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The government releases a new strategy to tackle high unemployment following the release of official statistics that show the unemployment rate increased to 9.9% in 2014 from 9.2% in 2013. Haut Commissariat au Plan (high planning commission) statistics show that unemployment in the 15-24 age bracket is at 20.6%, rising to 39.9% in urban areas. The unemployment statistics show a weakness in Morocco's economic recovery despite positive reports of increased direct investment inflows in 2014. The HCP also forecasts growth to decrease to 2.6% in 2016 due to a poor projected harvest – which will increase unemployment in rural areas. PME Croissance (PMEC) a subsidiary of Tunisia-based AfricInvest buys into the Moroccan energy market through a stake in Platinum Power – a small-scale energy developer that United States-based fund Brookstone Partners owns.

Government unveils new jobs strategy as unemployment increases...

Employment and vocational training minister **Abdesalam Seddiki** unveiled a new strategy on 15 July to create more jobs in **Morocco**.¹ The opposition has routinely criticised the ruling **Parti de la Justice et du Développement (PJD)** for failing to address the continuing high rate of unemployment. Seddiki said that the strategy would create an extra 38,000 jobs per unit of gross domestic product (GDP).² The new strategy would achieve this by pushing through a number of pieces of legislation that either deregulate sectors in order to encourage growth, or themselves directly create jobs. It will focus on jobs for young people and recent university graduates who have the lowest rate of employment.³ It will also specifically focus on increasing female participation in the workforce, which currently stands at just 30%. The government has committed to increasing the percentage of women in the workforce to 45% by 2025.⁴

“They [the PJD government] didn't say how they intended to create jobs...this is a desperate ploy after the recent figures to appear to be on top of a problem that they have tried and failed to solve.”⁵

“The PJD can ride the wave of strong growth and decreased debt since 2011, however unemployment, along with a failure to reduce corruption, is their major economic weakness.”⁶

The PJD has already put a jobs strategy into action during its four years in government. It has actively lobbied to build the manufacturing sector in the automobile and aeronautics industry.⁷ **France**-based car manufacturer **Renault** opened the region's biggest car plant in 2012. **United States (US)**-based **Ford** started building a parts factory that will support thousands of jobs in 2015.⁸ **Canada**-based **Bombardier** started work on an aeronautics factory in 2013.⁹ The government argues that both the

¹ Morocco World News, 15 Jul 2015

² Morocco World News, 15 Jul 2015

³ Morocco World News, 15 Jul 2015

⁴ Morocco World News, 15 Jul 2015

⁵ Source, academic, Rabat

⁶ Source, journalist, Casablanca

⁷ MACP blog, 21 Jul 2015

⁸ MACP blog, 21 Jul 2015

⁹ Bombardier press release, 30 Sep 2013

direct employment and the indirect employment from the industries which support these facilities will help increase the number of Moroccans in work.¹⁰

However, the plan has yet to have a significant effect on the unemployment rate which continues to rise. The central bank, **Bank al-Maghrib (BAM)**, announced on 4 July that the unemployment rate increased by 0.7% to 9.9% in 2014 from 9.2% in 2013.¹¹ Unemployment is particularly high in the 15-24 age bracket where it is 20.6%.¹² The unemployment rate of 15-24 year olds in urban areas is higher at 39.9%. Rural areas are less affected as the good harvest in 2014 has created jobs.¹³ The rate of unemployment also gets higher among more qualified Moroccans – from 4.5% for unskilled workers, to 21.7% for workers with vocational skills and training, to 24.6% for university graduates.¹⁴ The BAM attributed the increase to the creation of just 21,000 jobs in 2014, the lowest number for 14 years.¹⁵ The low growth was due to a loss of 37,000 jobs in secondary industry and the stagnation of the construction and civil engineering sectors.¹⁶ The problem also arises from Morocco's higher education system which has low barriers to entry and a poor international record for producing adequately qualified candidates.¹⁷

...highlighting the precarious nature of Morocco's economy

The failure to create more jobs, or address the youth unemployment rate, shows the vulnerable underside of Morocco's recent economic growth. Positive economic reports on Morocco tend to focus on the direct investment flows as well as the rise of the financial sector. However, neither of these necessarily create jobs for Moroccans, especially not those who fall in the young and university educated category.

Morocco was Africa's third largest recipient of foreign direct investment (FDI) across 2014, **United Kingdom (UK)**-based consultancy **Ernst & Young (EY)** announced on 6 July.¹⁸ The country's continued economic growth and comparative political stability has made it an attractive destination for investment in the region. According to EY's **Africa Attractiveness Index 2015**, which measures investment inflows across the continent, Morocco had 67 direct investment deals across 2014, an increase of 52% on 2013.¹⁹ French companies were Morocco's leading external direct investors in 2014. The financial services and technology, media, and telecoms (TMT) were the favorite sectors for investment. EY claim that the reasons for the growth are Morocco's historic ties with **Europe** and its proactive FDI policy which sees frequent trade delegations court major investors for high profile projects.²⁰ However, these often create minimal jobs for Moroccans, and many companies bring in international staff for the higher paid management positions:

*"Economic stories tend to focus on direct investment inflows, and by that metric we have had a remarkable few years, many international companies have come to Morocco [foreign investment was \$34.4 billion in 2014] but they have not created jobs for Moroccans...joblessness and high poverty indicators remain among young people, particularly the urban youth."*²¹

Morocco's growth is also strongly tied to its agricultural performance. The **Haut Commissariat au Plan (HCP)** (high planning commission) forecast that growth will fall to 2.6% in 2016 due to a poor

¹⁰ MACP blog, 21 Jul 2015

¹¹ L'Economiste, 5 Jul 2015

¹² L'Economiste, 5 Jul 2015

¹³ L'Economiste, 5 Jul 2015

¹⁴ L'Economiste, 5 Jul 2015

¹⁵ L'Economiste, 5 Jul 2015

¹⁶ L'Economiste, 5 Jul 2015

¹⁷ Source, academic, Rabat

¹⁸ Morocco World News, 6 Jul 2015

¹⁹ Morocco World News, 6 Jul 2015

²⁰ Morocco World News, 6 Jul 2015

²¹ Source, academic, Rabat

projected harvest for 2016.²² The agriculture sector accounts for over 15% of Morocco's economy and the sector has grown 5% this year due to an agricultural haul of 11m tonnes.²³ Projections for GDP growth across 2015 remain at 4.3%, due to the exceptional harvest this year.²⁴ However the sector's activity will drop an estimated 3% next year. With regards to employment figures the current statistics for employment in rural areas are propped up by the good 2015 harvest. If the projected harvest figures are correct, the number of people employed in rural areas will fall next year. However the exceptional 2015 harvest will sustain government finances in 2016.

*"This year's harvest was so exceptional that growth had to fall in 2016...growth is a measure of increase, the gains of this year are not going to go away and the economic outlook is still positive."*²⁵

The government's ongoing employment strategy, bringing in foreign investment to create jobs, is also based on economic diversification. Current figures show that non-agricultural activity will continue to grow in 2016. The HCP predicted a 3.1% growth in 2016 following a 2.6% growth this year.²⁶ Key industries of automotive manufacturing, pharmaceuticals, and banking and financial services will drive this growth. However, this will only address the employment issue in the medium to long term. Other economic factors are positive. The current account gap will continue to fall to 3% of GDP in 2016 from 3.3% in 2015. Foreign currency reserves are projected to increase to cover 6.1 months of imports at the end of 2016 from 5.9 months at the end of 2015.²⁷ Morocco's debt load will increase from 63.8% of GDP in 2015 to 64.9% at the end of 2016, but much of this is spending on capital infrastructure projects that will generate value in the long run.²⁸

Africinvest buys into Moroccan energy developer

PME Croissance (PMEC) a subsidiary of **Tunisia-based AfricInvest** has bought into **Platinum Power**, a Morocco-based company developing energy projects in Morocco and across **sub-Saharan Africa**.²⁹ PMEC, which translates as 'small and medium enterprise (SME) growth', is an AfricInvest fund specialised in backing Moroccan companies with sales of less than \$100m.³⁰ PMEC purchased 2.7% of Platinum for \$4.26m on 21 July.³¹ The small investment is significant due to AfricInvest's role as one of the continent's most experienced investors. It manages \$1 billion in assets on the continent through 14 different funds.³²

*"PMEC is just one of AfricInvest's funds, their buy-in at this stage could be a precursor to more significant investments by one of the larger funds if [Platinum's] projects go well."*³³

PMEC manages \$44m in assets. AfricInvest launched the fund in 2012. Backers include the Moroccan state through state-owned lender **Caisse Centrale de Garantie**, the **European Investment Bank (EIB)**, French development fund **Proparco**, Qatar-based **Silatech** and Moroccan insurance firm **Saham**.³⁴ Platinum's majority shareholder is US-based fund **Brookstone Partners**.³⁵ It is based in Morocco's reduced tax zone: **Casablanca Finance City (CFC)**. It has a pipeline of over 1000MW of

²² HCP press release, 30 Jun 2015.

²³ L'Economiste, 30 Jun 2015.

²⁴ L'Economiste, 30 Jun 2015.

²⁵ Source, economist, Rabat.

²⁶ HCP press release, 30 Jun 2015.

²⁷ HCP press release, 30 Jun 2015.

²⁸ L'Economiste, 30 Jun 2015.

²⁹ Jeune Afrique, 21 Jul 2015

³⁰ Jeune Afrique, 21 Jul 2015

³¹ Jeune Afrique, 21 Jul 2015

³² AfricInvest website, 2015

³³ Source, management consultant, Casablanca

³⁴ PMEC website, 2015

³⁵ Platinum website, 2015

power projects in Morocco, **Côte d'Ivoire** and **Cameroon**.³⁶ Brookstone manages all of its Africa investments through its Morocco office.³⁷ The deal is the first joint investment between the major Africa and US based funds:

*"Deals where experienced African investors come in to internationally backed Africa-based businesses will become increasingly common...African PE [private equity] funds bring long experience of local operations which should translate into profit."*³⁸

Implications

The announcement of the jobs strategy is timed to precede the municipal elections scheduled for the autumn. The PJD-led government delayed municipal elections in February from June to September. The results of the municipal elections will be a strong indicator of the results of the country's next general election scheduled for 2016. The government came to power on a wave of popular sentiment following the July 2011 referendum. However, levels of trust in the government have declined over its term in office partly due to its inability to solve the issue of urban unemployment.

In order to comprehensively address unemployment, the PJD government needs to take on higher education. Universities have low barriers for entry and produce qualifications that most international employers consider unreliable. The government has instead opted to increase jobs for low-skilled workers, who make up more of their voter base. Higher skilled and better paid jobs will come as industries like pharmaceuticals develop, but critics of the government's policy argue that it will be too late for a generation of university graduates who lack the qualifications for either highly skilled or manual labour. Widespread unemployment not only has an economic impact, as the government has to support citizens outside of work, but can also lead to social unrest. Morocco has managed to remain stable following the unrest in 2011 through a carefully managed process of gradual reform. Large number of unemployed young people in cities could result in a repeat of demonstrations last seen four years ago.

Morocco is becoming a hub for regional and international financiers to come together to back new companies working across the continent. It is particularly important that funds are backing SME level companies as well as putting money into more secure development finance. Morocco's major corporates and institutions have already moved on emerging markets in sub-Saharan Africa. With the backing of major funds like AfricInvest and Brookstone a new generation of Morocco-based businesses could follow.

³⁶ Platinum website, 2015

³⁷ Brookstone website, 2015

³⁸ Source, management consultant, Casablanca

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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