

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing September 2018

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#### Morocco Summary 11 September 2018

*The government council passes a law reinstating compulsory military service for men and women aged 19 -25 in an attempt to further social cohesion and tackle high youth unemployment. King Mohammed VI (1999-present) pardons 889 people, including 188 Hirak protesters, but his failure to release movement head Nasser Zafzafi attracts foreign criticism. An Office des Changes (exchange office) report shows declining foreign direct investment in Morocco despite growing exports sustained by the automotive sector. The auditors' court releases a report underlining the low efficiency of government spending on social projects. France-based dairy company Centrale Danone, targeted by the May 2018 consumers' boycott, decreases its prices. The energy ministry opens the hydrocarbons distribution industry to competition.*

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#### Compulsory military service targets youth unemployment

The **Conseil du Gouvernement** (government council) examined and passed a proposal on 20 August to reinstate compulsory military service.<sup>1</sup> The deputy minister in charge of defence administration, **Abdellatif Loudiyi**, submitted the proposal on 17 August.<sup>2</sup> Although King **Mohammed VI** (1999-present) officially revoked military service in 2006, the latest move shows his attempt to provide a structure for youth, whose unemployment levels have caused concern.<sup>3</sup> In its August report, the **Conseil Economique, Social et Ecologique (CESE)** (economic, social and ecological council) recommended the establishment of civil service for all in order to further social integration and create a stronger national identity.<sup>4</sup> Military service will now be compulsory for 12 months for women and men between 19 and 25 years old.<sup>5</sup> The measure was accompanied by an education reform aiming to school children from four years old and making school compulsory until the age of 16 (currently 15).<sup>6</sup>

Unemployment has remained high since 2000, with a slow but constant growth. According to the **Haut Commissariat au Plan (HCP)** (national statistics institute), four out of ten young people in urban areas are unemployed.<sup>7</sup> The average unemployment level is 20%.<sup>8</sup> Approximately half of the youth works low paid jobs and have no social security.<sup>9</sup>

Unemployment is higher amongst the population with a university degree (16.5% at national scale, 18.6% in urban areas) than in the non-qualified population (2.9% at national level and 5.5% in urban areas), adding to youth frustration.<sup>10</sup> The government has been under

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<sup>1</sup> Jeune Afrique, 20 Aug 2018.

<sup>2</sup> Jeune Afrique, 20 Aug 2018.

<sup>3</sup> L'Economiste, 20 Aug 2018

<sup>4</sup> Jeune Afrique, 20 Aug 2018.

<sup>5</sup> L'Economiste, 20 Aug 2018

<sup>6</sup> France 24, 21 Aug 2018.

<sup>7</sup> France 24, 21 Aug 2018.

<sup>8</sup> France 24, 21 Aug 2018.

<sup>9</sup> France 24, 21 Aug 2018.

<sup>10</sup> L'Economiste, 20 Aug 2018.

increasing pressure to tackle the issue as ongoing demonstrations against poverty in north of the country spread.<sup>11</sup>

### King Mohammed VI grants Aid al Adha pardon to 889 prisoners

**King Mohammed VI** pardoned 889 prisoners on 22 August for the religious holiday of **Aid al Adha**, including 188 people arrested during the **Hirak Rif** protests. The Hirak Rif mass protest movement took place in the **Berber**-speaking **Rif** region in northern Morocco between October 2016 and June 2017 as a result of the death of **Mohcine Fikri**, a fishmonger who was crushed to death in a garbage truck after local authorities confiscated his allegedly illegal fish merchandise.<sup>12</sup> The protesters' trial was highly publicised and demonstrations took place calling on the king for mercy.<sup>13</sup>

Hirak leader **Nasser Zafzafi**, sentenced to 20 years imprisonment on 26 June, was not included on the list of those pardoned.<sup>14</sup> Zafzafi went on a hunger strike for six days, ending on 7 September, to protest prison conditions.<sup>15</sup> The hunger strike attracted criticism from abroad, notably from **The Netherlands** foreign minister, **Stef Blok**, who presented a report on the Hirak movement on 6 September to the Dutch parliament.<sup>16</sup> Morocco's foreign minister, **Nasser Bourita**, rejected the report, claiming it contained wrong facts and represented interference in Morocco's domestic affairs.<sup>17</sup> Blok had issued comments following his April meeting with Bourita, claiming that the government had failed to address the protesters' grievances.<sup>18</sup> Prime minister **Saad Eddine El Othmani** has also expressed solidarity with the remaining detained activists.<sup>19</sup>

Blok's comments could increase pressure on the king to pardon Zefzafi. The king's Aid al Adha pardon succeeded in diffusing social tension over the wave of arrests following the Hirak protest in the short run. However, if regional integration policies fail and youth unemployment remains high, social unrest and demonstrations are likely to continue.

### National statistics show decrease in FDI...

The **Office des Changes** (exchange office) published on 16 August its study of foreign direct investment (FDI) in Morocco.<sup>20</sup> FDI registered a 25.6% decrease end of July, representing a MAD4.33 billion (\$458.6m) loss compared to the seven first months of 2017.<sup>21</sup> Despite the decrease in FDI, Morocco's exports increased by 11.2% at the end of July, representing an additional MAD16.1 billion (\$1.7 billion) compared to export revenues during the same period in 2017.<sup>22</sup> Total exports reached MAD159.97 billion (\$16.9 billion) against imports of

<sup>11</sup> France 24, 21 Aug 2018.

<sup>12</sup> L'Economiste, 20 Aug 2018

<sup>13</sup> Jeune Afrique, 22 Aug 2018

<sup>14</sup> Jeune Afrique, 22 Aug 2018.

<sup>15</sup> Jeune Afrique, 22 Aug 2018.

<sup>16</sup> Morocco World News, 8 Sept 2018.

<sup>17</sup> Morocco World News, 8 Sept 2018.

<sup>18</sup> Morocco World News, 8 Sept 2018.

<sup>19</sup> Aujourd'hui, 19 Aug 2018.

<sup>20</sup> Aujourd'hui, 19 Aug 2018.

<sup>21</sup> Aujourd'hui, 19 Aug 2018.

<sup>22</sup> Aujourd'hui, 19 Aug 2018.

MAD178.27 billion (\$18.9 billion), a 9.8% increase.<sup>23</sup> The resulting trade deficit increased by 8% to reach MAD18.30 billion (\$1.9 billion) end of July.<sup>24</sup>

Good performance of the automotive sector drove export growth. Automotive sector exports reached MAD38.51 billion (\$4.1 billion) and were responsible for 34.7% of export growth.<sup>25</sup> Continued fast growth in the sector is expected as the **European Bank for Reconstruction and Development (EBRD)** announced on 6 September that it had granted a €16m (\$18.5m) loan to **Varroc Lighting Systems Morocco**, the local subsidiary of **India-based Varroc Company**.<sup>26</sup> The financing will allow Varroc Engineering to supply the **Tangier Renault and Peugeot PSA** factory in **Kenitra** and to set up a research and development centre.<sup>27</sup> The loan falls in line with the government's efforts to raise regional integration to 60% by 2020.<sup>28</sup>

The second best performing industry was agriculture and food products, reaching MAD38.48 billion (\$4.1 billion), up by 5%.<sup>29</sup> Phosphate and its derivatives increased by 15.1% end of July to record MAD29.23 billion (\$3.1 billion) in sales.<sup>30</sup> The aeronautic sector registered a 19.8% growth, while pharmaceutical products grew by 8% and textiles by 4.1%.<sup>31</sup> The high growth in imports was driven by purchases of equipment, energetic and finished products, which represented 72.8% of the increase in imports.<sup>32</sup>

The **Bank Al Maghrib (BAM)** (central bank) reported a MAD32 billion (\$3.4 billion) increase in demands for loans for equipment since 2016.<sup>33</sup> The increase follows five years of low demand for loans and does not represent a change from the 'wait-and-see' attitude of economic players. Public companies such as the national fertiliser company, **l'Office Cherifien des Phosphates (OCP)**, and the national railway company, **l'Office National des Chemins de Fer du Maroc (ONCF)**, were the main sources of demand.<sup>34</sup> Small and medium enterprises were absent from this growing demand, showing that government efforts to improve the confidence of heads of companies are still not resulting in increased private investment.<sup>35</sup> The slow private investment reflects the slow pace of reforms and the limited capacities of companies to adapt to economic changes.<sup>36</sup>

Decreasing economic growth has accompanied the weakening private investment. Economic growth averaged 4.7% annually from 2000-2008. However, a 3% decrease in non-agricultural growth between 2009 and 2017 has had a direct negative impact on employment.<sup>37</sup>

<sup>23</sup> Aujourd'hui, 19 Aug 2018.

<sup>24</sup> Aujourd'hui, 19 Aug 2018.

<sup>25</sup> Morocco World News, 7 Sept 2018.

<sup>26</sup> Morocco World News, 7 Sept 2018.

<sup>27</sup> Morocco World News, 7 Sept 2018.

<sup>28</sup> Morocco World News, 7 Sept 2018.

<sup>29</sup> Aujourd'hui, 19 Aug 2018.

<sup>30</sup> Aujourd'hui, 19 Aug 2018.

<sup>31</sup> L'Economiste, 16 Aug 2018

<sup>32</sup> L'Economiste, 17 Aug 2018.

<sup>33</sup> L'Economiste, 17 Aug 2018.

<sup>34</sup> L'Economiste, 17 Aug 2018.

<sup>35</sup> L'Economiste, 17 Aug 2018.

<sup>36</sup> L'Economiste, 17 Aug 2018.

<sup>37</sup> L'Economiste, 17 Aug 2018.

The government is likely to implement measures to attract foreign investment. It announced its intention to improve the business climate for investors on 3 September in **Beijing (China)** in front of several large Chinese companies.<sup>38</sup>

### ... as auditors' court underlines mismanagement in social projects

The **Cour des Comptes** (auditors' court) officially published its report on the government's performance in 2016 and 2017 on 27 August, underlining several issues in the health, pension and social housing sectors.<sup>39</sup> The auditors' court presented its report to the king at the end of July before being made public and was responsible in part for the dismissal of economy minister **Mohamed Boussaid** (see *ARC Briefing Morocco August 2018*).<sup>40</sup>

The report underlined the uneven distribution of social housing projects and the current deficit in terms of housing provided. The lower levels of income earners benefit less than others from the government's social housing policy.<sup>41</sup> The uneven distribution of wealth and growth across regions, income level and companies has been the centre of protests and criticisms.<sup>42</sup> Following the recent consumer boycott (see *ARC Briefing Morocco May – July 2018*) and demonstrations against unequal opportunity since 2016, the government is likely to make the expansion and diversification of investments a key priority.

The report also criticised the inefficiency of the **Agence Marocaine de Développement des Investissements et des exportations (AMDI)**, the organisation in charge of promoting investment.<sup>43</sup> The commissioners recommended that the AMDI, the **Office National Marocain du Tourisme (ONMT)** and national export entity **Maroc Export** be grouped under a single establishment.<sup>44</sup> The report blames the multiple bureaucratic layers at local and national level for the lengthy processes, in addition to technical issues.<sup>45</sup> From tourism to the export sector, diversification of projects and the number of beneficiaries from investments remain limited.<sup>46</sup>

The auditors' court report also underlined the failure of the special economic zones (SEZs) to attract investment. The zones are centralised on the same **Casa-Kenitra** axis, which discourages the entry of new investors.<sup>47</sup> The report shows that with the exception of the **Tangier Free Zone**, occupancy of the SEZs was weak as they offered fewer competitive fiscal incentives than those in **Turkey** and **Tunisia**, to which Morocco is losing investment.<sup>48</sup>

Mismanagement of airports and hospital investments has also resulted in the non-completion of long-term objectives and significant losses.<sup>49</sup>

<sup>38</sup> Maroc Diplomatie, 3 Sept 2018.

<sup>39</sup> L'Economiste, 17 Aug 2018.

<sup>40</sup> Jeune Afrique, 17 Aug 2018.

<sup>41</sup> Telquel, 27 Aug 2018.

<sup>42</sup> Telquel, 27 Aug 2018.

<sup>43</sup> L'Economiste, 17 Aug 2018.

<sup>44</sup> Jeune Afrique, 28 Aug 2018.

<sup>45</sup> Jeune Afrique, 28 Aug 2018.

<sup>46</sup> Jeune Afrique, 28 Aug 2018.

<sup>47</sup> Jeune Afrique, 28 Aug 2018.

<sup>48</sup> Jeune Afrique, 28 Aug 2018.

<sup>49</sup> Telquel, 27 Aug 2018.

### Danone and government address boycotters' concerns...

France-based dairy company **Centrale Danone**, targeted by a popular boycott along with water company **Sidi Ali** and forecourt retailer **Afriquia** (see *ARC Briefing Morocco May 2018*), announced a decrease in its prices on 17 August.<sup>50</sup> After four months of boycott resulting in a 50% decrease in sales, Centrale Danone said it would decrease the price of milk by MAD 60 cents (\$0.06) from 1 September.<sup>51</sup> The price decrease is expected to shake up the dairy industry as other actors will have to adapt to the new competitive prices. Not all competitors have Centrale Danone's capital.<sup>52</sup> The price decrease follows the emergency visit by Danone CEO **Emmanuel Faber** on 26 June during which he promised the company would not make profits on the product sales, but farmers and retailers would maintain their profits.<sup>53</sup>

The energy and mine ministry has also implemented some measures in reaction to the consumer boycott.<sup>54</sup> The ministry called for expressions of interest at the end of June for hydrocarbons distribution licences.<sup>55</sup> The move demonstrates the ministry's efforts to open up the sector in response to criticism of Afriquia's virtual monopoly.<sup>56</sup> Energy ministry hydrocarbons director **Mohamed Souleimani** said the ministry had granted agreements in principle to nine forecourt retailers on 7 September.<sup>57</sup> The increased competition is likely to benefit consumers.<sup>58</sup>

### Planner

Oct 2018: Election of president of **Chambre des Conseillers** (upper house of parliament)  
 2019: Election of president of the **Chambre des Représentants** (house of representatives, lower house of parliament)  
 2021: Legislative, regional and local elections

### Chronology

6 Sep 2018 **The Hague (Netherlands)** *Jeune Afrique*: Dutch foreign minister **Stef Blok** presents a report to parliament on Morocco's management of the **Hirak** protests;  
 6 Sep 2018 **Brussels (Belgium)** *Morocco World News* The **European Bank for Reconstruction and Development (EBRD)** grants a €16m (\$18.5m) loan to **Varroc Lighting Systems** to supply France-based automotive companies **Renault** and **Peugeot PSA** factory in Morocco;  
 27 Aug 2018 **Rabat (Morocco)** *L'Economiste*, The auditors' court publishes an annual report highlighting mismanagement of projects and policies in the health, pension and social housing sector;

<sup>50</sup> *Jeune Afrique*, 17 Aug 2018.

<sup>51</sup> *Jeune Afrique*, 17 Aug 2018.

<sup>52</sup> *Jeune Afrique*, 17 Aug 2018.

<sup>53</sup> *Jeune Afrique*, 17 Aug 2018.

<sup>54</sup> *Telquel*, 7 Sept 2018.

<sup>55</sup> *Telquel*, 7 Sept 2018.

<sup>56</sup> *Telquel*, 7 Sept 2018.

<sup>57</sup> *Telquel*, 7 Sept 2018.

<sup>58</sup> *Telquel*, 7 Sept 2018.

22 Aug 2018 **Rabat (Morocco)** *L'Economiste*: **King Mohammed VI** pardons 889 prisoners including 188 linked to the **Hirak** protest, but fails to pardon Hirak leader **Nasser Zafzafi**;

20 Aug 2018 **Rabat (Morocco)** *Jeune Afrique*: Government council passes proposal to reinstate military service for 19-25 year olds to foster social cohesion and address growing youth unemployment;

17 Aug 2018 **Rabat (Morocco)** *Jeune Afrique*: **France**-based leading dairy company **Centrale Danone** announces a decrease in milk prices that it says will not affect local producers;

16 Aug 2018 **Rabat (Morocco)** *Aujourd'hui*: The **Office des Changes** (exchange office) releases its report on foreign direct investment showing a decrease from 2017, but exports performing well;

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