

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing October 2018

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#### Morocco Summary 10 October 2018

*King Mohammed VI (1999-present) actively pursues a social agenda, launching the third phase of the Initiative de développement humain (INDH), a development programme aimed at promoting regional and social integration and tackling youth unemployment. The 2019 budget proposal submitted to the government underlines a socially oriented programme with increased expenditure on social projects and cuts in taxation on small and very small enterprises. The Bank Al Maghrib (BAM) (central bank) reports slower but sustained growth for 2018 and 2019. A study of the consumer boycott reveals the extent of financial losses and that political forces appeared to shape the organisation of the movement. Morocco-based bank Banque Centrale Populaire (BCP) is in negotiations with France-based banking group BPCE to increase its footprint in Africa. Morocco and Russia discuss closer agricultural cooperation and the possibility of Russian investment in Morocco's logistics facilities and gas infrastructure in industrial zones.*

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#### Mohammed VI launches development programme to promote regional integration...

King **Mohammed VI** (1999-present) launched the third phase of the **Initiative de développement humain (INDH)** (human development initiative) for the period 2019-2023 at a ceremony in the royal palace in capital city **Rabat** on 19 September.<sup>1</sup> The third phase of the INDH has an MAD18 billion (\$1.9 billion) budget and aims to strengthen the progress made in the first two phases by supporting the younger generation.<sup>2</sup> Its four programmes include the reduction of the infrastructure and social services deficit, supporting lower income population segments, increasing youth revenues and integration, and supporting human development for future generations.<sup>3</sup> Interior minister **Abdelouafi Laftit** said the programme will be carried out in collaboration with local municipalities. Education minister **Said Amzazi** signed a convention to support schooling for children in poor rural areas, which includes preschool support, boarding school services and transport.<sup>4</sup>

The king supports efforts to decentralise power and responsibilities. Municipalities will have greater financial responsibility in 2019 and will see the introduction of a decree to control budget expenditures for more transparency and efficiency.<sup>5</sup> The INDH has three levels of competencies: the regional level, managing investment and employment matters; the provincial level, dealing with social issues and the communal level in charge of local outreach activities.<sup>6</sup> Municipalities will have to be result-oriented instead of assuming a purely executive role as the law implements a system of performance review.<sup>7</sup>

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<sup>1</sup> Telquel, 19 Sept 2018.

<sup>2</sup> Telquel, 19 Sept 2018.

<sup>3</sup> Telquel, 19 Sept 2018.

<sup>4</sup> Telquel, 19 Sept 2018.

<sup>5</sup> L'Economiste, 18 Sept 2018.

<sup>6</sup> L'Economiste, 18 Sept 2018.

<sup>7</sup> L'Economiste, 18 Sept 2018.

Through this initiative, the king and the government hope to address the general perception that some regions were left out of Morocco's economic growth. This resentment fuelled most of the social movements since the **Hirak** and **Rif** movements from 2016 onwards.<sup>8</sup> The initiative will also serve to diffuse the concentration of responsibility in the government in power, in turn reducing criticism and the risk of instability provoked by socially induced government changes.

The **2019 Finance Law** presented on 10 October to the government and the upper house of parliament shows alignment with the king's priority of promoting a more socialist agenda.<sup>9</sup> It also aims to promote small to very small enterprises, providing a decrease from 20% to 17.5% of tax on profits of MAD300,000 (\$31,774) and MAD1m (\$105,914).<sup>10</sup> The budget proposal includes a new social solidarity contribution for bigger companies, yet to be formalised.<sup>11</sup>

Government expenditure will reach MAD17.6 billion (\$1.9 billion), based on a \$70 oil barrel price and \$560 per gas tonne.<sup>12</sup> The government's wage bill will increase by MAD3.3 billion (\$349.5m) compared to the 2018 budget, and MAD7 billion (\$741.3m) will be added to the social policy budget.<sup>13</sup> Pension fund reform will benefit from an additional MAD1 billion (\$105.9m) compared to 2018, while MAD14 billion (\$1.5 billion) will be dedicated to advanced regionalisation.<sup>14</sup> To balance the budget deficit, the state will benefit from MAD12 billion (\$1.3 billion) from new financing mechanisms as well as from MAD5.4 billion (\$571.8m) in income tax revenue.<sup>15</sup>

### Central bank predicts sustainable but slower growth...

The **Bank Al Maghrib (BAM)** (central bank) announced its predictions for the Moroccan economy on 25 September, following its third 2018 trimester meeting.<sup>16</sup> Inflation is set to average 2.1% for the end of 2018 and decrease to 1.2% in 2019.<sup>17</sup> Inflation increased during the first months of 2018 compared to low levels in 2017 due to an increase in the price of food products.<sup>18</sup> The BAM forecasts the economy will continue to grow, albeit at a slower rate, with growth dropping from 4.1% in 2017 to 3.5% in 2018 and 3.1% for 2019.<sup>19</sup> The BAM decided to maintain the interest rate at 2.25%.<sup>20</sup> The stable and positive results announced by the bank suggest that no further monetary policy intervention is expected until the end of 2018.

BAM wali (head) **Abdellatif Jouahri** also announced the launch of Islamic bonds (sukuks) on 5 October, amounting to MAD1 billion (\$105.7m) over a five-year period, with a 2.66% annual revenue.<sup>21</sup> The issuance of sukuks will enable the treasury to diversify its financing sources, but more broadly will serve as reference for all financial actors, insurance

<sup>8</sup> L'Economiste, 18 Sept 2018.

<sup>9</sup> Al Huffington Post, 9 Oct 2018

<sup>10</sup> Al Huffington Post, 9 Oct 2018.

<sup>11</sup> Al Huffington Post, 9 Oct 2018.

<sup>12</sup> Al Huffington Post, 9 Oct 2018.

<sup>13</sup> Al Huffington Post, 9 Oct 2018.

<sup>14</sup> Al Huffington Post, 9 Oct 2018.

<sup>15</sup> Medias24, 10 Oct 2018.

<sup>16</sup> Challenge, 25 Sept 2018

<sup>17</sup> Challenge, 25 Sept 2018

<sup>18</sup> Challenge, 25 Sept 2018

<sup>19</sup> Challenge, 25 Sept 2018.

<sup>20</sup> Challenge, 25 Sept 2018.

<sup>21</sup> La Tribune, 8 Oct 2018.

companies, and pension funds.<sup>22</sup> This is likely to improve commercial credit dynamics, which have been slow since the economic crisis of 2008 and negatively impacted by tightening bank loans.<sup>23</sup>

Jouahri mentioned the continued effort to shift away from cash, with a focus on mobile money.<sup>24</sup> Digital currency has a direct impact on the country's "doing business" ranking, and is key to attracting foreign investment.

### Reports show financial and political impact of consumer boycott ...

Financial results for two of the companies targeted by the consumer boycott in May 2018 show the impact of the boycott on first semester sales and profits (see *ARC Briefing Morocco May 2018*). **France**-based dairy company **Centrale Danone** announced on 19 September a 19% decrease in revenue during the first six months of 2018, representing a MAD115m (\$12.16m) loss.<sup>25</sup> However, the loss was lower than anticipated in June 2018.<sup>26</sup> Centrale Danone recorded consolidated revenue of MAD2.61 billion (\$276m) in the first semester, a 19% decrease compared to the same period in 2017 when revenue was MAD3.22 billion (\$340.5m).<sup>27</sup> Morocco-based water company **Eaux Minerales d'Oulmes** published its financial statements on 20 September, showing a decrease of 17.8% in sales during the first semester in 2018.<sup>28</sup> The company, a subsidiary of the group **Holmarcom**, registered MAD738m (\$78m) in revenue for the first six months of 2018, while the gross result for the group overall decreased by 87.9%, to MAD9.74m (\$1m).<sup>29</sup>

Analysis of the boycott a few months after its emergence appears to show that two different forces drove the movement. The boycott against Centrale Danone was largely economic, born out of the increasing prices of consumer goods.<sup>30</sup> However, the boycott against Les Eaux Minerals d'Oulmes and forecourt retailer chain **Afriquia** appeared to be both economic and political. France-based consultancy **Influence Data & Strategy (IDS Partners)** released on 11 September the results of a study that analysed social media accounts with regard to the boycott.<sup>31</sup> The analysis revealed that a large number of the accounts supporting the boycott were affiliated to more conservative and religious political views, suggesting the involvement of a political group. Rumours have circulated in Morocco that opponents of the **Rassemblement National des Indépendants (RNI)** were responsible for the escalation of the boycott. RNI president **Aziz Akhannouch** is the owner of Afriquia. Continuing animosity between Akhannouch and former prime minister **Abdelilah Benkirane** of the Islamist **Parti Justice et Développement (PJD)** gives credibility to the claim, but so far there has been no validation of the rumours of political motivation.<sup>32</sup>

### Morocco expands international trade footprint ...

Morocco-based bank **Banque Centrale Populaire (BCP)** announced on 25 September the start of the negotiation process with France-based banking group **BPCE**, regarding BCP's

<sup>22</sup> La Tribune, 8 Oct 2018.

<sup>23</sup> La Tribune, 8 Oct 2018.

<sup>24</sup> Medias 24, 25 Sept 2018

<sup>25</sup> Telquel, 19 Sept 2018.

<sup>26</sup> Telquel, 19 Sept 2018.

<sup>27</sup> Telquel, 19 Sept 2018.

<sup>28</sup> Le Desk, 3 Oct 2018.

<sup>29</sup> Le Desk, 3 Oct 2018.

<sup>30</sup> Le Desk, 3 Oct 2018.

<sup>31</sup> Le Desk, 3 Oct 2018.

<sup>32</sup> Le Desk, 3 Oct 2018.

acquisition of BPCE's shares in four **African** banks.<sup>33</sup> The participation ranges from a 68.5% share in **Cameroon's** third largest bank, **Banque Internationale du Cameroun pour l'Epargne et le Credit (BICEC)** and a 71% share in **Madagascar's** fourth largest bank, **Banque Malgache de l'Ocean Indien (BMOI)**.<sup>34</sup> BCP is also set to acquire 100% of the **Banque Commerciale Internationale (BCI)**, the fourth largest bank in the **Democratic Republic of the Congo (DRC)**, and 60% of the **Tunisian-Kuwaiti** bank, **Banque Tuniso-Koweitienne (BTK)**.<sup>35</sup> Combined, the four banks own 117 branches and business centres, 1,886 collaborators and their net banking income amounted to MAD2 billion (\$211.6m) at the end of 2017.<sup>36</sup> The series of acquisitions follows the purchase of **Mauritius**-based **Banque des Mascareignes**, which enlarged BCP's presence in Africa to 17 countries.<sup>37</sup>

In a further sign of increasing international trade, **Russian** agriculture minister **Dmitry Patrushev** announced on 4 October that three Russian oil companies, **Gazprom**, **Novatek** and **Stroytransgaz**, are considering building logistics facilities and gas infrastructure in Morocco's industrial zones.<sup>38</sup> The three companies shared their plans to create Moroccan-Russian companies to operate in mechanical engineering, electrical appliances and lubricants.<sup>39</sup> This followed Moroccan energy minister **Aziz Rebbah's** announcement on 1 October that 80 companies manifested their interest for tenders issued for the **Jorf Lasfar** liquefied natural gas (LNG) field, worth \$4.5 billion.<sup>40</sup> Patrushev said a draft agreement on international road transportation will be signed between the two countries. Both countries are looking at signing a cooperation agreement for civil nuclear energy.<sup>41</sup>

Morocco and Russia met earlier in October to discuss agricultural cooperation, in light of increasing Morocco's exports to Russia, which are estimated at MAD1.5 billion.<sup>42</sup> Prime minister **Saadeddine El Othmani** and Patrushev discussed their aim to diversify trade relations, underlining the importance of agricultural products and Morocco's trade deficit.<sup>43</sup> In 2017, Morocco exported MAD1.5 billion (\$158.6m) of agricultural products to Russia, representing 77% of its global exports, while agricultural imports from Russia reached MAD1.1m (\$116,344).<sup>44</sup> During the first eight months of 2018, commercial trade between Morocco and Russia doubled compared to 2017, reaching \$900m, with agricultural products responsible for a \$90m increase.<sup>45</sup>

The increasing level of trade between Morocco and Russia is likely to strain the trade relationship between France and Morocco, particularly with regard to cereal imports. Despite a good agricultural year, Morocco remains a net importer of cereals. French cereal imports to Morocco used to account for 50% before dropping to less than 10%. From Morocco's perspective, there is also a diplomatic component. Morocco is keen to have Russia's support in its on-going dispute over the **Western Sahara**, a region that Morocco claims is part of its kingdom. On 27 April, Russia was among three countries that voted against a **United Nations**

<sup>33</sup> Medias 24, 25 Sept 2018.

<sup>34</sup> Medias 24, 25 Sept 2018.

<sup>35</sup> Medias 24, 25 Sept 2018.

<sup>36</sup> Medias 24, 25 Sept 2018.

<sup>37</sup> Medias 24, 25 Sept 2018.

<sup>38</sup> Morocco World News, 9 Oct 2018

<sup>39</sup> Morocco World News, 9 Oct 2018

<sup>40</sup> Morocco World News, 9 Oct 2018

<sup>41</sup> Les Ecos 8 Oct 2018.

<sup>42</sup> Morocco World News, 9 Oct 2018

<sup>43</sup> Morocco World News, 9 Oct 2018

<sup>44</sup> Les Ecos 8 Oct 2018.

<sup>45</sup> Les Ecos 8 Oct 2018.

**Security Council (UNSC) Resolution** to renew the mandate of the **Mission des Nations Unies pour l'organisation d'un référendum au Sahara occidental (MINURSO)** in the Western Sahara (see *ARC Briefing Morocco May 2018*).<sup>46</sup> Russia has consistently supported the Western Sahara's separatist movement, the **Polisario Front**, at the UNSC.

### Planner

Oct 2018: Election of president of **Chambre des Conseillers** (house of councilors, 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

10 Oct 2018 **Rabat (Morocco)** *Al Huffington Post*: The 2019 finance law presented to the government and the upper house of the parliament shows emphasis on social expenditures;

5 Oct 2018 **Rabat (Morocco)** *Medias 24*: **Bank al Maghrib** (central bank) head **Abdellatif Jouahri** announces launch of Islamic bonds (sukuk) reaching MAD1 billion (\$105.7m) and states need to move away from cash-based payments to exploit the growth of mobile money;

4 Oct 2018 **Moscow (Russia)** *Morocco World News*: Russian agriculture minister **Dmitry Patrushev** announces that three Russian oil companies, **Gazprom**, **Novatek** and **Strovtransgas** are looking into investing into Morocco's gas infrastructure;

25 Sep 2018 **Rabat (Morocco)** *Medias 24*: Moroccan bank **Banque Centrale Populaire (BCP)** announces the initiation of negotiation process with **France**-based banking group BPCE regarding the acquisition of BPCE's shares in four **African** banks;

25 Sep 2018 **Rabat (Morocco)** *Jeune Afrique*: **Bank al Maghrib** (central bank) publishes new economic predictions for the country showing inflation reaching 2.1% for 2018 and decreasing to 1.2% in 2019;

20 Sep 2018 **Rabat (Morocco)** *Telquel*: Morocco-based water company **Les Eaux Minérales d'Oulmes**, targeted by consumer boycott initiated in May 2018, announces a 17.8% decrease in sales during 2018 first semester;

19 Sep 2018 **Rabat (Morocco)** *Telquel*: **King Mohammed VI** (1999-present) officially launches third phase of \$846m **Initiative de développement humain (INDH)** (human development initiative) until 2023, which aims to reduce infrastructure and social deficit and increase regional integration;

19 Sep 2018 **Paris (France)** *Telquel*, France-based dairy company **Centrale Danone**, targeted by the consumer boycott initiated in May 2018, announces a 19% decrease in revenue during 2018 first semester, representing a \$12.16m loss, which was lower than initially expected;

<sup>46</sup> Le Matin, 27 Apr 2018.

11 Sep 2018 **Paris (France)** *Le Desk*: France-based **Influence Data & Strategy (IDS Partners)** analysis of consumer boycott shows that majority of **Twitter** followers of the boycott were politically affiliated to Islamist parties;

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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