fund.

- **Tax credits** are similar to tax breaks, in fact they encourage production by reimbursing a percentage of eligible production costs. Except that the payment is made by deducting the amount of the incentive from the taxes due by the producer. If the amount of the incentive exceeds the amount of tax due, the State shall refund the balance.
- The purpose of **tax shelters** is to attract a category of investors, particularly the wealthy and the high-performing corporations, to exclude from their taxes investments made in eligible production.

#### 1.4. Barriers to Investment

According to the researchers, there is a list of barriers to investment, including:

##### 1.4.1. Anticipated demand market

For Joseph Kergueris (2002-2003), advance demand is the main determinant of investment. Indeed, rising demand is a key factor that encourages or discourages firms to invest by increasing their production capacity.

For J.M. Keynes (2009), it expresses the expectations of entrepreneurs about the future level of demand for their products. Any anticipation of low demand is a constraint for both existing and new investors.

##### 1.4.2. Cost of production factors

According to Crépon and Gianella (2001), the cost of factors of production is a determinant that impacts investment decisions. Indeed, an increase in the cost of capital increases the unit cost of production for the firm, which raises its prices, and ultimately risks reducing the demand for its products. An increase in the cost of capital would therefore lead to a decline in demand for both factors of production, capital and labour, and would therefore penalize employment. In the case of production conditioned by market outlets, the cost of factors of production becomes a determining factor, particularly in the short term. Indeed, if the cost of capital increases relative to the cost of wages, firms choose to limit investment spending by replacing capital with labour. In a longer-term framework, the production process is not limited by the market outlets; it is the real cost of each factor that will affect the investment decision.

##### 1.4.3. Profitability

According to Edmond Malinvaud (1987), profitability measures the difference between the expected return on physical capital and a financial return. Moreover, in economic theory, the evaluation of the profitability of an investment must integrate several elements. However, risk

aversion is a key element in the decision to invest, and will vary according to each environment. Therefore, the profitability of an investment is a determinant of the investment that depends on several relative elements that can constitute an obstacle to the investment decision.

#### **1.4.4. Access to financing**

To finance an investment, the company can mobilize its own resources, resort to debt, issue shares or retain profits. However, if the company's own resources are not sufficient, it resorts to other means of financing, in particular borrowing, which is conditioned by the company's guarantees, the interest rate and the company's financial situation. The World Bank (2005) has shown that access to financing is particularly problematic for the least productive enterprises. Indeed, the size of the firm has an influence on the ability to obtain bank credit. Furthermore, Aterido et al (2007) indicate that smaller firms have less access to external financing. Similarly, Bigsten et al (2003) show that access to bank financing is constrained for nearly two-thirds of microenterprises, compared with 10% of large enterprises.

#### **1.4.5. Basic Infrastructure**

The research of Carlin, et al (2006) focuses on the three basic types of infrastructure: electricity, telecommunications, and transportation. Of these three components, electricity appears to be the most restrictive. According to the two authors, infrastructure is a determining factor in the investment decision, and can be favorable to investment in the case of a solid infrastructure, facilitating the establishment and development of investors' activities. Nevertheless, a weak infrastructure discourages investors, because of the difficulties they will face if they decide to invest.

#### **1.4.6. Competition and regulation**

The economic definition of competition is the existence of rivalry between companies competing in the same market. Whether it is pure and perfect or imperfect, compliance with its rules is controlled by a specific institution, the Competition Council, whereas regulation is the set of rules that govern an activity. These rules are drafted by the competent administrations or mandated persons. According to the literature, we would expect a positive effect of competition on the performance of companies and a negative effect of an excess of regulation, (Escribano and Guasch, 2005).

### 1.4.7. Corruption

Carlin et al, (2006) emphasizes the obstacle of corruption particularly in less developed countries: "corruption appears to be an important constraint in all groups of countries except the OECD countries" according to the two authors corruption is present in a quarter of the countries. Furthermore, Acemoglu and Verdier (1998), studied the impact of corruption on the enforcement of property rights contracts and concluded that excessive corruption by public officials discourages investment in the economy. However, the complete absence of corruption is not always beneficial.

## 2. The state of play

It is considered necessary to assess the level of investment and its direction in order to situate the region in the development agenda.

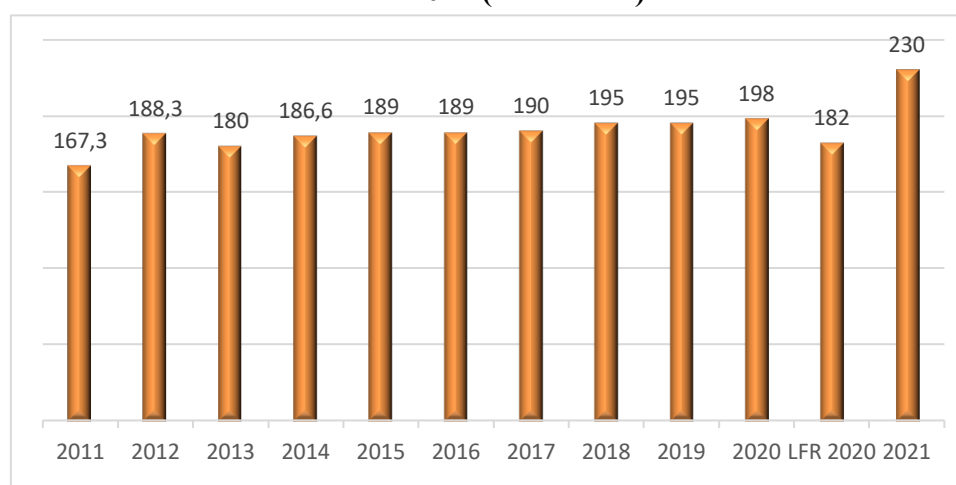
### 2.1. Investment in Morocco

Public investment is a lever for private investment, enabling the establishment of the necessary infrastructure (roads, highways, ports, airports, etc.) and sectoral strategies, as well as access to social services that encourage the emergence of private initiative and strengthen the attractiveness of our country. All these actions aim to facilitate the establishment of new investors and reduce barriers to investment and integration of citizens. In addition, public investment is considered as an engine of economic activity aimed at achieving sustainable and inclusive growth through the various sectoral strategies and social programs.

#### 2.1.1. Evolution of public investment in Morocco

In this study, it is considered necessary to measure the evolution of investment in Morocco.

**Figure N°1 : Evolution of the global volume of public investments between 2011 and 2021 (in MMDH)**



Source : the High Commission for planning



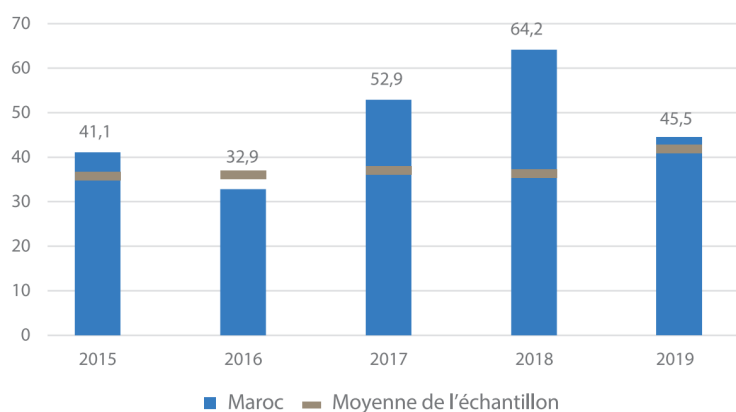
According to the High Commission for Planning (HCP) (2021), public investment in Morocco between 2011 and 2021, has recorded an increase of 62.7 billion dirhams, according to Figure 1 public investment is increasing for years, except for a slight decrease between 2012 and 2013 of 8.3 billion dirhams and a decrease of 16 billion dirhams in 2020 with the rectifying law of finance.

According to the joint report between the African Development Bank, the European Investment Bank and the European Bank (2021), the diagnosis of Morocco revealed a crucial place occupied by public investment in the private sector. Indeed, the growth of the Moroccan economy is based mainly on public investment. In 2019, total investment in the country reached an amount of 32% of GDP, of which about two-thirds came from the public sector through public enterprises.

### 2.1.2. Evolution of private investment in Morocco

According to the World Bank (2020), the public sector is the leading investor in the country via the various public enterprises, accounting for more than 50 percent of investment. On the other hand, the environment is not very favorable to the private sector, since it is SMEs, rather than large companies, that are meeting most of the demand with fairly large amounts. This is a trend that seems to have started since 2015. At that date, the investment effort of SMEs, reflected by the growth of their fixed assets, marked a leap of 16% after a decline of 5% in 2014, VSEs invest little but their pace is regular. The investments of this business fabric, tracked by fixed assets, have increased from 381 to 692 billion DH between 2012 and 2015, an average annual growth of 27%.

**Figure N°2 : "Fear of failure" ratio in entrepreneurship**



**Source :** Global Entrepreneurship Monitor

According to the CESE (2019), since 2013 the investment rate has recorded an almost continuous decline while the margin rate of non-financial companies has marked a slight increase, which explains that the profits generated by companies are not sufficiently reinvested and are instead directed to savings, this is reflected in the rise in the rate of savings of companies, with an increase of 4.5% between 2014 and 2018. This increase in savings at the expense of investment is due mainly to a lack of confidence of entrepreneurs in the business environment, because of many factors that undermine the confidence of both new entrepreneurs and potential entrepreneurs, including through corruption, the complexity of administrative procedures, unfair competition from the informal.... However, the "fear of failure" indicator published by GEM (see graph below) perfectly illustrates this decline. Indeed, this indicator indicates that on average more than 47% of Moroccans, over the period 2015-2019, have had a real opportunity to create their own business, but are afraid of failure. This percentage exceeds the average of the GEM study sample, which is about 37%.

## **2.2. Morocco's Doing Business Ranking**

Morocco has made a significant improvement in the Doing Business ranking for 2020, moving up 73 places since 2010 to 53rd place. This result is due to the reforms taken by the government (CESE 2020). However, the survey (HCP2019), shows a lack of consistency between the improvement of Morocco's doing business and the perception of companies on their daily experiences. Indeed, they express a reserved assessment of various aspects of the business environment, in particular, complex administrative procedures, burdensome tax controls, the slowness of judicial settlement of commercial disputes, the lack of competition in public procurement and corruption, etc. On the other hand, the doing business indicator is limited to a legal assessment that only reflects expert opinions and regulatory advances in terms of legislation such as reforms. It therefore ignores the assessment of the reality of the business environment, which has many weaknesses, including the scourge of corruption, which still persists despite the national strategy to fight corruption. Indeed, in 2019 Morocco ranks 80th among 180 countries, a decline of 7 places compared to 2018. In addition, according to the World Bank study (2019), 58% of companies claimed that to benefit from a public contract, offered "gifts".

## **2.3. Attractiveness factors of the Laayoune region**

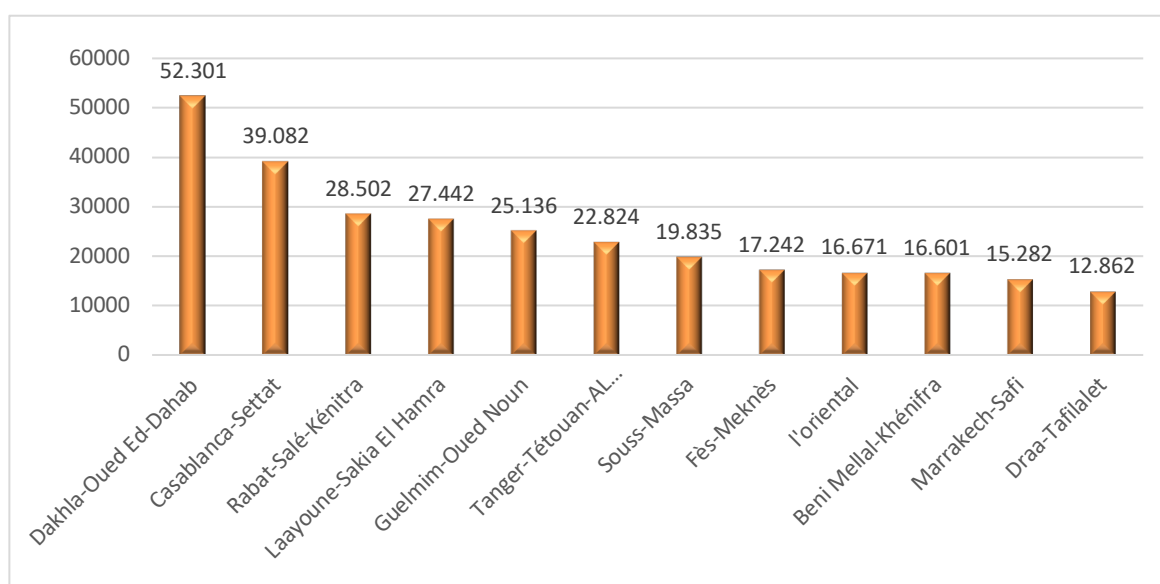
### **2.3.1. A city with great potential : natural resources and total exemption from IS**

The city is located 80 km from the coast of the Spanish Canary Islands, a very favorable geographical position that has allowed it to have important natural resources consisting mainly of fishery resources, phosphates, and agricultural products. In addition, fishing is the mainstay of the local economy. The activity includes four parts: coastal activities, artisanal fishing, inshore fishing and deep-sea fishing. With this natural potential, the region of Laâyoune-Sakia El-Hamra must be the preferred destination for promising investments. Similarly, the Southern Provinces benefit from a system of tax exemption, a decision inherited from the reign of His Majesty King Hassan II to boost investment in the region. The tax regime in force allows economic operators, especially companies intending to invest in the region, to be in a clearly advantageous position vis-à-vis those who have invested in other regions of the country. Indeed, this tax exemption allows them to make substantial savings on their turnover and to be able to develop their activity by reinvesting the profits made each year. In addition, the region has benefited from a remarkable development in infrastructure that has strongly contributed to its development.

### **2.3.2. Infrastructure investments in the region**

Morocco is aware of the importance of infrastructure in the socio-economic development of the country and has made efforts to improve the level and quality of infrastructure over the past two decades, and has therefore invested a lot of budgetary resources in building and improving this infrastructure. The region of Laayoune Sakia El Hamra was not the exception and is part of the same dynamic of investment in infrastructure with the launch of large-scale projects with a rich potential in human capital and maritime and mining resources. In figures, the Regional Development Plan (RDP) provides for investments in the order of 49 billion dirhams with a portfolio of 140 projects and it targets all categories of companies (BIG, SMEs, and SMMEs). At the sectoral level, it concerns the BTP (Building and Public Works)

At the sectoral level, it concerns construction, infrastructure, education, health, fisheries, agribusiness, agriculture, renewable energy, mining, urban planning and industry. The table below shows nominal GDP per capita by region in dirhams (2001-2018).

**Figure N°3: Nominal GDP per capita by region in dirhams (2001-2018)**

**Source:** Investment note accompanying the draft budget law (MEF)

According to the note on the regional distribution of investment that accompanies the Draft Finance Law for the fiscal year 2021, the region of Laayoune Sakia El Hamra has experienced the highest growth in GDP per capita with an average annual rate of 8.4%.

- **The new Development Model of the Southern Provinces**

On the occasion of the fortieth anniversary of the Green March, framework agreements were signed in Laayoune in November 2015 and then in February 2016 in Dakhla, in the presence of His Majesty King Mohamed May God Assist Him, whose purpose is the development of a New Development Model for the Southern Provinces, concretized by a Development Program for the Southern Provinces (PDPS) 2016-2021. The breakdown of the overall program budget by region is as follows, (Ministry of Economy, Finance and Administration Reform (MEFRA), 2020). :

- Region of Laâyoune Sakia Al Hamra (268 projects): 44.7 MMDH ;
- Dakhla Oued Eddahab Region (136 projects): 22.8 MMDH;
- Guelmim Oued Noun Region (282 projects): 11 billion dirhams;
- Inter-regions (9 projects): 1.3 MMDH.

However, The Creation of businesses in the region of Laayoune Sakia El Hamra according to the Regional Investment Center (2019) recorded a notable growth in the creation of businesses, 504 units or an increase of 17% compared to 2018, broken down according to the following

legal forms, 305 negative certificates of limited liability companies, 30 general partnerships, 167 individuals and 02 joint stock companies and others.

### 3. Case study

#### 3.1. Methodology

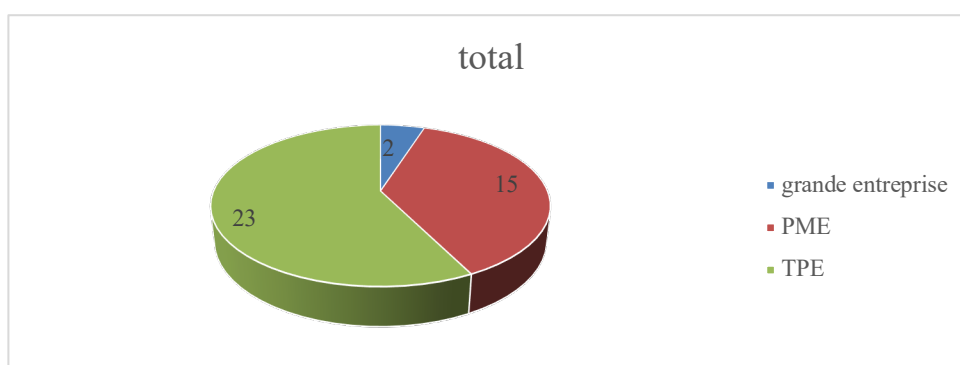
In order to conduct this study, we opted for a questionnaire tool for data collection, which includes a set of questions related to the investment climate in the region, and more specifically to the following barriers to investment: anticipated demand, input costs, profitability, basic infrastructure, competition, regulations, financial constraints, and corruption. The respondent gives a value from 1 to 5 to each obstacle, the higher the value the more important the obstacle. The choice of Laayoune Sakia El Hamra as a case study is justified by the observation of a low level of investment in the region despite the fact that it offers a total exemption from corporate tax, the importance given to this region in the new development model of the southern provinces, and its crucial position within the southern provinces. For the part of data analysis we have based on the calculation of statistical variables in this case the mean, the coefficient of variation or the relative standard deviation while referring to the approach adopted by Ayyagari, Demirguc-Kunt and Maksimovic (2006), which fits perfectly with our study. In order to analyze the significance of the coefficient of each barrier in relation to the investment decision. Our sample consists of 40 companies headquartered exclusively in the region and operating in different fields, Before proceeding to the analysis of barriers to investment, it is considered necessary to study the classification of companies in our sample according to the size, the sector of activity and the motives of establishment of the company.

#### 3.2. Descriptive study

##### 3.2.1. Classification of firms by size

The classification of the firms in our sample gave the results as shown in the following figure:

**Figure N°4 : Classification of companies by size**



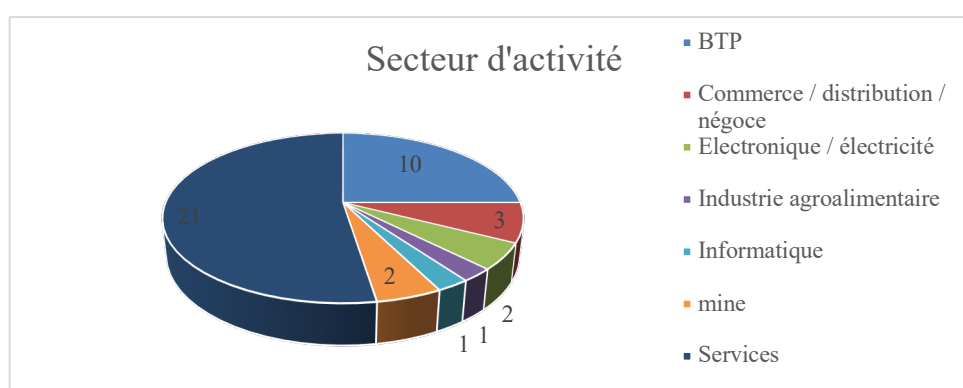
Source : Ourselves

62.5% very small companies, 12.5% small companies, 17.5% medium companies and 7.5% large companies. Thus, the fabric of our sample is composed mainly of very small enterprises.

### 3.2.2. Classification of companies by sector of activity

In order to deepen this analysis, we will choose the sector most present in our sample according to the following figure.

**Figure N°5 : Classification of companies by sector of activity**



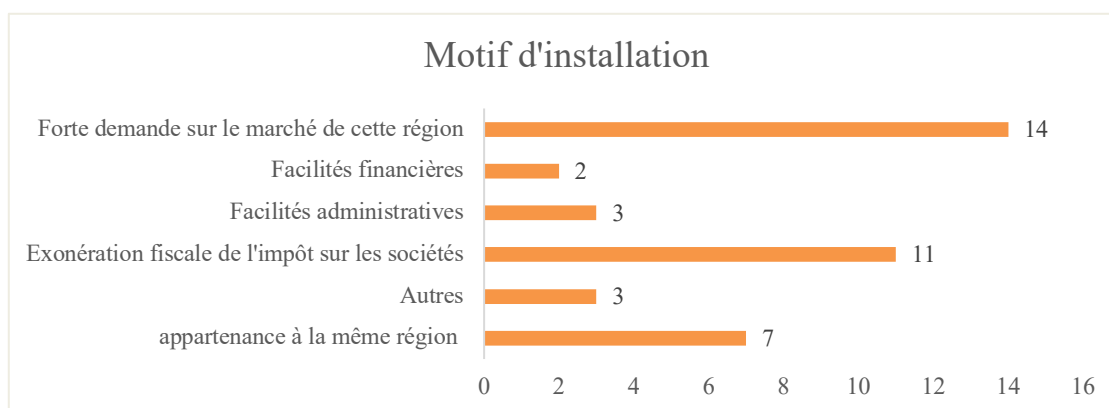
Source : Ourselves

52.5% of companies operate in the service sector, 25% in the building and public works sector and 7.5% in the trade sector, while the rest of the companies operate in other sectors.

### 3.2.3. Reasons for the establishment of companies in the region

To find out the link between tax exemption and the establishment of companies, we asked a question about the reasons for the establishment of companies in the region, the answers are expressed in the figure below.

**Figure N°6 : Reasons for the establishment of companies in the region of Laayoune**



Source : Ourselves

27.5% of the companies chose to settle in the region of Laayoune for the reason of the tax exemption of the company tax as well as 35% justify their choice by the strong demand on the market of the region, and 17.5% justify their choice of installation in the region by their belonging to the same region while the other companies have other motivations.

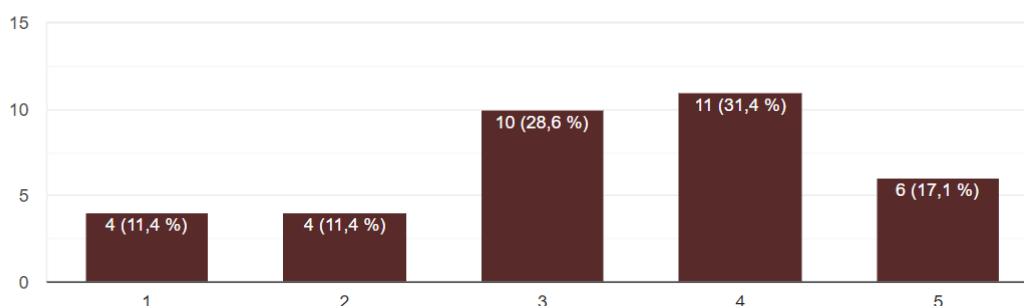
### 3.3. Econometric analysis

In our study, we will conduct an analysis of the barriers to investment faced by entrepreneurs in the region, following the approach adopted by Ayyagari, Demircug-Kunt and Maksimovic (2006). The objective is to identify the major constraints to the investment decision, based on the ranking of barriers according to the degree of impact of each. The managers of the firms ranked the 7 obstacles (anticipated demand, cost of production factors, profitability, competition and regulation, basic infrastructure, financial constraints, corruption) negatively and significantly influencing their investment decisions. Indeed, they are asked to evaluate the impact of each factor on the investment decision by giving a value from 1 to 5. Indeed, 1 means a barrier of very low impact, 2 is a value of a barrier of low impact while 3 means that the barrier has a moderate impact while 4 is a value meaning that the barrier has a high impact and the number 5 means that the impact is very high. The tables below show the classification of the impact of the barrier "financial constraints" and "corruption" by the managers. Indeed, the analysis of investment obstacles shows that financial constraints and corruption are the major obstacles for investors operating in the region as shown in Figures 7 and 8.

**Figure N°7 : Classification of the impact of the obstacle "financial constraints" by the managers**

obstacle 6: Les contraintes financières ( le recours à l'emprunt ou autre source de financement) classez cet obstacle selon son degré d'importance?

35 réponses



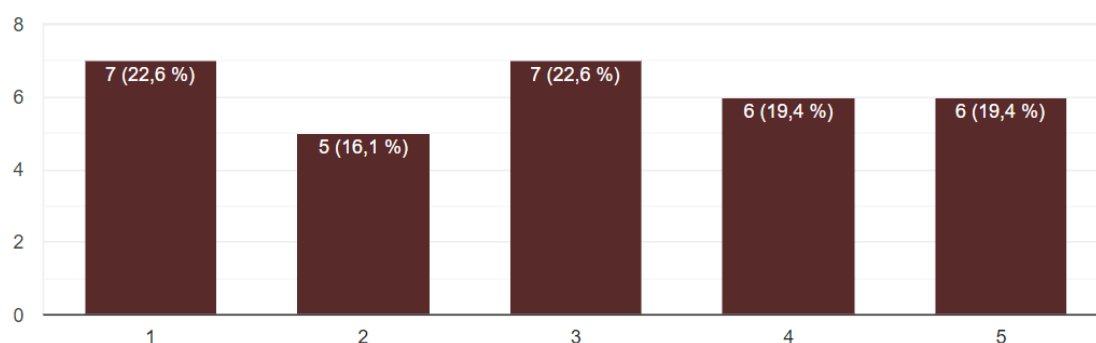
Source : Ourselves

31.4% of firms consider financial constraints to be an obstacle with a high impact, i.e. a coefficient of -0.16 (table N°2: the investment decision function). This result can be justified by the size of the firms in our sample, which is mainly composed of very small firms that are often faced with problems accessing financing, and are thus considered to be very vulnerable firms, strongly impacted by the COVID 19 crisis that affected several sectors.

**Figure N°8: Classification of the impact of the "corruption" obstacle by managers.**

obstacle 7: Corruption (le détournement d'un processus ) classez cet obstacle selon son degré d'importance?

31 réponses



Source : Ourselves

22.6% of firms declare corruption to be a moderate obstacle, while 38.8% of firms consider it to be a constraint with a high to very high impact, i.e. a coefficient of -0.4. (See table N°2: the investment decision function) Indeed, whatever the size of the firms, this obstacle is very present in several empirical studies as a major obstacle, reflecting the existence of a structural problem affecting different sectors.

The strong presence of the BTP and SCE sectors (Figure 5) in our study sample requires us to analyze these two sectors in depth.

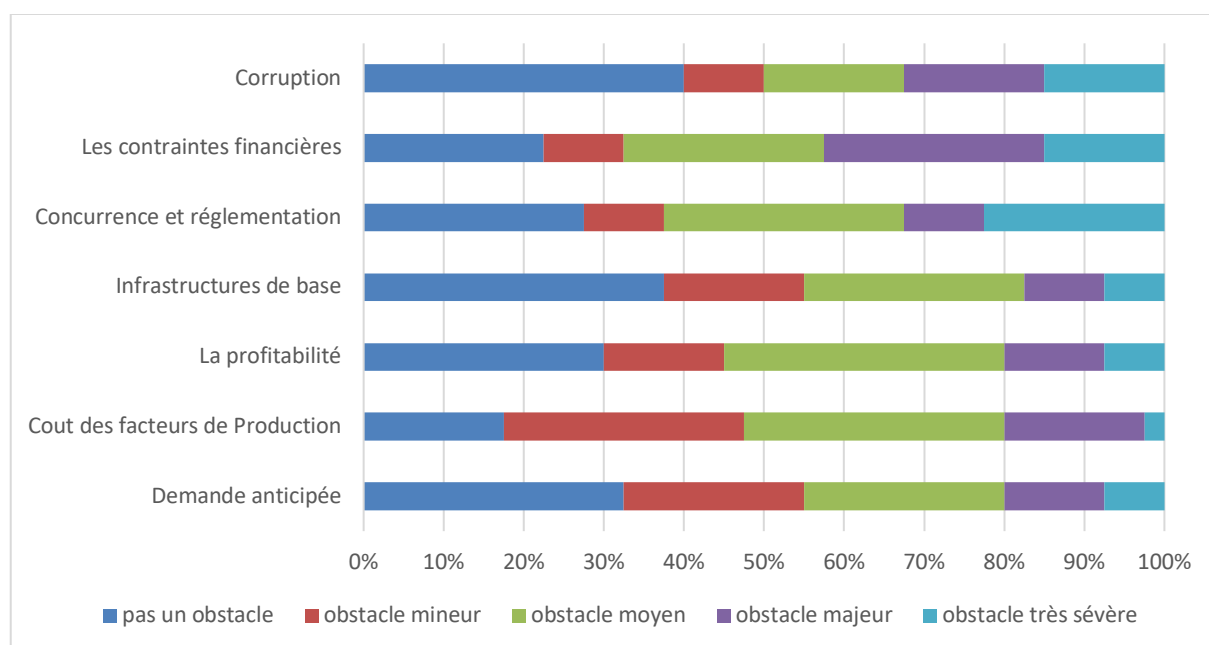
- Analysis of the sector of activity (BTP & SCE)

The sectoral analysis revealed that the strong demand in the construction market is the main motivation for the establishment of companies in the sector, which is reflected in the near absence of barriers of anticipated demand and basic infrastructure, while it is explained by the good infrastructure and the development of the real estate sector that the city has experienced



in recent years. However, these firms are significantly exposed to fierce competition, high financial constraints, and are heavily affected by corruption, with a coefficient of 0.69, all of which negatively affect the decision to invest. While cost and profitability constraints are moderate. The following figure shows the severity levels of all the obstacles in the construction sector.

**Figure N°9: Levels of severity of obstacles in the construction sector**



Source : Ourselves

For firms operating in the services market, 60% of which are SMEs, explain that expected demand, financial constraints, and input costs are low to medium barriers while profitability, basic infrastructure, and corruption and competition are medium barriers to investment decision.

The service sector is not excluded from the impact of barriers to investment; the following table presents the coefficients of the service sector barriers.

**Table N°1 : The coefficients of the obstacles of the services sector**

	<b>Demande anticipée</b>	<b>Coût des facteurs de Production</b>	<b>La profitabilité</b>	<b>Infrastructures de base</b>	<b>Concurrence et réglementation</b>	<b>Les contraintes financières</b>	<b>Corruption</b>
<b>Ecart_type</b>	1,064581295	0,80474782	1,07126983	1,20909254	1,20909254	1,091089451	1,39897922
<b>Moyenne</b>	2,666666667	2,61904762	2,38095238	2,47619048	2,52380952	3,095238095	2,428571429
<b>coef relatif</b>	0,399217986	0,28740993	0,42850793	0,46503559	0,44781205	0,287128803	0,499635436

Source : Ourselves

Similar to the construction sector, the corruption barrier has a strong influence on the services sector with a relative coefficient of 0.499635436. In contrast to the construction sector, basic infrastructure, competition, and regulation have a strong negative impact on investment decisions in the services sector, which is explained by the needs of this sector. This is due to the needs of this sector, which requires a good basic infrastructure. Also, the low cost of production factors and financial constraints reduce the barriers to entry into the services market, which creates fierce competition between companies.

However, according to our statistics, large companies are less exposed to investment obstacles, but very small companies are the most affected. The table below of the investment function shows that corruption, basic infrastructure, anticipated demand and financial constraints are the main investment obstacles for the region of Laayoune Sakia El Hamra.

- The investment decision function

For the investment decision function, the econometric study has allowed us to construct an investment decision function taking the value 0 or 1 depending on the values of the investment

barrier. It depends on the coefficients of the obstacle, the sector of activity, the size of the company and a constant

0 indicates the impossibility of the investment in the presence of obstacles.

1 indicates the possibility of the investment in the presence of the obstacles.

**Table N°2 : The investment decision function**

Statistiques de la régression	
Coefficient de détermination multiple	0,656007968
Coefficient de détermination R <sup>2</sup>	0,430346454
Coefficient de détermination R <sup>2</sup>	0,25945039
Erreur-type	0,430827243
Observations	40

ANALYSE DE VARIANCE

	Degré de liberté	Somme des carrés	Moyenne des carrés	F	Valeur critique de F
Régression	9	4,206636589	0,467404065	2,51817651	0,02781852
Résidus	30	5,568363411	0,185612114		
Total	39	9,775			

		Coefficients	Erreur-type	Statistique t	Probabilité	ire pour seuil de cor	pour seuil de e	pour seuil de conj	Limite supérieure pour seuil de confiance = 95,0%
C	Constante	0,717802644	0,248302438	2,890840099	0,0070789	0,210701414	1,22490387	0,210701414	1,224903874
S	S secteur	0,095902741	0,094629654	1,013453358	0,31894806	-0,097356795	0,28916228	-0,097356795	0,289162276
T	T taille	0,000302921	0,000184384	1,642881979	0,11084945	-7,36411E-05	0,00067948	-7,36411E-05	0,000679483
obst_1	Demande anticipée	-0,095954567	0,08375651	-1,145637132	0,26100228	-0,26700818	0,07509905	-0,26700818	0,075099045
obst_2	Cout des facteurs de Production	0,074340642	0,11796172	0,630209883	0,53332862	-0,16656933	0,31525061	-0,16656933	0,315250615
obst_3	La profitabilité	0,034628831	0,09050756	0,382607048	0,70470855	-0,150212267	0,21946993	-0,150212267	0,219469928
obst_4	Infrastructures de base	-0,125684066	0,063182046	-1,989237034	0,05586091	-0,254719019	0,00335089	-0,254719019	0,003350886
obst_5	Concurrence et réglementation	0,133717117	0,070023038	1,909616041	0,06578641	-0,009289005	0,27672324	-0,009289005	0,27672324
obst_6	Les contraintes financières	-0,167329338	0,083524445	-2,003357684	0,05424443	-0,337909011	0,00325033	-0,337909011	0,003250335
obst_7	Corruption	-0,040818255	0,066243229	-0,616187578	0,54241837	-0,176104978	0,09446847	-0,176104978	0,094468468

Source : Ourselves

$$\text{Investment decision} = \text{obs1} \times a1 + \text{obst2} \times a2 + \text{obst4} \times a4 + \text{obst5} \times a5 + \text{obst6} \times a6 + \text{obst7} \times a7 + b1 \times S + b2 \times T + C$$

With :

**Table N°3 : The coefficients of the investment decision function**

<b>C</b>	Constante	0,717802644	
<b>S</b>	S secteur	b2	0,095902741
<b>T</b>	T taille	b1	0,000302921
<b>obst_1</b>	Demande anticipée	a1	-0,095954567
<b>obst_2</b>	Cout des facteurs de Production	a2	0,074340642
<b>obst_3</b>	La profitabilité	a3	0,034628831
<b>obst_4</b>	Infrastructures de base	a4	-0,125684066
<b>obst_5</b>	Concurrence et réglementation	a5	0,133717117
<b>obst_6</b>	Les contraintes financières	a6	-0,167329338
<b>obst_7</b>	Corruption	a7	-0,040818255

Source : Ourselves

According to this study, despite the corporate tax exemption offered to firms located in the region, financial constraints, basic infrastructure, competition, and regulation are the determining obstacles that weigh heavily on investment. This result refers to the idea of Jane McCormick, Christopher Morgan (2020), who showed that the tax rate is not a preference in the investment choice of firms. Indeed, firms value other factors more than taxation, the latter often being barriers to investment. Thus, the corporate tax rate cannot be the only factor of investment attractiveness. Indeed, the attractiveness of investors is measured by the number of companies locating their investment projects and headquarters in a geographical area.

Therefore, the location of investors is explained by various determinants: the business climate which presents a traditional condition offering a favorable environment for the establishment of investment projects, The territory must be endowed with a political and social stability as well as a constant legislative regime and a solid and permanent business climate that allow a continuous positivity for investors (Abdellatif, et al., 2021)

On the other hand, in order for the corporate tax exemption to achieve its objectives, it must target the relevant population with the appropriate forms. According to Youmbi\_Michel\_Etienne (2016), "Similar studies conducted for other regions of the world have revealed that as the major obstacles declared by investors are not in reality or at least they act indirectly on their decision to invest", hence a deep study is recommended to apprehend the direct and indirect impact of obstacles on the investment decisions of entrepreneurs in the region.

## **Conclusion**

In conclusion, despite the total exemption of the IS in the region of laayoune sakia el hamra, the obstacles to investment present a real problem that still persists. In this study, we have been able to identify the various constraints to investment and their impact on the investment decision. Note that the obstacle of the anticipated demand is of very weak impact on the decision to invest for the various sectors of activity as well as for the companies of various sizes, this explains that the region is very promising which suffers from the many constraints blocking as well the way of development of investment as the new model of development of the southern provinces. However, it could be more effective with measures that support investment development and improve the competitiveness of its enterprises by simplifying investment-related procedures, increasing transparency and strengthening governance of investment promotion policies (OECD, 2021). This paper is limited by the small size of the population, but can serve as a guide for future, more in-depth research on the impact of tax incentives on investment and firm growth. Similarly, there is a compelling need for further research on the effectiveness of public actions to address these investment barriers and achieve the desired objective of tax exemption.

## APPENDIX: The interview guide

Location: ..... Date: .....

Company name: .....

Phone number : .....

Email address : .....

Presentation of the company
Company name: .....
Phone number : .....
Email address : .....
Head office : .....
Location of your activity : .....
Type of company : <input type="radio"/> Very small company, <input type="radio"/> Small Modest company, <input type="radio"/> Large company

Q1. What is the function of the person completing this form? : .....

Q2: What is the size of your company?

Less than 10 employees

Between 10 and 49 employees

Between 50 and 249 employees

250 employees or more

Q3: What is the sector of activity of your company?

Food industry

Automotive

Construction / public works

Chemicals / parachemistry

Commerce / distribution / trading

Electronics / electricity

Studies and consulting

Information technology

Mechanics

Pharmacy

Other

Q4: Can you choose among these reasons, the one or the ones for which you chose to settle in this region?

Tax exemption from corporate income tax;

Other tax exemptions: .....

Other reasons : .....

Q5: Can you invest in the presence of Obstacles?

1 No

2 Yes, if yes, would you rank these obstacles according to the degree of importance of each

Q6: Barrier 1: Anticipated demand (these are the expectations of entrepreneurs about the future level of demand for their products)

Low impact      1          2          3          4          5      High impact

☐      ☐      ☐      ☐      ☐

Q7: Barrier 2: Factor costs (Factor costs are the total expenses incurred by firms to produce their output. They depend on the factors of production used)

Low impact      1          2          3          4          5      High impact

☐      ☐      ☐      ☐      ☐

Q8: Barrier 3: Profitability (the profitability of the investment compared to the cost of capital)

Low impact      1          2          3          4          5      High impact

☐      ☐      ☐      ☐      ☐

Q9: Barrier 4: Basic infrastructure (access to electricity, telecommunications and transport services)

Low impact      1          2          3          4          5      High impact

☐      ☐      ☐      ☐      ☐

Q10: Barrier 5: Competition and regulation (competition is the rivalry between several agents for the same market, regulation is the set of rules and other legal texts governing an activity)

Low impact      1              2              3              4              5      High impact

☐      ☐      ☐      ☐      ☐

Q11: Barrier 6: Financial constraints (recourse to loans or other sources of financing) rank this barrier according to its degree of importance?

Low impact      1              2              3              4              5      High impact

☐      ☐      ☐      ☐      ☐

Q12: Barrier 7: Corruption (the hijacking of a process) rank this barrier according to its degree of importance?

Low impact      1              2              3              4              5      High impact

☐      ☐      ☐      ☐      ☐



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