OECD Economic Surveys
MOROCCO
ECONOMIC ASSESSMENT

SEPTEMBER 2024

OECD

LAUNCH VERSION

OECD Economic Surveys: Morocco 2024

ECONOMIC ASSESSMENT

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Please cite this publication as:
OECD (2024), *OECD Economic Surveys: Morocco 2024: Economic Assessment*, OECD Publishing, Paris,
https://doi.org/10.1787/80777ea7-en.

ISBN 978-92-64-56992-8 (print)
ISBN 978-92-64-42306-0 (PDF)
ISBN 978-92-64-34583-6 (HTML)
ISBN 978-92-64-42683-2 (epub)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

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Foreword

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. This Survey is part of the OECD Morocco Country Programme 2 and is the first OECD Economic Survey of Morocco. The cut-off date for data used in the Survey is 30 June 2024.

The economic situation and policies of Morocco were reviewed by the Committee on 9 July 2024, with the participation of a delegation of representatives of the Moroccan authorities, led by Mr. Adil HIDANE, Director of Studies and Financial Forecasts at the Ministry of Economy and Finance. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 1st August 2024. The Survey has been compiled and revised in close collaboration with senior representatives from national official institutions including the Head of Government Office; Bank Al-Maghrib (Central Bank); Economic, Social and Environmental Council (CESE); Competition Council; Ministry of Foreign Affairs, African Cooperation and Moroccans Living Abroad; Ministry of Economy and Finance; Ministry of National Education, Preschool and Sports; Ministry of Industry and Trade; Ministry of Solidarity, Social Integration and Family; Ministry Delegate to the Head of Government, in charge of Investment, Convergence, and Evaluation of Public Policies; Office des Changes; Moroccan Micro, Small and Medium-sized Enterprises Observatory (OMTPME); and National Agency for the Promotion of Employment and Skills (ANAPEC).

The Secretariat's draft report was prepared for the Committee by Margit MOLNAR, Michael ABENDSCHEIN, Taoufik ABBAD, Abdenbi EL ANSARY, Peter JARRETT, Badr LAZRAK, Cyrille SCHWELLNUS, and Jen-Hsuan (Paul) YU, under the supervision of Sebastian BARNES. It benefited from comments provided at various stages by Luiz DE MELLO, Isabell KOSKE, Gizem GERGIN, and Sebastien TURBAN (Economics Department) as well as experts in the Centre for Entrepreneurship, SMEs, Regions and Cities, Centre for Tax Policy and Administration, OECD Development Centre, Financial and Enterprise Affairs, Education and Skills, Employment, Labour and Social Affairs, Environment, Public Governance, Global Relations and Cooperation, Science, Technology and Innovation, and Trade and Agriculture Directorates. Statistical research assistance was provided by Mafalda TRINCAO and Lutécia DANIEL and editorial support was provided by Jean-Rémi BERTRAND.

After successfully implementing the first phase of the Morocco Country Programme (2015-2019), the Secretary-General of the OECD and the Head of Government of the Kingdom of Morocco signed the Memorandum of Understanding for the second phase in June 2019. The Morocco Country Programme 2 is designed to support the implementation of Morocco's New Development Model, a visionary blueprint designed to accelerate sustainable growth, foster social equity, and position the country as a competitive force in the global economy of tomorrow. The Country Programme focuses on four pillars: i) improving public governance and tackling corruption; ii) making Morocco a more attractive place to invest and improving competitiveness; iii) fostering a more inclusive society by supporting education and the economic empowerment of women; iv) unlocking the potential of Morocco's regions. It comprises of 15 projects spanning 6 OECD Directorates.

The Economic Desk and Survey project was launched in the framework of the second phase of the Country Program, coordinated by the Head of Government Office, by Mrs Nadia FETTAH, Minister of Economy and Finance, on 20 February 2023 and under her supervision.

On the Moroccan side, Dr. Ahmed Khalid BENOMAR, Senior Advisor at the Ministry of Economy and Finance, coordinated the preparation of this Economic Survey. The Economics Department country desk visited Morocco a number of times, including the Tanger-Tétouan-Al Hoceima region, and met with a wide range of Moroccan officials as well as representatives of the social partners, the private sector, academics, and country-based experts. Information about the latest as well as previous Surveys and more details about how Surveys are prepared are available at www.oecd.org/eco/surveys .

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BASIC STATISTICS OF MOROCCO, 2023

(Numbers in parentheses refer to the OECD average)[1]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	37.8		Population density per km²	84.8	(39.2)
Under 15 (%)	26.3	(17.0)	Life expectancy at birth (years, 2022)	75.0	(79.6)
Over 65 (%)	8.0	(18.3)	Men (2022)	72.9	(77.0)
International migrant stock (% of population, 2019)	0.3	(13.2)	Women (2022)	77.2	(82.4)
Latest 5-year average growth (%)	1.0	(0.4)	Latest general election	September 2021	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	143.96		Agriculture, forestry and fishing	13.4	(2.8)
In current prices (billion MAD)	1 463.4		Industry including construction	26.5	(27.2)
Latest 5-year average real growth (%)	1.6	(1.6)	Services	60.1	(70.0)
Per capita (thousand USD PPP)[3]	9.7	(59.0)			
GENERAL GOVERNMENT (Per cent of GDP)					
Expenditure (2022)	34.1	(42.8)	Gross financial debt (2023, OECD:2022)	69.5	(113.1)
Revenue (2022)	28.7	(39.5)	Net financial debt (2022)	71.1	(67.3)
EXTERNAL ACCOUNTS					
Exchange rate (MAD per USD)	10.13		Main exports (% of total merchandise exports, 2022)		
PPP exchange rate (USA = 1, 2022)	3.66		Chemicals	24.6	
In per cent of GDP			Transportation	18.2	
Exports of goods and services	44.0	(31.3)	Machinery and electronics	15.3	
Imports of goods and services	52.3	(31.5)	Main imports (% of total merchandise imports, 2022)		
Current account balance	-0.6	(-0.3)	Fuels	20.8	
Net international investment position	-54.1		Machinery and electronics	16.1	
			Transportation	9.8	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	38.0	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	13.0	(4.8)
Men	61.1	(65.5)	Youth (aged 15-24, %)	30.3	(10.6)
Women	15.5	(50.8)	Long-term unemployed (1 year and over, %)	8.6	(1.2)
Participation rate (aged 15 and over, %)	43.6	(60.9)	Tertiary educational attainment (aged 25-64, %, 2020, OECD: 2022)[2]	13.5	(40.7)
Mean weekly hours worked (2022, OECD: 2023)	44.0	(37.3)	Gross domestic expenditure on R&D (% of GDP, 2010, OECD: 2021)	0.7	(2.9)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022)	0.6	(3.8)	CO_2 emissions from fuel combustion per capita (tonnes, 2021, OECD: 2022)	1.8	(7.8)
Renewables (%, 2022)	9.0	(12.0)	Renewable internal freshwater resources per capita (1 000 m³, 2020)	0.8	
Exposure to air pollution (more than 10 μg/m³ of PM 2.5, % of population, 2020)	99.8	(56.5)	Municipal waste per capita (tonnes, 2015, OECD: 2022)	0.2	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2013, OECD: latest available)	0.395	(0.315)	Education outcomes (PISA 2022 score)		
Poverty gap at USD 3.65 a day (2017 PPP, %, 2013)	2.2	(0.0)	Reading	339	(476)
			Mathematics	365	(472)
Public and private spending (% of GDP)			Science	365	(485)
Health care (2021, OECD: 2022)	5.7	(9.2)	Share of women in parliament (%)	24.3	(32.8)
Pensions (2022, OECD: 2019)	4.9	(9.5)	Net official development assistance (% of GNI, 2021, OECD: 2023)	0.8	(0.4)
Education (public spending, % of GNI, 2021)	5.2	(4.4)			

[1] The year is indicated in parenthesis if it deviates from the year in the main title of this table. When the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

[2] For Morocco, data refers to aged 15-64.

[3] OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.


IGA
BMCI

Executive Summary

Morocco’s robust recovery continues, despite the earthquake and droughts

Growth has rebounded from the pandemic and the energy crisis, despite the 2023 earthquake and droughts. Morocco has embarked on major reforms to encourage investment and to enhance social protection, but a stronger convergence path will be needed to achieve the vision in the New Development Model.

Economic activity continues to recover, driven by consumption, investment, and robust export performance. Strong investment is being driven by high capacity utilisation and will be spurred by government incentives under the new *Charte de l’Investissement*. Inflation has declined as food prices have moderated, creating room to ease policy interest rates in June 2024. Financial risks appear under control due to robust bank capital buffers and adequate provisioning, though non-performing loans are elevated.

Morocco has benefitted from a stable macroeconomic regime. The deficit is narrowing following the pandemic and energy crisis and the government debt ratio is around 70% of GDP. Active fiscal policy helped manage recent shocks to the economy, but the deficit is now narrowing as the economy recovers and with significant but broadly offsetting measures on both spending and taxation. Existing plans to reduce the deficit to 3% by 2026 should be implemented. A new fiscal rule should be based on a medium-term debt target and an expenditure rule to help manage future spending pressures.

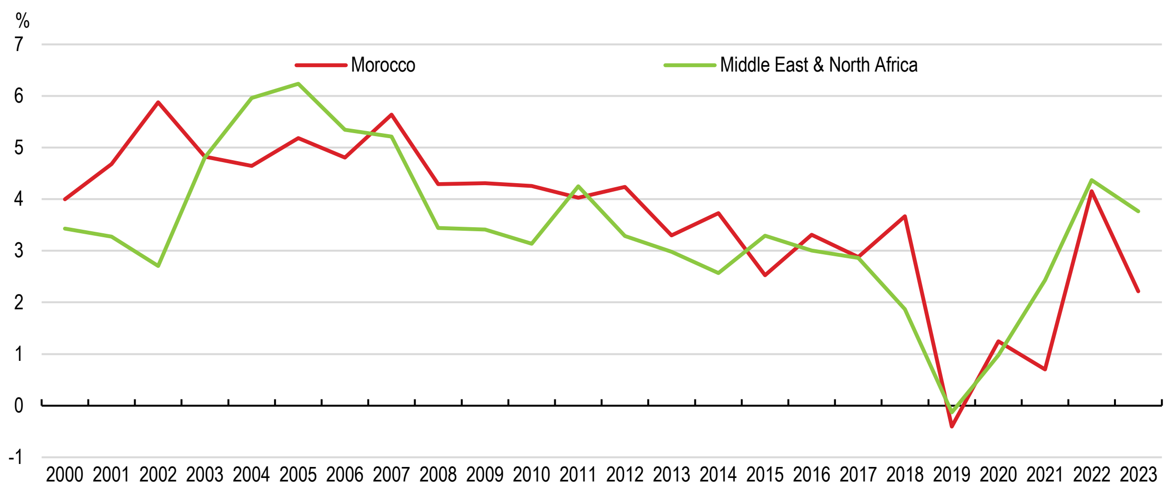
Reforms have extended health insurance coverage and social assistance, replacing some energy subsidies. This will improve the lives of many Moroccans, while making social support more effective.

To finance reforms and broaden the tax base, informality needs to be reduced and specific revenues could be increased. Improving incentives in the tax-benefit system by lowering contribution rates for lower-income earners, moving transactions online and strengthening tax enforcement would bring in additional revenue, allowing for reductions in some rates. Royalties from mining and dividends from state-owned enterprises are currently low. Additional revenues could be raised from taxes on emissions.

The range of high-quality, timely statistics and data is low compared to international best practices, which complicates the implementation of well-designed policies. The statistical system should be re-organised and investment made to improve the availability of timely and high-quality statistics.

Figure 1. Growth should be strengthened

3-year change in GDP at market prices



Source: World Bank World Development Indicators database.

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Table 1. The economy is gaining momentum

	2022	2023	2024	2025
Real GDP at market prices (annual percentage change)	1.5	3.4	3.5	4.0
Consumer price index (% change)	6.6	6.1	2.3	2.0
Central government budget balance (% of GDP)	-5.4	-4.3	-4.0	-3.5
Central government gross debt (% of GDP)	71.5	69.5	68.9	68.2
Current account balance (% of GDP)	-3.6	-0.6	-2.5	-2.9

Source: OECD Economic Outlook 115 database and updates.

Further policy measures would support efforts to boost productivity

Labour productivity has been increasing and FDI flows have been strong, but domestic private investment is low, and Moroccan firms face obstacles in performing better.

Morocco's labour productivity gap with the frontier remains large, although it has narrowed. Multinationals in a few sectors drive manufacturing productivity, but linkages with the local economy could be strengthened. Local value-added remains focused on less sophisticated activities. Moroccan firms are internationally competitive in a decreasing number of products and export less high-tech, though more medium-high-tech goods than in the past. Widespread informality and small firm sizes set back productivity growth.

Investment by the public sector and state-owned enterprises (SOEs) has been strong, and the new Charte de l'Investissement aims to raise private investment through subsidies and measures to improve business conditions. While infrastructure is relatively good, capital formation has been dominated by the public sector and investment efficiency has been low. Public sector investment should be better targeted and managed. New incentives and supporting measures, such as providing land and improving the business climate, aim to raise private investment. Ensuring that incentives are balanced between new and established sectors would help broaden the industrial base.

Efforts have been made to improve the business climate. The Competition Council has been strengthened. SOEs play a significant role in the economy and their governance could be further strengthened in line with on-going reforms to ensure a level playing field.

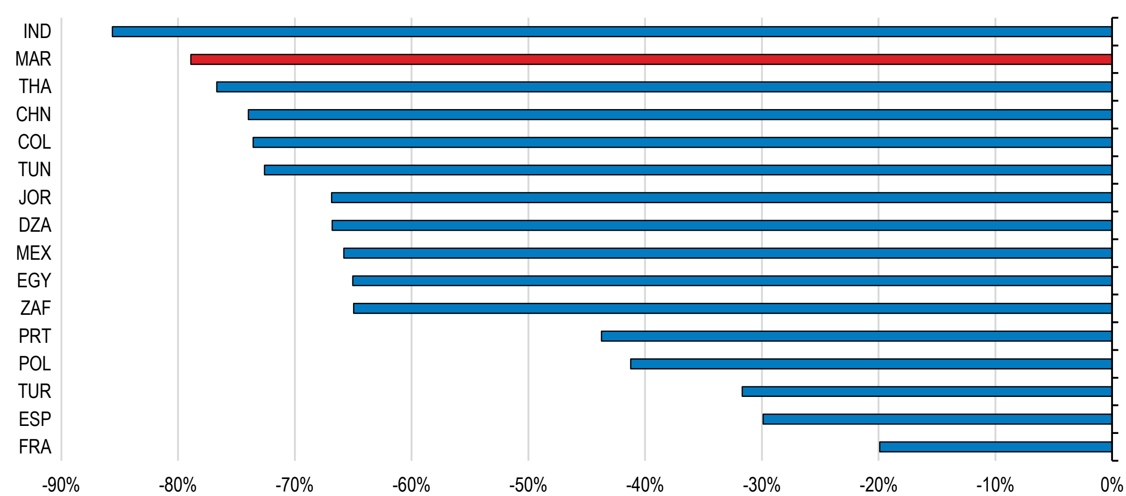
The anti-corruption framework has been strengthened, but more can be done. Firms report bribes adding to transaction costs in interactions with the public administration. Continuing efforts to tackle corruption and making further progress to move transactions online would reduce the scope for corruption.

Innovation activity and spending are low and the take-up of digital technologies by Moroccan firms and workers is slow. Ensuring continuing competitive internet access, greater consumer protection in e-commerce and targeted digital training for workers would help to make the most of new digital opportunities. Developing better support for innovation would help create new business opportunities.

Skills and educational outcomes should be reinforced to support a more productive economy. Basic literacy and numeracy skills have improved, but educational outcomes remain relatively weak and many young people still leave school at an early age. A major reform to the school system is underway to improve teaching. A workplace-based vocational and more market-oriented tertiary education would better prepare young people for the labour market and improve the match of supply to skills needs.

Figure 2. The labour productivity gap is large

Percentage gap with respect to the USA in GDP per person employed, 2022



Note: In constant 2017 PPP $.
Source: OECD calculations based on World Bank World Development Indicators database.

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More high-quality formal jobs and higher participation would raise living standards

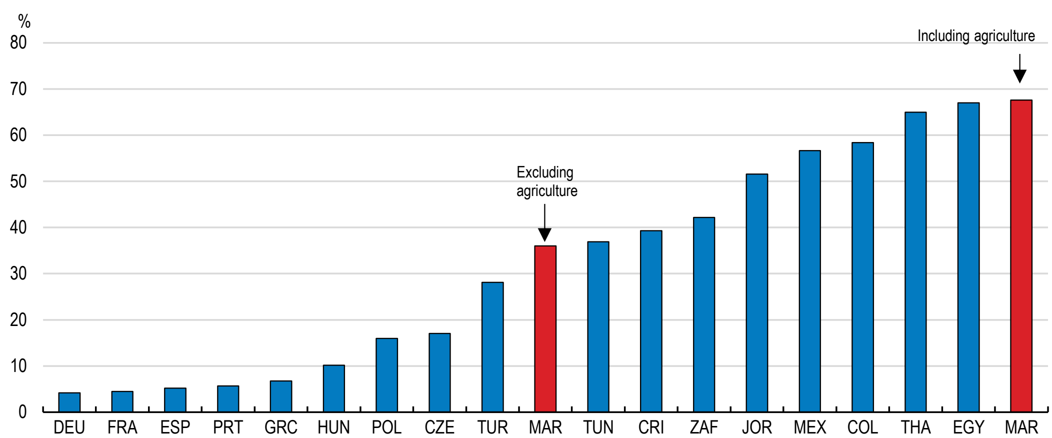
Morocco's young population is an asset, but the labour market suffers from informality, high youth unemployment and low female employment. Emigration is significant.

Major reforms are under way to extend social insurance and tackle widespread informality that leads to low wages, poor-quality jobs and weak skills. Informal firms and employment are particularly common in low-skilled and more rural settings. Past reforms formalised some activities by recognising self-employment and entrepreneurs. On-going reforms extend social assistance and health insurance, alongside registration with a new social register, which could be linked with the employment agency to facilitate transition to work and improve matching. An integrated approach is needed to improve incentives for workers and businesses to formalise and strengthen enforcement and sanctions over time. Lowering social contribution rates for low-income workers, taking into account the impact on formalisation when setting the minimum wage and easing strict employment protection legislation would help.

There is scope to better integrate women and young people in the labour market. The participation rate of women is low and has been declining. A range of measures including better access to finance, reducing discrimination and tackling gender stereotypes would help strengthen women's role in the labour market. Extending subsidised childcare to children of younger ages would help women to work. Youth unemployment is high, including for new graduates. Streamlining the range of active labour market policies and strengthening activation requirements would help young people to find work.

Figure 3. Informality is widespread

Share of informal employment



Note: See Chapter 3 for full notes.
Source: ILO Labour Force Statistics; Haut-Commissariat au Plan.

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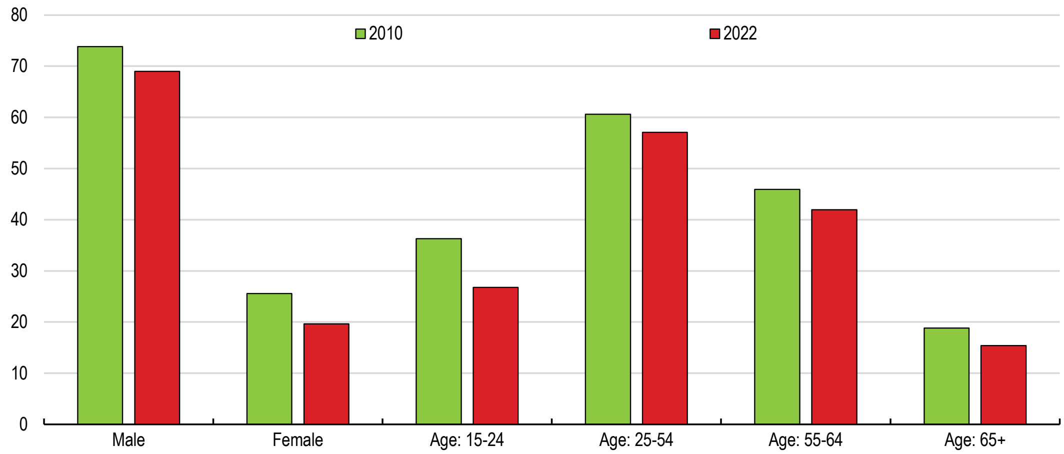
Figure 4. Most women and youth are inactive

Labour force participation rates



Note: Labour force divided by population groups.
Source: ILO Labour Force Survey.

StatLink https://stat.link/jmdwef

Stronger climate policies are needed, including to deal with water stress

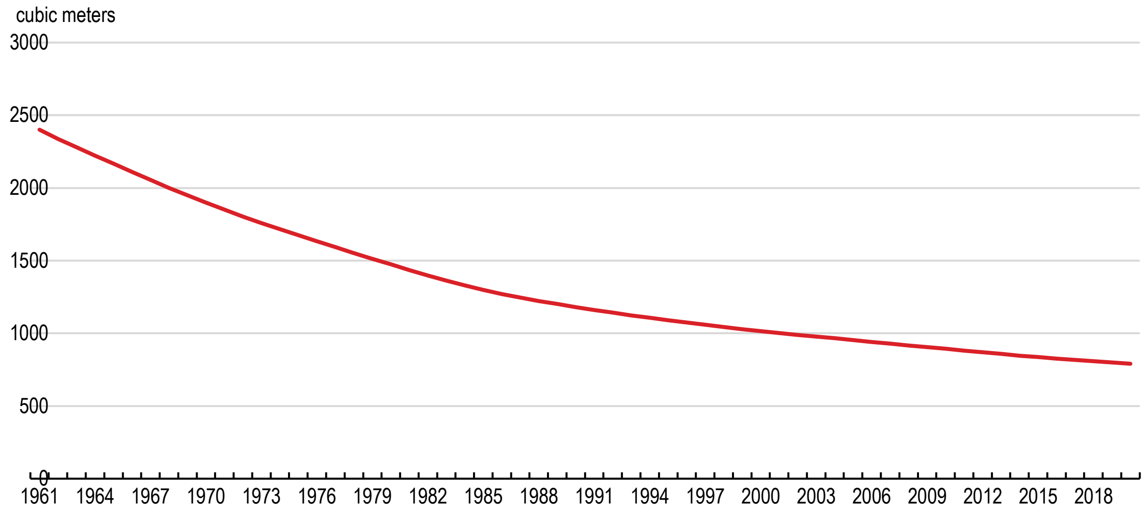
Morocco has made an ambitious commitment to reduce carbon emissions by 45% by 2030 compared to 2010 and to net zero by 2050, benefiting from the country's potential for renewables-based generation. However, the country is vulnerable to climate change and already faces significant water stress.

While Morocco currently has fairly low per capita emissions, these would rise significantly in a business-as-usual scenario as the economy grows. The government should implement the climate transition measures set out in the net zero to 2050 strategy. A broad-based approach to carbon pricing and taxation, backed by regulations and supports at sectoral level as needed, would help deliver the climate transition in an efficient way, including by raising taxes on motor fuels over time.

Water, which is largely consumed by agriculture, is increasingly scarce as average rainfall has declined and will be challenged further as urbanisation and industry develops. Hydrological tensions are exacerbated by the low price of water for users. Alongside existing efforts to improve the infrastructure, water prices should be raised to reflect the cost of providing it and its scarcity, while taking into account social impacts.

Figure 5. Water scarcity is a growing concern

Renewable freshwater resources per capita



Source: World Bank World Development Indicators database.

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MAIN FINDINGS	KEY RECOMMENDATIONS
Managing fiscal reforms while maintaining macroeconomic stability	
Inflation has eased but remains sensitive to food and energy prices.	Continue the gradual move towards an inflation targeting framework and resume preparations towards a more flexible exchange rate regime.
The budget balance is improving as temporary support measures are withdrawn with broadly offsetting revenue and expenditure measures.	Implement existing fiscal plans to 2026 to modestly narrow the deficit. Replace the golden rule with a medium-term debt target and consider an expenditure rule to help keep the public finances on track.
Personal income tax and social security receipts are low.	Strengthen tax administration and enforcement and continue to move payments online to increase formalisation.
Revenues from resources royalties are relatively low and dividends from state-owned enterprises (SOEs) are low.	Collect higher royalties from companies exploiting mineral deposits and set SOE dividend rates in a predictable way and at a higher level.
Improving data collection, compilation and dissemination	
Limited availability of a broad range of high-quality, timely statistics and data in line with international best practices constrains the design and implementation of many government policies.	Centralise data collection more effectively through a national institution and increase investment to improve data collection and dissemination.
Lifting growth through productivity-enhancing reforms	
Educational attainment levels and skills in the population are improving but remain relatively low. Vocational training is still seen as weak despite the government's training levy.	Expand work-based vocational training and boost the number of apprenticeships. Step up training programmes in literacy and basic skills.
The government and SOE share of investment is relatively high, while private investment has been low and overall investment efficiency has been weak.	Target government investment to areas where the social returns are high and increase the use of cost-benefit analysis.
While FDI drives the industrial sector, there is a need to broaden the range of activities and the sophistication of exports. The Charte de l'Investissement aims at boosting private investment.	Subject incentives extended under the Charte de l'Investissement to thorough evaluation. Ensure that supports are appropriately balanced between new and established industries.
Land ownership is complex and not all land is registered in the formal system.	Complete the system of land registration to reduce legal risks and improve availability.
SOEs play a significant role and several deliver public goods and services, while conducting profit-seeking activities.	Continue to separate commercial and non-commercial activities of SOEs and compensate non-commercial activities on competitive terms.
Many sectors are dominated by a few large firms and there is a lack of effective competition. Investigations into anti-competitive practices and behaviour have been increasing from a low level.	Continue to increase enforcement of competition policy.
Digitalisation appears less advanced than in regional peer countries.	Keep internet costs affordable, strengthen consumer protection in e-commerce and offer targeted subsidised digital training for workers.
Innovation and research are relatively low.	Raise public support for innovation and develop the innovation system.
Creating more and better jobs	
A major extension of social protection is underway, but informality remains widespread, leaving many in poor-quality jobs.	Implement the ongoing social protection reforms, while reducing employer contribution rates for those on low wages. Strengthen enforcement of social contribution payments and increase the number of labour market inspectors.
Employment protection is rigid, leading to a heavy burden on employers, lower labour demand and higher informality.	Increase the flexibility of permanent and temporary labour market contracts.
Unemployment is high, especially for youth, and many jobless youth are not in education or training (NEET).	Take into account the adverse impact on formalisation incentives when setting the minimum wage. Consolidate the many Active Labour Market Programmes (ALMPs), strengthen activation measures and the role of the employment agency.
Standardised test scores are relatively low, many people still leave school at a young age and grade repetition is common. A major school reform is underway.	Implement the on-going school reform and replace grade repetition with extra help for pupils falling behind.
Women face a number of challenges in the labour market and female labour force participation is low. Free childcare is available from age 4.	Step up initiatives to strengthen the labour market integration of women, including better access to finance, reducing discrimination and tackling gender stereotypes. Improve availability of free childcare and extend it to younger children for working women.

Tackling corruption	
While the anti-corruption framework has been strengthened, businesses report bribes for government services.	Continue to pursue efforts to reduce corruption, including the process of moving interactions with the government online.
Addressing water scarcity and the climate transition	
Morocco has an ambitious target to reduce emissions by 45.5% by 2030 relative to 2010 and to net zero by 2050.	Implement the measures to reduce carbon emissions set out in the net zero strategy.
Morocco is considering implementing a carbon tax.	Establish a broad-based approach to carbon pricing and taxation, backed by regulations and supports at sectoral level as needed.
There have been repeated droughts and freshwater resources are under pressures from growing demand, while usage fees are low.	Gradually raise water withdrawal fees to a rate to cover the full supply costs of water recovery, while managing any social impact.

1. Key policy insights

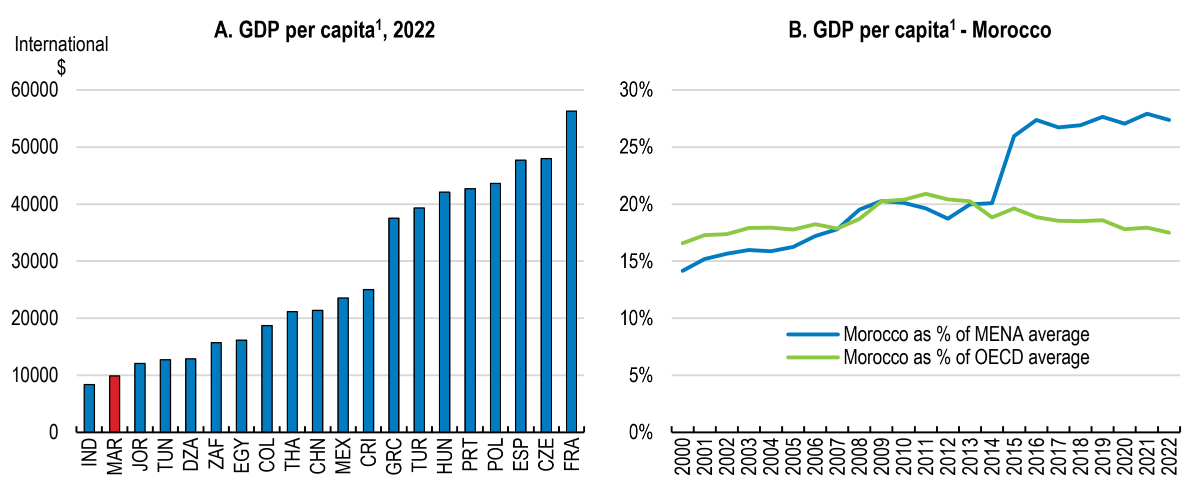
Morocco's prudent monetary and fiscal policies have ensured macroeconomic stability and supported the economy during recent crises. A major reform is underway to replace subsidies with targeted social assistance and to expand health insurance. To finance structural reforms and broaden the tax base, additional revenues will need to be raised. Morocco has achieved rapid industrialisation, avoiding the "resource curse", including through a relatively open economy and inward investment in key sectors, but more needs to be done to avoid the "middle-income trap" and accelerate convergence to the advanced economies. Productivity growth would be supported by implementing existing reforms and further measures to encourage private investment, boost competition, reduce corruption and tackle widespread informality. While Morocco has a young and growing workforce, a large share of women and young people remain outside the labour force. Many jobs remain informal and of low-quality, while unemployment levels for urban youth are elevated. Education quality and attainment have substantial room for improvement to deliver the necessary skills needed by employers. Morocco has made ambitious commitments to reduce greenhouse gas emissions by 2050 to net zero, but more progress is required to meet these objectives. In light of recent droughts and growing demand, additional efforts are needed to manage the scarcity of water.

1.1. Introduction

Morocco is on its way to recovery from the multiple adverse shocks over the past few years including the COVID-19 pandemic and then surging food and energy prices, recurrent droughts and the 2023 Al Haouz earthquake. Past prudent fiscal policies allowed for timely interventions to shield households and businesses from the drop in income and then soaring prices, while monetary policy was tightened to manage the surge in inflation, but longer-term spending commitments have increased as certain subsidies are being replaced with an expansion of the social safety net.

Despite steady growth prior to the pandemic, Morocco's per capita income remains well below that of OECD members and regional peers, implying ample room for catching up (Figure 1.1). Convergence to advanced economies continued until 2011, when it began to reverse, meaning that incomes in per capita terms have since been growing more slowly than in OECD countries on average. While Morocco's position relative to average MENA country levels of per capita incomes increased sharply in 2015, when many experienced downturns, convergence has since stalled. GDP growth averaged around 3% in the five years prior to the pandemic, similar to some regional peers but well below the best-performing countries at a similar level of GDP per capita. Over a longer period, Morocco has seen sustained economic and social development with steadily rising GDP per capita over past decades, improvements in infrastructure, rising life expectancy and a growing population. Since the early 2000s, macroeconomic stability has been prioritised, the development of the private sector has been encouraged more strongly, and industry has grown, including through foreign investment, although services and agriculture retain a large role in the economy. There are significant differences between the main cities and rural areas, particularly those in remote and mountainous areas, and there are two official spoken languages, Arabic and Amazigh. The Kingdom of Morocco is a constitutional monarchy where the executive is headed by the Head of Government, chosen from the largest party in the directly-elected House of Representatives, while the King chairs the Conseil des Ministres that sets the strategic orientations of policy and other tasks defined by the constitution.

Figure 1.1. There is ample room to accelerate the catching-up process



Note: 1. Current prices in purchasing power parity; international dollars per capita.
Source: IMF World Economic Outlook database.

StatLink https://stat.link/m9l0cw

Better growth performance has been hindered by weak productivity gains (Chapter 2) and growth has been too low to generate sufficient employment for new entrants and to address structural shifts in agricultural employment (Chapter 3). Widespread informality not only perpetuates low-quality jobs but holds back productivity gains and growth at the firm level and creates an uneven playing field, thereby hindering efficiency-enhancing competition. Furthermore, the small size of the manufacturing sector limits the scope for innovation to bring about productivity gains and perpetuates the low level of sophistication of products and low value added. While steady population growth and a young population are an asset, labour force participation is low, particularly for women and youth. Education outcomes are improving but remain relatively weak and a significant school reform is underway. Pervasive informality, with up to two-thirds of the employed in informal jobs, has perpetuated low quality jobs, low wages and insufficient social protection.

Morocco is undertaking significant reforms to address many of these issues, informed by a national dialogue around the New Development Model. The main effort to boost private sector investment is the new Charte de l'Investissement, which combines a new system of investment incentives with improvements in governance and efforts to improve business conditions. At the same time, the government is phasing out long-standing butane gas subsidies for households and replacing them with a targeted social assistance programme, compulsory registration in a new social register and a large-scale expansion of health coverage. These reforms aim to achieve a significant strengthening of the social safety net, while bringing more people into the formal economy.

Against this background, the main messages of this first Economic Survey of Morocco are:

- Economic growth continues to rebound, inflation has fallen, and public debt is around 70% of GDP. Plans to narrow the public deficit by 2026, while revamping both spending and taxation including reallocating some subsidies to the new social assistance programme, should be implemented. A debt target and expenditure rule would help to manage spending pressures. Measures to increase formalisation and tax and non-tax revenues in specific areas would help to finance structural reforms and broaden the tax base.
- To achieve climate goals, a broad-based approach to carbon taxation should be considered together with supporting policies. Further efforts to tackle water shortages, including higher fees over time, are needed.
- Productivity has improved, but further convergence would be boosted by upskilling the labour force, increasing the efficiency of public investment, building on existing initiatives to encourage private investment, ensuring competition and a level playing field, reducing corruption, and ensuring favourable conditions for digitalisation and innovation.
- Morocco has a young and growing workforce, but high informality and low levels of labour-force participation for women and youth. Incentives to formalise should be improved, including in the design of labour regulations and social contributions, and enforcement strengthened. Active labour-market policies need to be streamlined. A range of measures to remove barriers to women playing a larger role in the labour force is needed, including improved access to childcare. The education system needs to be strengthened, including to provide more help for those falling behind.

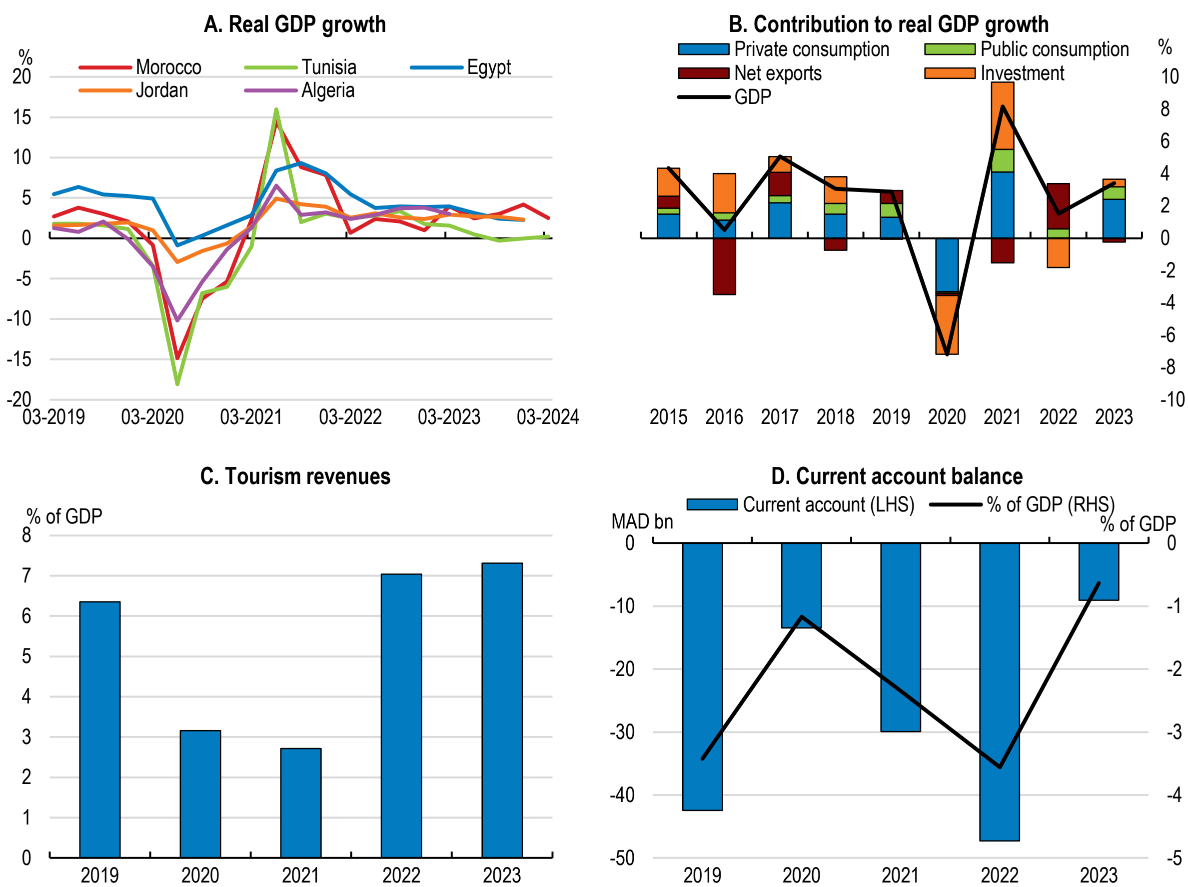
1.2. The economy is recovering steadily despite the devastating 2023 earthquake

The Moroccan economy is recovering steadily from the pandemic and the energy and food price shocks, despite the 2023 devastating earthquake and recent droughts, but GDP remains below the pre-pandemic trend. Over the past 20 years, annual GDP growth has averaged around 3.7% as the economy has benefitted from the improvement in productivity and the workforce with around 2.4% growth in per capita terms. Activity fell sharply during the pandemic, including tourism, but recovered strongly and growth since 2021 has averaged around 4.3%.

A 6.8 magnitude earthquake hit central Morocco on 8 September 2023, claiming around 3 000 lives and 6 000 injuries. The earthquake, with its epicentre around 80 km from Marrakech, the fourth-largest city, severely affected several provinces including Al-Haouz, Azilal, and Chichaoua. The Ministry of Interior reported extensive damages to 60 000 buildings, especially in rural and impoverished villages. Despite its high humanitarian toll, the earthquake had a limited impact on the economy. The government quickly responded by providing rescue and medical services, and relief supplies while mobilising resources from international, governmental, and civic agencies. Funds raised from domestic donors reached MAD 19.6 billion by the end of 2023. The total expense of the reconstruction programme is anticipated to reach MAD 120 billion (around 8% of GDP) by 2027.

Growth has been strong over recent quarters, supported by the recovery of agricultural production as the drought has eased (Figure 1.2). GDP grew by 3.4% in 2023. Foreign inbound tourism reached a new record of 14 million tourists in 2023, up from 11 million in 2022. Private and public consumption increased by 3.9% and 4.1%, contributing 2.4 and 0.8 points respectively to GDP growth. Investment grew by 1.5% and is expected to strengthen in 2024 as capacity utilisation rates have reached unprecedented levels.

Figure 1.2. The economy is recovering



Source: CEIC; High Commission for Planning; Bank Al-Maghrib; Foreign Exchange Office; and OECD calculations.

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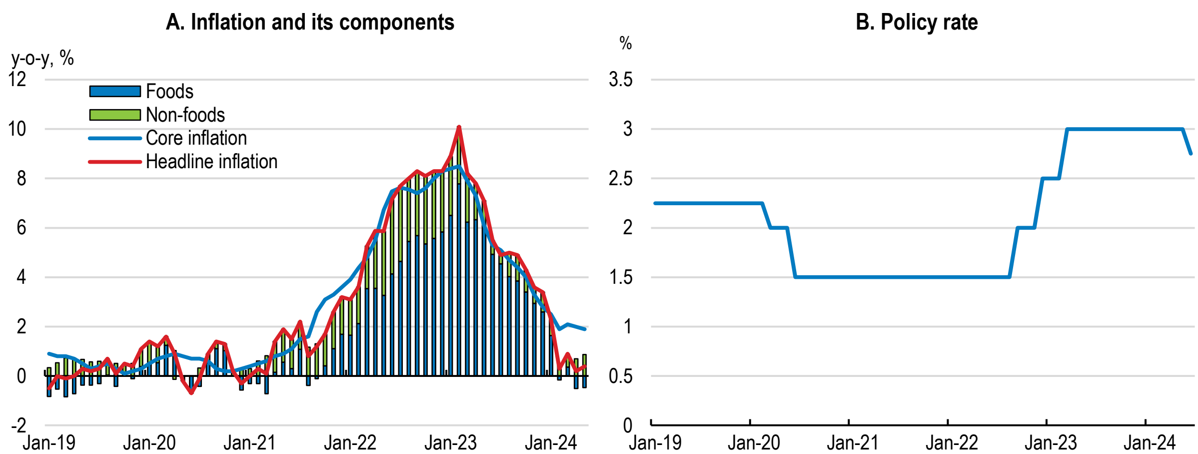
While Morocco has experienced low and stable inflation over past decades, inflation picked up to over 10% in early 2023 as a result of higher energy and food prices. The current account deficit widened sharply in 2022 due to higher energy and food imports while tourism income was still recovering but remittances were stronger. The exchange rate depreciated during this period but has returned towards the previous range as commodity prices have moderated. In September 2022, the Bank Al-Maghrib (BAM) raised its policy interest rate from 1.5% to 2%, followed by two additional consecutive hikes by 5 bp, reaching 3% in March 2023 (Figure 1.3, Panel B). In 2023, both headline and core inflation started to ease, thanks to falling energy prices, stabilising food prices, timely policy tightening, and budgetary support measures benefitting importers and transporters. The current account deficit shrank to 0.6% of GDP in 2023 on the back of soaring car exports, tourism receipts and remittances. Subsidies for gas and food products also helped reduce inflationary pressures but are set to be partially phased out. Inflation has fallen significantly in both headline and core terms and is expected to stabilise in 2024 at around 2%, although there remain uncertainties mainly due to external factors, such as international geopolitical tensions. Easing inflationary pressures allowed policy rates to be cut in June 2024 to 2.75%. Monetary policy should continue to be set using a data-dependent approach, easing policy as inflation durably subsides.

Figure 1.3. Inflation has eased after peaking in early 2023



Source: CEIC; High Commission for Planning; Bank Al-Maghrib; OECD calculations.

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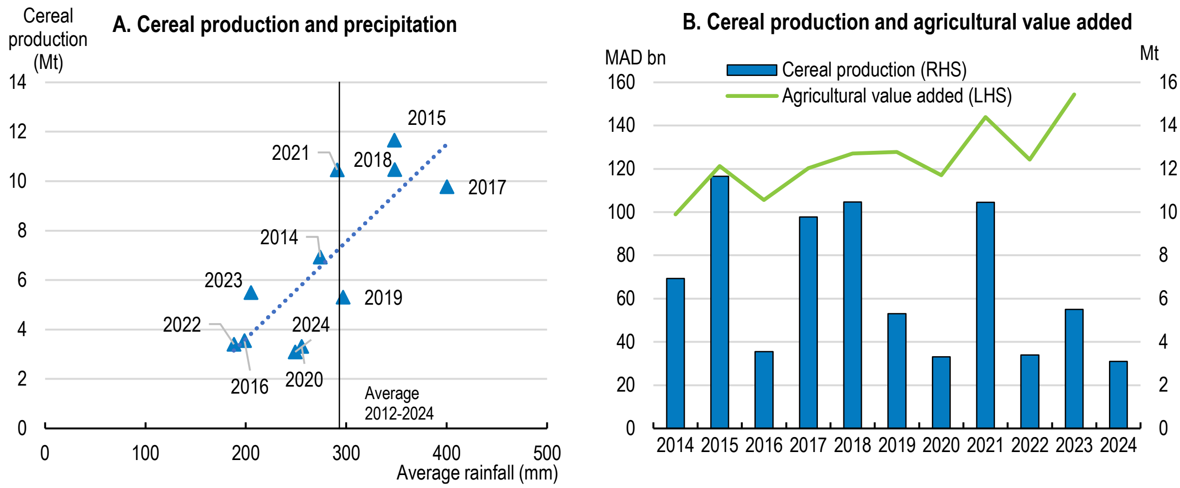
The agricultural sector has been hit by drought

The agricultural sector, accounting for 11% of GDP, is a key part of the economy, particularly in terms of employment, incomes and activity in rural areas. Agricultural production is volatile, particularly for cereals, and vulnerable to external factors, such as climate change. Cereal production decreased notably in 2016 and 2022 due to drought (Figure 1.4., Panel A), although agricultural production increased by 6.2% in 2023, contributing 0.7 percentage points to GDP growth. Given the severe drought and international food price hikes, the government provided subsidies to licensed importers of soft wheat and raw sugar, as well as to road freight providers, from March 2022 to May 2024. Additionally, the Generation Green (Génération Green) 2020-2030 and the Green Morocco Plan (Plan Maroc Vert) 2008-2020 have encouraged non-cereal production, such as fruits and garden crops in areas with low cereal yields (Belahsen, Khellaf and Belahsen, 2016[1]). Thanks to these efforts, agricultural value added is now less vulnerable to climate change: while the drought in 1995 severely affected agricultural value added, the drought in 2022 had a milder impact (Figure 1.4., Panel B).

Figure 1.4. Cereal production fell in 2022 due to severe droughts



Note: Mt refers to million tonnes.
Source: OECD calculations based on Ministry of Agriculture, Fisheries, Rural Development, Water and Forests and High Commission for Planning;.

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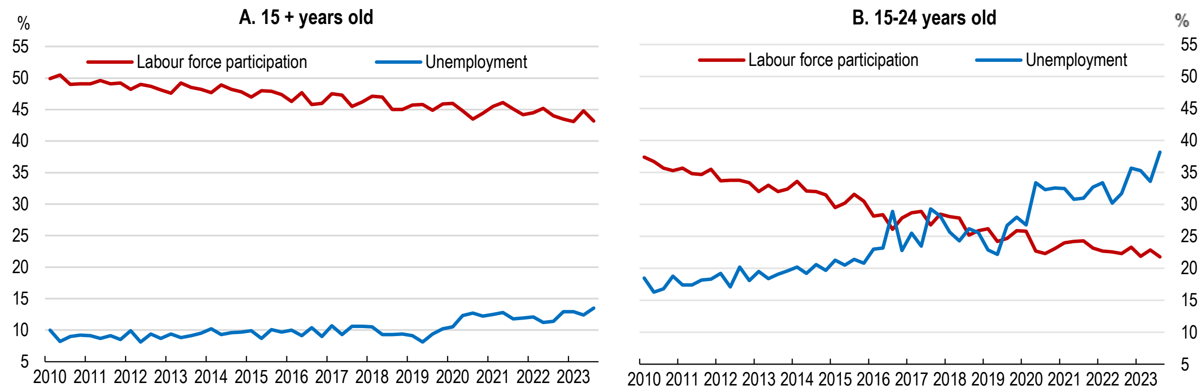
The labour market recovery has been weak

The labour market has underperformed during the recovery. The employment and labour participation rates have continued to follow a downward trend, aggravated by the most recent downturn. Labour participation of women remained exceptionally low at 19% in 2023, compared to 69% for men (Figure 1.5), despite a temporary pick-up during the pandemic.

The unemployment rate, which increased during the pandemic, reached 13% in 2023, the highest over the past two decades (Figure 1.5), with the unemployment rate for youth aged 15-24 reaching a historical record of 35.8%. Unemployment is primarily a phenomenon of young urban people. The labour market has not been able to generate a sufficient number of good-quality jobs to integrate young people and to offset structural changes in agricultural employment, while the skills of young people are not always well matched to employers' needs and there are barriers to their participation in formal jobs (see Chapter 3). Efforts to integrate youth into the workforce are increasingly urgent given rising unemployment, as well as to support long-term growth.

In light of this, the government has undertaken several recent initiatives to boost employment, including the Awrach and Forsa programmes. The Awrach, launched in January 2022, aimed to create 250 000 direct jobs over two years, focussing on those affected by the pandemic, and has a budget of MAD 2.3 billion (USD 244 million). The Forsa programme focuses on fostering entrepreneurship, offering financial aid of MAD 100 000 to support young entrepreneurs' projects. By 2023, the programme received over 30 000 project proposals and provided funding to 1 400 projects. The government aims to increase the share of female beneficiaries of the Forsa programme from 20% to 32%, highlighting efforts to address the significant gender disparities in labour market outcomes (see Chapter 3). These programmes will continue into 2024, but provisions should be improved and extended in some way with measures in place to monitor and evaluate their impact to meet on-going challenges with a strong focus on encouraging people to move into stable good-quality jobs.

Figure 1.5. Unemployment rates increased with the youth rate doubling over the past decade



Source: High Commission for Planning.

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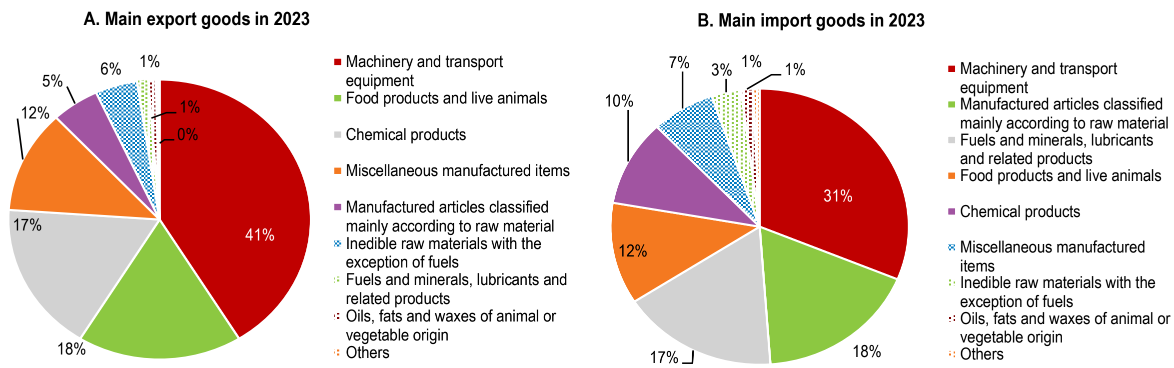
Morocco has an open economy with foreign investment, exports and remittances being important drivers of growth

Morocco benefits from its open economy, trade and FDI. Morocco is tightly integrated into global value chains, particularly with those of EU countries. The country is successfully transforming its economy from exporting mostly raw materials in the 1980s and 1990s to exporting higher-value-added products, including electronics, automobiles, aeronautics, and fertilisers. European car companies have established factories, while other manufacturers from Japan and China increased their investment in industries, such as automobile components manufacturing, creating strong industrial ecosystems. This has increased trade and jobs, although Morocco has often specialised in lower value activities in these supply-chains and the role of domestic firms is limited in many areas. Chemicals, including phosphates and derived fertilisers produced by OCP Group, accounted for 17% of exports in 2023, while machinery and transport equipment accounted for a combined share of 41% (Figure 1.6., Panel A). Imports of these items also accounted for a significant share of total imports, reflecting Morocco's growing participation in global value chains. Additionally, as a net energy importer, fuels ranked as the third-largest item of imports, accounting for around 17% in 2023 (Figure 1.6., Panel B). Morocco's trade is concentrated on the European Union. Spain and France were the two biggest export destinations, collectively accounting for almost 39% of total direct goods exports in 2022 (Figure 1.7., Panel A). China is growing in importance as a trade partner, becoming the second largest exporter to Morocco, and accounting for some 10% of total Moroccan imports in 2022 (Figure 1.7).

Figure 1.6. Morocco's main trade items



Source: Office des Changes.

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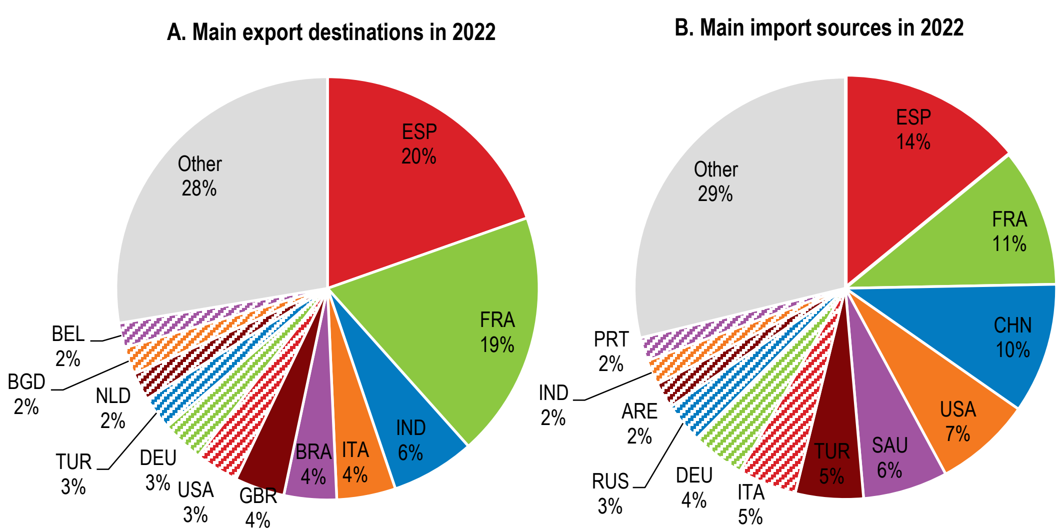
Figure 1.7. Major exports and imports partners



Source: Office des Changes.

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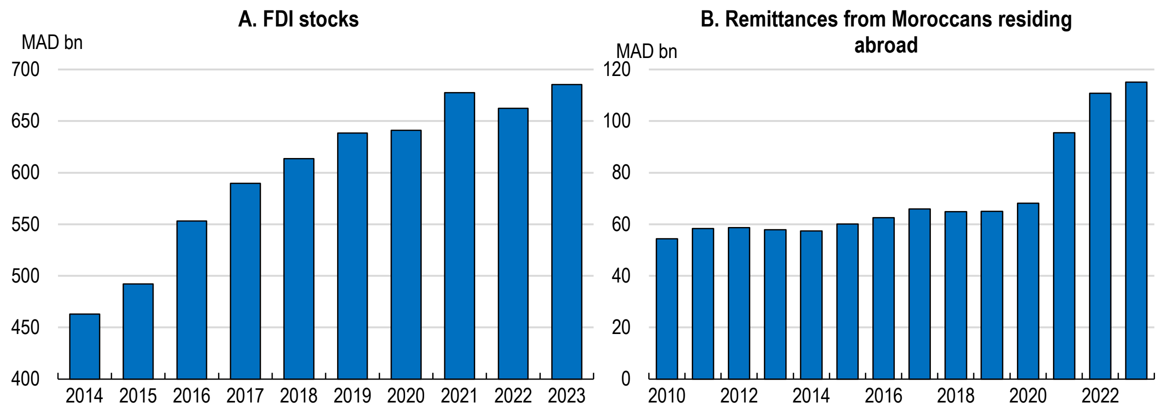
Amid these evolving trade dynamics, Morocco's ability to attract foreign direct investment (FDI) remains crucial for productivity growth. In 2023, inward FDI stocks to Morocco reached MAD 685.5 billion, a 3.5% increase compared to 2022 (Figure 1.8., Panel A) and around 50% of GDP. France, consistently leading as the largest source of FDI, contributed to 30.8% of the total stock, followed by the United Arab Emirates (20.3%) and Spain (8%).

Given large-scale emigration and a large diaspora, remittances play a key role in Morocco's economy, serving both as a significant source of income for its people and as a stabilising force for the country's foreign official reserves. Remittances have been on the rise, with a historic record of MAD 115.3 billion in 2023 (Figure 1.8., Panel B). Around 31% of the remittances in 2023 originated from France, followed by Spain (13%) and Italy (9%). Morocco could further harness this potential, for example, by considering the introduction of diaspora bonds. The bonds could help facilitate investment in local enterprises and education, enhancing the impact of remittances beyond traditional financial support, mirroring the success witnessed in other countries such as Israel and India (Gelb et al., 2021[2]).

Figure 1.8. FDI and remittances have increased



Source: OECD calculations based on Office des Changes data.

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The recovery is projected to continue

Going forward, the Moroccan economy is projected to continue its steady recovery path. Real GDP is expected to grow by 3.5% in 2024 and 4.0% in 2025 (Table 1.1). The main drivers of growth will be the service sector and exports. Manufacturing industries, including automobiles and electronics, will continue to expand. The government's post-earthquake reconstruction programme, planned until 2027, and incentives of the new Investment Charter will bolster public and private investment. Economic recovery with robust remittance inflows, the higher minimum wage and subdued inflation will improve consumers' disposable income and boost consumption. The statutory minimum wage increased from a monthly MAD 2 970 (USD 299) to MAD 3 111 (USD 313) in September 2023 and further increases are planned. Exports of goods are expected to slightly moderate in 2024 with demand remaining weak in key export markets, although sales of the automotive sector and chemical products, including phosphates, are expected to rebound. Inflation is projected to gradually decline to 2.3% in 2024 and 2% in 2025, benefiting in particular from easing energy and food prices. However, economic risks are largely tilted to the downside due to continued high uncertainties including international geopolitical tensions, repeated droughts, and the continued weak global economic recovery, in particular of European countries (Table 1.2). Seismic activity poses a reoccurring risk . The IMF flexible credit line (FCL) of USD 5 billion approved in April 2023 until 2025 provides an external buffer against future shocks.

Despite the 2023 earthquake and the international geopolitical context, the tourism sector appears to have been resilient and to be growing strongly. According to the National Airports Office (ONDA), air traffic increased by 32% in 2023, reaching a record of 27.1 million passengers (departing and arriving, including domestic trips), thanks to the introduction of new international flights connecting Moroccan cities to more global destinations. The government's approval of the operation license of an additional domestic airline, starting from mid-2024, will help enhance competition in the market. Morocco has important assets for tourism including its rich culture and history, together with improving tourism infrastructure. Morocco aims to reach 15 million and 17.5 million tourists in 2025 and 2026. The government has set an ambitious goal of 26 million visitors by 2030, expecting to benefit from co-hosting the 2030 soccer World Cup, which will help the country further develop its tourism infrastructure, including transportation and accommodation.

Table 1.1. Growth is expected to gather momentum

Morocco	2020	2021	2022	2023	2024	2025
	Current prices MAD billion	Percentage changes, volume (2014 prices)				
GDP at market prices	1152.5	8.2	1.5	3.4	3.5	4.0
Private consumption	680.8	7.0	0.0	3.9	2.1	3.3
Government consumption	223.6	7.2	3.0	4.1	5.5	4.3
Gross fixed capital formation	304.1	7.5	-4.0	1.9	4.5	4.1
Final domestic demand	1208.5	7.2	-0.4	3.4	3.3	3.7
Stockbuilding (1)	27.6	2.2	-0.3	-0.1	0.0	0.0
Total domestic demand	1236.1	9.0	-1.1	3.3	3.2	3.6
Exports of goods and services	354.9	7.9	20.5	8.8	6.5	6.8
Imports of goods and services	438.5	10.4	9.5	7.4	5.5	5.6
Net exports (1)	-83.6	-1.5	2.8	-0.2	-3.0	-1.0
Memorandum items						
GDP deflator	-	2.4	2.7	6.4	2.4	2.0
Consumer price index	-	1.4	6.6	6.1	2.3	2.0
Central government budget balance (% of GDP)	-	-5.6	-5.4	-4.3	-4.0	-3.5
Central government gross debt (% of GDP)	-	69.5	71.5	69.5	68.9	68.2
Current account balance (% of GDP)	-	-2.3	-3.6	-0.6	-2.5	-2.9

(1) Contributions to changes in real GDP, actual amount in the first column.

Source: Morocco National Accounts; Ministry of Economy and Finance; OECD Economic Outlook 115 database and updates

Table 1.2. Low-probability events that could lead to major changes to the outlook

External shocks	Potential impacts	Mitigation measures
International geopolitical tensions	Further escalation of tensions, including in the Middle East, could raise food and energy prices, entail long-lasting supply chain disruptions, and deteriorate foreign investor sentiment.	Continue to set policy to achieve macroeconomic stability, while encouraging diverse and resilience sources of growth.
Climate-related hazards including droughts and floods	Continued drought conditions and flooding in major parts of the country could overwhelm the existing coping capacity and bring about wide-ranging dislocation of economic activity, including shortage of water for drinking and irrigation.	Accelerate the green transition, enhance water management, and implement climate change adaptation measures.
Earthquakes	An earthquake in a highly populated area could have a very large impact on the local population and the economy.	Continue to reinforce the disaster risk management framework in the country and work towards enhancing seismic resiliency.
Slower-than-expected recovery in trading partners	Lower export growth, slower foreign direct investment inflows and remittances resulting in downward pressure on the exchange rate and consumption.	Diversify export markets, foster domestic private investment and adopt productivity-enhancing measures to improve competitiveness in export markets.

1.3. A gradual shift towards inflation targeting would help bolster economic stability

Morocco's monetary framework and exchange rate regime have contributed to stable inflation over the past decades (Box 1.1). The fixed exchange rate regime adopted in 1973, coupled with capital controls, provided policy room for effective and autonomous monetary policy. This regime helped stabilise the fluctuation of the value of the dirham against major currencies, including the euro and US dollar, providing a nominal anchor to the economy and predictability for trade and foreign investment. Following the surge of inflation in 2022, the central bank raised the policy interest rate in late 2022 and the exchange rate modestly depreciated. Inflation has now returned to lower levels and this created room for lower policy interest rates from June 2024.

The design of the monetary regime needs to ensure a stable domestic economy and predictability for foreign trade, while – as a commodity importer and with a large share of food and energy in consumption

– managing external shocks, avoiding financial instability, including from global developments, and managing terms of trade gains. Developing deeper domestic financial markets and accessing international capital markets would help to manage risks. Continued careful management of foreign reserves remains essential in supporting economic resilience and market confidence during the transition towards more flexible exchange rates and a more open capital account as envisaged.

Box 1.1. Exchange rate regime and policy

The setting of exchange rate policy falls under the responsibility of the Ministry of Economy and Finance, as specified in the 1978 decree, while the implementation of this policy is ensured by the central bank (Article 11 of Bank Al-Maghrib's statute), including holding and managing the country's foreign exchange reserves (Article 12).

Rules relating to foreign exchange transactions are proposed by the Exchange Office (Office des Changes), which is a state agency subordinated to the Ministry of Economy and Finance, and are authorised by the Ministry. According to the latest set of instructions, the dirham is fully convertible on the current account, as well as for inward foreign direct investment transactions and corporate borrowing from abroad.

In 2018, Morocco pledged to take steps towards a flexible exchange rate regime and reduced controls on capital flows, in parallel with the adaptation of the monetary policy framework to inflation targeting. As a first step, the government initiated a voluntary and gradual transition by first allowing fluctuation of the exchange rate within a band of 2.5% (instead of the former 0.3%) from the reference exchange rate, based on a basket composed of 60% euro and 40% US dollar. In 2020, this fluctuation band was further widened to 5%. Since 1 January 2024, the central bank has been using a new methodology for determining foreign exchange reference rates for the revaluation of assets and liabilities denominated in foreign exchange based on interbank transactions carried out by market makers.

A roadmap was developed to manage the operational implementation of the transition and the central bank has implemented measures to improve the liquidity of the interbank foreign exchange market such as the use of foreign exchange auctions. The central bank has also initiated informational awareness campaigns to banks and major companies on the major economic implications of the reforms, particularly on the notion of exchange rate risk and the use of hedging instruments.

In January 2024, Morocco further relaxed regulations on international capital flows, for example allowing for Moroccan traders to pay in advance to foreign suppliers to facilitate international trade. Additionally, the tourism travel allowance was significantly raised from MAD 45 000 (USD 4 600) before 2022 to MAD 100 000 (USD 9 970) per year, improving global business engagement. In addition, tourists can add 30% of their personal income tax paid and business travellers up to 100% of their personal or corporate income tax paid up to a ceiling of MAD 500 000 or 1 000 000 respectively. These measures reflect Morocco's strategic efforts to enhance its financial market's openness and integration with the global economy.

During this transitionary period, Morocco's currency has shown relative stability against major currencies, while the widening of the fluctuation band of the exchange rate started to play a role as a shock absorber (World Bank, 2023[3]). Nominal effective exchange rates remained largely stable during and after the pandemic and well anchored against other currencies, especially the euro. Foreign official reserves continued to remain adequate. At the end of 2023, official reserves stood at MAD 358 billion, which equates to around 5 months of imports. The reserves provide Morocco with a critical safety net against external shocks.

Source: Bank Al-Maghrib; Office des Changes.

Although the pandemic and the subsequent energy crisis slowed the pace of these reforms, Morocco should continue its gradual implementation of the transition to a more flexible exchange rate regime and a more open capital account by making progress in the preparatory works. This would be supported by an inflation targeting framework that can effectively reduce inflation and its volatility, and raise GDP (Fratzscher, Grosse-Steffen and Rieth, 2020[4]). The expected gain for Morocco from the stabilisation in output and inflation from this shift is anticipated to outweigh the costs of increased volatility in exchange rates and interest rates (IMF, 2023[5]). Past experiences from Poland and Chile suggest that Morocco could successfully lower the sensitivity of inflation to shocks after the introduction of inflation targeting with a flexible exchange rate (Ha, Kose and Ohnsorge, 2019[6]).

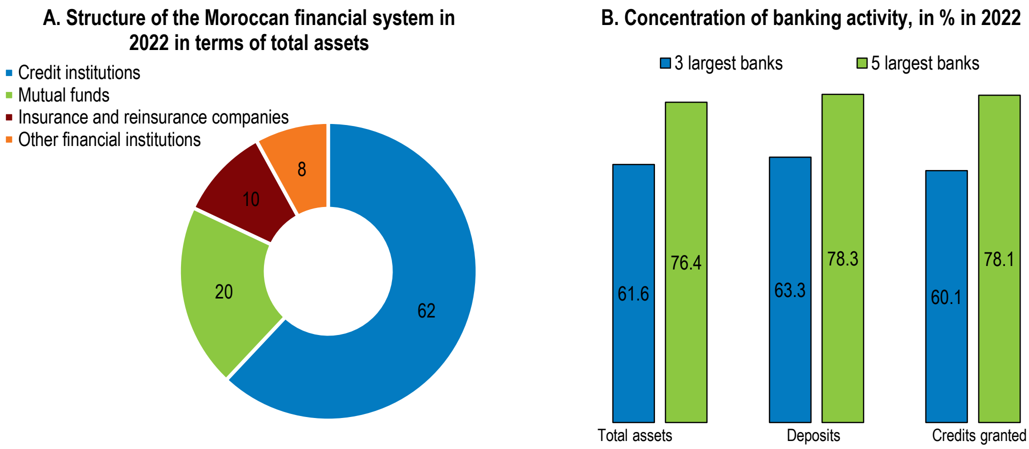
The reform of the monetary and external framework should go hand in hand with other policy efforts to attain the prerequisites, which include maintaining strong macroeconomic fundamentals, the central bank's credibility and capacity, and enhanced public awareness. In 2024, the central bank continued its preparatory work, for example, adjusting the reference exchange rate to be more consistent with international practice. Enhancing transparency could further strengthen the central bank's credibility. According to the IMF, the revision of Bank Al-Maghrib's statute in 2019, following the previous statute in 2006, has created momentum for establishing a high level of transparency through a clearer mandate on price and financial stability (IMF, 2022[7]). Publishing detailed minutes of monetary policy board meetings, for example, could improve communication with the public and markets. Enhancing disclosures on the framework and operational modalities in the realms of financial stress testing and FX reserve management would help market participants to better understand and anticipate central bank actions. More could be done to bolster the independence of the central bank. Currently, six out of nine Monetary Board members are appointed by the Head of Government. A more open process for appointment to the Monetary Board and publishing additional information on the selection of Board members would help reinforce the perception of independence and transparency.

1.4. Financial stability risks appear to be under control but vulnerabilities persist

The Moroccan financial system has expanded rapidly with its assets reaching 220% of GDP in 2022, but banks appear well-capitalised. The financial system is concentrated (Bank Al-Maghrib, 2023[8]). It comprises of 53 credit institutions (19 conventional banks, 5 participatory banks and 29 finance companies), mostly engaged in traditional financial intermediation and representing nearly 60% of the financial system's assets. Banks represent a significant part of the financial sector, with a notable concentration among large institutions (Figure 1.9). The three largest banks represent approximately 62% of the total assets, loans, and deposits of the banking sector (Figure 1.9., Panel B) (Bank Al-Maghrib, 2023[9]). The Systemic Risks Coordination and Monitoring Committee (CCSRS) conducts macroprudential supervision of the financial system. Developing participatory finance in Morocco is a priority for the authorities and it has grown rapidly in recent years.

High banking concentration implies low competitive pressure and greater profitability for banks (above 8% returns on average equity (ROAE) on average). Competition in the Moroccan banking sector has improved in recent years, due to continuous strengthening of the regulatory framework, liberalisation of banking activity with a significant presence of foreign capital (6 banks and 6 finance companies have majority foreign ownership), and efforts made by the central bank to promote financial inclusion. Morocco would benefit from continuing on-going efforts through a range of programmes to diversify and develop digital banking services and mobile payment solutions (M-banking), expand their access to the entire population (including to small and medium-sized businesses, women, rural areas) and promote financial education programmes.

Figure 1.9. Bank finance plays a central role and the sector is concentrated



Source: Bank Al Maghrib, Annual report on banking supervision, 2023.

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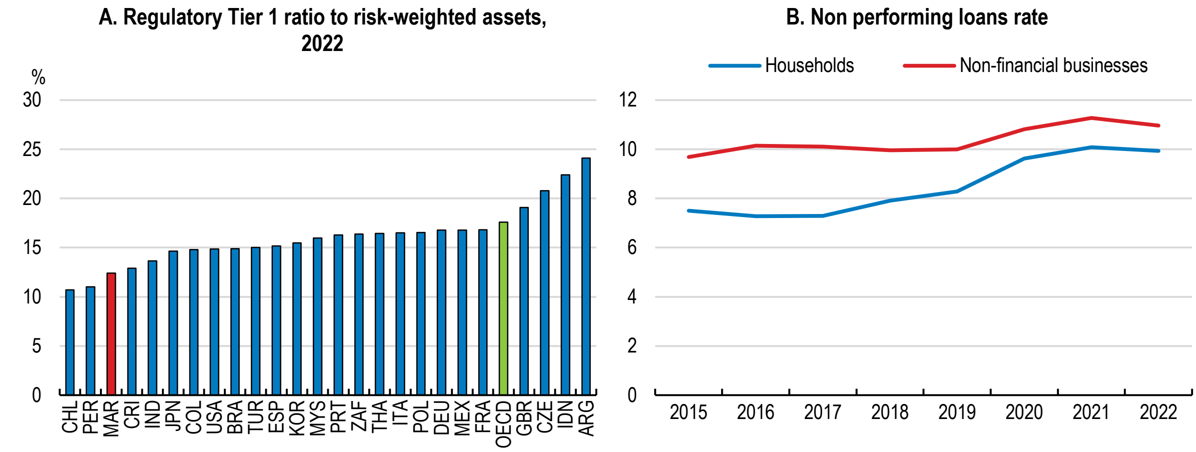
Banks continued to post solid performance in 2022 and to expand their balance sheets, despite a deceleration of credit growth. Following the slowdown in activity, the energy price shock and higher interest rates, corporate non-performing loans (NPLs) have increased to 11% of all outstanding loans (Figure 1.10). Companies operating in the tourism and hospitality sector continue to have the highest NPL rates, followed by the fishing and construction sectors. Banks' loan loss provision coverage at an average of 68% in 2022 appears adequate, including for the three systemically important banks. According to the macro-stress exercise carried out by Bank Al-Maghrib covering the years 2023 and 2024, solvency indicators would exceed the minimum regulatory requirements even in the event of significant tensions. Bank Al-Maghrib is in the process of implementing Basel III requirements and in some areas the minimum requirements are already met, including the average Tier 1 capital ratio, which was at 12.4% in 2022 (well above the Basel III minimum of 9%) and the average solvency ratio at 15.6% (well above the minimum of 12%). The short-term liquidity coverage ratio (LCR) was at 170% in 2022. In 2019, Morocco introduced the net stable funding ratio (NSFR) to ensure that banks maintain a minimum amount of stable financial resources to meet minimum funding needs over a one-year period. In addition to the solvency ratio, Bank Al-Maghrib applied the regulatory leverage ratio in 2021 at 3% on both a standalone and consolidated basis in line with international standards. The average leverage ratio of the banking sector was 7.4% at the end of 2022, reflecting a leverage of Moroccan banks.

There are potential vulnerabilities in the real estate and agricultural sectors, where land valuations have fallen and drought persists. The Moroccan banking sector remains exposed to significant risks from the commercial real estate market due to the volume of unsold inventory, stalled construction projects, and delays in the delivery of many projects in major cities. Another potential source of systemic risk is related to climatic factors and drought, with a third of bank loan portfolio exposed to climate risks. Economic damages from extreme drought and flood conditions could be as high as USD 17.5 billion (12% of GDP) (World Bank and Bank Al Maghrib, 2024[1]). The Financial Stability Board's report (October 2022) uses stress tests to quantify the impact of climate risks on financial stability, by assessing the impact of severe water stress on economic activity and its implications for bank losses. Additionally, the central bank, with the support of the World Bank, recently performed its first systemic climate stress test of the Moroccan banking sector based on Network for the Greening of the Financial Sector (NGFS) reference scenarios.

Figure 1.10. The financial system appears solid



Source: BAM, ACAPS.Bank AL Maghrib, 2022, Financial Stability Report. Bank AL Maghrib, 2023a, 9th annual report on banking supervision.

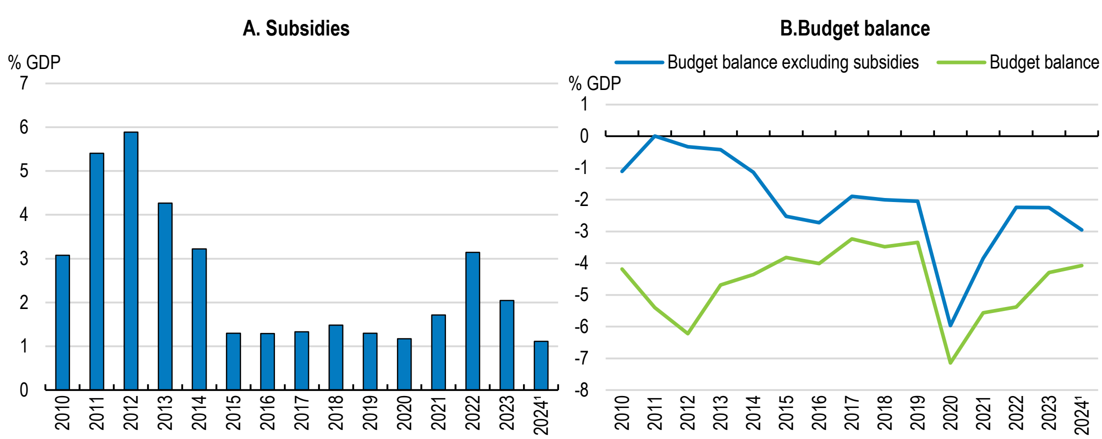
StatLink https://stat.link/mkjqlc

1.5. Managing the public finances and ensuring the sustainability of reforms

The public finances have helped stabilise the economy

The public finances helped to stabilise the economy, notably during the COVID-19 and the energy and food crisis, with the government deficit doubling from around 3½ percent of GDP on average over the period of 2016-19 to peak at over 7% of GDP in 2020. Beyond the play of automatic stabilisers and the existing food and energy subsidy system, discretionary measures helped to mitigate the adverse socio-economic impacts of these shocks. The budget deficit is expected to continue its downward trajectory towards 4% of GDP by end-2024 (Figure 1.11) as supports have been reduced and the economy recovers, despite remaining pressures from the drought and the earthquake. Both tax and non-tax revenues have grown strongly, while subsidies have reduced as global commodity prices have eased.

Figure 1.11. Subsidies significantly worsened the budget deficit during energy crises



1. LF: Finance law

Source: National authorities.

StatLink https://stat.link/b84haf

The authorities launched a five-year MAD 120 billion (around 8% of GDP) reconstruction programme following the devastating earthquake in the Marrakech–Safi region in September 2023, focusing on rehousing people, rebuilding homes and infrastructure, and improving connectivity. Funding comes from reallocation of budgetary appropriations of already planned programmes, the solidarity fund dedicated for earthquake reconstruction and international cooperation. As of January 2024, 57 596 households had received MAD 2 500 monthly financial assistance and as of March 2024, more than 51 000 households an amount of MAD 20 000 for the first tranche of aid relating to the reconstruction of totally or partially collapsed housing.

Significant changes to spending and taxes are underway, but the deficit is set to narrow in the coming years

A significant reform to the system of social support is underway with the phasing out of energy subsidies and extending health and social security coverage. This reform will benefit many Moroccan families and improves the efficiency and targeting of spending (Table 1.3). In 2022, the government extended health insurance coverage to liberal professions, and the agriculture and craft sectors, in addition to the vulnerable (people previously covered by the Régime d'Assistance Médicale pour les Économiquement Démunis, RAMED). The 2024 budget initiates an additional social protection scheme: the Direct Social Aid Programme (Programme d'Aide Sociale Directe). This new income support includes targeted direct social assistance to vulnerable families with and without children, in addition to a birth allowance and an allowance for orphaned children. By the end of July 2024, 3.8 million families, or more than 12 million people, had benefited. This includes approximately 5.2 million children. In addition, a new housing aid was introduced in 2024, replacing tax incentives in favour of the real estate sector, targeting almost 110 000 housing units (Box 1.2). Taken together, the Direct Social Aid Programme and the medical coverage extension amount to a cost of around MAD 34.5 billion in 2024 (2.3% of GDP).

Table 1.3. Reforms sharply cut blanket subsidies while boosting social security and make social assistance targeted

Billion MAD	**2023**	**2024**	**2025**	**2026**
Direct social assistance	0	25.0	26.5	29.0
Medical coverage (AMO Tadamon)	8.4*	9.5	9.5	9.5
Subsidies	29.7**	17.0**	11.5	7.8
Direct Housing Aid Programme	0	9.5	9.5	9.5
Total	**38.1**	**61.0**	**57.0**	**55.8**

Note: * Including December 2022 ** For 2023, the figure given represents the actual cost of compensation, including accompanying measures in the transport sector. For 2024, this refers to the funds allocated by the 2024 Finance Act to support consumer prices, including accompanying measures such as the Urban and Interurban Road Transport Reform Support Fund (FART).
Source: "Programmation budgétaire triennale", "Note de présentation de la loi de finances » and speeches by the Head of Government.

Box 1.2. Direct Housing Aid Programme

The Moroccan authorities launched a new Direct Housing Aid Programme in January 2024 for a five-year period (2024-2028) at an annual cost of MAD 9.5 billion to support the acquisition of newly built homes.

The programme aims to provide MAD 100 000 for the acquisition of a home with a sale price of less than or equal to MAD 300 000, and MAD 70 000 for the acquisition of a home priced between

MAD 300 000 and MAD 700 000, all taxes included.

To qualify, candidates must be first-time home buyers who have not previously received government housing assistance or privileges and sign a final sales contract committing to making the property their primary residence for at least five years from the date of the contract.

To finance the social measures, the Moroccan authorities are phasing out fuel subsidies, alongside other measures. As in many other emerging economies, Morocco has a long history of subsidising energy and food with the aim of alleviating poverty and smoothing price fluctuations. While subsidies have contributed to reducing poverty and preserving household purchasing power, they are costly, distort incentives (including to reduce emissions) and are regressive. The wealthiest 20% of the population disproportionately benefit from subsidies, accounting for 27% of sugar and butane gas subsidies (Ministère de l'Economie et des Finances du Maroc & AFD, 2020[10]). Before 2015, other fuel products, namely diesel, gasoline, and industrial fuel were also subsidised but the government phased out subsidies on these products, coinciding with easing global energy price pressures. Under the old system, subsidy amounts were determined based on the pricing structure of subsidised products, intended for domestic consumption, which includes all associated costs, taxes and government-set profit margins added to the import price. The Compensation Fund covers the discrepancy between the cost of these products and the price established by authorities. The government is now gradually phasing out the main subsidies. In 2022, subsidies peaked at MAD 42.1 billion (3.2% of GDP), with subsidies for butane gas amounting to nearly MAD 22 billion, reflecting increased international prices. In 2022, to maintain price stability, safeguard household purchasing power and ensure a stable supply of essential goods, other temporary subsidies were also introduced, notably for the transport sector (MAD 4.4 billion), the anti-drought plan (MAD 10 billion), the suspension of import duties on wheat and the reactivation of the soft wheat restitution system (MAD 9.3 billion), as well as the transfer of MAD 5 billion to the electricity company ONEE to cope with rising production costs of electricity. The three-year budgetary programme to 2026 provides for a reduction in subsidies from MAD 29.7 billion (2% of GDP) in 2023 to MAD 7.8 billion (0.5% of GDP) in 2026.

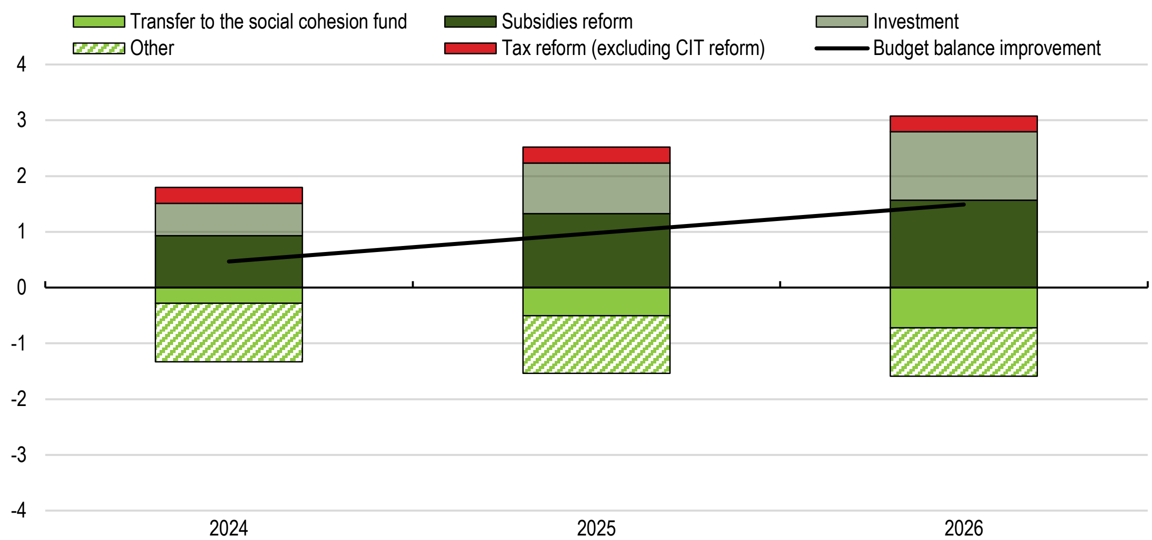
At the same time, the government is raising additional revenues. The 2024 Finance Law streamlined VAT rates from four different rates to two (10% and 20%) by 2026. Some rates are being increased, such as for electricity, while others are being lowered, such as renewable energy and a range of basic necessities including water and medicines that are now zero-rated to meet the objective of maintaining the purchasing power of households. The reform aims to make the VAT system less distortionary between different goods and services. The 2024 Finance Law also introduced a VAT withholding system to combat potentially fraudulent invoicing. Taken together, these measures are expected to raise revenues very modestly (Ministère de l'Economie et des Finances, Maroc, 2023[11]).

The government is developing and making use of off-balance sheet financing mechanisms (such as leaseback operations) and public-private partnerships (PPPs), together with continued efforts to rationalise public portfolio management, including through the progressive implementation of provisions of the law on the reform of state-owned enterprises (see Chapter 2). This reform primarily targets enhancing the financial interaction between the budget and SOEs by streamlining transfers to these entities and enhancing their performance, thereby augmenting dividends to the budget’s advantage.

Taken together, the medium-term fiscal framework 2024-2026 projections with currently legislated and planned measures will narrow the budget deficit, decreasing gradually from 4.3% of GDP in 2023 to 3% in 2026. As well as the large increase in social spending and the significant saving from subsidy reform (reaching around 1½ - of GDP on average per year), the public finances will be boosted by the gradual return of investment to pre-pandemic levels (-0.9 percentage points of GDP), as well as the tax reform (-0.3 percentage point of GDP) (Figure 1.12). These plans should be implemented to lower the deficit to ensure favourable debt dynamics and to avoid undue stimulus to the economy. Any further increases in spending or tax cuts should be met within the overall framework of this narrowing of the deficit.

Figure 1.12. The budget balance is set to improve

Improvement in the central budget balance, percentage of GDP



Note: The graph shows the cumulative evolution of different components of revenues and expenditures on the budget balance as a percentage of GDP. For investment and subsidies, the comparison is made with the 2023 level.
Source: OECD calculations based on Document de programmation budgétaire Triennale globale pour la période 2024-2026, Ministère de l'Économie et des Finances.

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Debt appears sustainable but there are longer-term pressures

Owing to prudent fiscal policy choices, Morocco's debt-to-GDP ratio was broadly stable in the years prior to the pandemic and is set to be on a downward path in a range of scenarios looking ahead (Box 1.3). The central government's debt-to-GDP ratio, which significantly increased during the COVID-19 crisis, has decreased from a peak of 72.2% in 2020 to 69.5% in 2023. However, given favourable growth dynamics with interest rates below nominal growth, the return to a deficit of around 3% should be enough to maintain the government-debt to ratio broadly flat as it was in the pre-pandemic years. In 2023, the central government debt ratio is broadly in line with economies in the region and many similar economies. Interest on government debt is mostly at fixed rates with the external debt share around 24% of the total and average debt maturity close to seven years. An analysis of the future debt path suggests that under current policies, the debt ratio will remain modestly below current levels (Box 1.3), although Morocco could eventually face demographic headwinds if any extension of the pension system is not adequately funded.

Even though the public finances are on a solid footing and Morocco has a young population with a strong growth potential, prudent management of the public finances is needed to ensure macroeconomic stability. While the current debt burden is manageable and returning to the pattern of past deficits would be enough to maintain its stability, there is a case to use favourable periods of revenue to reduce the debt ratio to preserve fiscal space to manage future downturns. In addition, there is a strong social pressure to improve outcomes and areas, including higher education, where additional investment is needed, and to finance necessary structural reforms.

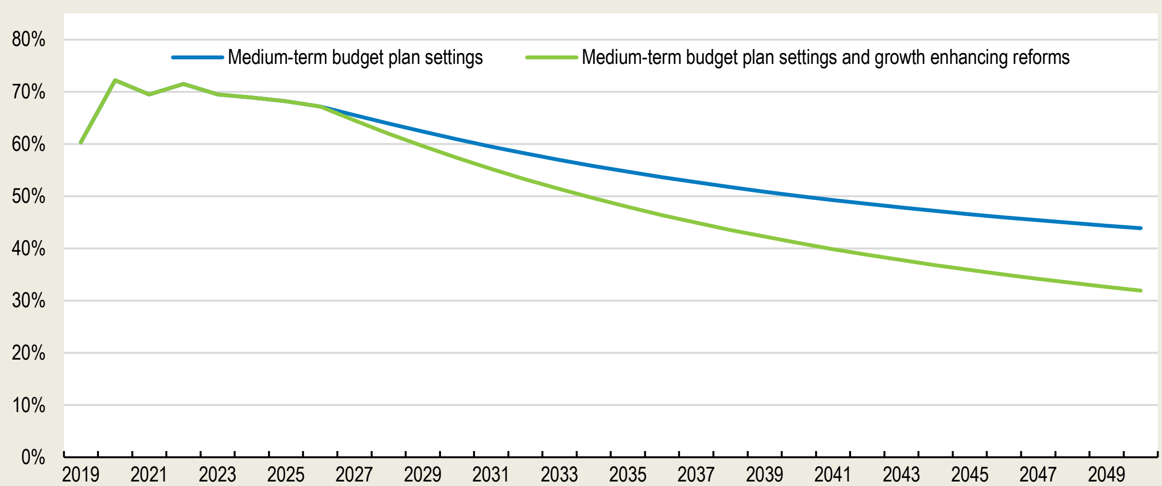
Box 1.3. Debt is sustainable based on current policies

This Box sets out paths for the debt-to-GDP ratio under current policies. Due to a lack of consolidated general government debt for Morocco, only the central debt is considered. Local government debt and social security are not included, although the latter recorded surpluses in recent years.

In the baseline scenario based on currently legislated policies with the assumption of growth at its potential from 2026 until 2050 (4.1% on average over that period), a GDP deflator of its historical average (2%), interest rates at 3.2% and the primary budget deficit shrinking gradually to its medium-term objective of -0.5% by 2026, the debt-to-GDP ratio would decrease steadily to 45.1% by 2050 due to favourable debt dynamics as the economy expands (Figure 1.13).

In a scenario where the impact of growth-enhancing structural reforms quantified in this Survey is taken into account, the high potential for structural reforms to raise growth would put the debt ratio on a stronger downward growth.

Figure 1.13. Ageing could put pressure on long-term public finances



Note: The baseline scenario assumes that GDP growth returns to its potential by 2050 (4.1% on average between 2026 and 2050), GDP deflator is 2%, interest rates (apparent interest rate) on debt stabilise at 3.2% and the primary deficit shrinking gradually to its medium-term objective (-0.5% of GDP by 2026).
Source: OECD calculations based on Ministry of Economy and Finance data.

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While Morocco currently has a young population, experience from OECD countries shows that great care will be needed in the design of the pension system to ensure that it is adequately funded over the long term, as well as ensuring pension adequacy, fairness and appropriate risk sharing. The government is planning major reforms to the pension system through the process of social dialogue to improve the sustainability of existing commitments and strengthen the public and private pension systems, based on guiding principles established by the Commission on Pension Reform. This includes raising the coverage of the pension system, which currently only covers around half of all workers and where the majority of older people currently have no retirement coverage. The reserves of the existing pension funds are expected to be exhausted in the coming years. Work to implement a new approach to pensions should continue; it is essential that this is well-designed to be on sustainable and sound financial footing. Building up sufficient reserves and planning on a long-term basis as in Canada (including building up large reserves) would help avoid the challenges many OECD countries are facing as their populations age.

Further strengthening the fiscal framework would help manage spending pressures

Good fiscal outcomes prior to the pandemic were supported by a strict "golden rule" introduced by the 2015 Organic Finance Law (Box 1.4), which strengthened the medium-term budget framework, contributing to keeping the budget deficit on-track and ensuring a medium-term focus to fiscal management. Combined with effective debt management, this has helped to ensure fiscal credibility and to keep borrowing costs at reasonable levels. However, the current fiscal framework does not have an adjustment mechanism that would ensure the return of the debt ratio to previous levels following shocks. In addition, the economy and commodity prices were relatively stable between 2015 and 2019 and so the ability of the golden rule to contribute to cyclical management was not rigorously tested. However, this may change in the years ahead and so a more flexible approach to cyclical management could be warranted, while keeping the fiscal discipline imposed by the existing system.

Box 1.4. The fiscal framework has been strengthened by a medium-term budget framework

In Morocco, debt issuance is governed by the 2011 Constitution and the 2015 Organic Finance Law. The Constitution empowers Parliament and the Government (Article 77) to ensure macroeconomic balance, while the Organic Finance Law introduces a binding "golden rule" limiting public borrowing to investment financing and debt rollover. While the government fully adhered to the golden rule before the pandemic, this rule was suspended during the pandemic.

A three-year budgetary framework anchoring fiscal policy with spending and revenue forecasts three years ahead based on macroeconomic projections and future tax/spending measures accompanies the annual Finance Law, aimed at enhancing the credibility and transparency of fiscal policy and providing a medium-term vision.

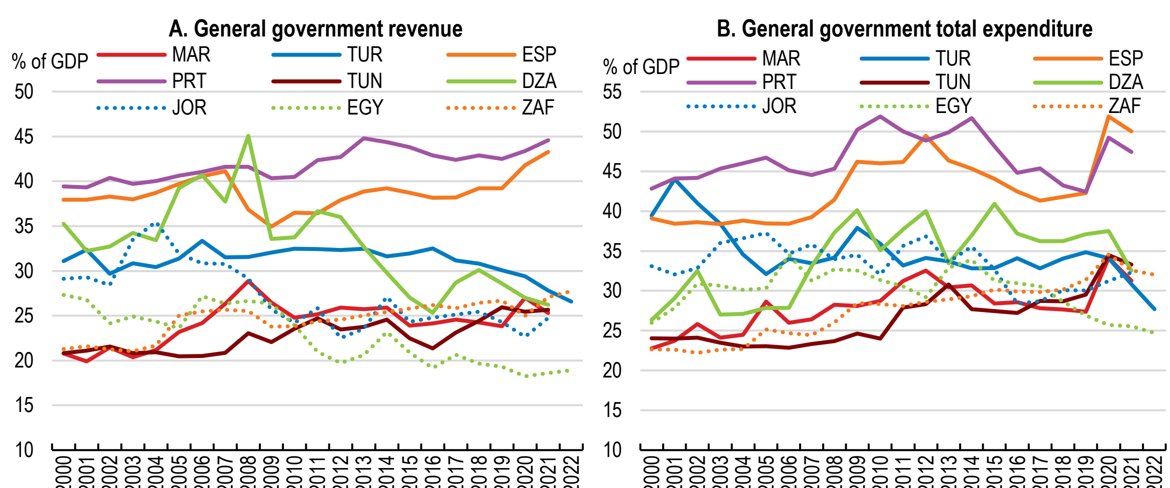
The fiscal framework should be further strengthened, while providing flexibility in a well-defined way. A medium-term debt target with an expenditure rule and a safeguard mechanism would work in that direction. First, a new medium-term debt ratio target would help to ensure that the debt ratio does not trend upwards and would set a high-level anchor for the Organic Finance Law. Second, a multi-year limit on primary spending growth, alongside periodic spending reviews, would help to manage the risk of spending overruns or pressures to raise spending relative to the current medium-term plan, including by revising it to a higher level, and strengthen the provisions that exist in the Organic Finance Law. This could initially be based on the existing medium-term plans to ensure they are implemented and to allow for the planned increase in social spending, but after 2026 could be more closely aligned to the growth of trend GDP. This rule would strengthen the existing political commitment to implement the medium-term budget plan, as well as eventually setting its level as a function of economic circumstances. Third, a safeguard mechanism could allow for the suspension of the expenditure rule in exceptional circumstances subject to the approval of Parliament.

The creation of an independent fiscal council, whose design could be inspired by the OECD principles for IFIs (OECD, 2014[12]), could contribute to the assessment of ex ante and ex post compliance with the fiscal rules and the use of the exceptional circumstances clause. Such a body could also give an expert opinion on the macroeconomic and budgetary assumptions which underlie the Finance Law before its presentation to Parliament. Taken together, this would increase transparency to the public and markets and help to ensure the fiscal rules are effective. The OECD previously found that certain budgetary risks, such as those associated with public debt, are monitored by the Ministry of Economy and Finance, but in an ad hoc manner and recommended that Morocco should put in place the first milestones of a budgetary risk management framework (OECD, 2023[13]). The 2024-2026 budgetary programming has outlined key medium-term budgetary risks and contingent mitigation measures. Continuing to enrich the scope of the risk analysis exercise including providing a quantification of the main identified risks, paired with a coordinated approach to risk monitoring, would help to ensure the resiliency of public finances.

Spending pressures need to be managed and efficiency increased

With pressures for higher spending in some areas and to finance growth-enhancing measures, it is important that spending is well-managed. Government spending is about 33% of GDP (as reported by the IMF, consolidating the general budget of the central government, the Autonomous State-Managed Services and Special Treasury accounts with statistical adjustment), well below most OECD countries, but in line with neighbours or some OECD members like Türkiye (Figure 1.14). However, this figure is limited to the central government budget. With the inclusion of sub-central governments, social security funds and quasi fiscal funds (Box 1.5), Morocco's government is closer in size to those of OECD countries at above 40% of GDP in 2021, the latest year for which all the required data are available (this is an upper limit as not all transfers across accounts are accounted for and hence there may be double counting).

Figure 1.14. The size of the government and public finance resources is in line with those in neighbouring countries



Note: For Morocco, revenues and expenditures are for the central government.
Source: IMF World Economic Outlook database.

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Box 1.5. Public spending and revenues in Morocco

Morocco does not compile data comparable to general government accounts in OECD countries. The major difference between the international definition and the Moroccan is the exclusion of the social security accounts, the SOEs producing public services, and the sub-national government levels. As there are transfers across accounts, these cannot simply be aggregated with other parts of the government's balance sheet.

The Moroccan State budget is basically the central government budget. This central government budget comprises:

- The General Budget (Budget général). This is the cornerstone of the central budget (75.7% of central expenditures based on the 2024 finance law). On the expenditure side, it includes operating expenses, investment outlays, and debt service costs. On the revenue side, it covers taxes, proceeds from fines, remuneration for services rendered and user charges, donations, rental income from state property and sales, proceeds from the transfer of movable and immovable property, royalties and profit shares as well as resources and financial contributions from SOEs.
- Autonomous State-Managed Services (SEGMA : Services de l'État gérés de manière autonome). SEGMA (0.4% of central expenditures based on the 2024 finance law) are service providers that lack legal person status and rely on their own resources to cover expenditures not charged to the general budget. The primary goal of SEGMAs, which consist largely of provincial hospitals and training centres, is to provide public services for remuneration to users at the sub-central level. SEGMA have budgetary autonomy and must generate at least 30% of their resources from their own revenues. Those failing to meet this requirement are abolished. A shortfall in operating revenue can be compensated by a balancing subsidy transfer from the general budget.
- Special Treasury Accounts (CST : Comptes spéciaux du Trésor). These accounts track revenues earmarked for specific expenditures such as for specialised or multi-year operations, regardless of fiscal year boundaries, that cannot conveniently be included in the general budget framework. These accounting operations are tied to the application of legislation, regulation, or contractual obligations predating the creation of the account. On the basis of the 2024 finance law, these accounts represent 24% of central expenditures.

At a sub-central level, local elected authorities and their associations (the so-called groupements) manage budgets with two main parts: the operating budget and the investment budget, which may also include annexes and special accounts. Local authorities include regions, prefectures or provinces, urban and rural municipalities, while their associations encompass inter-regional cooperation committees and groups of local authorities.

Resources for local authorities come from taxes, royalties and service fees, tax sharing with the central government (30% of VAT, 5% of personal and corporate income tax receipts and 20% of insurance contract taxes), state or other public legal entity subsidies, authorised borrowing proceeds, property and equity income, proceeds from joint funds, and donations. Similarly, group resources include contributions from member authorities, state subsidies, transferred service revenues, asset income, borrowing proceeds, and donations.

Expenditures cover operational costs like personnel, maintenance, debt servicing, subsidies, and contributions, as well as capital expenditures such as new construction, buildings, roads, local interest equipment, loan repayments, and contributions to projects relevant to local authorities. Group expenditures reflect the operational and capital needs of their collective operations.

The planned revenues and expenditures in 2024 for local authorities' budgets amount to MAD 49.5 billion and MAD 39.8 billion, respectively, compared to MAD 350.5 billion and MAD 435.4 billion for the state budget (Trésorerie Générale du Royaume, 2023[14]).

Concerning the social security sector, total contributions and benefits amounted to MAD 67.4 billion and MAD 59.8 billion, respectively, for pension funds (pension fund expenditures do not include military pension schemes) and MAD 14.8 billion and MAD 12.5 billion for health insurance funds in 2021 (Source: Autorité de Contrôle des Assurances et de la Prévoyance Sociale).

In addition to the central and regional budgets and social security funds, there are also sizeable public funds handled by public organisations that deliver public goods and services (OECD, 2019[15]) (Ministère de l'Économie et des Finances, 2023[16]). These bodies do not only deliver the services purchased by the government, as would be common in other countries, but they may also collect specific taxes (taxes parafiscales) that contribute to the funding of their spending. The largest of such taxes (60% of the total) is the professional training tax collected by CNSS (Caisse Nationale de Sécurité Sociale) on behalf of the training agency OFPPT (Office de la Formation Professionnelle et de la Promotion du Travail), but there are also such taxes on imports and on television sets among others. Such taxes amounted to 0.4% of GDP in 2022.

Table 1.4. Morocco's government is larger than it looks

% GDP			2021	2022	2023
1. Central government budget					
	General state budget				
		Revenues (excluding VAT transferred to local authorities)	20.5	23.0	23.7
		Revenues (including VAT transferred to local authorities)	23.0	25.8	26.3
		Expenditures	26.7	30.3	31.0
	Independently managed public services (Services de l'État Gerés de Manière Autonome, SEGMA)				
		Revenues	0.2	0.2	0.2
		Expenditures	0.2	0.2	0.2
	Special Treasury Accounts (Comptes Speciaux du trésor, CST)				
		Revenues	10.2	11.4	12.7
		Transfers from general budget	2.0	1.9	2.3
		Expenditures	8.9	9.9	10.6
2. Non-commercial SOEs					
	Quasi fiscal revenues		0.4	0.4	0.3
	Transfers	(from general budget)	3.2	4.2	4.5
3. Local authorities' budget					
	Revenues		3.3	3.4	3.2
		Transferred revenues (from state budget)	2.0	2.2	2.0
	Expenditures		3.1	3.1	2.9
4. Pension funds					
	Revenues		5.3	**	**
	Expenditures		4.7*	**	**
5. Health insurance funds					
	Revenues		1.2	**	**
	Expenditures		1.0	**	**

Note: Pension fund expenditure does not include military pension schemes.
Source : Trésorerie Générale du Royaume; Direction des Entreprises Publiques et de la Privatisation; Autorité de Contrôle des Assurances et de la Prévoyance Sociale.

Adding up spending by the various entities in Table 1.4, while accounting for transfers between accounts (in particular between the general budget and the special treasury accounts and the sub-central budget accounts, respectively) would result in government spending of 40.6% in 2021. Revenues would also be 36.2% of GDP, comparable to the levels of many OECD countries.

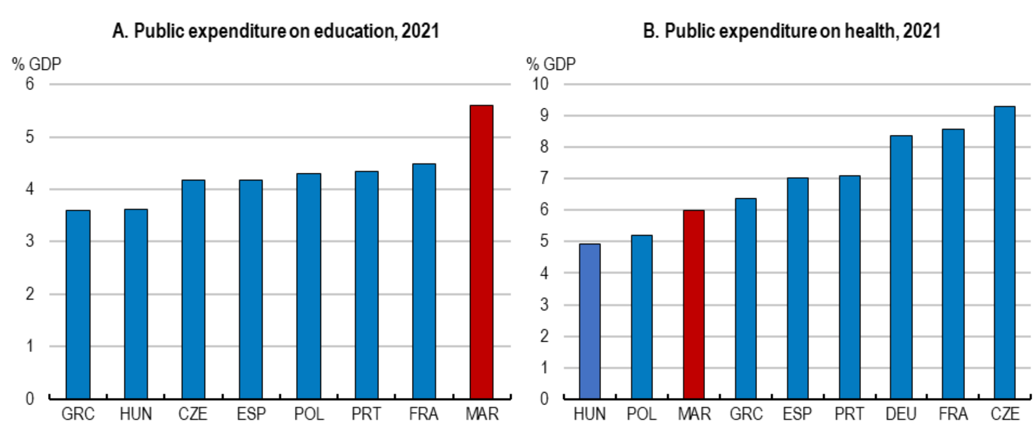
Comparison with other countries on what public funds are spent on is not easy as only the central government funds are reported. Moreover, the data are by government department, without classifying how much is spent by functional or economic category. Otherwise, the budget data, at least at the central level, are published on a regular basis and in a comprehensive manner, with a separate lengthy report on each published account. Moreover, few countries publish their budget to the extent of granularity Morocco does with budget tables spreading over hundreds of pages. Classifying them by economic and functional category (in addition to reporting social security fund and regional data) would allow government officials and researchers alike to make a better use of this wealth of information.

Source : OECD calculations based on data provided by the Ministère de l'Économie et des Finances (Trésorerie Générale du Royaume).

Raising the effectiveness and efficiency of public spending

Public spending on health and pensions has been lower than in OECD countries, reflecting low coverage rates and high out-of-pocket spending, although this will change in the light of recent efforts to raise public health insurance coverage. Public investment is higher than in most OECD countries as a share of GDP given high investment needs. The efficiency of public spending needs to be improved to ease pressures on the public finances and to improve outcomes (see Chapter 2) and warrants systematic evaluation, for example through spending reviews. Morocco spends a higher share of GDP on education than most OECD countries (Figure 1.15). Given the relatively poor outcomes on various education performance indicators (see Chapter 3), it would be desirable to conduct a systemic evaluation of education spending to identify potential sources of improvements and efficiency gains alongside existing reform efforts. Morocco has a large school-age population, but that alone cannot explain the high level of spending. Research links education spending inefficiency to institutional factors, such as absenteeism by both teachers and students (Fayad, Auclari, G. and Dua, A., 2023[17]). Health spending at 6% of the GDP is in line with lower OECD spenders, though given the high share of out-of-pocket spending (Special Commission on the Development Model, 2021[18]) and the relatively low coverage in 2021, there is room to increase efficiency in this area as insurance coverage is expanded.

Figure 1.15. Morocco spends more on education as a share of GDP than other countries



Note: For OECD members, all data are on National Account basis. As for Morocco, public investment spending is based on National Accounts standards, while the other items approximate such a spending definition.
Source: OECD Public Finance database and Moroccan authorities.

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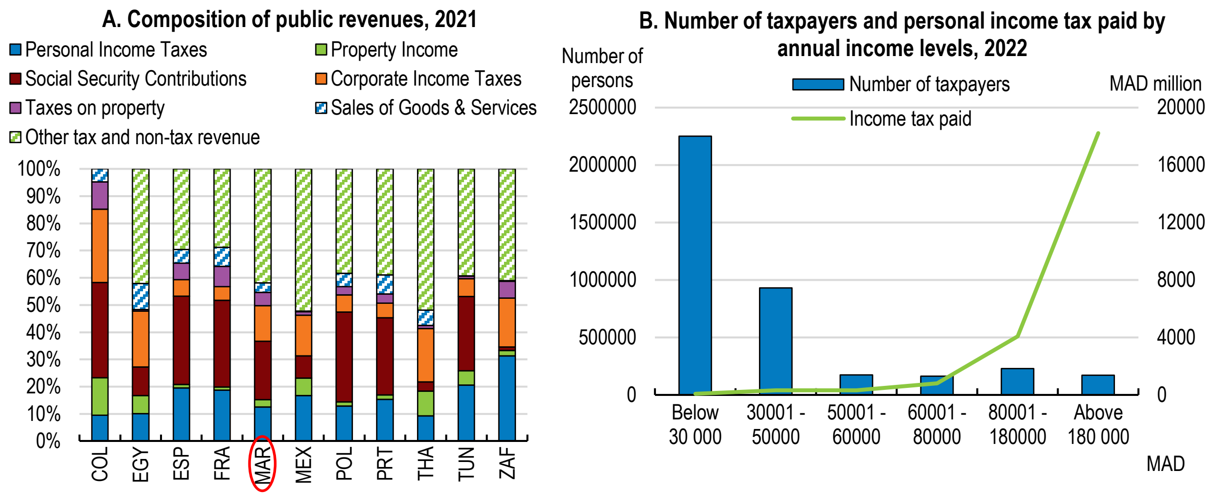
Public procurement is a powerful tool to spur competition in public markets and increase the efficiency of spending. In Morocco, the size of the public procurement market is 15-17% of GDP, reflecting the important role of the government in the economy. The laws governing public procurement have undergone profound changes in recent years with decree No. 2-22-431 of 8 March 2023 being the most recent. The earlier limit of MAD 200 000 set for acquisitions by purchase order from public institutions increased to MAD 500 000 from 1 September 2023. The reforms brought about a number of positive developments, such as the inclusion of sustainable development elements and innovation, ensuring direct payment of contractors and harmonising the framework for all stakeholders, making Morocco's public procurement system the most advanced in the MENA region. A simplified process for SMEs has also been adopted. While ministries and public enterprises allot public contracts with a quota for SMEs, a proven approach to enhance competition is to require the division of large public contracts into smaller lots without affecting the feasibility and efficiency of the work to be delivered, especially in countries with many very small firms. Monitoring and implementation of sustainability and innovation in public procurement need to be ensured to have the desired impact. It would be useful to assess the impact in applying the national preference principle. The introduction of the reference price can serve as a benchmark but could potentially lead to collusion and higher prices and needs to be carefully evaluated. The public procurement process can be lengthy and is hampered by unsuccessful tenders, in part, due to a lack of capacity in some areas. In Morocco, there is no dedicated profession of public procurement specialist with the work carried out by general civil servants using procurement manuals detailing purchasing and logistics functions and the role may not be a popular assignment due to potential suspicion of corruption. Ideally, the job should be done by highly skilled and specialised professionals, but at a minimum a competency framework should be established to ensure high standards. A study has been carried out on how to professionalise the public purchaser function with suggested measures to adopt.

There is room to raise revenues

To finance reforms and to broaden the tax base to allow lower rates, there is a need to find additional sources of revenue. Morocco's official public revenues at about a quarter of GDP are comparable to those in neighbouring countries and emerging economies, though lower than in most OECD members. By the broad definition, however, as in Box 1.5, the size of revenues at 36% of GDP would be in line with those of many OECD countries. While in the past decades revenues were sufficient to finance most spending without having to resort to borrowing too much, ambitious welfare programmes and investment needs increase pressure on spending and structural reforms may require spending, while long-term pensions commitment will build as the population eventually ages. Morocco should strengthen the design of each type of tax, while maintaining efficiency and fairness (OECD, 2019[15]).

Currently, most revenues (nearly 40%) come from indirect taxes, in particular the VAT, as in many countries at similar income levels (Figure 1.16). The recent streamlining of the VAT will likely strengthen this revenue source. Taxes on income, profits and capital gains represent a quarter of total revenues (8% of GDP) and are a much less important source of revenue than in OECD countries, partly related to the very high level of informality and compliance issues. Less than 4 million private sector employees declare with the tax authorities, even though more than ten million are working. Moreover, the income tax system is highly progressive with the top rate at 38% and less than 5% of private sector taxpayers contributing more than three quarters of personal income taxes paid by private sector employees (Figure 1.16). At the other extreme, 80% of private sector taxpayers contribute only 1.6% of those taxes. This is due to a tax-free allowance of MAD 30 000 per year. All this, however, is just a quarter of taxes on income, profits and capital gains: personal income taxes collected from civil servants play an important role given that they tend to be better paid, it is easier to collect revenue from them and the civil service in Morocco is relatively large. Overall, there is room to improve the collection of personal income taxes from the private sector by reducing informality, as well as more stringent compliance measures. As discussed in Chapter 2, this should combine more effective enforcement of tax obligations and measures to encourage voluntary compliance, alongside a range of other measures to encourage formalisation.

Figure 1.16. Indirect taxes are a key source of revenues and relatively few people pay most income taxes



Note: Panel B: The tax-free allowance is MAD 30 000. Private sector only.
Source: OECD Public Finance database; OECD Details of Public Revenue for Egypt, Morocco, South Africa, Thailand and Tunisia database; Ministry of Economy and Finance of Morocco.

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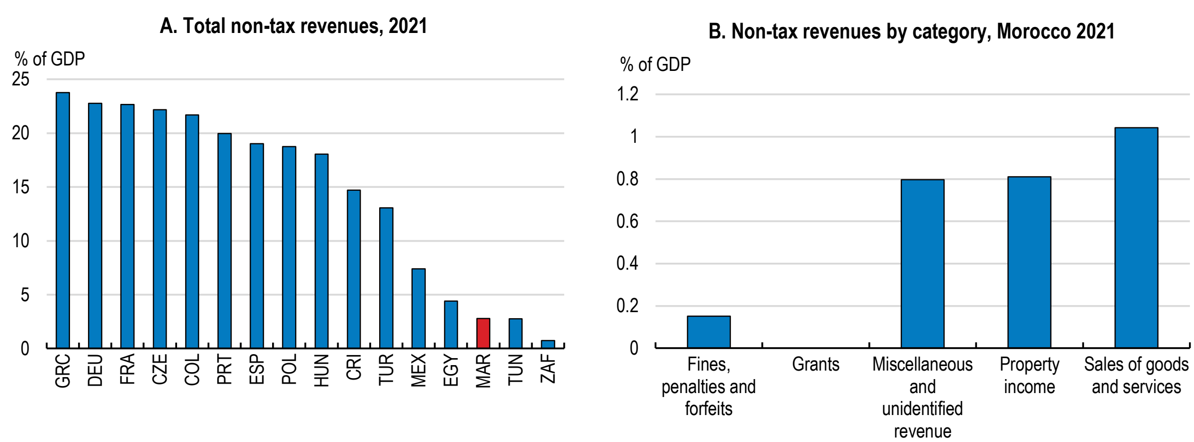
Morocco has a progressive corporate income tax system. In 2022, 77 firms, which constitute a mere 0.1% of declaring firms, contributed half of corporate income taxes and 3.1% of declarants contributed 90%. By sector, the largest contributors were banks and insurance companies with a 22.5% share, followed by firms in the commercial sector at 20% and in manufacturing at 16%. The corporate income tax system, with the lowest rate at 20%, poses a significant challenge for smaller firms and hinders entrepreneurship and formalisation. The 2023 Finance law reduced the number of rates to just three: 20% for most companies with profits below MAD 100 million, 35% for those with profits above MAD 100 million (except service firms in Casablanca Finance City and firms in industrial acceleration zones, as well as those investing at least MAD 1.5 billion over five years) and 40% for financial sector firms, including the central bank and a couple of dozens of other companies. These target tax rates will be achieved by 2026: for firms with profits below MAD 300 000, it will be gradually raised to 20%, while for industrial firms with profits between MAD 1 million and MAD 100 million, it is being reduced to 20%. While this new schedule is less distorting and rates for some firms are lower, the MAD 100 million threshold may still restrict growth of firms in some industries. Moreover, the lifting of the corporate income tax rate for the smallest category from 10% to 20% by 2026 will likely hurt small businesses and business creation. Given that 90% of declaring firms belong to that category, these changes imply a significant loss of competitiveness as 20% is a high starting rate for corporate income tax rate in international comparison. The impact of these changes, including on SMEs and the formalisation of businesses, should be carefully evaluated. Most small firms do not currently pay corporate income taxes, only a minimum contribution of 0.25% is levied on their sales (reduced from 0.5%) if they are making a loss. However, more stringent reporting and disclosure requirements, as recommended in Chapter 2, and a more effective formalisation of informal activities would tend to result in a greater share of profit-making firms, but a high starting rate could disincentivise setting up a firm and formalising.

Tax expenditures are spread across 292 measures and at 2.5% of GDP in 2023 are still sizeable, despite the elimination of 178 measures over 2006-23. They are mostly related to exemption from VAT (over half) and corporate income taxes (a sixth). Tax expenditures fell from 2.9% of GDP in 2022, a fall mostly attributed to the corporate income tax reforms. As part of the reforms, 14 tax expenditures have been abolished. There is, however, ample room for further rationalisation. Tax incentives should be motivated based on their socio-economic impact in accordance with Law 69-19 and only applied where justified. Conducting a systemic cost-benefit evaluation of all existing incentives, with a view to streamlining and abolishing ineffective tax expenditure measures, could further bring about increases in government revenues.

Morocco's share of non-tax revenues at 2-2.5% of GDP is relatively low, especially given available mineral resources (Figure 1.17) (Conseil Économique, Social et Environnemental, 2023[4]). Other countries with mineral deposits manage to raise more revenues from royalties, which are part of non-tax revenues. Morocco's non-tax revenues mainly come from sales of goods and services and are related to property owned by the state. Royalties are in the miscellaneous category, making up a mere 0.8% of GDP. Given its rich deposits not only in phosphates, but also a wide range of other potentially lucrative minerals including cobalt, copper, and manganese which have potential to be developed, royalties should be used to bring more revenue to the budget. While transparency has increased, more information on the terms of existing long-term mining concessions would help the public and independent fiscal authorities to exercise oversight of revenue streams from natural resources. An additional reason for low recorded central non-tax revenues is so-called parafiscal revenues, which are taxes or sur-taxes collected by state agencies, but that are not recorded as part of the central government budget.

Figure 1.17. Non-tax revenues are low and come from sales of goods or property income



Source: OECD Tax Statistics, Revenue Statistics in Africa; OECD National accounts – Government.

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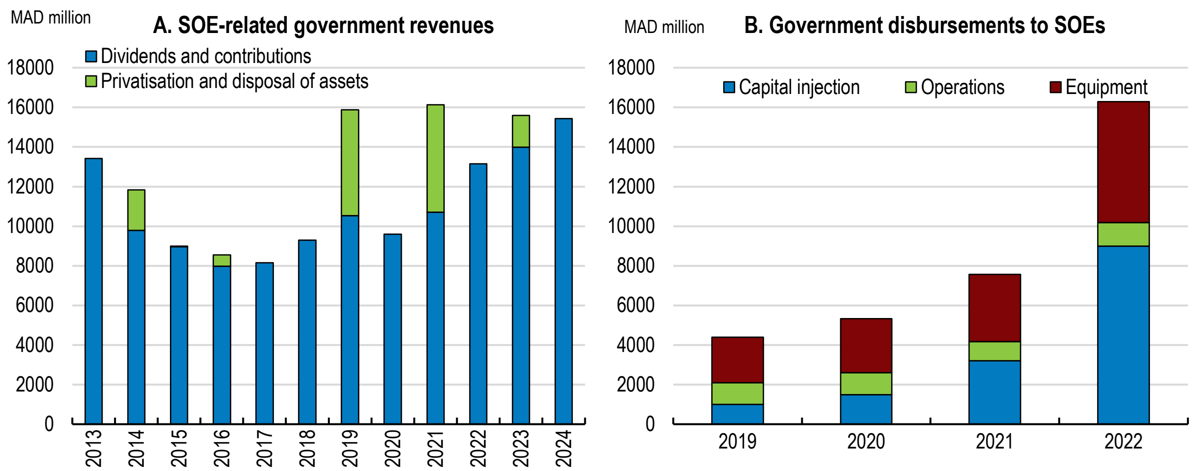
State owned enterprises contributed around 1% of GDP to government revenues in the form of dividends and contributions, primarily from the OCP (the administrative monopoly for phosphate mining and processing) and the land registry agency (Agence National de la Conservation Foncière du Cadastre et de la Cartographie, ANCFCC). However, the SOE sector receives significant government subsidies, although it tends to be a net contributor to the government budget, mostly through dividends (Figure 1.18).

Figure 1.18. A large part of non-tax revenues from SOEs is recycled to them



Note: Data refer to commercial public enterprises. 2024 is projection.
Source: Ministry of Economy and Finance.

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As commercial SOEs are supposed to be profit oriented, they should make appropriate net contributions to the budget. Given the large size of the SOE sector, they could be more important contributors to sustainable revenues in the long run. To deliver the greatest profits for the benefit of all, following good governance principles as defined by the OECD and continuing to implement existing reforms would help (discussed in Chapter 2). Furthermore, their dividend submissions to the budget should not be driven by ad hoc cash needs, as it could disrupt their cash flows and make their financial management and long-term investment planning difficult. Pre-defined shares of profits should be regularly transferred to the budget at an appropriate level.

There is ample room to step up revenues that help green the economy and contribute to a more efficient use of resources. As discussed in the green transition section of this chapter, raising taxes on diesel, enacting a carbon tax, raising water prices and a full enforcement of water withdrawal fees could raise revenues worth 1.4-1.5% of GDP (Box 1.6 and Table 1.5). Furthermore, with Morocco’s convergence to more advanced countries, it receives less development assistance, in 2021 reaching 0.8% of GNI and representing of over 3% of its financing needs (Box 1.7).

Box 1.6. The fiscal impact of reforms

This box summarises the fiscal impact of selected reform measures in this Economic Survey. These estimates are undertaken where feasible given available data and evidence and come with significant uncertainty. In other key areas, the sign of changes is included for major reforms that would have a significant economic or social gain, but for which there is insufficient information to quantify the impact.

Table 1.5. Estimated fiscal impact of selected reforms

	Fiscal impact in % of GDP
Revenue measures	
Strengthen enforcement of tax, social payments and employment	++
Lower social security contributions for low-earners	
Reduce the lowest corporate income tax rate from 20% to 15%	-0.2%
Raise higher royalties from mining and higher dividends from SOEs	++
Continue to reduce import tariffs	-
Raise diesel excise tax rate	0.5%
Enact a carbon tax	0.8%
Raise water prices to fund new water infrastructure	0.1%
Full enforcement of water withdrawal fees	0.02%
Spending measures	
Rationalisation of investment spending	-
Extend pre-school education for 2-3 year olds	-0.4%
Increase spending on training and labour market programmes	-
Higher supports for innovation	-
Total	**0.0%**
Of which quantified:	***(0.8%)***

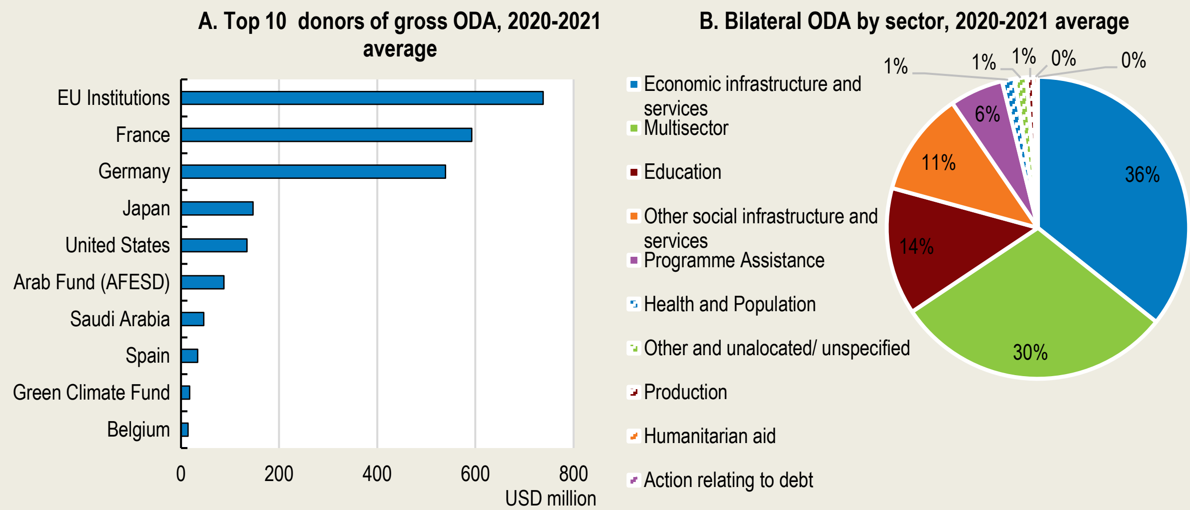
Note: +/- indicate a positive/negative impact on the budget balance and ++/-- a large positive/negative impact.
Source: OECD calculations.

Box 1.7. The role of foreign assistance is changing

Foreign development assistance plays an important role in Morocco's on-going economic and social development but is reducing as the country progresses. It has brought financing and expertise to support Morocco. Over the past few decades, the country has transitioned from being primarily an aid recipient to a more diverse relationship with its development partners. Indeed, the 21st century has seen a more diversified approach to official development assistance (ODA), with an emphasis on promoting economic growth, enhancing governance, and addressing climate change issues. Morocco also receives extensive financial support from foreign governments and multilateral development banks.

On a net basis, ODA reached MAD 965 million or 0.8% of GNI in 2021, falling from MAD 1.8 billion (1.7% of GNI) in 2020. The main donors to Morocco were the institutions of the European Union with 30.1% of the total gross ODA granted, followed by France (24.1%), Germany (22.0%), Japan (6.0%), the United States (5.5%), and the Arab Fund (3.6%), totalling 91.3% of the total ODA provided in 2020-2021 (Figure 1.19., Panel A). On average, 36% of bilateral ODA was allocated to economic infrastructure and services in 2020-2021, 14% to education, and 11% to other social infrastructure and services (Figure 1.19., Panel B).

Figure 1.19. EU members are the top development partners and mostly support economic and social domains



Source: OECD ODA Statistics database.

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1.6. Medium-term priorities for strengthening inclusive and sustainable growth

While the Moroccan economy has grown, strong convergence to more advanced countries could be achieved, as well as making growth more inclusive and environmentally sustainable. Major reforms are underway to support investment and social protection, among others, but additional actions would support this process.

Morocco's New Development Model (NDM), prepared by an independent commission, encapsulates major ambitions for the country by 2035, before the demographic dividend fades out (Special Commission on the Development Model, 2021[18]). It aims at addressing four shortcomings: lack of a vision for the country's long-term development, inadequate regulation, limited public sector capacity and lack of trust in government (Box 1.8). The NDM recognises the need for action to make the best out of the country's endowments and demographic and geopolitical setting. Even though the NDM was designed by independent experts, it is a guidebook for government agencies to implement. In parallel with this overarching document, there is a plethora of sectoral plans, mostly spanning over the medium term. The inclusion of quantifiable targets and deadlines enhances the credibility of national and sectoral plans. Those targets, however, could be better communicated to the public and only indicators that are readily/publicly available chosen. This would help policymakers and the public to gauge progress. Regular stocktaking would help in getting all stakeholders onboard. These ingredients are crucial also to hold policymakers accountable.

Box 1.8. Morocco's New Development Model

The New Development Model is a comprehensive strategy with quantified targets Morocco aspires to achieve in the coming decade. It was prepared by a group of experts invited by the Special Commission for the Development Model and released in April 2021. The multiple indicator targets (Table 1.6) reflect the overarching nature of the strategy spanning over the economy, the society, the government and its relationship with citizens, the environment and external relations.

Table 1.6. Observed level and targets for selected indicators in the New Development Model

	2019 or latest value	Target 2035
GDP per capita in USD PPP	7 826	16 000
Average and high-tech industry value added	28%	50%
Number of healthcare workers per 1 000 inhabitants	1.65	4.5
Students skilled in basic reading, mathematics and the sciences at the age of 15	27%	75%
Percentage of employed women	22%	45%
Share of formal jobs	41%	80%
Gini index	0.395	0.350
Share of desalinated water and treated wastewater in total water consumption	0%	15%
Share of renewable energy in total energy consumption	11%	40%
Online government services index	0.52	0.9
Satisfaction rates among citizens with public services	-	80%

Source: Special Commission on the New Development model (2021), *The New Development Model – Releasing energies and regaining trust to accelerate the march of progress and prosperity for all.*

The New Development Model identifies four priority areas for transformation: (i) creating a productive economy with higher value added and more jobs, (ii) strengthening human capital for future skills, (iii) enhancing inclusiveness of growth and (iv) empowering regions.

Source: Special Commission on the New Development model (2021), *The New Development Model – Releasing energies and regaining trust to accelerate the march of progress and prosperity for all.*

Beyond economic performance targets and measurability, data provision, conformity and availability constitute barriers to designing and implementing the right policies (Box 1.9). More resources, including upgrading investment and technical expertise, need to be invested into data production, compilation and validation. Furthermore, key surveys should continue on a regular basis, as in the past, such as surveys on informality, public investment or the economic census, and they should be accessible to policymakers, researchers and the general public on a timely basis. Data collection should be centralised to ensure quality, conformity with international standards and comparability across datasets and with aggregate data. The Haut Commissariat au Plan could play this role, but with the obligation to disclose the data they collect and produce rather than focussing on their own studies. The OECD Recommendation on Good Statistical Practices (originally of 2015, amended in 2019) states that statistical systems should ensure that statistics are presented in a clear and understandable form, released in a suitable and convenient manner, including in a machine-readable form, 'open data' should be found easily, and available and accessible on an impartial basis with supporting metadata and guidance. Furthermore, responsibilities for co-ordination of statistical activities should be established, including the co-ordination of statistical output among producers through standard classifications and avoiding the duplication of effort, with co-ordination functions clearly laid out and anchored in statistical legislation.

Box 1.9. Navigating across Moroccan statistics and data

The lack of comprehensive, timely and highly-quality statistics and data is a major impediment to effective policy making in Morocco. Core national accounts indicators and a wide range of statistics are published. However, there are many gaps in the coverage and timeliness of this information. Methodological information is often lacking. Statistical information is published across a range of agencies and a single online platform for data dissemination is missing.

Certain types of data that could be useful for analysis of the domestic economy and international comparison are not available, such as government accounts based on the National Accounts methodology, aggregate investment data comparable to budgetary data on investment, a split between real estate and infrastructure investment, to mention a few at the national level.

Other types of data used to be available, but they have not been produced for recent years, even though they would be crucial to assess some major economic issues. Those include surveys on informality, the last one conducted in 2014. Household surveys, the economic census and public investment surveys by the Haut Commissariat au Plan, the independent statistics agency, have not been conducted since that year, though the population census is currently being conducted as scheduled. Moreover, the results of many of those surveys were made available 4-5 years after they were conducted, reducing their relevance and overall value.

Access to firm- and household micro-level data is problematic. In recent years, a large number of so-called “observatories” have been established adjacent to government agencies or the central bank to collect specialised data sets at the micro level.

Source: OECD compilation based on Moroccan government websites.

This Economic Survey puts forward recommendations that boost economic growth and accelerate Morocco’s convergence with the more advance countries primarily through boosting labour utilisation and productivity. The package of some of these reforms is quantified in Box 1.10, subject to the limitations of the data. Overall, improving education, raising labour market participation and efforts to reduce corruption would have a very substantial impact on Morocco’s GDP per capita in the long run (Table 1.7).

Box 1.10. Quantifying selected structural reforms

The table below (Table 1.7) quantifies selected structural reforms proposed in the Survey. Most of the estimates are based on empirical modelling of the relationship between the reform measure and total factor productivity and the employment rate. The sample of countries includes both OECD and major non-OECD countries (Égert, 2017[19]). Where possible, the table uses the time or “within” estimate to assess the impact of the change over time. The estimates may not fully capture the specificities of any given country and many reforms cannot be quantified and therefore these estimates are of an indicative nature.

Table 1.7. Estimated impact of selected structural reforms on per capita GDP

Effects on the level of per capita GDP (%)

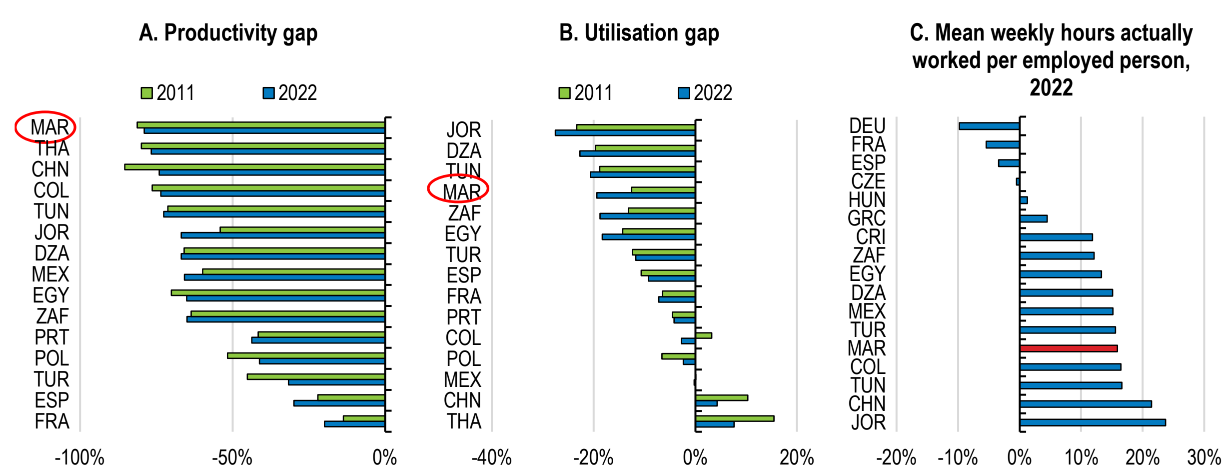
Reform Measure	Policy scenario	Long-term effect
Product market		
Reducing corruption	Closing half the gap in corruption indications to the world average	8.5%
Labour market		
Raising female labor force participation	Raising prime-age female employment-to-population ratio to the level of Tunisia	7.9%
Enhancing human capital	Raising average PISA scores to the average of the five lowest OECD country	11.7%
Total		**28.1%**

Source: OECD calculations based on (Égert, 2017[19]) and (Égert, de la Maisonneuve and Turner, 2022[20]).

Morocco needs to raise productivity and labour utilisation

Morocco's GDP per capita gap relative to the United States is greater than not only in OECD members, including emerging economies, but also other countries in the region such as Egypt, Jordan or Tunisia (Figure 1.20). The large income gap in Morocco is not due to short working hours as in fact Moroccans work longer hours than people in OECD countries. Morocco is a country with great unexploited potential given its young population. The productivity gap appears to be greater than in regional peers or OECD members. The labour resource utilisation gap, which indicates what share of the labour force is employed, is smaller than in most other regional peers, though much larger than in OECD members or other emerging economies (Figure 1.20). Moreover, the gap increased significantly over the past decade, indicating that job creation has not caught up with the number of young people entering the labour market.

Figure 1.20. Labour productivity needs to catch up and resources better utilised



Note: Gap relative to the United States. Panel A: Labour productivity is measured as GDP per person employed (constant 2017 PPP $). Panel B: Percentage gap in employment to population ratio, 15+, total (%) (modelled ILO estimate). Panel C: Percentage point differences. Data for 2022 except for Jordan (2021), Egypt (2021), Tunisia (2019) and Algeria (2017).
Source: OECD calculations based on the World Bank World Development Indicators and ILO Wages and Working Time Statistics (COND) Database.

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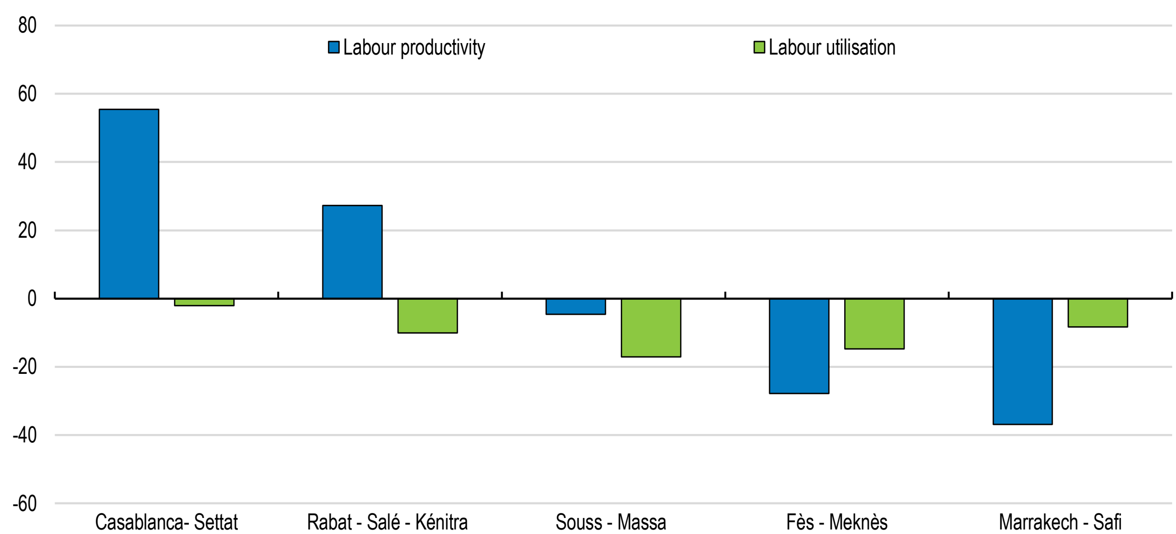
The regional productivity gap – here defined as the gap relative to the benchmark Tanger-Tétouan-Al Hoceima region–- varies greatly across the country (Figure 1.21). Relative to this northern region, which performs well on labour utilisation, all other regions, including Casablanca-Settat, exhibit a labour utilisation gap. In some rural areas the gap is large. As for labour productivity, the financial as well as the administrative centre of the country perform better than the benchmark region, but most of the others lag behind. In particular, Marrakesh-Safi and Fés-Meknés show the largest productivity gaps. Both are major tourism destinations with little manufacturing activities, mostly relying on services, which are known to be less productive than manufacturing industries.

Addressing low productivity growth and weak participation would create a virtuous cycle. Low rates of job creation are partly related to the modest rates of economic growth in recent years (Figure 1.21). Morocco managed to attract labour-intensive manufacturing and establish an industrial base beyond extractive industries as early as the 2000s. For instance, the automobile sector, which dates back only a couple of decades, boasts a workforce of 230 000 including its supply chains. However, to absorb the new cohorts looking to join the labour market each year (400 000-450 000 in the coming couple of years), higher growth and more production facilities are needed, including more of labour-intensive activities.

Figure 1.21. Labour productivity and utilisation gaps are substantial across the larger regions

Percentage gap with respect to the Tanger–- Tétouan–- Al Hoceima region, 2020



Note: Larger regions only.
Source: OECD calculations based on data from the Haut Commissariat du Plan.

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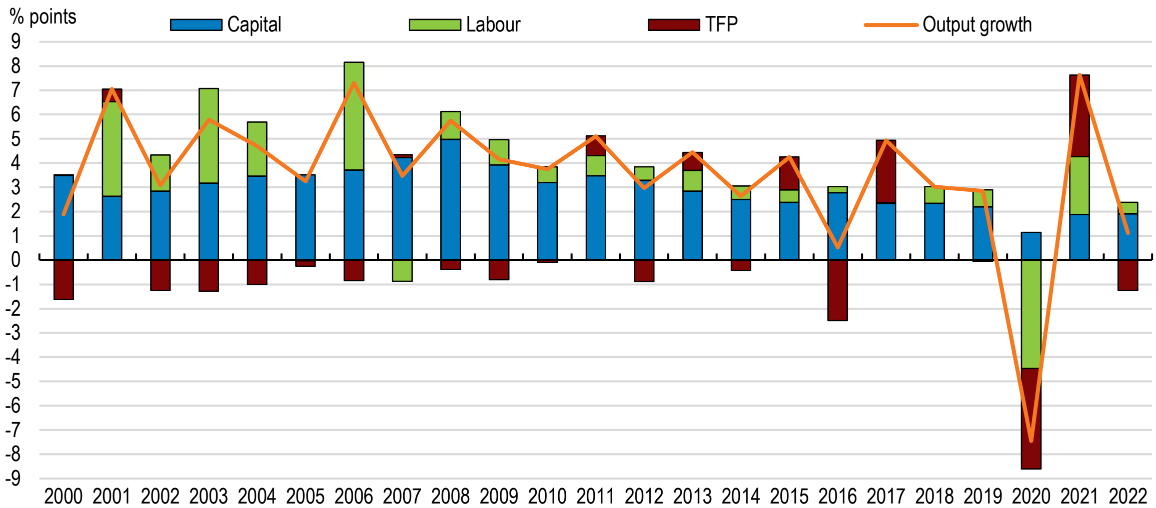
Growth in Morocco has mainly been driven by factor inputs, in particular of capital, while the contribution of labour has been modest (Figure 1.22). High investment rates with international standards should manifest in higher growth, but low investment efficiencies inhibit a higher contribution (see Chapter 2). The contribution of total factor productivity, which shows the efficiency of combining labour and capital, has been very modest over the past decades, often even negative.

Figure 1.22. Growth has mostly been driven by factor inputs

Contributions by factors of production



Source: Conference Board Total Economy Database.

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The productivity potential needs to be unleashed and labour better utilised and upskilled

Morocco has a relatively large services and a somewhat small agricultural and manufacturing sectors in value-added terms relative to lower-middle income group peers. Small manufacturing implies smaller scope for innovation to become an engine for productivity growth. Given Morocco's population size, it should be able to produce, export and become competitive in a wider range of products than it is now (discussed in Chapter 2). Focussing too much on existing industries could forego the chances of developing new ones. Given relatively high labour costs, it is rather medium-skill-intensive industries where Moroccan firms could potentially compete in the global arena. Informality creates an uneven playing field and reduces productivity gains. According to some estimates, it reaches as high as 30% of GDP (Lahlou, Doghmi and Schneider, 2020[21]). Urbanisation could be a potential source of productivity growth by exploiting agglomeration economies. This could include the formation of a greater number of large cities, creation of intermediary cities and emerging regional centres for the provision of medical and financial services.

Morocco should make use of its people, including by tackling informality, high unemployment and very low participation for women and young people (see Chapter 3). Roughly three quarters of all workers have been trapped in informal arrangements (defined as having a job but not having any social insurance scheme) according to household surveys (Observatoire National du Développement Humain, 2019, 2017, 2015, 2013[22]), lacking decent jobs. The current introduction of social security insurance for all who register is a significant achievement for an emerging market economy at Morocco's income level and will lower this measure of informality. At the same time, the system could be more work-focussed with stronger activation requirements for the unemployed. This process could be automated by linking the social security and social assistance registries with the unemployment agency, which would boost participation and improve matching. A major obstacle to greater labour market participation and formal employment is the very low level of education attainment of the working-age population, especially for women. Going forward, priority should be given to adults without education to acquire basic skills, on which they could base more technical skills. At the same time, people with basic skills need to be guided to training in vocational skills.

On-going reforms should increase well-being and reduce inequalities

Inequalities measured by the Gini index have slightly fallen over the past decades from 0,40 to 0,39 in 2020. With the new direct social assistance introduced in 2023, inequalities will likely fall. Individual opportunity is largely determined early in life: being born in rural or urban areas leaves a mark on one's career and life. People living in rural areas, who make up over a third of the population, have relatively limited access to high-quality public services. There are also fewer work opportunities in rural areas beyond agriculture and three-quarters of the poor live there (Table 1.8). The much greater weight of within-region inequalities relative to those between regions to some extent captures the urban-rural divide (Table 1.9). The between-region component remained at a very low level. Furthermore, inequalities are the largest in the richest regions such as Rabat or Casablanca. Being born in a relatively poor family (below 60% of the median income) increases the chances of being illiterate by 13 percentage points (based on ONDH Household Surveys).

Table 1.8. The poor tend to be inactive, live in rural areas and are more likely to be illiterate

Percentages

	2019	2017	2015	2013
Relatively poor (share in total)	17.65	19.65	18.69	18.52
Share of the poor:				
Illiterate	34.98	41.41	42.19	46.91
Primary or lower education	44.9	47.98	45.73	45.32
Tertiary-educated	3.72	4.97	8.12	4.74
Rural	77.22	74.22	68.71	81.62
Active	69.67	69.16	68.08	70.49

Note: Poverty is a relative concept and is defined as below 60% of median national income.
Source: OECD calculations conducted jointly with the Observatoire National du Développement Humain (ONDH) based on its household surveys (Enquête panel de ménages).

Table 1.9. Within-region income and consumption inequalities are larger than between regions

Theil indices of inequality decomposed into within and between components

	2019			2017			2015			2013		
	Theil index	Theil between	Theil within	Theil index	Theil between	Theil within	Theil index	Theil between	Theil within	Theil index	Theil between	Theil within
Revenues	0.298	0.017	0.28	0.3	0.017	0.283	0.399	0.017	0.382	0.352	0.013	0.339
Consumption	0.192	0.015	0.177	0.166	0.013	0.152	0.229	0.026	0.203	0.222	0.019	0.203

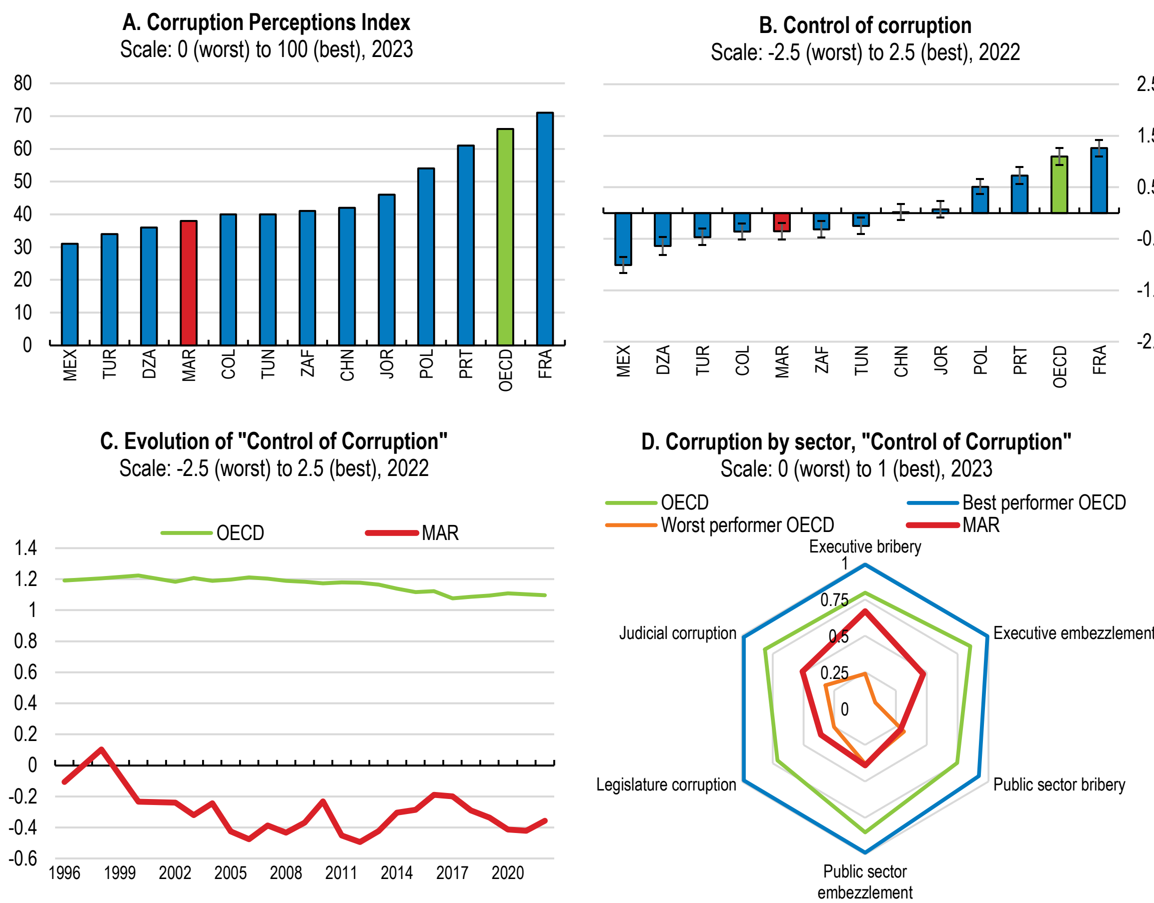
Source: OECD calculations conducted jointly with the Observatoire National du Développement Humain (ONDH) based on its household surveys (Enquête panel de ménages).

Public governance needs to improve

Corruption is harmful to growth as it leads to high transaction costs and can distort economic choices, as well as undermine social objectives, and government policies. Morocco's anti-corruption efforts have been stepped up over the past decade with the creation of a new legal framework and institutions. Despite this progress, corruption is perceived to be relatively high in Morocco compared to OECD norms and some other countries in the region (Figure 1.23.) according to the Transparency International's indicator. Morocco was ranked 97th among countries on this indicator in 2023. Morocco's average score on the

Varieties of Democracy Project's Control of Corruption indicator is also weak by OECD norms. There is high perception of bribery, as measured also by this index with 83% of the respondents reporting that bribery is widespread in Morocco and 61% saying it is extremely widespread. Legislative corruption is perceived as high as measured by a subcomponent of this indicator.

Figure 1.23. Corruption is perceived as high, especially legislative corruption and public sector embezzlement and bribery



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based components of the "Control of Corruption" Indicators by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, World Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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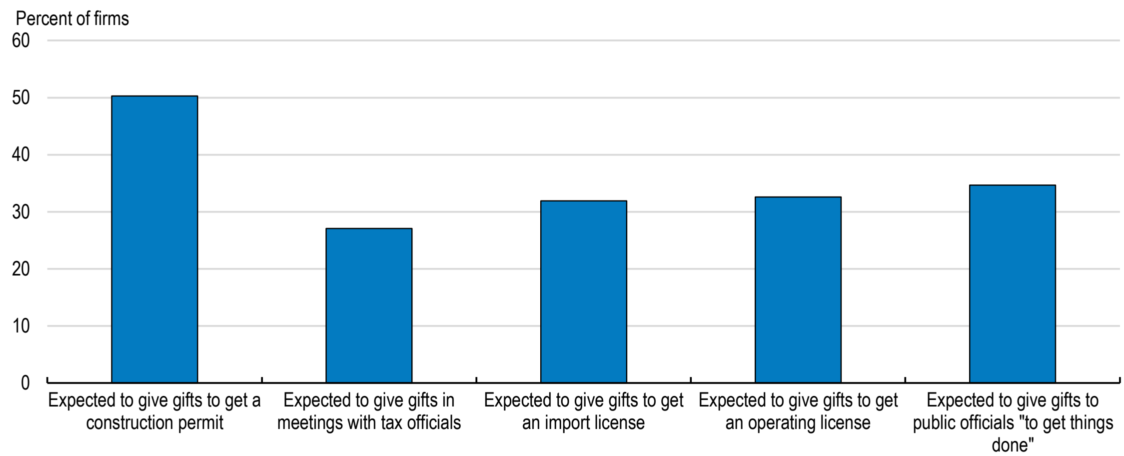
The National Authority for Probity, Prevention and Fight against Corruption (Instance Nationale de la Probité, de la Prévention et de la Lutte contre le Corruption) carries out surveys among citizens to assess corruption in society. According to the latest survey in 2023, 67% of Moroccan-domiciled respondents think that corruption is widespread or very widespread (Instance Nationale de la Probité, de la Prévention et de la Lutte contre le Corruption, 2024[24]). Information on corruption-related legal cases is hard to come by, which underlines the need for more transparency.

Corruption spans over the entire business landscape. Petty corruption, captured by the question whether gifts are expected to "get things done", is preponderant with 35% of firms in a representative survey of companies answering “yes” (Figure 1.24.). While MENA countries have relatively high levels of corruption in general, surveys report that Morocco has a high prevalence of bribes in many aspects of doing business covered by the survey. Getting an operating or an import license or a construction permit are reported often to involve gifts. Some firms prepare gifts for meeting with tax officials. Overall, nearly 13% of government transactions with firms were reported to involve bribes.

Figure 1.24. Firms report that bribes are expected for a significant number of business transactions

Percentage of firms expected to give a bribe in their different types of encounters with public officials, 2023



Source: World Bank Enterprise Surveys.

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Public procurement is a domain prone to corruption in many countries. In Morocco, more than half (58%) of firms surveyed in the same exercise report that they are expected to prepare gifts to secure government contracts, a much higher ratio than in OECD countries, although not all firms would have direct experience of public procurement. Since August 2023, a reform has required the public procurement process to be managed online. Digitalisation of the tendering process and greater transparency will help reduce corruption. To strengthen this process, further measures could be taken to limit the room left for “tailoring” tenders to favoured applicants. Procurement documents should ensure fair competition by ensuring technology neutrality and avoiding unnecessary specifications. This could be ensured by having the process reviewed by competition experts in addition to the current possibility of filing a complaint at any stage of the process, including prior to the submission of offer.

Although nearly half (47%) of the respondents are satisfied with the government’s efforts to fight corruption, fighting against corruption comes only fourth in their priority list for action, after healthcare, jobs for the young and education. It is the top priority for only 10% of the respondents and second for 12%. In contrast, corruption is the second biggest obstacle to firm development according to the most recent vintage of the World Bank Enterprise Survey and has consistently been prioritised among other obstacles to development, even though the percentage of firms ranking it first has declined over time from nearly 21% in 2013 to 15.7% in 2023.

Morocco has strengthened its anti-corruption institutions in recent years: starting in 2016, a National Anti-Corruption Strategy (SNLCC) has been put in place, followed by the creation of the National Authority for Probity, Prevention and the Fight against Corruption (INPPLC) in 2018 as a central institution to set the direction of anti-corruption activities, although the authority only became fully operational in 2022 following the appointment of its Secretary General and 12 permanent members. The National Anti-Corruption Commission (CNAC) was established in 2017, led by the Head of Government, and in charge of implementing and overseeing the country's anti-corruption strategy. Legal and constitutional provisions to manage conflict of economic interests of civil servants, including the monitoring of assets of public officials, a whistleblower protection system and an internal audit function, as well as external oversight by the Court of Audit, have been put in place (OECD, 2023[3]). Furthermore, digitisation of administrative procedures and a good governance framework for public institutions have been implemented to combat corruption. In addition, in February 2023, Morocco was taken off the FATF grey list following a series of reforms in 2022 strengthening its anti-money laundering and anti-terrorist financing legislation, regulations, and criminal penalties.

Despite progress, there remain imbalances and shortcomings in the anti-corruption framework and efforts should be pursued to fill these gaps and strengthen existing measures. For example, regular reporting and information on progress in the implementation of the SNLCC is lacking and the adoption of a Code of Conduct for civil servants, under development since 2018, is still pending. To date, Morocco does not yet have an efficient system for the detection and management of conflicts-of-interest for civil servants. The conflict-of-interest provisions are fragmented across various statutes and are limited to economic gains and illicit enrichment, leaving out other potential conflict of interest situations linked to personal ties or relationship, or other personal interests and commitments. Draft laws and proposals were announced in 2020 on the updating of the norms relating to conflicts of interest and their alignment with international standards, but no concrete implementation has taken place to date (OECD, 2023[2]). The Court of Audit's capacity is limited to a superficial verification of the filing of asset declarations by civil servants. Full digitalisation of this work, as well as allocation of more human resources, would allow an effective control of the content of declarations, as prescribed by the law. Morocco is not yet a signatory to the OECD Anti-Bribery Convention.

There is no legislation regulating lobbying activities (OECD, 2023[2]), which would help to strengthen the transparency of public decision-making processes and avoid specific interest groups having undue influence, and no standards to manage risks related to the revolving door between the public and private sectors. In addition, the burden of proof of good faith on a whistleblower may be excessive as the person may incur criminal penalties if their case is not successful. To fulfil its commitment as a signatory to the United Nations Convention against Corruption to enact relevant domestic laws, Morocco introduced a draft law on whistle-blower protection in February 2019. This is a step forward relative to The Code of Criminal Procedure, which already provides protective mechanisms for citizens. The new law recognises the importance of civil servants in uncovering cases, containing a provision that specifically applies to them.

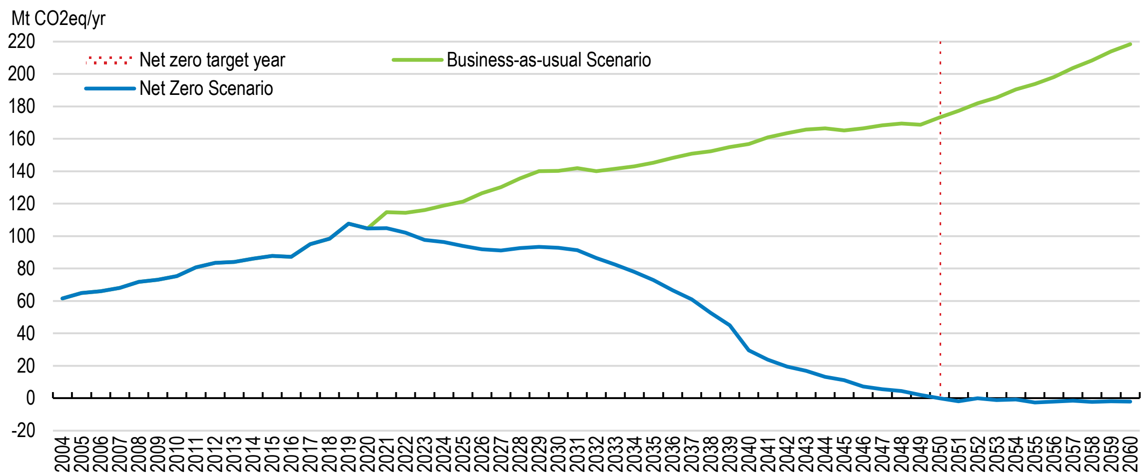
Digitalisation, in general, is a powerful tool to reduce corruption in all spheres of life by recording all transactions and leaving less room for face-to-face interactions. Complementary measures should be adopted where needed to prevent any favouring by officials, by, for instance, reducing the degree of discretion they can have over administrative decisions. Decisions of whether granting a license should be based on meeting certain objective criteria without leaving room for arbitrariness.

Morocco faces increasing climate challenges, including water scarcity

Morocco is relatively vulnerable to the threat of climate change: average temperatures have risen faster than the global average and precipitation levels have followed a downward trajectory over the past 60 years. These trends are set to exacerbate the frequency and intensity of droughts and floods in the coming decades. An early leader in climate action, Morocco has made environmental sustainability and mitigation efforts a key feature in recent national and sectoral plans.

Morocco's Nationally Determined Contribution (NDC), submitted in 2021, puts forward an emission reduction target of 45.5% by 2030, relative to trend emissions since 2010, and the country now aims to be a net-zero carbon economy by 2050 (Figure 1.25). A 2050 timeline to net zero is among the most ambitious among middle-income countries and in the region. It launched a roadmap for the transition during COP 28 in the National Low Carbon Strategy. Achieving these targets will be challenging in the context of rising emissions in a business-as-usual scenario due to a growing economy and it will be important to ensure the transition is equitable. Morocco should move ahead with implementing the emission reduction measures specified in the national strategy.

Figure 1.25. Morocco's pathway to net zero by 2050



Source: National authorities - National Low Carbon Strategy – SNBC Morocco 2050 (December 2023).

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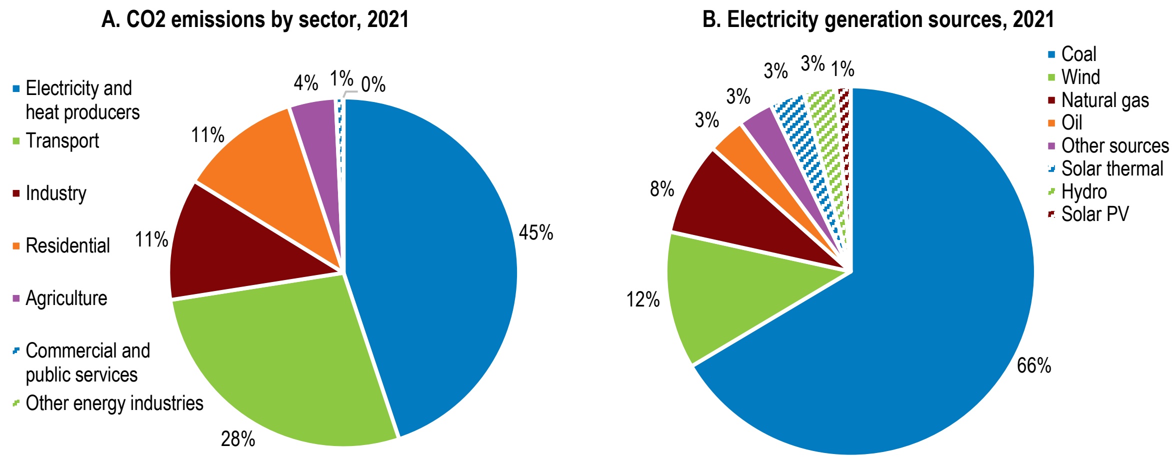
Morocco has set out strategic priorities to reduce emissions to 2050, including the development of renewable energy and green hydrogen, efforts to increase electrification and energy efficiency, and targets and actions to reduce emissions in 7 key sectors as specified by the energy minister during the launch of the National Low Carbon Strategy (SNBC). The government should publish the SNBC in full. As more than 85% of the financing to support the roadmap is envisioned to originate from the private sector, the government should identify financing gaps and support the continued mobilisation of private capital in a timely and ongoing manner. Morocco's first Biennial Transparency Report (BTR) to track progress towards NDC goals is due by the end of 2024.

Electricity production is the largest source of emissions in Morocco, accounting for over 40% of emissions (Figure 1.26., Panel A), and demand for electricity is set to grow rapidly as the economy expands and through the electrification of more activities. Currently, two-thirds of electricity is produced through coal-fired power stations (Figure 1.26., Panel B). However, Morocco committed in 2023 to phase out coal as part of the Powering Past Coal Alliance (PPCA) with an indicative phase-out date by 2040. Endowed with significant renewable energy potential with one of the highest rates of insolation worldwide and high average wind speeds, Morocco has set an ambitious target to raise the share of renewables in installed electricity capacity from 39% in 2023 to 52% by 2030. The Noor Power Plant in Ouarzazate is the largest concentrated solar power plant in the world with MW 510 of capacity. As well as avoiding emissions, increasing the share of renewables will increase energy security and improve Morocco's external account by reducing dependence on imports of energy. While the 52% target for renewable's capacity is welcome and could be achieved ahead of time, more than 16 percentage points of the current capacity reside in Morocco's hydroelectric assets. These currently only contribute 3% of electricity generation (Figure 1.26., Panel B), a result of droughts and lower water levels, leading to a large gap between renewable capacity and actual generation (Figure 1.27., Panel A). The deployment of renewables electricity generation will need to accelerate significantly.

Figure 1.26. Sources of emissions and electricity in Morocco



Source: IEA

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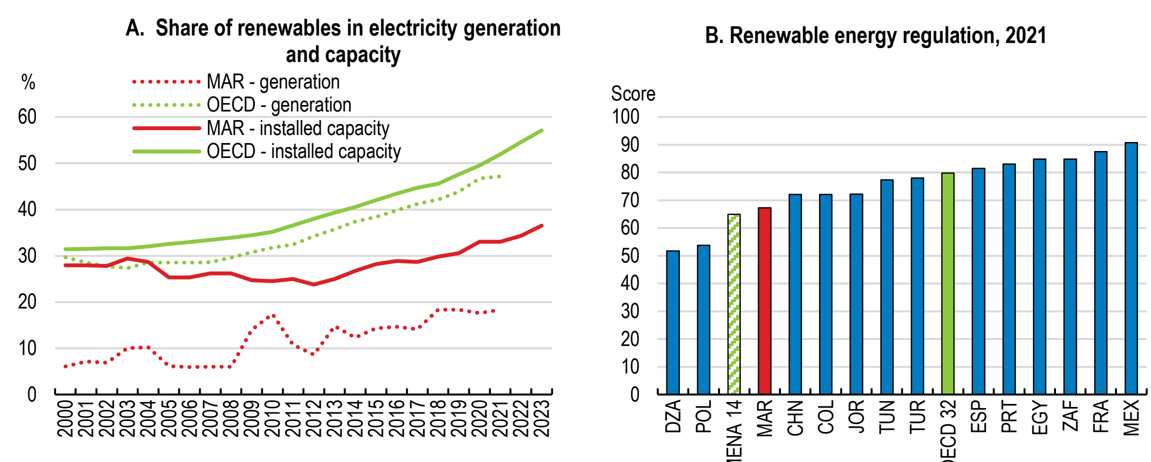
The growth of the economy, increasing reliance on electricity and planned large-scale deployment of renewables, will require major investments in the grid and measures to manage energy intermittency and grid stability. Investments to upgrade the grid are on-going. While the state-owned electricity company (ONEE) currently allows low-voltage electricity users to move towards a dual-pricing scheme, a broader application of time-of-use (TOU) pricing could contribute to grid stability by smoothing out electricity demand over time. Morocco experiences excess electricity loss of up to 6% during transmission compared 2.5% in peer countries (Conseil de la concurrence du Maroc, 2024[25]). A more comprehensive use of TOU pricing, investments in the grid and storage and improving interconnections to other countries would promote energy efficiency in terms of transmission and distribution of electricity.

Figure 1.27. The increase in renewable energy generation and capacity needs to be accelerated



Note: Panel B: Indicator scale range from 0 to 100 with higher values reflecting a more supportive regulatory environment for renewable energy. MENA 14 includes Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates. The indicators reflect regulation and policy measures as of 2021 and thus does not reflect reforms to renewable energy regulation enacted by law No. 40.19 in 2023.
Source: OECD Green Growth database; Regulatory indicators for sustainable energy, IRENA.

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There are regulatory obstacles to a faster rollout of renewables and the regulatory framework is less favourable than on average in the OECD and compared to best-performing countries in the region (Figure 1.27 Panel B). Early regulations governing renewable energy deliberately had a narrow scope and did not fix a clear framework on the relationship between renewable project developers and ONEE (Usman and Amegroud, 2019[26]). However, updates to renewable energy regulation in 2023 have improved the regulatory landscape. Major changes include: the introduction of a scheme to communicate periods of grid stress; the rollout of pricing measures for transparent grid access; and a new legal framework for industrial renewable energy self-producers. Further work in guaranteeing the sale of excess energy of self-producers to the electricity grid operator, as well as measures to support the direct sale of renewable energy to end-users, would further support renewable energy deployment.

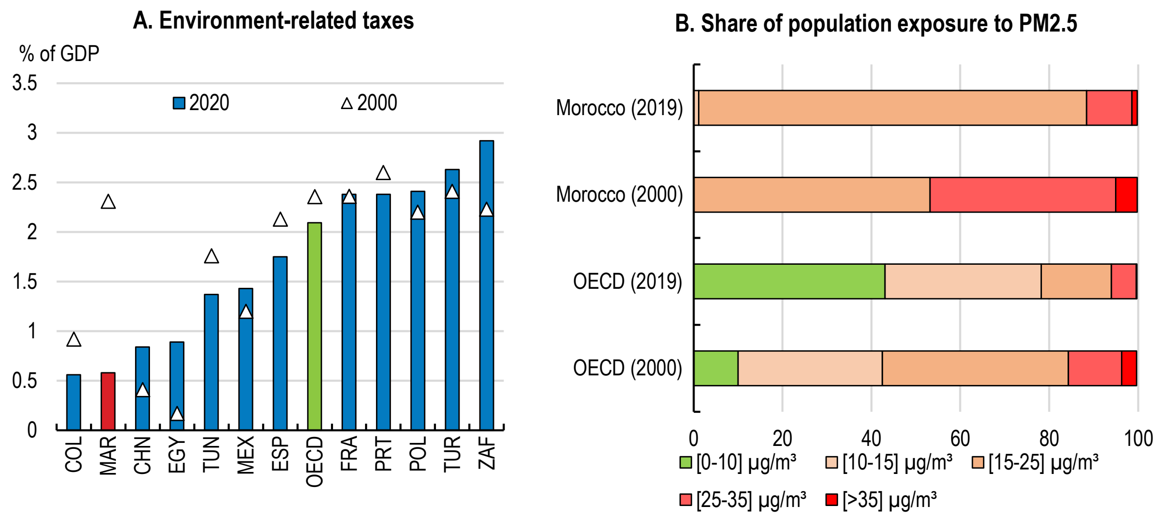
In the long term, comprehensive changes in the electricity market would support further renewable energy deployment and boost competition. While Morocco has gradually liberalised the energy market by allowing private participation in renewable energy production and distribution activities, ONEE, the state-owned vertically integrated utility, remains a key player in generating electricity, in addition to having a monopoly on transmission (World Bank, 2022[27]). While recent reforms have transferred ONEE's role in distribution to new regional multiservice companies (SRMs), ONEE's continued role in transmission leads to a potential conflict of interest, making it difficult for private operators to compete and contributing to the lack of investment in renewable energy (IMF, 2023[28]; IMF, 2024[29]). ONEE has begun the preparations for the unbundling of its financial accounts between ONEE's transmission operations and its generation and distribution businesses. Further steps towards the full unbundling of ONEE into legally separate entities and the establishment of an independent transmission system operator (TSO) to manage network access fairly between private and public actors would boost competition in the market and investment in renewable energy. (Conseil de la concurrence du Maroc, 2024[25]). An independent TSO, through which producers and distributors can trade electricity freely, would allow for effective pricing and competition in the electricity market. The transition to a low-carbon economy will need to be accompanied with a broader energy mix and natural gas may have a role as a bridge fuel during the transition, both as a less carbon-intensive alternative to coal and oil and as a source of flexibility for the power system (World Bank, 2022[27]). Currently, natural gas contributes around 8% of the country's total electricity (Figure 1.26., Panel B), with plans for a further expansion of natural gas capacity.

The government plans to significantly ramp up the production of green hydrogen as a key part of its long-term decarbonisation plans. Green hydrogen, produced with renewable energy, has a variety of applications as a conduit for energy conversion and storage. It can be blended into the gas network, substituting natural gas in power generation. Additionally, the flexible storage requirements of hydrogen allow it to supplement the power system to alleviate instances of grid stress and intermittency concerns. However, the sector is still in its infancy worldwide and its commercial viability is conditional on technological developments. Circular 03/2024 sets out the governance and support schemes to attract private investment in the sector in Morocco.

Carbon pricing and efficient taxation can support the climate transition by providing incentives and sending signals to consumers and producers to curb emissions. Environmental taxes in Morocco are currently low at half a percent of GDP, down from nearly 2% of GDP in 2000 (Figure 1.28., Panel A). This is a smaller share than many of its peer economies. The main environmental taxes are transport fuel excise duties. While the government has traditionally provided subsidies for fossil fuels (including during the energy crisis), this is now being phased out. Savings from the withdrawal of butane gas subsidies are being redirected towards funding an expansion of cash transfers to vulnerable households under the new targeted social assistance programme. Additionally, tax incentives have been introduced to help households replace butane gas use with solar or electric water heaters. A monitoring of behavioural changes during the initial phases of the transition may be warranted to ensure rural households do not revert to more dangerous and environmentally harmful substitutes such as wood or charcoal burning. The

VAT rate on energy generated from fossil fuels is set to gradually increase from 14% to 20% in 2026, while the rate generated from renewable sources will see a corresponding decline from 14% to 10%.

Figure 1.28. Environmental taxes in Morocco are low



Note: Panel A: 2020 except for Morocco, Egypt, Tunisia, South Africa and Costa Rica (2019); Israel (2018); and Canada and Korea (2014).
Source: (OECD, 2023[30]), Green Growth Indicators; (OECD, 2024[31]), Exposure to air pollution.

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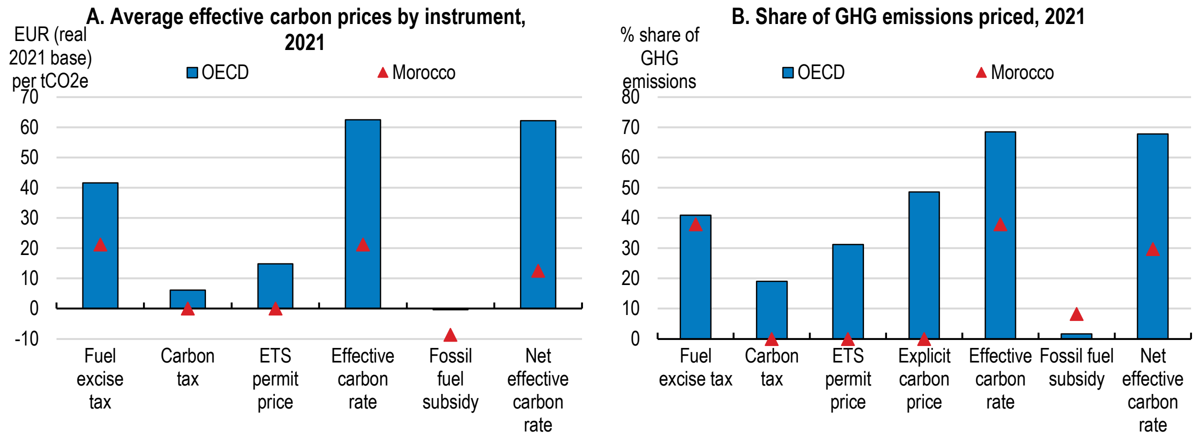
Morocco relies primarily on excise taxes to price carbon with no explicit carbon taxes or an emissions trading system in place (Figure 1.29., Panel A). As a result, less than 30% of greenhouse gas emissions are subject to a positive price in Morocco, compared to nearly 70% in OECD economies (Figure 1.29., Panel B). To adequately impose a price on emissions, Morocco should introduce over time a consistent approach to taxing and pricing greenhouse gas emissions, together with supporting policies. The Government is currently studying the implementation of a carbon tax and aims to release a roadmap for its adoption in 2025. This should include comprehensive taxation and pricing of emissions. Given that 15% of Morocco's exports to the EU are in sectors that will be covered by the EU Carbon Border Adjustment Mechanism (CBAM), it would be sensible to align the approach with the EU, particularly for the iron and steel sectors that are most exposed (World Bank, 2023[32]). Under a broad-based approach, a starting tax of USD 10 per ton of emissions to be gradually increased over time, mirroring South Africa's current rate and system (the only carbon price regime in force in the region), could be a good approach. A tax at this rate could have a positive fiscal impact of up to around 0.8% of GDP (Box 1.6).

Figure 1.29. A low share of emissions is taxed and priced in Morocco



Note: Excluding CO2 emissions from the combustion of biofuels.
Source: (OECD, 2022[33]), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris.

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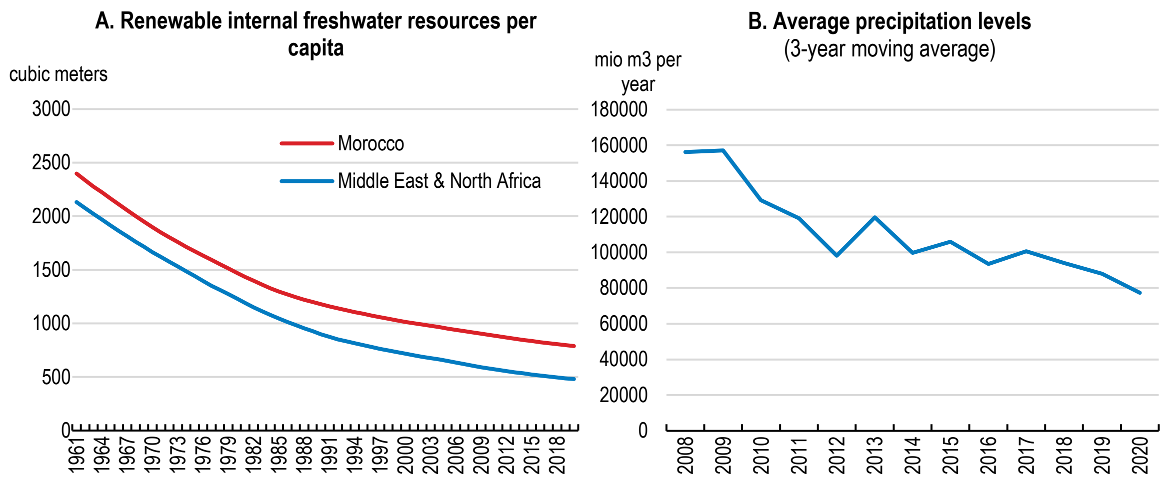
Transport currently accounts for 28% of emissions but could be a major source of emissions growth as travel demand picks up in conjunction with rising incomes and growing urbanisation. Motor fuels are subject to duties of MAD 2.42-3.76 per litre and a VAT rate of 10%. This is broadly in line with similar countries, but well below OECD norms (Figure 1.29., Panel A). The unit excise tax for diesel is currently more than 35% lower than the rate for premium gasoline, despite contributing disproportionally to excess air pollution and exacerbating Morocco's high particulate matter exposure (Figure 1.28., Panel B). Deaths attributable to ambient air pollution per hundred thousand people were more than three times higher than the OECD average in 2019 (WHO, 2019[34]). The adoption of Euro 6 fuel standards in 2023, which tightened emission standards for new vehicles, is a welcome step towards reducing air pollution. Further measures to regularly evaluate and tighten emissions standards of existing vehicles and to gradually modernise Morocco's aging vehicle fleet would help to improve air quality. Raising the excise rate of transport diesel fuel over time towards the current rate for premium gasoline of MAD 3.76 per litre would contribute both to cleaner air and lower carbon emissions, as well as raising additional revenue but needs to be carefully managed alongside other policies taking into account social circumstances (Box 1.6). Continuing to develop good multi-modal transport networks in major and emerging urban centres, consistent with Regional Development Plans, and a further expansion of urban public transport systems would help to limit future sources of emissions as Morocco continues to grow and urbanise.

Morocco is currently at a moment of extreme water stress and has experienced a series of recent droughts, exacerbated by changes in the climate. Between 1960 and 2020, the per capita availability of renewable freshwater resources declined by nearly 70% (Figure 1.30., Panel A), approaching a situation of absolute water scarcity. Meanwhile, average precipitation levels have dropped significantly in recent years (Figure 1.30., Panel B). Given heightened vulnerabilities to climate change, effective adaptation measures, particularly relating to tackling water supply challenges, need to be in place to ensure the resiliency of Morocco's economy in addition to mitigation measures. Morocco's national adaptation strategy, the National Strategic Adaptation Plan (NSAP) with a roadmap to 2030, emphasises water and agriculture as the two main vulnerabilities.

Figure 1.30. Water resources are depleting in Morocco



Source: World Bank WDI; ONU Environment

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To tackle long-term water supply challenges, the government has outlined an ambitious water plan: the National Drinking Water Supply and Irrigation Program (PNAEPI) 2020-2027. The PNAEPI aims to mobilise up to MAD 115.4 billion — funded by the state budget (60%) and other public and private agencies including through the use of Public-Private Partnerships (40%) — and utilises engineering-focused solutions to reduce demand and enhance water mobilisation, including the construction of major projects to store and transport water. Diversifying sources of water supply, ensuring water security and combatting water challenges in the context of climate change are key goals of the programme. The programme will focus on improving water supply through dam construction, water demand management for the agricultural sector, and strengthening efforts to mobilise potable water in rural areas. However, infrastructure and engineering solutions alone may not be sufficient to adequately address Morocco's water challenges as technological improvements in water supply can lead to Jevons paradox, leading to even higher water demand if the underlying market dynamics remain unchanged.

The low price of water contributes to Morocco's water shortage situation as it leads to inefficient and excessive use. This phenomenon is particularly acute in the agricultural sector, which is by far the largest sectoral user of water in Morocco, consuming nearly 90% of the country's water resources. The 2024 budget has outlined steps to increase water prices, including by raising the VAT rate of water for non-domestic use to 10% from 7%.

Revisions to agricultural water tariff rates to encourage a more effective use of the resource can go a long way in alleviating Morocco's water supply challenges going forward. The agricultural water pricing structure of Morocco consists of a water use fee (known as Domaine Public Hydraulique (DPH) fees) and an irrigation service fee. Paid to the water basin agencies Agence de Bassin Hydraulique (ABH), the DPH fee represents the price of water extraction and contributes towards the operating costs of water resources and infrastructure, but it does not reflect the value of the water or cover the costs of the infrastructure itself. It is currently set at a low rate of MAD 0.02 per cubic metre for all agricultural users. The fee is not being collected for private and small-scale water users, that represent over 60% of irrigated areas, and an estimated MAD 240-254 million of revenue is foregone each year (World Bank, 2022[27]). Enhancing the powers of ABHs to enforce the collection of these fees more effectively from all users would equip ABHs with additional resources to better manage local water assets. Morocco should raise the DPH fee of water meant for agricultural use to a level that adequately reflect its full supply costs in line with the OECD Recommendation on Water (OECD, 2021[35]). A further step would be to regularly update the fee to progressively finance portions of the capital cost of new water infrastructure envisioned in the coming decades. Increases in agricultural water tariffs should be paired with ongoing programs to encourage farmers to transition away from water intensive crops for example from cereal to fruit trees.

Morocco faces significant climate change adaptation challenges from heat, lower rainfall, rising sea levels and more extreme weather events. These will require significant planning, investment and on-going spending, as well as coordination between levels of government and with the private sector. As noted, water management will need to be strengthened, the financial system faces some risks and agriculture will need to evolve. Many OECD countries have developed national adaption strategies to support this process. Further utilising and scaling the suite of disaster risk financing and insurance tools, including through sovereign and market-based risk transfer solutions through global reinsurers and CAT bonds can help to decouple Morocco’s growth prospects from increasing weather variability (World Bank, 2024[36]). Providing reliable and timely information on localised climate trends, leveraging the capacity of local governments, can help households, firms and small-scale agricultural producers better anticipate and accommodate extreme weather events.

Table 1.10. Policy recommendations of the Key Policy Insights Chapter

MAIN FINDINGS	RECOMMENDATIONS (KEY IN BOLD)
Macroeconomic stability has been maintained	
Inflation has eased but remains sensitive to food and energy prices.	**Continue the gradual move towards an inflation targeting framework and resume preparations towards a more flexible exchange rate regime.** Continue to set monetary policy rates using a data-dependent approach, easing policy as inflation subsides.
The central bank's credibility has been improved by the revision of the law in 2019, but there is room to strengthen its governance further.	Continue to reinforce the transparency and independence of the central bank, including by disclosing detailed minutes of monetary policy meetings and appointing board members through an open process.
Unemployment, particularly among women and youth, has significantly increased, exacerbating gender disparities in labour market.	Continue and expand the implementation of employment initiatives, such as the Awrach and Forsa programmes with a focus on females and youth with targeted skill training and education.
Remittances serve as a significant source of income for its people and as a stabilising force for the country's foreign official reserves.	Harness remittances to facilitate investment in local enterprises and education, for example, by introducing a diaspora bond.
Risks threatening financial stability appear to be under control, but vulnerabilities remain	
The Moroccan banking system is highly concentrated. Part of the population has not had access to banking services.	Accelerate digital banking services and mobile payment solutions (M-banking) to expand access to financial services. Further encourage the development of financial products adapted to small and medium-sized businesses, facilitating their access to financial services. Accelerate financial inclusion by expanding access to financial services to the entire population (such as small businesses, women and rural areas) and continuing to pursue financial education programs.
Risks to financial stability from climate change are significant.	Ensure careful monitoring of risks related to climate change. Accelerate the integration of climate factors into central banks stress tests to better assess the vulnerability of Moroccan financial institutions to climate-related risks.
Fiscal sustainability needs to be ensured amid the revamp of the system	
The budget balance is improving as temporary support measures are withdrawn with broadly offsetting revenue and expenditure measures.	**Implement existing fiscal plans to 2026 to modestly narrow the deficit.** **Replace the golden rule with a medium-term debt target and consider an expenditure rule to help keep the public finances on track.**
There will be significant fiscal pressures in the coming years and there is no independent body to monitor the public finances.	Create an independent fiscal council to monitor ex ante and ex post compliance with the fiscal rules, assess use of the escape clause and monitor off-balance sheet liabilities of the government.
The implementation of the announced social programmes requires large financial resources, risking compromising the fiscal consolidation trajectory envisaged in the medium term.	Improve the targeting of social benefits by making the scoring formula simpler and adapting it over time to track incomes more closely.
Personal income tax and social security receipts are low.	**Strengthen tax administration and enforcement and continue to move payments online to increase formalisation.**
Corporate income tax rates are rising to start at 20%	Evaluate the impact of the higher CIT rate for smaller firms.
Revenues from resources royalties are relatively low and dividends from state-owned enterprises (SOEs) are low.	**Collect higher royalties from companies exploiting mineral deposits and set SOE dividend rates in a predictable way and at a higher level.**
Government procurement is lengthy, hampered by unsuccessful tenders and not managed by specialists.	Adopt a minimum competency framework for public servants engaged in public procurement.
Data collection, compilation and dissemination needs to improve further	
Limited availability of a broad range of high-quality, timely statistics and data in line with international best practices constrains the design and implementation of many government policies.	**Centralise data collection more effectively through a national institution and increase investment to improve data collection and dissemination.**

Tackling corruption	
While the anti-corruption framework has been strengthened, businesses report bribes for government services.	**Continue to pursue efforts to reduce corruption, including the process of moving interactions with the government online.**
Public procurement is a major risk area for corruption, from August 2023 tendering has gone online.	Improve tendering documents and subject them to review by competition specialists to ensure they are neutral.
Coordination across agencies related to public procurement is not smooth, which reduces transparency.	Ensure maximal transparency of all stages of the procurement process, including through better coordination across related bodies.
Data on corruption-related legal cases are hard to come by.	Disclose data on legal cases on a timely basis to make corrupt practices more deterring.
Supporting the decarbonisation of Morocco's economy and path towards net zero	
Morocco has an ambitious target to reduce emissions by 45.5% by 2030 relative to 2010 and to net zero by 2050.	**Implement the measures to reduce carbon emissions set out in the net zero strategy.**
The government has ambitious targets to increase the use of renewables, but further measures will be needed to achieve them. ONEE, the vertically integrated state utility, is currently preparing a proposal for the unbundling of its financial accounts of its electricity transmission business from those of its other businesses.	Continue investments in transmission grid infrastructure to enhance grid capacity and stability. Develop competitive wholesale and retail electricity markets to facilitate the entry of renewables producers and better manage electricity demand and supply, including working towards a full operational and legal separation of ONEE and time-of-use-pricing.
Direct subsidies for butane gas are being reduced with savings redirected towards an expansion of cash transfers. Tax incentives have been introduced to support the rollout of solar and electric substitutes.	Monitor the behavioral responses of rural households during the subsidy reduction process to prevent the switch to more dangerous and environmentally harmful substitutes.
Morocco is considering implementing a carbon tax.	**Establish a broad-based approach to carbon pricing and taxation, backed by regulations and supports at sectoral level as needed.**
The government has adopted Euro 6 emissions standards for new vehicles in 2023. The excise tax rate for diesel is currently more than 35% lower than the rate for premium gasoline, despite its higher contribution to excess air pollution.	Gradually tighten emissions standards for existing vehicles with a view to retire aging vehicles off the road. Gradually raise the excise duties of diesel over time to better align to gasoline.
Reflecting the scarcity of water in water prices and enhancing climate resiliency	
There have been repeated droughts and freshwater resources are under pressures from growing demand, while usage fees are low.	**Gradually raise water withdrawal fees to a rate to cover the full supply costs of water recovery, while managing any social impact.**
Morocco has developed a national adaptation roadmap to enhance the country's climate resiliency.	Utilise and scale the suite of available disaster risk financing and insurance tools including private insurance markets as well as sovereign and market-based risk transfer solutions. Provide reliable and timely information on localised climate trends.
Recurrent droughts have negatively affected growth through the agricultural sector, in particular cereal production.	Enhance agricultural sustainability through further investment in climate-resilient crops production with the introduction of incentives mechanisms.

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2. Boosting investment, firm performance and productivity

Morocco's GDP has grown at a steady pace over past decades, but stronger convergence towards higher productivity countries would help achieve its goals. A major package of productivity-enhancing reforms would reinforce existing efforts to boost private investment. Upgrading skills is key to achieving higher productivity. The new *Charte de l'Investissement* provides support to private investment, but public investment could also be made more efficient. Morocco has successfully integrated into global value chains, particularly car manufacturing, but needs to move to higher value-added activities, including upgrading the role of local companies and to develop activity in new sectors. Entrepreneurship and firm growth should be encouraged by greater access to financing and lower taxation for smaller firms. Removing barriers to competition and continuing to reform state-owned enterprises would help to ensure a level playing field and improve the allocation of resources. Increasing support for innovation and creating better conditions to benefit from digitalisation would help harness new opportunities.

Labour productivity has been increasing and FDI flows have been strong, but domestic private investment is low and there are barriers to Moroccan firms performing better. Faster productivity convergence towards more advanced economies would boost growth and support the creation of higher-quality jobs. Morocco's large labour productivity gap to advanced countries explains most of the income gap, while Moroccans work longer hours on average (see the Key Policy Insights chapter). Investment and productivity growth could be strengthened through a major package of structural reforms, building on existing strengths and current policy initiatives. Continuing to exploit its geographic position close to European markets and global trade routes, and greater integration with regional economies would open up new avenues to move towards higher value-added activities and increased productivity.

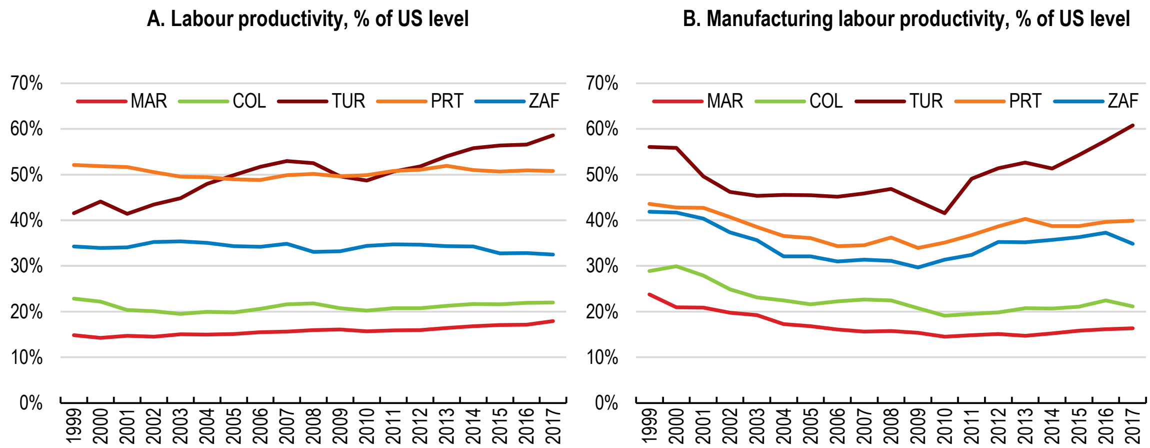
The New Development Model (NDM), an overarching strategy for long-term development released in April 2021 (see the Key Policy Insights chapter), formulates a number of objectives to achieve productivity improvements. These include targets for private investment supported by the new *Charte de l'Investissement.* The NDM is complemented by sector-specific plans, many of which have been in place for many years. Past industrial sector plans include the Plan Emergence (2005-09), the Pacte National pour l'Emergence Industrielle (2009-14), the Plan d'Acceleration Industrielle (2014-20) and the Plan de Relance Industrielle (2021-23) adopted during COVID-19.

This chapter assesses Morocco's productivity performance using key indicators and provides a diagnosis of barriers to improved productivity before discussing ways to boost investment, the performance of domestic firms and productivity by: upskilling; raising the volume and efficiency of investment; upgrading the position of Morocco in global value chains; creating a more business-friendly environment and levelling the playing field; and better embracing digital tools and increasing innovation.

2.1. There is scope to boost productivity

Productivity in Morocco has increased but by less than could be expected given the potential for convergence with more advanced economies. The productivity gap, measured as the percentage of US productivity (a proxy for the global frontier), was wider in the run up to the pandemic than in other countries in the region and broadly comparable to the level of Colombia (Figure 2.1). The overall productivity gap had remained broadly unchanged, while in the manufacturing sector it has widened from 75% in the late 1990s to 84% in 2017. As a catching-up middle-income economy with bright population growth prospects, productivity growth should be relatively strong.

Figure 2.1. The labour productivity gap is large and has not narrowed



Note: Labour productivity measured as value added per employed person at constant 2017 international PPP.
Source: OECD calculations based on Dieppe, A., S. Kilic Celik, and G. Kindberg-Hanlon. 2020. "Global Productivity Trends." In Global Productivity: Trends, Drivers, and Policies, edited by A. Dieppe. Washington, DC: World Bank and OECD (2023).

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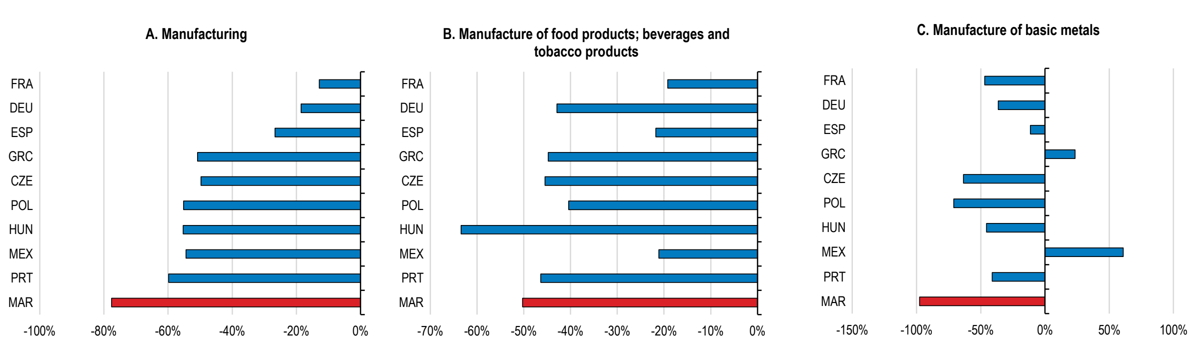
Productivity gaps are sizeable in some sectors

The labour productivity gap with the United States was sizeable at almost 80% in the entire manufacturing sector in 2019 (Figure 2.2). In some traditional industries, such as textiles and garments and food, the gap was smaller at around 50% and in line with some lower-income OECD countries. By contrast, in other industries, such as basic metals, there is even greater room for catching up than the sector-wide average suggests. Earlier research showed that relatively weak productivity dynamics was explained by a stagnation of productivity growth in relatively productive sectors with large value-added shares, such as banking, insurance, real estate and business services (OECD, 2017[1]). The few large manufacturing sub-sectors with high productivity growth (e.g., chemicals and non-metallic minerals) were not able to make up for the negative productivity growth of some large and many medium-size sub-sectors.

Figure 2.2. The productivity gap is sizeable in many manufacturing industries

Labour productivity as percentage of US level, 2019



Note: Although the Moroccan data collected by the Ministry of Industry and Commerce are compiled to conform with UNIDO standards, there may be conformity issues with the productivity data used for OECD countries related to, for instance, sector classification.
Source: OECD calculations based on the OECD National Accounts database and Ministry of Industry and Commerce of Morocco.

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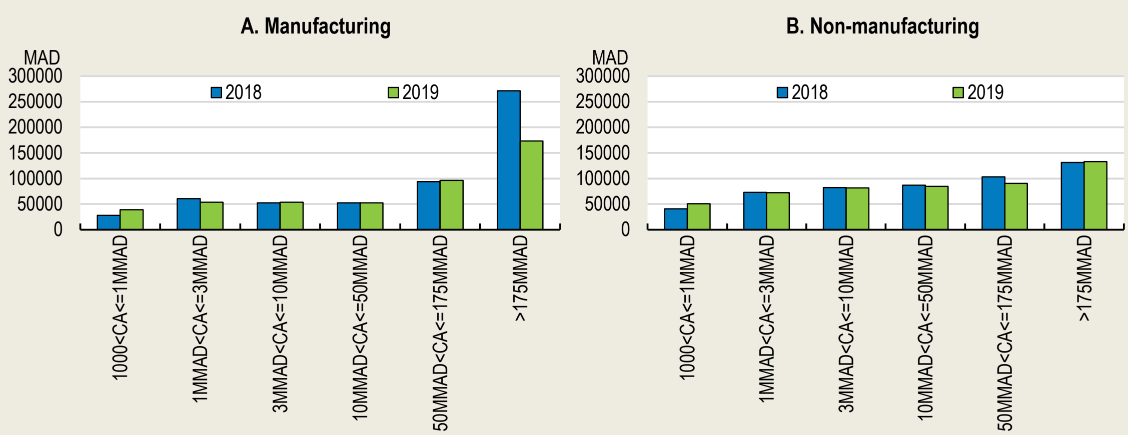
Box 2.1. Productivity in Morocco at the firm-level based on micro data

This box reports descriptive analysis based on Moroccan firm-level data aggregated at the sector level by size category (defined by sales). The dataset is available from the Observatoire Marocain de la TPME (OMTPME), established in 2013 under the aegis of the central bank to improve data collection on enterprises in Morocco. The initiative links multiple databases, including those by the tax department of the Ministry of Economy and Finance, the social security agency (CNSS), the company registry (OMPIC), the Ministry of Industry and Commerce and the central bank.

The data is available for 2018-21 for a balanced panel of 23 000 firms. The sample represents 5-6% of active incorporated firms, with overrepresentation of large firms. It does not cover unincorporated and informal firms. The analysis in this Box focusses on 2019 given the effects of the COVID pandemic on activity in the following years.

The data provides some insights on productivity. Larger firms tend to have higher labour productivity (defined as value added per employee), particularly for the largest category of firms (with annual turnover above MAD 175 million, around USD 17.8 million) (Figure 2.3). This effect is particularly marked in manufacturing.

Figure 2.3. Larger firms tend to be more productive



Note: Labour productivity is defined as value added per employee. The x axis shows the firm size categories by sales as defined by Moroccan authorities and the productivity values are simple averages by size category.
Source: OECD calculations based on the database compiled by Observatoire de TPME.

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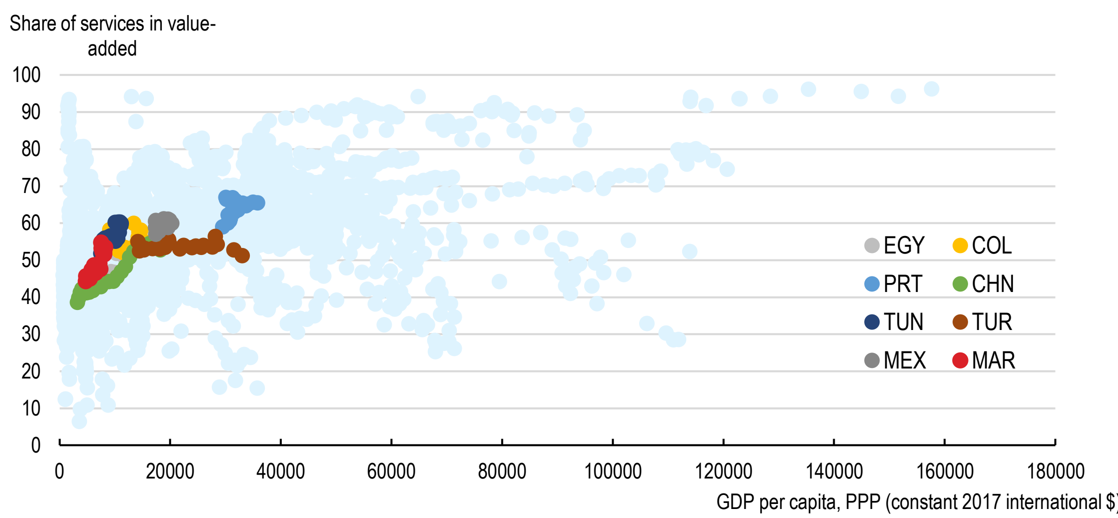
In this dataset, among the most productive firms are large mining and chemical businesses, while small mines and pharmaceutical producers are among those with the lowest productivity levels. Larger firm size does not appear to be associated with higher productivity in some sectors, including agriculture and construction. However, a World Bank-OMPTME joint study suggests that, using employment-based size categories, larger (and older) firms are on average less productive and less productive firms expanded faster in terms of employment in the period before COVID-19.

Source: OECD calculations based on data provided by OMPTME and OMPTME-World Bank joint study.

Morocco has a relatively large services sector and somewhat small agricultural and manufacturing sectors in value-added terms relative to lower-middle income group peers. Indeed, the services share of value added is higher than of other countries when they were at Morocco's income level, including Egypt, Poland or China (Figure 2.4). A smaller manufacturing sector often implies less scope for innovation and to become an engine for productivity growth. In addition, Morocco's specialisation within services with lower productivity, such as tourism, and, within those industries, it has traditionally been more concentrated in the low- to medium-value added segments, although its position has been improving.

Figure 2.4. The share of services in value-added is higher than average

Share of services value added and GDP per capita



Note: All available countries and observations available are included.
Source: World Bank World Development Indicators database.

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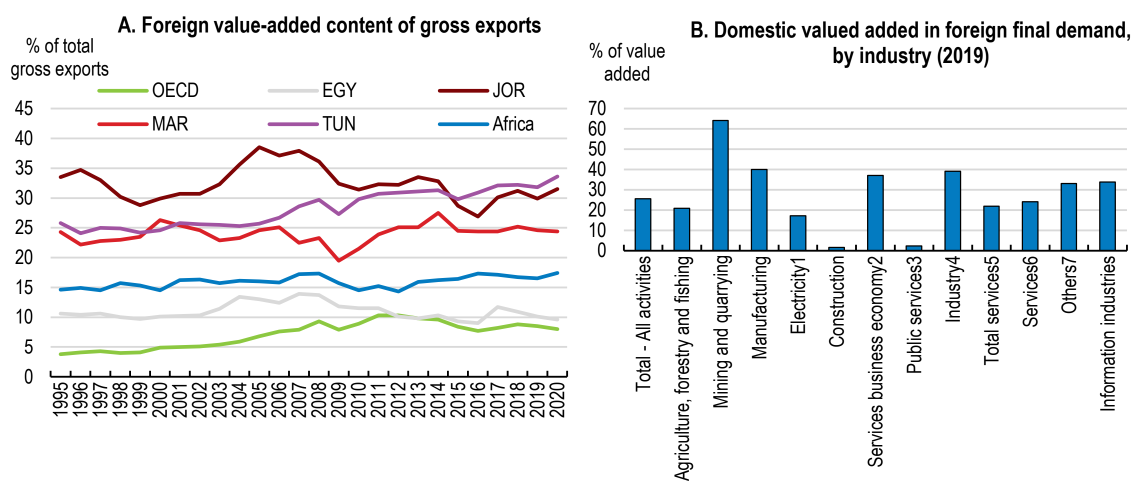
Integration in value-chains and foreign investment support productivity

Morocco has successfully integrated into global value chains, particularly through foreign direct investment and notably in the automobile industry. Ecosystems of suppliers have set up around major investments but, while some are domestic Moroccan firms, many are foreign and they tend to specialise in the higher value-added and more sophisticated activities. The automobile sector was a pioneer manufacturing industry in Morocco that created jobs on a massive scale and lifted growth, cementing Morocco's status as an industrialised country and as a car exporter (Benadbdejlil, Lung, Y. and Piveteau, A., 2017[2]) (Vidican-Auktor and Hahn, T., 2017[3]). In the automotive industry, there are 20 first-second-tier Moroccan suppliers, unlike in aeronautics, where among the 140 local suppliers, only one is Moroccan. As of 2023, there were 260 factories operating in the automotive sector and giving jobs to some 173 000 people directly (Ministère de l'Industrie et du Commerce, 2023[4]) and 230 000 people indirectly (including subcontractors in other industries) and producing a quarter of the country's exports. Moreover, some 60 automotive factories are under construction. Automobiles, aeronautics and textiles are considered priority industries and are among the greatest beneficiaries of investment incentives and export promotion activities (Agence Marocaine de Développement des Investissements et des Exportations (AMDIE), 2023[5]).

A quarter of Morocco's export value-added is produced abroad. Morocco relies on higher-value-added foreign intermediate inputs (backward integration) to a greater extent than OECD countries or Egypt, though to a lesser extent than Tunisia or Jordan (Figure 2.5). Even though the country is integrated into global value chains of multinational companies (MNCs), those MNCs and their subcontractors could be better integrated with local firms to reap the benefits from potential technology and knowledge spillovers (Vidican-Auktor and Hahn, T., 2017[3]). The relatively low share of value-added is related to the dominance of labour-intensive stages of production processes, including assembly, wiring, seats and seating systems in the automobile sector, although recently there has been an expansion towards engine assembly and other more sophisticated products. The sector where foreign final demand has the highest share of Moroccan content (forward integration) is in mining (Figure 2.5): 65% of mining exports are based on Moroccan value added. In manufacturing value added, this is above 40% and in services nearly 22% with the information technology industry having a relatively high share. However, in many activities, Morocco imports high value-added parts and components and assembles those for exports, which is a relatively low value-added segment in the production process, and it produces intermediate inputs that do not have particularly high value added. From the point of view of what share of domestic value added destined for foreign final demand is produced by each sector, manufacturing accounts for nearly a third of the total (Figure 2.6), followed by retail/wholesale, agriculture, and transportation and storage.

Figure 2.5. Backward integration into supply chains is higher than the OECD average and forward integration is highest in mining



1. Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities.
2. Services of the business economy - sections G to N.
3. Public administration, education and health; social and personal services.
4. Industry (except construction).
5. Total services (incl. construction).
6. Services (except extra-territorial organisations and bodies).
7. Information and communication; Financial intermediation; Real estate; Professional and business suport services.
Source: OECD TiVA database.

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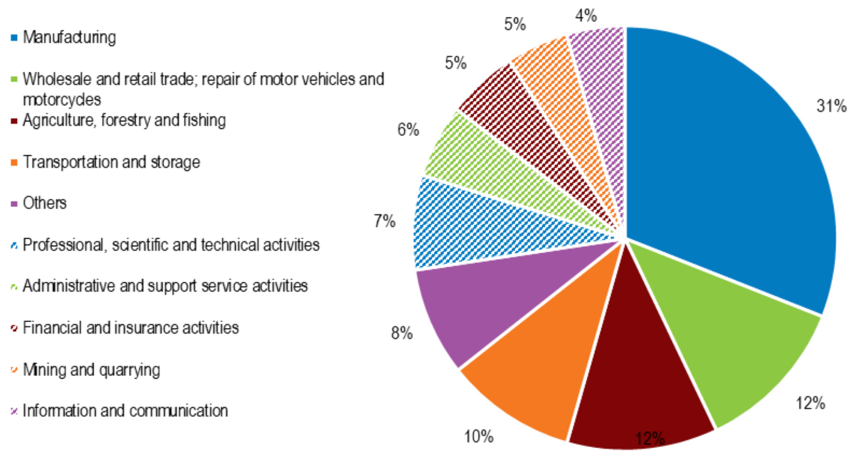
Figure 2.6. Nearly a third of export value added is produced in manufacturing

Domestic value added in foreign final demand, 2020



Source: OECD TiVA database.

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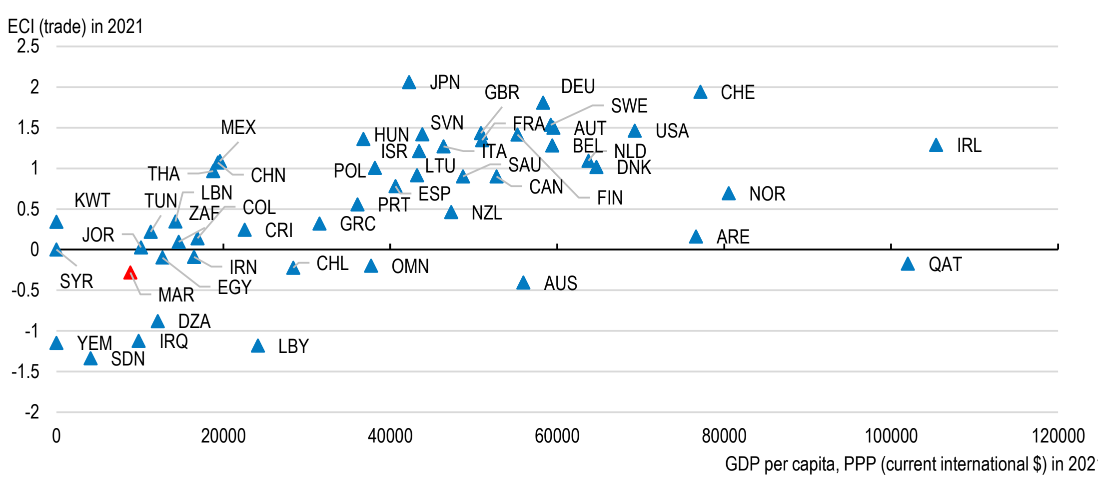
The Economic Complexity Index (ECI) - which is based on the geography of trade and captures the sophistication of a country's exports – positions Morocco in the mid-range of countries with similar income levels (Figure 2.7). In 2021, Morocco advanced to the 81st place from the 90th in 2019. While there is a clear correlation between incomes and ability to produce sophisticated goods, the example of several countries that are highly integrated into global value chains, such as China, Mexico or Thailand, shows that creating the right environment and the right positioning of the economy can help in upgrading production capabilities even at not particularly high income levels.

Figure 2.7. Exports have a relatively low level of sophistication

Economic Complexity Index (Trade) and GDP per capita, PPP



Note: The ECI trade presents an estimate of economic complexity based on the geography of trade and captures the sophistication of a country's exports. Trade ECI estimates a country's ability to produce and export complex products that require a high level of knowledge and skills.
Source: Observatory of Economic Complexity (OEC) and World Bank World Development Indicators databases.

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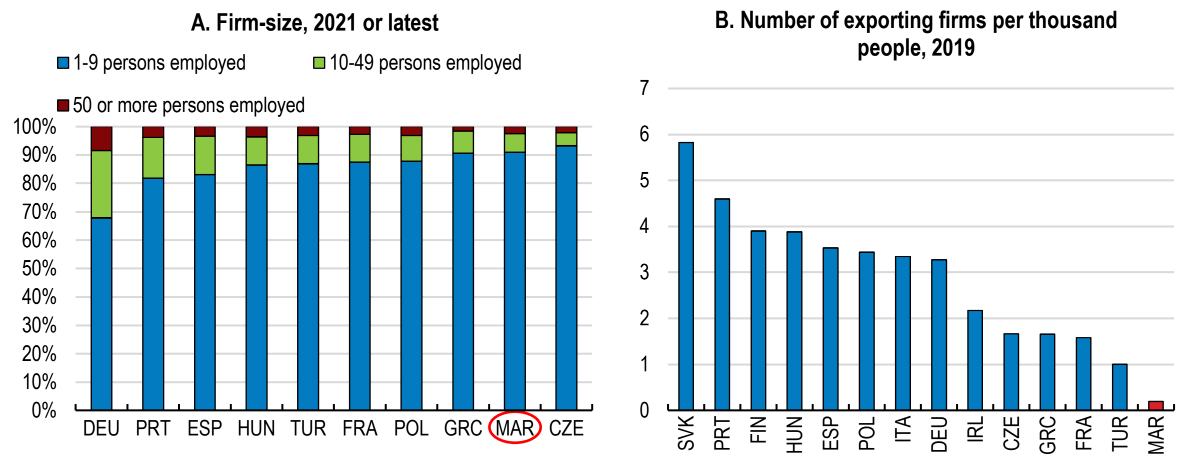
Firms tend to be very small and many are informal

While small firms play an important role in all economies, productivity growth is supported by the scaling-up of successful firms. The Moroccan business sector is mostly made up of small firms: 91% of active firms had ten or fewer employees in 2022, like in Czechia, Greece or Poland (Figure 2.8). While comparable data are not available for OECD countries, what may be unusual in Morocco is the very high share of firms with three or fewer employees at 88% in 2021 (Observatoire Marocaine de la Très Petite et Moyenne Entreprise (OMTPME), 2023[6]). This very small size coupled with a high level of informality often prevents them from having the scale to be efficient and to have sufficient collateral to access finance or to purchase the equipment needed to raise their productivity. This is the case not only in manufacturing, where economies of scale can be important, but also in mining, where 30% of non-phosphate mines are of small-scale, lacking advanced equipment. Morocco has few exporting firms compared to its population relative to OECD countries (Figure 2.8).

Figure 2.8. Most Moroccan firms have ten or fewer employees and few export compared to OECD countries



Note: Panel A: The data for Morocco is from 2022 and the ranges are [1-9]; [10-49]; and [50+].
Source: Panel A: OECD Enterprises by business size; Moroccan authorities Panel B: World Bank World Development Indicators database.
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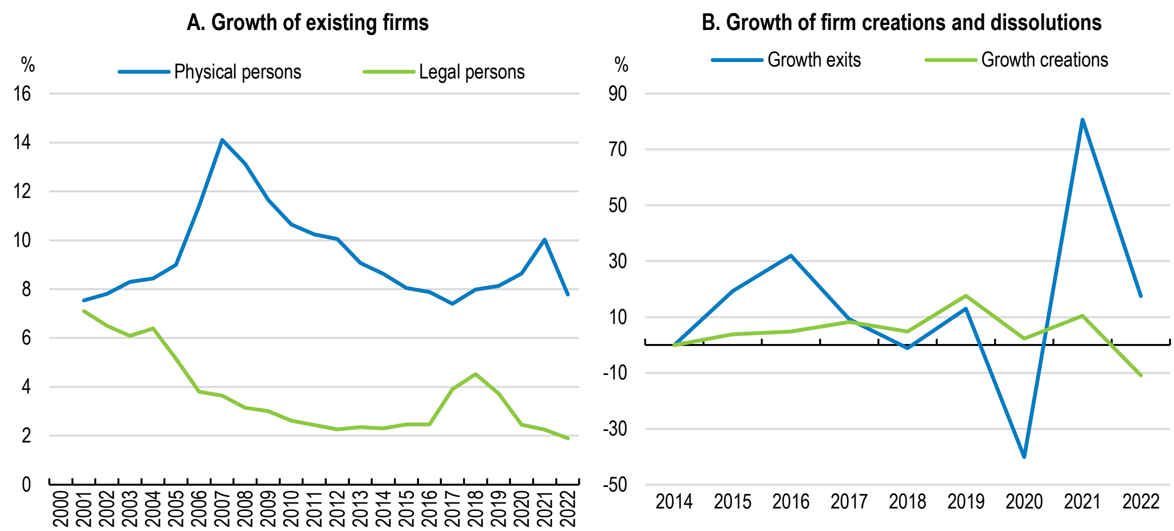
Informality contributes to small firm sizes and constraints productivity. According to some estimates, the informal sector accounts for as much as 30% of GDP (Lahlou, Doghmi and Schneider, 2020[7]). This includes informal firms and informal activities of formal firms. There is significant overlap between informality in economic activities and employment: informal firms can only hire people informally, while formal firms can hire people either formally or informally (unrecorded and untaxed). There is not much timely information available on informal firms, whose number is estimated to hover around 1.7 million. A recent survey explores the circumstances of informal provision of goods and services by asking formal firms whether they have been requested to provide services informally. Not surprisingly, large firms are less likely to be requested to provide services or goods informally, though medium-size firms are more likely to be in this position than small ones (Ministère d'Inclusion Économique de la Petite Entreprise, de l'Emploi et des Compétences, 2023[8]). Sector-wise, informality is most common in the construction sector, manufacturing and extractive industries and transportation.

Business dynamics have weakened with the growth rate of firms edging down over time and the number of legal entities increasing at only around 2% annually (Figure 2.9), despite a short-lived reversal in 2017-19 and a spike in business exits around the pandemic. The recent fall in the number of created firms is concerning as new dynamic firms that scale up can be a key driver of overall productivity. Setting up a business needs to be more attractive, which could be achieved by leaving a greater role for the market to allocate resources and creating a level playing field for private enterprises.

Figure 2.9. Business dynamics have slowed



Note: Legal persons are incorporated firms, while physical persons are unincorporated.
Source : Registre Central du Commerce et Accompagnement de l'Entreprise, OMPIC.

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2.2. Upskilling for greater productivity

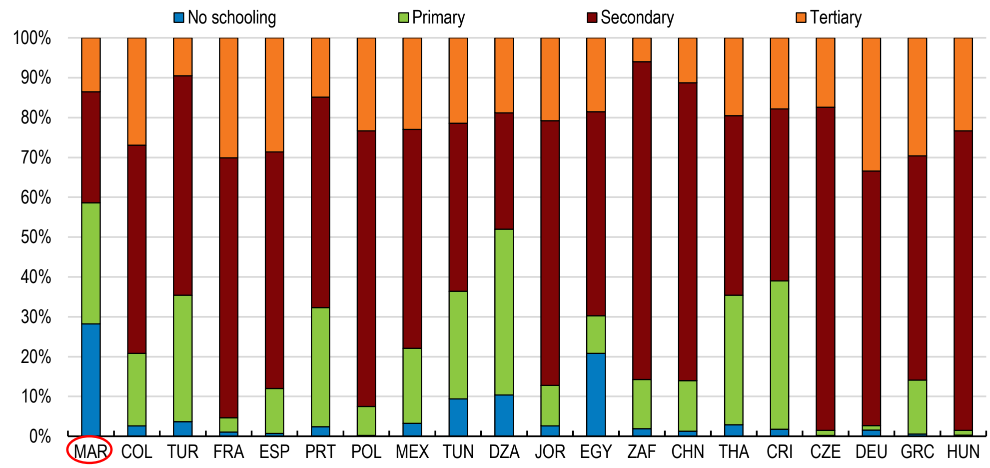
While education levels are improving, strengthening the skills of the workforce, including strong basic literacy and numeracy skills, as well as higher-level skills in technical and management areas, are key to boosting productivity and moving up the value chain.

Skills need to be enhanced to boost productivity and incomes

Improving skills and human capital are key to raising growth, productivity, investment and creating more high-quality jobs (OECD, 2017[1]). While educational outcomes have trended up over time, particularly for women, adult educational attainment remains well below comparator countries (Figure 2.10). Almost 30% of the adult population did not complete primary education and almost another 30% of adults only have primary education. While enrolment in primary education has improved significantly, dropout rates remain a greater issue in secondary education and a significant number of young people still do not complete secondary school. Morocco's school system is improving but it continues to deliver relatively weak results by international standards, although major reforms are underway (see Chapter 3). While many young people go to university (including many women), their employment prospects are generally weak, despite producing some well-trained and skilled young workers. This leaves a challenge of upskilling the adult population to allow more productive activities to expand. Morocco's education attainment level is lower than in OECD countries, regional peers such as Egypt or Tunisia, and other emerging economies such as Colombia or Thailand. The World Bank found that 30% of all firms identified an inadequately educated workforce as a major constraint, compared to about 21% in the MENA region. A survey by the HCP cited 37.2% of all surveyed firms as saying that the system is not producing good candidates (52.3% in industry).

Figure 2.10. The majority of the population has only primary or lower education

Education attainment of the working-age population, **% of population aged 15-64, 2020**



Source: Barro, Robert and Jong-Wha Lee, 2013, "A New Data Set of Educational Attainment in the World, 1950-2010." Journal of Development Economics, vol 104, pp.184-198.

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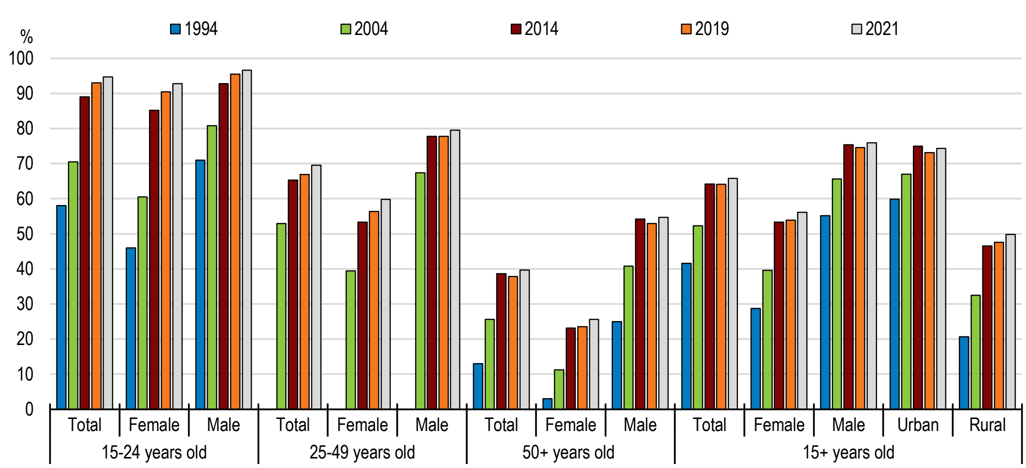
Literacy rates have improved, especially for young people, but remain a challenge (Figure 2.11). According to the World Bank, only 35% of under-10s could read a simple text in 2022. As indicated by the HCP (Haut-Commissariat au Plan: Les indicateurs sociaux du Maroc, 2023), adult literacy increased from around 40% in 1994 to 58% for women and 77% for men in 2022. Literacy rates are markedly lower for women and for rural residents and higher for those under 25 (96.6% for males and 92.8% for females). To deal with this challenge, there is a dedicated national agency to eradicate illiteracy and a growing number of people are enrolled in adult reading programmes (739 000 in 2020), the majority of whom are women and in rural areas. Raising literacy rates is also important for social reasons, including allowing people to engage in the formal economy and access social benefits (Bossenbroek and Ftouhi, 2021[9]).

Figure 2.11. Literacy rates have improved, especially for young people



Source: Haut-Commissariat au Plan: Recensements 1994, 2004 et 2014 et Enquête nationale sur l'emploi.

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Vocational training and adult education should be expanded

Vocational education and training (VET) can play a key role in providing workers with relevant workplace skills but is still chosen by only about 15% of all secondary students in Morocco. As in many countries, it is sometimes seen as a less promising choice than more academic streams (European Training Foundation, 2023[10]). VET is especially under-utilised at the upper-secondary level, despite being well-resourced and managed, and innovative (European Training Foundation, 2023[10]), even if quality remains an issue. A vocational stream has recently been piloted at the lower-secondary level. Associations run a small number of “second-chance” schools, and some public boarding schools exist for those (mainly girls) who live too far from other options. More work-based learning and apprenticeships could be helpful: in 2019, only 22 000 out of 191 000 initial VET graduates had undertaken such training formally (many are offered it informally). One issue is that such apprenticeships can be offered only up to the age of 20, whereas other apprenticeships can start at any age up to 30.

The government laid out its plans for the vocational education sector in a 2019 roadmap. This was followed up in 2021 by a National VET Strategy, which aims to boost the number of graduates by a factor of four from 2015 to over 2 million per year. A National Qualifications Framework is being established, though it is not yet fully operational. One of its priorities should be to implement a system of validating non-formal learning. The government is setting up 12 regional Jobs and Skills Centres (Cités des métiers et des compétences) as training hubs for artificial intelligence, digital skills, automobile and aeronautical manufacturing, the hospitality sector and offshoring, as well as four institutes to teach entrepreneurship. Some industrial sectors also operate their own training institutes and hire the majority of their graduates.

Vocational education for adults is better developed and funded through a 1.6% training levy/payroll tax, of which 30% is allocated to continuing vocational education. However, VET courses are offered by only 9% of firms (according to the World Bank’s 2023 Enterprise Surveys), compared to 18% on average in the MENA region and 27% in comparator lower-middle-income countries. Further developing other options for lifelong learning and especially more pathways to skills-acquisition would support upskilling.

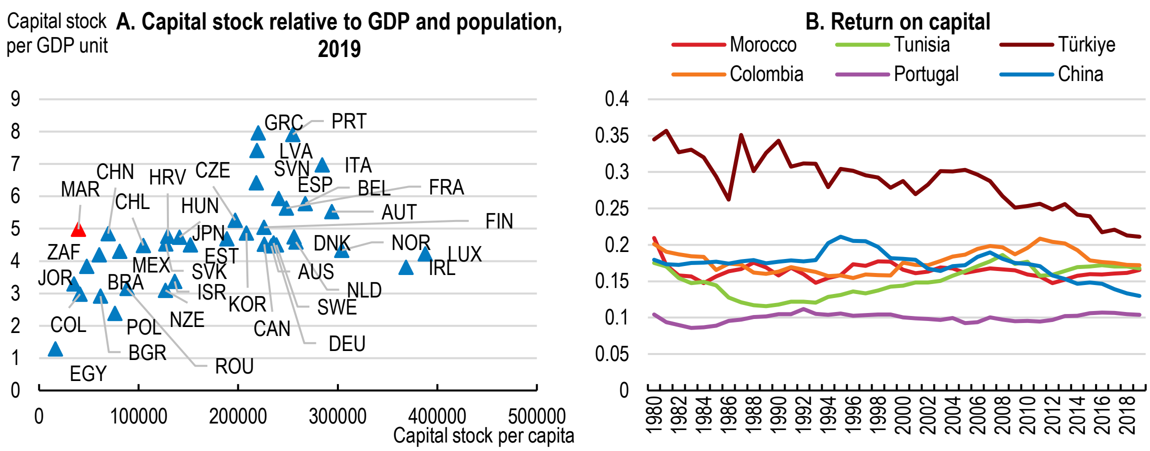
The university system needs to be strengthened

Morocco has achieved a huge expansion of university education since 2010 with around 45% of young people now attending tertiary education, significantly above the levels in most comparator countries. However, the university sector in Morocco suffers from a quality problem with high unemployment rates for graduates even in fields with apparent worker shortages (World Education News and Reviews, 2022[11]). The female share of total enrolment has continued to rise, reaching 52.7%, but too few of them subsequently find gainful employment. Tuition fees are quite low and often zero, while stipends are provided to students from poor and out-of-town households (though there is no system of student loans), but class sizes are often huge. This is largely because there is no selection for the majority of courses, leading to many young people abandoning their courses or to study in areas without demand from employers. More effective career guidance could help students to select courses with better employment prospects and economic returns, which would be supported by more consultation with employers. Coding centres are being established at each of Morocco’s 12 universities to boost digital skills.

2.3. Attracting more and higher-quality investment

Overall investment in Morocco has been strong, although the per capita capital stock is lower than in more advanced economies (Figure 2.12), but it has been driven by public-led investment and efficiency has been low. Investment efficiency, measured by the incremental capital-output ratio (ICOR), has improved, but it is lower than in many OECD countries and Egypt or Tunisia. Low investment efficiency (Harbal and Khihel, F., 2023[12]) suggests that capital is not allocated where it is most needed; the structure of investment is tilted toward less productive types (such as real estate), or that the framework conditions are not in place to achieve the best returns. The rate of return on capital was relatively high until the 1980s (above 20%), reflecting the scarcity of capital, but then fell somewhat and since then it has been fluctuating between 15-18% (Figure 2.12). This fluctuation may also be related to the relative scarcity of skilled labour as the capital stock is expanding (Ezzahid and A. Nihou, 2017[13]). The rapidly growing population will require a rapidly increasing capital stock to maintain productivity levels, as will the energy transition and the aspirations for greater participation in value chains. Over 2009-19, Morocco's investment rate was high relative to the MENA region, but below very rapidly growing economies such as Vietnam (33%). However, for any new investment, the expected rate of return, including social return, is key to the effect on growth.

Figure 2.12. The capital stock is low in per capita terms and the return on capital is comparable with other emerging countries



Note: Capital stock at constant 2017 national prices (in million 2017 USD). Real GDP at constant 2017 national prices (in million 2017 USD).
Source: Penn World Table, version 10.1, World Bank WDI and FRED.

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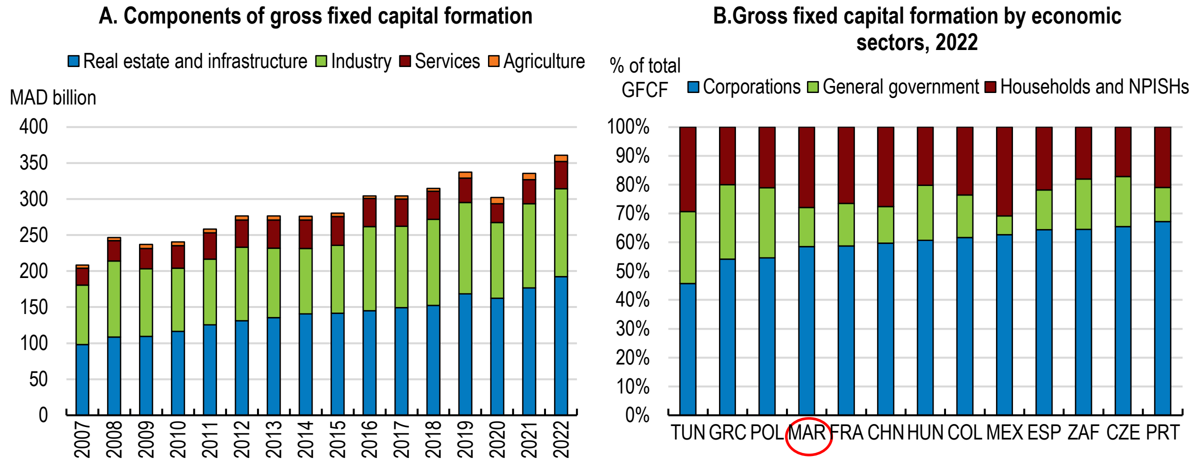
A third of investment goes to industry, over a half to real estate and infrastructure, 10% to non-infrastructure services (e.g., retail shops, restaurants and hotels) and 2% to agriculture (Figure 2.13). A potential factor leading to lower investment efficiency is a relatively high share of non-infrastructure services investment, which may not have the same productivity impact as investment in infrastructure or industry. Another is the large share by the government and state-owned enterprises (SOEs). Over half of gross fixed capital formation in 2022 was by the enterprise sector, over a quarter by households and a sixth by the government sector (Figure 2.13). However, 2022 appears to be unique in terms of the high private share of investment: the government sector invests more than the OECD average in normal years, contributing to relatively good infrastructure for the level of development (Figure 2.14). A quarter of government investment is done by sub-national authorities; most of the rest is disbursed by the general government budget directly, by autonomous service providers (SEGMA or Services de l'État Gérés de Manière Autonome) or non-commercial SOEs (EPA or Etablissements Publics à Caractère Administratif). A large share of private investment is carried out by SOEs (EEP or Entreprises et Établissements Publics) and over half of that by just three: Office Chérifien des Phosphates (OCP), the National Bureau for Electricity and Drinking Water (ONEE) and the renewable energy company Masen (2023 Budget Law).

Figure 2.13. Half of investment goes to property and infrastructure



Note: Panel B: Corporations include financial and non-financial firms. NPISH stands for non-profit institutions and households and GFCF for gross fixed capital formation. Data for Tunisia refer to 2017.
Source: CEIC database, OECD (2023) National Accounts at a Glance, and Haut Commissariat au Plan.

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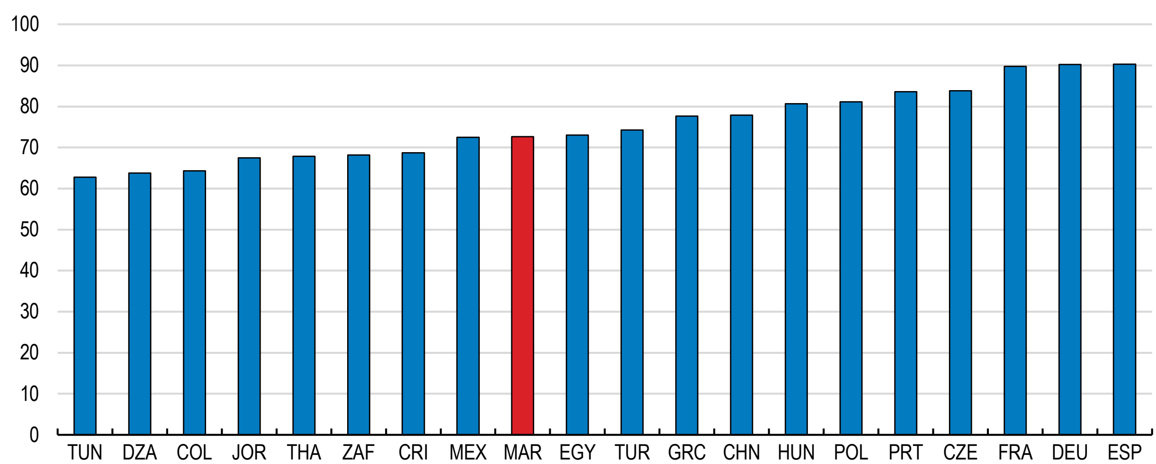
Figure 2.14. Infrastructure quality is comparable to that in some OECD countries



Note: Score for infrastructure 0-100, data for 2019.
Source: World Economic Forum – Global Competitiveness Index.

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The high share of publicly controlled investment contributes to the low level of efficiency of investment. To help address this, the government should focus on areas where the social returns are high, such as environmental infrastructure or rural roads, and ensuring value-for-money. Where the private returns are high and cash flow streams can be realised, such as transport or water infrastructure, private investment should be encouraged by implementing measures to remove barriers and create better framework conditions for private investment. The Special Commission working on the New Model of Development called for raising the private share of investment: it proposed two-thirds of private investment in the total as a goal relative to an assessment of it currently being around one-third, although the basis for these figures is not set out (Special Commission on the New Development Model, 2021[14]).

Public investment could be made more efficient

Public investment plays a vital role in the country's socio-economic development. Infrastructure should support productivity directly and through spillovers to other sectors but this depends on the efficiency of the investment. Most large infrastructure projects, for instance, the Tanger Med port or the high-speed train benefitted from foreign aid. While multilateral lenders may apply high standards for investments, some foreign donors do not. In recent years, Morocco has made great efforts in terms of public investment as a tool for social upgrading, reducing social and spatial disparities, and opening up difficult-to-access areas.

An OECD report identified four areas of improvement regarding the public investment management system: (i) a strategic vision should be created to express Morocco's priorities across sectors; (ii) project preparation and appraisal should be systematic, with thorough ex-ante analyses (such as cost-benefit analyses), especially for strategic projects; (iii) criteria for prioritisation should be clarified and standardised in each sector; and (iv) financial and physical monitoring of project implementation as well as ex-post evaluations should be strengthened. Indeed, the domestic public investment process lacks ex-ante cost-benefit analysis, which can lead to the realisation of inefficient projects and wasting of public funds. Ex-post analyses exist, but they are not done in a consistent manner (Boussouf and Seghyar, N., 2023[15]).

Moreover, public investment in Morocco is treated as one of the items in the budget among others and, besides the budget department, there is no specialised department on investment strategy. A new ministry, the Ministry of Investment, Convergence, and Public Policy Evaluation (MICEPP), was established in 2022 to focus on increasing investment and improving the business climate. Following the launch of the New Development Model, line ministries have developed sectoral plans but ministries often operate in silos and an overarching investment strategy could help realise synergies across sectoral plans. The experience of countries that have rolled out large-scale infrastructure in a short period suggests that an overarching strategy overseen by a single agency could help in determining the sequencing and avoiding overlap of infrastructure projects: this could be helpful for Morocco.

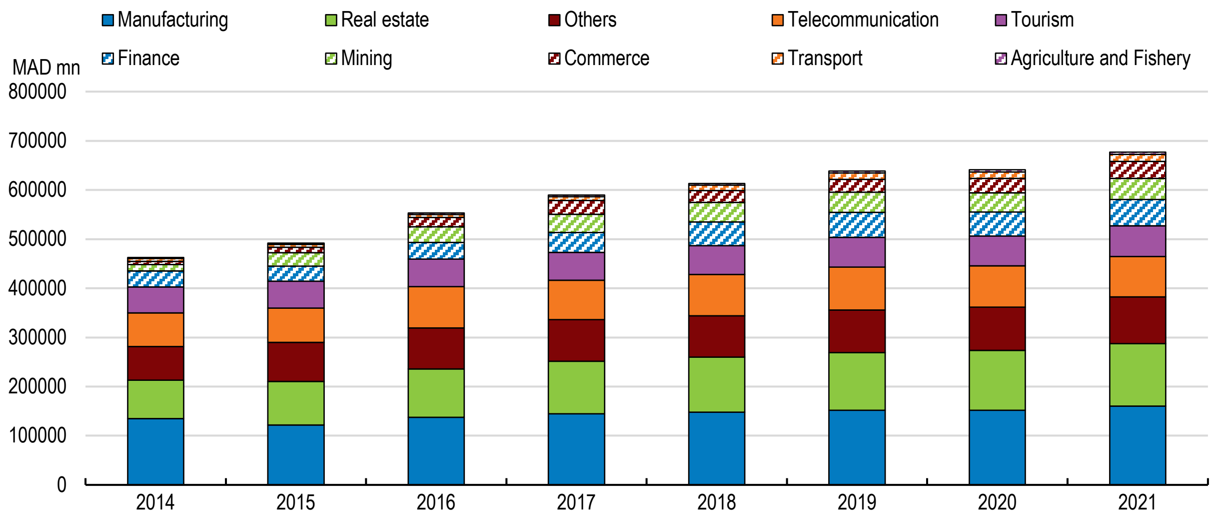
A challenge to effective public investment comes from the low execution rate of investment projects at 40% at the local level (vs. 75-80% at the central level). The central government has higher execution rates partly due to its dispatched agents at the local level. For instance, the Agency for the Promotion and Development of the North (APDN) supports the local implementation of central projects under its jurisdiction and brings technical expertise, but such agencies are not found across the whole country. At the regional level, the Agences Régionale d'Execution des Projets (AREPs) are in charge of project execution and there is some heterogeneity in performance across regions. To increase local execution rate of investment projects, more technical support could be provided to regions or the central government could execute investment projects on behalf of local governments where there are capacity constraints to do so.

Foreign investment is a key source of capital and know-how

Foreign investment has steadily increased over the past decade contributing to efficiency gains, while transferring technology and skills. 29% of industrial capital in firms with at least 10 employees (or at least MAD 100 000 sales) in 2022 originates from overseas (Ministère de l'Industrie et du Commerce, 2023[4]). The composition of the FDI stock reflects historical and cultural linkages with France having been the largest investor for decades and recent rapid growth in investment from the United Arab Emirates. Most foreign companies invest in manufacturing (with automobiles and pharmaceuticals receiving large shares), followed by real estate, telecommunications, tourism, energy and mines (Figure 2.15).

Figure 2.15. The manufacturing and real estate sectors received the largest FDI inflows

Inward FDI stock by sector



Source: Office des Changes.

StatLink https://stat.link/uc5diy

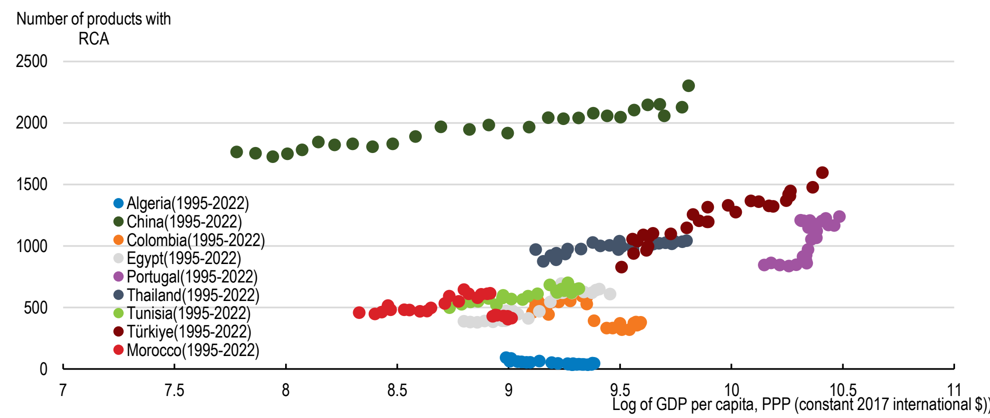
2.4. Upgrading Morocco's value-added in global value chains

Morocco has successfully attracted key industries and avoided the natural resource curse, despite large phosphate and other mineral reserves, in particular through attracting large foreign inward investments in automotive and aerospace activities, bringing also a network of suppliers into the country. Both started at labour-intensive stages of manufacturing processes, building on abundant labour supply stemming from favourable demographics as well as cost and geographic advantages. Further upgrading of production and moving significantly up the value chain will be required to ensure catching up with the advanced economies and to avoid falling into the "middle-income trap" (OECD, 2014[16]).

The value-added of Morocco's industrial sector could be increased by moving into more sophisticated products. Economic diversification needs to accelerate to build up knowledge and skills in increasingly higher value-added industries. To be able to produce and export more sophisticated products, the skills and facilities need to be in place and the costs of production need to be at internationally competitive levels. While there was a clear increase in the number of products with revealed comparative advantage over the 2000s (indicating growing diversity of exports), this trend reversed, and in particular after 2015, there have been fewer products with comparative advantage than in 1995 (Figure 2.16). This could be explained by competitors' faster improvements of competitiveness. In 2022, there were about 400 products (at the 6-digit HS classification level) where Morocco has comparative advantage, compared to nearly 650 in 2009. This number is of a similar magnitude as those in Egypt or Tunisia, but they are countries that managed to increase the number of products over time.

Figure 2.16. The number of export products with comparative advantage is in line with similar economies, but has fallen over time

Revealed comparative advantage in export products versus per capita income levels, 1995-2022



Note: OECD calculations based on HS 6-digit data of 5613 products.
Source: World Bank WDI and OECD calculations based on UN Comtrade, United Nations Commodity Trade Statistics (database).

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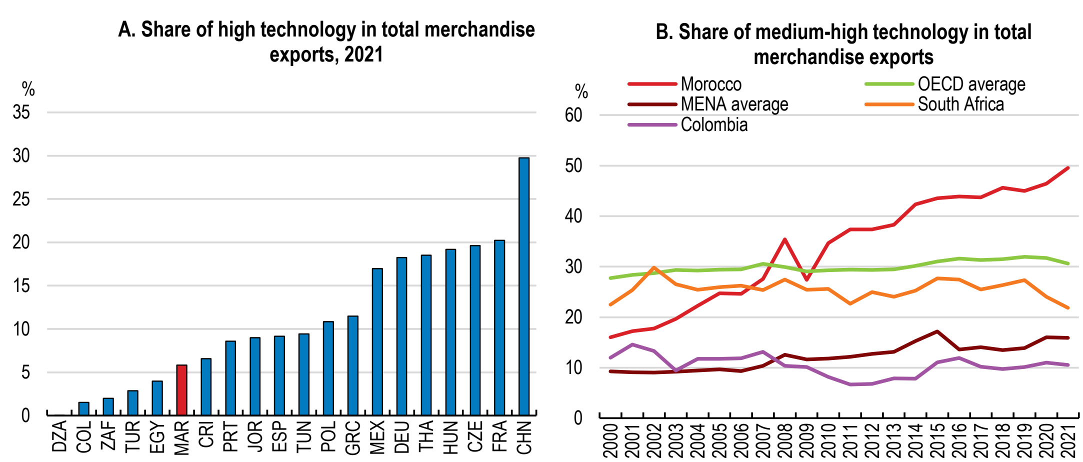
However, the sophistication of exports could be increased: the share of high-technology exports in goods exports (defined as high-R&D-intensity goods (Galindo-Rueda and Verger, 2016[17])) suggests that Morocco's share of high-tech exports was relatively low at 6% in 2021 and had fallen over the past 20 years from 7.7% (Figure 2.17), while the share of medium-high technology exports doubled to over 50% and of medium-tech exports remained broadly stable at 5%. Morocco's population is large enough to produce and become competitive in a greater number of more sophisticated products. While medium-high technology industries are important to employ large numbers of people with moderate skill levels, high-tech industries drive the technology and knowledge spillovers that would contribute to the catching up with more advanced economies.

Figure 2.17. The share of high-tech exports is small, but medium-high-tech is rising



Note: The definitions are based on R&D intensity and can be found at https://www.oecd-ilibrary.org/science-and-technology/oecd-taxonomy-of-economic-activities-based-on-r-d-intensity_5jlv73sqqp8r-en.
Source: OECD calculations based on UN Comtrade database.

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There are opportunities to develop higher value-added activities in several sectors

The automobile industry will undergo substantial transformation in the coming decade with the transition from combustion engine-based to electric vehicles. To maintain its place as a key player in the global car industry, Morocco should anticipate and adapt to these global trends. It has not specialised in the production of combustion engines and many of the automotive components produced in Morocco will also be needed for electric vehicles. Two large Chinese investments to produce chemical parts of batteries are underway. Morocco has a potential advantage through its phosphate production, which is an input in some EV battery technologies, and from its high potential for renewable energy production.

The green transition on a global scale creates opportunities for mineral-rich countries like Morocco. While the country already has a relatively large mining sector, mostly based on its global leader phosphate industry, it has a great potential to integrate into emerging new clean energy and new industry value chains (Conseil Économique, Social et Evironnemental, 2023[18]). It has massive deposits of manganese, which can increase the storage capacity and expand the life span of lithium-ion batteries, confirmed deposits of cobalt, zinc, nickel, copper, lead, fluorine and many other minerals (Conseil Économique, Social et Evironnemental, 2023[18]) and is well placed to get integrated in value chains forming in Africa. The new mining law of 2016 reduces uncertainty by expanding the length of mining licenses from four to ten years and removing the limit on the number of renewals (which used to be up to three times) and abolishes mining concessions that used to be granted for a period of 50-75 years. Unlike the long-term concessions granted in the past, more than 2 000 new licenses are now published, and in 2021, 2 436 revoked or renounced mining permits (122 operating licences and 2 314 research permits) covering a total area of approximately 33 000 km2 have been reattributed, thereby increasing transparency. But uncertainty remains around the granting of mining licences as the reasons for rejection are not specified. Attracting industries that process those and produce inputs into newly emerging industries would lift the value added and create more and better paying jobs, although care is needed in managing the environmental and social impact of expanded mining activities.

Morocco's relatively low productivity is often attributed to the relatively high share of services. Tourism plays a major role in service exports, drawing on extensive labour in Morocco and its cultural and natural assets. However, there is scope to further develop higher quality and more sophisticated tourism offerings, which has been improving, including as hosts of the 2030 Football World Cup. This requires investment, know-how and a more skilled work force. More widely, the expansion of sectors that require high skills and can significantly boost productivity in other sectors, such as information technology or business services, would work towards moving up the value chain. Training a large pool with those skills would be the first step to expand those industries and by increasing their value added, also boosting overall efficiency as they are used as inputs economy-wide.

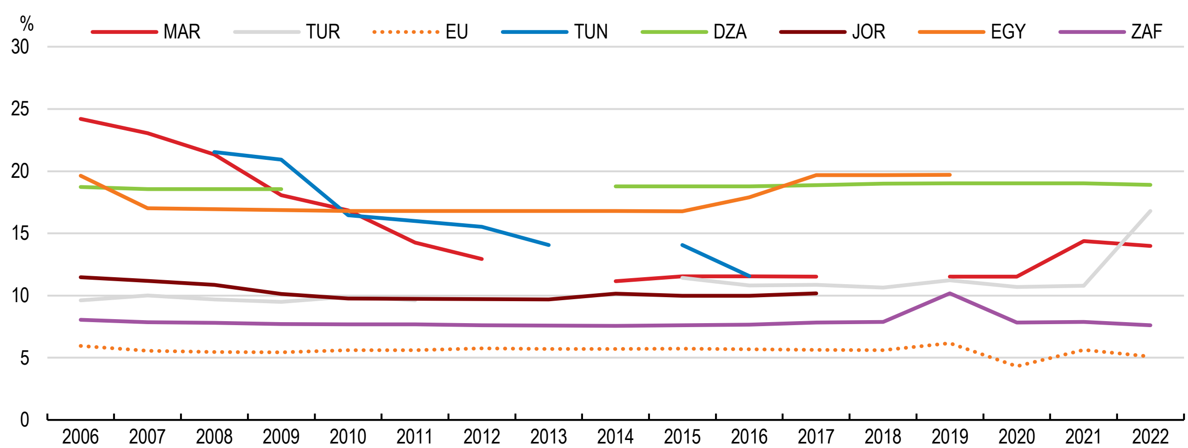
Morocco's agricultural sector plays an important role in the economy and employment. The industry is undergoing a transition with challenging weather conditions, including extended droughts, severe water scarcity (see the Key Policy Insights chapter), and the continued role of small-scale farming (OECD, 2017[1]) (Mahdi, 2014[19]) and reliance on outdated farming techniques. However, higher-value added products, like fruits, are increasingly being produced and exported in large quantities, mostly to Europe, and improved techniques are becoming more common. While higher-value added products are labour-intensive and ensure greater income for farmers, they are also more water-intensive and can contribute to the depletion of underground water resources. Increasing value-added in agriculture is supported by the Green Generation 2020-30 initiative, which aims at boosting competitiveness of agribusinesses including by connecting 2 million farmers with electronic agricultural services. Large agribusinesses with revenue over USD 500 000 are eligible for a lower corporate income tax rate of 20%. A key direction is to fill the gap between agriculture and agro-industry, which is targeted by the "Food 70" initiative, focusing on packaging and localisation. Diversifying production and finding niche markets are seen as ways to upgrade the agricultural sector. Scaling up and automation would also help in lifting agricultural productivity.

Openness to trade and investment remain key

Morocco has prioritised open trade policies, including through free-trade agreements with the EU, the US, Türkiye and several Arab countries, covering all industrial goods and some other areas. However, tariffs were increased on finished goods from non-FTA countries as part of the COVID-19 recovery plan. The average most-favoured-nation (MFN) tariff level has been brought down significantly over the past 15 years and is close to Jordan's, significantly lower than Egypt's or Algeria's, but higher than in most OECD countries and major emerging market traders like China, Thailand or South Africa. MFN tariff levels should be reduced further to lower prices for consumers and the cost of inputs for domestic producers, increasing their competitiveness. Lower tariffs on imports of inputs would facilitate greater integration into existing and newly forming value chains.

Figure 2.18. Tariffs have come down, but are still higher than in OECD and some emerging economies

Simple mean most favoured nation tariff rate



Note: The simple mean most favoured national tariff rate is the unweighted average of most favoured nation rates for all products subject to tariffs calculated for all traded goods. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups.
Source: World Bank WDI and World Tariff Profiles 2023 databases.

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Cross-border investment is seen as a two-way process with significant efforts to attract inward FDI, but also encouragement to Moroccan companies to invest abroad, notably in Africa (Box 2.2). Incentives will be provided for companies venturing overseas under the Investment Charter with a plan expected in 2024. Until now, such support was mainly in the form of trade diplomacy and investment agreements, promotion of activities and export guarantees. The major strategic target is Africa, where 43% of Moroccan outward investment goes. Moroccan companies' expansion in Africa is supported by both industrial and international investment policies. Offshoring has featured as a priority throughout several vintages of industrial plans, including the Pacte National pour l'Emergence Industrielle (PNEI) 2009-14 and the Plan pour l'Acceleration Industrielle (PAI) 2014-20. Morocco has implemented bilateral investment treaties with nearly a dozen African countries.

Box 2.2. Morocco's Africa trade and investment links

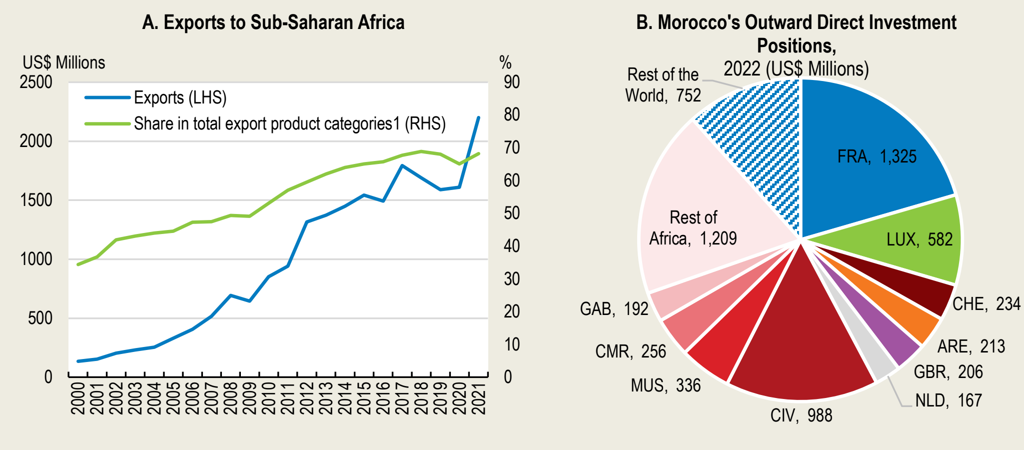
Morocco attaches a high priority to further developing its trade and investment links to the wider Africa region, which is expected to grow rapidly in the years ahead. The major international container port at Tanger Med and other interconnections could act as a key transport hub for the region.

Trade with the region has historically been limited but is growing at a fast pace with exports up more than 15-fold between 2000 and 2021, with chemical fertilisers and food as key export products. Meanwhile, export variety has also increased substantially with Morocco's share in total export product categories to the region rising from 35% to nearly 70%, exporting more than 2 000 unique products (HS6) as of 2021 (Figure 2.19., Panel A). However, trade with Sub-Saharan Africa remains modest and constitutes 6% and less than 1% of total Moroccan exports and imports respectively.

The African Continental Free Trade Agreement (AfCFTA), which Morocco ratified in 2022, is set to further deepen trade links with the region with Morocco's automotive sector envisioned to be a major beneficiary from expanding export access through tariff reductions and access to critical minerals (CFC, 2024[20]).

With outward investment stocks at nearly USD 3 billion in Africa as of 2022, Morocco is the largest African investor in West Africa (Panel B of Figure 2.19., Panel B) with investments concentrated in the real estate, telecommunications, and industrial sectors (OCP Policy Center, 2017[21]). OCP, for example, operates in more than 15 African countries outside Morocco, investing in fertiliser plants and distribution networks to support agricultural production. Moroccan banks also have a significant presence in West Africa, with a nearly 30% share in its banking market. Additionally, Maroc Telecom now serves more than 50 million users in the region outside Morocco. Recent investments in the pharmaceutical and cement sectors highlight broadening economic links with the region (DEPF, 2018[22]) (IFC, 2024[23]). To facilitate intra-regional investment links, Morocco established Casablanca Finance City (CFC), an economic and financial hub, to serve as a gateway for companies interested in investing and operating in the region.

Figure 2.19. Exports and export variety to Africa is growing at a fast pace while outward FDI to the region is substantial



1. Number of product categories exported to Sub-Saharan Africa as a share of total exported categories
Source: WITS and IMFCDIS databases.

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2.5. Providing incentives to invest and improving the business climate

The Charte de l'Investissement introduces a range of new measures to support private investment

Increasing private investment is key to building up a large and more productive capital stock to raise living standards, move up the value chain and create decent jobs for the young entering the labour market, as well as to manage the challenges of the green transition. The government has launched a major initiative to support business investment through the new Investment Charter (*Charte de l'Investissement)*, which includes financial supports and efforts to improve the business environment (Box 2.3). The management of these initiatives has been improved with the creation of a new Ministry (MICEPP, see above), as well as making the regional investment centres and committees - that were set up in 2002 – key actors. An environment conducive to entrepreneurship in terms of removing red tape and making land available is indispensable for private participation in capital investment and ensuring that capital yields good returns. The government has set an overall job creation objective for the New Charter of 500 000 jobs between 2022-26 and a target female participation rate of 45%. The fiscal costs of the subsidies are estimated to amount to MAD 3.3 billion in 2024 (or 0.2% of GDP) according to the 2023 budget document. Other objectives include raising private investment and gearing investment towards less developed regions and existing higher value-added industries and value chains. The new Mohammed VI Investment Fund set up by a transfer of MAD 15 billion from the central government budget and aiming to attract MAD 30 billion from private investors, including domestic and foreign as well as international institutions, has a wide range of objectives to invest in different activities and support investment. Priority areas for the funds are industry, infrastructure, agriculture and tourism.

Box 2.3. Morocco's New Investment Charter

The adoption of the new investment charter in Morocco (Framework Law 03-22) in 2022 aims to boost private investment, both domestic and foreign, by MAD 550 billion (ca. EUR 50 billion) and create 500 000 jobs by the end of 2026.

This new investment charter, following a previous Charter in 1995, responds to the recommendations of the New Development Model and the government programme 2021-2026, which considered investment as the key driver for economic revitalisation, and set nine fundamental objectives: creating stable jobs, reducing territorial disparities, directing investment towards priority sectors and future professions, enhancing the country's attractiveness to become a regional hub for foreign direct investment, encouraging exports and the internationalisation of Moroccan companies, promoting the substitution of imports with local production, achieving sustainable development, improving the business climate and facilitating the investment process and increasing the private share of investment.

The Charter is structured around three pillars: (i) four investment support mechanisms, (ii) improving the business climate, and (iii) unified investment governance at the regional level.

The Charter establishes a comprehensive system of investment supports, revolving around a main support mechanism and four specific bonus mechanisms, covering all project categories and actors.

First, the main investment support mechanism offers a total subsidy of up to 30% of the investment amount subject to two eligibility criteria: either exclusively the number of stable jobs created, which must be more than 150 jobs, or jointly the amount of investment (greater than MAD 50 million or EUR 5 million) and the number of jobs created above 50. This mechanism sets:

(i) five general bonuses that can be combined:

(1) jobs created/investment ratio (5% for a ratio >1 and ≤1.5; 7% for a ratio >1.5 and ≤3; 10% for a ratio >3),

(2) a gender criterion (3% if the female payroll is >30%),

(3) future jobs and upgrading of sectors (biotech, 5G, EV, fintech, aerospace, etc.) (3%),

(4) sustainable development (3% if using an energy efficiency system or renewable energy),

(5) local integration (3% depending on the level of participation of suppliers established in Morocco in the production activity of the investor; min. 20% of local integration is required in the agri-food, pharmaceutical or medical devices sectors, and 40% for other manufacturing activities).

(ii) a territorial bonus: a 10% bonus for investments made in Category A provinces or prefectures, and 15% for those in Category B, as defined in the Investment Charter framework. Some more developed provinces or prefectures do not benefit from this bonus.

(iii) a sectoral bonus: a 5% bonus for eligible investments made in priority 9 sectors (tourism, industry, digital economy, transport, outsourcing, logistics, cultural industry, aquaculture, renewable energy, and waste recycling).

General, territorial, and sectoral bonuses can be combined up to 30% of the investment amount. The maximum subsidy for renewable energy projects is MAD 30 million (EUR 3 million).

Second, the support mechanism for strategic projects applies to projects in the defence industry or projects with an investment amount exceeding MAD 2 billion (EUR 200 million) that (i) contribute to ensuring Morocco's water, energy, food, or health security, (ii) significantly impact employment, (iii) support Morocco's economic influence and strategic positioning internationally, (iv) have spillover effects on the sectoral ecosystems or, (v) significantly contribute to the adoption of cutting-edge technologies.

Third, the specific support mechanism for the development of Moroccan companies internationally is designed to promote Morocco's economic influence internationally, particularly by directly supporting Moroccan investments in Africa. The support is subject to conditions, including not causing any domestic job losses.

Fourth, there are specific support mechanisms dedicated to micro-, small- and medium-sized enterprises.

Currently, projects aiming to benefit from subsidies are submitted through regional investment commissions (Commission Regionale d'Investissement, CRI) with their opinion for approval by the National Investment Commission (Commission Nationale d'Investissement, CNI) chaired by the Head of Government. According to a new proposal, expected to be approved in 2024, projects below MAD 250 million will be approved by the CRI directly.

Source: Morocco's Government's *Bulletin Officiel* 15 December 2022.

The New Investment Charter replaces all other incentives at the national level and, as the subsidies are linked to explicit criteria, it increases transparency and reduces the scope for corruption. The top-up of private investment by government funds is a fundamentally new approach relative to the old charter, which focused on tax exemptions and land provision. The single window and single contact person in the new investment process increases efficiency and reduces the scope for corruption with the process itself online. However, additional incentives provided at the sub-national level are not systematically disclosed across all regions and remain subject to negotiation with potential investors. Publishing information on incentives at the sub-national level across all regions in a comprehensive manner would improve transparency, accountability and reduce risks of corruption, as well as reducing the risk of unnecessary competition between regions.

Since coming into force in May 2023, the National Investment Commission (Commission National d'Investissement, CNI) has approved over a hundred projects with an estimated value of MAD 173 billion and commitments to create over 96 000 jobs as of June 2024. The overwhelming majority of approved investment is by domestic companies. The total value of approved investments has reached 31% of the target for 2022-26, although only 19% of the employment objectives. As of June 2024, implementation of 90% of the projects announced during the first four meetings of the Commission had started. While the progress on approvals has been encouraging, it is too soon to assess how many of those projects will fully materialise and it will be important to publish such information in a timely way to gauge the impact of the new Charter.

Given the large mobilisation of public resources, it will be important to evaluate individual projects ex ante, as well as ex post, together with the performance of the programme as a whole. Given that the programme does not focus on incremental investments, there is a risk that supports are directed towards projects that would have taken place in any case. The effectiveness of the incentives to direct investment to particular activities and regions, like other industrial policies, will need to be carefully examined. Sectoral supports should be balanced to ensure an appropriate portfolio of risks and developing both new and existing activities and with a view to ensuring job creation and expansion of both high- and medium-high technology activities. A risk of using subsidies to attract foreign investment by internationally mobile firms that hop across countries in search of greater incentives looms large. Such firms may exit the country before the incentives expire (Amachraa and Quelin, 2022[24]) and therefore contribute little to the country's longer-term development. Industrial policies are also becoming increasingly common in OECD countries. While some may contribute to nurturing new industries and boosting competitiveness, they need to be evaluated on the basis of their cost efficiency (Millot and Rawdanowicz, 2024[1]).

Mobilising land for private investment

Land is a key factor of production for investors, be it large or small, hence its ownership should be transparent and its acquisition efficient. Land ownership in Morocco is complex (Box 2.4) with multiple systems and usufruct rights. Only 30% of the land is registered in the formal system and the rest is unregistered. Unregistered property is based in particular on *adoular* acts of ownership, which only issues a certificate of presumed ownership of unregistered land with the purpose to establish land titles, but such certificates *per se* do not constitute proofs of land titles. The use of such land involves legal risks of expropriation by the legally established owners. Land titles are not always established, for instance in the case of deserts or mountains or so-called "dead lands" which, by definition, belong to the state. In addition to disputes related to lack of registration, another major source of disputes is indivisibility of land with multiple owners, which can be a constraint to land mobilisation for investment.

Box 2.4. Land types, usufruct rights and mobilisation of land in Morocco

Land in Morocco is classified essentially into four main categories:

1. State land, which includes land owned and/or managed by the state. It consists of (i) public domain, (ii) private domain, and (iii) forest domains of the state, (iv) *guich* lands (around major cities donated to those tribes for their military services in the past), and (v) *habous* lands (donated for charity purposes and managed by the Ministry of Habous and Islamic Affairs).

State-owned public domain covers major infrastructures such as road, rail maritime, port, river or hydropower.

2. Collective land of ethnic communities distributed among members for use and whose supervision is ensured by the state (Ministry of Interior). Law 62.17 promulgated in 2019 opened the way for the transfer of ownership (melkisation) to the rights holders of land located outside the irrigation perimeters in the same way as those located in these perimeters, with the purpose of better use of these areas and their full integration into productive activities. Most collective land are located in rural areas, thus the 2019 new law that made possible the transfer of collective land increased dynamism in the agricultural land market.

3. The domain of local elected bodies and authorities, consisting of lands owned and managed by territorial bodies (region, province, and commune), similarly to state-owned land, can be of public and private domains.

4. Melk lands (private lands) are all lands and properties owned by individuals and legal entities under private law.

Property rights can be divided into various types of rights (bare ownership, usufruct, enjoyment, etc.), which gives rise to compensation for all the holders of these rights in the event of sale of the property. Usufruct rights are most common in the case of collective land, and it is not sufficient to get the agreement of the owner to purchase the land chosen by an investor, but at the same time the usufruct right also needs to be purchased. In the case of local bodies, both need to go through the council. Usufruct rights, however, can be rented out for a determined period of time.

The way land is mobilised often depends not only on its type but also the nature of the project. For instance, if land is mobilised for real estate development, then it is sold to the developer so that the developer can resell it. Non-agricultural state land can be mobilised through transfer, rental or temporary occupation (in particular for the public domain and forest). In contrast, agricultural land is leased from 17 up to 40 years with the possibility of extension. Agricultural land lease is done through tenders or direct negotiation via the Agency for Agricultural Development, which acts as a one-stop shop for agricultural investment. For private properties (Melk lands), their mobilisation for investment projects can take various forms given that the property belongs to persons under private law.

Source: Interviews with Moroccan authorities.

Conversion of land for investment purposes always needs to be authorised by the Unified Regional Investment Commissions, no matter whether it is privately, collectively or publicly owned. Land with strong cultivation potential cannot be converted, nor can forest land, land designated for public amenities or green zones (Law 47-18). In rare cases, there can be exceptions. Some types of land, such as the *habous* (managed by religious authorities) are difficult to acquire.

Nearly 13 500 hectares were mobilised in 2023 for 466 investment projects (excluding the agricultural sector) with total investment of MAD 37.7 billion. During the same year, nearly 3 841 hectares were mobilised for 179 agricultural investment projects worth MAD 685 million in the form of agricultural partnerships. In 2022, 99.3% of land mobilised for investment was undertaken through a lease. Apart from the mobilisation of land belonging to it, the state can also resort to expropriation, for reasons of public utility, public infrastructure projects or investment projects of a strategic nature, in accordance with the legislation and regulations in force. Examples include the industrial zone in Jorf Lasfar or the new town of Zenata.

Morocco has engaged for several years in a reform process with a view to make land policies consistent with other public policies. State land policy and its role in economic and social development were discussed in December 2015, followed by a set of reforms. A new legal framework for the lands of ethnic communities was created in 2019 aimed at improving their governance and encouraging their appropriation by rights holders for better development of these lands, while respecting transparency and of gender inclusion. The recognition of land ownership by Soulaliyate women has unleashed this potential while also representing a step towards gender equality. Other reforms have also been put in place, such as the new industrial zones, while others are underway (for example, a draft code for the private domain of the state and a draft law on forests).

Transparency should increase in the land registration system by finalising the establishment of land titles, including all forms of unregistered land. The transfer of collective land to the beneficiaries embeds a large potential given its large size and as new owners have greater incentives to invest in the land or to start up their business by collateralising it or transferring its ownership or usufruct right. Information about land availability and conditions for leasing or acquisition should be disclosed to investors.

Improving the business climate would support private investment and higher productivity

More ambitious efforts to improve the business climate would remove barriers to investment and support the objectives of the Charte de l'Investissement and create new opportunities for businesses, as well as facilitate the reallocation of resources to the most productive parts of the economy. This is recognised by the Moroccan authorities and the National Committee for the Business Environment (CNEA), which plays an important role in driving forward a number of initiatives (Box 2.5).

Box 2.5. Recent measures to improve the business climate

The National Committee for the Business Environment (CNEA) was created in 2010, with the mission "to propose to the government measures likely to improve the environment and the legal framework for business, to coordinate their implementation and to assess the impact on the sectors concerned".

Chaired by the Head of Government, the CNEA is made up of: all the ministerial departments involved in the business world, the Haut Commissariat au Plan (HCP), the Bank Al-Maghrib, the General Confederation of Moroccan Businesses (La Confédération Générale des Entreprises du Maroc or CGEM), the Professional Group of Banks of Morocco (Le Groupement Professionnel des Banques du Maroc or GPBM), the national authorities having jurisdiction over business (competition, prevention of corruption) and the federation of chambers of commerce. The private sector, the final "client" of the reforms carried out by the CNEA, is involved in its work through consultations.

To further improve the business environment, the Government established a 2023-2026 roadmap which is structured around three main pillars and one transversal pillar, along with ten priority initiatives.

- the first pillar is about building an institutional framework, including strengthening the business law framework, administrative simplification and better coordination and monitoring;
- the second pillar comprises mobilisation of funds, greening the economy, enhancing access to land and improving logistics;
- the third pillar covers support mechanisms for microenterprises and startups, innovation and upgrading of human capital.

The transversal pillar aims to reinforce ethics, integrity, and corruption prevention.

Source: Comité National de l'Environnement des Affaires (CNEA).

Setting up and closing a business has become easier due to major legislative changes on both fronts. Setting up a business can be done online since 2021 (electronic creation of business law 18-17), via a platform managed by the industrial and commercial property registry (L'Office Marocain de la Propriété Industrielle et Commerciale or OMPIC) through a one-stop shop for creation, registration and publication of company data. Fees have been reduced and the minimum capital requirement for limited liability companies has been abolished. Furthermore, within the regional investment centres, the Unified Regional

Investment Commissions were established as one-stop-shops for investment. Foreign companies are generally treated on an equal footing but are required to provide an Arabic-translated copy of their articles of association and an extract of the business registry in their country as well as notify the Office de Changes. Some procedures, however, remain cumbersome, for instance renewing visas and permits for foreign personnel may involve significant delays, which may take up to six months in some cases (U.S. Department of State, 2023[25]). Procedures in the Casablanca Finance City are streamlined to a few days. To reduce the costs of setting up a business by foreigners, the submission of all the required documents and all the required notifications should be allowed online. Electronic visas have been introduced in 2023, but long-term visa and permit renewals could be made more efficient.

In terms of entrepreneurship, a new status of self-employment was created in 2015 (Law 114-13), replacing the requirement for all freelancers either to register a firm (including limited-liability companies) or practice informally. The programme “Ana Moukawil”, initiated in 2023, supports 100 000 entrepreneurs until 2026 and comprises a component aiming at formalising economic activities by subsidising rental of commercial space, consultancy, accountancy, and other services. Currently, there are about 2.7 million established entrepreneurs in Morocco (a quarter of all employed people). However, 70% of entrepreneurs operate informally. This share is higher in rural areas, reaching 95% in Drâa-Tafilet region, but still as high as 63-64% in Casablanca-Settat (African Development Bank, 2023[26]). Entrepreneurs should be incentivised to formalise as, most importantly, informality cuts them off from external financing and therefore constrains their growth potential. Many of them may be operating below the optimal scale in a lack of financing, leading to low productivity. As in the case of companies, individual entrepreneurs should be subject to a combination of incentives and stricter enforcement (see Chapters 1 and 3). One-off moratoria with the foreshadowing of future sanctions can contribute to reducing informality (OECD, 2023[27]).

Allowing unproductive firms to close is important for business dynamism and to avoid workers and capital to be stuck in zombie firms (Adelet McGowan, Andrews and Millot, 2017[28]). Multiple measures have streamlined the framework for handling distressed firms in Morocco. However, the emphasis is more on supporting such firms than achieving exit, which carries the risk of taking up resources that could be directed to more efficient use. Law 73-17 in 2018 (amending Book V of the Commercial Code) adopted Chapter 11-type protection for distressed firms, introduced safeguard procedures for companies seeking legal protection and established a creditors’ assembly. Commercial courts at the location of the debtor’s business have jurisdiction over insolvency cases. The seniority order of priority in insolvency cases starts with secured creditors, followed by unsecured creditors before equity holders. To speed up the judicial process, deadlines have been proposed for different case types and, while not respecting the deadline will not have a bearing on the process, judges’ performance evaluation will consider it, thereby incentivising efficient handling of cases.

Administrative processes are being moved online and streamlined, which can boost efficiency and reduce transaction costs related to corruption as discussed in the Key Policy Insights chapter. The enterprise sector is yet to embrace digitalisation: not only small, but even many larger firms do not have a website and selling or buying online is not common. Following the 2020 Simplification of Administrative Procedures Law 55-19, document requirements are being standardised and unnecessary procedures eliminated (OECD, 2023[29]). The Law aims at full digitalisation of government services and procedures within five years. The National Administration Portal (Idarati) launched in 2021 serves as a digital platform for the administrative simplification process. Other portals are up and running to facilitate doing business, namely the "Chikaya" National Claims Portal, the "Chafafiya" Transparency and Access to Information Portal and the Public Services Geolocation Portal. Application and issuance of licenses are similarly digitalised. 22 administrative acts have been simplified and digitised via the “CRI invest” electronic platform, enabling a 45% reduction in the documents required for investors.

2.6. Levelling the playing field

State-owned enterprises are dominant in many sectors

State-owned enterprises (SOEs) play a dominant role in several industries. While this may address market failures and allow these firms to implement policies toward public policy goals, high public ownership carries the risk of crowding out private sector investment and can be prone to inefficiencies. In OECD countries, an explicit public policy objective usually needs to be identified to justify public ownership of companies, and such firms are mostly found in natural monopoly industries (OECD, 2015[30]). In Morocco, the scope of the public sector goes well beyond these natural monopolies. Even after liberalising SOE markets, the state remains heavily present in inherently commercially-oriented activities, such as the marketing of seeds or the production of animal vaccines (El Bazzim, 2023[31]), SOEs compete with private firms in several sectors. A key issue is how SOEs are governed and whether this ensures their efficiency and defines their role in the economy in an appropriate way.

Administrative monopolies have been created by administrative statutes to grant exclusive rights to specific firms to deliver certain goods or services or to explore and excavate certain minerals. An example in case is phosphate extraction, where exclusive right is granted to OCP (originally called the Office Chérifien des Phosphates), a firm with 94.12% state ownership. OCP is run primarily on commercial grounds and is a successful and innovative company, but also engages in activities that go beyond mining and processing (Box 2.6). Given the company's monopoly of phosphate excavation and the potential externalities related to pollution as well as inter-generational equity considerations, it should be ensured that the population is protected from negative externalities and benefits from this major asset.

Box 2.6. The Office Chérifien des Phosphates (OCP)

Established in 1920, the Office Chérifien des Phosphates (OCP Group S.A.) is a Moroccan state-owned company and one of the world's largest producers of phosphate and fertilisers. Since the early 2000s, it expanded its activities from mining to cover the entire phosphate value chain, including extraction, transportation, industrial processing and storage, and distribution and sales. With 70% of the world's phosphate reserves, OCP has significant market shares in phosphate rock (19%), phosphoric acid (35%), and phosphate fertilisers (26%) exports.

OCP accounts for 3.2% of Moroccan GDP. It accounts for 1.6% of employment in industry and 43% in mining. The group's investment makes up 11% of overall investment in Morocco.

In addition to its industrial and commercial activities, the OCP group plays a major role in the socio-economic development of Morocco by promoting programmes for industrial SMEs to deepen their integration into value chains (e.g. technology transfer and knowledge sharing, support for local entrepreneurship), conducting community development initiatives (including initiatives to improve access to healthcare, water, infrastructure, and other essential services), investing in education and training (Mohammed VI Polytechnic University, scholarships, training programs, etc.).

Source: Rapport d'activité OCP 2022 and Présentation de la stratégie verte OCP 2027.

An on-going reform is reclassifying state-owned enterprises according to the nature of their activities. Some SOEs function both as an agency delivering public goods and services and as a profit-seeking entity: it is crucial that commercial and non-commercial activities are clearly separated and that the non-commercial activities are compensated on competitive terms. Commercial SOEs should face hard budget constraints, otherwise implicit and explicit guarantees by the government risk tilting the playing field in their favour at the expense of private sector development. Currently, many SOEs in Morocco benefit from government transfers in the form of capital injections and support to their current and capital spending (see the Key

Policy Insights chapter). Beneficiaries of capital injections in recent years include the national airlines, the railway operator, and the national tv and radio broadcaster.

In Morocco, part of the state-owned sector consists of public agencies delivering public services and receiving regular budget support, which are supervised by various ministries and government agencies, including the Ministry of Economy and Finance. The other part is the commercially oriented SOEs that are being incorporated and categorised as state-owned enterprises. Currently, there exist 57 such enterprises and there are a further 26 that are in the process of conversion into commercial SOEs. In addition, there are 21 SOEs at the local level. An effort is being made to more clearly differentiate commercial and non-commercial SOEs and to improve the governance framework. Most commercial SOEs in Morocco are now governed by a special agency under the Ministry of Economy and Finance, ANGSPE, established in October 2022 (Law 82-20). The objective of the agency is to better represent the interests of the state as a shareholder and to improve the performance and the governance of such enterprises. However, the Council of Ministers adopted key strategic directions for commercial SOEs in June 2024 that set a wide range of objectives for SOEs, including ensuring national sovereignty, a range of social objectives including encouraging national competitiveness and employment creation and active contribution to the reduction of regional inequalities. The multiplicity of objectives creates risks that it may be difficult to ensure they operate effectively or compete on any efficient basis with private firms. SOEs should follow the same stringency in reporting and disclosure requirements as listed firms, as OECD Guidelines on Corporate Governance of State-Owned Enterprises suggest (OECD, 2015[1]). A new code adopting best practices from the 2015 OECD Codes has been validated in May 2024 following a public consultation.

Boosting competition by strengthening independence of the Competition Council

Competition plays a key role in ensuring an efficient allocation of resources and low consumer and input prices. However, there are a number of sectors where competition in Morocco appears to be weak. These include buildings and public works, private higher education and sugar. Furthermore, key sectors for competition law assessment have included pharmaceuticals, online payment markets by debit card, private clinics and similar establishments, and wholesale markets for fruit, vegetables, red meat and fish.

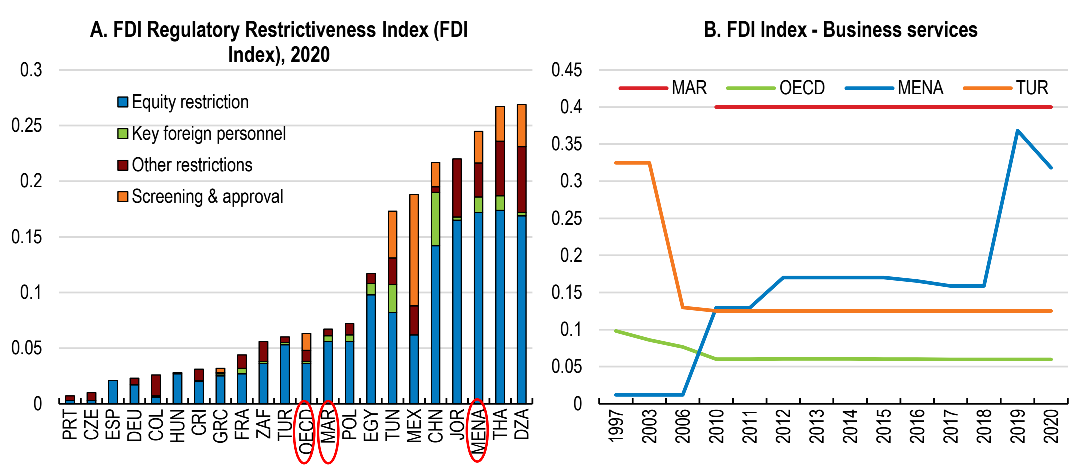
The Competition Council became fully operational in 2018 and has been gaining a higher profile by increasing its investigative activities and enforcement actions. Before 2018, the Council served as a consultative authority without decision-making powers (El Bazzim, 2023[31]). Under the 2018 law, the Council is tasked with creating and maintaining a level playing field, as well as ensuring transparency and fairness in economic relations. Its independence is anchored in the constitution (article 166), although a government representative attends board meetings but does not have voting rights. Recent reforms have laid out more detail on the procedures to investigate anti-competitive practices, the definition of market concentration and thresholds for merger activities, procedures for appealing the Council's decisions (Law 40.21) and strengthened impartiality and independence of the Council (Law 41.21). The Council's investigative, sanctioning powers and other tools are similar to those in EU countries with fines up to a maximum of 10% of turnover generated in Morocco. The independence of the Council should continue to be respected and could be strengthened by removing the government's right to control prices in the interest of professional organisations. To ensure that the Council will continue to be headed by qualified people and protect its independence, the skills and competences of the chairperson should be enshrined in law as in many OECD countries.

The Council has undertaken sectoral investigations in several key sectors, such as wholesaling, professional services and banking, which have a strong impact on consumers, and this has supported enforcement actions. The Council plans to increase the output of these sectoral reports and to set up a unit dedicated to the regulated professions. Most of the Council's work consists of monitoring and examining market concentration and there have been few investigations into anti-competitive practices and behaviour. In 2022, there was only one such case finalised. In 2023, the Council fined nine fuel companies a total of MAD 1.8 billion for anti-competitive conduct and price fixing, based on a 2022 sectoral report on the country's diesel and petrol market, and three companies have 60% market share. There have been a growing number of merger notifications. Most of the fines imposed by the Council (a total of 31 antitrust fines in 2022, amounting to MAD 72 billion, equivalent to EUR 7.2 billion) are related to failure of businesses to adequately report their merger and acquisition activities. The Council should continue to develop its activities and make full use of its investigative and sanctioning powers, including dawn raids, and ensure that fines have a dissuasive effect, given high concentration and low competition in many sectors. The Council's remit should be extended to competition in public procurement markets and to cover as in many other countries the telecommunications sector, which is highly concentrated and where competition is regulated by the sectoral authority (the Competition Council chair sits on the board).

Equal treatment for foreign enterprises

Morocco has benefitted from FDI in terms of investment and employment for an open economy. As a signatory of the OECD Declaration on International Investment and Multinational Enterprises since November 2009, Morocco guarantees equal treatment to foreign investors with some exceptions. The OECD FDI restrictiveness index suggests that legal restrictions on equity ownership by foreigners or on the hiring of foreign personnel are low (Figure 2.20), but there are ownership restrictions in the services sector (OECD, 2024[32]), including in accounting and audit and business services. Air transportation is subject to a 49% cap. Foreigners can deliver architectural services conditional on authorisation, except nationals of Algeria, Senegal and Tunisia, who can practise without such an authorisation according to reciprocal agreements. Any restrictions on foreign firms in the business services industry may have an impact on other industries where these services are an input. The state reserves the right to limit all foreign majority stakes in the capital of large banks. Even though this has not so far been exercised, it can potentially create wariness of foreign banks to establish majority-owned subsidiaries or to acquire majority shares in domestic banks. The employment of key foreign personnel is liberalised in most industries.

Figure 2.20. Foreign entry restrictions are low, except in some services



Note: Index taking value between 0 and 1 with higher values indicating greater restrictiveness.
Source: OECD Foreign Direct Investment Restrictiveness Index database.

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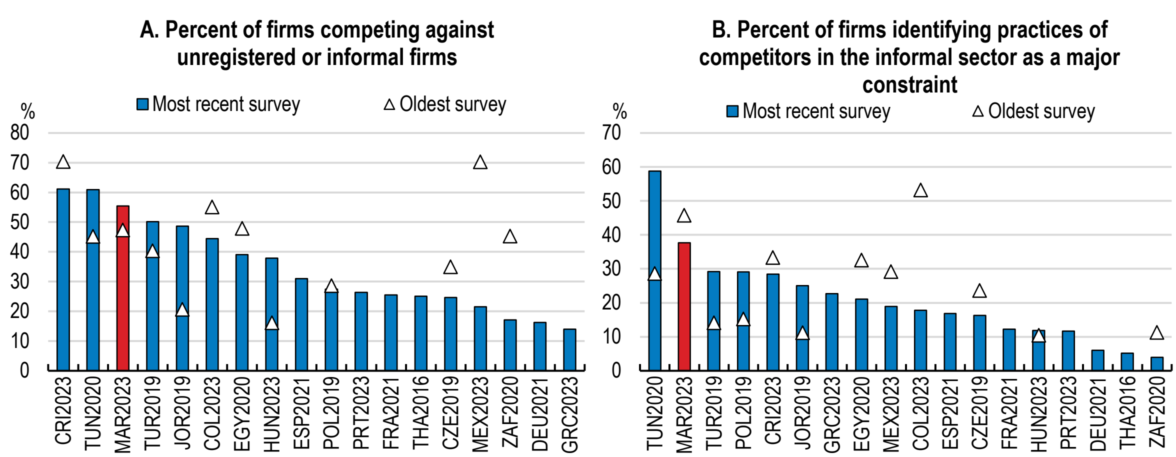
However, domestic companies have long enjoyed some preference in public procurement, and this has now been reinforced. A new decree from 2023 provides additional preferential treatment for domestic bidders (Decree No. 2.22.431). Supply and service contracts are now subject to the national preference principle (not only work contracts for studies as before). Moreover, national preference is no longer optional, but is an obligation. Since 1 September 2023, all work contracts up to MAD 10 million and supply and service contracts up to MAD 1 million are subject to a national call for bids. All companies established in Morocco can participate and as the law does not specify whether it has to be a registered subsidiary, this allows both foreign subsidiaries and branches to participate. In addition, the national preference principle does not apply to consortia, either, if the share of members established in Morocco is above 30% in the consortium. International bidders can participate in larger tenders only.

The national advantage in public procurement has been based on a price threshold, giving domestic bidders a 15% advantage on contracts for works and related studies (article 155 of Decree No. 2-12-349 as amended by Decree No. 2-19-69). To ensure advantage to national bidders, the foreign company's offer is increased by 15% if the foreign offer is closest by excess to a reference price and there are no lower offers. While the reference price can serve as a benchmark, it can lead to collusion and hence higher prices. In some cases, foreign lenders' presence helps in creating competitive procurement markets. For instance, applying EIB guidelines relating to universal eligibility and equal opportunities in procurement will help in creating a level playing field in procurement markets.

Encouraging formalisation would help firms to become more productive

High informality among firms and employment holds back Moroccan firms from being more productive. Informality sustains low-productivity and poor-quality jobs (see Chapter 3), as well as creating unfair competition for formal firms. Informal firms may find it difficult to scale up and become more productive as they have no access to formal financing and informal financial markets are not developed. Over half of Moroccan companies face competition from informal firms and this share has even increased over the past decade (Figure 2.21). Competition from informal firms is as widespread as in Jordan and Türkiye, though in Morocco more firms consider it a major constraint than in those two countries. Competing with informal firms appears to be a common issue across the MENA region with Tunisia even more affected, though Egypt to a lesser extent. Smaller firms are more adversely affected by informal competitors providing similar goods and services without having to assume social security costs for their workers or paying taxes. In transactions, the informal sector has an estimated advantage of 20-40% relative to the formal sector. This is a major constraint for about 40% of firms according to the World Bank Enterprise Surveys, somewhat lower than in the past, but still very high.

Figure 2.21. Nearly half of Moroccan firms compete with informal businesses and many find it a major constraint



Source: World Bank Enterprise Surveys.

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There have been significant efforts to formalise firms, in addition to the reforms to help formalise the labour market, including introducing a simplified tax regime to make up for unpaid taxes, paying social security, income taxes and local taxes as a lump sum. As part of an amnesty programme, 11 607 firms have been integrated into the formal system. This, however, is the tip of the iceberg as there are estimated to be nearly 1.7 million informal firms. In addition, 70% of the 2.7 million entrepreneurs operate informally. As informality is a constraint to growing and reaching optimal scale, formalisation needs to go beyond amnesty initiatives. While moratoria can be effective if they are one-off and deterring sanctions are expected in the future, the lack of sanctions and the expectation of further moratoria may deter potential formalisers. The right bundle of incentives and enforcement needs to be enacted, where formalisation per se brings about the benefits that should be sought after by firms such as access to external financing, refund of VAT on inputs, access to public contracts and all the reputational effects. An effective way of reducing informality in the economy is the enforcement of direct linking of cash registers with the revenue authority, requirement to issue receipt of any revenue and moving transactions digital (OECD, 2023[27]).

Supporting SMEs & micro firms to upscale

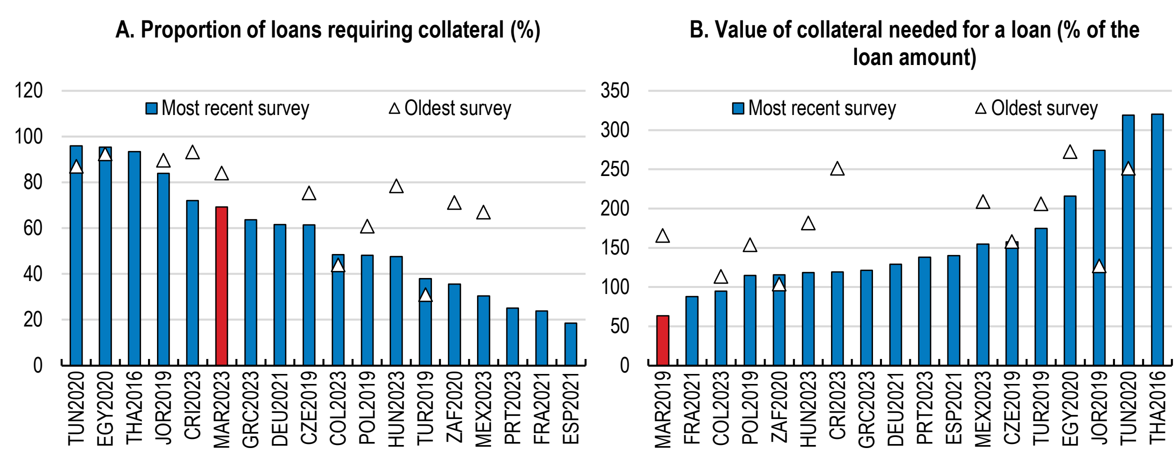
A key challenge for Morocco is the prevalence of smaller firms, which find it hard to invest and innovate. Morocco's SMEs and micro firms are adversely affected by multiple institutional and structural deficiencies: including (i) the corporate taxation system, which is progressive and the lowest rate is fairly high, constituting a barrier to growth, (ii) dominance of either SOEs or large private or foreign firms across most industries, (iii) issues with access to financing, (iv) payment delays causing cash flow problems and (v) many other disadvantages stemming from their small scale and limited ecosystem for their expansion and upgrading. All these have kept small firms small and appear to have created a vacuum in the middle of the distribution. This "missing middle" issue creates repercussions for capabilities to catch up, adopt new technologies and integrate in value chains.

Morocco's corporate tax rates are high given the scale of informality and the very small size of most firms. Corporate income tax rates will start at 20% from 2026 and could impose a substantial burden on small firms, which are the majority of the firm population. The increase of the lowest rate as a result of the tax reform starting in 2023 (from 10% for small firms) discourages setting up a new formal business. A significant degree of progressivity remains and at MAD 100 million companies face a 35% rate. While this does not bind many firms, the threshold does create some disincentive to expand beyond that point.

When the overwhelming majority of firms are of a very small size, creating a level playing field may not be sufficient as their scale constrains them from competing. In such cases regulatory measures, such as splitting up public procurement contracts so that small-scale companies can compete, as seen in other countries, can be an effective measure of SME support (OECD, 2022[33]).

Smaller firms are most likely to face borrowing constraints, particularly for firms with informal activities. Bank financing is dominant in Morocco and is mostly collateral-based (Figure 2.22) and, while progress has been made in improving pledgeability and guarantees, informality remains a barrier to credit. In 2023, 70% of loans required collateral, less than in Egypt, Jordan or Tunisia, but more than in most OECD countries. The value of the collateral, typically set at two-thirds of the loan, appears lower than in other regional peers. In agriculture, for instance, collateral of a value of 2-4 times of the loan is required. The most common collateral is land or immovable property. The establishment of the legal framework for movable and intangible property-based lending in 2019 (Law 21.18) is an important milestone for smaller companies with limited collateralisable assets. In 2020, the electronic National Register for Movable Collateral was created to track all transactions related to pledged assets. The digitalisation of this service was timely in the midst of the pandemic and provided a lifeline for cash-strapped businesses when in-person transactions were constrained. To overcome collateral constraints, the government provides credit guarantees for both public and private firms through the Guarantee and Financing Company for Enterprises (SNGFE or TAMWILCOM), which was converted into a public limited company from an agency in 2021 to emphasise its commercial orientation. In addition to bank lending, small firms also make use of factoring to meet financing needs. For start-ups and dynamic and innovative firms, crowdfunding has been available since 2019 (Law 15-18) and a dedicated crowdfunding portal was established in September 2023 on the site of the Capital Market Authority. The central bank has taken an active role in promoting initiatives in this area. The Mohammed VI Investment Fund will also support SMEs through sector-specific funds operating as private equity funds. However, access to formal funding constrained by informality and grey market activities. More generally, reducing informality, higher disclosure standards and more stringent reporting requirements would improve small firms' access to formal financing, including in instances where there's a lack of collateral.

Figure 2.22. Most borrowing requires collateral



Note: 2023 and 2013 or closest years.
Source: World Bank Enterprise Surveys.

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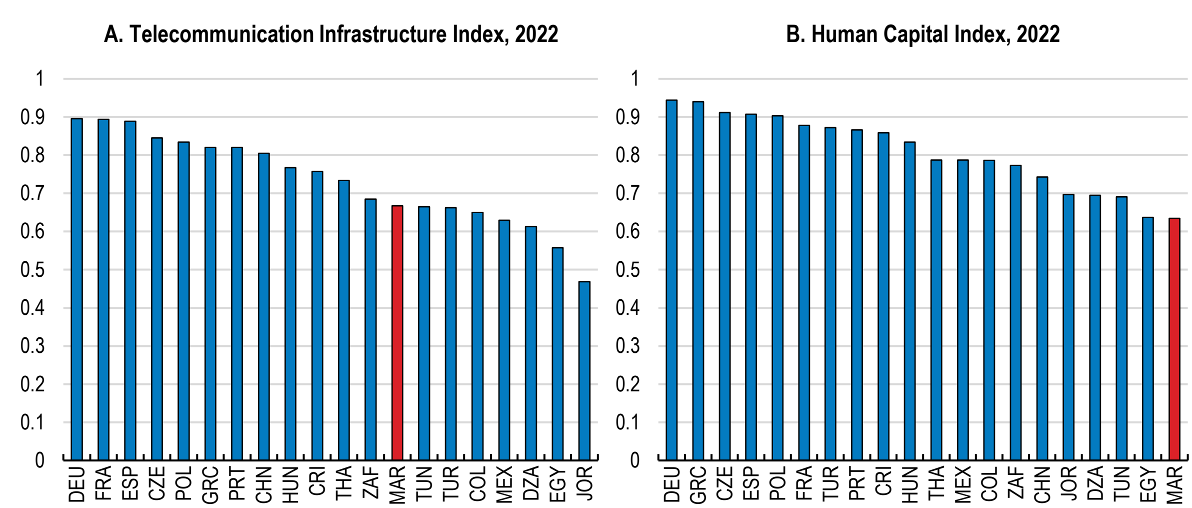
Payment delays create cash flow problems and have a bearing on business planning and often adversely affect investment and upgrading by requiring more working capital. The creation of a platform to track payment delays (Observatoire sur les Délais de Paiement) in 2017 (Law 49.15) brought about greater predictability for firms' operations in general, but in particular for smaller firms. The same law regulated payment deadlines for public services in 60 days and defined the way to calculate the interest on delayed payments. Law 69-21 set the deadline for payments as 60 days from the issue of invoice. The depth of the issue of payment delays is illustrated by the 2019 registry data: more than half of firms paid their bills later than the 60 days defined in the law and 35% even later than 120 days. During the pandemic, payment delays for very small firms averaged 279 days in 2020 and decreased only slightly to 243 days in 2021. The situation has improved since the pandemic due to policy measures: average payment delays as reported by state-owned enterprises and agencies have been reduced to 34.4 days by March 2024, though no comparable data have been published for small firms. More stringent payment requirements and shorter deadlines for transactions where the recipient is a small firm would be counterproductive, as experience of other countries show, as it would reduce business opportunities for such firms. Instead, the deadlines and fines prescribed by the law should be enforced for firms of all sizes.

2.7. Leapfrogging through digitalisation

Digitalisation has served as a way to allow catch-up economies to make rapid productivity gains and to leapfrog more advanced countries in some areas by adopting frontier technologies. While this can be hard for manufacturing industries where prior accumulated experience is crucial for success, it is easier in services. Digital systems can be rolled out in relatively short periods of time and can significantly reduce the costs of administrative procedures, as the experience of Estonia shows.

Digitalisation of government services is steadily progressing in Morocco, though on many indicators there is ample room to catch up with not only advanced OECD economies, but also many other emerging markets (Figure 2.23). E-participation and online services lag behind Egypt, Jordan, or Tunisia. In contrast, telecommunications infrastructure is of similar quality as in South Africa or Tunisia, well ahead of Egypt or Jordan. In terms of human capital needed for the digital transition, Morocco needs to step up training the right skills to catch up with countries in the region. There have been several recent initiatives working in the direction of closing the gap with more advanced economies such as the Jobin Tech project aiming to train 15 000 young digital professionals and over 28 000 college graduates by 2026. The New Development Model and the Government Programme 2021-26 aim to foster digitalisation as a driver for public administration modernisation (OECD, 2023[29]). At the institutional level, Morocco created in 2021 a ministry (the Ministry of Digital Transition and Administration Reform) to support digital transformation, including of the public administration. The government is finalising a whole-of-government digital strategy. Since August 2023, public procurement has gone fully digital. This will make the process more efficient and more transparent, thereby reducing room for corruption. Over 5 000 administrative processes have recently gone digital. To fully reap the benefits of digitalisation of administrative services, those services should be available and accessible to all. With a few exceptions, where in-person presence is needed for security purposes, such as selling and buying real estate, most interactions should go online. To actually allow people to make use of online services, they need to have the right basic and digital skills.

Figure 2.23. Morocco has room to catch up in e-government



Source: United Nations E-Government Development Database.

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The extent of digitalisation in the enterprise sector in Morocco is relatively limited in comparison with OECD or middle-income countries, though on some indicators it fairs better than its neighbours. For instance, according to a representative survey of private firms (Open Access Micro Data Initiative (OAMDI), 2023[34]), only 28% of firms have a webpage, while in Jordan and Egypt only 20% and 18%. While in Egypt and Jordan, IT firms are among the most likely to have a website, in Morocco it is transport and storage and petrochemicals companies instead. The median firm even in the large (above 200 employees) and medium-large (50-199 employees) size categories does not have a webpage, unlike in Jordan or Egypt (in Egypt two-thirds of firms of those size categories have websites). This suggests that the lack of websites in Morocco is not so much related to firm size but to a lower use of internet in general. This is confirmed by the lower extent of listing of Moroccan companies on other apps and websites and lower probability of buying online compared to Egyptian and Jordanian peers. Larger Moroccan firms are as likely to sell online as Egyptian ones, though less so than Jordanian ones. Evidence from microdata is in line with the government's own assessment of relatively weak e-commerce and online financial services development (Ministère de l'Économie et Finances, 2021[35]) even though the vast majority of businesses have internet access (Haut-Commissariat au Plan, 2022[3]).

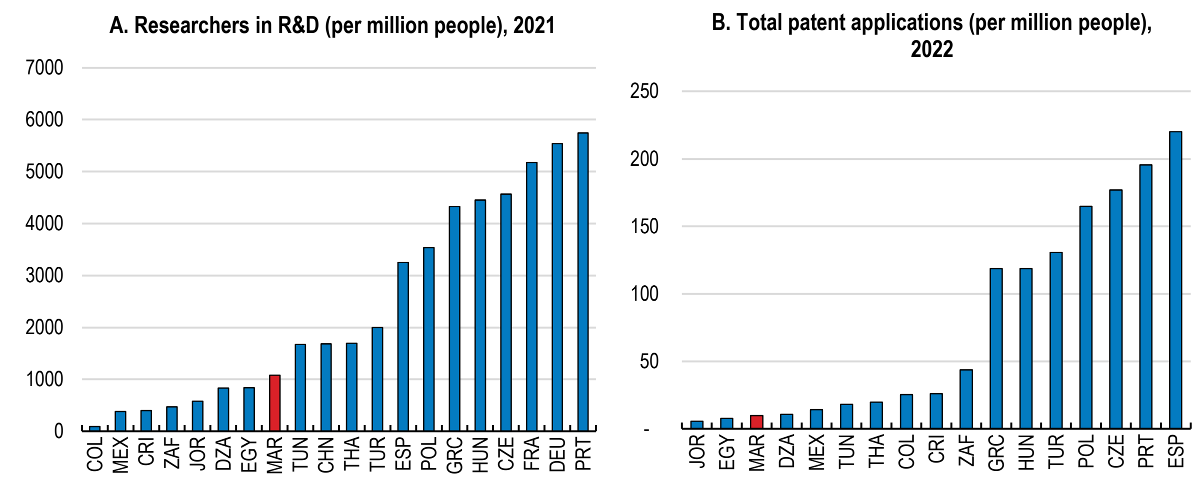
The share of employees whose job requires computer skills is relatively low in Morocco. In a median Moroccan firm, only a third of employees require computer skills. IT skills are not among the recruitment criteria for the median firm in Morocco (Open Access Micro Data Initiative (OAMDI), 2023[34]). To encourage firms to adopt productivity-boosting digital tools, it is key to keep internet costs affordable and to ensure that consumers are protected in e-commerce transactions. A law was adopted in 2020 on trust services in electronic transactions (Law No. 43-20) and a decree on the adoption of that law (Decree No. 2-22-687) in 2022, but uptake of online selling and purchasing appears to be slow. The number of computer literates could be boosted by offering courses at reduced rates (or free) for targeted groups.

2.8. Innovating to catch up

Innovation and the adoption of more advanced technologies and working practices are key drivers of productivity growth in the long run and can be supported by a policy framework that encourages innovation, protects intellectual property rights and secures returns on people's investment in R&D, including private returns. Morocco's Office for Industrial and Commercial Property (Office Marocain de la Propriété Industrielle et Commerciale, OMPIC) sets the strategies to boost innovation activities, registers intellectual property, provides support to commercialise innovation outputs and raises awareness of the importance of intangible capital. Its focus of work is set down in the OMPIC Strategic Vision 2025, which comprises (i) enterprise creativity and innovation, (ii) strengthening the system of IPR protection and (iii) enhancing intangible assets and market-oriented R&D.

R&D resources in Morocco lag far behind OECD countries but seem broadly in line with norms for economies at a similar level of development. Data on key R&D inputs, such as the R&D spending as a percentage of GDP are not available on a timely basis: the latest available data from 2019 shows R&D spending was 0.8% of GDP, comparable to other countries in the region, but far behind OECD and other major innovator countries. To improve innovation outcomes, an innovation support fund (Fonds de Soutien à l'Innovation) was created with an annual budget of MAD 300 million. The number of researchers relative to the size of the population amounted to 0.1% in Morocco, better than in some regional economies such as Egypt or Jordan and even some OECD members, such as Colombia, Costa Rica or Mexico (Figure 2.24). However, this is roughly half of the share in Thailand and a fifth of that in Portugal. The density of technicians in R&D is significantly lower than in most regional peers or OECD countries at 40 per million people.

Figure 2.24. Both research inputs and outputs need to be strengthened



Note: Panel A: Data for 2021, except for Portugal, Tunisia and Egypt (2022), South Africa (2020), Algeria, Colombia and Jordan (2017), and Morocco (2016).
Source: World Bank World Development Indicators and World Intellectual Property Office statistics databases.

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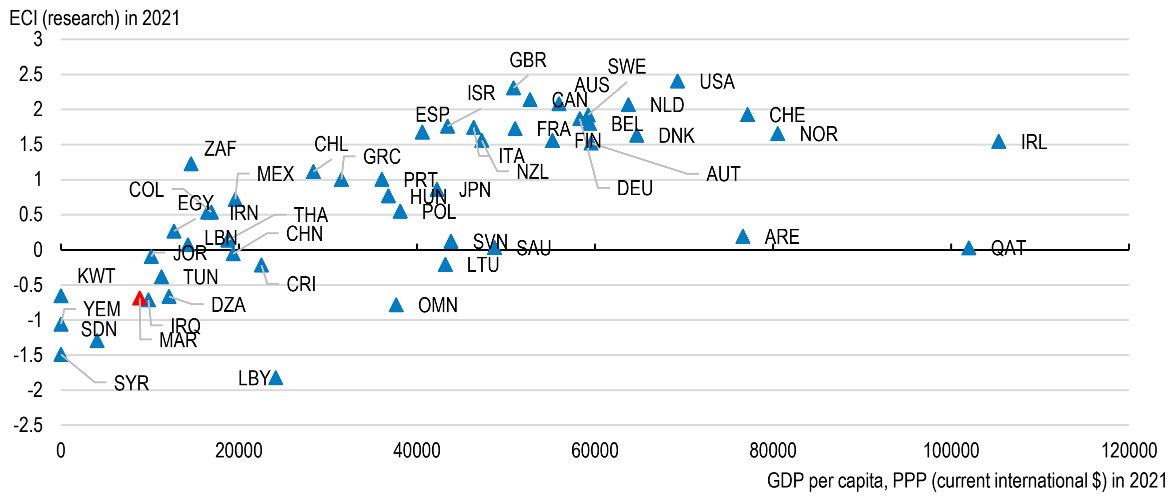
Only slightly more than a quarter of Moroccan firms invest in R&D, similar to the share of Egyptian firms, but much lower than in OECD countries (Open Access Micro Data Initiative (OAMDI), 2023[34]). However, the distribution of R&D spending across firm sizes differs largely across those three countries. In Morocco, R&D spending is concentrated among large firms. This is in contrast with Egypt, where the top quartile of small firms (employees 6-49) value research and development more, or Jordan, where the top quartile of even very small firms (up to 5 employees) invest in R&D. The sectoral compositions of the three economies do not appear to explain these differences. In Morocco, the median-size firm does not spend on R&D in any sector, unlike in Egypt or Jordan, where the median firms in a handful of industries allocate funds to research and development. Moroccan firms in some sectors, such as agriculture, leather, chemicals, transportation, IT, finance, health and education tend to spend more on R&D than in other sectors. The major difference with regional peers Egypt and Jordan is that manufacturing firms, with the exception of leather and chemicals makers, do not spend on R&D, which may be detrimental for future productivity development. To help Moroccan firms innovate more, the system of public support should be better developed both in terms of technical know-how and funding. Most OECD countries rely on a combination of tax incentives, subsidies and direct spending to support innovation. Morocco should develop a framework for better supporting innovation that is matched to its needs. Such support should be subject to rigorous evaluation.

The Innovation subindex of the Economic Complexity Index (ECI) – which illustrates complexity of academic research – suggests that there is ample room to catch up with research capabilities (Figure 2.25). All countries in the region with similar per capita incomes perform better. While the scope for academic research may be lower at more modest income levels, research and innovation activities need to be nurtured to support the catching-up with advanced economies. This could be done by requiring research outputs of a certain quality as a condition for tenure or promotion in academia.

Figure 2.25. There is room to catch up in academic research capabilities

Innovation sub-index of the Economic Complexity Index (ECI)



Note: The ECI research is based on research publication data, and it estimates the sophistication of a country's academic research, and together with trade and tech ECI, helps explain the intensity of emissions.
Source: Observatory of Economic Complexity (OEC) and World Bank World Development Indicators databases.

StatLink https://stat.link/50aduw

Morocco's performance in terms of standard indicators of innovation outcomes, such as patent and trademark applications per million people, is similar to regional peers, but lags behind OECD countries. Moreover, when considering innovation beyond the conventional indicators of patents and trademarks, Moroccan firms appear to perform well given their low innovation spending. Even though Moroccan companies appear not to spend highly on R&D, they do introduce new services, products or adopt innovative methods: 40% of Moroccan firms indicated that they introduced a new service, a product or a method in recent years, ten percentage points higher than in Jordan or Egypt. Moreover, even very small firms tend to innovate, unlike in the other two peers. Indeed, the Global Innovation Index, where Morocco ranked 70th in 2023, suggests that the Moroccan economy performs better on innovation output indicators (World Intellectual Property Organisation, 2023[1]).

The institutional system around intellectual property rights needs to be reinforced to strengthen innovation incentives and support inward investment. Infringement is widespread in several sectors, sanctions are not deterring, and the judicial process is not expeditious. The currently weak IP enforcement (U.S. Department of State, 2023[25]; European Commission Africa IP SME Helpdesk, 2022[37]) needs to be strengthened to attract more technology-intensive foreign investment and to encourage domestic innovation. Pirating, counterfeiting and copyright infringement should be fought on all fronts. While currently the major victims of infringement may be foreign firms, ineffective enforcement also inhibits the emergence of domestic inventors. Enforcement and sanctions should be raised to deterring levels and awareness-raising activities strengthened.

In Morocco, roughly 9% of the above-18 population are entrepreneurs, however, 57% of them did not choose to be, but due to a lack of employment opportunities, they do business to survive (African Development Bank, 2023[26]). Making entrepreneurship a choice and nurturing young entrepreneurs are also key for ideas to materialise. The lack of entrepreneurial spirit may be linked to excessive reliance on the government for support not only at the starting-up phase, but also over the life cycle. Redirecting government money instead to education, training, formalising economic activities, fighting corruption, and providing a business-friendly environment would pay off in terms of innovation outputs and outcomes.

Table 2.1. Policy recommendations of the chapter

MAIN FINDINGS	RECOMMENDATIONS (KEY IN BOLD)
Upskilling for greater productivity	
Educational attainment levels and skills in the population are improving but remain relatively low. Vocational training is still seen as weak despite the government's training levy.	**Expand work-based vocational training and boost the number of apprenticeships.** **Step up training programmes in literacy and basic skills.** Implement a system to validate non-formal learning.
Universities suffer from a quality problem, as seen in high unemployment rates for graduates even in fields with apparent worker shortages.	Consider moving to a more selective system of university and align places more closely to economic needs. Require traineeships for completion of many more university courses. Offer more short tertiary courses.
Boosting investment and making it more efficient	
The government and SOE share of investment is relatively high while private investment has been low and overall investment efficiency has been weak.	**Target government investment to areas where the social returns are high and increase the use of cost-benefit analysis.** Centralise dissemination of all regional investment incentives in a comprehensive manner.
National investment projects are not subject to systematic cost-benefit analysis and investment execution rates are low at the local level.	Increase technical support or execute investment projects on behalf of sub-national governments where there are capacity constraints.
Morocco has rich mineral deposits, but they are not much processed. The new mining law provides more clarity but there are still uncertainties related to the approval of mining licenses. Moreover, long-term concessions are no longer available. Due to the short history of mining, little data are available, which may deter investors.	Clarify the possible reasons for the rejection of mining licenses for the discoverer and disclose all available data in a transparent way to raise interest in exploration and mining. Attract newly forming value chains based on Moroccan critical minerals.
Upgrading value chains	
While FDI drives the industrial sector, there is a need to broaden the range of activities and the sophistication of exports. The Charte de l'Investissement aims at boosting private investment.	**Subject incentives extended under the Charte de l'Investissement to thorough evaluation. Ensure that supports are appropriately balanced between new and established industries.**
While trade policy is relatively open, tariffs raise the cost of intermediate goods and prices for consumers.	Continue reducing MFN import tariffs to cut the cost of inputs.
Creating a more business-friendly environment	
Land ownership is complex and not all land is registered in the formal system.	**Complete the system of land registration to reduce legal risks and improve availability.**
The renewal of visas and resident permits can be lengthy.	Continue to pursue efforts to simplify business processes. Shorten visa and permit renewals.
Levelling the playing field	
SOEs play a significant role, and several deliver public goods and services, while conducting profit-seeking activities.	**Continue to separate commercial and non-commercial activities of SOEs and compensate non-commercial activities on competitive terms.**
Competition from informal firms is a key challenge for formal firms.	Implement an integrated national strategy to promote formalisation, including the possibility of sanctions after an initial grace period.
There are many SME and micro firm support programmes and many overlap in their functions	Streamline support for SMEs and micro firms to use scarce resources more efficiently.
Smaller firms face stringent collateral requirements and have difficulties accessing external financing.	Increase disclosure standards and reporting requirements for smaller firms so that they will have financing options without collateral, based on their financial performance and feasibility of projects.
Morocco guarantees national treatment to foreign investors with some exceptions.	Ease foreign participation in architecture services and remove the cap for business services. Ease remaining restrictions on hiring foreign employees. Remove the preference for domestic companies in public contracts.
Many sectors are dominated by a few large firms and there is a lack of effective competition. Investigations into anti-competitive practices and behaviour have been increasing from a low level.	**Continue to increase enforcement of competition policy.**
Leapfrogging through digitalisation	
Digitalisation of government services is advancing but there is still ample room to catch up not only with OECD economies but also some regional peers.	Continue to move interactions with the government online.
Digitalisation appears less advanced than in regional peer countries.	**Keep internet costs affordable, strengthen consumer protection in e-commerce and offer targeted subsidised digital training for workers.**

Innovating to catch up	
Innovation and research are relatively low.	**Raise public support for innovation and develop the innovation system.** Strengthen intellectual property right protection by lifting sanctions to deterring levels and strengthening awareness-raising activities.
The level of sophistication of academic research is relatively low.	Require research outputs of a certain quality as a condition for tenure or promotion in academia.
Most entrepreneurs are engaged in business due to a lack of job opportunities, and many rely on government support over their life cycle.	Instead of direct supports, redirect government funds to education, training and providing the conditions for entrepreneurship.

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3. Creating more and better jobs

Morocco has a young and growing population, but many jobs remain informal, youth unemployment is high and female labour market participation is low. Making better use of the working-age population would support growth and raise living standards. The government is undertaking a major reform to increase coverage of the social safety net and reduce informality, which will contribute to achieving a higher-quality labour market. The reform should be fully implemented, and further measures taken to make work in the formal economy more attractive, including by lowering social contributions for lower-paid formal workers, adjusting the strictness of labour market regulation, taking into account the impact of the minimum wage on formalisation, and strengthening tax and social contribution enforcement. The unusually large share of youth not in employment, education or training (NEET) partly reflects weak educational outcomes that could be improved by strengthening the school system, including avoiding excessive grade repetition and enhancing teaching methods as supported by on-going reforms. Participation of women in the formal labour market could be improved by extending childcare supports, raising financial inclusion, reducing discrimination more effectively and tackling gender stereotypes.

Morocco has a young and growing population, but labour market informality is widespread, youth unemployment is high, particularly for skilled young workers, and labour market participation of women is low. Making better use of Morocco's people and skills would contribute to higher growth, lower poverty and better-quality jobs. Weaker labour market outcomes than in the average OECD country are not uncommon among other countries with similar income per capita in the region (Table 3.1). However, there is room to improve Moroccan labour-market institutions and address long-standing weaknesses in education and skills policies to achieve better outcomes, building on past and on-going reforms. This chapter analyses policies to reduce informality, boost youth employment and strengthen female labour market participation, focusing on reforms to the social protection system and labour market regulation; education and skills policies; and specific policies to achieve better labour market outcomes for women. OECD experience shows that flexibility-enhancing policies must be balanced by policies and institutions that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing structural changes (OECD, 2018[1]).

Table 3.1. Key labour-market data (including informal jobs), 2023

	Morocco	Comparator average[1]	OECD average
Population, millions	37.8	56.1	36.3
Working-age population, % of total population	62.0	63.8	63.8
Labour force participation rate, % of working-age population	43.6	48.2	75.8
Employment rate, % of labour force	38.0	39.1	71.5
Unemployment rate, % of labour force	13.0	12.1	4.8
Informal employment, % of total employment	67.6[2]	52.0	14.0
Industry employment, % of total employment	12.2	31.4	22.5
Primary-sector employment, % of total employment	34.6	14.7	4.9

1. Simple average of Algeria, Egypt and Tunisia.
2. Share of informal workers in total dependent employment as measured by the share of workers unaffiliated with social security (last official estimate by the Haut-Commissariat au Plan for 2013-14).
Source: Haut-Commissariat au Plan, OECD, World Bank, ILO.

A number of policy reforms have been initiated by the authorities, including a major reform of social protection and reforms to the school system. Implementing a broad package of further measures across the policy areas covered in this chapter would be mutually reinforcing and help to support this approach. For instance, improving educational outcomes across the board would likely improve female labour market prospects, while reducing informality would likely improve worker skills by giving them access to formal training.

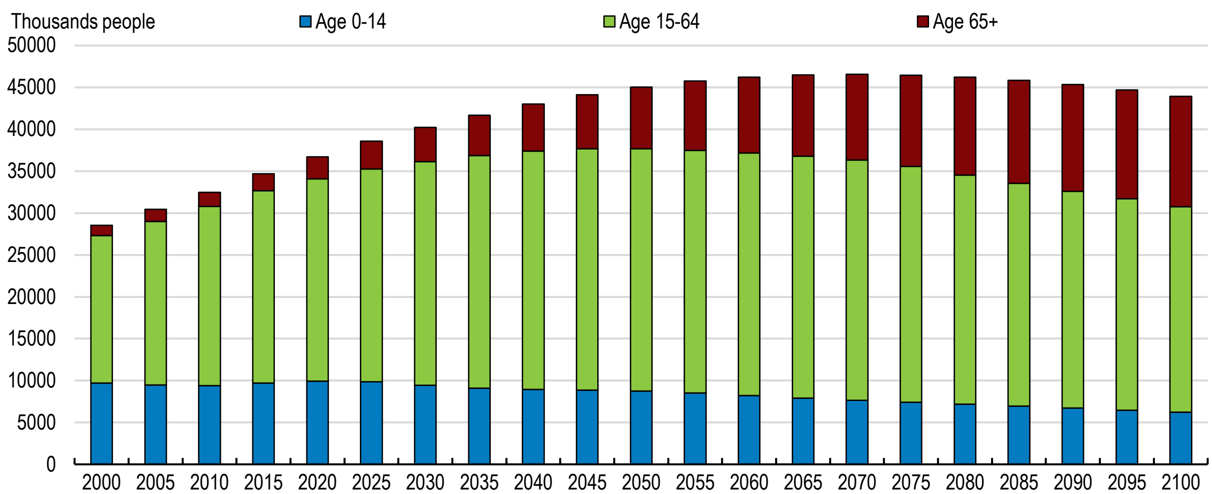
Section 3.1 gives an overview of the Moroccan labour market, focusing on informality, high youth unemployment, and low female labour market participation. Section 3.2. analyses policies to reduce labour market informality, including tax-and-benefit policies and labour market regulation. Section 3.3 discusses active labour market policies and education policies that could boost labour market participation of young people, while Section 3.4 proposes reforms that would help women obtain more and better jobs.

3.1. The Moroccan labour market in international perspective

Demographic developments are favourable, but emigration is high

Morocco's population is growing rapidly, at a rate of around 1% each year. While fertility for the average woman has fallen sharply since the 1970s and is now at 2.05 children, just below the birth rate of 2.1 required for population stability, rising life expectancy has been adding to the size of the population. Fertility remains higher for rural women (2.36) than those in urban settings (1.87). Overall life expectancy was 74 years in 2021, a hefty rise since the 71.7 years observed in 2004, although there remains a substantial gap between the best and worst regions (from 79.3 to 69.4 years). The working-age population continues to grow, although it is expected to stabilise during the 2040s before it begins to recede in the longer term (Figure 3.1).

Figure 3.1. The population is growing, including the number of people of working age



Source: World Population Prospects 2022, United Nations, Department of Economic and Social Affairs, Population Division.

StatLink https://stat.link/xoeryw

The population is relatively young. The total dependency ratio has recently reached a plateau of about 0.5 dependents per person of working age with around 0.4 children per person of working age. While youth dependency is fairly high but falling, old-age dependency is rising, albeit from a very low level: it will reach over 15% in 2030, up from below 7% in 2000, and may then exceed 50% before the end of the century. The current and projected 2030 old-age dependency ratios are only about half of unweighted average levels in OECD countries and will still be below them in the distant future. Morocco's so-called "demographic dividend" of a low total dependency ratio is expected to begin to unwind from the mid-2030.

Morocco experiences substantial outward migration, although this has slowed in recent years. Net outward migration outflows relative to the existing population peaked at some -3.3 per thousand per year around 2005 but have fallen to -1.2 per thousand in recent years. However, this is still high compared to other MENA countries. About 3.3 million Moroccans resided abroad in 2020, over 80% in Europe (Haut-Commissariat au Plan (HCP), 2020[2]). This diaspora is large, surpassed only by Egypt's 3.6 million among MENA countries. The country is also home to a small number of immigrants, mainly from Sub-Saharan Africa.

There are a number of drivers of outward migration, including earnings differences with more advanced economies, linguistic links to some European countries and well-established diaspora networks. A survey in 2018-19 by the Haut-Commissariat au Plan (HCP) found that 23% of adults were considering leaving the country (29% of men, 18% of women). The share was highest for those under the age of 30 and in rural surroundings. While only 12.4% of those with no educational qualifications self-identified as potential emigrants, 20.7% of those with tertiary education and 40.6% for those with a vocational qualification were considering emigrating. Almost three-quarters of all emigrants (a total of around 45 000 per year) depart for economic reasons, mainly related to leaving for a job or expecting a higher standard of living. A third of emigrants have tertiary education (compared to 13% across the whole adult population), especially those headed to North America, implying a loss of accumulated skills for Morocco through "brain-drain" effects. A significant number of departures are to undertake university education (57 000 in 2019). There is offsetting return migration, but on a small scale (OECD, 2024d) and typically after a long spell abroad. Only around half of returning migrants return to jobs in Morocco, while one in six retire. Returning migrants often bring skills and valuable experiences that could strengthen the Moroccan economy: more could be done to facilitate the official recognition of any skills they acquired abroad, sometimes in the form of qualifications that do not currently exist in Morocco. Enhanced financial incentives to return could be offered, particularly to the most highly qualified.

There are important regional social and labour-market differences in Morocco, partly reflecting a geographically spread-out population, transport challenges, and variations in the level of development between the cities and coastal areas as well as rural and mountainous regions. There has been a long-term trend to urbanisation, which reached 64.8% of the population in 2023, compared to 35.1% in 1971 (HCP, 2024c); that is expected to continue with only 30% of the population predicted to be living in rural settings by 2035. Across regions, labour-market outcomes vary considerably: in 2022, labour-force participation rates ranged from about 38% to 50% and unemployment rates from 7% to 20%.

As in other similar countries, rural residents face a number of challenges. Educational outcomes tend to be weaker in rural areas. When entering the labour market, there is a higher share of youth neither in employment, education or training (NEET) in rural areas (30.3% compared to less than 21.8% in urban areas in 2022). In rural areas, some children are made to undertake domestic work, as children 15 and under are not protected when working in traditional artisan and handicraft sectors. Rural workers are more likely to be informal and historically have been less likely to benefit from social protection, as in other developing countries (Kolev, La and Manfredi, 2023[3]). Nevertheless, participation rates are higher for rural adults than for urban dwellers because of the more frequent necessity for women to work to support the family, and unemployment rates are much lower (about 6%, compared to almost 16.8% in urban areas).

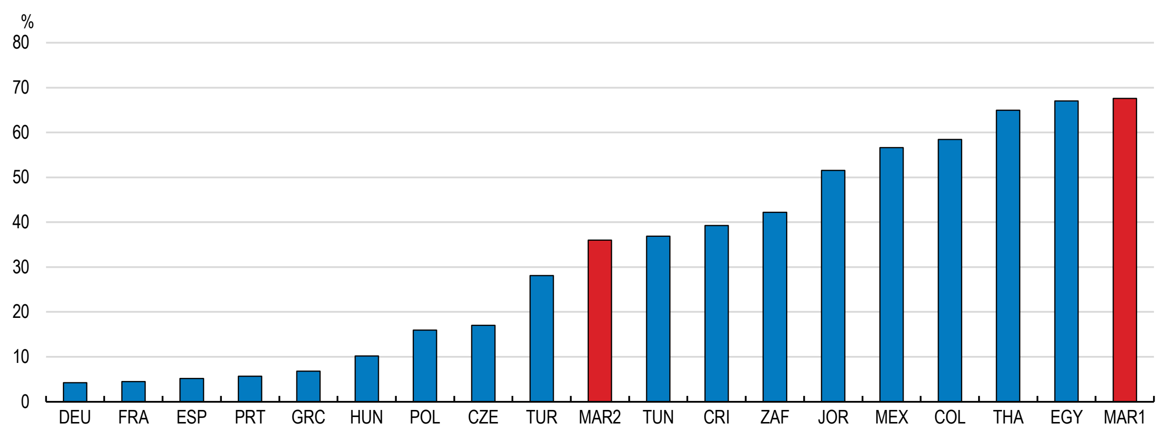
Labour-market informality is widespread

Labour market informality is widespread in the Moroccan economy, as in other countries at similar levels of income per capita. Morocco has officially focussed its measurement of informality on the share of job holders who are not affiliated with any social insurance schemes. National surveys undertaken in 2013-14 by the planning agency HCP published in 2018 suggested that based on this definition the informal share was around 67% of all workers and 36% of non-agricultural workers (El Rhaz and Bouzner, 2021; Figure 3.2). This was due to the high share of workers unaffiliated with social insurance in the agricultural sector, where workers in the past were not required to join the system. This social insurance-based measure of informality is likely to improve very significantly with the requirement from 2024 for people to declare themselves on the new social register to benefit from social insurance.

An alternative measure of informality, workers without a contract, stood at 67.2% of all employees in 2000 before drifting down to 51.2% in 2022, but with a much larger share in rural, heavily agricultural, settings and for youth (HCP, 2024c). Other sources and methods give figures for the share of informal workers of anywhere from 41% to 80% (Bertelsmann Stiftung, 2022[5]). One major source of discrepancy is whether the figure includes the agriculture sector or not, since that is where the majority of informal workers are to be found: 82% of women and 46% of men are estimated to be informal in agriculture (HCP, 2023a). Informality is also prevalent in construction and public works, as well as trade and repair services. Many informal workers in Morocco, as elsewhere, are employed by formal-sector businesses that pay income and value added taxes: across a broad sample of developing countries, excluding Morocco for which there are no data, the share is above 40% (Kolev, La and Manfredi, 2023[3]). By age group, as elsewhere in the MENA region, the informal share in Morocco follows a U-shaped pattern, with prevalence highest for younger and older workers (Ulyssea, 2020[6]; Lopez-Acevdeo et al., 2023[7]): in 2017, 94% of 15-24 year-old job holders were estimated to work in the informal sector (OCDE, 2021[8]). There is also a gender difference with almost 90% of informal non-agricultural workers being male, in contrast with outcomes elsewhere among developing countries (Ulyssea, 2020[6]). Most informal workers work independently, while about 88% of the others worked for employers with fewer than 10 staff in 2017 (Lopez-Acevdeo et al., 2023[7]), and many also work as unpaid family workers (domestic helpers).

Overall, while the extent of informality in Morocco is difficult to assess precisely, it appears that it is more prevalent than many other similar countries when the agriculture sector is included (Figure 3.2). This is confirmed by evidence that prevalence of informal workers is comparatively high in Morocco at all levels of schooling (Ulyssea, 2020[6]) and income (Lopez-Acevdeo et al., 2023[7]). International comparisons would be easier if Morocco were included in the OECD's recently developed Key Indicators of Informality based on Individuals and their Households (KIIbIH) database, which is based on household surveys and provides harmonised and comparable indicators across 42 countries related to informal employment (Kolev, La and Manfredi, 2023[3]).

Figure 3.2. The estimated share of informal workers including agriculture is comparatively high



Note: The data are not fully comparable across countries. They apply to 2022 except for JOR (2021); HUN (2020); EGY and TUN (2019); and THA (2018).
1. The last official estimate by the Haut-Commissariat au Plan for 2013-14 based on the share of workers unaffiliated with social security.
2. The last official estimate by the Haut-Commissariat au Plan for 2013-14 based on the share of workers unaffiliated with social security excluding agriculture.
Source: ILO Labour Force Statistics; Haut-Commissariat au Plan.

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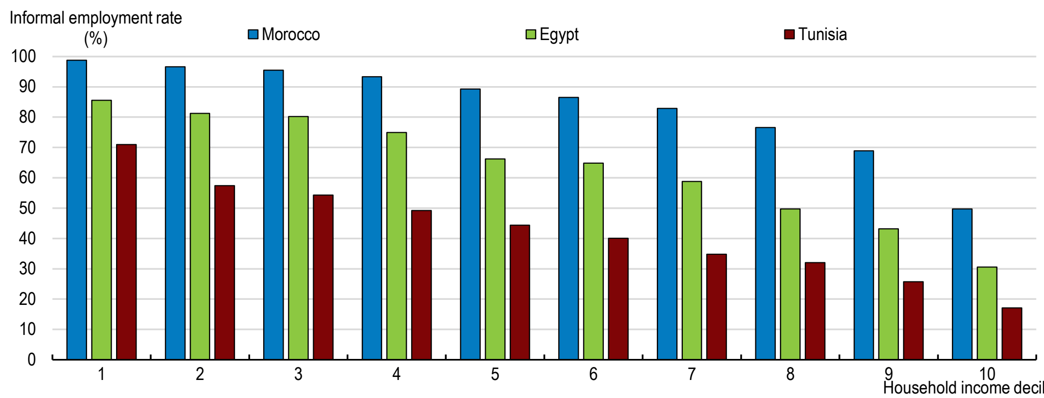
Informal activity is estimated to be a much smaller share of GDP than its share in employment, with estimates ranging from around 11% according to the Haut-Commissariat au Plan to 30% according to the Central Bank. This lower share of informality in GDP than in employment reflects the fact that informal workers' labour productivity is far lower than that of those in formal jobs because of lower average levels of human capital and their working in less capital-intensive activities.

Many informal workers are within the framework of the law because – if they fall below a certain income threshold – employers, own-account workers and family workers are not liable for any taxes or social contributions and have long been eligible, prior to current reforms, for medical coverage without being insured under the government's RAMED scheme (*Régime de l'Assistance Médicale)*. All salaried workers are legally required to make social contributions, but an estimated 65% did not do so in 2018. This compared with 54% in Tunisia. Many contribute only part of the year (Lopez-Acevdeo et al., 2023[7]). While informality could result from economic necessity for people with low skills and bargaining power, somewhat unusually in Morocco, it is pervasive even in the highest income deciles and among university graduates (Figure 3.3). While rates of informality tend to decline with rising income, a majority of informal workers are not in the bottom two income deciles, a higher share than in Tunisia or Egypt (Lopez-Acevedo et al., 2023[7]). No sectoral or occupational breakdown is available that would allow for a separate assessment of informality between the non-agricultural and agricultural sectors.

Figure 3.3. Informal employment is higher than in some other MENA countries across income levels



Note: Informal employment is defined as workers, salaried or non-salaried, not covered by contributory social insurance. Thus, some country variation may occur as specific categories of workers are excluded by law from contributory social insurance, implicitly allowing legal informal employment. Due to data limitations for Egypt, it was not possible to use deciles of per capita household expenditures—alternatively, wealth deciles were constructed based on a factor analysis approach using household ownership, durable assets and housing conditions.
Source: G. Lopez-Acevedo, M.Ranzani, N. Sinha and A. Elsheikhi (2023), Informality and Inclusive Growth in the Middle East and North Africa, Middle East and North Africa Development Report, World Bank, Washington, DC. doi:10.1596/978-1-4648-1988-9

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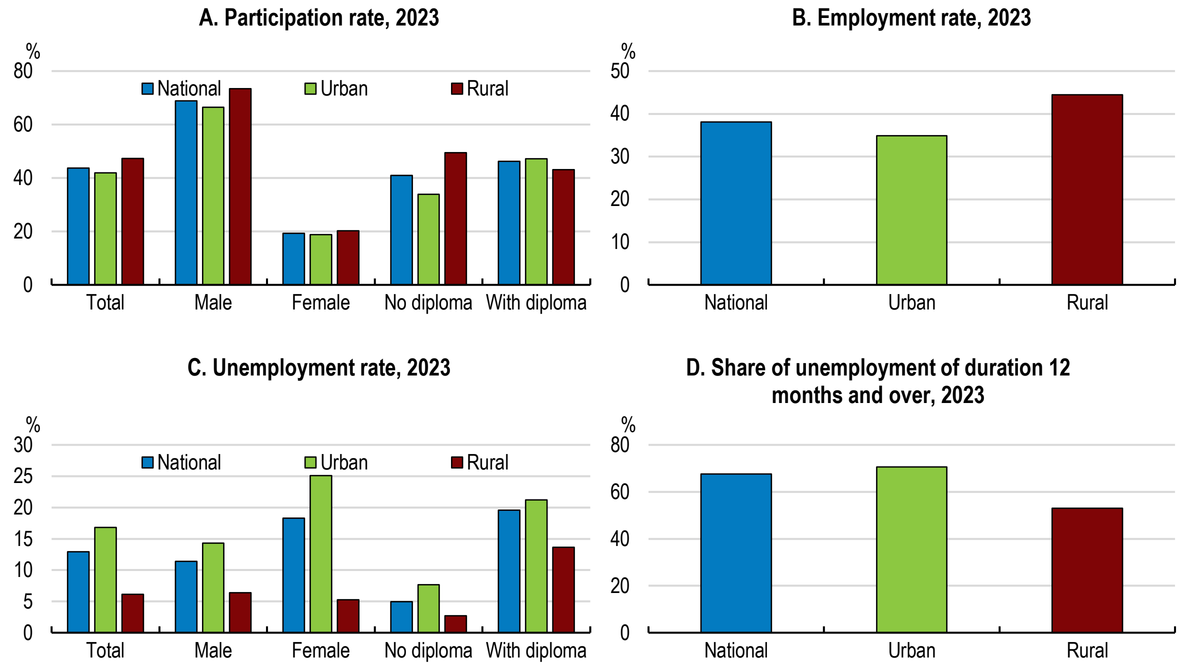
Unemployment is high, especially for the young

The unemployment rate is high, particularly among young urban workers. With pervasive informality and casual work (*petits boulots*), the measurement of unemployment, even if survey-based, is somewhat blurred. Most jobless people lack access to loss-of-employment benefits, but some are able to work informally at least a little to support themselves. Survey-based unemployment in Morocco stood at 13% of the formal labour force on average in 2023 (up from 9.2% in 2019), including many highly-educated new entrants seeking their first job. Unemployment had been high by MENA standards in the mid-1990s before entering into a period of relative improvement. A rising number of working-age people are out of the labour force because they are not searching for work (sometimes termed “passively unemployed”), mostly women as is the case in similar countries (ILO, 2024[9]). There is also substantial regional heterogeneity, with unemployment rates ranging from 7-20% (11% to 49% for women).

Unemployment is especially prevalent for youth under 25 (35.8%), women (18.3%, compared to 11.5% for men) and those with higher educational attainment, notably university graduates, and for urban dwellers (Figure 3.4., Panel C). By contrast, the measured unemployment rate for those without any diploma was only 5%, which is likely to reflect “passive unemployment” or work in subsistence-level jobs in the informal sector. This compares to 19.6% for those with some diploma (primary, secondary or higher) and 25.9% for those with a higher level of attainment (including 28.1% for university graduates). This underlines the challenges for those with tertiary education to integrate into the labour market. Joblessness is especially high and rising among highly educated women under 35 (38.3%), possibly reflecting a slowdown in public-sector hiring, where many of these group look for work due to the stability of permanent work contracts, salaries and associated benefits, and the predictability and low level of working hours (Morikawa, 2015[10]; Bassou, 2023[11]).

Figure 3.4. Key Moroccan labour-market outcomes



Note: The figure refers to the first three quarters of 2023.
Source: Haut-Commissariat au Plan.

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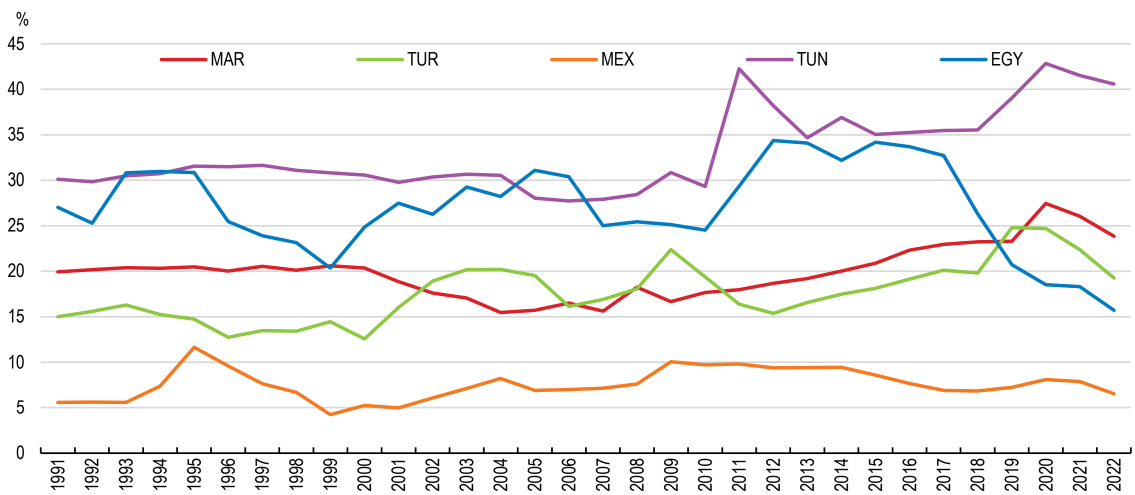
Unemployment spells are often long: the average was recently 32 months, with 66.4% of unemployed not having had a job for more than a year in 2023 (Figure 3.4., Panel D), down from a pandemic peak of 75% but still well above the pre-COVID share of 51%. Average unemployment duration is longer for those with more education and women, but the gender gap is shrinking. Layoffs have recently been the origin of around 27% of all unemployment, but the majority of the unemployed (51.2%) are young and have never worked before (over two-thirds for women).

In Morocco, the term “underemployment” is taken to mean either involuntarily working fewer hours than the standard 48 per week or being over-qualified for one’s job (mismatch) (Guermane and Bakrim, 2022[12]). Underemployment is common, especially among those with high-school diplomas and even among university graduates, who often have to take jobs far from their field of study: 9% of all employees were underemployed in 2022 (10.0% for men and 5.4% for women). Census data from 2014 suggest that 7.6% of workers were over-qualified and 46.7% under-qualified (HCP, n.d.[13]). Looking just at those with some sort of diploma, the gap was narrower, with 16.1% over-qualified and 31.1% under-qualified. Prior to the pandemic, the share of over-qualified workers reached 23% in ICT and 20% in finance and insurance, as many employers lacked the capacity to use the skills available. By contrast, in manufacturing, the share of production workers who were skilled in 2019 (67%) was lower than the average for all lower-middle-income countries (76%), according to the World Bank Enterprise Surveys.

The relatively high incidence of unemployment, particularly of young, educated people, is common to countries in the region and reflects a number of challenges (Figure 3.5). The new cohorts looking to join the labour market each year, currently around 400 000 per year, creates a major pressure to generate a sufficient number of new jobs: annual net job creation has reached 300 000 only twice since 2000 and has averaged only 110 000. The elasticity of employment with respect to GDP has fallen as employment creation has been in higher productivity activities (Banque Mondiale et Haut-Commissariat au Plan, 2021).

At the same time, there is a significant shift in employment with losses in the agriculture sector and gains in industrial and services activities. The government hopes to create 400 000 new jobs by 2026 (Gouvernment du Maroc, 2024[14]), and the demand for qualified workers is increasing, as suggested by the increase in the share of workers with secondary or tertiary degrees from 41% in 2017 to 50% in 2023. Perceived mismatch between the skills of people leaving education and demand for their skills in 2013 was one of the highest among 10 comparator countries, according to World Bank surveys (OECD, 2017, Vol. 2). Young people in Morocco face a particularly difficult school-to-work transition. It often takes them years to properly settle into a stable job. Feelings of unfairness result from the perceived role of connections in most new hires (Pereira da Silva, 2018[15]), and this may contribute to the large number of young people who wish to emigrate (Arab Barometer, 2022[16]).

Figure 3.5. Youth unemployment has been trending up over time



Note: Youth unemployment refers to the share of the labour force ages 15-24 without work but available for and seeking employment.
Source: World Bank WDI – ILO estimates.

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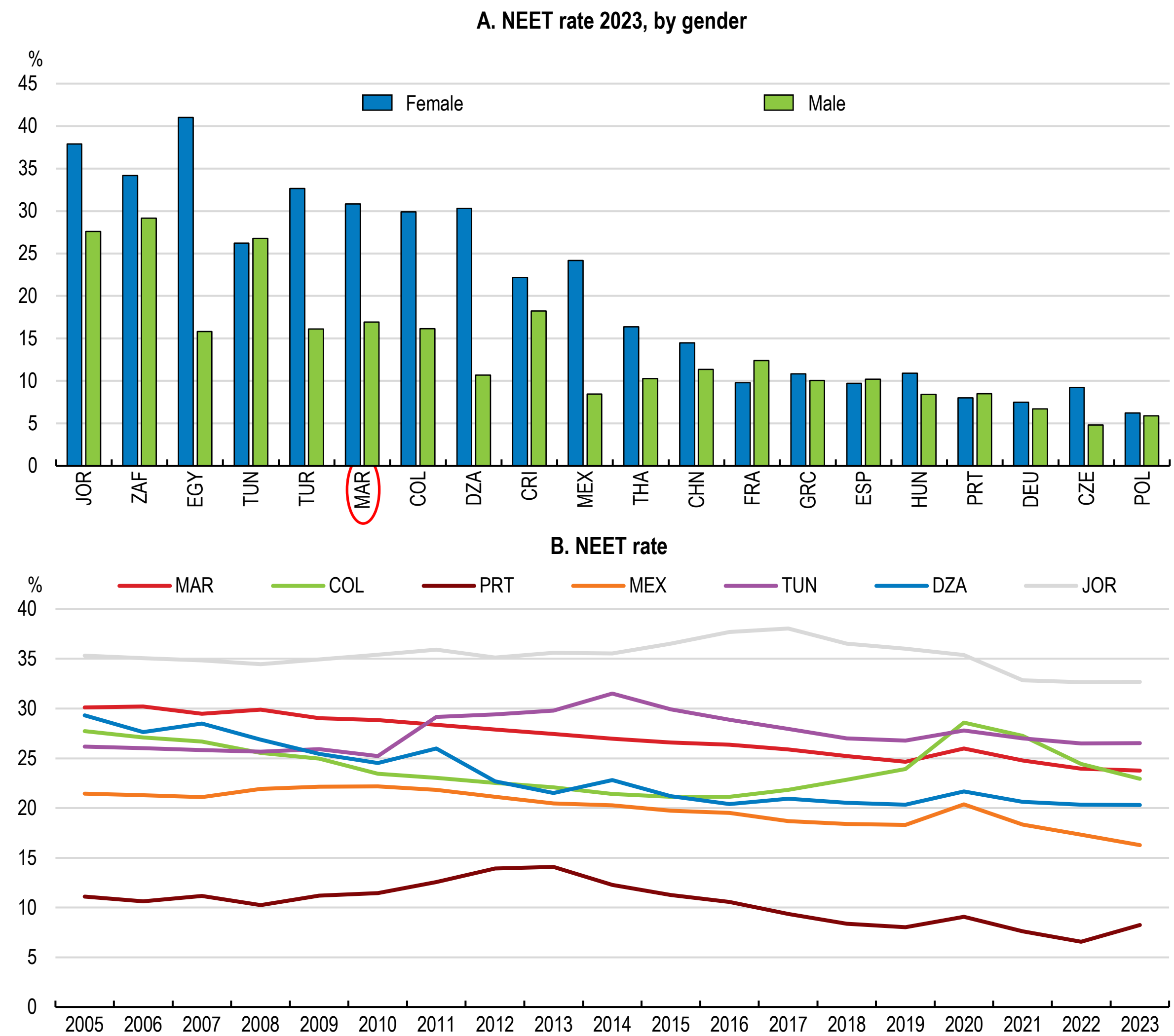
There is a relatively large share of young people who are not in education, employment or training (NEET), although there has been a gradual improvement. This represents a significant loss of potential for the economy and can have permanent impacts on accumulation of skills and life-time prospects ("scarring"). According to the Haut-Commissariat au Plan, there are nearly 1½ million Moroccans aged 15-24 in this situation, accounting for one-quarter of that age bracket (down from over 30% in 2012). The overall NEET rate is much higher than the OECD average (less than 13%), but broadly in line with MENA norms (OECD, 2022a). Women represent nearly three-quarters of this group. Some 31% of women in this age group are NEETs (down from almost 50% in 2012), many of whom are married and have a secondary diploma, (Figure 3.6). NEET rates are much higher for rural youth (30.3%) than urban (21.8%). However, in recent years, the NEET rate has been shrinking gradually overall and more rapidly for women. Young people without a job tend to stay in that situation, with many of those who were NEET in 2010 still not in employment in 2018 (Alfani et al., 2020[17]). According to Alfani et al. (2020[17]), the probability of being NEET rises with age within the youth category, falls with education, is higher for those residing in medium-sized towns than cities or rural areas and is higher for married than unmarried women but lower for married men.

Figure 3.6. NEET rates are fairly high, especially for women, but trending down



Note: The NEET rate is the number of young people 15 to 24 not in education, employment or training as a share of the total youth population.
Source: ILOSTAT- ILO Modelled Estimates (ILOEST), https://ilostat.ilo.org/

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Female labour market participation is low

Female participation in Morocco's labour market is relatively low (Figure 3.7). This represents a missed opportunity in terms of mobilising their skills and integrating them into the labour market, as well as reducing household incomes. This low rate continues despite progress in the educational levels of women at all levels, including the fact they now make up more than half of the undergraduate student body and in all major disciplines except engineering.

Fewer than one in five women of working age were working in 2023 or are looking for employment, nearly 50 percentage points behind the corresponding male rate. This gender gap is typical of MENA countries, compared to a global average of the gap of around 26 percentage points and 12 percentage points for the OECD average with Jordan having even lower rates, reflecting a mixture of economic and other factors. Even among the most active age group (25-29-year-olds), female participation is only 31.5%, compared to 95% for men. There are currently about 11 million women of working age who are inactive. Regional variation is significant, with the female participation rate varying from 12% to 27%, a range much larger than for its male counterpart, which is less than nine percentage points.

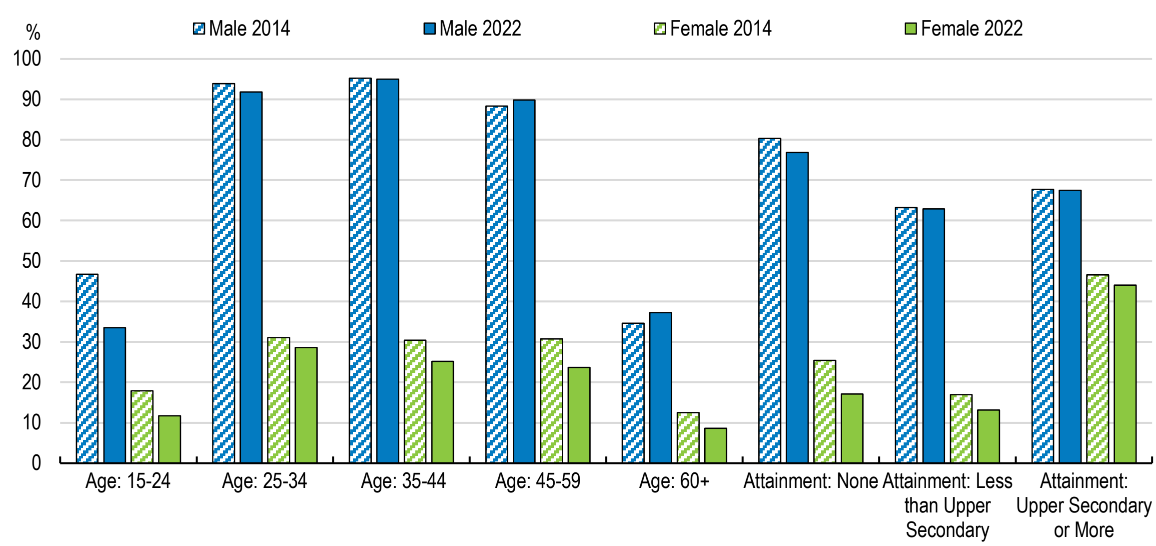
Morocco's female participation rate has declined over time since 2005, despite rising educational attainment and declining fertility. As these factors typically raise female participation, this has been termed the "MENA paradox" (Assaad, et al., 2018[19]). This may reflect a U-shaped trajectory over time (Goldin, 1994[20]), as women in rural areas stop working in informal and agricultural jobs as household income increases, offsetting the positive effect of higher educational attainment, despite the high unemployment faced by well educated women. In international comparisons, however, Morocco's experience with declining female participation is unusual; indeed, most comparators have seen stable rates and Türkiye's has risen noticeably.

Closing the gender gap can play a key role in boosting growth as it has in OECD countries over past decades (Hsieh et al., 2019[21]). Some quantitative evidence suggests that the associated loss in terms of GDP per capita is as much as 46% (IMF, 2022[22]; Bargain, 2021[23]). If female participation could be boosted to 45% in the coming decade as envisaged by the New Development Model (Kingdom of Morocco, 2021[24]), that would add 1.7-2.4% per year to average per capita GDP growth until 2035 (Bouba and Azeroual, 2022[25]). Low levels of female labour force participation are not only detrimental to growth but may indicate missing household welfare and unjustified gender inequality (Pimkina and de la Flo, 2020[26]).

Those women who do work tend to be concentrated in informal jobs that lack social protection, with many working as unpaid family workers or in very low-wage jobs in agriculture (Bossenbroek and Ftouchi, 2021[27]). However, many of the most educated women work in the public sector. The latest data suggest that the overall monthly pay gap in favour of men is as much as 21%, though – with their higher average level of attainment – it is now 10% in favour of women for those 18-29 (HCP, 2024[28]).

Figure 3.7. Female labour force participation is low

Labour force participation rate, by age group and diploma



Note: The labour force participation rate is calculated as the labour force divided by the total working-age population. The working-age population refers to people aged 15 to 64.
Source: ILO Labour Force Survey and data provided by the authorities.

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3.2. Tackling widespread informality

Tackling widespread informality requires a comprehensive set of policies, building on past initiatives and on-going reforms. Informality is determined by a range of factors including how the tax-and-benefit system shapes workers' decision to work in the formal sector through taxes and social security contributions and the associated benefits, such as health insurance, unemployment insurance and pension coverage. High marginal tax rates and social contribution rates, especially on people with low earnings, and weak enforcement of tax and social security requirements can discourage formal participation. Similarly, tight labour market regulation in the form of strict employment protection legislation in the formal sector and high minimum wages can discourage formal sector participation by workers and businesses. Effective formalisation strategies need to take a comprehensive approach rather than focusing on a single factor (Box 3.1).

Box 3.1. Levers to reduce informality

Similar to many emerging market economies, Morocco is characterised by pervasive informality. While informal work is an important source of livelihood for many households and allows firms to respond to adverse economic shocks, informal firms are characterised by lower productivity and workers in the informal sector earn lower wages. Widespread informality also has negative implications for revenue mobilisation, aggregate growth, and competitive dynamics in the formal sector.

The effectiveness of formalisation policies depends on the particular circumstances of informal firms and workers in each country. An integrated national formalisation strategy should involve multiple policy levers and should broadly aim to maximise the benefits of formality and increase the costs of informality.

Strategies used to reduce informality in other countries have included:

- **Decreasing the cost of entering the formal sector**: Firms and workers may wish to enter the formal sector but are discouraged from doing so from high entry costs. This may be a result of complicated and costly registration processes or excess labour regulations. Reducing entry costs on both the firm side and the formal labour market can yield meaningful formalisation gains (Ulyssea, 2010[29]; Benhassine et al., 2018[30]; Ohnsorge and Yu, 2022[31]).
- **Reducing the ongoing cost of formality**: Reducing the costs of formal sector participation, especially for firms and workers on the margins of formality, may be an attractive option to induce formalisation. This can include a lower corporate income tax for SMEs as research has shown that reducing the tax burden for small-scale entrepreneurs has a large effect on formalisation rates (de Mel, McKenzie and Woodruff, 2013[32]; Rocha, Ulyssea and Rachter, 2018[33]). Additionally, high mandatory social security contributions, especially for lower-wage workers, are cited as a major impediment for the expansion of formal employment (Arnold et al., 2024[34]). For instance, the cost of hiring workers at the minimum wage, including all social security-related contributions, amounts to 36% of GDP per worker in Latin America, compared to 22% of GDP per worker in OECD countries, contributing to heightened rates of informality in the region characterised by low enforcement (Ripani et al., 2023[35]; Arnold et al., 2024[34]).The lowering of the tax burden for firms and workers on the margins of formality can provide greater economic incentives for formalisation.
- **Enhancing the benefits of formality:** This can include initiatives aimed to expand market access opportunities for formal firms through procurement opportunities (Box 3.3). From the worker's perspective, a more comprehensive health insurance coverage scheme meant for

formal sector workers can be an important incentive for formal sector participation as was the case in Colombia (Camacho et al., 2014)

- **Increase the cost of informality**: Greater enforcement of existing laws and regulation is also an important policy instrument for formalisation. Research has indicated that the deployment of additional municipal inspectors boosted firm registration rates by up to 27 percentage points in Brazil (de Andrade, Bruhn and McKenzie, 2014[36]). Enhanced enforcement should aim to ensure that no violations of existing legislation are committed, and that workers and firms pay their taxes (OECD, 2024[37]). Additional enforcement measures should focus on the extensive margin by emphasising firm formalisation, as placing too much of a focus on workers may worsen unemployment and poverty.
- **Digitalisation**: The digitalisation of procedures to operate in the formal sector can boost formalisation by lowering compliance costs and strengthening deterrence mechanisms. The introduction of electronic VAT invoicing in Peru was found to have raised reported firm sales and value-added by over 5% in one year (Bellon et al., 2022[38]). Similarly, the rollout of computerised VAT invoices in China also strengthened incentives to register and correctly report sales, resulting in more than 10 percentage point improvement in government revenue collection after 5 years (Fan et al., 2018[39]).
- **Information provision**: Firms and employees operating in the informal sector may not be fully aware of the benefits of formalisation (or the consequences of continued operations in the informal sector). When rolled out in conjunction with other interventions, informational campaigns to highlight the benefits of formalisation (or the costs of operating informally) have shown promise in boosting rates of formalisation (Ulyssea, 2020[6]; Jessen and Kluve, 2021[40]).

Reforms to the tax-benefit system

Large-scale ongoing reforms, combined with past measures, could have a significant impact on incentives to declare formal employment in Morocco through the extension of social insurance coverage and administrative improvements, and targeted tax changes. First, the authorities have created a new single unified social registry (RSU) to cover the entire population, which replaced the previous incomplete and fraud-prone system (CNSS, 2023). The relevant agency was established late in 2023, and 17 million people have registered. Most people enrolling in the system will have to pay at least some social security contributions, but vulnerable people will be exempted (Box 3.2). People enrolling in the system will get full access to the public health insurance scheme. Second, since 2021, the self-employed with annual turnover below either MAD 2 million (around USD 200 000) in industry, commerce and the crafts or MAD 0.5 million in other services have the option of a simple Unified Professional Contribution (CPU) to replace the personal income tax, the business tax, the municipal services tax and social charges in return for medical cover. This adds to the creation in 2015 of the status of *auto-entrepreneur,* whereby a self-employed individual is exempt from VAT and a presumptive tax of only 1% of turnover is charged if turnover is below MAD 200 000 in the services sectors (0.5% of turnover is charged if turnover is below MAD 500 000 in other sectors), and social charges of MAD 100-1 200 per month (USD 10-120) are levied (depending on turnover), but the person gains access to medical insurance. This programme has been a growing success: the number of *auto-entrepreneurs* has risen from 86 000 in 2018 to 406 000 in 2022, although there are significant revenue costs and the scheme is estimated to have a potential to enrol around 4 million people (Gannat and Betcherman, 2021[41]). A risk is that many who are already covered will declare lower incomes to get under the thresholds and qualify for its advantages, and also that these thresholds could at some point discourage business growth and vertical integration (Lopez-Acevdeo et al., 2023[7]).

Box 3.2. The new system of direct social payments

The social reform implemented from the end of 2023 introduces a system of targeted social payments, together with extension of health coverage, for people who join the single unified social registry (RSU). This aims to improve social protection in a targeted way, replace the previous system of subsidies, narrow regional income inequalities and ensure dignity for all Moroccans, as well as to support people moving into work.

3.4 million have been determined eligible to access the new direct social payments, covering nearly 12 million people (of which 4.9 million children and 1.2 million seniors) (Gouvernment du Maroc, 2024[14]). Official projections are for expenditure on this programme to reach MAD 29 billion (1¾ per cent of GDP) annually by 2026.

The reform is expected to boost spending in the non-contributory component to 3.45% of GDP from 1.35%. Contributory social insurance in Morocco was 6.6% of GDP in 2019 (Lopez-Acevdeo et al., 2023[7]), compared to 11.7% in Tunisia and 10.9% in Egypt.

Eligibility is based on a score derived from a wide range of indicators based on family circumstances and consumption. All applicants for social benefits can use an online tool to calculate a score based on 70 socio-economic indicators (not including income), and only those below a programme-specific threshold are eligible for assistance. Having a large number of indicators, including consumption-based indicators, such as electricity consumption, and asset-based indicators, such as home ownership, rather than a simple income-based threshold is intended to limit the risk of fraud. Given the large proportion of informal work, income can easily be under-declared, while consumption and asset-based indicators may be more easily verifiable.

There are several different kinds of targeted direct payments under this programme, sometimes loosely referred to as "family allowances". The first payment is a one-off payment for the birth of a child. A second is for families with children under 21, with a reduced amount if they are not in school. These programmes account for the bulk of overall spending. Handicapped children get a supplement. Third, all but affluent families with no children get an allowance. Fourth, there is a specific payment for widows with children under 21.

The social reform is expected to improve incentives to formalise by requiring registration in the system and conditioning health coverage on making a minimum social contribution for those above a certain threshold. The authorities aim for the extension of the social assistance programme and registration to allow targeting of activation measures towards parts of the population where inactivity is high or formal labour market participation is low. While some social assistance recipients do not have work capacity and providing benefits may have income effects that reduce incentives to earn more, the increased engagement with the authorities through registration and scoring provides a channel to target activation measures and supports to specific groups that need support. Expanding activation measures to a large population, sometimes with more complex needs, may require a substantial increase in the scale and resources of labour market programmes.

The social reform should be flanked by complementary reforms to strengthen formalisation. Despite the social reform, there is a risk that workers remain in the informal economy either in terms of employment or the declaration of their full earnings, while making contributions and being covered by social insurance. In addition, the score that determines eligibility for the cash benefit penalises households that are covered by social security, which could induce a large marginal loss for a household from formalisation. This feature of the scoring formula should be removed. There is evidence from other countries that targeting informal workers for expansion of social protection can have large adverse effects on incentives to formalise among beneficiaries (Garganta and Gasparini, 2015[1]).

At the same time, Morocco has been making its tax system simpler and more progressive (Bank Al-Maghrib, 2021), which should improve incentives to formalise. Specifically, it has implemented an initial 10% personal tax rate since 2010 that kicks in at almost 100% of average per capita GDP, compared with Tunisia's initial rate of 26% and Egypt's 2.5% that both apply from lower income thresholds (OECD, 2024a). The top rate is 38% and the labour tax wedge – the gap between gross wages (before income taxes and social security contributions) and take-home pay – for single earners without children is 25%, compared to the OECD average of 35% (OECD Taxing Wages 2023) (OECD, 2019). To reduce the administrative burden and improve incentives for firms to formalise, the 2024 budget implemented a new system of calculating VAT liabilities (*autoliquidation*) and two new VAT-withholding mechanisms, which are intended to improve tax transparency, tackle fake invoicing, broaden the tax net in digital services and encourage formalisation.

Formalisation incentives could be further boosted by cutting payroll taxes and ensuring an appropriate level of the minimum wage (Angel-Urdinola et al., 2016). The Tahfiz programme reduces the barriers to new hires in the formal economy by exempting new businesses created after 2015 from employer social security contributions for up to 10 new hires up to a monthly wage ceiling of MAD 10 000 for 24 months. The new hires are exempted from personal income taxes. This improves incentives for new hires but does not permanently reduce the costs for employing low-wage workers in the formal sector. The support is generous in the extent of these exemptions as it applies to wages many times higher than even the minimum wage in the formal sector. Cutting payroll taxes across new and old businesses but targeting those cuts to only those earning low wages would strengthen formalisation incentives. This was found by some studies to have been effective in Colombia in the years following its payroll tax cut in 2012 (OECD, 2019b).

Formalisation could be further encouraged by a tighter enforcement of tax and social security contribution requirements to reduce under-reporting of income. The government should strengthen enforcement of labour regulations by further increasing the number of job inspectors, their pay, and the size of the fines they may impose. Any firms found to be employing informal workers could be barred from eligibility for future public-sector contracts (OECD, 2023a), and any in the liberal professions found to be informal could be banned from practising them. Electronic wage reporting (at least for businesses with dependent employees) could be required as in Chile, allowing for the crosschecking of this information with the social security regime to prevent firms over-reporting their payroll for corporate income tax purposes and under-reporting it for social security contribution purposes. Additional measures to increase formalisation of firms and enforce their obligations could help (see Chapter 2).

Reforms to labour market regulation and enforcement

The Moroccan labour code requires complex written contracts and thus a significant share of jobs is handled through short-duration oral contracts or without any formal labour contract at all (Table 3.2). Even though official data show a steady shift to written contracts, except among the least educated, the authorities should consider introducing a simple standard written contract that could be used by default to raise the prevalence of formal contracts.

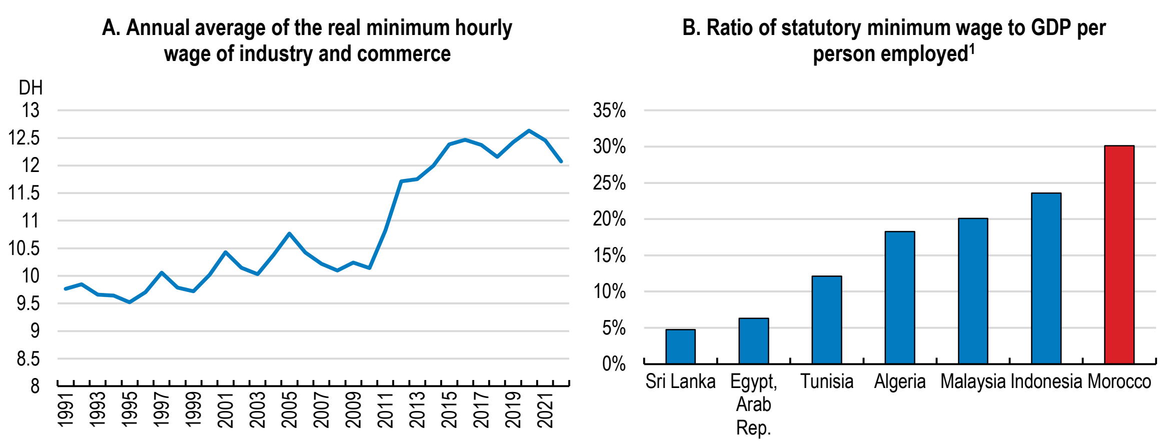
Table 3.2. Formal employment contracts are increasingly common, especially for the well educated

	2019			2013	2019	
%	Male	Female	Total	Total	Among dropouts	Among university graduates
Written, indefinite duration	35.1	40.3	36.3	16.0	19.7	63.3
Written, definite duration	11.4	20.5	13.6	4.2	7.0	21.3
Oral, indefinite duration	8.6	6.6	8.1	3.0	11.7	2.1
Oral, definite duration	2.4	1.8	2.3	1.1	2.6	0.0
None	42.6	30.8	39.8	75.7	58.9	13.4
Total	100	100	100	100	100	100

Source: OECD calculations based on data provided by the authorities.

Reforms of strict labour market regulations, notably dealing with minimum wages and employment protection, could help to ease the transition to stable formal employment. Morocco's relatively high minimum wage (the SMIG), which is set through social dialogue, may act as a deterrent to formal work. The SMIG rose steeply between 2010 and 2012 but has fallen back somewhat in real terms since (Figure 3.8., Panel A). It is currently set at MAD 16.29 per hour (around USD 1.65) in the private sector (MAD 3 111.39 per month) and MAD 3 500 per month in the public sector and applies to all non-farm work. By international standards, it is rather generous relative to the level of income in the economy at almost 30% of GDP per worker (Panel B). The SMIG is scheduled to be raised by 5% in January 2025 and another 5% in January 2026. Even in the formal sector, where it is supposed to apply, compliance appears imperfect as 45.6% of all employees reported wages to the social security agency (CNSS) that were less than the SMIG in 2019. OECD experience shows that full compliance can be hard to achieve (OECD, 2022c).

Figure 3.8. Minimum wages are relatively high but have reached a plateau in real terms



Note: Panel A: In 2010 prices. Panel B: Data for the latest year (2021 or 2022).

1. Annual minimum wage obtained by multiplying the monthly statutory gross minimum wages, in US dollars converted using 2017 purchasing power parities (PPP, USD), by 12.

Source: World Bank WDI; ILOSTAT, Wages and Working Time Statistics Database.

StatLink https://stat.link/d0fykg

The relatively high level of the SMIG tends to discourage formal-sector employment by pricing people out of the market (Angel-Urdinola, Barry and Guennouni, 2016[43]), especially the lower skilled, women and youth. While minimum wages are helpful to protect vulnerable workers, the social assistance system provides a less-distortionary approach to supporting the incomes of lower-income households. An HCP survey reported that 26% of firms (43% of large firms) surveyed in 2019 cited labour costs as a barrier to hiring (Haut-Commissariat au Plan (HCP), 2019[44]). The SMIG should be set taking into account the impact on formalisation incentives. To ensure an appropriate level of the minimum wage, it might be helpful to set up an independent commission that periodically reviews the level of the minimum wage, accounting for social and economic factors, such as the rate of productivity growth, as in France or the United Kingdom. To avoid negative impacts on formalisation, the authorities could envisage excluding some low-productivity sectors, applying a lower sector-specific minimum wage in some cases, as is already the case in agriculture or for domestic workers. Another option is to allow a special low rate for youth, whose productivity is lower and whose hiring is most at risk from a high SMIG level.

While employment protection laws are necessary to support the creation of high-quality jobs and protect workers from insecurity and unfavourable treatment, excessive regulations can be counterproductive by leading to jobs being created outside the formal sector or not at all (OECD, 2018). When applied to permanent contracts, it largely comprises of firing restrictions, whereas when it applies to temporary contracts, it is mainly hiring restrictions that are involved. While Morocco is not covered by the OECD indicator of the strictness of employment protection legislation (EPL), the OECD's Multidimensional Review of Morocco (2017) included some estimates for 2013. They showed EPL to be significantly tighter in Morocco than in comparator countries and the average OECD country, both for permanent contracts (individual and collective dismissals) and temporary and agency contracts. It is unclear whether much has changed in the intervening decade, but this is consistent with other sources. Hiring and firing restrictions may also be hampering the labour reallocation process from agriculture and other low-productivity sectors to the higher-technology, more formalised sectors that have a foothold in Morocco, notably automotive and aeronautical manufacturing (Kuddo, 2018; Chauffour and Diaz-Sanchez, 2017). According to the World Bank's Enterprise Surveys (2023), 19.9% of surveyed firms considered labour market regulations as a major constraint, compared to an average of 12.1% in the MENA region and 10% in all surveyed countries. The 2019 HCP business survey found that 40% of surveyed companies (47% of industrial firms) view labour market regulation as a hindrance to their business development (HCP, 2019).

A number of labour market regulations are particularly burdensome for businesses. Unlike in the majority of other similar countries (Hatayama, 2021), fixed-term contracts are not permitted for permanent tasks, nor can they exceed 12 months in duration, though they can be renewed once. Easing these restrictions in a balanced way would allow for a larger role for temporary workers. Dismissals are difficult, as employers must consult with employee representatives even for single-person layoffs and, if applicable, union officials, and provide all necessary information regarding the reasons for the dismissal(s) and request third-party approval from regional authorities, which constitutes a significant barrier to business restructuring. Collective dismissals require an approved redundancy plan, which can be burdensome for mid-sized employers, who risk being stuck with excessive levels of staffing. Probationary periods cannot exceed 1.5 months (45 days) for white-(blue-) collar workers on permanent contracts (Gannat and Richardson, 2021), whereas many other countries have no such limits. Morocco had no such ceilings until less than a decade ago. Moreover, there are strict rules on overtime and night premia.

At first glance, the financial costs of dismissal are relatively low, allowing firms to adjust their workforces. Dismissal costs start at only 4.2% of monthly pay and rise with seniority to 15.2% after 35 years, whereas the corresponding figures with no seniority are 8% in Egypt and 5%-6.25% in Tunisia (Lopez-Acevedo et al., 2023). This is well-below OECD norms. However, average damages in the case of unfair dismissal are 1.5 months' pay per year of seniority with a ceiling of 36 months' pay. Workers often mistakenly see severance pay and damages as their rightful job-loss compensation and employers often respond with court action to avoid payment (Lopez-Acevedo et al., 2021a, p. 24). The tripartite agreement between the government and the social partners of 29 April 2024 foresees the continuation of negotiations on the reform of the labour code, aiming to strike a balance between the ease of doing business and protecting workers.

The number of labour-market inspectors is too low to deter informality effectively. Compared to an ILO benchmark for transition countries of one inspector for every 20 000 employees, Morocco until recently had only around half that number (Gannat and Betcherman, 20214; Kuddo and Moosa, 2019), far fewer than in Algeria and about a quarter the density seen in Jordan and Tunisia. Promisingly, their numbers have risen quite sharply in the past couple of years. Nevertheless, inspectors in Morocco are also responsible for supervising negotiations between employers and employees in the event of individual or collective labour disputes rather than just ensuring compliance with labour regulations and they resolve about 70% of all such conflicts. Creating a specialised public mediation service could ease the burden on the inspectorate. The government is increasingly able to cross-reference multiple computer databases in order to catch out fraud. In any case, it would be a wise move to work towards requiring all salary payments to be made via electronic transfer or at least not allowing any cash payments to be deductible for tax purposes to prevent employers from taking the informal option.

Taking a comprehensive approach to tackling informality by reforming the tax and benefits system, reviewing labour market regulations, and strengthening enforcement can have large positive effects on formalisation, as suggested by the experiences of Brazil and Chile (Box 3.3). Building on existing policies and on-going reforms would help to reduce informality more effectively in Morocco.

Box 3.3. Successful formalisation experiences

Brazil: Recent experiences show that using a combination of policy instruments can have a positive effect on inducing formalisation. Brazil introduced an integrated tax and social security contribution system for small and medium enterprises in 1996, SIMPLES, consolidating several separate federal tax and social security contributions into one single payment. The system reduced both the complexity of operating in the formal sector and reduced the tax burden for eligible firms, resulting in the formalisation of nearly half a million enterprises and over two million jobs (OECD, 2017b; OECD, 2013).

Revisions to the SIMPLES programme in 2007 (now known as Super SIMPLES) further reduced bureaucracy and the tax burden by incorporating state and municipal taxes, and social contributions into the system and exempting micro-enterprises from selected federal taxes (ILO, 2014). During this period, Brazil also rolled out complementary policies aimed at heightening enforcement through reforms in the labour inspection process in 1995. The reforms developed financial incentives to inspectors as the system awarded performance-linked bonuses granted in accordance with initial enforcement goals (Abras et al., 2018[14]). In addition, the development of common standards, enhanced monitoring of inspection quality, and increased options for labour inspections to resolve disputes have led to a 44% improvement in inducing formalisation following an inspection (Abras et al., 2018[14]). As a result of these initiatives, labour informality dropped substantially during subsequent periods from over 53% of total employment in 2002 to 36% by 2014 (Kerstenetzky and Machado, 2018[4]).

Chile: A major government-wide effort to induce formal sector participation through reforms to enhance the flexibility of the labour market was launched in the 1980s and the increased use of digital tools was accelerated beginning in the early 2000s. PreviRed, an online portal for declaring and paying for social security contributions was created, gradually bringing together all public and private schemes over time. Today, the platform contains more than 70 schemes including pensions, health, unemployment insurance, among other schemes, significantly simplifying the compliance procedures of operating in the formal sector.

Chile also began the steps towards integrating all forms of public procurement tenders into one single online portal: Mercado Publico. By 2017, more than 850 public institutions ranging from the central government to local hospitals manage tenders and make purchases in the system with formal registration a requirement for participating suppliers. The portal, with high rates of SME participation at 90%, indicates that enhancing market access opportunities for entrepreneurs can be a significant incentive for formal sector participation by raising the economic benefits to entry.

In 2013, Chile launched the Enterprise in a Day platform enabling entrepreneurs to establish, transform, and dissolve companies online. Procedures that previously took around three months have been reduced to five days and the cost of the start-up process fallen by more than 90% following the creation of the platform. Other concurrent policies that have positively contributed to formalisation include 1) the creation of a specialised legal status governing home enterprises with exemptions from selected licensing requirements (2002) and 2) a simplified tax regime for MSEs integrating and consolidating all forms of capital and labour taxation into one single levy (2014). Labour informality rates experienced a meaningful and sustained decline following these initiatives from over 40% in 2010 to 28% by 2018 (ILO, 2019).

3.3. Reforms to reduce youth unemployment

High youth unemployment and a large share of youth neither in employment, education or training (NEET) in Morocco reflects difficulties of many young people in the transition from school to work. In the short term, the most direct policy to ease the school-to-work transition would be to strengthen active labour market policies and target them specifically to young people. In the medium term, reducing youth unemployment requires improving the school system to ensure that young people are equipped with labour market-relevant skills.

Active labour market policies need to be improved

The government has long made efforts to confront the problem of youth unemployment and ameliorate the lives of Morocco's young people. Its approach to tackle the NEET problem has been to implement a year-long military service programme for around 200 000 19–25-year-olds, with an optional second year for up to 100 000 young people. An alternative social service option might be a useful addition, but this programme needs to be rigorously evaluated to ensure that it is maintained only if long-term labour-market outcomes are improved.

The government operates numerous active labour market policies, some of them focused on youth. However, the approach has been somewhat fragmented, with an excessive number of overlapping measures (Box 3.4). Some consolidation of the large number of measures, based on an in-depth systematic assessment of their effectiveness, would be helpful. To make the matching process of job offers and seekers more efficient it would be wise to seek to ensure that more of the jobless are registered with ANAPEC. One way to do this would be to automatically register those who obtain health-insurance coverage under the recent social reform and who are able to work. Furthermore, jobseekers should be required to take any jobs for which they are qualified in order to shorten excessively long spells.

Box 3.4. Morocco's system of active labour market policies

The public employment agency, ANAPEC, established in 2000 but reorganised in 2022, had a budget of only MAD 240 million (USD 24.4 million) in 2022. Relatively few hires occur through its efforts, as most job search is undertaken through direct contact with employers and networking (Table 3.3).

ANAPEC recently developed a digital strategy to increase the quality of its services. It is responsible for managing a number of active labour market programmes, including the Tahfiz programme that exempts new businesses created after 2015 from the employer part of social security contributions and the payroll training tax for new hires, and employees from personal income taxes up to a wage ceiling of MAD 10 000 per month. ANAPEC also manages the government's recently launched multi-pronged initiative Ana Moukawil to support 100 000 of the smallest firms and *auto-entrepreneurs*, many of whom are informal, with a budget of MAD 670 million over the next three years.

Key youth-focused programmes include the *Idmaj* programme that subsidises traineeships of up to two years' duration with private-sector employers for those with at least a *baccalauréat*; beneficiaries pay no personal income tax, and employers pay no social charges nor any training tax but must agree to recruit 60% of their trainees at the end of their contracts, which seems to have been a binding constraint. In 2021, there were 117 000 of them. The *Taehil* programme has provided training for youths struggling on their insertion path by helping them to acquire professional qualifications or to reskill, especially where this is aligned with the expressed needs of expanding sectors like automotive and aeronautical manufacturing. Over 2017-2021, it had 115 000 beneficiaries. The *Forsa* and *Awrach* programmes aim to foster youth entrepreneurial activity but have fewer than expected beneficiaries.

L'Office de la formation professionnelle et de promotion du travail (OFPPT), which has a much larger budget than ANAPEC of some MAD 5 billion that is largely financed by the payroll training tax, is the public agency that oversees all vocational education and training, including initial vocational training. Bringing together more closely the OFPPT with ANAPEC could help to improve outcomes by enhancing coordination and eliminating duplication of efforts. In many OECD countries public training measures are handled by a single agency.

Table 3.3. Main method used for job search, 2019, %

	Male	Female	Total
Direct contact with employers	31.1	23.6	28.8
Family, friends and acquaintances	34.9	29.1	33.1
Competitions	15.8	34.8	21.8
Specialised institutions	1.2	1.6	1.3
Job ads, written approaches and Internet	7.5	9.4	8.1
Moukef (labour exchange)	9.3	1.5	6.8
Other	0.3	0.0	0.2
Total	100	100	100

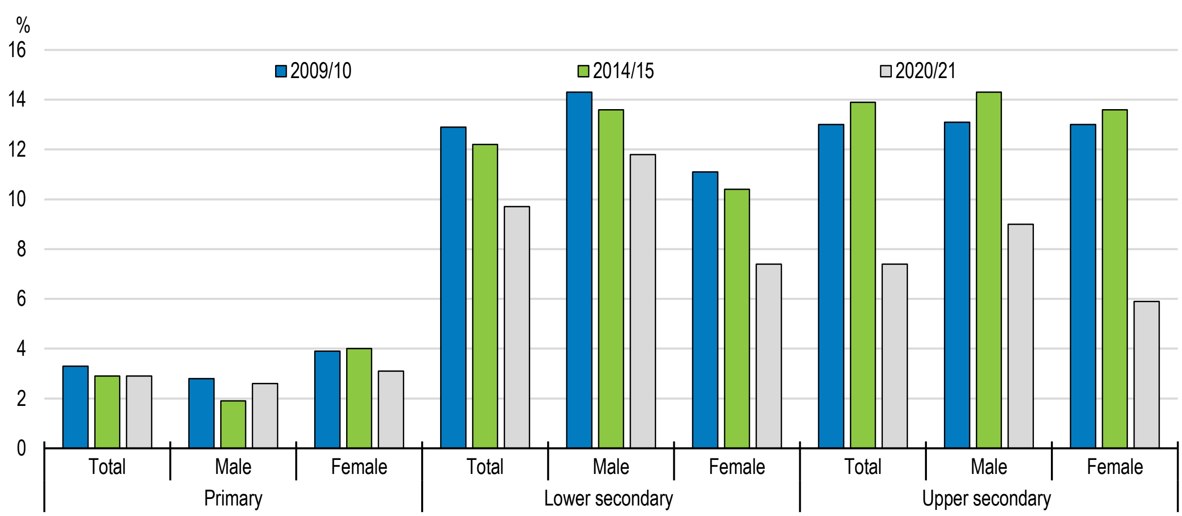
Source: OECD calculations based on data provided by the authorities.

Little has been done to quantitatively assess the value for money provided by most of the existing labour market programmes, although the Tahfiz has been evaluated, despite the potential costs and inefficiencies found in some programmes in other countries. There is a need for evaluation and consolidation of existing active labour market programmes. An exception is the Idmaj job-subsidy programme (Chatri et al., 2021): it was found to have significantly reduced the probability of unemployment only for women and those under the age of 24 (Chatri et al., 2021). But it also lowered wages and may have lengthened working hours and reduced social insurance coverage for those aged 25-34. No information was published about effects on income (as opposed to wages) nor on cost efficiency. The evaluation recommended shortening the contracts' maximum duration, providing complementary employability training, and fixing differentiated salary ceilings that serve as the basis for tax and social-charge exemptions to counter the observed employer bias to low wages.

Reforms to enhance the quality of education are underway

The outcomes of Morocco's education and school system have been relatively weak by international standards, but outcomes have been improving over the past decade and reforms are underway to enhance the quality of education. School is compulsory from age six until age 15 but, while significant progress has been made, dropout rates remain significant. Primary school enrolment on a net basis is now close to 100%, a substantial improvement compared to a decade ago. At the secondary level, 7-10% of children are estimated to drop out of school, an improvement from 12-14% in 2015, but still a significant concern (Figure 3.9). Dropping out of school is linked to pressure to work and difficulties in the education system, including excessive grade repetition and poor secondary school quality, especially in rural areas (Maghnouj et al, 2018). Girls may be required to help with household tasks and face refusal by a family member. Basic problems of costs and transport difficulties, including in remote and mountainous areas, also play a role.

Figure 3.9. School dropout rates have fallen steadily but remain high at secondary level



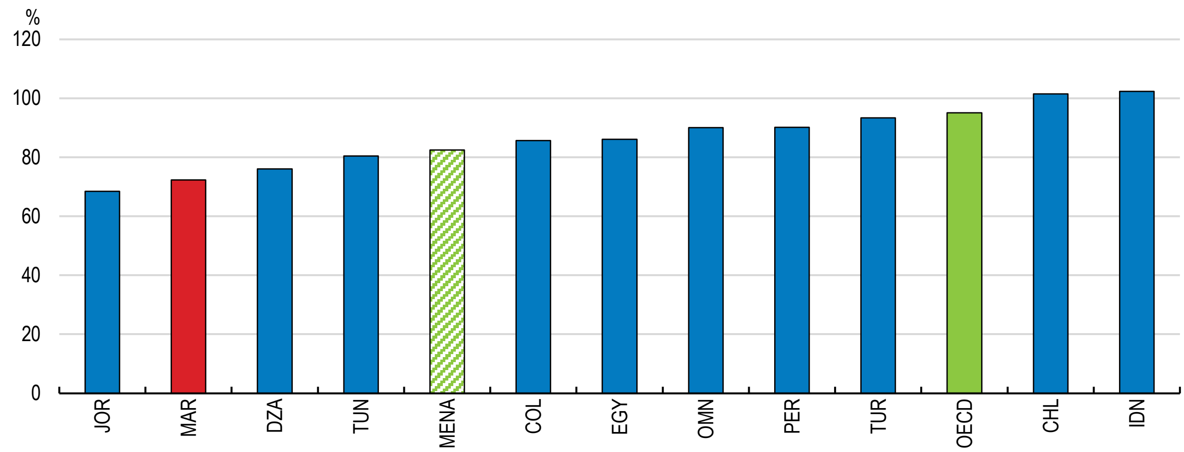
Source: Ministère de l'Education Nationale, du Préscolaire et des Sports.

StatLink https://stat.link/b4hrmp

Young people still end their studies at an early age, although this has improved significantly. Around-two thirds of young people complete lower-secondary education, similar to but somewhat below some other MENA countries and well below OECD norms (Figure 3.10). Only around half of young people achieve a high-school diploma, up from 38% in 2010. There is still a large gender gap, with only 30% of girls compared with almost 45% of boys reaching that standard. The share of four- and five- year-olds in pre-school has reached nearly 80% in 2023, compared to only about 50% in 2018.

Figure 3.10. Lower-secondary school completion is still low in international comparison

Share of the relevant age group who have completed lower-secondary education in 2022 or latest year



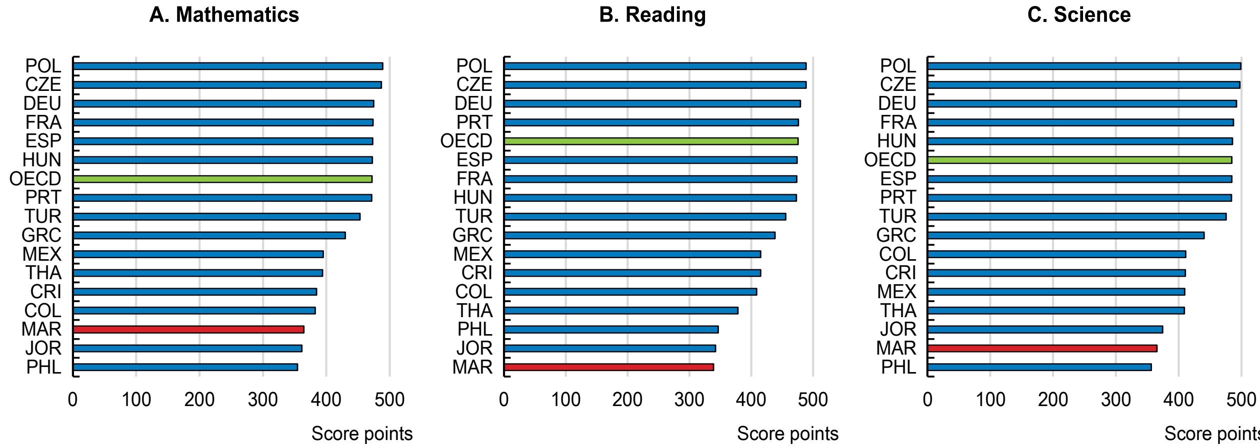
Note: The rate can exceed 100% due to several reasons, for instance "the numerator may include late entrants and overage children who have repeated one or more grades of lower secondary education as well as children who entered school early, while the denominator is the number of children at the entrance age for the last grade of lower secondary education".
Source: World Bank.

StatLink https://stat.link/bxzgs6

Educational challenges are increased by Morocco's complex linguistic heritage (World Education News and Reviews, 2022). The Arab population faces the need to learn both Modern Standard Arabic, as well as the spoken *Darija*. A sizeable other group speak Amazigh at home, which is now an official language and is being introduced progressively into primary education with a budgetary allocation of around EUR 1 billion over the coming three years (Gouvernment du Maroc, 2024)). Much of the higher education system functions in French and science is commonly taught in French even below the tertiary level. English is now being taught from the first year of public lower-secondary school, two years earlier than previously, while it is taught already in primary school in many private institutions.

Educational outcomes as measured by test scores are weak relative to other countries that participated in the international 2022 PISA evaluation. The results indicate that the 15-year-old Moroccan participants were either the very lowest among all participants (in reading) or above only those from the Philippines (science) or the Philippines and Jordan (mathematics) (Figure 3.11). As in other countries, outcomes have deteriorated in all three subjects, in part reflecting disruptions to schooling from COVID-19. However, the deterioration also reflects that more young Moroccans from marginalised populations sat the 2022 test than in 2018, with students from other groups doing about as well as in 2018 (OECD, 2023b).

Figure 3.11. Morocco's 2022 PISA results were weak across all three subjects

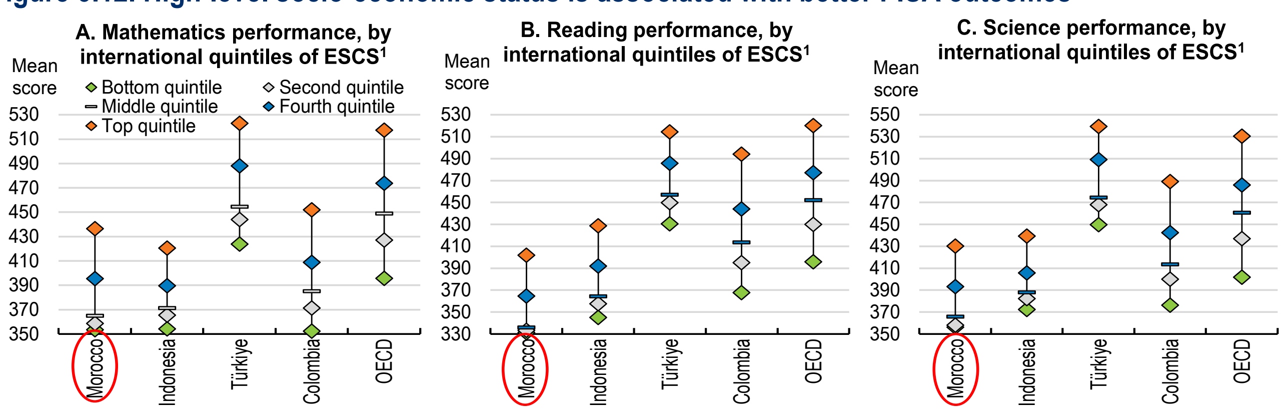


Source: OECD, Program for International Student Assessment (PISA), 2022 Reading, Mathematics and Science Assessment.

StatLink https://stat.link/6xin0r

Socio-economic status has a large and growing role in determining educational pathways, as in many other countries, constraining equality of opportunity and risking not making the most of the talents of those from less privileged backgrounds. A high-level socio-economic status (top two quintiles of the income distribution) plays a strong role in determining individual outcomes, including pre-primary enrolment rates; attainment and graduation rates, as well as PISA scores (Figure 3.12). The system is becoming increasingly dualistic, with private education gaining market share. From 2010 to 2021, the share of all schools that were private rose from 33% to 44%. This shift in market share may signal concerns about the public system, mainly by affluent families, but even low-income parents strive to send their children to private schools.

Figure 3.12. High-level socio-economic status is associated with better PISA outcomes



1. International quintiles refer to the distribution of students on the PISA index of economic, social and cultural status across all countries and economies.

Source: OECD, Program for International Student Assessment (PISA), 2022 Reading, Mathematics and Science Assessment.

StatLink https://stat.link/lnairc

The school system has suffered from a number of challenges. First, data from the 2018 PISA exercise showed that Morocco scored fairly weakly in teacher support for student learning in language-of-instruction lessons (55th out of 75) (OECD, 2019c). Learning outcomes showed uneven teaching quality and old-fashioned teaching methods. Second, teacher absenteeism remains a problem: a decade ago, it represented 7.5% of total teaching time (Maghnouj et al., 2018), and PISA 2018 referred to it as a big problem for 35% of all pupils. There are particular difficulties to find teachers to fill rural positions and to ensure that they attend class. Third, inadequate and decaying school infrastructure in both buildings and equipment has been a problem, notably in some outlying areas. Fourth, there has been a lack of accountability and an absence of clear responsibilities throughout the education system (Maghnouj, 2018), though some progress has been made in individual regional education and training authorities (AREFs) whose capacity varies. The central government has often passed useful reform legislation, but implementation has been lacking. Some more capable AREFs step up and adopt changes, but others do not, and information is poorly shared. Many micro measures have been piloted (often with foreign-aid funding), but they have not been well evaluated and the successful ones have not been scaled up.

The government has raised education spending as a share of GDP from 4.7% in 2017 to 5.8% in 2022, above most of its comparator countries and the OECD’s average of 4.3%. That will allow more investment in school infrastructure and an overhaul of recruitment, training, and payment of teachers. Resourcing no longer appears to be the main barrier to better outcomes, consistent with cross-country evidence suggesting that standardised test scores in Morocco are lower than in other countries with similar per pupil spending in primary education as a share of per capita GDP (OECD, 2017a).

Significant reforms are underway with the implementation of a roadmap to enhance school performance over 2022-26. This has focussed so far on the primary sector with the creation of 626 “pioneer schools” with 322 000 pupils that are applying new teaching methods and organisational principles (Box 3.5). Early results in both language and mathematics are promising (Gouvernement du Maroc, 2024). Follow-through in lower-secondary schools will start in the 2026-2027 year at the rate of 500 schools per year.

Box 3.5. The 2022-27 roadmap to enhance school performance

The authorities have put in place a roadmap for the reform of the education system over the period 2022-26 that focuses on strengthening the teaching of fundamental concepts, such as languages and basic mathematics; access to extra-curricular activities; and the reduction of school dropout rates.

These strategic objectives will be pursued by the gradual roll-out of a number of programmes that include the expansion of public early childhood education; a reform of teacher training and careers; a review of teaching methods, including the updating of school textbooks; as well as a certification scheme for schools that voluntarily participate in reform programmes and perform well on school evaluations.

A key element of the implementation of the roadmap is the establishment of “pioneer schools” that was launched for the primary sector in the school year 2023-24. 626 schools signed up voluntarily, amounting to about 9% of all primary schools, with the authorities’ stated objective of near universal coverage of primary schools by the school year 2026-27.

The “pioneer school” model is based on strengthened teacher training; the revision of teaching methods, notably through the adoption of the Teaching at the Right Level (TARL) teaching method that teaches fundamental concepts until they are mastered by students before moving on to the next concept; individual support for students in difficulty; the provision of digital teaching tools; as well as financial incentives for the teachers and schools to obtain a quality certification.

The “pioneer school” project will be independently evaluated at the end of the of the 2023-24 school year by the Massachusetts Institute of Technology-affiliated J-PAL research centre. The authorities will certify high-quality “pioneer schools” based on this evaluation. More evaluation will allow the adoption of proven pedagogical methods (Maghnouj et al., 2018) and quality certification of schools will strengthen accountability. Adoption of greater accountability, especially in schools in poor neighbourhoods has been shown to boost outcomes (Conseil Supérieur de l’Education, de la Formation et de la Recherche Scientifique, 2021).

Limiting grade repetition would help to lower dropout rates and should be replaced with a focus on providing more support to students who are struggling. Grade repetition has fallen over the past decade at upper-secondary levels to 13% but remains high at primary and lower-secondary levels (Elasraoui and El Omani, 2022). The government recognises that excessive grade repetition should be avoided at least in the early years of schooling, as scores in PNEA 2016 for those who have repeated were worse almost across the board (Conseil Supérieur de l'Education, de la Formation et de la Recherche Scientifique, 2017). It is much more prevalent than in other MENA countries –notably Egypt, where repetition is rarely used at all – according to the UNESCO Institute of Statistics. Grade repetition is experienced by 63.4% of children from the bottom income quartile, compared to 26.6% of those from the top quartile (Ministère de l'Education Nationale, du Préscolaire et des Sports, 2023). Replacing it by extra teaching support for those pupils who are falling behind, as foreseen in "pioneer schools", would be a better solution with use of repetition limited to exceptional cases and requires resources to be allocated to this valuable work.

The rate of school dropouts needs to be reduced to raise average attainment. The Tayssir conditional cash transfer programme has a budget of MAD 4 billion (close to 0.3% of GDP) to subsidise families to keep two million students in school, and supplementary financial support is also provided to widows so their children can also stay in school. It was piloted in 2008 and then scaled up in 2013, reducing dropout rates from primary school by over a third, especially for girls. It also increased lower-secondary school enrolment for girls (Gazeaud and Ricard, 2021). The focus of the "pioneer schools" on the Teaching at the Right Level (TARL) method and individual support for students in difficulty (see Box 3.5) are positive steps, and the effect on dropout rates should be closely monitored. The expansion of the "pioneer school" model to lower-secondary schools from 2024-25 foresees a number of promising measures that should be fully implemented, including catch-up lessons of 4-8 weeks at the beginning of the school year to address gaps in knowledge and individual support for students in difficulty throughout the school year. A particular focus should be on girls, including by raising the awareness of the importance of education among students and families by reducing gender stereotyping in teaching materials. As a last resort for students that do drop out, the "second-chance school programmes" that aim to provide school dropouts with labour-market relevant skills, including soft skills, can complement prevention measures, but the focus should be on keeping young people in the school system or bringing them back once they have dropped out.

To improve teaching quality, salaries have been raised significantly and required qualifications and pedagogical training standards have been increased. Five years of post-secondary study and training will now be required. Demotivation among teachers is exemplified by the fact that teachers were significantly less satisfied with their jobs than the OECD average in PISA 2018 (Ministère de l'Education Nationale, du Préscolaire et des Sports, 2023) and that almost half of all teachers wanted to be transferred away from their current school (Conseil Supérieur de l'Education, de la Formation et de la Recherche Scientifique, 2021). In the context of lengthy strikes this school year (2023-2024), a settlement was reached with the five largest unions in late 2023. The new unified teacher status gives recent recruits the status of civil servants with all the associated benefits and a wage rise averaging MAD 1 500 net per month for starting teachers (around USD 150) and MAD 5 100 net for those at the end of their careers (around 30%) to at least MAD 7 000 per month, plus some improvement in working hours.

Incentives to raise teaching quality could be further strengthened by linking pay and performance. The unified teacher status adopted in late 2023 foresees expanding teacher evaluations based on measurable criteria, including participation in training measures and respect of professional rules. The next step should be to ensure that pay and career progression are to a larger extent based on merit rather than seniority. Placing a smaller weight on seniority in salary increases and a greater weight on teaching performance and the take-up of non-teaching tasks, as foreseen by the new unified teacher status, are positive steps that should be fully implemented. Providing stronger financial and career progression incentives for teachers who take up teaching positions in poor neighbourhoods or remote areas could help enhance the quality of education where it is most needed, while ensuring the career advancement of the most committed teachers.

The attractiveness of professional-track secondary education should be improved, as foreseen by the 2022-26 roadmap, including by building pathways between professional secondary degrees and access to tertiary education. A dearth of career guidance for students leads to mismatch between skills and demand. At upper-secondary level, only 15% of students in 2019-20 chose to enter vocational courses, while too many embark on university studies in areas with little private-sector labour market demand (notably humanities and law, economics and social science) (Lopez-Acevedo et al., 2021a). The government has now begun training specialised experts to strengthen career guidance, which begins at lower-secondary level. It should also provide intensified support for disadvantaged students, for example by facilitating connections between them and professionals in their desired fields (OECD, 2024e). The government is also raising the number of pathways between courses, so as to allow pupils to switch courses when they encounter obstacles or if their interests change. These measures could raise the relevance and attractiveness of professional-track secondary education, which would have the added benefit of keeping those students enrolled who may be most at risk of dropping out.

3.4. Strengthening the role of women in the formal labour market

Relatively low female labour market participation reflects limited public support for childcare, as well as socio-cultural norms and discrimination. In 2016, an HCP survey found that over 60% of respondents thought priority in employment opportunities should be given to men and that working mothers compromise the upbringing of their children (HCP, 2024b). According to a survey almost a decade ago, about half of Moroccan women said they were not allowed to work by their families, and many said they lacked adequate skills (Morikawa, 2015). While gender gaps in education attainment have shrunk in recent years (OECD, 2024f), far fewer women than men in the age bracket 15-24 are in education,(HCP, 2024b). The OECD Social Institutions and Gender Index (SIGI) suggests that the Moroccan labour market is more discriminatory overall than most other countries, notably than OECD countries, but better than most MENA comparators (OECD, 2024 forthcoming), and the situation has improved overall since 2019 (Table 3.4). However, Morocco performs worse on the economic dimension of the Index. Female full-time employees earn 16% less than corresponding men (HCP, 2023a).

Table 3.4. Morocco's Social Institutions and Gender Index in international perspective

	Overall SIGI 2023	Of which: Access to productive and financial assets
Morocco	49.3	42.6
(p.m.) Morocco 2019	50.8	37.8
G7		
Egypt	56.1	45.8
Jordan	58.5	33.6
Lebanon	57.1	38.8
Tunisia	46.5	36.3
Türkiye	24.0	29.8
MENA	56	39
OECD	15.3	12.7
World	29.2	27.1

Note: Measure is from 0 to 100. Higher values imply greater discrimination.
Source: OECD (2023), Social Institutions and Gender Index (SIGI) 2023 Global Report.

The government has recently launched the third programme for the promotion of gender economic inclusion and provides significant maternity leave and benefits. In Morocco, mothers working in the formal sector are accorded up to 14 weeks of paid leave, which is among the most generous in the MENA region (Hatayama, 2021), but in the private sector they receive only two-thirds of their salary, which is relatively low (OECD, 2017, Vol. 2). Mothers working informally are not eligible for such benefits. Evidence from

Jordan, which recently implemented a maternity insurance scheme, is that such benefits do raise female labour force participation (ILO, 2021a), although the problem of finding replacement staff (at least for skilled workers) needs to be tackled. Women are also disproportionately responsible for elderly care, where few market-based options exist.

More support is needed to help women manage care responsibilities and work, as well as encouraging a more equal distribution of unpaid domestic work with men. Women have multiple claims on their time: according to UN Women, women and girls aged 15 and above spend 20.8% of their time on unpaid child and elderly care as well as other domestic work, compared to 3% spent by men; this ratio of seven is higher than the 5.9 MENA average (OECD, 2024 forthcoming). Measures to facilitate a better balance between women's work options and family responsibilities would be welcome. According to the UN's 2023 Gender Snapshot, on average Moroccan women work 2.8 hours per day more than men on home production (cooking and cleaning), despite the reduction in the burden of household chores over time due to labour-saving devices. Women would also benefit disproportionately from the ability to outsource domestic tasks. The availability of high-quality and affordable early childhood education and care (ECEC) is key. OECD evidence shows better childcare alleviates female participation disincentives and motherhood penalties (OECD, 2024b). Morocco has achieved significant progress in enrolling children above the age of 4 in pre-primary school. Extending public pre-primary education to children below the age of 4 would further improve female labour market participation incentives, as well as having positive effects on the development of children and promoting social inclusion.

Access to transport and financial inclusion of women need to be improved, particularly in remote rural areas. Innovative transport initiatives, such as dedicated, women-only transport options – which exist in Brazil, Egypt, India, Japan and Mexico – could be promoted by local and national authorities. Other promising initiatives include developing mobile apps that provide real-time information on transport schedules, routes, and safety features, as well as emergency response systems, as for instance emergency call buttons or apps within transport systems that allow women to quickly report incidents or harassment. More generally, gender perspectives should be integrated into all stages of transport policy development, planning and implementation. Improving financial inclusion could empower women who work to make their own consumption and saving decisions over their potential earnings. Possible measures include developing savings, insurance and investment products that cater to the specific needs of women and improving financial literacy, including by integrating financial education into the school curriculum to build financial skills from a young age. Discrimination against women could be better addressed by a more concerted attempt to remove discriminatory hiring practises through gender-blind processes and, more radically, by implementing positive discrimination in the form of management quotas in key sectors, as was done for boards of directors.

Table 3.5. Policy recommendations of the chapter

MAIN FINDINGS	RECOMMENDATIONS (KEY IN BOLD)
Labour market informality is excessive	
A major extension of social protection is underway, but informality remains widespread, leaving many in poor-quality jobs.	**Implement the ongoing social protection reforms, while reducing employer contribution rates for those on low wages.** **Strengthen enforcement of social contribution payments and increase the number of labour market inspectors.** Create a new specialised public mediation service to handle disputes. Create a simple standardised labour market contract.
Employment protection is rigid, leading to a heavy burden on employers, lower labour demand and higher informality.	**Increase the flexibility of permanent and temporary labour market contracts.**
Youth unemployment is high	
Unemployment is high, especially for youth, and many jobless youth are not in education or training (NEET)	**Take into account the adverse impact on formalisation incentives when setting the minimum wage.** **Consolidate the many Active Labour Market Programmes (ALMPs), strengthen activation measures and the role of the employment agency.** Automatically register unemployed people who apply for health insurance with the employment agency. Consider bringing together more closely ANAPEC and the training provider OFPPT to strengthen labour market programmes. Provide intensive training opportunities for all youth.
The education and training systems need improvement	
Standardised test scores are relatively low, many people still leave school at a young age and grade repetition is common. A major school reform is underway.	**Implement the on-going school reform and replace grade repetition with extra help for pupils falling behind.** Link pay to performance indicators, including absenteeism and offer extra pay for taking on extra responsibilities. Continue promoting the adoption of proven teaching methods to adapt teaching to pupil needs. Enhance career guidance at all levels using professionally trained experts with access to better information where prospects are most promising.
Female labour force participation is low	
Women face a number of challenges in the labour market and female labour force participation is low. Free childcare is available from age 4.	**Step up initiatives to strengthen the labour market integration of women including better access to finance, reducing discrimination, and tackling gender stereotypes.** **Improve availability of free childcare and extend it to younger children for working women.**

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ECONOMIC ASSESSMENT

Growth has rebounded from the pandemic and the energy crisis, despite the 2023 earthquake and droughts. Morocco has benefitted from a stable macroeconomic regime and the deficit is narrowing following the pandemic and energy crisis with the government debt ratio is around 70% of GDP. Morocco has embarked on major reforms to encourage investment and to extend health insurance and social protection, but a stronger convergence path will be needed to achieve the vision in the New Development Model. Morocco's labour productivity gap with the frontier remains large, although it has narrowed. FDI flows have been strong, but domestic private investment is low, and Moroccan firms face obstacles in performing better. Morocco's young population is an asset, but the labour market suffers from high youth unemployment and low female employment. Emigration is significant. Widespread informality leads to low wages, poor-quality jobs and weak skills. Morocco has made an ambitious commitment to reduce carbon emissions by 45% by 2030 compared to 2010 and to net zero by 2050, benefiting from the country's potential for renewables-based generation. The country is vulnerable to climate change and already faces significant water stress.

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PRINT ISBN 978-92-64-56992-8
PDF ISBN 978-92-64-42306-0

ISSN 0376-6438
2024 SUBSCRIPTION
(18 ISSUES)

9 789264 569928

Volume 2024/20
September 2024