THE REPORT

Morocco 2020

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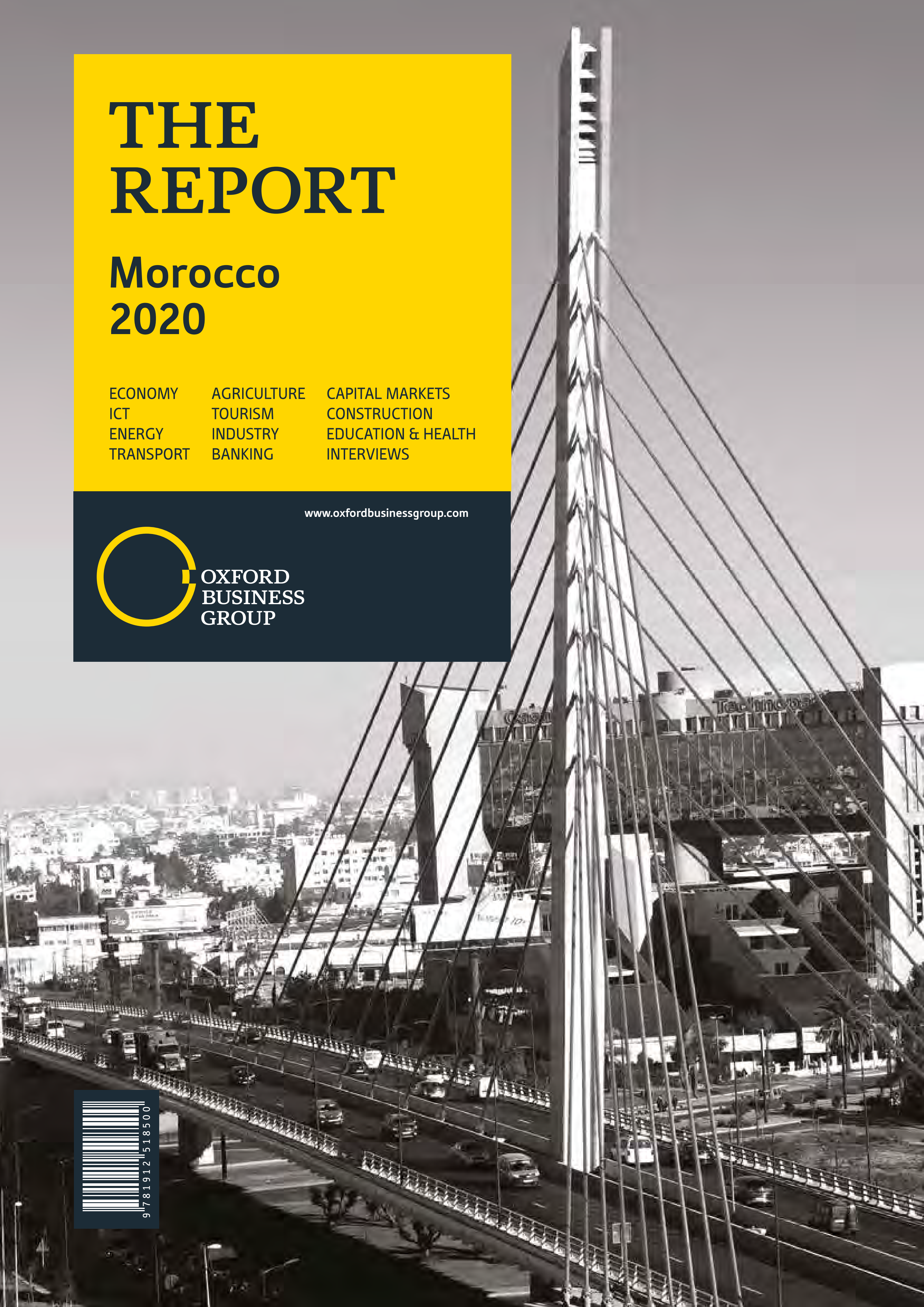

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Ernst & Young Survey, 2018

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Global Financial Centres Index, 2019

2nd Country Where to invest in Africa
2020 Rand Merchant Bank

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WEF, 2019

3rd Worldwide in The Climate Change Performance Index, 2020

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UNCTAD, 2018

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WEF 2019

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Forward march

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Morocco's GDP grew by an estimated 2.7% in 2019, following on 3% growth the year before. Looking ahead, the 2020 budget is focused on reducing expenditure and further enlarging the country's tax base. Planned government investment for the year is $20.6bn, compared to $20.3bn in 2019, while the line item for various subsidies was reduced. The budget deficit for 2019 hovered around 3.7% of GDP, with a target of 3%.

SNAPSHOT

COUNTRY PROFILE

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Broad base

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Morocco produces an array of finished products and components for customers not only in the traditional markets of southern Europe, but increasingly across Africa, Asia and the Americas. Top segments include automotives and auto parts, cables, chemicals, textiles, aeronautical products, agro-industrial goods and electronics. Industrial GDP sat at $29.3bn in 2018, accounting for 25% of total GDP, while value-added manufacturing was nearly $18bn.

Power revamp

Page 111

Rising demand – evidenced by 5% annual growth in total primary energy consumption between 2004 and 2018 – compounds the need to boost generation capacity in a country that imports the majority of its energy. However, with lowering carbon emissions a goal alongside meeting demand, solar and wind projects are being stepped up, as is the use of cleaner natural gas.

Expansion plans

Page 128

Upgrades to transport and logistics infrastructure have been key to driving economic growth in recent years, especially in terms of supporting the agriculture, manufacturing and tourism sectors. To continue funding expansion, amendments to the public-private partnership law in 2019 enlarged their application beyond government ministries to local administrations and public entities.

Bearing fruit

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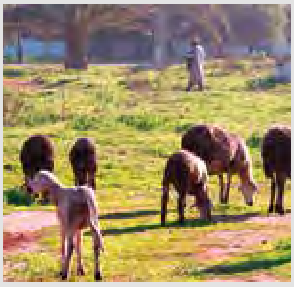


The agriculture sector – which accounts for 13% of GDP but 38% of national employment and 74% of rural jobs – has been guided by the Green Morocco Plan since 2008. The plan has achieved most of its goals and increased the value of the sector through the development of traditional crops, better marketing, improved supply chains and subsidised drip-irrigation equipment.

The next stage

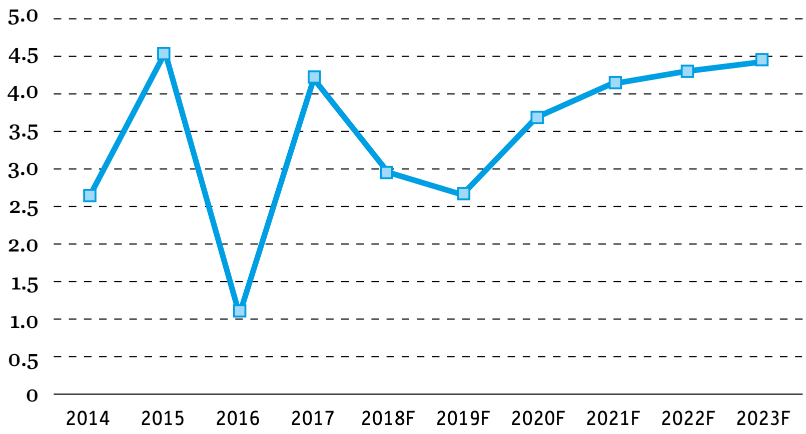
Page 183

Tourist volume rose from 9.38m arrivals in 2012 to 12.29m in 2018, and recorded an 8.2% year-on-year increase through July 2019. Policy-making is being centred around niche segments such as sports, health tourism, and meetings and exhibitions, while the authorities are also working to develop historical and cultural sites to disperse traffic across a greater number of destinations.

Morocco in brief

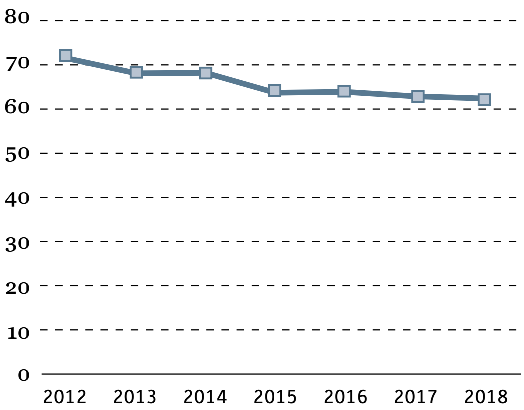
At home, Morocco has identified the reduction of social inequality as a key priority, setting in motion a series of reforms and transferring critical development funds to less-developed regions. Abroad, Morocco's foreign policy objectives focus on spearheading intra-African cooperation and positioning itself at the centre of Europe-Africa relations. Gains were made on all these fronts in 2019, supported by growing GDP that reached $118.5bn in 2018. However, vulnerabilities remain in the form of a large agriculture sector dependent on weather and commodity prices, as well as a substantial energy import bill whose size is dictated by international oil and gas prices.

Real GDP growth, 2014-23F (%)



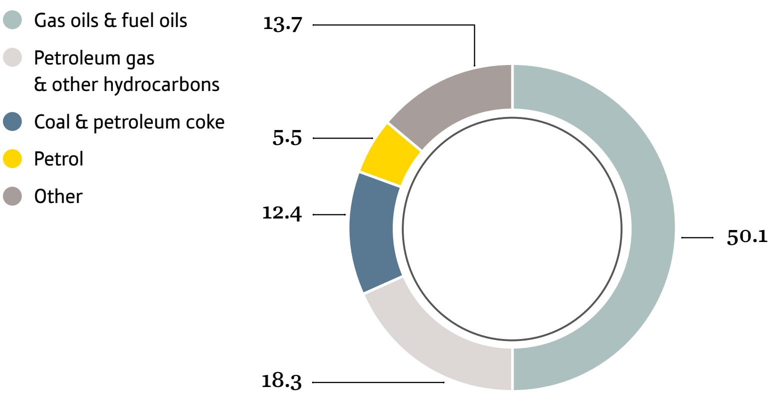
Source: IMF

Domestic credit to private sector by banks, 2012-18 (% of GDP)



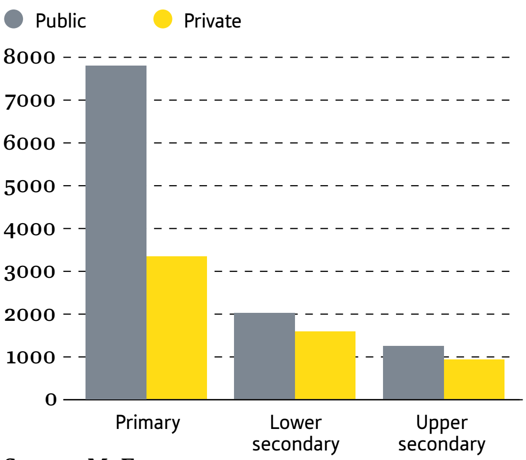
Source: World Bank

Energy imports, Jan-Oct 2019 (% of total value)



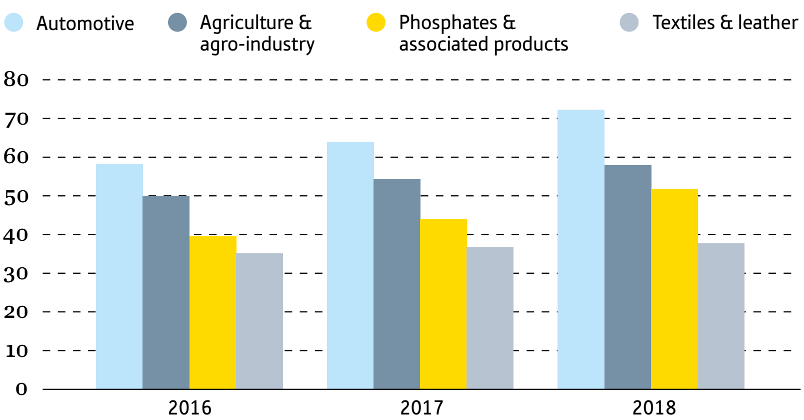
Source: MEME

Number of schools by level, 2018/19



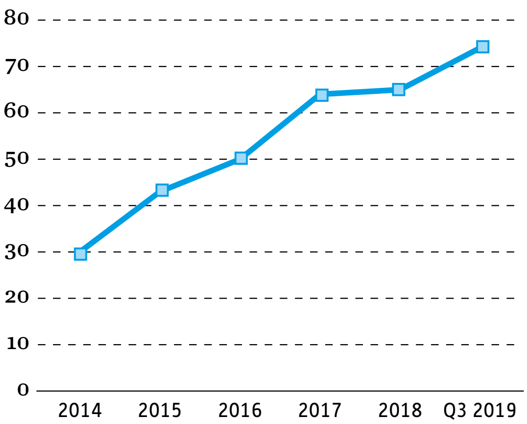
Source: MoE

Top industrial exports, 2016-18 (Dh bn)



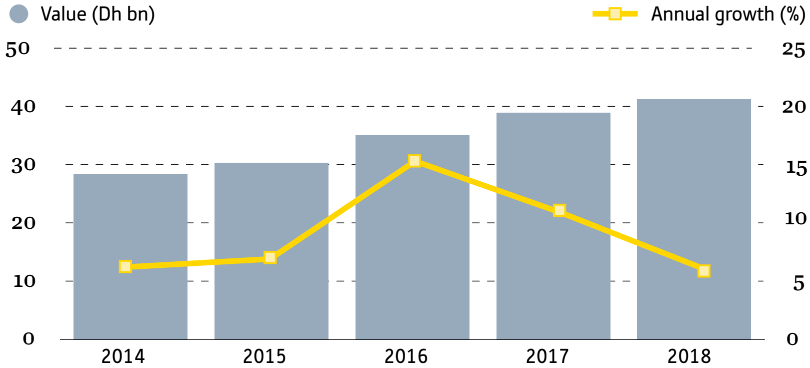
Source: Office des Changes

Internet penetration rate, 2014-19 (%)



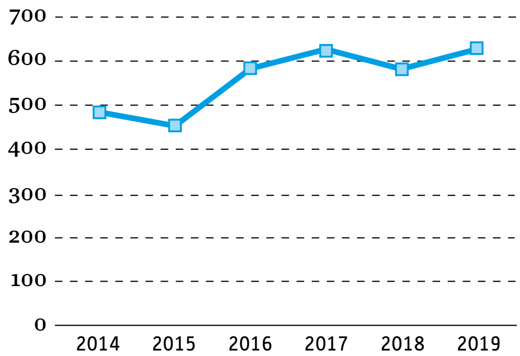
Source: ANRT

Total insurance premium, 2014-18



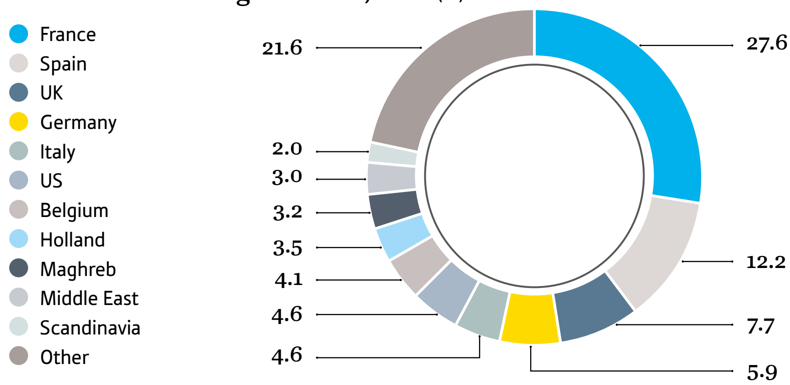
Source: MFSAR

Market capitalisation, 2014-19 (Dh bn)



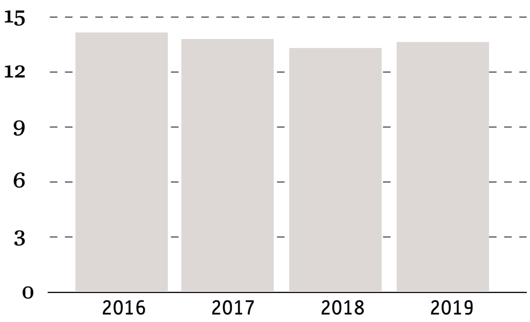
Source: CSE

Breakdown of foreign tourists, 2018 (%)



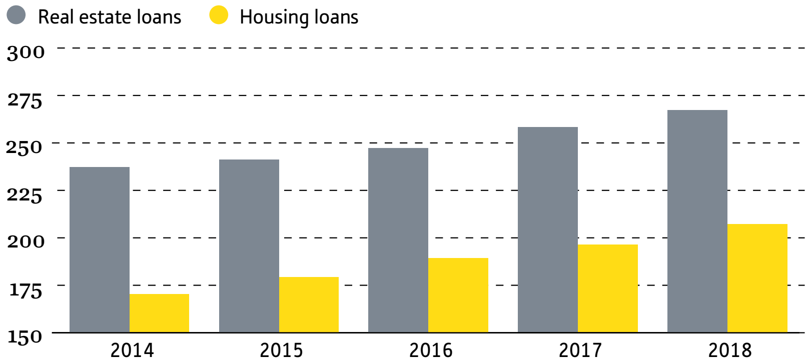
Source: MoT

Cement sales, 2016-19 (m tonnes)



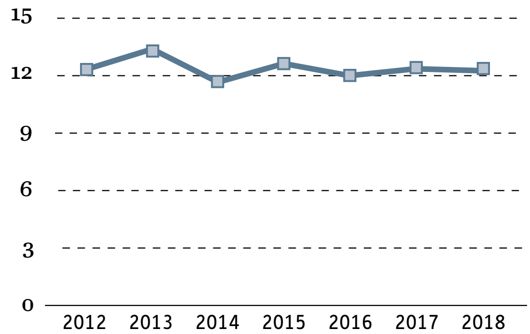
Source: MHPV

Lending to the property sector, 2014-18 (Dh bn)



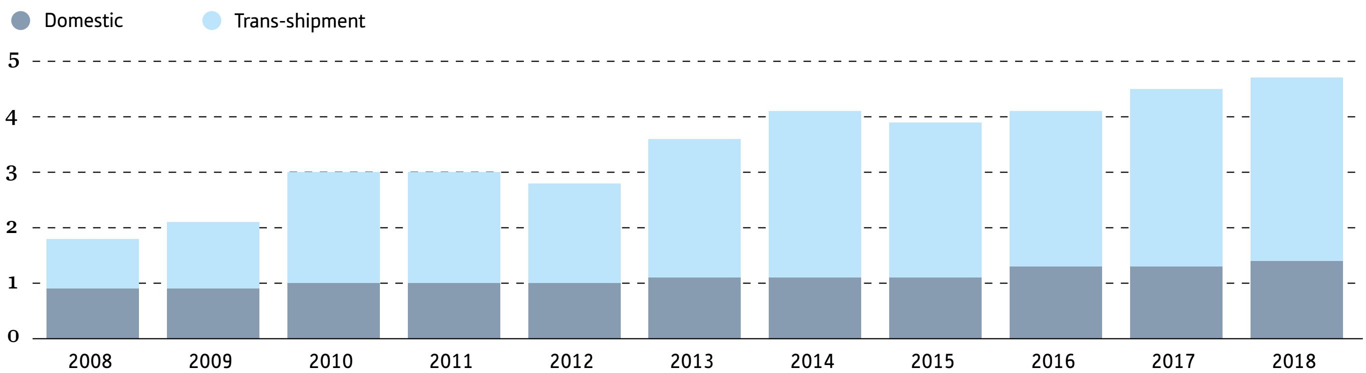
Source: MHPV

Agriculture, forestry & fishing value added, 2012-18 (% of GDP)



Source: World Bank

Total containter traffic, 2008-18 (m TEUs)



Source: METL

Country Profile

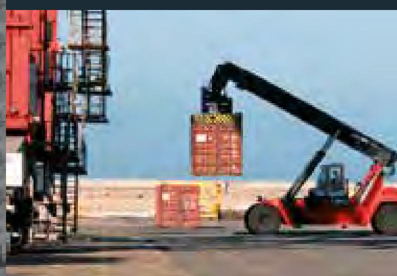
Focus on reducing social and economic inequality

Efforts to strengthen intra-African cooperation

Commission launched to reform development model

Trade with EU remains major source of revenue




As of February 2020 the kingdom was home to roughly 35.8m people

Gateway to Africa

The country benefits from rich natural resources, a strong agriculture sector and global trade partnerships

Morocco is often described as the gateway to Africa, an apt description given its proximity to Europe and its geographic location at the north-eastern tip of the continent. At its narrowest, 13 km of the Strait of Gibraltar separates Point Cires in Morocco from Point Marroquí in Spain. The country is neighboured by Algeria to the east and Mauritania to the south.

Morocco's population is rapidly growing: according to the most recent census data, it almost tripled from 11.6m in 1960 to 33.4m in 2014. As of February 2020 the kingdom was home to roughly 35.8m people, according to the Higher Planning Commission.

The country's largest city, and its business and economic centre, is Casablanca, located 85 km from Rabat, the kingdom's political capital. Other historical and economically prominent cities include Marrakech, Fez, Meknes and Tangier.

TOPOGRAPHY: Morocco is divided into three geographic zones, separated by four mountain chains. The northern coastal plains are the location of much of the kingdom's agricultural activity, as well as its most densely populated areas. Within these lowlands is the Gharb plain, north of Rabat, which is known for its citrus production. To the east and south are semi-arid and arid areas, where mountains blend into the Sahara Desert.

Morocco's territory is dominated by the mountainous central regions. Running parallel to the Mediterranean Sea is the northernmost mountain range, known as the Rif, and to its south lies the Atlas Mountain range, comprised of three sub-ranges: the Anti-Atlas, the High Atlas and the Middle Atlas. Within the High Atlas, near the city of Marrakech, is Jebel Toubkal, the country's highest mountain at 4165 metres above sea level.

CLIMATE: The country's climate can vary substantially from region to region, although it can be roughly divided into two climatic zones. Western and northern Morocco are characterised by a subtropical climate similar to the Mediterranean region, with hot, dry summers and mild winters. Average daily temperatures in Rabat vary from a high of 17°C in January to 28°C in August, and average daily rainfall ranges from 106 mm in December to 0 mm in July.

In contrast, the south experiences much drier and warmer weather. For example, Ouarzazate, home to the world's largest concentrated solar power plant, sees an average daily high of 18°C in January and 38.9°C in August. The city experiences virtually no rainfall throughout the year, with an average high of 25 mm during November.

Like many other countries, Morocco is already beginning to see the impact of climate change. Droughts have increased in both frequency and intensity. The country launched a strategy to mitigate the effects of climate change in 2008, known as the Green Morocco Plan, aimed at conserving natural resources and strengthening agricultural resilience. The plan, alongside other initiatives such as the solar plant at Ouarzazate, have bolstered Morocco's status as a global leader in environmental sustainability and renewable energy. Despite ongoing measures to combat climate change, the kingdom experienced a severe drought during the 2015-16 harvest, which significantly reduced agricultural yields and, by extension, economic performance. GDP growth fell by 1.1% in 2016, but it rebounded to 4.2% in 2017 due to improved conditions.

ECONOMY: Morocco's economy has traditionally been dominated by agriculture, which is one of the most strategically important sectors. It is responsible for approximately 30% of the country's employment, 20% of GDP and 35% of exports. Top agricultural exports include citrus products, sugar and olive oil. Despite its significant economic weight, the agriculture sector's performance is highly dependent on rainfall and weather conditions. For example, in 2015-16 production of cereal, one of the country's major crops, fell by approximately 70% as a result of that season's drought.

Although it remains a vital part of the economy, the sector's contribution to GDP has been gradually falling, accounting for around 13% as of mid-2019. At the same time, other sectors have been increasing in importance. The industrial sector, for example, has gradually transitioned to higher value-added production. Its share of GDP has risen from an average of 19% between 1985 and 2016 to 25% in 2017. The sector's contribution remained unchanged as of early 2019, according to the African Development Bank. In recent years, the kingdom has focused on developing export-oriented products and services, with an emphasis on segments such as aeronautics and motor vehicle manufacturing. The mining sector, meanwhile, contributes around 10% of GDP and 20% of the country's total exports.

TRADE PARTNERS: Morocco maintains several trading relations, particularly with European countries due to its close proximity to the continent. In 2018 exports to Europe accounted for 66.4% of the kingdom's overall trade and 70.1% of exports, according to the most recent figures from the Office des Changes. Within Europe, Morocco's main trading partners were Spain and France. Western Europe is also a major source of tourism revenue, remittance payments and foreign direct investment (FDI).

Asian countries, including the Middle East, were Morocco's second-largest trading bloc in 2018. Asia accounted for 16.2% of the kingdom's overall commercial trade. Notably, in November 2017 Morocco signed a memorandum of understanding with China, pledging its involvement in the country's Belt and Road Initiative. Although trade with Middle Eastern countries represented 3.4% of overall trade, Gulf countries such as Saudi Arabia and the UAE were significant sources of FDI and financial aid.

NATURAL RESOURCES: Morocco has the largest phosphate rock reserves in the world, accounting for 50bn of the 70bn tonnes of global reserves. Moreover, the kingdom is the second-largest producer of phosphate, producing an estimated 33m tonnes in 2018. The government-owned phosphate producer OCP Group, formerly known as the Office Chérifien des Phosphates, maintains a 31% share of the global phosphate market.

Although it lacks major hydrocarbons reserves unlike other countries in the MENA region such as Algeria and Saudi Arabia, the kingdom is nevertheless undertaking efforts to attract funding for exploration and production projects. In September 2019 UK-based Europa Oil & Gas was awarded a new exploration permit for an offshore area in the Agadir Basin. Another UK company, Sound Energy, in partnership with US-headquartered Schlumberger, expects its first natural gas by 2021 after being awarded a production concession in 2018.

Given its climate conditions, the kingdom is also well positioned to develop its solar power capacity. In 2016 the first phase of the Noor Ouarzazate concentrated solar power complex was completed, which has a total capacity of 580 MW. Moreover, plans are under way for a second solar generation project near the town of Midelt, which will have a capacity of 800 MW upon completion.

Morocco maintains strong trade relations with European countries due to its close proximity to the continent

LANGUAGE & ETHNICITY: Although Morocco is a member of the Arab League and Arabic is one of its official languages, the kingdom has taken significant steps to preserve its non-Arab heritage. For example, the 2011 constitution made Amazigh, a standardised Berber language, the second official language. It is estimated that at least 40% of the population, located primarily in rural and mountainous areas, speak one of three Berber or Amazigh languages, which were the region's native languages before the Arab conquest in the 7th century.

Modern Standard Arabic (MSA) – a standardised language based on classical Quranic Arabic – is the formal language of primary and secondary education, government and news media. However, like other Arabic-speaking countries, Moroccans generally speak a colloquial form of Arabic known as *darija*, which differs significantly from MSA and other Arabic dialects. French is the primary language for higher education and is widely used in business dealings. Spanish is also common in north-eastern parts of the country that were under Spanish rather than French rule prior to independence in 1956.

RELIGION: The 2011 constitution states that Islam is the official state religion. The majority of Moroccans follow the Maliki school of Sunni Islam, which is common throughout much of north-west Africa. The Moroccan royal family, known as the Alawite dynasty, traces its descent from the Prophet Muhammad. The king is the country's highest official religious authority, bearing the title of *Amir Al Mu'minin*, or Commander of the Faithful. There was also a substantial Jewish population until the mid-20th century, when most Moroccan Jews emigrated to France.

His Majesty King Mohammed VI

A new era

His Majesty King Mohammed VI, on revamping Morocco's development model and accelerating economic growth

Morocco has made great strides in infrastructure development, including in highway construction, high-speed railway, major ports, renewable energy facilities, and urban development and revamping. We have also made significant progress in promoting rights and freedoms, and consolidating sound democratic practice.

Nevertheless, I realise that, though important, infrastructure development and institutional reforms are not enough on their own. Let me say this clearly and frankly: what undermines this positive result is that the effects of the progress and the achievements made have not been felt by all segments of a Moroccan society. Indeed, some citizens may not directly feel a positive impact on their living conditions, especially in the areas of basic social services, the reduction of social disparities and the consolidation of the middle class. For this reason, I have attached particular importance to human development programmes, social policies and the need to respond to Moroccans' pressing concerns. As I said in 2018's address, there will be no peace of mind for me so long as we have not properly tackled the hurdles in our way and found the right solutions to development and social issues. This, however, cannot be achieved without a comprehensive vision, without qualified human resources and adequate conditions to carry out planned projects.

In recent years our development model has proven to be inadequate in terms of helping us meet the growing needs of a segment of the population, reduce social inequalities and tackle regional disparities. For this reason, I have called for revisiting that model and updating it. I, personally, do not like setting up ad-hoc committees to tackle issues; for some, this is the surest way to evade problems and walk away from them. However, in the past I did resort to setting up committees to tackle some key national issues, such as regionalisation, the amendment of the constitution, the Justice and Reconciliation Commission and family law. I was keen to ensure close follow-up of their work, and the results achieved were positive and constructive. I have therefore decided to set up an ad-hoc committee for the development model, which we will inaugurate in the autumn. As regards membership, I have seen to it that the committee includes representatives from various fields of knowledge and intellectual currents, including prominent Moroccans from the public and the private sectors who meet the requirements of competence and impartiality, who are able to feel the pulse of society, who understand its expectations and who have the nation's best interests at heart.

I should like to emphasise, in this regard, that said committee will not serve as a second government or a parallel official institution. This is an advisory body with a specific time-bound mission.

It will have to take into consideration the major reforms introduced – as well as those to come – in a number of sectors, such as education, health, agriculture, investment and taxation. The committee is expected to make suggestions on how to improve these reforms and increase effectiveness. I expect the committee to be totally impartial and objective, and to report on facts as they are on the ground, however harsh or painful they may be. And when proposing solutions, I want it to be daring and innovative. In the meantime, work pertaining to the management of public affairs and response to citizens' concerns must continue with greater commitment and a keener sense of responsibility. In particular, emphasis should be placed on improving basic social service delivery and enhancing the performance of public institutions. In parallel, I ask the government to start working on major, integrated next-generation sectoral plans, which will form the backbone of the new development model.

Revamping the nation's development model is not an end in itself. Rather, it is a gateway to a new era – one into which I intend to take Morocco. The distinguishing features of this new period will be responsibility and the pursuit of a comprehensive take-off. It is a phase that holds great promise, because Morocco's potential and competencies allow for greater accomplishments than what has been achieved so far.

Our main ambition is for Morocco to join the ranks of developed nations. Nevertheless, the new era we are about to enter is fraught with internal and external challenges to which we must rise. First is the challenge of enhancing trust and consolidating achievements. This is the recipe for success and a condition for fulfilling our ambitions. It concerns trust among citizens and trust in the national institutions that bring them together. It is about having faith in a better future.

Second is to avoid isolation, especially in sectors that require openness towards international experiences. This is a gateway to economic development and progress. It makes it possible for Moroccan businesses and operators to hone their competitive skills. Openness is a catalyst for investment and for the transfer of foreign expertise and know-how. Not only is it a driver for improved services and better training opportunities, but it also creates jobs. It is a fact that the state, the public sector and national professional institutions have made significant efforts to carry out their mission and improve performance. Nevertheless, some sectors and liberal professions, for instance, need to be open to international expertise and competencies, and to private investment, both domestic and foreign.

Many international companies and businesses have expressed a desire to invest and settle in Morocco. This is a matter of deep satisfaction because it is a sign of confidence in our country. However, the constraints imposed by some national laws and the fear and hesitation characterising the mindset of certain officials sometimes isolate Morocco or lead to damaging indecision. Those who refuse to open up to the outside world in certain sectors, arguing that it leads to lost jobs, do not care about Moroccans but fear, instead, for their own personal interests. As a matter of fact, increased foreign investment in those sectors would boost state efforts, not just by creating jobs, but also by promoting quality training, attracting expertise and showcasing successful experiences.

Third is the challenge of accelerating economic development and enhancing institutional efficiency. The aim is to build a strong, competitive economy by continuing to incentivise private entrepreneurship, launching new programmes for productive investment and creating more jobs. This requires greater institutional efficiency and a change in the mindset of those in charge. The public sector needs an immediate three-dimensional revolution: a revolution in simplification, efficiency and ethical standards. I have already drawn attention to the need to change and revamp work methods, and to show diligence and innovation in the management of public institutions.

Last is the challenge of social and regional justice. The aim is to complete the building of a nation of hope and equality for all: a country where there is no place for blatant inequalities, frustrating behaviour, a lack of housing or time and energy wasting. There must be a final break with such negative attitudes and conduct; we must uphold the values of hard work, responsibility, merit and equal opportunity.

For this new phase to be successful, all national institutions and actors concerned should be involved in injecting fresh momentum into economic and social development in our country. This requires collective mobilisation towards putting the interests of the homeland and the citizens above all else. In addition to the important role that has to be played by national institutions, I should like to emphasise the need for Moroccans to be involved, since the citizen is one of the most important actors to the success of this phase. I therefore call upon all Moroccans to make a positive contribution in keeping with a spirit of effective civic engagement. Indeed, the results we seek to achieve, the projects we implement and the initiatives we launch all have one goal: to improve citizens' living conditions.

Morocco's bicarmeral Parliament is made up of a lower and upper house

Climate of reform

Reducing socio-economic inequality remains a shared aim of the monarchy and the Parliament

Morocco has identified the reduction of social inequality as a key political priority, setting in motion a series of related reforms that are expected to gain traction in the coming years. July 2019 marked the 20th anniversary of King Mohammed VI's ascension to the throne. In a commemorative speech, he called for the creation of a commission to reform the country's development model in light of ongoing economic and social inequality, and for government leaders to continue addressing these issues. A new government, led by Prime Minister Saad-Eddine El Othmani, was announced in October 2019 following a ministerial reshuffle, and the commission held its first meeting in December 2019.

POLITICAL STRUCTURE: Morocco is a constitutional monarchy, which underwent significant political reforms after a new constitution came into force in July 2011. Although the monarchy remains the most influential player in the country's political and legal system, the Parliament and elected representatives gained some powers and privileges.

Under the 2011 constitution the king remains the head of state and must appoint the head of government, who is required to be a member of the party that gained the most votes in the most recent legislative elections. The king is also responsible for appointing government ministers, on the recommendation of the head of government.

The head of government presides over the Council of Government, which meets to discuss public and sectoral policies. Separately, the king presides over the Council of Ministers, which is composed of the head of government and ministers, and holds responsibility for high-level strategic matters, including those related to constitutional amendments, organic laws, military strategy and decision-making in the event of war or conflict. The Council of Ministers oversees the appointment of government positions such as the ambassadors, governors and the head of the Bank Al Maghrib, the country's central bank.

> “Although the monarchy remains the most influential player in the country's political and legal system, the Parliament and elected representatives gained some powers and privileges after a new constitution came into force in July 2011”

While the government is responsible for the execution of laws and manages the country's regulatory and administrative bodies, the king maintains control over defence and security policy. The king is charged with the appointment of military officers and presides over the Superior Council of Security, which is composed of key government officials including the head of government. This council coordinates strategies related to internal and external security as well as the management of crisis situations. The king remains the highest religious authority in the country as *Amir Al Mu'minin*, or Commander of the Faithful.

The king also plays an important role in the country's judicial system and is responsible for ensuring the judiciary is independent. To that effect, the king presides over and appoints five of the 20 members of the Superior Council of the Judicial Power, which is charged with enforcing judicial independence. The king appoints six of the members of the Constitutional Court, while Parliament appoints the remaining six. The king selects the president of the Constitutional Court from its constituent members. The Constitutional Court grants opinions on matters such as the constitutionality of laws adopted by Parliament, which can also be modified by decree.

PARLIAMENTARY CHAMBERS: The kingdom has a bicameral Parliament, consisting of the lower house,

Under the 2011 constitution the king remains the head of state and must appoint the head of government, who is required to be a member of the party that gained the most votes in the most recent legislative elections.

While the government is responsible for the execution of laws and manages the country's regulatory and administrative bodies, the king maintains control over defence and security policy.

In December 2019 a special commission was launched to discuss changes to the country's development model

Majlis Al Nuwab (House of Representatives) and the upper house, *Majlis Al Mustasharin* (House of Councillors or Advisers). Policies must be debated in both chambers, but only the Majlis Al Nuwab can vote on them. The vote of an absolute majority in favour of a policy by the Majlis Al Nuwab expresses the chamber's confidence in the government, which is required before it can be implemented. The Majlis Al Nuwab is composed of 395 members, 305 of which are directly elected for five-year terms. The remaining 90 seats are filled by members elected at the national constituency level, with 60 seats reserved for women and 30 reserved for those under the age of 40. The Majlis Al Mustasharin has 120 seats elected indirectly by local government representatives, which are held for six-year terms. Electoral colleges comprising representatives from various institutions decide the remaining seats. An electoral college from selected professional associations selects 20 members, while 20 more are selected by employee representatives and eight are chosen from employer organisations.

MONARCHY: In recent years King Mohammed VI has focused his speeches on addressing the country's social and economic inequality. In a speech made on July 23, 2019 he called for the creation of a commission to propose changes to the country's development model by examining issues related to the constitution, regionalisation and the *Moudawana* (family code), citing poverty and inequality as the reason for this much-needed update.

The Special Commission on the Development Model, which comprises 35 individuals from a variety of different professional and academic backgrounds, convened for the first time in December 2019 in Rabat, chaired by Chakib Benmoussa, the Moroccan ambassador to France. The special commission is expected to submit its findings and recommendations to King Mohammed VI by the summer of 2020.

In October 2019 the government announced a ministerial reshuffle and a reduction in the number of ministerial posts, from 39 to 24, at the request of King Mohammed VI.

King Mohammed VI's reign has been characterised by a focus on social and economic development. He has played a key role in initiating several liberalising reforms, among the most significant of which was the creation of the country's new constitution in 2011, amid a climate of political and social unrest. Despite these reforms, some civil society organisations are advocating for additional changes, largely related to human rights and freedom of the press.

In July 2019 King Mohammed VI celebrated the 20th anniversary of his accession to the throne following the death of his father King Hassan II, who had ruled since 1961. He is the third monarch to rule Morocco since it gained independence from France in 1956. The Moroccan royal family is known as the Alawite dynasty, and the king is considered to be a descendant of the Prophet Muhammad.

Royal speeches have frequently prompted the government to take specific actions as well as guided broad policy objectives. For example, the 15-year strategy to reform the education system, which was launched in 2015, cites several royal speeches as referential guidelines. Similarly, the new education framework law passed in August 2019 was spurred by a call from King Mohammed VI in early 2016.

POLITICS: In October 2019 Morocco announced a ministerial reshuffle and a reduction in the number of ministerial posts, from 39 to 24. The reshuffle came at the request of King Mohammed VI, who, in July 2019, directed Prime Minister Saad-Eddine El Othmani to submit a list of proposals for a new cohort of government ministers. King Mohammed VI indicated that new government officials with fresh perspectives were needed to implement policies to reduce social inequality and update the country's development model. Notably, the incumbents representing the Ministry of Foreign Affairs and International Cooperation, the Ministry of Economy and Finance, the Ministry of Interior and the

The king remains the country's highest official religious authority

The reign of King Mohammed VI has been characterised by a focus on social and economic development

The 2020 budget allocated a total of $9.5bn to the health and education sectors as part of the government's plans to reduce social inequality.

Ministry of Justice kept their positions. The Justice and Development Party (Parti de la Justice et du Développement, PJD), a moderate Islamist party that currently has the largest number of seats in Parliament, kept seven posts in the reshuffled government. The PJD was founded in the 1960s and is committed to maintaining the country's constitutional order and democratic process.

The new government is the second to be led by Prime Minister El Othmani, who was appointed in March 2017. Prior to holding this position, he was the minister of finance between 2012 and 2013, and secretary-general of the PJD from 2004 until 2008. Prime Minister El Othmani was appointed after his predecessor, Abdelilah Benkirane, was unable to form a coalition government after five months of negotiations between the PJD and other parties.

In the 2016 legislative election the PJD won a plurality of seats in Parliament, giving it the right to appoint the prime minister from its ranks. The PJD won roughly 28% of the national vote, or 125 of the 395 seats in the Majlis Al Nuwab. The Authenticity and Modernity Party (Parti de l'Authenticité et de la Modernité, PAM) was the second-largest party, with around 21% of the vote, or 102 seats, and the Arab nationalist *Istiqlal* (Independence Party) won 11%, or 46 seats. However, the PJD opted to form a coalition government with smaller parties, such as the National Assembly of Independents, the Popular Movement, the Constitutional Union, the Socialist Union of Popular Forces, and the Party for Progress and Socialism (Parti Pour le Progrès et du Socialisme, PPS). Notably, the PPS left the ruling coalition following the October 2019 government reshuffling due to disagreements with its coalition partners.

In 2019 the government, trades unions and an organisation representing the private sector signed a deal to raise the private sector minimum wage by 5% in July 2019 and 5% in July 2020.

POLITICAL PARTIES: Although the PJD has been the dominant political party in Morocco since it won a plurality in the 2011 election, the PAM and Istiqlal still hold considerable influence in the country's political system. Under the 2011 constitution PAM and Istiqlal are granted certain rights and privileges as members of the parliamentary opposition. These include airtime on official media outlets, allocated proportionally to their representation in Parliament; access to public funds; and participation in the election process for the Constitutional Court.

The PAM, which chose its name to evoke King Hassan II's priorities of modernisation and respect for tradition, was founded in 2008 in opposition to the PJD and is widely considered loyal to the monarchy in terms of its legislative agenda. Istiqlal, meanwhile, was founded in 1944 and is a conservative party affiliated with the Centrist Democrat International, an organisation of centre-right political parties.

The next elections for members of the Majlis Al Nuwab are scheduled to take place in October 2020, while members of the the Majlis Al Mustasharin are set to be elected in October 2021.

SOCIO-ECONOMICS: The country saw an outbreak of political protests in 2016, largely concentrated in the north-eastern Rif region and surrounding areas. Following this unrest, the king blamed the government for socio-economic failings, resulting in a more concerted effort from the state to improve public services in order to reduce inequality.

To this end, in August 2019 Parliament approved a new education framework law aimed at improving the quality and accessibility of public education. The new legislation enforces the objectives of the 15-year plan to reform the country's underperforming education system. The plan seeks to address challenges in equipping students with adequate language skills, the economic difficulties faced by graduates and other shortcomings associated with the national education system. Meanwhile, in response to failings in the country's health care system, 13 new hospitals were constructed in 2018 with a combined capacity of 1085 beds. These came as part of the government's plan for the sector's development, known as Santé 2025, or Health 2025.

The government is expected to continue its focus on reforming the education and health sectors under its strategy to reduce social inequality. According to the 2020 budget statement, the government plans to allocate a total of Dh91bn ($9.5bn) to the health and education sectors. Specifically, Dh72.4bn ($7.5bn) has been earmarked for education and the remaining Dh18.6bn ($1.9bn) will go towards expanding health services.

At the same time, steps are being taken to improve quality of life in Morocco through an agreement to raise public and private sector wages. In April 2019 the government, trades unions and the General Confederation of Moroccan Enterprises signed a deal to raise the private sector minimum wage by 5% in July 2019 and 5% in July 2020. Under the same agreement, private sector employees will receive a gradual net increase in monthly salary of up to Dh500 ($52.10), based on pay scale. The deal also raised family allowance by Dh100 ($10.40) per child.

Gerd Müller, Minister for Economic Co-operation and Development of Germany

Benefits on both sides

Gerd Müller, Minister for Economic Cooperation and Development of Germany, on the importance of increased investment, green energy and the transfer of knowledge

What is the importance of a stronger relationship between Germany and Africa?

MÜLLER: Developments in Africa have a direct impact on Europe – and vice versa. Europe needs to become much more aware that closer cooperation with our neighbouring continent offers many opportunities. Since 2000 Africa's economic output has tripled: 42 of Africa's 54 countries are experiencing greater economic growth than Germany. Africa is the world's most dynamic market for new technologies – by 2025 some three-quarters of all Africans will be online. At the same time, the African continent is facing huge challenges. By 2050 the population of Africa is expected to double to about 2.5bn. As many as 20m new jobs will be needed every year. Development funding alone will not provide the answer. That is why Germany has developed a new approach: the Marshall Plan with Africa. We are concentrating on fostering a sense of ownership, private investment, vocational education and employment, so as to make sure that Africa's young people have a future in Africa. To achieve this, we are working closely with reform-minded countries, like Côte d'Ivoire, Ghana and Tunisia – and, more recently, Ethiopia, Morocco and Senegal. These governments are committed to improving good governance, for instance by establishing a court of auditors and making progress on anti-corruption. German businesses are also showing an increasing interest. We are providing targeted support, funding and advice through our development investment fund to European and African companies that want to invest locally in Africa, which benefits both sides.

In what ways are you working to bolster bilateral relations between Morocco and Germany?

MÜLLER: Morocco is one of our reform partners and has made real progress as a base for business. In 2020 the country moved up seven places in the World Bank's ease of doing business index, which rates countries' attractiveness for private investments. Germany and Morocco are working together very closely. Proof of this is the reform partnership that was agreed to recently between the two countries. Through our reform partnership we are supporting Morocco in its efforts to restructure its financial system, so as to make it even more attractive for investors and to increase ways for society as a whole to benefit from even more economic development. In fact, we are doing this in cooperation with the private sector, especially in the areas of vocational training, the environment and the climate. We are placing emphasis on strengthening labour-intensive sectors, especially in the automotive industry and the agro-food industry, both sectors with high potential. Morocco is also the country of green energy in Africa. Solar energy is already being used widely. One example is the solar power plant in Ouarzazate, one of the world's largest and most modern plants, built with German support in terms of loans and technology. Today it provides climate-friendly power for 1.3m people. We are creating jobs on the ground, which the young generation so urgently needs, and we are helping to meet international climate targets.

How can Morocco and Germany increase the transfer of knowledge and technology?

MÜLLER: Sustainable investments are most important, which is why we have implemented a $1bn development investment fund for Africa, consisting of AfricaConnect, AfricaGrow and the African Business Network. Through the fund we are improving access to equity capital and equity-like financing such as growth and risk capital. These arrangements are need-based and create jobs. That is why we are working to improve structures like risk financing, guarantees, vocational education and training. With private investment, especially in green energy, we can create even more jobs. We are also working to meet international climate targets. We want to expand engagement and develop a production platform for green hydro-energy and transportable fuels.

Trade relations with the EU are set to improve with a new fisheries deal

Key player

Morocco has made significant progress in strengthening both regional and global partnerships

In recent years Morocco's foreign policy objectives have focused on spearheading intra-African cooperation, combating extremism and positioning itself at the centre of Europe-Africa relations. On these three and other fronts, the kingdom made notable progress in 2019.

EU PARTNERSHIP: Trade relations between Morocco and the EU – the kingdom's main commercial partner – improved in early 2019 after the EU gave final approval to a new fisheries agreement. In March 2019 the Council of the EU, the upper house of the European legislature, adopted the Sustainable Fisheries Partnership Agreement (SFPA) with Morocco. The SFPA is a four-year agreement that grants EU member states fishing rights on the Moroccan coast in exchange for a financial contribution of €208m to the kingdom. Part of this contribution will act as compensation for access to waters off the coast of Morocco, including Morocco/Western Sahara, and another part will support the sustainable development of the local fisheries sector. The SFPA came into force after a royal decree in July 2019 approved the agreement.

The SFPA helped to ease tensions between Morocco and the EU that arose in December 2016 after the EU Court of Justice ruled that Morocco had no legal basis to include Morocco/Western Sahara in a previous 2012 agreement to liberalise fisheries and other forms of trade between the two parties. The new agreement removes a stumbling block in the strategic partnership between Morocco and the EU. Beyond allowing fisheries trade to resume, the SFPA is expected to encourage cooperation on matters of mutual concern, such as those related to immigration and security.

AFRICAN RELATIONS: Since rejoining the African Union (AU) in January 2017 Morocco has held several leadership positions within the organisation. In January 2019 the kingdom was elected president of the AU's Special Technical Committee for Trade, Industry and Mining Resources. Additionally, in September 2018 Morocco assumed the rotating chairmanship of the AU Peace and Security Council for one month. The country was elected to this council in January 2018 for a two-year term. Morocco had left the AU's predecessor, the Organisation of African Unity in 1984 following disagreements concerning the status of Morocco/Western Sahara. In addition, the kingdom ratified the African Continental Free Trade Area in July 2019, which had come into force in May 2019.

The kingdom was elected president of the African Union's Special Technical Committee for Trade, Industry and Mining Resources in January 2019.

SECURITY AGREEMENTS: Morocco is a key player in international efforts to tackle terrorism and extremist violence. One of the primary channels through which Morocco has pursued counterterrorism initiatives is its security partnership with the US, which routinely refers to Morocco as a major non-NATO ally. The US and Morocco have held several joint military exercises. In April 2019 the two countries concluded the 16th annual African Lion exercise in Agadir, which involved field training, live-fire ranges, command post exercises and humanitarian civic activities. In October 2019 the US and Morocco issued a joint communiqué agreeing to "sustain cooperation to advance shared interests in regional stability and defeat terrorist groups."

Additionally, the kingdom has participated in several Africa-focused counterterrorism initiatives. In September 2019 regional media reported that Morocco plans on donating $3.3m to the G5 Sahel, an alliance comprised of Mauritania, Burkina Faso, Chad, Mali and Niger created to combat extremist violence in the Sahel region. The funds will be used to bolster investment in education, health and other sectors as a means of addressing social factors that motivate individuals to join extremist groups. In February 2020 Mohcine Jazouli, minister delegate for African cooperation at the Ministry of Foreign Affairs, called for intra-African cooperation to prevent the spread of terrorism in Sahel at a meeting of the AU's Peace and Security Council. Morocco is also a member of the Trans-Saharan Counterterrorism Partnership, which was created in 2005 by the US government to strengthen regional security.

Li Yong, Director-General, UN Industrial Development Organisation

Industry leader

Li Yong, Director-General, UN Industrial Development Organisation (UNIDO), on consolidating industrial development

How can Morocco strengthen its industrial sector?

LI: A number of recent studies highlight the key factors and various competitive advantages evident in our industrial sector, including the stability of the kingdom, diversification of the economy, level of investment in infrastructure and logistics, good governance and the level of social development. In 2016 Morocco regained its position as Africa's second-largest recipient of foreign direct investment, with projects and capital investment up 9.5% and 46.2%, respectively.

Additional efforts must be made to continue improving Morocco's attractiveness, especially when it comes to education and professional training. The country is taking steps to develop human capital and promote vocational training as one of the main pillars of the Strategic Vision 2015-30, which aims to drive the education sector's transformation. Public-private development partnerships provide effective tools for this.

Which steps can be taken to further engage with the Fourth Industrial Revolution (4IR)?

LI: As a result of the industrial acceleration plan, the automotive sector is now the leading export sector in Morocco. It also holds a comparative advantage in electrical machinery industries, as well as in textiles and apparel. 4IR represents a great opportunity.

A 2018 diagnostics study by UNIDO shows that the country is capable of attracting not only projects related to manufacturing, assembling and production but also projects dedicated to other value chain functions like research and development projects.

There are steps that must be taken in order to reach the standards set by the 4IR, such as: skills development; strengthening the innovation ecosystems and sectors where new technologies are applied, like additive manufacturing, drones and renewable energy; establishing an observatory to create awareness about the 4IR; coordinating the related national initiatives while measuring the development or absorption trends; and promoting partnerships with investment partners from the private sector for a variety of pilot initiatives.

To what extent can Morocco better integrate energy efficiency technologies in its industrial activities?

LI: The government established a number of dedicated institutions to lead the development and implementation of sustainable energy policies and programmes. It also put in place a number of important strategies, laws and regulations for renewable energy and energy efficiency. Furthermore, in 2012 Morocco began to gradually remove subsidies for fossil fuel, thus creating a more level playing field for renewable energy sources and creating a strong drive for increased levels of energy efficiency investment.

Despite making great progress, there are still challenges to overcome. Morocco remains energy dependent and almost 90% of its energy needs are imported. The demand for electricity has almost doubled in the last 10 years, and the country faces the challenging task of meeting rising local demand, while keeping its import bill under control. To address these challenges, the government has redoubled its efforts to attract renewable energy investment and improve energy efficiency. Its approach includes introducing renewable energy applications for industrial uses and implementing energy management systems, or developing additional financing solutions.

Morocco is also highly dependent on imported raw materials. Therefore, the government intends to increase recycling rates and improve resource efficiency. These changes will help support the goal of becoming a more circular economy.

In any case, the shift towards this type of economy requires substantial support from the government through guidelines, information, regulations and incentives. The circular economy will contribute to creating a variety of new businesses and jobs in different regions as well as fostering regionalisation in the country.

Trading under Africa's free trade agreement will begin in July 2020

Game-changer

A new trade deal lays the groundwork for greater integration and intra-continental trade in Africa

Although trade flows among African states remain below their potential, an ambitious project is under way to accelerate economic integration and significantly expand intra-continental trade. Spearheaded by the African Union (AU), the African Continental Free Trade Area (AfCFTA) agreement was signed in March 2018 and aims to substantially reduce both tariff and non-tariff barriers to trade. As of December 2019 the AfCFTA had the backing of 54 out of 55 AU member states.

MAJOR DEAL: The agreement stands to make the regional bloc the world's largest free trade area in terms of the number of participating countries since the creation of the World Trade Organisation in 1995. It is expected to have a transformative impact on participating markets, with the agreement set to increase intra-African trade by 52% by 2022, according to a 2018 report from the UN Economic Commission for Africa (UNECA). The UN Conference on Trade and Development (UNCTAD) forecasts a range of long-term benefits from the full implementation of the deal, including overall gains of $16.1bn per year and the halving of the continent's trade deficit, along with GDP and employment growth of 0.97% and 1.17%, respectively.

As an African initiative, driven by African states and institutions, the deal stands as an economic game-changer, marking the continent's most ambitious integration initiative to date. Nevertheless, considerable efforts will be required on the part of the signatories in order to ensure the agreement's full benefits are realised. Currently, intra-regional trade levels are significantly lower than those of other regions of the world. Intra-African exports stood at just 16.6% in 2017, compared with 68% in Europe, Asia (59%) and the Americas (55%), according to UNCTAD, highlighting the considerable distance the continent has to travel before it can become an integrated economic unit.

BUILDING BLOCKS: With the legal framework now signed and ratified, trading under AfCFTA is scheduled to commence in July 2020. Of the 55 members of the AU, only Eritrea has not signed, and 27 states had ratified the deal as of December 2019. Eritrea's long-standing reluctance to join the bloc stems from a historic border conflict with neighbouring Ethiopia, an issue that was resolved through a July 2018 peace deal brokered between the two countries. Following the cessation of hostilities, Eritrea formally acceded to trade talks and is expected to join the bloc in the near future.

The agreement enshrines the continent's eight pre-standing Regional Economic Communities – regional trade blocs, each established under a separate treaty – as the "building blocks" of the AfCFTA. Many of the agreement's precise details are still being finalised, with the deal's different elements being discussed and implemented in phases. The first phase of the negotiations focused on goods and services liberalisation. Meanwhile, the second phase – the negotiations for which began in February 2019 and are expected to conclude in June 2020 – cover protocols on investment, competition policy and intellectual property rights.

A significant milestone for the agreement came in July 2019 at an extraordinary session of the Assembly of the AU. At the meeting, countries agreed to remove tariffs on 90% of goods, with provisions being made to protect 3% and phase out tariffs on an additional 7% over a 10-year period. The summit also marked the moment when the agreement became operational, with the introduction of five key mechanisms aimed at facilitating the implementation of the free trade area. These covered online negotiations, trade information, a rules of origin regime, a payments and settlement system, and procedures for monitoring and eliminating non-tariff barriers. It was also agreed that the AfCFTA Secretariat – an autonomous body responsible for coordinating the implementation of the agreement – would be established in Accra, Ghana.

Perhaps most significantly, the meeting saw Nigeria sign the AfCFTA. Securing the participation of Africa's largest and most populous economy marked a

The African Continental Free Trade Area is expected to support a 52% increase in intra-African trade by 2022, and contribute GDP and employment growth of 0.97% and 1.17%, respectively.

In July 2019 the African Union agreed to remove tariffs on 90% of goods, while also introducing provisions to protect 3% and phase out tariffs on the remaining 7% over a 10-year period.

The African continent has seen a widespread expansion of road, port and railway infrastructure projects

The average time needed to register a business in sub-Saharan Africa fell from 59 days in 2006 to

23

in 2019

significant achievement. Nigeria's signature followed a lengthy domestic consultation with both trade unions and private businesses. The country accounts for 17% of Africa's GDP, ranking just ahead of South Africa, and with a domestic market nearing 200m people – as much as Ethiopia and Egypt combined – its involvement is set to significantly bolster the AfCFTA's strength and size.

MARKET TO SERVE: The deal comes at a time of increased demand for goods and services on the continent. With a population of nearly 1bn people and an increasingly numerous and affluent middle class, the African market is expanding rapidly and presents significant potential for the future. Indeed, by 2030 the continent's middle- and high-income cohorts are expected to grow by 100m to reach 160m, according to figures from the International Finance Corporation. Such a rapid expansion of higher-income groups will significantly boost and diversify demand for goods and services. The AfCFTA implementation therefore represents a chance to support regional production and reduce over-reliance on external trading partners.

The continent's population is expected to rise to 1.7bn in 2030 and 2.5bn by 2050, with 26% of the world's working-age population set to be living in Africa by 2050, according to figures from the UN. Conversely, the working-age populations of both Europe and China are on track to decline significantly over the same period. Concurrent urbanisation should see the population of the continent's cities double, reaching 760m by 2030 and 1.2bn by 2050, further fuelling demand growth.

The continent's rapid economic expansion has been well documented since the turn of the century. Sub-Saharan Africa's economy grew from \$300bn in 2000 to \$1.6trn in 2017, mostly driven by high service sector growth, which has expanded by an average of 6.6% per year over the last decade. The continent is now home to some of the world's fastest-growing markets, with the IMF forecasting impressive GDP growth rates in 2019 for Ghana (8.8%), Ethiopia (7.7%), Côte d'Ivoire (7.5%) and Djibouti (6.7%). The business environment has also improved. Sub-Saharan Africa is in the process of introducing a record number of reforms in recent years, which is helping improve the ease of doing business in the region. For example, the average time to register a business fell from 59 days in 2006 to 23 days in 2019.

Business executives across the continent are generally optimistic about the future. According to OBG's most recent Africa CEO Survey, which interviewed 787 top executives in eight African markets in 2018, 72% believed that the AfCFTA would have a positive or very positive impact on intra-regional trade levels. These developments are collectively providing significant economic opportunities to both regional and international businesses and investors.

MANUFACTURING BOOST: The agreement should also bring multiple benefits to African citizens and entrepreneurs. It can help to substantially drive much-needed job creation – particularly in the area of manufacturing. Industrial exports are forecast to benefit most from the agreement, according to UNECA. In 2018, 60% of the continent's population was under the age of 24, while only 3m jobs were created for the 10m-12m young Africans entering the job market every year. Generating jobs and higher rates of employment is therefore urgently needed to advance social and economic prosperity. The implementation of AfCFTA has the potential to double the size of the manufacturing sector, creating 13m-16m new jobs and helping to bridge the employment gap, according to figures from US-based think tank the Brookings Institution.

Nevertheless, the continent faces a number of hurdles that it will need to overcome in order to achieve this potential. Africa currently has low manufacturing and processing capacity with limited integration in global value chains. Furthermore, its main exports are oil and minerals, which are often processed outside of their country of origin as many states have not yet established the necessary industries to process them.

The creation of regional value chains – assisted by the dismantling of trade barriers between countries – can help to expand regional industrial capacity and increase the value added of Africa's exports. Indeed, development models dependent on the export of primary commodities have proven vulnerable due to price volatility. In 2018 more than 75% of external exports were extractive exports, according to UNECA. For example, cocoa accounts for one-third of Côte d'Ivoire's export earnings, while crude oil comprises 95% of Nigeria's total exports. This renders these economies vulnerable to changes in international market prices and other exogenous shocks. It also has a negative impact on employment, given that extractive goods are less labour-intensive than manufactured and processed goods. This dependence demonstrates the need to restructure economies and achieve a more diversified and sustainable export base.

POWERFUL BLOC: The AfCFTA could further enable African states to transition towards a collective bargaining bloc, negotiating as one market and strengthening Africa's common voice in global trade deals. This would support negotiations with major powers such as the EU and China, with whom African countries usually negotiate as single entities. Collective bargaining would boost Africa's trading position in the world market and strengthen the continent's appeal as a global trading partner. With Nigeria and South Africa now signed up, negotiating with the AfCFTA will provide greater access to the region's largest economies.

OVERCOMING OBSTACLES: While opportunities abound, significant questions remain over the pace and extent of the AfCFTA's implementation. Africa is a highly fragmented continent, with its composite economies at significantly different stages of economic development. Furthermore, African nations have long suffered from a lack of economic integration and regional cooperation, much of which is a holdover from colonial era trade structures and transport networks. One major problem is that transport and telecoms infrastructure between Africa and the rest of the world is more developed than it is within the continent itself. Furthermore, many African countries' bilateral relations are starting from a relatively low level. Despite multiple attempts to seek closer regional integration, this goal has so far remained largely elusive, and fragmented trade structures have persisted.

The extent of this challenge is well documented. Kenya, for example, is one of the world's biggest producers of flowers. However, if you buy a bouquet of Kenyan flowers in Nigeria, it is likely that they were first processed in the Netherlands. Conversely, Nigeria is a major producer of palm oil, but Kenya buys most of its palm oil from Malaysia. In the case of Morocco, African imports and exports account for only 3% and 5%, respectively, of its total. Limited linkages can be seen in physical infrastructure as well. Variation in railway gauges between countries often means that shipments need to be offloaded at the border, causing significant delays. It is similarly often easier in terms of flight path availability and cost to fly between Africa and Europe than between two locations within the continent.

BUILDING LINKS: The most critical enabling factor for the AfCFTA will therefore be infrastructure. This will require scaling up investment and improving connections between and within countries so goods and services can access markets. The African Development Bank (AfDB) estimates annual infrastructure investment of $130bn-170bn is needed across the continent but highlights that there is currently an annual financing gap of $68bn-108bn. These figures are only set to rise further, as economic development advances and populations grow. Nevertheless, international investment, particularly from China, has provided some relief over recent years. Between 2005 and 2019 the country's investments and contracts in sub-Saharan Africa totalled over $300bn, with the lion's share of this capital going to construction and infrastructure projects.

The widespread development of roads, ports, railways and special economic zones has made significant

The African Development Bank estimates annual infrastructure investment of $130bn-170bn is required across the continent but highlights that there is currently an annual financing gap of $68bn-108bn.

The population of Africa is expected to increase from 1bn in 2019 to 1.7bn in 2030 and 2.5bn by 2050

headway. For example, Djibouti has seen huge volumes of investment in its transport and logistics networks over the past few years, including three new ports, a railway line to Addis Ababa and the development of Africa's largest free trade zone. While Djibouti is a small country of only 900,000 people, it is strategically located, bordering one of the world's busiest trade routes and one of Africa's most dynamic economies, namely Ethiopia. Kenya is also embarking on multiple transport network projects including the Lamu Port-South Sudan-Ethiopia Transport corridor and the Northern Corridor, which are set to link the landlocked countries of the Great Lakes Region in East Africa. These projects are being facilitated through the upgrade of key roads and the construction of an extensive standard-gauge railway network linking Nairobi to Mombasa, in addition to a crude oil pipeline.

While North Africa has traditionally looked to Europe, the US and the Middle East for its main trading relations, Morocco is now looking to further position itself as one of the main exporters of the continent's goods. It is actively seeking to strengthen its trade links with other states on the continent and has increased investment in sub-Saharan African countries. The signing of the AfCFTA has also made Egypt a more attractive destination for investment, particularly from Asian investors looking for greater access to other African markets.

ABANDONING PROTECTIONISM: While free trade introduces multiple benefits for participating countries, there are also costs associated with the transition to a more liberalised trading framework. Concerns include the uneven distribution of benefits from free trade and a lack of preparedness for heightened levels of market competition, sparking some calls for protectionism.

To avoid a backlash to the African Continental Free Trade Area, participating states will need to introduce policies to ensure jobs and businesses are able to adjust to increased market competition, such as trade adjustment assistance programmes.

Nigeria's hesitation to sign the AfCFTA agreement and the recent closure of its land borders serve as prominent examples of such opposition to liberalisation. In October 2019 the country closed its land borders to all movement of goods in a move aimed at curbing rice smuggling and protecting domestic farmers from cheaper imports. This has raised concerns over the prospects for further integration and free trade across the region, especially as the border closure occurred just three months after Nigeria signed the AfCFTA deal.

While the country remains hesitant of undermining local manufacturers and entrepreneurs, it nevertheless has a great deal to gain from increasing its access to the wider African market. To avoid further incidents of this nature, effective instruments need to be put in place across the continent to effectively manage the transition to trade liberalisation. Furthermore, efforts need to made to ensure a uniform level of compliance over tariffs across Africa's Regional Economic Communities.

As greater trade integration is achieved and foreign firms enter the markets of other countries on the continent, certain domestic firms and groups of workers will undoubtedly face pressures. As such, in order to avoid a backlash to the AfCFTA, each state will need to implement policies to ameliorate the worst impact of these trade shocks, such as trade adjustment assistance programmes and social policies to protect workers who may lose their jobs in the face of new competition. Ensuring that both jobs and businesses are able to adjust to increased market pressures should constitute a top priority for signatories of the deal, given the political consequences of inaction in this area. The Nigeria border closure incident also indicates that specific institutional arrangements will be required for the effective settling of future trade disputes. These short-term but nonetheless significant transition costs will be a challenge for African leaders.

Overcoming the politics of trade protection in Africa will be crucial at a time when some of the world's most developed economies are adopting a more protectionist stance. UNCTAD estimates that the continent's governments will collectively face tariff revenue losses of $4.1bn annually, equivalent to approximately 9.1% of current revenue, which some may be reluctant to forgo. The AfCFTA has already sought to reduce tariff revenue losses and adjustment costs by exempting sensitive products from early liberalisation.

GREATER COOPERATION: In order to successfully implement the AfCFTA agreement, continuing cooperation will be required. The deal will take time to manifest on the ground and for businesses and citizens to experience the full benefits of greater integration. The EU, for instance, took several decades to be fully realised and was also implemented in progressive phases. Investment in both infrastructure and human capital will be necessary alongside the implementation of the agreement itself. Improving governance and transparency will help to enhance the investment climate, while investing in education will bring much-needed skills in science, technology and digital training. Furthermore, resolution of security issues and regional conflicts will also be important, as trade integration and economic development require peace and stability. Lastly, the bloc will need to create institutions to solve trade disputes. While full realisation of the AfCFTA will take time, the signing of the deal demonstrates that the will is there.

Economy

Revamped Competition Council to ensure lower costs

Improved operating environment for small businesses

Regionalisation efforts to ease development disparities

Debt management key concern for global economies

GDP growth is expected to rise to 3.7% in 2020, up from 2.7% in 2019

Forward march

Reforms are helping to establish a more encouraging business environment for diversification and inclusive growth

GDP has expanded significantly, reaching $118.5bn in 2018, up from $92.5bn a decade earlier. Over the same period per capita GDP rose by some 14.2% to $3366.

Supported by its favourable geographic location between Africa and Europe, vast array of natural resources and improved business environment, Morocco's economy has made important strides over the past decade. Investment in export-oriented manufacturing industries is gradually allowing the country to diversify its economic output. In hand with this, years of investment in infrastructure have strengthened transport and logistics links across the country, facilitating domestic and international trade.

Despite these positive dynamics, Morocco continues to face a number of economic challenges. Annual growth rates remain intrinsically linked to agricultural production. In addition, persistent unemployment rates, especially among young Moroccans, have prevented large segments of the population from joining the middle class, and subsequently spurred the emigration of qualified graduates and professionals abroad. Aiming to avoid economic stagnation and facing growing demand for more inclusive growth, the authorities have focused on leveraging the positive results achieved through past policies for a renovated growth model. "From the perspective of the private sector, the current growth rates, although positive, are not enough to fully improve social indicators for the entire population, and the government is aware of this," Saad Hamoumi, CEO at local business development consultancy Harvard Consulting, told OBG.

PERFORMANCE: Even while it faces structural challenges, Morocco's economy has been able to maintain a stable growth pattern. According to figures from the IMF, the kingdom's total GDP reached $118.5bn in 2018, up from $92.5bn a decade earlier. GDP per capita reached $3366 in 2018, a 14.2% improvement on 2008 figures. Because of the strong correlation between agricultural output and the availability of disposable income, annual variations in GDP growth tend to be influenced by rainfall and subsequent cereal output. Additionally, the country's dependence on international energy imports leaves it significantly exposed to fluctuations in international oil prices, something that the government has been trying to mitigate through the development of renewable energy generation capacity over the past decade. However, the prolonged decline of international oil prices from mid-2014 onwards has helped the kingdom to maintain economic stability.

The agriculture sector has a major influence on growth, with agricultural output variations leading to steep increases and drops in the pace of GDP expansion.

AGRICULTURE: The agriculture sector has a significant influence on growth, with agricultural output variations leading to steep increases and drops in GDP expansion. For instance, after securing a 4.5% increase in real GDP in 2013, the following year saw growth settle at 2.7%. After GDP growth jumped to 4.6% in 2015, growth rates fell to 1.1% in 2016. This volatility in economic growth rates has become a regular component of the Moroccan economy. "In a good year, we will have about 2.5% growth in the non-agriculture economy and 2.5% growth in the agriculture sector," Hicham Bensaid Alaoui, the risk, information, claims and collection director at Euler Hermes ACMAR, a Moroccan credit insurance company, told OBG. "If the agriculture sector performs poorly, it impacts the country's overall economic performance."

GDP growth reached 3% in 2018 and was expected to slow slightly to 2.7% in 2019, largely as a result of a 49% reduction in the kingdom's cereal production. An improved cereal harvest over the 2019/20 season was initially projected to push GDP growth back up to about 3.7% in 2020, according to IMF and government estimates published in mid-2019. However, by mid-December 2019 the kingdom's central bank, Bank Al Maghrib (BAM), had revised its projections for 2019 slightly, expecting GDP growth for the year to settle at 2.6%. BAM forecast GDP growth would rebound to 3.8% in 2020, based on the estimate of the country's grain output reaching roughly 8m tonnes.

BUDGET: Mobilising financial resources and reducing budget deficits have increasingly become priorities for the authorities. Between 2012 and 2017 the country's budget deficit was significantly reduced, from some 7.3% of GDP to 3%. The budget deficit was expected to hover around 3.7% of GDP for 2019, with the authorities planning to bring it down to 3% over the coming years. Increasing tax revenue has been a central part of this progress, with tax collection rising from approximately Dh208.9bn ($21.8bn) in 2015 to Dh242.5bn ($25.3bn) in 2018.

Debt, however, increased significantly over the past decade, most of it triggered by the 2008 global financial crisis, leading debt to expand from 47% of GDP to 64.9% of GDP between 2009 and 2018. However, the country is expected to bring it down to 60% of GDP by 2024, according to the IMF report.

The 2020 budget is focused on reducing expenditure and further enlarging the tax collection. Among other measures, the new budget introduced tax incentives to push Moroccans to declare overseas assets as well as encourage repatriation of capital held abroad back to the kingdom. The budget also increased planned government investment from Dh195bn ($20.3bn) in 2019 to Dh198bn ($20.6bn) in 2020, but reduced subsidies for sugar, cooking oil and cooking gas from Dh18bn ($1.9bn) to Dh13.6bn ($1.4bn). However, some in the business community have also underscored the importance of continuing public support for areas of critical importance to the economy, such as research and development (R&D). "The government needs to implement fiscal incentives to encourage companies to invest in R&D," Mohamed Khalfaoui, managing director of the National Centre for Scientific and Technical Research, told OBG. "As of early 2020 less than 30% of research was financed through the private sector," he said.

DEVELOPMENT PLANS: Long-term policy planning has helped Morocco diversify its economy. Although agriculture still accounts for 15% of GDP and employs roughly 40% of the country's workers, the Green Morocco Plan, launched in 2010, has attempted to modernise the sector and make it more resilient to weather patterns. Despite progress, agricultural activity in many parts of the country continues to be characterised by low productivity.

Alongside investment in key infrastructure and efforts to make the country more attractive to foreign investors, the authorities launched the Industrial Acceleration Plan 2014-20, which supported economic diversification through emerging industries such as automotive and aeronautics manufacturing. The focus on several new industrial segments enabled industry to grow from 14% of total GDP in 2014 to 25% by 2018 (see Industry & Mining chapter). Over that same period, exports of Morocco's main industries, including automotive components, agro-industrial goods, phosphates and other mining goods, textiles, aeronautic components and electronic components, rose from Dh200.8bn ($20.9bn) to Dh275.1bn ($28.7bn), according to the Office des Changes.

A NEW PATH: Economic development has brought palpable improvements to the life of average Moroccans.

The agriculture sector accounts for 15% of GDP and employs approximately 40% of the country's workers

GDP per capita in the kingdom has increased from $1374 in 2000 to an estimated $3345 in 2019, according to the IMF. However, a 2016 study by the High Commission for Planning estimated that there were still 1.6m Moroccans living in poverty and an additional 4.2m citizens in a situation of vulnerability. Current plans for devolution, which are set to add a higher degree of local participation in each region's development plans, will support the reduction of economic disparities between the kingdom's regions over the long term (see analysis). Overall, the authorities have been attentive to calls for fiscal reform and greater economic inclusion. Besides managing the internal and external risks, economic policy discussions have revolved around what direction the country's development strategy for the coming years should take. "Morocco needs growth rates of over 5% to be able to absorb the new human resources joining the labour market and reduce social unrest," Souhail Chalabi, deputy general manager at BMCE Capital Gestion, a local financial advisory company, told OBG.

Recent events have reflected the social discontent in some quarters of Moroccan society, particularly in terms of creating enough new employment opportunities. The protests over the economic and social conditions in northern Morocco during 2017 and 2018 have added a new sense of urgency to state efforts to make economic growth more inclusive. Furthermore, the lack of sufficient employment opportunities, even for graduates, has pushed many of the country's educated citizens to emigrate, leading to a drain of skilled and trained human resources.

In a speech in mid-2019, King Mohammed VI announced the creation of a special commission tasked with determining the kingdom's new growth model. The commission will be made up of 35 experts from different backgrounds and headed by Chakib Benmoussa, who was formerly the minister of interior and the Moroccan ambassador to France. The

In the 2020 budget planned government investment totalled

$20.6bn

Between 2012 and 2017 the budget deficit was reduced from 7.3% of GDP to 3%. The budget deficit was expected to hover around 3.7% of GDP for 2019, with the authorities planning to bring it down to 3% over the coming years.

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commission is charged with coming up with recommendations for the reform of Morocco's economy and society, including changes to investment and taxation laws, education and health.

INCREASED COMPETITION: Public dissatisfaction was also expressed through the online campaign of April 2018 that encouraged Moroccan consumers to boycott products that were classified as too costly or produced by companies perceived to be excessively profitable. Some private sector players have noted a general slowdown in consumption patterns, which they attribute to Moroccans' purchasing power experiencing a general decline since 2016.

The boycott movement had specific targets: fuel distributed by Afriquia, part of the Akwa group; milk from Centrale Danone, the Moroccan subsidiary of French food producer Danone; and Sidi Ali water, produced by Eaux Minerales d'Oulmès; among others. The campaign resulted in the erosion of profit margins and a worsening in the performance of the Casablanca Stock Exchange in 2018. The movement was an unexpected blow to many of the kingdom's major economic players and underlined their vulnerability to swift changes in consumer mood. Although the negative impacts of the boycott movement had dissipated by early 2019, the movement still highlighted the need for increased competition among certain segments of the economy. As a result, a new president was nominated for the Competition Council (Conseille la Concurrence, CC), and the government strengthened the council's powers in late 2018. By May 2019 the CC was already examining anti-competitive practices in the downstream petroleum segment and was planning to launch a national competition barometer in 2020, which is expected to regularly measure the level of competitiveness across all sectors of the economy. "The boycott movement pushed state institutions to act and have a say in these markets and ensure price freedoms as a way to avoid consumer backlash," Rachid Aourraz, a senior fellow at the Moroccan Institute for Policy Analysis, told OBG.

BUSINESS ENVIRONMENT: As the economy has diversified over the past decade, the business environment has seen significant improvements. In the World Bank's "Doing Business" report, which measures and assesses the level of competitiveness of economies across the globe, Morocco moved from 128th to 60th out of 190 economies between 2010 and 2019. Additional changes could help to further improve the operating environment, particularly for local businesses. As stated in the IMF's Article IV consultation report published in July 2019, "weaknesses in the business and competition environment have limited opportunities for small and medium-sized enterprise development and middle-class entrepreneurship".

Efforts to increase digital access to public services have helped to streamline administrative processes in Customs procedures, registering new businesses, transferring property rights and other areas. There are also measures geared towards improving conditions for small businesses and entrepreneurs (see analysis).

Business conditions and the private sector's ability to invest are set to see an improvement following renewed government efforts to accelerate the repayment of value-added tax (VAT). The total VAT arrears owed to public and private companies in Morocco amounted to close to 4% of GDP, according to the mid-2019 IMF report. The authorities are aiming to pay around Dh10bn ($1bn) in VAT arrears in 2020.

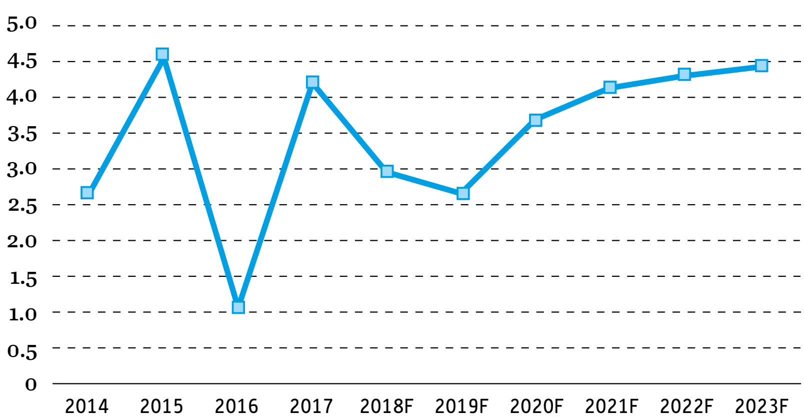
CURRENCY: Although the Moroccan dirham remains pegged to the euro and the US dollar, the government has announced plans to move towards liberalisation of the currency. In practice, however, this will likely take several years. In 2015 BAM reduced the weight of the euro in the peg from 80% to 60%, and raised the weight of the US dollar from 20% to 40%. Then, in 2018, the central bank widened the band of fluctuation in which the Moroccan currency can be traded against hard currencies, expanding it from 0.3% on either side of the previous day's closing value to 2.5%.

Preparing the economy for full liberalisation will take time and will only come after several economic and political reforms. A free floating dirham would likely lead to its depreciation, which could boost Moroccan exports. However, it would bring a significant level of inflation as well, given the role that imports play in the country's economy. "Liberalising the dirham is like making a new constitution, as it establishes a new social contract between the government and the population," Aourraz told OBG. "If the dirham goes down, the state needs to know whether the citizens are ready to support the increased levels of inflation."

INFLATION: Sound macroeconomic management has allowed the kingdom to maintain relatively stable levels of inflation over the past decade. In 2018 higher food prices led to moderate increases, which saw headline inflation reach 1.9%, compared to 0.7% in 2017, according to IMF data. In December 2019 BAM estimated that inflation for 2019 would fall to 0.3%, sustained by a decrease in the price of commodities. The central bank has forecast inflation will increase to roughly 1.1% and 1.4% in 2020 and 2021, respectively. Medium-term projections see Morocco maintaining an

According to the central bank, inflation was on track to fall to 0.3% in 2019, before increasing to roughly 1.1% and 1.4% in 2020 and 2021, respectively.

Real GDP growth, 2014-23F (%)



Source: IMF

In 2018 Morocco's foreign direct investment (FDI) inflows increased by 31.3% to $3.6bn. Financial services and insurance accounted for 28.4% of total FDI, at $1bn.

inflation rate of below 2% over the coming years. Stable inflation has allowed the central bank to maintain relatively low interest rates. Following a meeting of its board in mid-December 2019, BAM kept its policy rate at 2.25%, the same level it has stayed at since the first trimester of 2016. Curbing inflation has been a critical component of the country's stable economic performance, providing a strong foundation for the kingdom as it navigated the turmoil that was caused by both the 2008 global financial crisis and the regional instability following the 2011 popular uprisings in the North African and the Middle Eastern region.

INVESTMENT FLOWS: Morocco's geographic location, coupled with intensive investment in critical infrastructure such as ports, railways and electricity generation capacity, has facilitated the kingdom's ability to attract foreign direct investment (FDI).

In 2018 Morocco's FDI inflows increased by 31.3% to Dh34.2bn ($3.6bn), according to the Office des Changes. Financial services and insurance accounted for 28.3% of total FDI, at Dh9.7bn ($1bn). The second-largest recipient of FDI was the real estate sector, which accounted for 15.7% of the total, with Dh5.4bn ($562.6m), followed by manufacturing, which received 14.3% of investment. Ireland was the single largest investor in Morocco in 2018, accounting for 28.4% of investment, at Dh9.7bn ($1bn). At a distant second, France accounted for 11%, or Dh3.8bn ($395.9m). In terms of regional partners, the UAE was the largest Arab investor, bringing in Dh2.8bn ($291.7m), or 8.2% of all investment in the kingdom that year. The country's positive economic performance has enabled domestic companies to increase their presence abroad. Notable examples of this have been seen in the banking and financial services sectors, with local players expanding into Africa over the past decade.

Economic indicators, 2020-23F

	2020F	2021F	2022F	2023F
GDP, current prices (Dh bn)	1206.71	1279.08	1357.80	1441.95
GDP per capita, current prices (Dh)	33,564.56	35,223.77	37,027.47	38,948.39
Inflation, avg. consumer prices (% change)	1.1	2	2	2
Vol. of imports of goods & services (% change)	4.56	4.28	5.01	5.30
Vol. of exports of goods & services (% change)	6.43	3.07	5.48	5.23
Population (m)	35.95	36.31	36.67	37.02
General gov't revenue (Dh bn)	317.83	337.09	361.33	384.43
General gov't revenue (% of GDP)	26.339	26.354	26.611	26.660
Total gov't expenditure (Dh bn)	357.37	376.07	402.18	428.23
Total gov't expenditure (% of GDP)	29.62	29.40	29.62	29.70
Gov't net lending/borrowing (Dh bn)	-39.54	-38.98	-40.85	-43.80
Gov't net lending/borrowing (% of GDP)	-3.28	-3.05	-3.01	-3.04
Gov't gross debt (Dh bn)	778.89	807.99	841.18	878.30
Gov't gross debt (% of GDP)	64.55	63.17	61.95	60.91
Current account balance (% of GDP)	-3.81	-3.14	-2.96	-2.83

Source: IMF World Economic Outlook, October 2019

Although it fell from Dh1.3bn ($135.4m) in 2017, Côte d'Ivoire was the largest recipient of Moroccan investment on the continent, attracting some Dh455m ($47.4m) from the kingdom in 2018.

FOREIGN TRADE: The growing importance of manufacturing activities has allowed Morocco to focus on the development of its export markets. Its close relationship with the EU in particular has been critical for economic development. In 2018 commercial exchanges with European countries were worth a total of Dh501.9bn ($52.3bn), accounting for 66.4% of the kingdom's total trade. Of this figure, over Dh443.3bn ($46.2bn), or 58.6%, was with EU countries, with Spain and France remaining the two key EU partners, at Dh141.1bn ($14.7bn) and Dh116.9bn ($12.2bn) in trade, respectively. Imports from Spain have been rising steadily, from Dh54.1bn ($5.6bn) in 2014 to over Dh76bn ($7.9bn) in 2018, according to the Office des Changes. The value of Moroccan exports to Spain has also trended upwards, rising from Dh43.9bn ($4.6bn) to Dh65bn ($6.8bn) over the same period. Imports from France expanded from Dh48.8bn ($5.1bn) in 2014 to Dh57.1bn ($5.9bn) in 2018, while exports to the country increased from Dh41.4bn ($4.3bn) to Dh59.7bn ($6.2bn) over the same period.

Trade has been facilitated by a strengthening of commercial agreements with a range of regions around the globe. Trade with Asian countries expanded from Dh105.6bn ($11bn) in 2017 to Dh122.4bn ($12.8bn) in 2018, due to a large extent to an increase in trade with China and India. Morocco is also part of the European Free Trade Association, which includes Lichtenstein, Norway, Switzerland and Iceland. Regionally, Morocco set up preferential trade agreements with Tunisia, Egypt and Jordan through the signing of the Agadir Initiative of 2004. Additionally, Morocco has established free trade deals with Turkey, the US and Canada. Since 2017 Morocco has also been engaged in technical negotiations with Mercosur regarding a free trade agreement with the bloc that would give the kingdom better trade conditions with Argentina, Brazil, Paraguay and Uruguay.

Largely because of its dependence on energy imports, Morocco has run a structural trade deficit. In 2018 the country's trade with the rest of the world expanded by 10.1% to reach Dh756.2bn ($78.8bn). Exports rose by 10.6% to Dh275.2bn ($28.7bn) and imports increased by 9.8% to some Dh481bn ($50.1bn). As such, Morocco's 2018 trade deficit settled at approximately Dh205.9bn ($21.5bn).

EDUCATION & EMPLOYMENT: Besides its persistent trade deficit, Morocco has also had to deal with steady unemployment levels. The persisting challenge of creating job opportunities sufficiently quickly has highlighted some of the limitations of the kingdom's economic strategy over the past decades. Despite building critical transport and logistics infrastructure and promoting the development of new industrial export segments, the country's notable economic growth has not been sufficiently inclusive. As such, unemployment remains problematic, with national

The government's Plan for the Promotion of Employment 2017-21 aims to create

1.2m

new jobs

rates varying between 8.5% and 10.6% over the 2008-18 period, according to government figures. The issue disproportionally affects young Moroccans, with youth unemployment at 27.4% in 2018, a slight decrease from 28.2% in 2017.

The government is currently enacting the Plan for the Promotion of Employment 2017-21, which is aimed at creating roughly 1.2m new jobs across different economic sectors. The plan seeks to address the high levels of youth and female unemployment as well as the need to create more job positions across all of the kingdom's regions. The strategy also focuses on public financial support for new job creation, closer links between the training and education sectors, and improved oversight of the labour market.

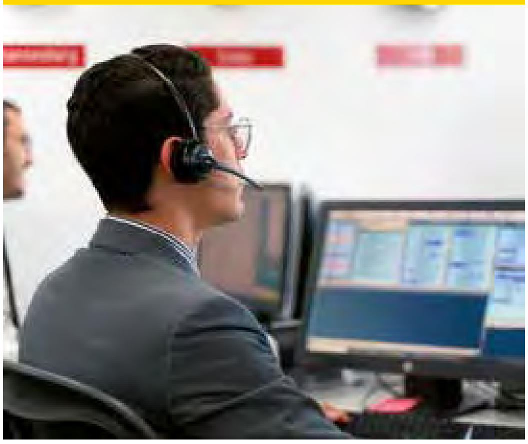
Sector players have underscored the importance of public support for investors in light of the country's continued high unemployment. "In no case should the lack of human resources hinder the creation of wealth by investors, hence the importance of having a universal and adapted public service that supports them in this strategic aspect," Abdelmounime El Madani, managing director of the National Agency for the Promotion of Employment and Skills, told OBG.

Better aligning the job market's needs with the education system will be a necessary next step in ensuring youth are equipped with the skills to secure employment. Although access to schooling and higher education has improved over the years, training in line with the needs of the economy has lagged behind. "In order to develop an economy, you need both good human capital resources as well as good institutions. Effective industrialisation arrives afterwards," Aourraz told OBG. "However, if we begin by creating mega-projects like ports and railways, and forget that we have a lot of difficulties to overcome in the reform of education, our end goal will not be accomplished."

OUTLOOK: The economy is poised to continue along its trajectory of economic growth, but GDP expansion rates will depend on the policy choices made by the government. Although estimates by the IMF project that annual growth rates will reach 4.5% in 2024, there is still the matter of ensuring that GDP growth translates into improved living and working conditions.

There are several factors that could help to accelerate socio-economic development. Maintaining a focus on development of the industrial base could further raise the country's export volumes and reduce the dependence on the agriculture sector. Additionally, easing red tape and bureaucracy is likely to make the business environment more attractive for both international and domestic investors.

The increased economic integration between Maghreb countries could also help to facilitate the growth of export opportunities for local businesses. In the meantime, curbing unemployment levels through better skills training and education will be critical for Morocco to become a more inclusive economy.



Small and medium-sized enterprises make up around 95% of local firms

A helping hand

Better regulation and support measures improve the business climate for smaller companies

As the benefits of Morocco's long-term development plans have become evident, through sustained GDP growth rates and an increasingly liberalised economy, passing on those benefits to the country's small and medium-sized enterprises (SMEs) has at times eluded policymakers. Although SMEs account for approximately 95% of all companies in the kingdom, they are often faced with a more challenging operating environment with limited access to finance. Although the majority of these firms have annual turnover of less than Dh3m ($313,000), the SME sector has an important role in developing the economy and creating new employment opportunities. As such, the government is prioritising SMEs in its long-term economic strategy.

Morocco's broader economic development is opening up opportunities that significantly impact the growth of SMEs across the country. Government efforts to modernise transport and logistics infrastructure have not only made it easier for smaller companies to participate in large-scale projects as subcontractors, but have also improved transport and communications networks, allowing for easier access to intended markets. Morocco's growing system of trade agreements and international commercial relations have helped expose domestic firms to new markets. In addition, the inward foreign direct investment (FDI) expanded by 31.3% to reach Dh34.2bn ($3.6bn) in 2018, according to the Office des Changes, injecting new capital into the economy.

Although the largest share of FDI went to financial services and insurance, other activities that have greater links to the SME network have also benefitted. Manufacturing, for instance, accounted for 14.3% of total FDI in the kingdom in 2018, bolstering the dynamism of local supply chains.

HEADWINDS: The challenge, however, will be to ensure that these favourable factors have a deeper impact throughout the country's vast network of SMEs. Conservative lending practices in the banking sector often make it difficult for smaller companies to access financing. Furthermore, heavy regulatory and tax burdens hinder small businesses and entrepreneurs from joining the formal sector. "The private sector has a positive outlook on the government plans that have been established, from the work on key infrastructure projects, to the development of specific industrial sectors through the acceleration plans led by the authorities," Saad Hamoumi, CEO at Harvard Consulting, a local business development consultancy, told OBG. "Now the question is how to make these projects have a stronger impact on Moroccan SMEs."

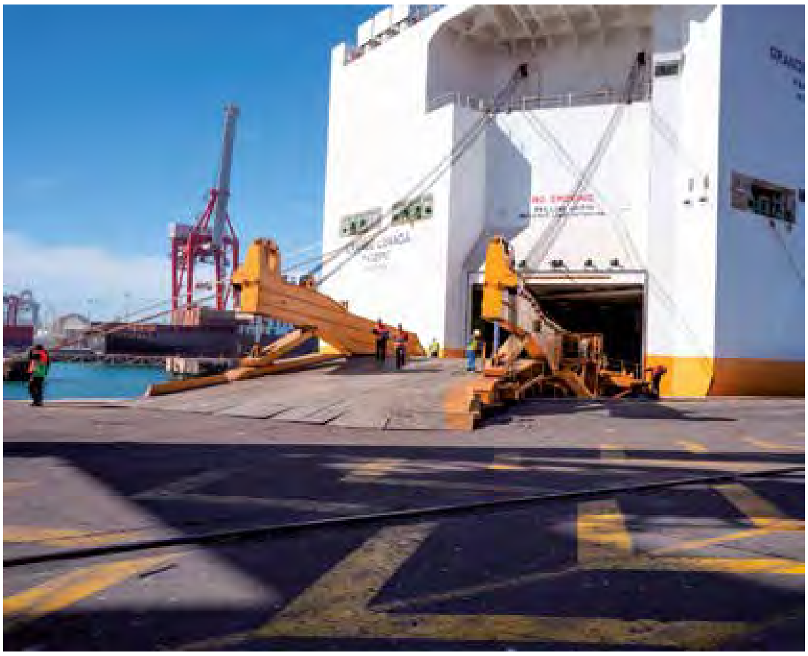
In a speech in October 2019, King Mohammed VI stated that government efforts alone would not be sufficient to increase economic growth, and encouraged the country's banking system to extend more loans to finance economic growth, particularly to small businesses and entrepreneurs.

Although the rate of SME financing in Morocco, at 17% of GDP, is higher than regional average, many SMEs still struggle to obtain loans. According to the International Finance Corporation, 6% of domestic micro-enterprises had access to the necessary financing as of 2017. A major cause of this is that smaller businesses often struggle to produce adequate collateral, and are more likely to be impacted by payment delays and burdensome regulatory procedures.

REFORM PATH: While there are still some remaining difficulties, recent changes are expected to have an impact on SME activities. In 2013 Bank Al Maghrib, the central bank, established a refinancing facility for banks that distribute loans to SMEs. The authorities extended the reach of a finance guarantee programme to help secure loans of up to $100,000 for SMEs, through the state-owned Central Guarantee Fund (Caisse Centrale de Garantie, CCG).

In 2019, under a World Bank development policy finance programme worth €611.3m, the government approved a financial inclusion and digital economy

Manufacturing accounted for 14.3% of total foreign direct investment in the kingdom in 2018, bolstering the dynamism of local supply chains.



Following the widespread backlash against pricing practices, the Competition Council was relaunched in 2018

development plan. The plan aims to increase financial inclusion and boost access to digital technologies for individuals and small businesses. It outlines the development of new financing instruments and insurance products geared towards micro-enterprises, SMEs and entrepreneurs. Expanding digital access will be key to fostering the development of SMEs and entrepreneurship. Digital tools have allowed small companies to compete with larger and more established firms around the globe and could have a huge impact in Morocco, where household penetration of fixed broadband internet is set to reach the 22% mark in 2020. The World Bank estimated that roughly 56% of rural households will have some form of internet access by 2020. "With a demanding market in terms of digitisation, having a middle-sized business nowadays is an advantage. Smaller market players such as start-ups are, in fact, often the most nimble at implementing change," Reda Bakkali, CEO of INEOS Tech, told OBG.

In terms of supportive legislation, in mid-2019 the authorities were preparing the Small Business Act, which aims to develop incentives by providing updated and more comprehensive regulations on financing and taxation for small businesses. The legislation is expected to ease export procedures, giving SMEs greater access to international markets. Furthermore, in 2019 the government approved a law that enlarged the number of potential assets that can be used by companies as collateral for financing, such as movable goods, which should improve access to finance.

INCREASED COMPETITION: Following the widespread backlash against pricing practices in some key industries – such as fuel distribution and bottled water – which impacted the economy in 2018, the authorities revamped the competition watchdog. Under new leadership, the Competition Council was relaunched with a stronger mandate in late 2018. The new council is expected to help regulate uncompetitive practices, but more importantly, it is widely expected to reduce barriers to entry for the country's smaller businesses and entrepreneurs.

As of March 2019 the Innov Invest Fund, launched by the state-owned Central Guarantee Fund, had helped finance some 62 start-ups with more than $1.3m.

Additionally, entrepreneurship is increasingly being supported by targeted funds and financing programmes. In October 2017 the CCG launched the Innov Invest Fund, a fund dedicated to supporting innovative start-ups in the kingdom. As of March 2019 the fund had helped finance some 62 start-ups with more than Dh12.3m ($1.3m). Similar initiatives are expected to gradually improve the environment for innovation and new business creation.

INVESTMENT CENTRES: The restructuring of Morocco's network of regional investment centres (Centres Régionaux d'Investissement, CRI) sought to support local businesses from the ground up. The CRIs were established across the kingdom from 2002 as a means of assisting local business creation, mobilising both domestic and international investment, and supporting entrepreneurs as they navigate the regulatory procedures of establishing a new company. The centres also play a key role in attracting investment in regional areas outside of the traditional economic centres of Casablanca and Rabat, spreading it across the less developed regions of the kingdom.

"The CRIs have been very helpful and effective, as previously not all the information requested by business owners was available," Hamoumi told OBG. "The initial plan was to create a one-stop shop in order to facilitate business creation; however, the centres will need to have greater technical capabilities to really be able to help entrepreneurs grow over the longer term."

The restructuring of the centres, which was approved by the Parliament in mid-2018, will seek to transform them into more agile actors of regional investment by simplifying procedures. It will also aim to better align CRI development strategies with the overall plans of regional governments, as well as refocus the investment of these centres towards entrepreneurs and SME activities.

Improving the operating environment for SMEs will bring long-term advantages that go far beyond the creation of new employment opportunities. It will also impact the country's tax revenue over the longer term, by encouraging more businesses to enter the formal sector. "Many smaller companies in Morocco operate simultaneously in the informal and formal sectors. This is a problem for the administration, which has been attempting to enlarge the fiscal base," Hamoumi told OBG. "What the private sector wants is to operate in a favourable environment. There is a lot of weight from the administration in terms of regulation and tax collection, which discourages companies from crossing over to, and staying in, the formal sector."

Improving conditions for SMEs will provide the kingdom's many smaller operators – which are often family-owned – with the opportunity to grow and expand. In turn, this will help the government to combat the kingdom's persistently high unemployment rates. Moreover, it will open up the country's various economic sectors to more innovative ideas as it lowers the barriers to entry for entrepreneurs and start-ups.

Mohamed Benchaâboun, Minister of Economy and Finance

Up to date

Mohamed Benchaâboun, Minister of Economy and Finance, on opportunities for investors and small businesses

Which sectors present opportunities for investors?

BENCHAÂBOUN: Major reforms have been undertaken in the past two decades in combination with infrastructure projects. Integrated industrial platforms, business environment reforms and new training programmes have increased Morocco's standing as an attractive investment destination and export platform on a global scale. This is evidenced by the establishment of a number of international groups and investors, and by Morocco's improved ranking on the World Bank's ease of doing business index, from 121st in 2009 to 53rd in 2020 out of 190 countries.

Today the country offers a range of new business opportunities in dynamic activities, including technology-intensive industrial sectors like the automotive industry, which has developed rapidly in recent years, offering investment opportunities across the value chain. Similarly, aeronautics have a development potential that is fuelled by attractive ecosystems.

Moreover, there are sectors in which Morocco has undeniable comparative advantages, such as food and beverages or textile, which offer many investment opportunities to develop and promote high value-added product-transformation activities.

Opportunities related to sustainability also cover a number of investment fields, such as the blue economy, which includes aquaculture, ecotourism and marine bioproducts. The energy transition offers an estimated investment potential of more than Dh300bn ($31.2bn) for the development of renewable energies and more than Dh250bn ($26bn) in energy efficiency for the building, industry and transport sectors.

How is Morocco pursuing its ecological transition?

BENCHAÂBOUN: The ecological transition is an essential pillar for the renewal of our development model. With this in mind, several strategic decisions and structuring levers have been deployed to create the conditions necessary for such a transition to succeed. Sectoral objectives have been put forward, including the objective to reach 52% renewable power in the electricity mix by 2030. We also aim to promote greater energy efficiency by capturing 15% energy efficiency gains by 2030. In addition, our Green Morocco Plan supports the resiliency of certain sectors by putting in place water-saving and solar-pumping technology, and through the establishment of support programmes for both big and small farmers, for instance. Lastly, economic reforms will be implemented with the total elimination of fuel subsidies, while studying the best possible ways to rationalise energy consumption.

What guarantees will the new Finance Law provide small and medium-sized enterprises (SMEs)?

BENCHAÂBOUN: SME development has become a national priority because of their crucial role in creating jobs and national wealth. The 2020 Finance Law provided for the creation of a fund, endowed with Dh6bn ($625.1m) over three years, for operations to support young graduates, facilitate their access to bank loans to finance projects, and support SME exporting companies, particularly for trade within Africa. In addition, and as part of plans to strengthen SMEs' access to financing mechanisms, the government has continued to overhaul the national guarantee system by simplifying and strengthening its offer. It has also put in place the National Financial Inclusion Strategy to bring together and focus the inclusionary efforts of key public and private sector stakeholders around very small enterprises in particular.

Furthermore, the Small Business Act is in preparation, which will bring together all existing support mechanisms dedicated to SMEs. By restructuring the base of the system, its main objectives are to optimise the scope of certain instruments, while simplifying access conditions, ensuring better overall alignment and seeking wider diffusion among target companies.

Hicham Boudraa, Acting Managing Director, Moroccan Investment and Export Development Agency

Up to speed

Hicham Boudraa, Acting Managing Director, Moroccan Investment and Export Development Agency, on strengthening the investment climate

What is the benefit and significance of strengthening South-South relationships?

BOUDRAA: In recent years, especially after the 2008 economic crisis, Africa has become a coveted continent and a major strategic actor in the international scene. For nearly two decades, Africa has seen the largest economic growth in the world, averaging 5-6% per year across the continent. Investments have increased five-fold over 10 years, undisturbed by even the global recession. Morocco, through the vision of King Mohammed VI, has chosen a development model that includes win-win partnerships and South-South cooperation.

Morocco recently joined the Africa Continental Free Trade Area (AfCFTA), which will be the largest free trade area in the world by 2030. Once implemented, AfCFTA will bring together as many as 55 states, representing a market of 1.2bn individuals and a combined GDP of $2.5trn. The goal of the agreement is to boost intra-African trade by 52%, to reach a total trade volume of $35bn by 2022.

Africa is currently home to approximately 1.3bn people, representing around 16% of the world's population; by 2050, however, Africa will be home to a quarter of the global population, or some 2.5bn people. Africa as a continent will have the highest average annual population growth rate and will be the only region in the world to have less than a quarter of its population over 60 years of age.

Which measures have been implemented to reinforce Morocco's investment climate?

BOUDRAA: Morocco has been working to liberalise its economy on many fronts by easing investment procedures, offering better protections to private operators by promulgating new laws to improve investment conditions throughout the country.

Morocco benefits from a labour code that is in conformity with the basic principles of the Moroccan constitution, as well as with international standards as outlined in various conventions of the UN. The Law on Copyright and Neighbouring Rights emphasises measures that aim to strengthen and modernise rights and protections for creators and their works.

The Law of Protection of Industrial Property outlines new procedures for opposing trademarks, border measures for counterfeit goods, protections for sound and olfactory marks, and processes for trademark registration in electronic form. Moreover, price liberalisation and free competition laws define the rules for the protection of competition and aim to stimulate economic efficiency, which together improve consumer welfare and ensure transparency and fairness in all commercial relations.

In what ways is Morocco working to further encourage foreign direct investment?

BOUDRAA: In order to guarantee a clear and transparent framework that is conducive to investment, the National Business Environment Committee (Commission Nationale de l'Environnement des Affaires, CNEA) was established in December 2009. CNEA serves as a public-private platform for dialogue on improving the business climate and monitoring Morocco's image abroad. It is a major force for the implementation and evaluation of national reforms.

In parallel, several integrated industrial platforms and a comprehensive programme for the creation of economic zones were recently put in place, accompanied by a full rehabilitation plan for several industrial zones. The main objective is to enable regions to strengthen their industries and encourage private investment. These two programmes, with an estimated budget of $10m, aim to increase the availability of land for future industries, provide entrepreneurs with all they need to pursue their industrial projects and to develop the untapped potential of several regional industrial opportunities.

Four of the 12 regions account for 50% of the nation's total GDP

Regional parity

Government plans for devolution are moving forward

Morocco is advancing with its regionalisation plans, with the goal of enhancing the transfer of critical development funds to the less-developed regions of the kingdom in order to curb economic and social inequalities. Over the past two decades the kingdom has seen a strong level of economic development that has allowed it to diversify its economy, attract considerable volumes of foreign direct investment (FDI) as well as modernise its infrastructure. However, growth rates have since slowed down. After growing at approximately 4.5% per year between 2000 and 2012, the kingdom's annual GDP expansion averaged some 3% between 2013 and 2018. However, that economic prosperity is far from evenly distributed. Of the kingdom's 12 regions, four account for 50% of total GDP.

LOCAL DECISIONS: Since announcing plans for regionalisation in 2008, King Mohammed VI has promoted the decentralisation of the kingdom's administrative structure as a means of returning certain powers to regional authorities. The objective is to allow local communities and regional state representatives to have a greater say in how financial resources are used. Under the plan, most decisions related to socio-economic development and political affairs will be brought under the helm of regional authorities. It also seeks to encourage more robust democratic participation of citizens in their regional affairs. In 2011 the new constitution launched the concept of accelerated regionalisation, underpinning the state's commitment to the plan.

The changes have been incremental, and since implementation began, approximately 70 regulatory decrees have been passed. In 2015 the government transferred a number of key responsibilities in the development of specific regional development plans to the regional councils. These plans guide public policy in terms of economic development, employment creation and infrastructure projects. However, some of these development plans have been difficult to implement, with the Ministry of Interior stating that some had been inadequately structured relative to the budgetary resources that could be disbursed.

INEQUALITY: Regionalisation is being used to address the problem of inequality in Morocco. Large swathes of the country, especially around the country's northern coastline cities of Casablanca, Rabat and Tangier, have experienced a wave of investment and development since 2005. However, many other regions of the country, especially in the interior and southern regions, are affected by a lack of economic opportunities and inadequate public service provision. For instance, while the unemployment rate in the Casablanca-Settat region is 11% for a population of almost 7m people, the Oriental region, bordering Algeria, has an unemployment rate of over 17% and a population of 2.3m people. The Oriental region's GDP is Dh46.5bn ($4.8bn), much smaller than the Dh309.1bn ($32.2bn) GDP of Casablanca-Settat. In the Guelmim-Oued Noun region to the south, unemployment affects almost 20% of the population of 434,000. Dealing with the issue has become especially pressing in the wake of the popular protests that erupted in the north-eastern areas of Morocco over 2017 and 2018.

In December 2019 the government announced that over that year some Dh7.4bn ($770.9m) had been earmarked to help reduce regional development gaps. In the 2019 budget, Morocco increased the region's share of government tax on business and individual income from 4% to 5%, which, according to government estimates, will allow the state to allocate up to Dh10bn ($1bn) per year to regional development by 2021.

It is expected that regionalisation will accelerate the resolution of Morocco's social inequalities. The IMF stated in its 2019 Morocco report, "Ongoing decentralisation should also allow for better coordination of social spending at the local level." However, as more financial resources are allocated to the regions, strengthening governance structures will be necessary to maintain public trust in regionalisation and its potential benefits.

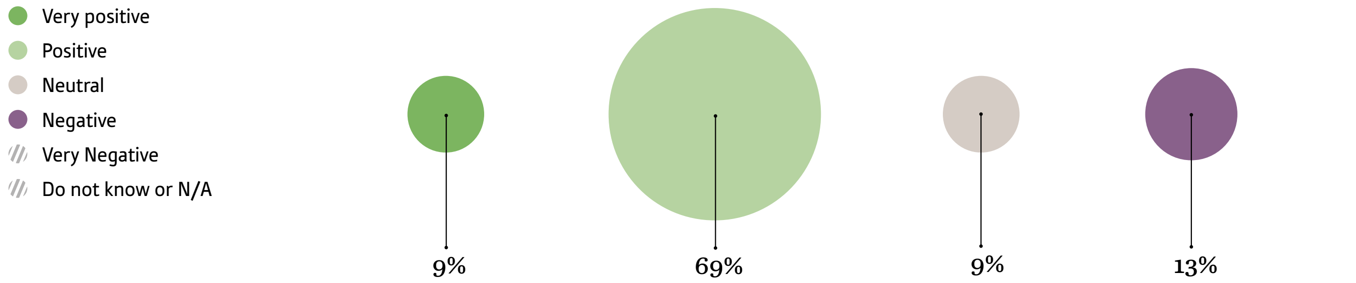
In December 2019 the government announced that over that year some $770.9m had been earmarked to help reduce regional development gaps.

Morocco CEO Survey

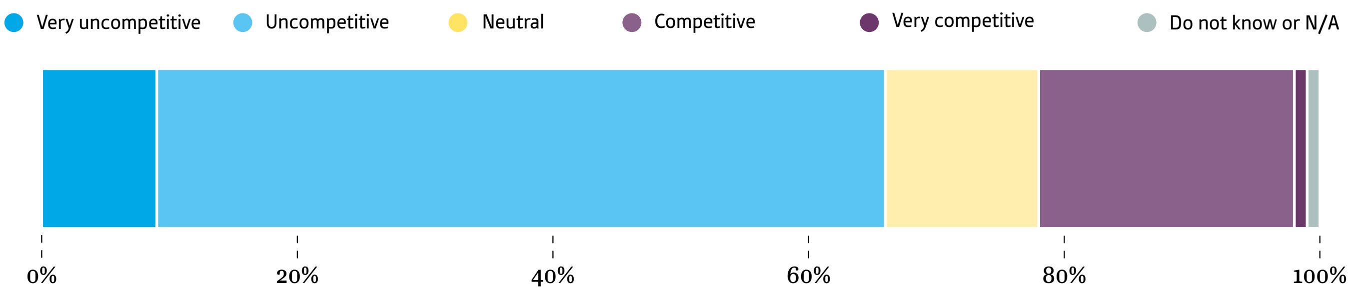
After registering an average expansion of 4.4% between 2000 and 2017, GDP growth slowed to 3% in 2018 and an estimated 2.6% in 2019, due to a 4% drop in the value added generated by the agriculture sector. Nevertheless, local business sentiment remains robust, with 78% of respondents to OBG's fourth Morocco CEO Survey saying they have positive or very positive expectations of business conditions in the coming 12 months. Still, the future economic gains of the country will highly depend on the availability of skilled labour. Illustrating this understanding, nearly 75% of survey respondents selected education as the sector most in need of attention to unlock Morocco's economic potential.

For more information on OBG CEO Surveys, please visit www.oxfordbusinessgroup.com/ceosurveys.

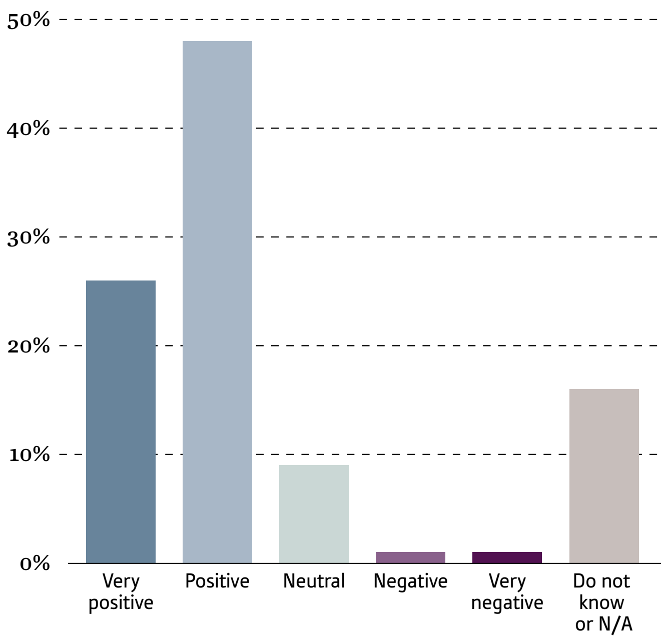
What are your expectations of local business conditions in the coming 12 months?



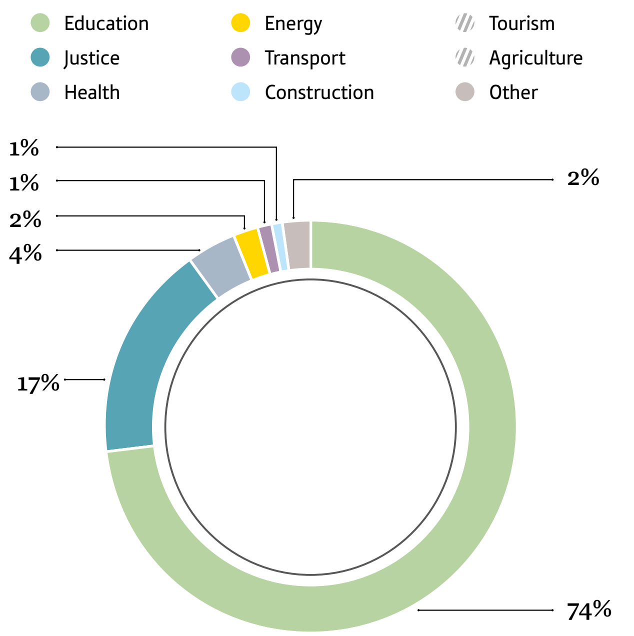
How competitive is Morocco's current tax environment (business and personal) on a global scale?



What outcome do you think the Africa Continental Free Trade Area will have on intra-regional trade levels?



Which sector is most in need of attention in order to ensure Morocco's economic success?



What CEOs identify as the key sector for economic growth

Over the past decade, Morocco has endeavoured to strengthen and diversify its economic foundations, introducing a variety of strategic initiatives such as the Green Morocco Plan and the Industrial Acceleration Plan, and working to improve its business climate.

The country ranked 53rd out of 190 countries in the World Bank's "Doing Business 2020" report, up from 128th in 2010. The bank's most recent report highlighted the online processing of construction permits, greater access to electricity and the introduction of e-payment for port fees as some of the main reforms that helped improve the country's position.

On the macroeconomic side, recent years have seen the budget deficit and inflation brought under control, with the target to maintain them at 3.5% and 2% of GDP, respectively, in 2020. However, annual GDP growth has not performed as well. After registering an average expansion of 4.4% between 2000 and 2017, GDP growth slowed to 3% in 2018 and an estimated 2.6% in 2019, according to Bank Al Maghrib. The 2019 figure was weighed down by a 4% drop in the value added generated by the agriculture sector.

To that end, a new body known as the Special Commission for Economic Development (Commission Spéciale sur le Modèle de Développement, CSMD) was formed by King Mohammed VI in the summer of 2019 to identify bottlenecks to growth, and devise plans to promote the generation and distribution of wealth.

While Morocco has made undeniable and significant headway in sectors like infrastructure, renewable energy, manufacturing and financial services, "the effects of progress and achievements made have not, unfortunately, been felt by all segments of Moroccan society", as stated by the King in his Throne Day speech in July 2019. Therefore, the suggestions to be made by the 35-member commission and compiled in a report by mid-2020 will be designed to benefit broader swathes of the population.

While it is clear that Morocco still has some way to go in reaching its goals, local business sentiment remains robust, with 78% of respondents to OBG's fourth Morocco CEO Survey saying they have positive or very positive expectations of business conditions in the coming 12 months, and 76% saying their companies were likely or very likely to make a significant capital investment over the period. This goes to show that, despite the headwinds, the business community remains confident in the short- to medium-term economic outlook.

Business leaders were also upbeat about the prospects of the Africa Continental Free Trade Area (AfCFTA) agreement, with 74% saying they have positive or very positive expectations of the deal's outcome on intra-regional trade levels. At the turn of the century, Morocco placed a special emphasis on developing South-South relations, and local businesses have since expanded into a variety of sectors ranging from financial services and telecommunications, to construction and manufacturing.

While the country has succeeded in enlarging its regional footprint, exports to the continent have fallen short of expectations, accounting for just 7.8% of the total in 2018. This compares to the 70% of exports directed to Europe that year. The implementation of the AfCFTA is therefore expected to bring Morocco further opportunities to strengthen ties with its neighbours.

At the same time, Morocco saw its imports from the continent rise by 24.7% in 2018, driven primarily by higher imports of oil and gas. Indeed, 90% of Morocco's energy needs are met through imports, which helps explain why the largest share of survey respondents (47%) view volatility in commodity prices as the top external event that could impact the economy in the short to medium term. Other external threats identified by business leaders include instability in neighbouring countries (30%) and increased trade protectionism (15%).

Another challenge Morocco will need to navigate is its tax environment, which 68% of survey respondents deem uncompetitive or very uncompetitive. This figure is up from 55% in 2018 and 57% in 2017. In May 2019 the country held the third National Tax Conference with a view to improving its tax framework through enhanced competition, efficiency and transparency. The proposed measures are expected to be integrated into future budget laws starting in 2020

Despite challenges and the work that remains to be done for more segments of the population to reap the benefits of recent economic gains, Morocco has made considerable strides in diversifying and strengthening its economy. Today, the country boasts one of the continent's most dynamic manufacturing centres, with the aeronautics and automotive industries taking centre stage. Moreover, the launch of Tanger-Med 2 port is a major development that brings with it the promise to expand Morocco's export potential. Inaugurated in June 2018, the $1.3bn extension forms part of the larger Tanger-Med port complex, which is connected to 186 ports in 77 countries.

With more developments under way in the financial services, telecommunications and IT sectors, the future economic gains of the country will also highly depend on the availability of skilled labour in these areas. Illustrating this understanding, nearly 75% of OBG survey respondents selected education as the sector that will enable Morocco to unlock its economic potential. In terms of the skills in greatest need, 36% identify leadership, 16% engineering, and 15% research and development, highlighting where the kingdom's education system should focus its efforts.

Global Perspective

Minding the gap

The question of debt management is a key concern, particularly for countries with large external finance requirements

Fiscal policy was at the top of the agenda at the IMF Annual Meeting held in Washington, DC in October 2019, which was attended by ministers of finance, central bank governors and private sector executives from around the world. The event provided an opportunity for member countries to issue statements outlining their opinions on the global economic landscape, which are of considerable interest to the international investment community.

EXPERT TAKES: Representing the European Commission, vice-president Valdis Dombrovskis and commissioner Pierre Moscovici called for a more "supportive policy mix in the current juncture", adding that "fiscal policy should be used in an effective and timely manner in countries with fiscal space". Meanwhile, Steven Mnuchin, the US secretary of the Treasury, argued that "with space for monetary easing diminishing in many countries, fiscal policy paired with pro-growth structural reforms that will durably raise investment, job creation and productivity will need to play a larger role". The message from some of the global economy's most influential figures was clear: it is time for fiscal policy to take over where monetary policy has run its course as an effective tool. For many developing economies, however, this advice is difficult to implement. A high proportion of emerging markets rely heavily on the export of commodities to secure the revenue needed for fiscal expenditure. As a result, the sharp decline in commodity prices in 2014 and 2015 continues to negatively affect fiscal conditions, contributing to creeping levels of public debt.

Countries with large external finance requirements generally find it more difficult to attract investment; consequently, the question of debt management is a central concern in 2020. Opinions vary on the correct fiscal course for any given economy, but with global growth slowing in 2019, most advice centred around the idea that nations with high levels of public debt should adopt prudent fiscal policy, while countries with fiscal space should increase public investment to support growth and rebalancing. However, the question of how public debt should be assessed leaves considerable room for disagreement. With a range of additional extrinsic factors, including the need to satisfy voters during election years and the effect of regional unrest on hydrocarbons revenue, the fiscal debate is becoming an ever more complex one.

MIDDLE EAST & NORTH AFRICA: In the MENA region, fiscal policy has been shaped by a slowdown in government revenue. Oil production cuts made by the Organisation of the Petroleum Exporting Countries in an effort to rebalance international oil markets have constrained the growth of Gulf Cooperation Council (GCC) economies, where hydrocarbons are the primary source of revenue. A number of governments in the region have responded to the slowdown in oil prices by adopting looser fiscal policies and increasing state spending, which has helped to encourage the growth of non-oil sectors.

However, the sustainability of this approach has come into question since 2019, when ratings agency Fitch Ratings downgraded Saudi Arabia, the largest economy in the GCC, from "A+" to "A", citing sustained fiscal deficits as one of the main reasons for this decision. According to Fitch, the Kingdom is expected to post a fiscal deficit of 6.7% of GDP at the end of 2019, compared to 5.9% in 2018.

In North Africa, Egypt, Morocco, Sudan and Tunisia have faced a more acute undersupply of revenue. While fiscal deficits in North Africa saw an overall decline in 2018 as a result of higher commodity prices and ongoing fiscal reform, balance is a recurring priority for policy planners. However, their capacity to enact change is restricted by the prospect of social unrest in response to austerity measures.

This is particularly the case in Egypt, North Africa's largest economy, where the government succeeded in narrowing a stubborn fiscal deficit by three

Nations with high levels of public debt should have prudent fiscal policies, while countries with fiscal space should increase public investment to support growth and rebalancing.

Governments in the Gulf have responded to slowing oil prices by adopting looser fiscal policies and increasing state spending, which has helped to promote the growth of non-oil sectors.

The ability of governments in East Asia to maintain elevated spending levels is underwritten by relatively high growth rates; the region is expected to see GDP expansion of 5.1% in 2019 and 5.2% in 2020-21.

percentage points between 2016 and 2018, to 9.7% of GDP. However, the country continues to face a political challenge in reducing a public expenditure bill that is significantly higher than that of other lower-middle-income countries – equivalent to 27.8% of GDP in 2018. Egypt has also faced large borrowing needs in recent years; as a result, interest payments absorbed around 70% of tax revenue in 2018.

Although firming hydrocarbons prices are likely to offer fiscal relief in the short term for GCC oil producers, widening the tax base to boost revenue is a strategic priority for Egypt and other North African countries. In Morocco, which is expecting a budget deficit of 3.5%, 1% of companies are responsible for 80% of corporate income tax, while 70% of value-added tax (VAT) is derived from 0.66% of contributors. Governments across the region are also pursuing fiscal gains by improving the governance of public companies and launching privatisation programmes to release funds for their Treasuries.

EAST ASIA: While the MENA region balances the necessity for fiscal consolidation against social concerns, East Asia has largely been content with an expansionary fiscal stance. The ability of governments to maintain elevated spending levels is underwritten by relatively high growth rates; excluding China, the region is expected to see GDP expansion of 5.1% in 2019, followed by 5.2% in 2020-21, according to the World Bank. In fiscal terms, East Asia is also relatively well positioned. According to the UN, the region's fiscal deficits averaged a modest 1.8% between 2013 and 2018, while its debt-to-GDP ratio was 46% in 2017. In comparison, the average debt-to GDP ratio in Latin America and the Caribbean was 60% over the same period.

In the case of the Philippines, an accommodative fiscal policy is funding the Philippine Development Plan 2017-22, which aims to end poverty for 6m people through major upgrades to the nation's infrastructure. While elevated public spending levels have resulted in concerns regarding mounting debt, the government has sought to offset this by diversifying its sources of funding, resulting in a debt-to-GDP ratio of around 40% in 2019.

The Thai government, meanwhile, issued an expansionary budget in October 2019, which will see spending increase by 7% in FY 2020. This is expected to create a slightly larger fiscal gap than budgeted for in 2019, bringing it to 2.6% of GDP. Thailand has run a budget deficit virtually every year since 1999 – with the exception of 2005 and 2006 – and will continue to do so over the medium term. The country's Ministry of Finance estimates that it will not have a balanced primary budget until around 2026.

In Indonesia, where the focus of recent budgets has been on increasing the effectiveness of government spending, an expansionary stance also prevails. The 2020 budget allocates a total of $180bn, an increase of 3% compared to the previous year. The government plans to direct funds towards the development of human capital, infrastructure, and efficient and transparent bureaucracy, as well as the creation of a buffer in the event of a global economic downturn.

However, some economies in the region have more pressing fiscal concerns. For example, Myanmar's alignment with the global economy continues apace and the country's GDP growth is expected to reach 6.6% by FY 2020/21, but a large informal sector makes it difficult for the government to accrue revenue. The authorities are addressing this by reducing costs for individuals to utilise their undeclared income. The "Reduced Tax Rates for Undeclared Income" scheme, which forms part of the Union Tax Law approved in September 2019, reduces the penalties levied when the buyer of a major asset – such as a plot of land – cannot show the source of the funds.

SUB-SAHARAN AFRICA: Politics will have an influence on the fiscal conversation across much of sub-Saharan Africa in the coming years, with Ghana, Tanzania and Ethiopia holding elections in 2020, and Zambia in 2021. These countries account for around 25% of the continent's GDP, and the tendency of governments to increase spending as the polling date nears means that the risk of fiscal slippage is high.

For much of sub-Saharan Africa, a long-anticipated expansion of GDP has yet to be realised, with growth reaching 2.5% in 2018 and expected to hit 2.9% in 2019. Slow economic expansion has placed a strain on government finances, even in East Africa, where growth has recently outperformed other parts of the continent. Consequently, fiscal deficits remain high. The UN Department of Economic and Social Affairs has attributed this to a combination of high levels of government spending on infrastructure and weak domestic resource mobilisation.

East African countries are increasingly reliant on borrowing to bridge the fiscal gap, both from the international bond market and economically expansionist China. This means that the possibility of external debt distress in countries such as Kenya, Ethiopia and South Sudan is a prominent fiscal concern.

Similar debt worries are emerging in West Africa, where GDP growth is currently being driven by Nigeria and Ghana – two hydrocarbons-producing countries that are benefitting from firmer oil prices. Nigeria's public debt grew by 12.3% in 2018, to reach N24.4trn ($79.6bn), which has brought the nation's debt as a percentage of GDP to around 20% – approaching the 25% debt limit imposed by the government.

Ghana is following an even sharper trajectory: in 2006 the nation's external debt-to-GDP ratio stood at 26% of GDP, but sustained fiscal deficits and government borrowing pushed the level to 73% by 2016. It has since fallen slightly to 62% of GDP in 2019. However, the nation's total debt increased by 16% year-on-year in the first quarter of 2019, reaching $38.9bn – the highest level since 2015.

Governments have responded to growing debt levels with attempts to limit spending: in 2018 and 2019 most economies in West Africa underwent a process of fiscal consolidation. Côte d'Ivoire, aiming for a fiscal deficit of 3% of GDP set by the West African and

Economic Monetary Union, has successfully reduced its fiscal gap by lowering current transfers such as subsidies in the electricity sector.

However, like other fiscal reformers in the region, Côte d'Ivoire has also issued eurobonds and used part of the proceeds to buy back more expensive, short-term domestic debt. While this trend has smoothed debt profiles across West Africa, growing public debt – and particularly the external debt component – is emerging as a downside risk.

For most governments, therefore, harnessing the revenue potential of Africa's large informal sector is a strategic priority. For example, Kenya started to target start-ups, freelance workers and small vendors with a presumptive tax of 15% in 2018. The country continues to increase its revenue through a combination of formalisation efforts and the indirect taxation of informal operators through other means, such as VAT. In addition, tools such as the Kenya Revenue Authority Personal Identification Number (PIN) enable businesses and individuals to complete an electronic tax return, although many workers in the informal sector still lack a PIN.

In Ghana, where informal activity represents the largest sector of the economy but contributes only 2% of total taxes, the authorities are attempting to widen the tax base by rolling out a digital addressing system to locate potential businesses and taxpayers, as well as launching an e-platform that will allow informal sector operators to conveniently pay taxes through mobile money applications.

LATIN AMERICA & THE CARIBBEAN: The debt challenge is also a prominent issue in South America and the Caribbean, where a legacy of borrowing has overshadowed otherwise encouraging short-term growth prospects. After a relatively subdued growth rate in 2019 – estimated at 1.7% by the World Bank – the region is expecting 2.5% expansion in GDP in 2020, growing to 2.7% in 2021.

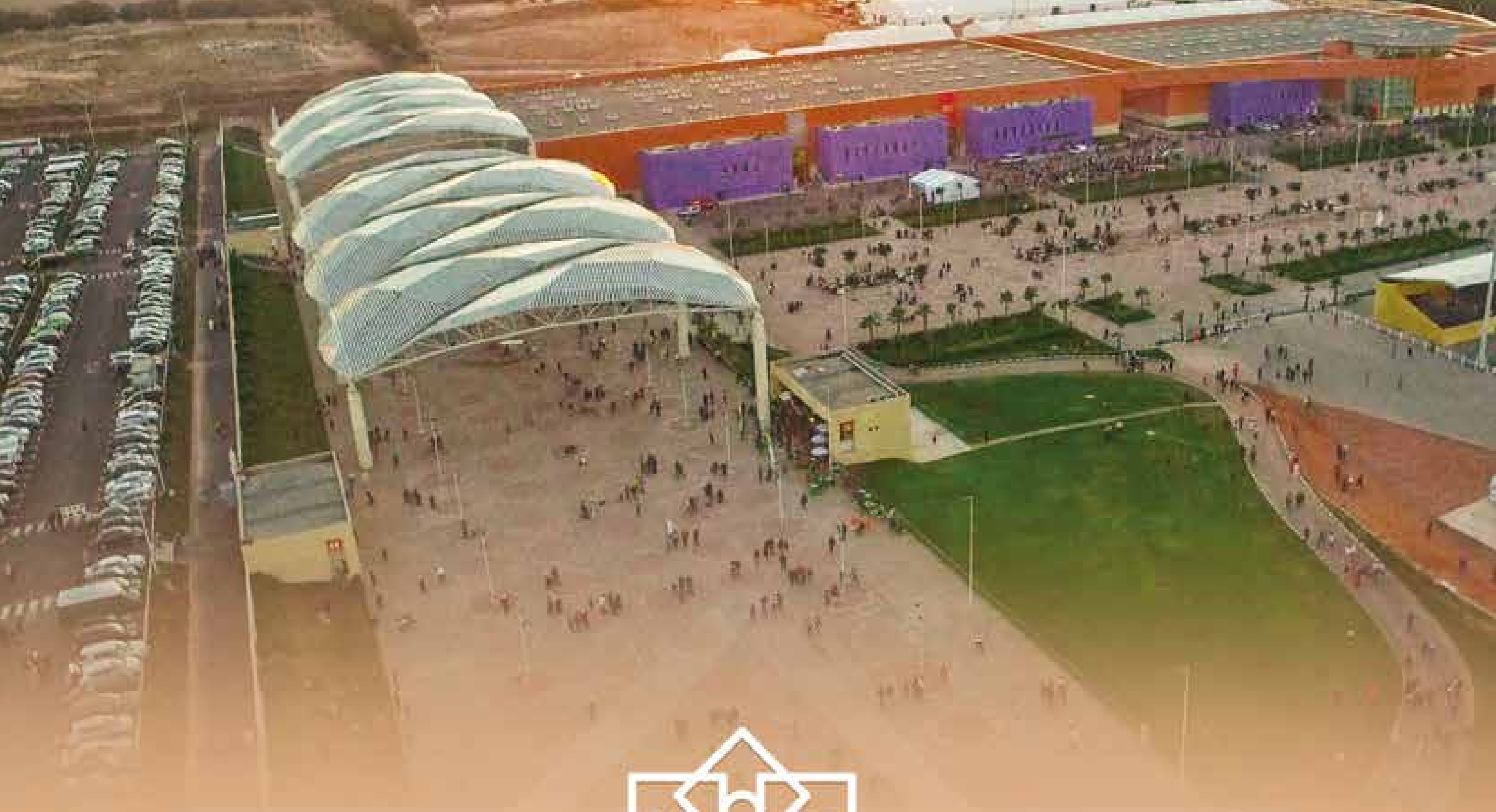
Continued growth in Colombia, on the back of tax reforms and infrastructure projects, and building momentum in Brazil are expected to be the primary drivers of this trend. Nevertheless, weaker performance in recent years has resulted in limited macroeconomic policy space in most markets in the region: average government debt in Latin America and the Caribbean has risen steadily since 2008, reaching 60% in 2018. Sovereign credit ratings for several countries were downgraded in late 2018, among them Argentina, Costa Rica and Nicaragua.

While the World Bank forecasts that fiscal deficits will shrink modestly over the short term, the region's aggregate debt burden remains at its highest level since 2005. This leaves some nations vulnerable to the possibility of rising borrowing costs. In September 2019 Argentina's Ministry of the Treasury predicted a primary fiscal surplus of 1% of GDP in 2020, but a government debt equivalent to around 86% of GDP is a costly burden on public finances. However, with a new government in place since October 2019, the country's fiscal outlook may change.

Meanwhile, Mexico is aiming for a primary fiscal surplus of 0.7% of GDP in 2020, which would reduce its need to borrow. Despite this, the government has been compelled to defend its revenue projections for the year, which many observers – including some major credit ratings agencies – regard as overly optimistic. Should revenue fall short of targets in 2020, the government will be faced with the prospect of making greater spending cuts or abandoning the fiscal discipline that it prioritised in its first two budgets.

In the Caribbean, higher oil prices helped to return Suriname and Trinidad and Tobago to positive growth in 2018, and aggregate growth in the subregion is expected to reach 2% in 2019 and 2020. However, like their regional peers, high debt burdens have constrained fiscal policy. Political events have also impinged on the fiscal sphere: having made significant progress in reducing its fiscal deficit, which shrank from 9% of GDP in 2017 to 3.9% in 2018, T&T is expected to ease its austerity drive in 2020, which is an election year for the country.

Average government debt in Latin America and the Caribbean has risen steadily since 2008, reaching 60% in 2018. Sovereign credit ratings for several countries in the region were downgraded in late 2018, including Argentina, Costa Rica and Nicaragua.



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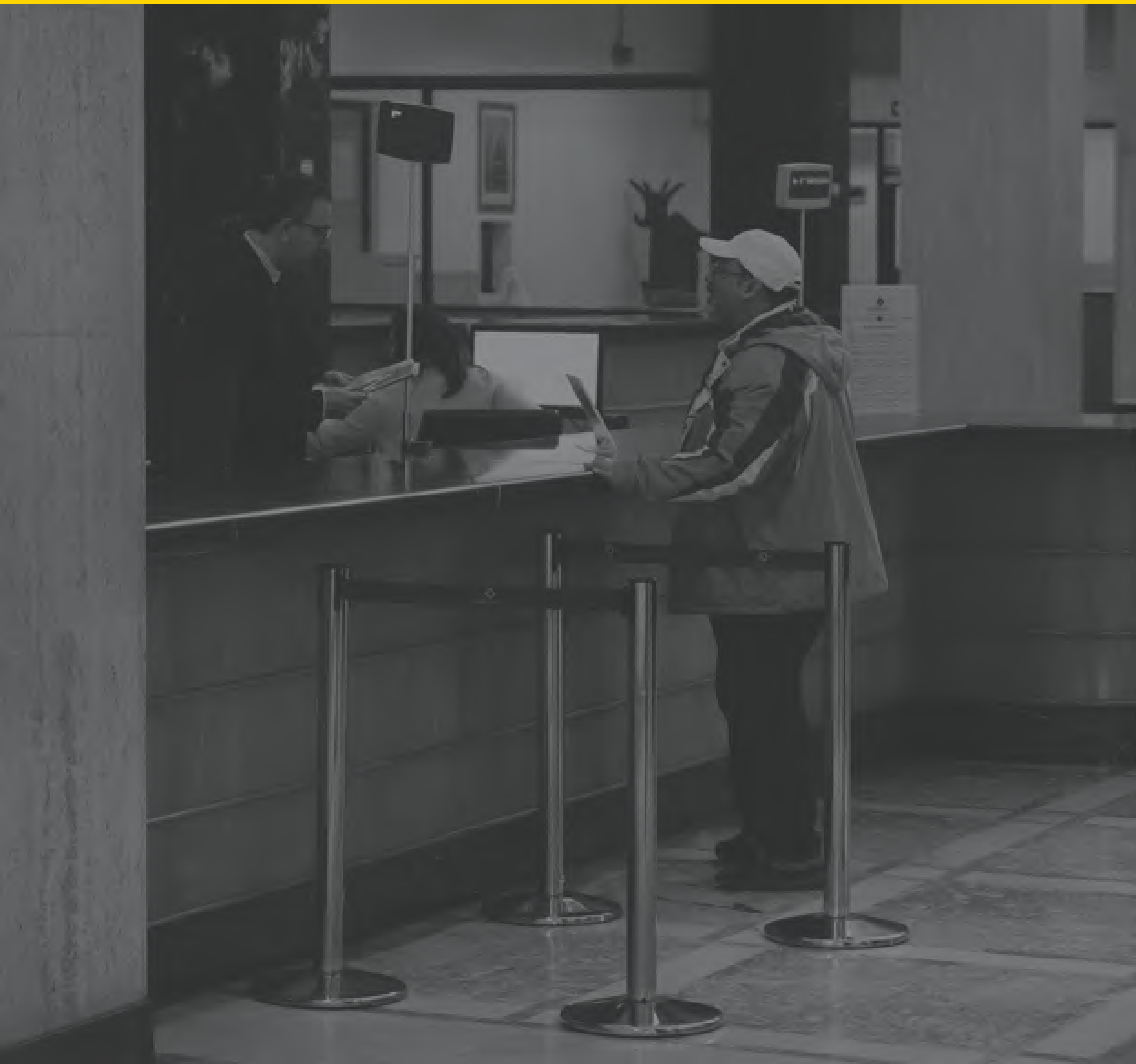
Banking

Rate of lending expansion outpaces regional average

Sharia-compliant insurance and bonds launched

Women and youth targeted for financial inclusion

Green financing used to fund infrastructure projects



Private sector credit provided by banks stood at 62.1% of GDP in 2018

Take it to the bank

Stronger regulations and continental expansion fuel growth

In recent years Morocco's banking sector has experienced a period of consolidation at home and expansion abroad following a surge in lending in the decade leading to 2012. The country's leading banks are now among the largest in Africa, with extensive continent-wide holdings. Despite GDP growth trending lower and the associated slowdown in lending and spike in non-performing loans (NPLs), profitability and capitalisation have remained relatively stable, underpinned by important regulatory changes.

The authorities are working to increase financial inclusion by targeting small and medium-sized enterprises (SMEs), women, youth and rural residents, all of whom are traditionally under-represented in the financial system. Diversified offerings, including sharia-compliant participatory banking and financial technology (fintech) products such as e-wallets are important developments towards this end.

STRUCTURE: There are 24 banks operating in the country, five of which are majority state-owned, seven majority foreign-owned and five sharia-compliant participatory banks. These Islamic institutions were first granted banking licences in 2017. Three of the foreign-owned banks also operate participatory windows through which they offer sharia-compliant financial products. In addition to these core banks, the country also has six offshore banks, 13 micro-lenders, 13 payment operators and 30 credit institutions.

Despite the relatively large number of players, the sector is highly concentrated, with the three largest domestic banks – Attijariwafa Bank, Groupe Banque Centrale Populaire and BMCE Bank of Africa – having a combined asset share of 64.3% in 2018, only slightly below 65.9% in 2016. When the fourth- and fifth-largest banks – Société Générale Marocaine de Banques and Banque Marocaine pour le Commerce et l'Industrie, both French-owned – are taken into account, market concentration reaches nearly four-fifths, at 78.7% in 2018, down from 79.8% in 2016.

CONTINENTAL AMBITIONS: With relatively stiff competition for lending opportunities in the domestic market, leading banks have expanded across the continent to increase profits. While investments in less mature markets offer the opportunity for higher margins and strong growth, the often-challenging and less transparent operating environments represent a higher degree of risk than domestic activities. Even so, the expansion has been largely successful. Moroccan banks operate throughout Africa through 42 subsidiaries and four branches across 27 countries, 10 of which are in West Africa, six in Central Africa, six in East Africa, three in the Maghreb and two in Southern Africa. Moroccan banks also have branches and subsidiaries in seven European countries, as well as China.

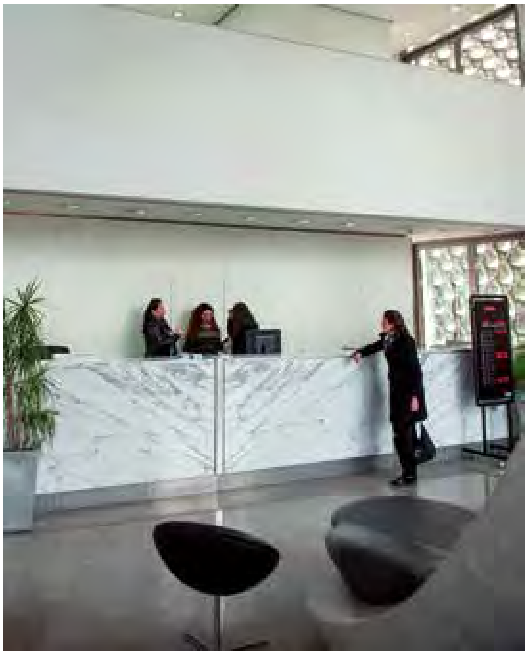
The authorities are working to increase oversight and mitigate risks to the banking system's overall integrity brought on by this expansion. To that end, there has been an increase in the number of cooperation agreements with foreign banking regulators. By the end of 2018, the number of such agreements reached 13 covering 24 countries, following the conclusion that year of an agreement with Mauritania and an update to the agreement with Tunisia.

OVERSIGHT: Bank Al Maghrib (BAM), the country's central bank, is the main regulatory and policymaker. BAM's independence was granted by statute in 2006 and reconfirmed with the constitution of 2011. The authority leads government efforts to maintain financial stability and implements nationwide strategies.

In the wake of the 2008-09 global financial crisis and in light of Moroccan banks' increased overseas activities, the authorities have moved to strengthen the regulatory framework. A banking law that came into effect in January 2015 represented a key step in aligning the sector with international standards. It aimed to create growth opportunities for banks, laying the foundations for both participatory banking and non-banking payment institutions. By facilitating

Despite GDP growth trending lower and the associated slowdown in lending, profitability and capitalisation have remained relatively stable, underpinned by important regulatory changes.

Moroccan banks operate 42 subsidiaries and four branches in 27 countries in Africa. Local institutions also have operations in seven European countries, as well as China.



There are 24 banks in the market, five of which are sharia-compliant

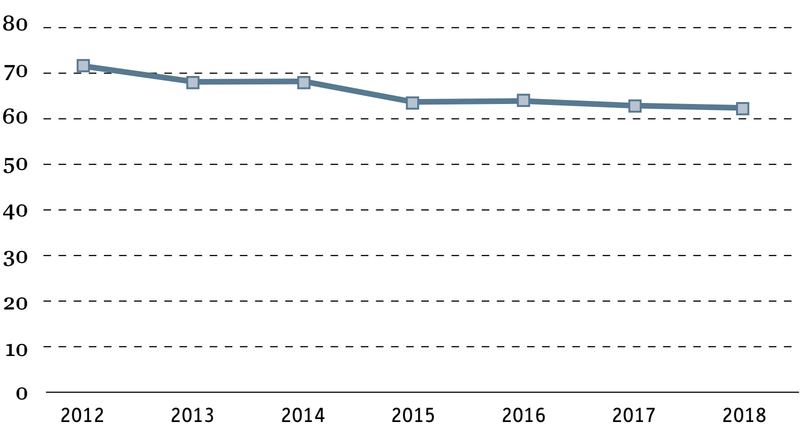
In January 2018 Morocco adopted International Financial Reporting Standard 9, which upgraded banks' loan classification and provisioning practices.

innovation, the sector has been able to enhance financial inclusion by offering customers a greater variety of sharia-compliant products and accelerating the development of digital banking.

The 2015 law also strengthened BAM's capacity to oversee financial conglomerates that effectively control credit providers, as well as improved the central bank's capacity for cross-border supervision and risk management on a consolidated basis. This development was seen as critical to overseeing the system as it expands into African markets.

In its 2019 Article IV Consultation released in July, the IMF noted that "solid progress" had been made in upgrading the financial services-related policy framework through both the implementation of Basel III initiatives and joint IMF and World Bank recommendations. The majority of the regulations pertinent to the new banking legislation had been introduced, with the exception of crisis management and bank resolution frameworks, according to the IMF report.

Domestic credit to private sector by banks, 2012-18 (% of GDP)



Source: World Bank

REGULATIONS: One of the most important regulatory changes was the January 2018 adoption of International Financial Reporting Standard 9 (IFRS 9). The standard upgrades banks' loan classification and provisioning practices, which is particularly relevant given the high level of NPLs. In particular, the first-time application of expected credit losses on banks' equity was significant, above 10% of end-2017 equity in the case of BMCE Bank of Africa, for example. However, there is a five-year transition period before this needs to be reflected in regulatory capital. In the medium term, this regulatory change means that the banks may need to raise capital by issuing shares or – more likely – conserve capital, either by constricting lending or distributing less as dividends.

More recently, in July 2019 a law was implemented that strengthened the role and independence of BAM. Under the new legislation BAM is not allowed to accept instructions from the government or a third party, while provisions were made to encourage cooperation in aligning monetary and financial policies. An audit committee was also established.

MONETARY POLICY: Against a backdrop of weakening economic growth, price inflation has remained at or below 2% since 2009, with the core inflation indicator closing 2019 at 1%. BAM has maintained its main policy interest rate at 2.25% since its last reduction of 0.25% in March 2016. Despite the low-rate environment, commercial banks' lending has been largely subdued.

Morocco has a managed exchange rate regime, although in January 2018 BAM increased its flexibility by extending the daily band of fluctuation in dirham measured against a basket of currencies (60% euro and 40% US dollar) from plus or minus 0.3% to plus or minus 2.5%. BAM has not intervened in the currency market since March 2018, but even so, exchange rate fluctuations have been relatively limited. The real effective exchange rate rose an estimated 0.9% in 2019, up from -0.4% in 2018, but down from the 2.1% seen in 2017. In its July 2019 report, the IMF encouraged the country to move to further enhance flexibility, as it would help the economy weather potential external shocks and boost competitiveness. However, Moroccan authorities signalled that they would wait before introducing additional measures.

LENDING & DEPOSITS: Beginning in the early 1990s, Morocco experienced two decades of rapid credit expansion, with private sector credit provided by banks increasing from 13.7% of GDP in 1990 to a peak of 71.5% of GDP in 2012. The subsequent slowdown in economic activity and lending growth saw some retrenchment, falling to 62.1% of GDP by 2018. Although this remains higher than the MENA average of 55.2% in 2018, it lags behind the 68% seen in Tunisia that year, which gained a lead over Morocco in 2015. Domestic credit grew by 5.5% in 2019, with growth averaging 6.6% between 2002 and 2019.

With a collective deposit-to-loan ratio fluctuating around 100% in recent years, for the most part Moroccan banks are not heavily exposed to wholesale money markets for funding. CIH Bank – part of state-owned

The share of women who had at least one bank account increased from 37% in 2017 to 40% in 2018, while the number of men with accounts remained stable at 77%.

Caisse de Dépôt et de Gestion – is an exception, as longer-term borrowing better matches its mortgage and real estate lending asset portfolio.

Total deposits amounted to Dh710.3bn ($74bn) in August 2019, of which 78.5% consisted of demand deposits. Total deposits increased at an annual rate of 3.1%, lagging behind credit growth and therefore suggesting a tendency towards increased reliance on money markets as a source of funding.

NPL: While delinquent loans were already high – at around 5% – before 2013, a sluggish economy weighed on the health of borrowers finances. By July 2019 NPLs measured in at 7.7%. Even so, provisioning levels were a comfortable 70%. "Risks from large credit exposures persist despite strict regulatory limits," the IMF wrote in its July 2019 Article IV Consultation for Morocco. "The continued expansion of Moroccan banks in Africa provides diversification and profit opportunities, but is also a potential channel of risk transmission."

The international institution expects regulatory reforms such as IFRS 9 to ease NPLs moving forward. "The new legal frameworks for bankruptcy and collateral regime are welcome steps that will help reduce the relatively high NPL levels," the IMF wrote. "The monitoring of consolidated financial statements and incentives to rely more on syndicated lending should contribute to lower concentrated credit exposures."

RETURNS: Despite weakening economic activity and declining credit growth, profitability has been stable, if modest, in recent years. Return on assets fluctuated between 0.8% and 1.1% during 2015-18, settling at 0.9% at the end of 2018, according to the IMF. Return on equity fluctuated between 9.5% and 11.7% over the same period, falling to 9.5% at the end of 2018. Among the larger banks, the share of profits derived from foreign holdings surpassed the share of foreign holdings in total assets. For example, in the first half of 2018 international activities accounted for 24% and 31% of the assets of Attijariwafa Bank and BMCE, respectively, but accounted for 37% and 43% of net income, according to Fitch Ratings. This is largely the result of the higher profit margins in less-mature markets such as those in Africa.

FINANCIAL INCLUSION: While more Moroccans are joining the formal banking sector, the rate of financial inclusion has slowed. In 2013 the number of new bank accounts rose by 8.9%, but fell to 6.4% in 2017 and then to 4.7% in 2018. By 2018, there were a total of 27m bank accounts. This was enough to see the share of the adult population with at least one bank account reach 60%, up from 56% in 2017. The improvement was largely due to the growing number of women opening accounts. Although the share of adult women with at least one account increased only from 37% in 2017 to 40% in 2018, the number of adult men with bank accounts remained stable, at 77%.

There are significant gaps in financial inclusion by age groups, with 83% of those aged 60 and over having at least one account in 2018, compared to 69% of those aged 25-59 and 24% of those aged 15-24. To address these gaps, BAM – in partnership with the Ministry of Economy and Finance – adopted the National Financial Inclusion Strategy in April 2019. The key pillars of the strategy are to accelerate the development of alternative finance models such as mobile payment, microfinance and inclusive insurance; encourage traditional banks to prioritise financial inclusion; develop tools to better understand the barriers to accessing finance for underserved people and businesses; promote the use of financial products; and put in place an appropriate governance structure.

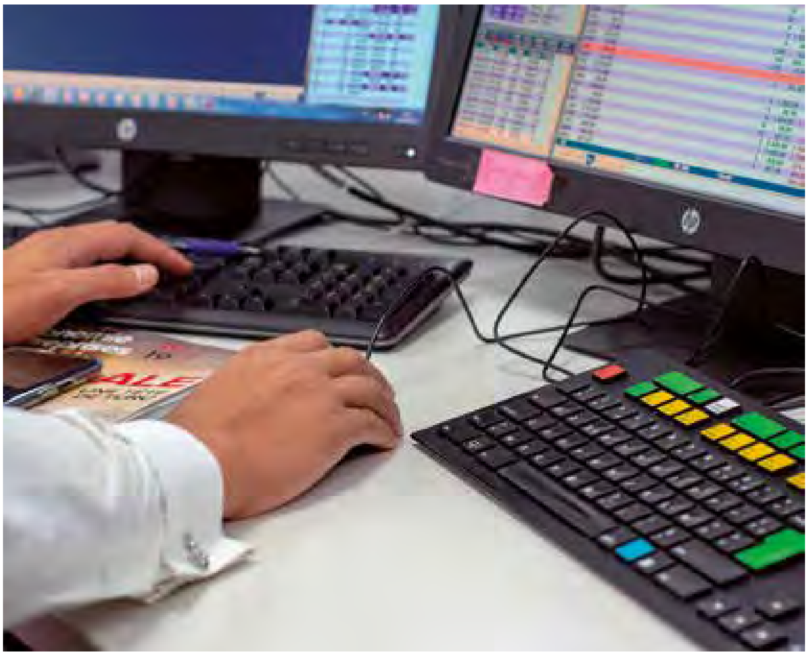
In February 2019 the authorities and the World Bank agreed a $700m financing programme to support the strategy's implementation and the transition to a digital economy. Seven inter-institutional, thematic working groups were launched in September 2019 to deliver various elements of the strategy. "The overarching objective of the National Financial Inclusion Strategy is to address the so-called exclusion zones, or segments of the population such as women, youth and rural residents, who are less likely to have access to formal financial products and services," Hakima El Alami, director of surveillance of payments and financial inclusion at BAM, told OBG.

PARTICIPATORY BANKING: After legislation was passed permitting sharia-compliant banking in 2015, BAM authorised the first five participatory banks in early 2017, with an additional three French-owned banks allowed to open Islamic windows. The early years have seen modest growth. By mid-2019 loans from participatory banks and windows accounted for less than 1% of the total, with the authorities targeting a 5% market share by the mid-2020s (see analysis). However, by the end of 2018 – the first full year of operations for participatory banks – the segment's balance sheet had reached Dh7.3bn ($760.5m), up from Dh2.6bn ($270.9m) in 2017.

DISTRIBUTION CHANNELS: The proportion of bank branches to the population has doubled since 2005, from one per 10,000 inhabitants to two in 2020. The financial and population centre of Casablanca dominates in terms of branch density, while rural areas are underserved. In 2018, 115 new bank branches – of which 56 were those of participatory banks, up from 44 in 2017 – were opened, bringing the network to 6503. At 1.8%, the network's annual rate of expansion in 2018 was below the 3.6% and 3.8% seen in 2014 and 2015, respectively, but above the 1.7% in 2017.

The number of bank cards rose by 7.2% in 2018 to 15.1m, from 14.1m in 2017. This was more than double the 7.1m cards in circulation in 2010, with the number of cards growing by around 1m per year since 2009. Meanwhile, the number of ATMs expanded more rapidly than bank branches, increasing by 3.8% to 7289 in 2018. Similarly to bank branches, however, the pace of growth has slowed, from 14.2% in 2009.

FINTECH: A combination of saturation and a transition towards digital banking has lessened the need to extend physical banking structure. Indeed, digital



Sector profitability has been stable, with return on assets fluctuating between 0.8% and 1.1% during 2015-18

channels are becoming increasingly central to banks' business models worldwide, reducing the need to establish extensive branch networks. While Morocco is still a largely cash economy, electronic, internet and mobile transactions have been gaining in popularity. "The digital transformation of Morocco's banking sector is well under way," Mamoun Tahri Joutei, head of the Economic Intelligence Centre at BMCE Bank, told OBG. "We are seeing banks consolidate their branch networks and only selectively opening new branches. Indeed, fintech is starting to take over: mobile payments are growing and new developments such as blockchain are on the horizon."

One way to leverage fintech is through crowdfunding, with some 70 projects gaining Dh2.2m ($229.2m) in financing via crowdfunding during the 2010-14 period. However, its development has been hampered by the lack of regulation. To address this, in August 2019 the government council approved a draft crowdfunding legislation, and in December of that year the government announced that it would be implemented in the coming months. The law will cover financing in the form of a loan, donations and capital.

The creation of an effective regulatory framework will also help to support the development of local fintech companies and ensure that they remain in the country. "Morocco needs to strengthen its ecosystem to encourage local talent to stay in the country," Rachid Bekkar, director-general of banking and financial software provider Adria Business and Technology, told OBG. "Skilled graduates are increasingly moving abroad, which is threatening the competitiveness of companies as well as the rest of the economy."

MOBILE MONEY: Mobile money is a fintech segment with significant potential to drive financial inclusion. Morocco introduced the M-Wallet mobile payment system in November 2018, jointly overseen by BAM and the National Agency for Telecommunications Regulation. The payment system aims to take advantage

The central bank – in partnership with the Ministry of Economy and Finance – adopted the National Financial Inclusion Strategy in April 2019.

115

new bank branches were opened in 2018, bringing the total to 6503

As of September 2019 there were 360,000 mobile wallets in operation, with the value of mobile payments expected to hit $5.2bn per year by 2030.

of the country's high mobile phone penetration and robust telecommunications infrastructure in order to advance financial inclusion. This forms part of wider efforts to boost digitalisation.

"Morocco has already been successful with several digitalisation efforts, such as Customs, which are now completely paperless," Youssef Largou, associate executive director of professional services and consulting firm PowerM, told OBG. "We can use these as examples for other public and private organisations looking to digitalise their operations."

As of September 2019 there were 360,000 mobile wallets, with the value of mobile payments expected to hit Dh50bn ($5.2bn) per year by 2030. "The government has been pushing the digitalisation agenda by putting in place a regulatory framework and necessary infrastructure for mobile payments," Taoufik Rabbaa, managing director of Citibank Morocco, told OBG.

LEASING: Leasing is an important segment of Morocco's financial sector. There are seven main players active in leasing, all of which are subsidiaries of banks. Leasing is a particularly valuable financing mechanism for small businesses and sole traders who may not have the track record, collateral or other requirements to access traditional bank lending. "SMEs are at the core of the leasing business and represent about two-thirds of all clients," Mohamed Amimi, managing director of Maroc Leasing, told OBG. "These companies appreciate the availability of 100% financing without the need for a guarantee, and depend on the faster response and greater flexibility offered in leasing."

In 2019 three leasing companies – Maroc Leasing, WafaBail and Maghrebail – held a combined market share of 70% in terms of new volume. Following a similar trend to the economy at large, the leasing segment expanded rapidly until the 2007-08 global financial crisis, after which it experienced more subdued levels of growth. "In order to boost the market, it is necessary to introduce operational leasing to give the customer more flexibility in terms of service management and risk," Amimi told OBG.

OUTLOOK: An expected uptick in economic activity from 2020 onwards should allow for a gradual acceleration in lending coupled with a reduction of NPLs. There is room for growth as initiatives to boost financial inclusion through fintech, mobile money and participatory banking continue to progress. Banks' foreign holdings are expected to be profit drivers in the coming years as the local market reaches saturation levels seen in advanced economies.

However, to consolidate growth it will be necessary to provide more financing alternatives to SMEs. "SME financing is one of banking's key challenges, and new businesses without strong financial guarantees often find it difficult to access credit," Youssef Bencheqroun, managing director of non-profit Al Amana Microfinance, told OBG. "Micro-credit has the potential to bridge the gap between financial firms and start-ups."

There were 73,528 participatory bank accounts at the end of July 2019

By the book

Market matures with new sharia-compliant offerings

In the years since Morocco introduced sharia-compliant financial services in early 2017, local players have grown significantly and cultivated a strong market with diversified offerings, including various banking products, Islamic bonds (*sukuk*) and Islamic insurance (*takaful*). "Islamic banks, takaful companies, the regulator and other stakeholders are working closely to complete the Islamic financial services ecosystem and strengthen the tools available," Fouad Harraze, managing director of Al Akhdar Bank, told OBG. "There is now a more defined framework that will facilitate swift maturation and lead to major achievements in the future, especially given the strong demand we have noticed in the retail and small business segments."

GLOBAL MARKET: According to the Islamic Financial Services Board's "Islamic Financial Services Industry Stability Report 2019" released in July of that year, total Islamic financial services assets were valued at \$2.2trn at the end of the second quarter of 2018, up from \$2trn at the end of 2017. The segment's rate of growth slowed between 2016 and 2017, from 8.5% to 6.9%, with the slowdown largely attributable to local currency depreciations against the US dollar in some countries with active Islamic finance sectors. Islamic banking accounted for 72% of all Islamic finance assets at the end of the second quarter of 2018, down by 4% from 2017, while its growth slowed from 4.3% to 0.9%. Islamic capital markets products increased their share by 4% over the same period, to 27%.

HISTORY: Morocco began offering sharia-compliant products relatively late in the game. Egypt, in comparison, first offered such products in the early 1960s. It was not until 2011 that officials began discussing Islamic banking, better known as participatory banking in Morocco. In 2015 landmark legislation was passed that provided the initial framework for the segment. It also created a board within the Supreme Council of Islamic Scholars to oversee compliance of financial products and services with sharia law. Bank Al Maghrib (BAM), the central bank, approved the first five participatory banks in January 2017. Subsequent legislation was passed in 2018 and 2019 regarding solvency and liquidity, respectively.

LOCAL OFFERINGS: In Morocco five banks opened 44 participative branches when sharia-compliant banking was introduced in early 2017. The number of branches grew nearly three-fold, reaching 124 by the end of July 2019. Most of the largest banks participated from the outset, including Attijariwafa Bank, Groupe Banque Centrale Populaire, BMCE Bank of Africa, CIH Bank and Crédit Agricole du Maroc. Subsidiaries of the main French banks with operations in Morocco – including Société Générale, BNP Paribas and Credit Agricole's Islamic Development Bank – were also approved to offer Islamic financial services.

By the end of July 2019 there were 73,528 participatory bank accounts valued at Dh2bn (\$208.4m), up from 56,918 at the end of 2018. The most popular borrowing instrument – accounting for approximately 85% of all participatory bank loans – was *mourabaha,* or a contract in which the bank sells an asset such as a house or a vehicle to a client in return for a commission. However, sharia-compliant loans accounted for less than 1% of total lending at the end of 2018. Of the Dh7.2bn (\$750.1m) in participative lending that had been issued by the end of July 2019, Dh6.6bn (\$687.6m) consisted of mortgages and Dh568m (\$59.2m) of auto loans. The authorities are working with banks to develop the range of sharia-compliant products on offer, including mourabaha for credit cards and investment deposits, as well as refinancing instruments known as *wakala bil istithmar.*

Assets at the five participatory banks and three windows increased nearly three-fold in 2018, from Dh2.6bn (\$270.9m) in 2017 to Dh7.3bn (\$760.5m), while lending rose from Dh182m (\$19m) to Dh4.5bn (\$468.8m) over the same period. Deposits grew from Dh671m (\$69.9m) in 2017 to Dh1.7bn (\$177.1m) in

Of the \$750.1m in participative lending that had been issued by the end of July 2019, \$687.6m consisted of mortgages and \$59.2m of auto loans.

Assets at the country's five participatory banks and three windows rose nearly three-fold to $760.5m in 2018

In July 2019 legislation authorising takaful (Islamic insurance) was passed, and it is expected that up to six providers offering life and general coverage will enter the market in 2020.

2018, and aggregate losses increased from Dh175m ($18.2m) in 2017 to Dh377m ($35.1m).

TAKAFUL: The Islamic financial sector received a boost in July 2019, with the passage of legislation authorising takaful and allowing insurance companies to launch dedicated subsidiaries. It is expected that up to six takaful providers offering life and general coverage will enter the market in 2020. One key difference between takaful and participatory banking is that insurers – whether a traditional insurer, a bank or another financial institution – are required to establish separate subsidiaries, while conventional banks are permitted to open an Islamic window. Nonetheless, the introduction of takaful is an important step towards a diverse, competitive and comprehensive Islamic finance ecosystem (see Insurance chapter).

SUKUK: Islamic financial institutions need a steady supply of sharia-compliant investment products to manage liquidity and asset portfolios in a manner consistent with the Muslim faith. To ensure the success of a nascent Islamic financial sector, it is important that the authorities take a comprehensive approach, creating a market that includes capital markets products and services. With this in mind, the government launched its first sharia-compliant sovereign bond in October 2018. The Dh1bn ($104.2m) instrument was well received by the market, being 3.6 times oversubscribed. The *ijara* (leasing) offered a five-year maturity period and 2.66% annual yield. Under the terms of the offering, the government will transfer real estate assets whose annual rents would go to bondholders over the five years. Local institutional investors were among the most active buyers when the instrument was placed on the over-the-counter market.

In October 2018 the government launched its first sharia-compliant sovereign bond. The $104.2m instrument was 3.6 times oversubscribed.

While there was not a definitive timeline for future corporate or public sector sukuk issues as of late 2019, local demand for such products is expected to grow as more people get involved with the takaful and participative banking segments. For sukuk to reach its full potential in the local market, however, the authorities will need to create a regulatory framework that will allow banks and insurance companies to offer sukuk on the local capital markets.

CHALLENGES: While Islamic finance has seen steady growth since 2017, it has been hampered by several challenges including a lack of capital and liquidity, according to a July 2019 report from Fitch Ratings. Participatory banks must often rely on their parent institutions for deposits. Even so, it has significant potential. "[Islamic finance] supports the city of Casablanca's ambition to become a leading financial hub in Africa," Bashar Al Natoor, global head of Islamic finance at Fitch Ratings, told international media in July 2019. It could also unlock investment from Islamic investors based in the Gulf Cooperation Council and further financial inclusion, Al Natoor explained. "Although the Moroccan banking sector has one of the highest levels of penetration in Africa, Islamic finance could help to build on this growth."

The ratings agency also noted that it would take time for the public to fully appreciate the benefits of Islamic finance. "An awareness campaign across the country would help showcase the different Islamic products available, as well as help achieve the objectives of the National Financial Inclusion Strategy to boost penetration rates," Mohamed Maarouf, managing director of BTI Bank, told OBG.

TARGETS: The authorities aim for a 5% market share for participative banking by 2024, eight years after such services first became available in Morocco. Attracting smaller firms, which traditionally have difficulty securing financing, to Islamic finance will be necessary to reach this goal. "Small and medium-sized enterprise financing has been identified as a key enabler of the Islamic segment's growth in the long term in order to respond to the needs of the economy," Mouna Lebnioury, managing director of Bank Al Yousr, told OBG. "Islamic banking can act as a viable financing solution for all target audiences, including individuals, professionals and companies."

Participatory banking is also seen as a way to reach under- and unbanked populations. "A hurdle was overcome and all financial operators are now witnessing the true potential of the integration of Islamic banking and the role it can play in increasing financial inclusion. It has already enabled a wider range of people to have access to finance," Adnane El Gueddari, director-general of Umnia Bank, told OBG.

However, for the segment to expand further, investment must be made in rural banking and administrative barriers to opening an account must be addressed. The authorities and financial institutions will also need to reach out to local populations to raise awareness of Islamic products and show how they differ from their conventional counterparts. After takaful operations begin in 2020, the three main elements of an Islamic finance ecosystem will be in place. Additional sukuk offerings will bring momentum, and with strong projected growth, participatory banking is expected to be an important driver of financial inclusion efforts.

Abdellatif Jouahri, Governor, Bank Al Maghrib

Going green

Abdellatif Jouahri, Governor, Bank Al Maghrib (BAM), on sustainable banking and increasing financial inclusion

What are the main monetary policies adopted by BAM in response to current conditions?

JOUAHRI: As we predict inflation to remain moderate in the medium term and non-agricultural activities to see a gradual recovery, BAM has maintained an accommodative monetary policy in recent years, keeping its key rate unchanged at the historical low level of 2.25%. At the same time, it has continued to support and facilitate financing for micro-, small and medium-sized enterprises, in particular through a programme established in 2013 that gives banks access to funds worth up to the equivalent value of credit they grant to this category of businesses. We will also adopt a number of additional measures in 2020, developed as part of an entrepreneurship support programme. In response to the widening liquidity deficit, BAM has adapted its average weekly injections to the changing needs of banks, raising them from Dh42.3bn ($4.4bn) in 2017 to Dh77.6bn ($8.1bn) in 2019. In addition, in September 2019 the bank's board decided to reduce the rate of monetary reserves from 4% to 2% in order to structurally reduce the need for continued interventions. This adjustment allowed a permanent injection of a little more than Dh11bn ($1.1bn).

The reform of the exchange rate regime – first implemented in January 2018 – has been successful, with a gradual deepening of the inter-bank market. The flexible exchange rate moved within the target range without intervention from the central bank.

How would you characterise the potential of green finance in the Moroccan banking sector?

JOUAHRI: Green finance is crucial to enable countries – especially emerging and developing ones – to fulfil commitments made under the Paris Agreement. Indeed, Morocco will need $50bn for mitigation programmes and at least another $35bn for adaptation projects through to 2030. Mitigation programme requirements alone will depend on an international support of about $24bn.

Beyond the Paris Agreement, financial institutions are working to facilitate economic diversification, sustainability and energy transition. They also help finance projects in the renewable energy sector, and some banks are developing financing products specific to sustainable development. Banks have also issued green bonds. These initiatives will need to be further developed and well integrated into banks' business development and operational strategies.

On the demand side, it is imperative that the authorities implement incentives that encourage sustainability, such as subsidies, eco-taxes and environmentally focused regulations. This would make it possible to offset the high costs of green projects.

In what ways can financial products targeting small and medium-sized enterprise (SME) development be improved?

JOUAHRI: Because of the central role SMEs play in the economy, Morocco's financial authorities have strived to increase financial inclusion for over a decade, in particular for smaller firms. Indeed, backed by encouragement from BAM, many measures have been implemented by both public- and private-sector stakeholders to develop an inclusive environment that provides financing products and dedicated support networks to SMEs.

Despite efforts to boost financial inclusion, however, access to funding remains one of the major impediments to growth faced by SMEs. BAM has developed a national financial inclusion strategy in partnership with the Ministry of Economy and Finance, and with stakeholders in the finance world, to respond to these challenges and implement policies that enhance access to finance. A detailed roadmap was established and adopted by the Strategic Council at its second meeting in November 2019.

Kamal Mokdad, CEO and Head of International Global Banking, Banque Centrale Populaire

Growth potential

Kamal Mokdad, CEO and Head of International Global Banking, Banque Centrale Populaire, on expanding the local business model throughout Africa

What is the potential for growth across the African continent for Moroccan banks?

MOKDAD: Today, sub-Saharan Africa is an area of expansion for Moroccan banks for several reasons. First, the business model developed by financial institutions in Morocco has demonstrated its resilience in terms of sustainability and its ability to support economic emergence through greater financial inclusion in urban and rural areas. Moroccan banks have developed a broad national network, allowing them to reach maturity, so it is natural that they now look to export this business model throughout Africa.

The second reason is the attractiveness of African economies with significant growth potential and a need for financing large-scale infrastructure projects. These economies are rapidly growing and have national programmes in key areas, such as infrastructure, education, health and energy, in which the banking sector can play a role in financing.

The third reason is opportunism. Many foreign banks are disengaging from Africa at the moment. This represents a historic opportunity for continental players with a solid financial base to penetrate these markets and fill the gap left by these companies.

It was thus a strategic decision for Moroccan banks to expand in Africa. In addition, this has allowed local subsidiaries to support Moroccan companies in their African expansion plans. Banks have been able to encourage telecommunications, insurance, real estate and pharmaceutical companies, among others, to expand, given their local network and the appropriateness of banking offerings.

How can banks adapt their offerings to the varied needs of African markets?

MOKDAD: Today, between 30% and 40% of net banking income for Moroccan banks is generated through their sub-Saharan subsidiaries. This was achieved by adapting offers in each market and leveraging the density of the network of Moroccan banks in Africa. Many criteria have to be taken into account – such as the banking penetration rate and the cost to serve, as well as purchasing power – in order to develop a relevant strategy for each country. This also includes introducing a wide array of digital services if the government allows it and if the market is prepared.

In Morocco the country has not based its model on digital but on a multitude of points of sale nationwide. It has a strong network that has been built over several decades, but the speed at which some other countries are developing allows them to leapfrog. With a rate of mobile telephony equipment that exceeds 100% in several countries, it was natural to think of delivering products through electronic channels instead of reproducing the Moroccan physical coverage model.

In what ways can the Moroccan banking sector contribute to the development of micro-, small and medium-sized enterprises (MSMEs)?

MOKDAD: We have redefined our models of support for entrepreneurship. Morocco has brought together a number of players to create an ecosystem favourable to entrepreneurship. It starts with banks providing loans to project holders, entrepreneurs and MSMEs at competitive rates, capped at 2%. Additionally, administrative costs and personal security deposits were also removed, and the central bank, Bank Al Maghrib, as well as the Caisse Centrale de Garantie are now providing financing and guarantees to companies with strong business plans.

New financial inclusion strategies will finally bring us within reach of non-urban areas, which will reduce the rural exodus. This access will come in the form of financial aid that will help companies in their development strategies. Thanks to a strong network throughout the country, the banking system can offer guidance to business leaders on projects and strategies that will create added value for rural areas.

Green bonds were used to finance the Noor I solar power facility

Breath of fresh air

Investors turn to green bonds to finance clean energy and sustainable construction projects

As businesses and governments worldwide seek to finance the vast investments required for projects to combat climate change and make the global economic model more environmentally sustainable, green bonds have become a popular capital market vehicle. The products are typically structured like a corporate or sovereign bond and asset-linked, but are used to raise money exclusively for sustainable climate and environmental projects. Interest in the environmental, social and corporate governance agenda has also been an important driver of the segment's expansion. As of early 2020 there had been five green bonds issued in Morocco to fund projects such as solar power plants, energy efficiency and sustainable buildings.

REGULATORY FRAMEWORK: In recent years Morocco has developed regulations to encourage the proliferation of green bonds. In 2016 – ahead of the country's first green bond issuance – the Moroccan Capital Markets Authority (Autorité Marocaine du Marché des Capitaux, AMMC) published guidelines developed in partnership with the International Finance Corporation that set the ground rules and operational framework for green bonds. The guidelines explained how potential issuers should identify and select applicable projects, have the projects independently reviewed, and secure necessary authorisations from the regulator. The document also outlined reporting requirements.

From a regulatory standpoint, green bonds are treated similarly to traditional bonds, albeit with additional steps to ensure the funds raised are environmentally conscious and sustainable. The offerings have been successful, and authorities from around the region are taking note. "Green bonds are becoming increasingly important, and we are seeing significant interest from investors," Nasser Seddiqi, director of financial operations and markets of the AMMC, told OBG. "Because Morocco is among continental leaders, regulators from other African countries are coming to us to learn how we adapted our regulations to support green bonds."

In 2018 the AMMC published additional guidance on green bonds that updated the first guidelines and expanded the market financing opportunities available by introducing social and sustainability bonds.

FIRST ISSUANCES: Morocco's first green bond was issued in November 2016 to coincide with the UN Climate Change Conference hosted in Marrakech. The Moroccan Agency for Sustainable Energy (Marocaine pour l'Energie Durable, Masen) issued the 18-year, Dh1.2bn ($125m) offering. The funds were raised to finance the 160-MW Noor I concentrated solar power plant, with construction commencing in 2018. The bond was followed by a Dh355m ($37m) issue from Casablanca Finance City in September 2018 to finance three LEED-certified buildings.

As of early 2020 Morocco had issued five green bonds valued at Dh4bn ($416.7m). In addition to Masen and Casablanca Finance City, green bonds were issued by two banks for financing and refinancing sustainable energy and energy efficiency projects. In November 2018 another issue was made by state-owned housing developer Al Omrane Holding. Half of the Dh1bn ($104.2m) offering was in green bonds, while the remainder was conventional. The Al Omrane offering – more than eight-times oversubscribed – used the funds for energy efficiency and pilot housing projects that incorporated technical solutions based on different climate zones. Each of the offerings were over-the-counter deals, although the Casablanca Stock Exchange has signalled its interest in incorporating green bonds in the future.

Given the greater flexibility in broadening beyond green bonds to include social and sustainability bonds, it is expected that green bonds will play an important role in financing Morocco's shift towards a sustainable and climate-conscious economy.

In 2018 the Moroccan Capital Markets Authority issued guidance on green bonds that expanded financing opportunities to include social and sustainability bonds.

As of early 2020 Morocco had issued five green bonds valued at

$416.7m

Global Perspective

A swing in the balance

Following a retrenchment of overseas operations by numerous major banks, how are firms in emerging markets responding?

Since the global financial crisis of 2007-08, cross-border capital flows have fallen from a record-breaking $12.4trn in 2007 to $4.3trn in 2016.

The three decades before the 2007-08 global financial crisis were marked by the world's financial networks becoming increasingly interconnected. Financial system regulatory convergence, the growing penetration of World Trade Organisation rules and the creation of currency unions, such as the euro, resulted in a surge in cross-border capital flows. Global banks began to see the emergence of a single global marketplace, and the potential this held for revenue and asset growth. In 1998 co-chairman of the freshly formed Citigroup, Sandford Weill, announced the dawn of a new age of banking in which large institutions would act as financial supermarkets to the world, with their activities so diversified that they would be able to withstand downturns of the global economic cycle.

Citigroup was not alone in this view: major financial players such as the Royal Bank of Scotland (RBS), Deutsche Bank, BNP Paribas, Barclays, HSBC, Crédit Agricole, UBS, Bank of America, Société Générale and JPMorgan Chase grew their international businesses on the back of a rising tide of global capital, which saw cross-border transfers rise from $500bn in 1980 to a record high of $12.4trn in 2007.

DISAPPEARING ACT: The global financial crisis which started that year, however, brought an end to this trend. According to data from McKinsey Global Institute, cross-border capital flows had declined by more than 80% from their peak by 2009, reduced to a level lower than that seen in the early 1990s. By 2016 cross-border capital movement had risen to $4.3trn, above the level it was in the late 1990s, but still 65% lower than the high of 2007.

In recent years there has been a gradual withdrawal of global banks from both developed and emerging markets, with regulation most frequently cited as the reason for departure.

During that period, banks offloaded foreign assets acquired during boom years, and the foreign claims of banks in the eurozone slumped by $7.3trn, or around 45%, as a result of this de-risking process. The primary driver of this trend was a reassessment of risk attached to foreign business, and the realisation that in many cases the revenues and margins obtainable in home markets – where banks enjoy the benefits of scale and local knowledge – are higher than those to be found abroad.

Since 2008 there has also been a gradual withdrawal of global banks from both developed and emerging markets. In 2014 Citibank announced that it was withdrawing from 11 markets, including Egypt, the Czech Republic and Japan. The announcement followed similar withdrawals from consumer markets in Pakistan, Uruguay and Spain, and left the bank's global footprint at 24 countries – half that of 2012. HSBC, meanwhile, has retreated from more than 20 markets since 2011, including Chile, Peru, Colombia, Jordan, Kuwait, Thailand and South Korea.

Barclays' retrenchment in mainland Europe – starting with the sale of its retail banking networks in Spain, Italy and Portugal – spread to Asia, Brazil, Russia and Africa after 2014. The bank's departure from Egypt in 2016 ended a relationship with the country that had continued, with only the occasional interruption in operations, since 1864.

In 2015 Deutsche Bank announced that it would shed 9000 full-time jobs by 2020 and close operations in 10 countries, including Argentina, Chile, Mexico, Malta and New Zealand. The trend is clear: many of the world's biggest banks are withdrawing from the advances they made in the 1990s and 2000s in order to focus on their domestic bases, which are largely in the US and Europe.

REGULATORY PRESSURES: The reasons multinational banks give for the closure of overseas businesses generally include improved profitability, income stability, more efficient allocation of capital and political instability. The most frequently cited reason, however, is the question of regulation. For example, a 2016 analysis by Spanish banking group BBVA of banks from the US, Canada, the UK, Sweden, Germany, Austria, the Netherlands, France,

The withdrawal of global banks from emerging markets has seen a concomitant decline in the number of correspondent relationships between large multinational players and smaller, regional banks.

Italy, Spain and China found that regulation was the key driver in the trend of banks pulling out of certain countries and business lines. Regulatory pressure points include the introduction of stricter capital and liquidity requirements, the ring-fencing of wholesale and investment banking from retail banking, and the different speeds at which countries are implementing banking reforms.

In addition, new reporting standards and a tougher stance on money laundering and illegal activities by the world's major regulators over the past 10 years have further encouraged geographic contraction. Banks doing business on a global scale have found it difficult to avoid the $800bn-2trn of "dirty money" that the UN estimates is laundered annually, and which has become a matter of interest to law enforcement agencies around the world.

Money laundering and fraud scandals have resulted in global banks receiving multibillion-dollar fines from the US Department of Justice, and shareholders have become wary of foreign ventures where proper scrutiny of capital may be more difficult to conduct than in their home market. Consequently, the global reach once seen as a fundamental strength of large banking groups is often viewed these days as an increasing liability, with lenders open to regulatory and financial risks as they struggle to manage their geographically dispersed businesses effectively.

CORRESPONDENT DECLINE: The withdrawal of global banks from emerging markets is not limited to the closure of head offices and branches. Indeed, there has also been a decline in the number of correspondent relationships between large multinational players and smaller, regional banks – where one lender provides services such as wire transfers and deposit acceptance on behalf of another. Correspondent banking relationships are considered to be important facilitators of the global economic system, and therefore any change in their operation is a significant matter of concern for regulators.

A 2017 paper on the subject published by the IMF found that some emerging economies have been more adversely affected than others by this trend. In Belize, Iran, Liberia and Sudan, for example, there has been a considerable decline in the number of correspondent bank relationships, which has increased financial sector fragility and exposed some lenders to a potential ratings downgrade.

However, in markets such as Kuwait, the Bahamas, Morocco, Saudi Arabia and the UAE, the withdrawal of global banks from correspondent banking relationships has been less marked. In some cases, such as Kuwait, domestic banks acted pre-emptively to reduce the perception of risk associated with their operations, which might have otherwise prompted global banks to cut relations. Actions taken in this regard included closing the accounts of certain domestic charities and foreign exchange houses.

However, the challenge of maintaining correspondent banking relations for institutions with smaller capital bases remains a significant one in 2019. "It has definitely been an issue for smaller banks, where carrying out a more thorough risk assessment by foreign correspondent entities is more difficult," Ronald Harford, chairman of Trinidad and Tobago's Republic Financial Holdings, told OBG. "In addition, smaller banks do not usually have the capacity to certify that deposits do not have an origin in certain activities, such as gambling."

NEW OPPORTUNITIES: The retrenchment of international banks over the past decade has resulted in opportunities as well as challenges. Regional lenders, which had for decades fought for market space with large global institutions, have welcomed the chance to move into the recently vacated territory.

In some parts of the world this process has been an incremental one, characterised by domestic banks boosting their lending capacity through large bond issuances or initial public offerings, and using their stronger financial bases to move into nearby markets. In other regions, large domestic players have bought large amounts of foreign assets, quickly establishing themselves as regional giants.

Capital building has only been part of the story. One of the key differentiators of international players and domestic banks is the comprehensive product array offered by the former. In order to fill the market space left by global banks, domestic players have been compelled to match their erstwhile rivals product by product, resulting in regional banks that are capable of performing more functions for a wider array of customers than before.

AFRICA: Regional lenders from Africa's most vibrant economies, such as Nigeria, Morocco and South Africa, have been quick to address the market space left by departing global players. Nigeria's biggest lender, GTBank, first stepped outside the domestic market in 2002, but since 2013 has pursued a more aggressive expansion strategy. Its acquisition of a 70% stake in the Nairobi-based Fina Bank Group gave it an East African foothold, and a strong digital offering has established it as one of the drivers of digital banking in the region.

Nigeria's United Bank for Africa (UBA) also has pan-African ambitions, having started its expansion with a move into Cameroon in 2007. As of early 2019 UBA had 18 African subsidiaries, which account for 20% of the group's balance sheet – a figure the bank intends to increase to 50% in the future. Moroccan banks, meanwhile, have been competing with global lenders across the continent since the early 2000s, and are now enthusiastically grasping the opportunities presented by the withdrawal of global players. Leading the pack is Attijariwafa Bank, which took over Barclays' Egypt operation in 2016 and is now present in 16 African markets. In 2018 Moroccan banks had some 50 subsidiaries in 25 African countries, and as income growth has slowed in their home market, their continental holdings are providing them with vibrant revenue streams. Around 28% of the consolidated net income of Attijariwafa, Banque Centrale Populaire and BMCE Bank of Africa was derived from African subsidiaries in 2017.

GCC: Some Gulf Cooperation Council (GCC) markets have been particularly affected by the retrenchment of global players. Since the 2007 global crisis, for example, the UAE has lost RBS, Lloyds, Barclays and Standard Chartered, though HSBC has strengthened its presence. However, some regional lenders have made their own expansionary moves into economies beyond the region. For example, Qatar National Bank, which until recently was the biggest lender in the region in terms of Tier-1 capital, opened its first foreign branch in London in 1976, before implementing an international expansion strategy that has resulted in a presence through subsidiaries or associates in more than 30 countries.

While a desire to protect domestic firms has traditionally curtailed intra-GCC expansion, some lenders have successfully overcome this hurdle. In 2017 the Bahrain-based Gulf International Bank took a significant step towards its goal of becoming a pan-GCC institution when it won approval from Saudi Arabia's Council of Ministers to establish Gulf International Bank – Saudi Arabia, thereby becoming the first foreign-domiciled bank to be granted a local commercial banking licence in the Kingdom.

A phase of banking sector consolidation is also sweeping the region, creating new lenders with balance sheets capable of financing large projects. Saudi Arabia's first bank consolidation in two decades saw Saudi British Bank agree to complete a merger with Alawwal in the first half of 2019.

With more than 70 listed banks in the GCC's crowded market, more mergers and acquisitions are expected over the short term, with attention currently focused on talks between Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank.

LATIN AMERICA: Many multinationals such as HSBC, Citigroup and Credit Suisse have sold or reduced their operations in Latin America since 2013. While some players with strong franchises in the region, such as Santander and BBVA, remain, opportunities for regional banks to extend credit across the business spectrum have risen.

Six of the 10 biggest regional banks in 2018 were headquartered in Brazil, and the largest players, such as state-owned Banco do Brasil and private lender Itaú Unibanco, have established a solid presence across the continent. Itaú's cross-border acquisitions, in particular, have set it up to become a truly pan-Latin American institution: in 2014 it merged with the Chilean bank CorpBanca, a move which also saw CorpBanca's Colombian and Panamanian operations being rebranded under the Itaú name.

Colombian banks sought regional expansion, too, with Bancolombia's acquisition of El Salvador's largest bank in 2007 marking the beginning of this process. Colombia's Grupo Aval, parent company of Banco de Bogotá, has also invested heavily in the region, acquiring Banco de América Centra Credomatic's operations in 2012 and BBVA's Panama unit the following year. By 2017 Colombian banking groups controlled 53% of the financial system of El Salvador, 25.5% of Panama's and 21% of Costa Rica's.

ASIA: Regional banking growth has seen domestic and cross-border loans in Asia (excluding Japan) rise from $7.8trn in 2008 to $17.6trn in 2018. Chinese institutions have recorded especially strong growth, expanding their lending portfolios at a compound annual rate of 17% over this period. They have also shown a willingness to take on more credit risk than Western counterparts, offering leveraged loans to private equity firms at up to eight times earnings before interest, tax, depreciation and amortisation (EBITDA), while most US and European banks are limited by credit risk rules to around four times EBITDA.

Banks from Taiwan, India, South Korea, Japan and Australia have ramped up regional operations, as have lenders from the smaller markets of Singapore and Malaysia. The latter's Maybank doubled its market share as bookrunner for Asian syndicated loans (excluding Japan) in 2017, according to Bloomberg.

A phase of banking sector consolidation is sweeping the Gulf Cooperation Council, creating new sector heavyweights with balance sheets capable of financing large projects.


THE LEADING
INDEPENDENT
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Global Perspective

Competing coins

A new proposed digital currency is pushing central banks to respond to technological disruptions

The first cryptocurrency transaction in history was feted in just two words: “Running Bitcoin”, which came in the form of a tweet on January 11, 2009 by Hal Finney, a US software developer. Some 10 years and over 1600 initial coin offerings later, the world of crypto-, virtual and other digital currencies looks to have provoked an active response from financial sector leaders. However, this was sparked not by an entity with an established cryptocurrency profile, but by social media giant Facebook. In June 2019 the company introduced its digital currency Libra, promising a launch date in 2020. Central banks and global institutions spent the previous decade watching the development of alternative currencies, but are now taking action after Facebook’s announcement. They have made it clear that they perceive digital currencies as a threat to economic stability, and argue that having a leading technology company participate in the financial services landscape exacerbates that risk. According to Jerome Powell, chairman of the US Federal Reserve, Facebook’s size and global reach would make Libra an instant and systemic risk.

GROWING MOMENTUM: In January 2019 the Bank of International Settlements (BIS), a Switzerland-based organisation of central banks, stated that most central banks were “not seeing the value” in creating their own digital currencies. However, two weeks after the Libra announcement, Agustín Carstens, general manager of the BIS, announced that multiple central banks were working on issuing their own digital currencies, and that the BIS is offering technical advice on how to do so. According to a BIS survey published in 2019, more than two-thirds of the 63 banks surveyed were considering creating central bank digital currencies (CBDCs). While most of the banks have not explicitly stated that the goal of their offering is to crowd out Libra, the European Central Bank has more directly said it plans to establish its own digital currency in response to the Libra proposal. It is not yet clear whether digital currencies from the public and private sectors would be in direct competition – that depends on whether central banks design theirs with wholesale, or retail, banking in mind. Nonetheless, they appear ready to take on the risks inherent in moving outside their regulatory comfort zone – even as the Libra project has lost some steam due to the perceived challenges of getting approval from regulators. “This is risky business,” Martin Chorzempa, a research fellow at the Peterson Institute for International Economics, a non-profit think thank based in Washington, DC, told OBG. “If CBDCs do not work, the credibility of the central bank could suffer.”

Leadership in CBDCs has thus far come from Sweden, where the Riksbank’s e-krona is a key part of that country’s strategy to abandon paper money; and from China, where the People’s Bank of China has been working on a digital currency that, as of early 2020, was “progressing smoothly”, according to the central bank. Another innovator is Tunisia, which already has a digital currency, the e-dinar, established by the national postal service, and whose central bank is also considering a CBDC. Furthermore, in Indonesia, where Bitcoin is tradeable but banned for payments, Agus Martowardojo, governor of the Bank Indonesia, said in early 2018 that a digital rupiah issued by the central bank could be a year or two away; however, no further announcements had been made as of February 2020.

GAUGING INTEREST: Meanwhile, some central banks are sticking with the BIS’ previous position that issuing their own digital currencies is not necessary. These include the central banks of the US, Singapore and the Philippines, the latter of which is a key player in global financial flows due to its position as the fourth-biggest recipient of global remittances. In these countries, the likely approach to alternative currencies will be regulation. “We have to be open to innovation [while at the same time maintaining responsibility to the] consumer,” Benjamin Diokno, governor of Bangko Sentral ng Pilipinas, told local press in July 2019. Many have noted that in places that are already open to financial innovation

Central banks and global institutions spent the previous decade quietly watching the development of alternative currencies, but are now taking action after an announcement by a global tech giant in mid-2019 of plans to launch its own digital currency.

Central bank digital currencies are seen as a way to promote financial inclusion in emerging markets, as mobile access to a digital currency could be easier for people in remote places or those facing language barriers.

– such as Kenya, the first country in which mobile money platforms were available – regulatory approaches often require technology companies to partner with banks. In Mexico the central bank believes there would be no demand for CBDCs unless users are ensured anonymity, though that could aid money-laundering and other illicit financial flows. "At one extreme, full anonymity [and] protecting user privacy may facilitate the execution of illegal activities," Javier Guzmán Calafell, deputy governor at Banco de México, said in a speech in July 2019. "At the other end, perfect traceability may hinder interest in CBDCs from users who, for personal and perhaps completely legitimate reasons, prefer to keep part of their transactions unrecorded."

LIBRA: Digital currency is the umbrella term for all crypto- and virtual currencies, and experts do not agree on what type of digital currency Facebook and its partners are proposing, nor how it should be regulated. Juan Castañeda, a senior lecturer in economics at the UK's University of Buckingham, told OBG that Libra would allow its users to make payments and transfer money. Banking regulators, however, see it as a financial services product that should be regulated as banking products are. This would require Facebook and its partners in the project to shoulder some of the same responsibilities as banks, such as active and ongoing customer due diligence to avoid money-laundering and other illicit financial flows. From the perspective of the US Securities and Exchange Commission, the currency should be classified as a security because it could deliver investment income to its partners. Though Facebook has said that it is flexible on the details, it is likely Libra will not be a floating currency like Bitcoin. The initial plan included pegging Libra's value to a basket of conventional currencies, likely large and stable ones such as the dollar, euro and sterling. For each Libra in circulation, there would be a unit of these currencies held in an account called the Libra Reserve. This has led some to call the Libra a stablecoin, since the value of the Libra would not likely drop below the value of the conventional currencies underlying it. It would bring specific benefits to the countries whose currencies are in the basket, in the form of increased foreign exchange demand, and a motivation to keep its value stable. "Central banks would have an incentive to maintain the value of their currencies, because they would want Libra to use them," Castañeda told OBG.

BLOCKCHAIN TWEAK: The Libra also stands out from Bitcoin in how it proposes to use blockchain technology. Bitcoin has helped to popularise blockchain as a permissionless system, in which participation and execution are transparent. For Libra, however, only those with permission are able to view the electronic data trail and track its activity. Access would be limited to members of the Libra Association, a not-for-profit group to be based in Geneva, Switzerland. These entities would then serve as an intermediary that can access the ledger, exchange Libra for hard currencies and offer customers digital wallets in which to store their Libra. The association initially had 28 members, including payments companies, venture capital firms, blockchain companies, telecommunications providers and non-profit organisations. However, by October 2019 the group had shrunk to 21, as Mastercard, Paypal and others decided to end their involvement.

Holders of Libra would not earn interest on balances held in their digital wallets, like they would with conventional money held in a bank account, but would gain flexibility in international payments and benefit from lower fees and faster transfers. This would leave the Libra Reserve with a pool of capital it plans to invest in low-risk instruments such as government bonds. These would earn a return on investment, which would be used by the Libra Association to cover costs. Anything left over would accrue to its members. This structure gives Libra sufficient similarities to a pooled investment fund, which triggered the US Securities and Exchange Commission's review to determine whether it should regulate aspects of the new currency offering.

FAST RESPONSE: While central banks have responded to Libra by speeding up their deliberative processes around crypto-, digital and other alternative currencies, and by considering offering their own versions, it is not clear that CBDCs would be a natural competitor or alternative to a proposal like Libra, Castañeda said. "Libra would mostly be a payment system," he told OBG. "Whereas Bitcoin is a new currency that stands on its own and is a competitor." This suggests that, regardless of what central banks have in mind or intend to react to, a CBDC does not have to be a response to only Libra, and may not be meant for as widespread of use as Libra. Rather, they could be complementary products. Central bank pilot projects such as those in Saudi Arabia, the UAE and Thailand have focused on using CBDCs in the wholesale banking market to ease flows between banks rather than between people, and in systems in which only banks can use them.

CBDC BENEFITS: With a number of central banks now looking at establishing their own CBDCs, a basic set of arguments has emerged for and against the concept. Some do not apply to all countries, or do not apply with equal force. Venezuela and Iran, for example, see CBDCs as a way to cope with US sanctions that prevent them from fully participating in the current global payments system. This is different to Sweden's cashless motivation for issuing a CBDC. Still other central banks envision CBDCs as a general control mechanism rather than a purely financial one, namely the People's Bank of China, which views it as a tool to preserve control over the digital economy, and potentially one for surveillance.

For most, however, arguments for a CBDC generally include preserving control over monetary and economic stability in the way central banks have always done, promoting financial inclusion, and making cross-border financial flows faster and cheaper. To the IMF, CBDCs are seen as a way to promote financial inclusion in emerging markets, as mobile access to a digital currency could be easier for people in remote places or those facing language barriers. It is with this goal in mind that Tunisia introduced its e-dinar.

For Saudi Arabia and the UAE, a digital currency might help speed up the process of moving money

Arguments in favour of central bank digital currencies generally include preserving control over monetary and economic stability, promoting financial inclusion, and making cross-border financial flows faster and cheaper.

across borders. In January 2019 the Arabian Peninsula neighbours announced a pilot project for a digital currency called Aber. As of February 2020 details on its progress had not been made public, but the proposed model seeks to address the wholesale market, allowing banks to use Aber to facilitate financial settlements. According to Chorzempa, there are multiple ways CBDCs could speed up financial flows while making them cheaper. "It is basically 'programmable' money," he told OBG. "There can be smart contracts in which payments between counterparties could be automatically triggered by certain conditions." Tax collectors could use this technology as well, such as by creating automated payment systems for value-added taxes as goods clear Customs, eliminating bureaucratic hassle on both sides of the transaction.

CBDC DRAWBACKS: The promise of CBDCs is matched by the risks they could engender, such as loss of monetary policy control, privacy and security issues, and the decline of cash as a counterweight. Existing cryptocurrencies can offer a lesson here: there is significant demand for cryptocurrencies as an investment or an asset class to be traded by investors, but their use as a way to pay for goods or services has been far more limited. This could suggest low retail demand for CBDCs as well. For example, the Ethereum blockchain platform handles an average of 15 transactions per second, compared to Visa's global platform, which handles approximately 24,000 per second. Concerns over whether CBDCs could erode central bank control over monetary policy are currently being discussed. If more business is transacted via digital currencies, that reduces the role of conventional banks as a financial intermediary, which in turn reduces the role of benchmark interest rates on loans from central banks to conventional banks. Interest rates are the core tool of modern monetary policy that enables central banks to promote stability in their economies. However, some analysts have suggested these fears may be overblown. One way to reduce risk while still having CBDCs as a retail option would be to forbid consumers from holding actual accounts at the central bank, and establish intermediaries to do this instead, just as conventional banks do for fiat currency. In a similar vein, the Libra Association is planning to offer its users digital wallets instead of allowing them direct access to the system.

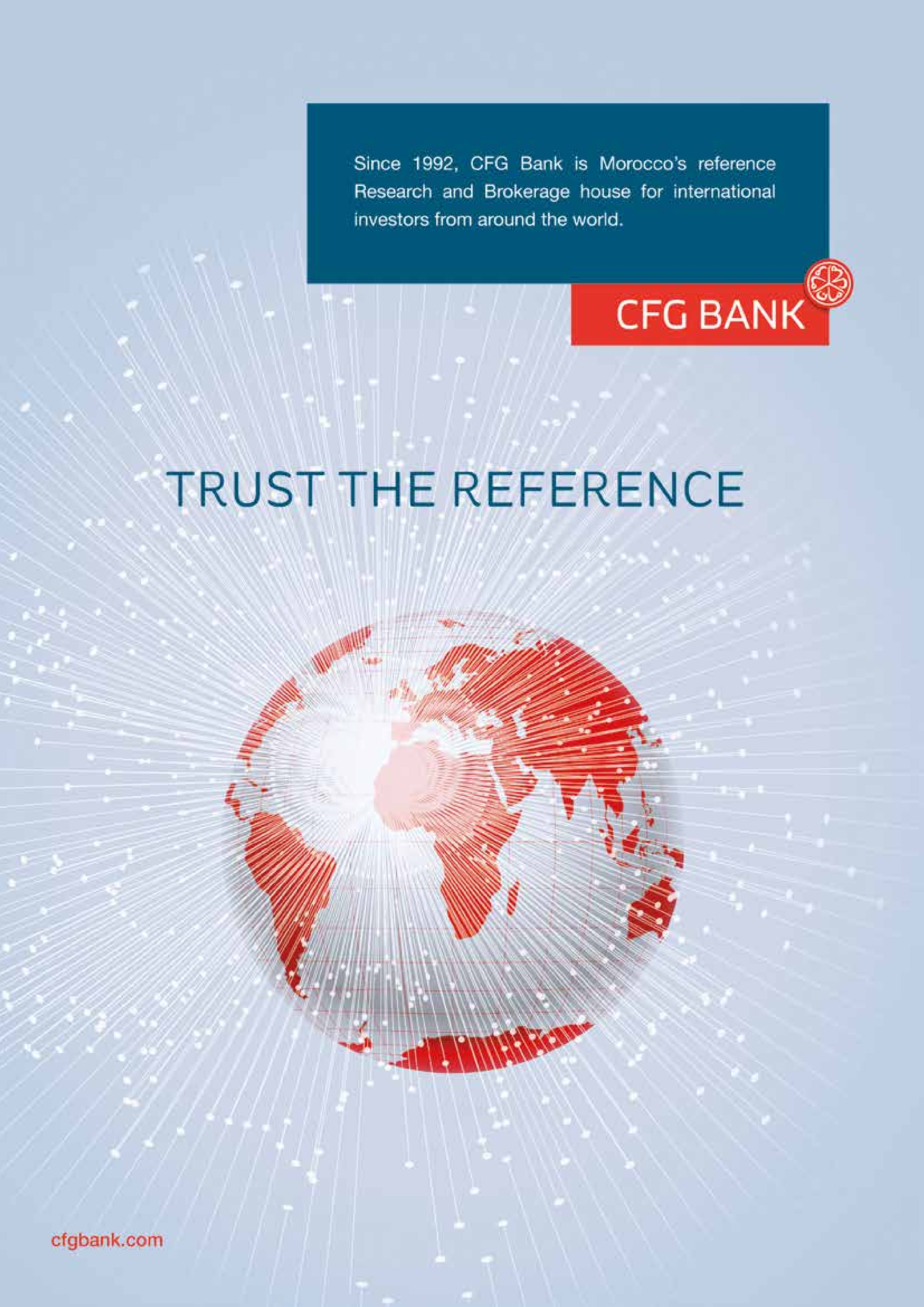
REGULATORY CHECKS: An e-wallet provider would be in charge of performing important regulatory functions such as anti-money-laundering and know-your-client checks. This kind of oversight presents a its own risk for privacy and security breaches. "Facebook promises that sending money would be as easy as sending a text message, but they do not have to do customer background checks for that," Heike Mai, a Frankfurt-based banking analyst for Deutsche Bank, said. "You cannot just ask people to click a box to accept terms and conditions. You have to monitor your clients. But if they can do that, I do not see a big problem." The same regulatory responsibilities would apply to central banks that issue CBDCs and allow direct retail access. The BIS has raised concerns that digital currencies could lead to a more direct presence of the world's biggest tech firms in the financial services industry, which it believes could undermine the banking sector and economic stability. Even though some of the world's largest banks have failed to meet their regulatory responsibilities at times, they remain a partner that central banks have relationships with and know how to regulate, Teunis Brosens, lead economist for digital finance and regulation at the Netherlands' ING Bank, told OBG.

COMBINED EFFORT: Central banks' willingness to experiment with digital currencies has seen greater momentum as big tech firms express interest in entering the financial services sector. For now it remains unclear whether CBDCs can or will fully replace, or eliminate the need or desire for private sector digital currencies. Nevertheless, given that the global infrastructure for cross-border payments needs to be updated, blockchain and other new tech could play a role, Brosens said. Regardless of how the future landscape for digital currencies pans out, it will require the combined expertise of private firms and central banks.

Tax collectors could use central bank digital currencies, such as by creating automated payment systems for value-added taxes as goods clear Customs, eliminating bureaucratic hassle on both sides of the transaction.

Capital Markets

Alternative financial tools to underpin market growth
Initial public offerings anticipated in the near term
New platform for small businesses set to come on-line
Rise of robo-advisory services in emerging markets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By 2019 there were five green bond issues worth a combined $416.7m

Tools of the trade

Regulatory reform and alternative financial instruments are set to inject greater dynamism into the market

Macroeconomic stability, a thriving private sector, and a pivotal location bridging Europe and Africa have helped cement Morocco's position as a major continental financial hub. By African standards, the kingdom's capital markets are relatively deep, liquid and sophisticated. Recent years have seen challenges arise on all of these fronts, however. Against a backdrop of subdued economic activity, the market saw scarce new equity issues; falling liquidity; and delays to long-planned innovations, such as its small and medium-sized enterprises (SME) window. Although efforts to increase depth and liquidity have been hampered by weak economic growth, the 2018-19 period saw the implementation of a number of regulatory developments, which are set to bear fruit in terms of increased activity in alternative financial products and markets in the years ahead.

HISTORY: Antecedents of the Casablanca Stock Exchange (CSE) date from 1929, and underwent successive waves of major reforms to modernise and formalise the market in 1948, 1967 and 1993, when listed companies were required to publish financial accounts. This led to increased transparency, with 10 companies ejected from the stock exchange upon failure to comply. Further regulatory reforms, improvements to governance and infrastructure investments fostered significant growth in the early years of the 20th century. The CSE joined the World Federation of Exchanges in 2010 and became a founding member of the Association of French-speaking African Stock Exchanges in 2011.

STRUCTURE & OVERSIGHT: The CSE comprises a central market and a block market. The former is the main exchange for the execution of regular-sized buy and sell orders, and the latter is for clearing larger orders, such as placements, with institutional investors. There is also a bond market with sovereign and corporate issues, and an equity market, which saw the establishment of an SME window in late 2019.

The Moroccan Capital Markets Authority (Autorité Marocaine du Marché des Capitaux, AMMC) is the main regulatory body overseeing the stock market, listed companies and fund managers. Its predecessor, the Council for the Code of Ethics in Securities (Conseil Déontologique des Valeurs Mobilières, CDVM) was established in 1993, during the time of capital market reforms. The council's powers were strengthened in 2004, notably extending to cover all capital market players, boosting its investigative and sanctioning capacities, and granting it the right to issue directives to all market players under its jurisdiction. Based on legislation promulgated in 2013, the CDVM completed its transition to become the AMMC in 2016, when its current president was nominated by the king. The AMMC is considered to be a more independent body than its predecessor, given its relatively autonomous capacity to investigate and sanction in the case of malpractice.

"The objective of the reforms is to ensure that financial markets make a bigger contribution to economic development," Nasser Seddiqi, director of financial operations and markets at the AMMC, told OBG. "To do this, we are trying to diversify the offer of financial products, as well as to boost investor confidence by increasing transparency and improving market infrastructure. In addition, we are increasingly engaging and sharing knowledge with other African market regulators in an effort to foster the development and integration of our regional markets." The AMMC also plays a role in supporting market players through professional licensing and financial literacy programmes.

Established in 1995, the Moroccan Association of Asset Management Firms and Investment Funds (Association des Sociétés de Gestion et Fonds d'Investissement Marocains, ASFIM) is another important player in the sector, bringing together 17 fund managers and three expert members. As well as

The 2018-19 period saw the implementation of a number of regulatory developments, which are set to increase activity in alternative financial products and markets in the years ahead.

From January to October 2019 there were 217,884 executed orders, for a total traded volume of $4.8bn

In June 2019 fund managers were authorised to hold up to 20% of a security that has a weighting of more than 15% of market capitalisation.

representing its members, the ASFIM engages with the authorities on regulatory reform.

Law No. 19-14, enacted by Royal Decree No. 1-16-151 in August 2016, is the principal legislation governing Morocco's stock exchange, brokerage firms and investment advisers. A key innovation of this law was that it permitted the authorities to develop new regulations, covering new capital markets and financial products, without having to amend the legislation. This laid the ground for many of the recent and ongoing innovations and alternative markets. The AMMC also periodically issues circulars and guidance to market players on specific topics. For example, in June 2019 the regulator authorised fund managers to hold up to 20% of a security that has a weighting of more than 15% of market capitalisation.

EQUITY MARKET: There are two widely watched indices tracking the CSE: the Moroccan All-Share Index (MASI), including all 75 listed equities as of the end of the third quarter of 2019; and the Moroccan Most Active Shares Index, with 62 of the most actively traded equities. Meanwhile, 10 equities selected on their performance against environmental, social and governance (ESG) criteria and indicators make up the Casablanca ESG 10 Index. This group comprised approximately two-thirds of the market capitalisation of the MASI in late 2019. As the fortunes of the CSE declined from 2008 onwards, stock market index provider MSCI reclassified the market status from emerging to frontier in mid-2013.

The MASI reached an all-time high of 14,684 in February 2008, before falling by 43% to reach a trough in mid-2013 and recovering by some 56% to reach a cyclical peak in February 2018. A combination of weakness in global stock markets in late 2018 and the impact of profit-taking and a Moroccan consumer boycott of some of the leading companies on the stock exchange earlier that year saw the MASI decline by 8.3% over the course of 2018.

Over the first three quarters of 2019 the Moroccan All-Share Index was relatively stable, up marginally by 1.1% from end-2018 after having traded within a relatively narrow band over the course of the year.

Nevertheless, it outperformed other market indices, including the MSCI Emerging Markets Index, which declined by 16.6% that year. "With price/earnings ratios around 18:1, some might say that valuations are stretched compared to regional peers," Mehdi Chakir, equity research analyst at CFG Bank, told OBG. "However, one must understand that the cost of capital is much lower in Morocco than in Tunisia, for example, which justifies higher valuations. In some respects, Moroccan equities trade more like European than MENA equivalents." Elaborating on the market dynamic, Chakir added that "local institutional investors are a captive audience. While they are permitted to invest up to 10% of their portfolios in foreign equities, this is closer to 1% in practice, largely due to capital controls".

Over the first three quarters of 2019 the MASI was relatively stable, ending October at 11,484.30, up marginally by 1.1% from 11,364.31 at end-2018, after having traded within a relatively narrow band over the course of the year.

TRADING ACTIVITY: After reaching a high-water mark of Dh163.1bn ($17bn) in 2007, trading volumes dropped by two-thirds in 2009 following the global financial crisis. Liquidity has since been relatively stagnant, going into reverse since posting a modest recovery of Dh63.5bn ($6.6bn) in 2017. In the year to end-October 2019 there were 302,976 orders, of which 217,884, or 72%, were executed for a total traded volume of Dh46.1bn ($4.8bn). This represents a 9.58% year-on-year decline in trading volume. "Free floats on the equity market average about 15%, while the average liquidity ratio stands at around 9%," Chakir told OBG. "Short selling was not permitted until 2018, and it is still quite limited."

Liquidity is a particular challenge in the bond market, where many local institutional investors adopt a buy-and-hold strategy rather than actively trading debt securities. Since 2010, when the number of bond market transactions reached 207, valued at a total of Dh9.4bn ($979.3m), each subsequent year has seen a decline on both metrics, a trend that was maintained throughout 2019. Between 2016 and 2018, for example, total traded volume in the bond market fell by more than 60%, from Dh4.5bn ($468.8m) to Dh1.8bn ($187.5m). The first three quarters of 2019 saw further decline, to 10 transactions worth a total of Dh494m ($51.5m).

Trading in shares is far more common, and the decline on this metric has been less pronounced. Between 2016 and 2018 the volume of shares traded fell by 25%, from Dh68.2bn ($7.1bn) to Dh50.9bn ($5.3bn), with the bulk of the decline taking place in 2018. Similar to trading on the bond market, there was further decline in the volume of shares traded in the first three quarters of 2019.

At end-October 2019 total stock market capitalisation amounted to Dh590.5bn ($61.5bn), up from Dh582bn ($60.6bn) at end-2018, making it the second-largest stock market in Africa by this measure. Market capitalisation is highly concentrated, with the top-three firms accounting for nearly half of the total. Formerly state-owned Maroc Telecom accounted for 21.4% alone, followed by Attijariwafa Bank with 16.7% and Banque Populaire with 9.1%. Banking is the dominant sector, with six listed banks accounting for 35.5% of market capitalisation, followed by telecommunications (21.4%), construction (11.2%) and agri-food (6%). On February 4, 2020 market capitalisation reached Dh632.2bn ($65.9bn).

PUBLIC LISTINGS: The government has historically used the privatisation of states assets both to raise funds and to support the development of local capital markets. This dynamic was particularly prevalent in the early years of the century, headlined by the €800m initial public offering (IPO) of Maroc Telecom in 2004. Coming at a time of higher-than-average economic growth, this kicked off a surge in market trading activity, which came to a halt with the onset of the global financial crisis in 2007-08. In 2019 Maroc Telecom loomed large as the largest listed company on the market by far. In June 2019 the government successfully offered 6% of the company's capital to local institutional players and sold a further 2% on the open market to raise a total of Dh8.9bn ($927.2m). This secondary offering gave some positive impetus to the market as a whole, both in terms of liquidity and valuations. The government retains a 22% stake in the telecoms firm, suggesting scope for further such sales in coming years. The surge in new listings seen in the early part of the century, however, has dried up over the past decade against a backdrop of slower economic growth and limited further privatisations. Though there was one IPO in 2016 and two during 2018, there were none in 2017 and 2019. Stakes in state-owned port operator Marsa Maroc were floated in an oversubscribed deal worth Dh1.9bn ($197.9m) in July 2016. In May 2018 Immorente Invest, a local private real estate company, entered the IPO market with a Dh400m ($41.7m) deal in May 2018, while Mutandis, a privately owned producer of fast-moving consumer goods, raised a further Dh400m ($41.7m) in December 2018 in the country's most recent IPO.

Market players anticipate the possibility of several privatisations during 2020 as the authorities flagged their intention to raise Dh6bn ($625.1m) in this manner. Some market players see the possibility of small private IPOs during 2020-21 as well. Despite speculation surrounding the possible flotation of local chemicals company OCP Group for a number of years, however, as of early 2020 there were no major corporate listings in the pipeline.

SME SECTOR: In a long-awaited move, the CSE is opening an SME window to attract smaller businesses from Morocco and West Africa to list on the market. "We expect the first listings on the alternative market dedicated to SMEs to come in 2020," Seddiqi told OBG. "The idea is to strike a balance

As of February 4, 2020 market capitalisation stood at

$65.9bn

In November 2019 the authorities issues a €1bn international bond with a maturity of 12 years. Demand for the bond reached €5.3bn.

between easing the regulatory and reporting burden on smaller businesses to encourage them to go public, and ensuring adequate investor protection."

In order to prepare a cohort of businesses to join the market, the CSE has been running the ELITE accelerator programme since 2016. It has hosted about 80 firms from Morocco and 30 from West Africa, sharing with them best practices in governance, reporting, transparency and investor relations.

"Capital markets should act as a lever for SMEs looking to grow and expand their operations," Younes Benboujida, general manager at Eqdom, a local consumer lending company, told OBG. "Therefore, it is important to offer flexible conditions that make it easier for companies to access finance."

OPCI: Three years after the promulgation of Law No. 70-14 permitting real estate investment trusts – known locally as *organismes de placement collectif immobilier* (OPCIs) – the implementing regulation was issued in mid-2019. At the same time, the AMMC issued a guide setting out how they would function. "The first OPCI management company has already been approved, and the second one should get the green light in early 2020," Seddiqi told OBG. "We expect their operations to begin imminently, and foresee great enthusiasm and appetite for this new market segment, both in terms of offerings and demands." Given local investors' preference for real estate as an asset class, market players note a large appetite for such investments, suggesting they are set to become an important fixture of Morocco's capital market landscape from 2020 onwards. The minister of finance, for example, estimates that OPCIs could mobilise some Dh200bn ($20.8bn) in commercial office developments alone.

DEBT MARKET: Unlike many emerging markets, Morocco's debt market is significantly shallower and less liquid than its equity market. Since 2010 the total amount of bonds outstanding on the market has followed a similar trajectory, falling from Dh14.7bn ($1.5bn) in 2010 to Dh5.3bn ($552.2m) at the end of the third quarter of 2019, at which point there were 39 bonds listed, with maturities ranging from seven to 15 years. These are dominated by large banks and other corporates. There is also a significant over-the-counter (OTC) market for both corporate and sovereign debt instruments. In November 2019 the authorities issued a €1bn international bond with a maturity of 12 years, and demand for the bond reached €5.3bn from 285 investors. The government's last issuance was a €1bn eurobond in 2014.

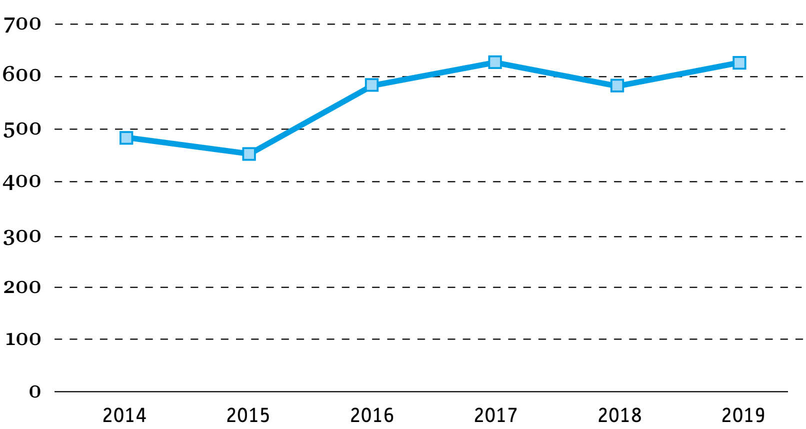
SUKUK: With the introduction of participative banking (see Banking chapter) and *takaful*, or Islamic insurance (see Insurance chapter), there is an increased need for similar sharia-compliant investment vehicles. Thus far, there has been only one *sukuk*, or Islamic bond, issued in Morocco: a Dh1bn ($104.2m) issue on the OTC market in October 2018. Though it was judged a success by the authorities, with the issue 3.6 times oversubscribed, there have been no subsequent announcements of sukuk issues.

GREEN BONDS: As climate finance becomes more mainstream, the issue of green bonds has been on the increase globally. Morocco is among the first wave of African issuers, launching its first green bond in November 2016. The Dh170m ($17.7bn) deal was a joint effort by BMCE Bank and Masen, the Moroccan agency for sustainable energy. This was followed by a Dh355m ($37m) issue by Casablanca Finance City in September 2018, and by 2019 there were five green bond issues worth a total Dh4bn ($416.7m), all of which were OTC deals rather than public listings. In a move to help encourage further listings in the market, in July 2018 the AMMC issued guidance on green bonds for investors and issuers.

OUTLOOK: With economic activity expected to remain subdued, market players are not expecting a surge in trading activity or asset prices. However, low interest rates and a return to positive earnings growth after a challenging year in 2018 should support continued modest improvement in equity valuations through 2020, particularly given the positive performance of global stock markets in late 2019.

Regulatory changes in the insurance sector are expected to see local insurers reduce their exposure to Moroccan equities over the medium term, and the authorities intend to phase in the changes so as to avoid market dislocation. The government's ongoing financing needs should ensure a steady supply of sovereign bond issues, and its privatisation plans may see a small number of IPOs and secondary offerings on the equity market. However, these are not expected to be significant game-changers. Rather, market dynamism is more likely to be driven by alternative financial products. The long-awaited SME window of the exchange, the first operations of the new OPCIs, potential further issues of sukuk and the development of green finance should loom large in 2020. Over the longer term the introduction of a derivatives market and further moves towards a freer floating currency will be important in developing the full spectrum of Morocco's markets, helping cement the country as a leading African financial centre.

Market capitalisation, 2014-19 (Dh bn)



Source: CSE

Karim Hajji, CEO, Casablanca Stock Exchange

Continental integration

Karim Hajji, CEO, Casablanca Stock Exchange (CSE), on strategies aimed at increasing market capitalisation and inclusiveness

What changes will the CSE undergo following the passage of its new articles of association?

HAJJI: The new articles of association, part of our Ambition 2021 development plan, will boost the attractiveness of our marketplace by diversifying the product offering. The implementation of real estate investment trusts will make the exchange particularly attractive, as they have great integration potential. This will allow business to rent rather than buy premises, freeing up funds for their working capital requirements. It will also provide investors with a certain return, varying between 5% and 7% depending on the case. This is significantly higher than the return rate on Treasury bills and listed shares. The framework will also be updated to allow exchange-traded funds and Undertakings for Collective Investments in Transferable Securities to be listed.

The new articles will also provide greater flexibility for small and medium-sized enterprises (SMEs) that are looking to enter the CSE. There will now be a main segment with three sub-funds, in addition to an alternative market with two sub-funds. One advantage of the alternative market for SMEs is that they can enter the market while continuing to report on a half-yearly basis, instead of quarterly.

The ELITE programme launched in 2016 will enable SMEs to call upon the capital market in various ways, not only through the stock exchange but also through private equity and other forms of financing. There are now 94 companies in the programme, of which about 30 are certified, which allows them to obtain the facilities needed to go public.

In what ways will the African Exchange Linkage Project (AELP) bring benefits to both the continental and Moroccan market?

HAJJI: We must contribute in whatever ways we can to improving the liquidity of stock exchanges across the African continent. Liquidity is a significant issue in most African markets. To address this, a number of initiatives have been implemented to strengthen liquidity, including the AELP, which aims to interconnect the seven major stock exchanges across the African continent. This project involves the Nigerian Stock Exchange, the Nairobi Securities Exchange, the Johannesburg Stock Exchange, the CSE, the Regional Securities Exchange, the Stock Exchange of Mauritius and the Egyptian Exchange, which together represent more than 85% of Africa's entire market capitalisation.

The AELP will allow investors – both in the countries of these markets as well as those from around world – to place an order with a broker on one of the seven exchanges that can be transferred to the other exchanges. Through this initiative, it will be possible to engage in cross-border trading without taking into account the specific regulations of each country that prevent a foreign broker from operating on local platforms. This project has received $1m in financing from the Korea-Africa Economic Cooperation Trust Fund and is being managed by the African Development Bank. We hope to have well-established links between the exchanges by mid-2020 and then start to build up our volume.

The AELP should allow us to add more liquidity to the Moroccan market because some African countries have surplus funds – such as Botswana, Gabon and Cameroon, which have large pension funds – but do not have a sufficiently developed capital market to invest locally, which pushes them to invest abroad. It will also help Moroccan firms to internationalise, which will in turn lead to domestic job creation. Africa is projected to double its population by 2050; around 75% of that population will be under the age of 25 and over 500m new jobs will be created. By strengthening our own capital market and integrating with the continent, we can enable companies to finance their growth and create more job opportunities.

Abdeslam Ababou, Managing Partner, Red Med Finance

Building attractiveness

Abdeslam Ababou, Managing Partner, Red Med Finance, on bringing a new dynamic to the Casablanca Stock Exchange (CSE)

How can the CSE boost its liquidity?

ABABOU: The CSE is working towards easier access for foreign investors and hopes to regain liquidity through the privatisation of state-owned companies. In order to make the exchange more attractive and garner more liquidity, the government has already launched a major privatisation policy, and was allocated Dh6bn ($625m) by the 2019 Finance Law. Some of this privatisation is likely to take place through the CSE, which will in turn lead to an increase in the free float as well as a rise in the number of listed companies.

The CSE is also working on opening short-term interest listings for foreign investors and launching exchange-traded funds, which can have a significant impact on trading volumes and liquidity. Lastly, the establishment of Ambition 2021 as a strategic roadmap marks the development of a new financial market framework designed to position the CSE as an integrated African financial centre, facilitating access to capital and meeting the needs of international issuers and investors.

In what ways will the implementation of real estate investment trusts (REITs) impact the CSE?

ABABOU: The international context has been marked by significant volatility in recent years. In addition to increasing risks, yields on fixed-income products have declined considerably in developed and developing countries alike. Now more than ever, real estate is an appealing, alternative asset class for institutional investors that are looking for diversification and performance.

The listing of certain REITs on the CSE is expected to attract international investors looking for more attractive returns in diversified geographic areas, and will allow for greater mobilisation of long-term national savings. In addition, savers will be able to access a low-volatility investment medium with regular returns. This will make it possible to offer new product to the general public and thus increase the attractiveness of the kingdom's stock market.

The real estate market has not always been sensitive to the same macroeconomic aggregates as conventional financial instruments. REITs and other related funds are characterised by a moderate correlation with equities and negative with bonds. Therefore, real estate funds can constitute a performance relay when the equity or bond markets see their profitability decrease.

REITs are expected to flesh out investment outlets for Moroccan investors. This diversified offer of instruments and asset classes on the CSE will contribute to the renewed confidence of investors, ultimately reinvigorating investment on the CSE.

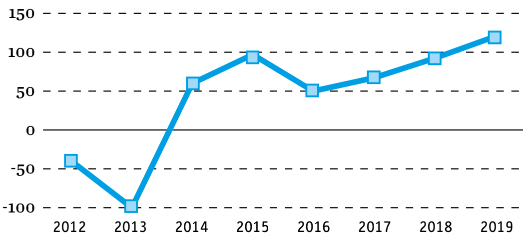
Which projects can be expected to strengthen South-South financial relations?

ABABOU: The African Continental Free Trade Area (AfCFTA) will create one of the world's largest economic blocs, leading to economies of scale that will attract extra-regional flows. It is also likely to increase intra-African trade and therefore the opportunities that countries could develop in newly accessible markets. In addition, the AfCFTA will allow the emergence of large African companies through internal growth, and mergers and acquisitions.

Meanwhile, the African Exchanges Linkage Project, a programme destined to enhance liquidity among capital markets in the main trading centres in Africa, was launched in 2019. Seven countries currently are engaged in that initiative: Egypt, Côte d'Ivoire, Kenya, Mauritius, Morocco, Nigeria and South Africa. Together, these centres concentrate more than 85% of market capitalisation in Africa. With a range of flexible incentives designed to encourage cross-border trading, the initiative should also increase investment across the continent.

Market analysis & data provided by CFG Bank

Spread between 10-year bond & equity market dividend yields, 2012-19 (basis points)



New yields

Alternative assets spark interest in a low interest rate context

The 2009-13 period was marked by a strong deterioration of the twin deficit in 2012, when the budget deficit and the current account deficit slowed by 6.8% and 9.5%, respectively. However, with the market starting to recover since 2014, interest rates have begun trending downwards, prompting investors – both globally and in Morocco – to turn to alternative assets for higher yields.

CHALLENGES: In the challenging political context of the Arab Spring, public deficit worsened between 2009 and 2012, increasing from Dh15.9bn ($1.7bn) at 2.1% of GDP, to Dh63.3bn ($6.6bn), or 2.1% of GDP. This was mainly the result of:

- An increase in subsidies due to the surge in global oil prices, from Dh13.3bn ($1.4bn) in 2009 to Dh55.1bn ($5.7bn) in 2012;
- A strong increase in payroll expenditures at a compound annual growth rate (CAGR) of 9% over the 2009-13 period, from Dh75.5bn ($7.9bn) in 2009 to Dh98.8bn ($10.3bn) in 2013, following the government's decision to progressively increase salaries for civil servants starting in 2012; and
- Limited growth in Treasury receipts, with a CAGR of 4% over the 2009-13 period.

The interest rates environment in Morocco also suffered from a strong deterioration of the current account deficit, which reached 9.5% in 2012, following a sharp widening of the trade deficit, as well as a slight deceleration of remittances from Moroccan citizens living abroad and of tourism receipts. Indeed, the kingdom's trade deficit reached 24.3% of GDP in 2012, under the pressure of:

- The country's reliance on imports for energy.
- The signing of free trade agreements at the beginning of the 2000s with the EU, the US and other countries; the steep rise in purchasing power; and the high level of investment seen between 2000 and 2012, which have resulted in an increase in imports of consumer goods and capital goods, growing at CAGRs of 7.3% and 11.2%, respectively, over that period.
- The delay in the implementation of Emergence Plan – an industrial strategy introduced in 2005 and updated in 2009 – due to external factors, including global economic conditions.

BALANCING ACT: In 2014 Treasury yields started trending downwards. They currently stand at historically low levels due to the reforms brought to the subsidy system – including progressive cuts of gasoline and fuel subsidies that started in September 2013 – which helped improve public finances, ease liquidity pressures, boost the level of foreign reserves and reduce the current account deficit. Similarly, the level of foreign reserves benefitted from the tax amnesty on asset repatriation.

These developments occurred alongside an accommodative monetary policy, which saw three key interest rate cuts since 2014, to stand at 2.25% in December 2019. Meanwhile, as of February 2019 the 10-year-bond rate stood at around 2.8%, a notable decrease from its 5.6% rate at the end of 2013.

In a low interest rate environment, combined with foreign exchange controls, local institutional investors such as mutual funds, insurance companies and pension funds are likely to seek alternative assets to invest in. Indeed, at current levels, the spread between the 10-year bond and the equity market dividend yield ratio is reaching all-time high levels, at almost 120 basis points, in a market where institutional investors have limited exposure to international markets, mainly due to the foreign exchange control system in Morocco. According to our estimates, only 2.5% to 3% of total assets under management, including the equity invested by Moroccan banks, are invested outside of Morocco. In this context, Moroccan institutional investors might progressively reallocate a portion of their assets under management into alternative

Market analysis & data provided by CFG Bank

investment opportunities such as the equity market – as illustrated by the last rally of the main indices on the Casablanca Stock Exchange at the end of 2019 – and real estate investment trusts (REITs).

ALTERNATIVE ASSET CLASS: A REIT is a company that owns and operates income-earning real estate such as apartments, office buildings, warehouses, shopping centres, malls, hotels and retail stores, among others. Many of these companies are fully integrated organisations, meaning they engage in the acquisition, development and management of commercial real estate for their own account. Most REIT property portfolios are concentrated in a specific sector, for instance retail or apartments.

This type of company allows investors to own property without having to face the traditional entry hurdles inherent to the real estate sector, namely high levels of capital. REITs allow investors to partially own a mall or an apartment building by, for example simply owning shares of a REIT stock.

REITs are total return investments providing investors with both capital appreciation and income through dividends. Unlike other stocks, a REIT's return profile has characteristics of both bonds and equities. The long-term nature of REITs leases provides income visibility, as bonds would, while the mark-to-market of leases allows REITs to be partially impacted by the economic cycle, as equities would.

REITs are not new to the investment landscape. Indeed, there are already around 40 countries offering them as a regulated investment vehicle, with total market capitalisation standing at $1.7trn in 2017, according to global consultancy EY. The number of countries having adopted the framework almost doubled between 2007 and 2017, demonstrating the growing interest in the asset.

HIGH POTENTIAL: Morocco is currently experiencing a strong increase in demand for commercial real estate stemming from a need to externalise the development by local business operators, and from the increasing popularity of Morocco's industrial acceleration zones designed to attract foreign investors and companies such as Delphi, PSA Peugeot Citroën and H&M. There is also a growing demand for new asset classes to split property and operating components in sectors such as health care, education and tourism. Hence, REITs show significant development potential.

Furthermore, since the mid-2000s the country has designed and implemented a number of strategies to boost the development of key sectors and major infrastructure. These include the Green Morocco Plan for agriculture; Plan Azur 2020 for the tourism sector; the Emergence Plan to attract foreign investment in duty-free industrial zones, such as Tanger Automotive City; and the Tanger-Med port for major logistics developments. These evolving strategies continue to boost demand for commercial real estate assets, such as procurement and logistics platforms for the agriculture sector; hotels for the tourism sector; industrial facilities; education and training facilities; and independently managed health care facilities that have been developed under an April 2019 legislation permitting the development of health care facilities by non-doctors.

While the Moroccan REIT legislation was initially drafted in 2016, stock market regulators and other bodies had, since then, been putting the final touches to the frameworks governing REITs before authorising this asset class in the kingdom. Following their ratification by the Moroccan Capital Markets Authority as a regulated investment asset in September 2019, REITs now offer both strong capital appreciation potential and above-average dividend yield. With the kingdom's current low interest rate environment and 10-year risk-free rate levels, investors with a relatively high risk aversion will be attracted to investment vehicles such as REITs, driving up demand and boosting the valuation of asset classes with a low-risk profile and higher yields.

Souad Benbachir, Partner and Executive Managing Director, CFG Bank

Liquid assets

Souad Benbachir, Partner and Executive Managing Director, CFG Bank, on reform and diversifying funding options

How can regulatory reforms galvanise the market?

BENBACHIR: Capital market regulation is becoming more flexible and autonomous. The Moroccan Capital Markets Authority and the Casablanca Stock Exchange (CSE) now have more authority to adapt to the economic situation. In addition, the introduction of real estate investment trusts (REITs) will bring a new class of assets to the market and new boards to operate with qualified investors. This will allow for the listing of projects that require the evaluation of technical aspects, such as infrastructure and hospitality. These types of projects do not generally attract interest from a large number of investors, but are attractive for qualified investors. Issuers who have projects that are difficult to promote to the general public will now have a space in which to raise liquidity, along with many other advantages. Beyond the reform of the regulatory framework, it is also important to create different spaces for financing, and the development of a market dedicated to small and medium-sized enterprises (SMEs) is promising. The ELITE programme plays an important role in raising awareness of how SMEs can be supported and upgraded, while the SME board will allow companies to operate in a more efficient manner. Thus, we are starting to have an efficient business market in Morocco, within which there are – for any type of business – educational tools and financing tools, as well as a path to go from one to the other. The financial communication of SMEs must now be strengthened to make the dissemination of their balance sheets more flexible, which would give them more confidence.

Moreover, there is also a need to strengthen access to finance for businesses. For instance, the Crowdfunding Law provides SMEs with an additional funding tool. The more the country manages to coherently finance businesses in different ways in order to meet different needs, the more dynamic the economy will be. Consequently, there is better regulation in place and a general confidence has been restored among market players, in particular thanks to the commission set up by King Mohammed VI to establish a new development model for the country. Privatisation is also expected, as well as the movement of pension funds towards the equity market. Pension funds are growing due to the expansion of the middle class, with the number of subscribers to retirement savings programmes increasing. This has supported greater liquidity in 2019, and this is expected to continue in 2020.

What can be done to boost transactions on the CSE?

BENBACHIR: All capital markets players must play their role. This includes the state, which should continue to issue more public enterprise shares. It is also necessary to expand communication about the success stories of companies listing on the CSE. Knowing about the performance of these firms would generate more interest from companies looking for solutions to finance their growth. In addition, the multiplication of markets on the CSE, which are in the process of being set up, will allow all investors to have arbitrage mechanisms, and this will thereby create greater liquidity. The real need now is to establish a futures market that will provide secure transactions for investors.

REITs will also significantly change both the capital markets and real estate sectors and generate a lot of transactions. This will enable the professionalisation of the management of REIT products, which will significantly expand the number of interested investors and give greater depth to the market. Allowing the listing of REITs is an additional step, as it attracts individuals who want to be exposed to real estate without the hassle of property management. This solution will be brought about as the fund will be managed by dedicated professionals. Furthermore, REITs provide a new class of savings asset that offers a rate of return of between 5% and 7%. It will now be necessary to educate the market so that REITs contribute to the financialisation of the economy and to the disintermediation of savings.

Global Perspective

Rise of robo-advisers

Growing competition in the automated consultancy market to lead to further consolidation, innovation and investment

In 2019 robo-advisory firms had at least

$440bn

of assets under management globally

The use of sophisticated algorithms in wealth management is leading to improved efficiency and transparency in the financial services sector, benefitting both providers and clients. In particular, so-called robo-advisers are disrupting the industry and helping to boost financial inclusion. Primarily concentrated in developed markets such as the US and the UK, the technology is starting to make inroads in other parts of the world as traditional financial institutions and tech start-ups seek to tap the segment's potential.

The robo-advisory model allows customers to manage their wealth or retirement plan online by completing a simple questionnaire, which is automatically analysed and matched with an appropriate portfolio that has been autonomously generated by computers programmed to gather, grade and assess the performance of a range of investment vehicles. These robots are capable of machine learning that mirrors human thought processes, and this is then applied to vast data sets. Given that there is a human programmer behind every robot, some critics of the model argue that digital interfaces mask the involvement of human labour in the processing of personal data, raising the issue of privacy. However, cognitive technology is guiding the newer generations of robots to adapt their behaviour according to each new data input, effectively allowing them to innovate without any human interference.

Automated financial services can undercut the fees charged by conventional fund management firms, making robo-advisers an attractive alternative for cost-conscious customers. Furthermore, while a client using a trusted and experienced human fund manager will benefit from the wisdom of one professional, a customer of a robo-adviser will benefit from the combined knowledge of multiple professionals. For providers, investing in robot technology will help them save on expenses that would otherwise be spent on human capital, such as salaries, commissions and office space rentals. Moreover, the digital nature of the model allows companies to extend their services to a broader range of clients.

Automated financial services can undercut the fees charged by conventional fund management firms, making robo-advisers an attractive alternative for cost-conscious customers.

PERFORMANCE & REQUIREMENTS: A 2019 report published by US media outlet Barron's, in partnership with Backend Benchmarking, estimated that robo firms had at least $440bn of assets under management globally. This was in large part due to a marked uptick in the performance of five major robo-advisers from the US; Betterment, Personal Capital, Schwab, Vanguard and Wealthfront attracted a combined $40bn in the first half of 2019, up from $25bn throughout 2018. US firm Fidelity Go topped the report's performance table, with a two-year annualised return of 7.26%, an equity-only rate of 9.20% and a fixed-income-only rate of 4.02%.

One of the main appeals of robo-advisory services is the low or zero account minimum requirements, in contrast to human advisers, who typically require a minimum of $50,000 in assets. According to a 2017 report by Business Insider, US firms such as Betterment, Blooom and WiseBanyan; UK companies MoneyFarm, Wealthify and Wealth Wizards; and Canada's Wealthsimple all have a zero minimum investment limit. Of the 13 major start-up robo-advisers in North America and Europe featured in the report, five offered services to business or institutional clients in addition to retail clients, while Wealth Wizards was the only company purely focused on business-to-business customers.

COMPETITION & CONSOLIDATION: While tech start-ups were pioneers in the market, they are now facing increasing competition from legacy financial firms looking to offer similar automated services. As has been seen in the US market, tech start-ups are finding themselves vying with established financial services players that have adopted sophisticated technology-driven platforms to offer fresh services to existing customers. With $20bn each in assets, Wealthfront and Betterment were among the top-five firms covered by Backend Benchmarking's "The Robo Report" for the third quarter of 2019. The top player, with $140bn in assets, was Vanguard Personal Advisor Services, a combined automation and human offering of fund giant Vanguard. "More banks are looking to robo-advisory as a way of digitising platforms and enhancing their overall offering for retail customers," Khalid Saad, CEO of Bahrain FinTech Bay, told OBG. "It may be harder to sell the platform to very-high-net-worth individuals used to the services provided by private banks, but I believe some of these customers may have an appetite for robo-advisory. In years to come we will see more of these transactions in both the business-to-business and business-to-consumer sectors." Bahrain FinTech Bay sees the nurturing of new talent and the upskilling of existing financial services workers as a vital part of its function. It has partnered with the US' Georgetown University and University of California, Berkeley to provide training and certification in financial technology (fintech) with an eye to creating a Bahraini centre of excellence. Bahrain, with its long history in financial services, offers foreign investors an attractive gateway into the Gulf Cooperation Council (GCC) fintech market.

Given the high level of competition in the robo-advisory market, consolidation and fallouts are expected. In August 2018 US-based Hedgeable shutdown its advisory operations and transferred the funds to its custodian, Folio Investments. Despite its healthy portfolio, with $80m in assets under management and 1700 clients, the firm's decision to close its investment management services speaks to the difficulty small and medium-sized companies face in acquiring assets. Hedgeable's co-founders announced that the company will restructure its business going forwards.

On both sides of the Atlantic, robo-advisers are being bought by traditional financial service providers. For example, Wealthify was acquired by UK insurer Aviva for £17m in February 2018, and in March 2019 Axos Financial completed its $3m acquisition of WiseBanyan, rebranding the robo-advisory service as Axos Invest.

HYBRID MODEL: As the robo-advisory market expands and firms seek to optimise their services to compete for customers, there is a noticeable shift away from the traditional, wholly automated system. Financial services firms are increasingly adopting a hybrid model, in which some advisory services are offered by humans working in tandem with artificial intelligence technology.

The transition from a pure robo-advisory model to a hybrid one can have a significant impact on tech start-ups, however. The UK's Nutmeg, which launched in 2012, has 70,000 customers and manages £1.7bn in funds. In 2018 it adopted the hybrid model, employing human advisers for the first time. That year Nutmeg recorded losses of £18.6m as it increased spending on staff, technology and marketing to attract new customers. Martin Stead, CEO of Nutmeg, told international press in October 2019 that the company is expected to be operationally profitable within three years.

REGULATORY SANDBOXES: The emergence of robo-advisory services is supported by government initiatives aimed at strengthening the fintech sector. Regulatory frameworks for financial services industries around the world are undergoing reform to ensure that the sector remains investor friendly in the advent of rapid disruptive innovations.

A global fintech report jointly produced by the IMF and the World Bank in June 2019 analysed 35 regulatory sandboxes, in which new technologies can be tested in a controlled environment, and found that there were significant differences in the approaches used to manage innovation and consumer protection in financial services. Specifically, there were variances in the role and objectives of the frameworks analysed. Objectives ranged from stimulating innovation and competition in the UK; to ensuring regulations are fit for purpose in Singapore; identifying gaps in market products in Malaysia; and promoting financial inclusion in Bahrain and Indonesia. Notably, the report concluded that gaps remain in the legal framework for financial activities such as robo-advisory, suggesting that further improvements to regulation are needed. It also notes the importance of developing innovation hubs and accelerators to allow and support the exchange of ideas and the flow of capital. The World Bank is helping a number of countries to develop regulatory sandboxes, including India, Jordan, Rwanda, Saudi Arabia, Sri Lanka and Vietnam, as well as assisting in the drafting of legal reforms for the fintech industry in Colombia, Kenya, Mexico, Peru and the Philippines.

The presence of regulatory sandboxes can help countries to nurture fintech innovation and thus robo-advisory services, while also acting as gateways into individual economies for international companies. "The developments that have happened in Bahrain over the last few years have been vital," Saad told OBG. "When the Central Bank of Bahrain (CBB) launched the fintech sandbox in 2017, there was only one fintech company; now we have 35 firms from 19 countries using the regulatory sandbox."

WEALTH TECH: With large numbers of high-net-worth individuals, and a relatively young and tech-savvy population, GCC countries are ideally placed to foster the development of robo-advisory services. Plans to establish fintech sandboxes were announced by Kuwait and Qatar in late 2018, and by the Saudi Arabian Monetary Authority in February 2019. More recently, in July 2019 the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi General Market (ADGM) issued a regulatory framework for robo-advisers. Richard Teng, CEO of the FRSA, announced in a press release that such services hold significant potential to improve investment decision-making in the wider Middle East and North Africa region. "With this guidance, we aim to make it easier for digital investment businesses to operate in ADGM and in turn provide investors with greater access to professional tools to help them achieve their financial targets," Teng said.

The potential for growth in robo-advisory services has also been identified by banks and other financial institutions in the GCC. "Personalised robo-advisory services applied to the wealth management segment are expected to grow exponentially in the coming years," Ziad Aba Al Khail, managing director of Saudi Arabia's joint-stock firm Aljazira Capital, told OBG. "We

There is a noticeable shift away from the traditional, wholly automated robo-advisory model to a hybrid one as the market expands and companies seek to optimise their services to compete for customers.

With large numbers of high-net-worth individuals, and a relatively young and tech-savvy population, Gulf Corporation Council countries are ideally placed to foster the development of robo-advisory services.

Latin America's robo-advisory market is forecast to reach

$4.48bn

by 2023

are expecting to see 25% of global wealth management services utilising robo-advisory by 2024."

ISLAMIC FINANCE: Robo-advisory is expanding beyond traditional markets as tech firms look to tap the potential of the global Muslim population. The adoption of automated consultancy services is expected to attract sharia-compliant investors, who may have a difficult time navigating the restrictions in Islamic finance.

In 2016 Wahed Invest was launched to provide Muslims living in the US with the opportunity to make sharia-compliant investments. The company expanded to the UK in 2018, and in 2019 it made inroads into the Gulf and South-east Asia. The Wahed app is now available in 130 countries, allowing anyone with at least $100 to create a portfolio that can be managed from their mobile phone. The firm is a sandbox investment adviser with an office in Bahrain World Trade Centre, and was approved to join the CBB's fintech sandbox in December 2017. In July 2019 it was one of two robo-advisory firms to be granted a licence, or FinTech ExPermit, to test automated financial consultancy services in Saudi Arabia. The other firm was sharia-compliant start-up Haseed Investing Company. In October that year Wahed was granted a licence to operate in Malaysia, making it the third licensed robo-advisory firm in the country.

LATIN AMERICA & THE CARIBBEAN: Meanwhile, significant opportunities for growth are also seen in Latin America and the Caribbean, as the region is anticipated to continue its economic recovery. According to the IMF in July 2019, growth in Brazil and Chile is anticipated to increase to 2.4% and 3.4%, respectively, in 2020. The economic growth is expected to translate into greater investment activities, and a report published by Kenneth Research in 2019 forecast that Latin America's robo-advisory market will grow by a compound annual growth rate of 53.68% through to 2023 to reach $4.48bn. The main players servicing the market are US companies Betterment, Wealthfront, Personal Capital, FutureAdvisor and Charles Schwab. In September 2019 another US firm entered the Caribbean market. Guardian Asset Management launched a new robo-advisory service called Genius, the first of its kind in the region. The main focus of its investments will be in US-based exchange-traded funds.

HUMAN EFFICIENCY: Although artificial intelligence may offer new advantages to customers, financial experts warn that experienced human traders will continue to provide an essential service, particularly when it comes to analysing macroeconomic factors alongside microeconomic developments.

"For example, here in Indonesia the government has announced a ban on the export of nickel ore from 2020," Fransisca Wiryasaputra, equity manager at Ciptadana, an Indonesian firm offering financial services and products, told OBG. "This will have an impact on equities in the sector, which will be recorded by the robot, but a trader can analyse how long the ban may last or factor in the government's longer-term goals."

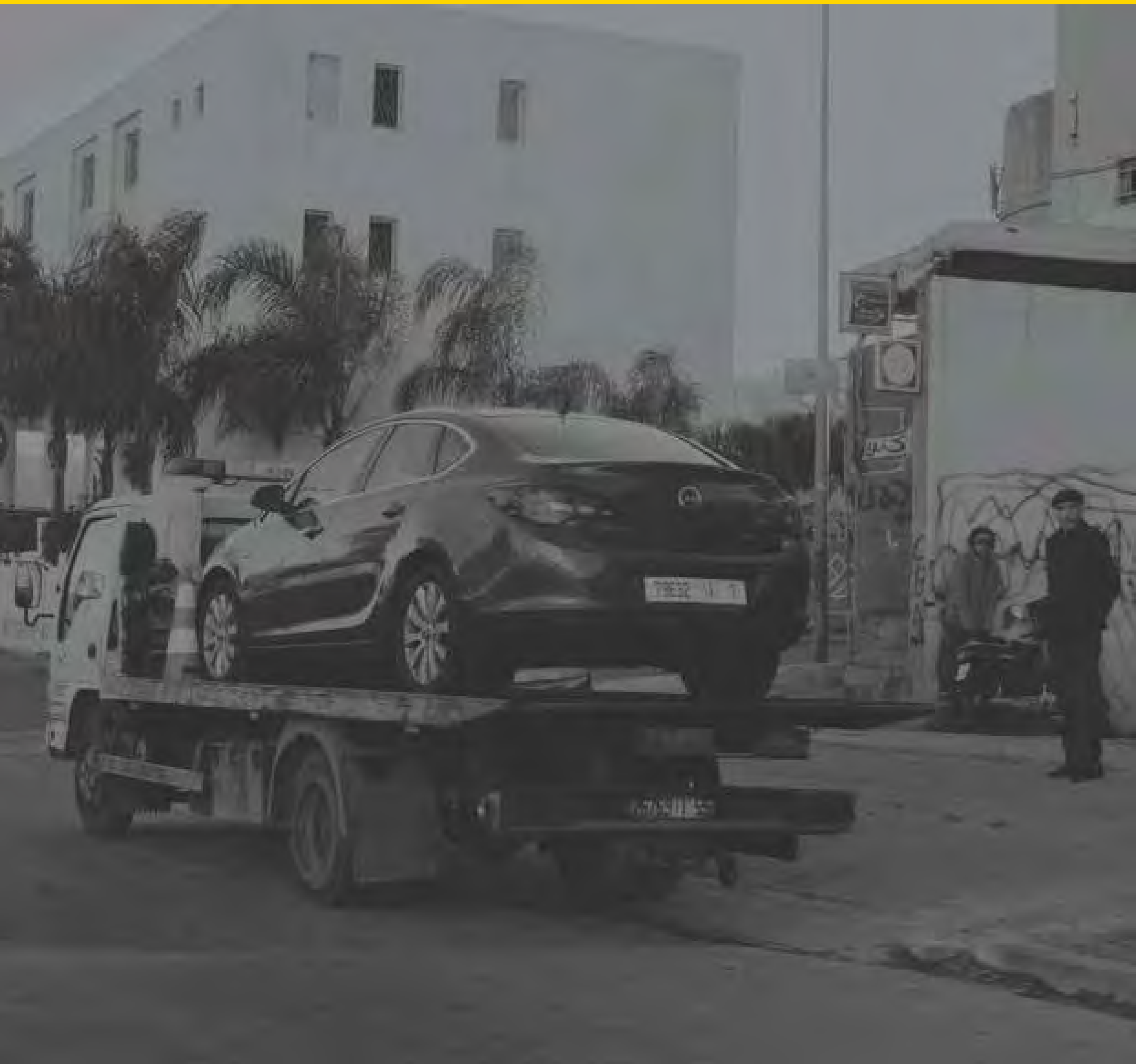
Insurance

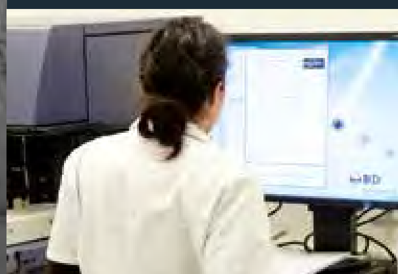
Mandatory coverage introduced for catastrophic risk

First Islamic insurance products set to launch in 2020

Regulatory reforms bolster position of key players

Cyberinsurance segment poised for growth globally





Automobile insurance represents 47.4% of all non-life premium

Controlled growth

An updated regulatory framework expands scope of mandatory coverage and lays the foundation for Islamic insurance products

Morocco is the second-largest insurance market in Africa in terms of gross premium, and ranks highly for both insurance density and penetration.

In recent years Morocco's insurance sector has consolidated its strong position, with the growing middle class, tax advantages and fierce competition between bancassurers giving a notable dynamism to the life insurance segment. Morocco is the second-largest insurance market in Africa in terms of gross premium, and ranks highly for both insurance density and penetration. Furthermore, regulatory reforms are helping to cement the strong financial position of insurance players and broaden the range of obligatory and discretionary insurance products available. As the insurance sector matures, its players are increasingly looking to international markets to grow their businesses.

STRUCTURE & OVERSIGHT: As part of a major revamp of the insurance sector and its regulatory framework, the national insurance code was updated with the passage of Law No. 59-13 in August 2016. The key change was the transition to risk-based solvency regulations, however, it also laid the foundation for the eventual extension of mandatory insurance to cover new activities, as well as the introduction of sharia-compliant *takaful* (Islamic insurance) products.

The Supervisory Authority of Insurance and Social Welfare (Autorité de Contrôle des Assurances et de la Prévoyance Sociale, ACAPS), established under Law No. 64-12 in 2016, is the autonomous regulator tasked with the oversight and regulation of the insurance sector. Its core responsibilities are to carry out surveillance on the solvency of insurers and reinsurers, ensure that insurers abide by current sectoral regulations and address any complaints about their business practices. ACAPS also works to promote financial education, and takes part in the Committee for Coordination and Surveillance of Systemic Risks, an inter-institutional committee created under banking law with the purpose of safeguarding financial stability.

In the first half of 2019 total insurance premium amounted to

$2.6bn

ACAPS has been working to implement the new solvency regulations for a number of years. "The EU's Solvency II framework is the international benchmark, but this has been adapted to the market realities in Morocco," Othman El Alamy, secretary-general of ACAPS, told OBG. "Pillar 2, on governance, is ready and Pillar 1, which covers the quantitative aspects, is nearly there. We are engaging with stakeholders in order to ensure its smooth implementation," he said. El Alamy went on to emphasise that the years ahead will require Moroccan insurers to reduce their large exposures to domestic equity investments. "We are going to phase this in very gradually to avoid any market dislocation," he added.

PERFORMANCE & SIZE: Total insurance premium in 2018 came to Dh41.3bn ($4.3bn), of which non-life insurance made up roughly 55.5%, life insurance comprised 44% and reinsurance accounted for the remaining 0.5%. In 2018 insurance premium in Morocco amounted to less than 10% of that in continental leader South Africa ($48.2bn), but more than double that seen in Kenya ($2.1bn), which was third in the region. Annual growth of Morocco's total premium was around 6.1% in 2018, a marked slowdown from the 11% growth registered in 2017 and 15.4% in 2016.

Non-life insurance premium growth accelerated modestly, from 4.7% in 2017 to 5.3% in 2018, the slowdown largely due to life insurance premium growth stabilising in 2018. The latter slowed sharply from 35.4% in 2017 to 7.1% in 2018. In the first half of 2019 total insurance premium amounted to Dh24.8bn ($2.6bn), an 8.2% increase from 2018, representing an appreciable acceleration in growth. The pick-up in premium growth, was evident in both life and non-life segments, increasing to 9.9% and 7%, respectively.

In 2018 there were 19 insurers operating in Morocco, a number of which represent dual subsidiaries of larger financial groups. The five largest insurance entities collectively comprise 69% of the market: Wafa Assurance (20.2%), Royale Marocaine d'Assurance (RMA, 15.8%), Saham Assurance (12.6%), Mutuelle Taamine Chaabi (10.3%) and AXA Assurance Maroc (10.2%). The life insurance segment is more highly concentrated, with the top three of the total 10 firms making up approximately two-thirds of the market: Wafa Assurance (25.3%), Mutuelle Taamine Chaabi (23.4%) and RMA (18.4%). Another prominent player in the country's life insurance segment is La Marocaine Vie, which has a market share of around 9.5%.

Competition is stiffer in the non-life segment, where five of the country's 18 firms share two-thirds of the market: Saham Assurance (18%), Wafa Assurance (15%), RMA (13.8%), AXA Assurance Maroc (11.9%) and Atlanta (8.4%). Some 18 of the 19 providers offer non-life insurance products, while Mutuelle Taamine Chaabi is the only life insurance player that does not also offer non-life products. The only non-life segment in which Marocaine Vie operates is health insurance.

While most non-life insurers offer a full spectrum of insurance products, there are six niche players that specialise in credit insurance: AXA Assistance Maroc, Coface Maroc, Euler Hermes, Maroc Assistance, Saham Assistance and Wafa IMA Assistance. Each of these, with the exception of AXA Assistance Maroc, also offer a number of reinsurance products.

MANDATORY INSURANCE: In Morocco, as in many other countries, it is obligatory to insure motor vehicles. Until recently, however, mandatory insurance had been relatively limited. As of early January 2020 mandatory insurance was extended to two additional areas: catastrophic risk, such as terrorism, and large-scale construction projects. "Insurance to hedge against natural disasters is a necessary first step to boost the sector," Abdelhamid Habboubi, CEO of consulting firm EPEGA, told OBG. "Authorities have to accelerate the process and implement measures that will help broaden the insurance base," he said. While industrial facilities were covered up to 90%, ACAPS estimated that commercial premises were covered by just 15-20% and residences by as little as 3-4%.

In practice, the state has been considered a last resort insurer and faces social demand for restitution in the event of disasters. The goal of mandatory insurance is to shift this financial burden onto the private sector. In order to extend coverage to those of limited means, a solidarity fund, funded through a 1% levy on all insurance premium, is being established to indemnify them against injury or loss of residence.

Meanwhile, obligatory civil liability insurance covering medium-sized housing construction projects will likely be rolled out in early 2020. Once the regulation is in effect, it is expected that all residential construction projects over three storeys or 800 sq metres will need to be covered. Such insurance is already available on the market, but it has not been obligatory.

SUBSECTORS: During the first half of 2019 non-life insurance premium amounted to Dh14.3bn ($1.5bn), or 57.8% of the total. Automobile insurance remained the top non-life segment, representing approximately 47.4% of all non-life premium and posting a year-on-year (y-o-y) nominal growth of 7.9%. About 82.8% of automobile insurance premium take the form of the mandatory insurance, while the remainder is

As of early 2020 there were approximately 2200 insurance brokers and 1800 agents operating in Morocco

discretionary. However, the automobile segment has been impacted by rising claims, with fraud believed to play a large part in the issue. "Insurers are taking automobile insurance fraud seriously. For example, they are creating databases and other mechanisms to identify when multiple claims for the same incident are made through more than one insurer," El Alamy told OBG.

Health and accident insurance, meanwhile, is the second-largest non-life segment, accounting for 16% of non-life premium. The segment grew by 9% in the first half of 2019. Workplace accident insurance accounts for a further 10.5% of non-life premium, with y-o-y growth lagging somewhat at 2.9%. Of the main insurance segments, fire insurance experienced the strongest y-o-y growth, with 17.2%, and its share of non-life premium increased to 8.8%.

Meanwhile, life insurance outperformed life reinsurance in the first half of 2019, increasing by 9.9% to reach 42.2% of total premium. Individual life policies represented 45.7% of life premium, posting y-o-y growth of 8.1%. Savings products have become increasingly attractive, and capitalisation was the most dynamic life segment, with its 16.7% growth making up the largest share of overall insurance premium growth in absolute terms – greater even than the absolute increase in auto insurance premium.

TAKAFUL: With the introduction of sharia-compliant takaful products, Morocco follows the lead of a number of other countries with majority Muslim populations. The relevant legislation was enacted in July 2019, with both authorities and market players working to launch the kingdom's first takaful products in 2020. However, the implementing regulations and accounting framework were still being ironed out in late 2019.

According to the new law, Moroccan insurers must legally establish separate entities in order to provide takaful products. Unlike with participatory banks in the country, existing insurers cannot simply establish a sharia-compliant window for these types of products.

Life insurance outperformed life reinsurance in the first half of 2019, increasing by 9.9% to reach 42.2% of total premium. Individual life policies represented 45.7% of life premium, posting year-on-year growth of 8.1%.

Health and accident insurance accounts for 16% of non-life premium

Life insurance penetration amounted to 1.8% of GDP in 2018, far below the 10.3% seen in South Africa and the 5.2% in Namibia, but nonetheless nearly double the 0.96% of GDP recorded in Kenya.

Market players, however, remain sceptical. While the availability of takaful insurance products is expected to meet a niche market, it is not expected to become a mainstream product or drive significant premium growth. However, the advent of takaful is expected to have a notable impact on the life insurance segment as people increasingly take advantage of sharia-compliant savings products. A number of opportunities have been identified for participatory banks to cross-sell credit insurance products to their borrowers. Although only a limited number of takaful providers are expected to become fully operational in 2020, when combined with participatory banking (see Banking chapter) and the planned introduction of *sukuk* (Islamic bonds) investment instruments (see Capital Markets chapter), this is nonetheless an important first step towards a comprehensive sharia-compliant financial system in Morocco.

BOOSTING PENETRATION: Insurance density in Morocco reached $127 per capita in 2018, less than one-sixth that of South Africa ($840) and under one-third that of Namibia ($390), but significantly ahead of Tunisia ($75) – the next-largest insurance market in Africa for this metric. With insurance penetration sitting at just 3.8% of GDP, Morocco places behind South Africa (12.9%), Namibia (7.3%) and Zimbabwe (3.9%). South Africa, however, can be considered somewhat of an outlier; even the UK and the US have insurance penetration rates of just 10.6% and 7.1%, respectively. Nonetheless, Morocco places far ahead of the next-highest African country, Kenya, which has a penetration rate of just 2.4%. These regional variations can be explained in large part by the relative maturity of some countries' life insurance segments.

Life insurance penetration amounted to 1.8% of GDP in 2018, far below the 10.3% seen in South Africa and the 5.2% in Namibia, but nonetheless nearly double the 0.96% of GDP recorded in Kenya. The non-life segment, however, is far more uniform across the region. Penetration in Morocco reached 2.1% of GDP in 2018 – equal to Namibia, behind South Africa (2.6%) and ahead of Kenya (1.42%). Therefore, significant potential remains for further organic growth in both the life and non-life segments. The decade up to 2030, however, is unlikely to experience the same rapid rate of growth seen between 2000 and 2020.

DRIVING GROWTH: In 2014 around 41% of the population took advantage of various insurance products, while roughly the same proportion had never used any formal financial product. Although progress has been made in recent years, there remains significant scope for financial inclusion efforts to drive insurance premium growth. With this in mind, the authorities included the promotion of insurance and micro-insurance among the objectives of the new National Financial Inclusion Strategy. "We know that cultural and religious issues are among the barriers to people taking out insurance contracts," El Alamy told OBG. "We are participating in an inter-institutional working group on micro-insurance as part of the implementation effort for the National Financial Inclusion Strategy. At the moment, micro-insurers face the same regulatory framework as mainstream insurers, which can be a binding constraint. We are looking at ways to minimise regulatory obstacles to micro-insurance," he said.

The availability of new products like takaful, in addition to the increased prevalence of tailored micro-insurance products, should see greater take-up of insurance contracts across the population and help drive premium growth over the coming years.

DISTRIBUTION CHANNELS: Although traditional channels still command Morocco's insurance sector, important investments in online and digital platforms suggests that these channels are set to be increasingly important in the future. "Thus far, traditional distribution channels have remained prominent," Bachir Baddou, general director of the Moroccan Federation for Insurance and Reinsurance Companies, told OBG. "Consumers have more confidence dealing with brokers or agents than with automated systems. Although there has been a delayed take-off in digital channels in Morocco, but we are likely to see those trends take off in other countries too," he said.

As of early 2020 there were approximately 2200 insurance brokers and 1800 agents operating in the country, all of whom were required to pass a professional exam. Their proliferation in recent years has ramped up competition, raising concerns about over-saturation. In the auto insurance segment, meanwhile, specialist firms sell directly to clients. Brokers and agents also face stiff competition from bancassurers, who benefit from economies of scale and a large clientele to whom they can cross-sell insurance products. They are particularly active in life insurance and are increasing their market share in non-life segments. The rise of digital insurance channels is likely to herald further challenges in the years ahead.

"Regulating online and digital distributional channels represents new challenges, but we have the opportunity to follow the lead of countries like Kenya, where this has already been a big success, especially in micro-insurance," El Alamy told OBG. "We are also seeing some leading market players take advantage of the correspondent banking model to sell insurance products through dense branch networks. This can play an important role, particularly in rural areas," he said.

REINSURANCE: Between 2015 and 2020 was a challenging period for Moroccan reinsurers, after authorities phased out the obligation for insurers to channel 10% of total premium revenue to domestic reinsurers in 2014. Reinsurance premium subsequently dropped and have been slow to recover. The impact was particularly acute for the formerly state-owned Société Centrale de Réassurance (SCR), which had long been a key player in the segment. In 2018 the SCR recorded premium of Dh901m ($93.9m), while the seven other players in the reinsurance segment collectively issued approximately Dh213m ($22.3m).

However, there is some optimism in the sector that there might be brighter times to come. "The introduction of mandatory insurance for catastrophic risks like natural disasters and terrorism is expected to generate up to $70m in extra premium," Mohamed Nali, regional director at Africa Re Maghreb, told OBG. "This is a great opportunity for reinsurers as well, since about 90% of this amount is expected to be reinsured," he said. Similarly, the extension of mandatory insurance to medium-sized residential construction projects is expected to yield knock-on demand for reinsurance, as insurers increasingly seek to lay off risk.

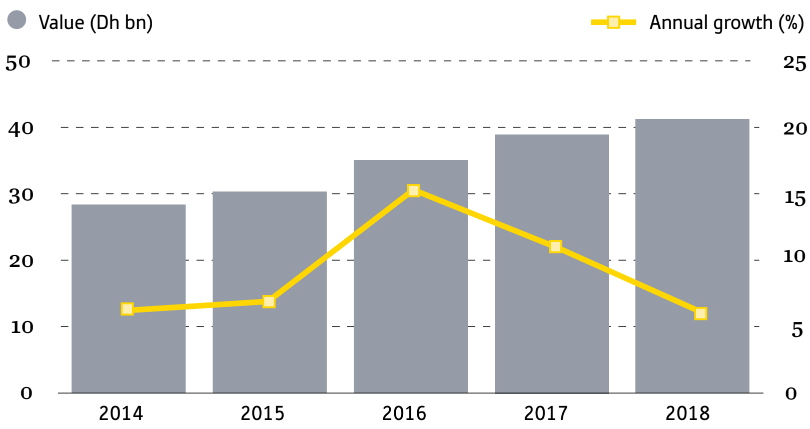
OUTLOOK: With sub-par macroeconomic performance anticipated to persist over the medium term, the main avenues for growth in the insurance sector are likely to come from the life insurance segment as well as from those non-life segments where contracting insurance is being made obligatory. In the first half of 2019 inflation-adjusted premium growth picked up to nearly three times the projected real GDP growth rate for the year, suggesting that insurance penetration should continue to improve.

Although Morocco has been somewhat slower to adopt digital distribution channels for insurance products than a number of the leading regions in Africa, heavy investment by market players in their online and mobile platforms suggest that this will become increasingly important in the years to come. This has the potential to improve financial inclusion, drive premium growth and reduce operating costs, thereby increasing insurers' profit margins.

In terms of investment, phased reductions in the ceiling for exposure to the domestic equity market are likely to prove challenging for insurers, as the selection of alternative bankable assets with similarly high yields is limited. Meanwhile, leading players – particularly the bancassurers – have established extensive footprints elsewhere in Africa. These somewhat less mature markets have shown the potential to become increasingly important profit centres, with higher profit margins and even greater scope for organic premium growth. In addition, the combination of tax incentives and the clustering effect at Casablanca Finance City is expected to further support the trend towards regionalisation, helping transform Morocco into a major continental player for insurance and reinsurance.

The availability of new products like takaful (Islamic insurance), in addition to the growing prevalence of tailored micro-insurance products, should see greater take-up of insurance policies.

Total insurance premium, 2014-18



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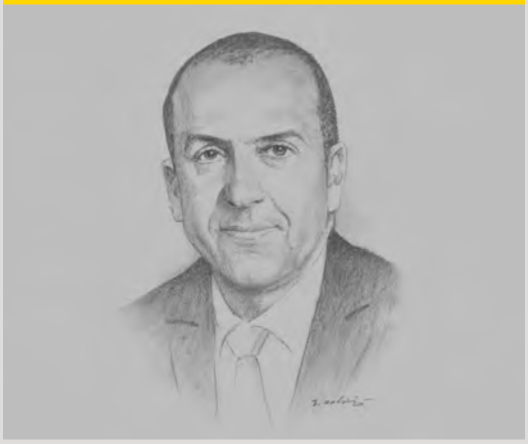


Ramses Arroub, CEO, Wafa Insurance

Expanding coverage

Ramses Arroub, CEO, Wafa Insurance, on strengthening the market to meet new international standards

How should the market be modernised in order to meet Solvency II standards?

ARROUB: The proper functioning of the Solvency II Directive 2009 regulatory standards depends on two main pillars, namely good governance and capital requirements. The implementation of a proper governance scheme is the best protection against any internal business risk. This means creating and relying on supervisory boards, audit committees, well-oiled compliance and risk-management systems, or any other structure enforcing internal control.

A company must also be able to absorb internal or external shocks, such as a drop in the equity or real estate markets, or an increase in the number of claims. In order to do this, meeting the solvency capital requirement is key. Morocco has made substantial progress in this area. The government is planning to release a bulletin covering the issue, and it will either consolidate good practices already put in place by well-structured companies or foster a revamp of governance guidelines of less compliant companies. This will therefore represent a major upgrade of the sector.

In terms of capital requirements, the Insurance and Social Security Supervisory Authority has carried out multiple stress tests and simulations, and is now better able to estimate the level of capital companies need to hedge against the risks to which they are exposed.

What products are expected to disrupt the market?

ARROUB: We are still benefitting from the creation of the life insurance segment. We expect the current penetration rate of 3.7% of GDP to grow rapidly. The success of these products has been such that the country has seen not only companies themselves issue insurance products, but also the rapid development of a reliable distribution network of banks, brokers and agents. In January 2020 new products covering catastrophic events were launched, and they are expected to add around 1% to the market premium. Additionally, the *takaful* (Islamic insurance) segment will hit the market later in 2020, though it will take some time to reach full maturity. We also launched a funeral insurance product, for which more than 80,000 contracts were sold in 2019 and 300,000 people were covered.

The National Financial Inclusion Strategy, co-led by the central bank and the Ministry of Finance, is probably the most important project we are looking at. The plan will bring about fundamental changes, first and foremost on a regulatory level, adapting and extending distribution channels. Something similar has been done in other African states, where it is now possible to buy insurance products from traditional businesses. This allows operators to reach the entire population, including urban and rural areas. As part of this effort to improve inclusion, we launched a new range of insurance products for low-income customers. These six products – with an annual premium starting at Dh60 ($6.25) per year – provide coverage for areas such as death and medical costs, along with protection against fire and water damage for businesses or housing.

In what ways can insurers minimise their risk of rising car accident claim rates?

ARROUB: Motor insurance is the largest non-life segment of the market and therefore has a serious impact on insurance companies. One of the causes of the problem can be traced to the launch of "compensation without repair" products, which has led to an almost immediate increase in fraud and collusion, which has subsequently contributed to a higher number of claims. However, insurance businesses are in the midst of modifying their offer to tackle the issue at its root. A solution that was recently envisioned but not implemented was a price increase. Taking into account the claim-to-premium ratio, or how much claims cost in relation to the revenue of insurers, we preferred to preserve prices across the market and instead to specifically address claims by rethinking our broader offer.

Global Perspective

Premium protection

As the risk of data theft continues to rise, the cyberinsurance segment is poised for significant growth

With the world digitalising at an increasing rate, the threat of cybercrime has risen dramatically in recent years, and emerging markets are no exception. While the shift towards online platforms – along with the development of the internet of things, smart cities and blockchain technology – is generating significant opportunities for wealth creation and helping to raise efficiency, it is also creating a new set of complex challenges for governments, businesses and individuals.

CYBERCRIME: The widespread nature of cyberthreats has led to a considerable increase in the resulting cost of cybercrime. In 2015 UK bank Lloyd's estimated that cybercrime, including direct damage and post-attack disruption to operations, cost businesses as much as $400bn globally. The UN's International Telecommunications Union (ITU) predicted that this figure would reach $2trn by the end of 2019, while industry analyst Cybersecurity Ventures expects global damages to cost $6trn by 2021, a figure that would make cybercrime more lucrative than the illegal drugs trade.

CYBERINSURANCE: The elevated threat, along with the rise in cost, is driving investment in protection, with global cybersecurity spending expected to total $1trn between 2017 and 2021. A growing share of this protection is cyberinsurance. While it is not considered an all-encompassing solution, cyberinsurance is an increasingly important form of security as companies, government institutions and individuals look to protect themselves from threats. Cyberinsurance generally covers the losses of policyholders that stem from cyberattacks or data theft within an IT network. Policies usually include first-party risk coverage – related to the business' own assets – or third-party risk coverage, which deals with the assets of others, usually in the form of clients or customers. In terms of specific policies, coverage falls into one of three categories: standalone cyberinsurance; package deals provided within traditional policies such as general liability; and non-affirmative – also known as silent – coverage, whereby exposure to cybercrime is neither explicitly included or excluded from coverage, which can often lead to uncertainty and litigation during the claims process. While cyberinsurance was first developed in the 1990s to protect telecoms and professional services companies against the loss of customer data, many insurers in more developed markets now provide cyber-related services, such as prevention programmes and post-breach response services. Additional services offer customers more practical assistance than that offered by traditional insurance lines, such as deploying forensic investigators to look into the causes of the breach and offer solutions, public relations professionals to help with reputational damage and skilled negotiators to deal with ransom demands.

While still in its infancy, the cyberinsurance market has seen rapid growth in recent years. Market analysts estimated that global premium would rise from $1.5bn in 2016 to $6bn in 2019. As awareness grows, industry figures predict this could increase to $15bn by 2022 and to $20bn by 2025. While representing an estimated 1% of global insurance premium, a 2017 report from consultancy KPMG estimated that cyberinsurance growth was expanding at 10 times the rate of overall cybersecurity investment, highlighting its strong potential. Despite this expansion, which has manifested across a series of increasingly digitalised industries, cyberinsurance is still concentrated in data-heavy areas such as financial services, technology, retail and health, which make up the bulk of global premium. According to research published in 2017 by UK insurance company Aon, financial institutions accounted for 29% of premium in the US cyberinsurance market – by far the world's largest – followed by retail and wholesale (21%), health care (15%), business services and manufacturing (6% each).

Just as premium are concentrated in a small number of industries, the bulk of global market share is held by a few established, multinational insurers. The world's

Global cybersecurity spending is expected to total

$1trn

between 2017 and 2021

The cyberinsurance market has seen rapid growth in recent years, with analysts estimating that global premium would increase from $1.5bn in 2016 to around $6bn in 2019.

Laws such as the EU's General Data Protection Regulation, which was implemented in May 2018 and can fine companies for leaks in customer data, have been cited as a factor driving cyberinsurance penetration rates.

10 largest cyber-writers hold more than 50% of global premium, and are dominated by US and European companies. Some of the major players are Chubb, AXA, AIG, Lloyd's, Travelers and Beazley.

GROWTH DRIVERS: The growth in coverage has been driven by an accelerating shift towards digitalisation across the world. As companies and government institutions continue to migrate their services online, more and more executives have identified cyberinsurance as an effective way to secure their assets. In addition, a number of high-profile cyberattacks in recent years have helped to raise awareness of threats.

Another factor helping to drive cyberinsurance growth is the enactment of data protection legislation. Laws such as the EU's General Data Protection Regulation (GDPR), which was implemented in May 2018 and can fine companies for leaks in customer data, have been cited as factors driving insurance rates. Similar data protection laws are present in the US, with such legislation and stringent cyberattack reporting regulations common features of countries with greater cyberinsurance penetration. However, just as legislation has helped to drive cyberinsurance penetration, a lack of relevant regulations has proved to be a disincentive to uptake. In countries without strict reporting regulations, cyberattacks often go unreported, with companies fearful of the resultant reputational damage. As such, it can be difficult to gauge the rate of cybercrime in some countries.

GLOBAL LEADERS: As a relatively new segment, it is perhaps unsurprising that cyberinsurance is dominated by industrialised, high-tech countries. For example, the US accounts for roughly 80-90% of the global market. Around 15% of US firms purchase cyberinsurance, significantly higher than in other parts of the world, where the rate is often below 1%. The EU holds about 5-9% of global market share; however, this figure is expected to increase as more companies comply with GDPR requirements. Together, these markets account for between 85% and 95% of global premium, according to various estimates. While uptake among other regions – particularly developing economies – remains low, it also indicates significant room for growth.

MIDDLE EAST & NORTH AFRICA: The substantial cyberattack on state-owned oil company Saudi Aramco in 2012 emphasised the significance of cybersecurity for many governments and companies in the MENA region. The hack, described at the time as the biggest in history, saw 35,000 computers either partially wiped or completely destroyed within a matter of hours. While oil production remained steady due to the automation of drilling and pumping, the company's ability to supply approximately 10% of the world's oil was threatened as it was unable to make payments to distributors and other industry stakeholders along the supply chain. Given the importance of the oil and gas industry to the region, hydrocarbons companies face a heightened risk of cybersecurity breaches. A report published by Siemens and the Ponemon Institute in 2018 found that half of all cyberattacks in the Middle East target the oil and gas sector. As a result of this risk, countries in the region have generally been more alert to cyberthreats. In the ITU's "Global Cybersecurity Index 2018" report, five countries in the MENA region – Saudi Arabia (13th), Oman (16th), Qatar (17th), Egypt (23rd) and the UAE (33rd) – were ranked in the top 35 out of 175 countries for cybersecurity protection. While cyberinsurance penetration is still low in the region, solutions are becoming increasingly available. For example, in Saudi Arabia, which spends more on cybersecurity than any other country in the region, online-focused insurer Tawuniya launched a series of cyberinsurance products in 2019, while industry officials in Morocco have sought to improve the regulatory framework and implement policies ahead of an expected surge in demand.

SUB-SAHARAN AFRICA: Despite having some of the lowest levels of cybersecurity in the world, cyberinsurance has yet to make a significant impact in sub-Saharan Africa. Less developed digital industries, older infrastructure and low penetration of more common insurance have been cited as major obstacles to the segment's growth. While overall uptake is still low, there have been significant developments in a number of the region's more advanced countries. South Africa leads the way with the most mature cyberinsurance market south of the Sahara, while in Kenya, which has a comparatively developed financial technology and digital payments market, efforts have been made to cover a variety of cyber-risks. In August 2019 Britam General Insurance, a subsidiary of Britam Holdings, the country's largest insurer, launched a cyberinsurance policy aimed at large firms, small and medium-sized enterprises (SMEs), hospitals and state-owned bodies. The rollout comes as Kenya lost an estimated KSh29bn ($284.1m) in 2018 as a result of cyberattacks, while official statistics showed that the number of hacks increased by 10% year-on-year in the first three months of 2019, with 11.2m organisations being targeted over this period. As in the US and the EU, cyberinsurance should see significant growth in Kenya after a new data protection law was passed in November 2019. Under the law, which complies with the EU's GDPR requirements, those found guilty of breaching data protection measures face a maximum fine of KSh3m ($29,400) or two years in prison.

Ghana is another country with significant cyberinsurance potential but low penetration. Despite being one of the most rapidly expanding economies in Africa, with an average annual growth rate of more than 7% between 2017 and 2019, there are a limited number of companies offering cyberinsurance, and uptake remains slow, in part due to a lack of awareness. "Cyber-liability insurance is important for any entity that keeps third-party data, thus demand for this cover should be high. Most corporates are exposed but do not seem to know that they can transfer the risk to the insurance markets," Darlington Munhuwani, CEO of Allianz General Insurance Ghana, told OBG.

ASIA PACIFIC: The Asia-Pacific region has varied levels of development in its cyberinsurance markets. While it is home to some of the world's most innovative countries in this respect, other economies still have nascent or very limited options. In terms of broader cybersecurity, Asia Pacific is home to five of the top-15 countries in the ITU's "Global Cybersecurity Index 2018" report: Singapore (6th), Malaysia (8th), Australia (10th), Japan (14th) and South Korea (15th).

In November 2018 Singapore announced the launch of the world's first commercial cyber-risk pool, a facility that provides insurance to corporate buyers. The pool will commit up to $1bn in risk capacity, and is backed by capital from traditional insurance companies and insurance-linked securities markets.

Another country poised to benefit from developments is Indonesia. With 150m internet users and an underdeveloped cybersecurity system, the country is at the epicentre of global cyber-vulnerability, experiencing more than 200m attacks in 2018. Indonesia is also the world's largest source of cyberattacks, with poorly connected servers being used to target both domestic and foreign firms. Given the significant threats – and the size of the market – Indonesia has more expansive cyberinsurance coverage than some of its South-east Asian neighbours, with most major banks, along with a range of private firms and start-ups, offering policies. Despite this, uptake remains quite low. However, this should be boosted by the introduction of a personal data protection law, described by government officials as a priority piece of legislation for 2020.

While cyberinsurance coverage is forecast to gain traction in Indonesia, at the far end of the scale countries such as Papua New Guinea and Myanmar have limited industries dedicated to cybercrime and risk in general, with subsequently low levels of cyberinsurance. However, the ongoing liberalisation of the broader insurance sector in Myanmar could provide a platform for future cyberinsurance development.

LATIN AMERICA & THE CARIBBEAN: Latin America has also experienced a rapid increase in both cyberthreats and cyberinsurance penetration. While coverage is still comparatively low, a rise in high-profile data breaches is helping to raise awareness of the matter.

For example, Mexico experienced 300% growth in cyberinsurance premium in 2018, according to insurance broker Lockton Mexico. This came as MXN300m ($15.5m) was siphoned from five financial institutions in 2018. The intergovernmental Organisation of American States estimated in 2019 that cybercrime inflicts financial losses of $3bn-5bn per year in Mexico. "Both regionally and globally, a lack of cybersecurity is one of the top threats facing businesses, and this is only growing as societies become increasingly digitalised and interconnected by technology," Marcelo Hernández, CEO of AIG México, told OBG. "Many emerging economies are underprotected, and therefore the growth in cyberinsurance will be most pronounced in these markets over the coming decade."

Peru is experiencing similar conditions: according to reports cited by local media, the number of cyberattacks grew by 600% year-on-year in August 2018. This has created more awareness within the business community and resulted in increased investment in cybersecurity, rising from $135m in 2017 to $180m in 2018. While Peru still has a low level of cyberinsurance penetration, it is expected to grow in the near future.

COMMON CHALLENGES: Despite the threat of cybercrime increasing, the uptake of relevant forms of insurance remains low in developing countries. A common challenge in boosting coverage is the lack of awareness among businesses and individuals of the insurance options available. According to the "Global Cyber Risk Perception Survey Report 2019", released by US insurance and risk-management company Marsh and multinational technology giant Microsoft, 31% of businesses surveyed were unsure whether the cyberinsurance policies on offer could meet their needs. Although this figure was down from 44% in 2017, it shows significant room for improvement.

SMALL TARGETS: Moreover, even though major cyberattacks have made global headlines in recent years, industry players note that many business owners and executives in emerging markets feel that they are removed from the threat or are too small to be targeted. "Cyber-risk has historically been viewed as an internal IT security issue. Furthermore, there is a famous saying in Trinidad and Tobago – 'God is a Trini' – which means that people think certain things are never going to happen to us," Rodney Farah, managing director of the Trinidad-based insurance broker PRFC, told OBG. This perspective is shared by many small businesses. According to the 2019 survey by Marsh and Microsoft, 57% of firms with annual revenue over $1bn were likely to have cyberinsurance, compared to 36% of those with annual revenue under $100m.

Although large organisations remain key targets, smaller firms are increasingly suffering from data breaches. KPMG noted that big businesses accounted for less than 20% of global cyber-losses in 2016, and professional services firm Accenture found that 43% of cyberattacks targeted small businesses. Given that just 14% were deemed prepared to defend themselves from cyberthreats, analysts have warned that data breaches could be highly destructive for SMEs.

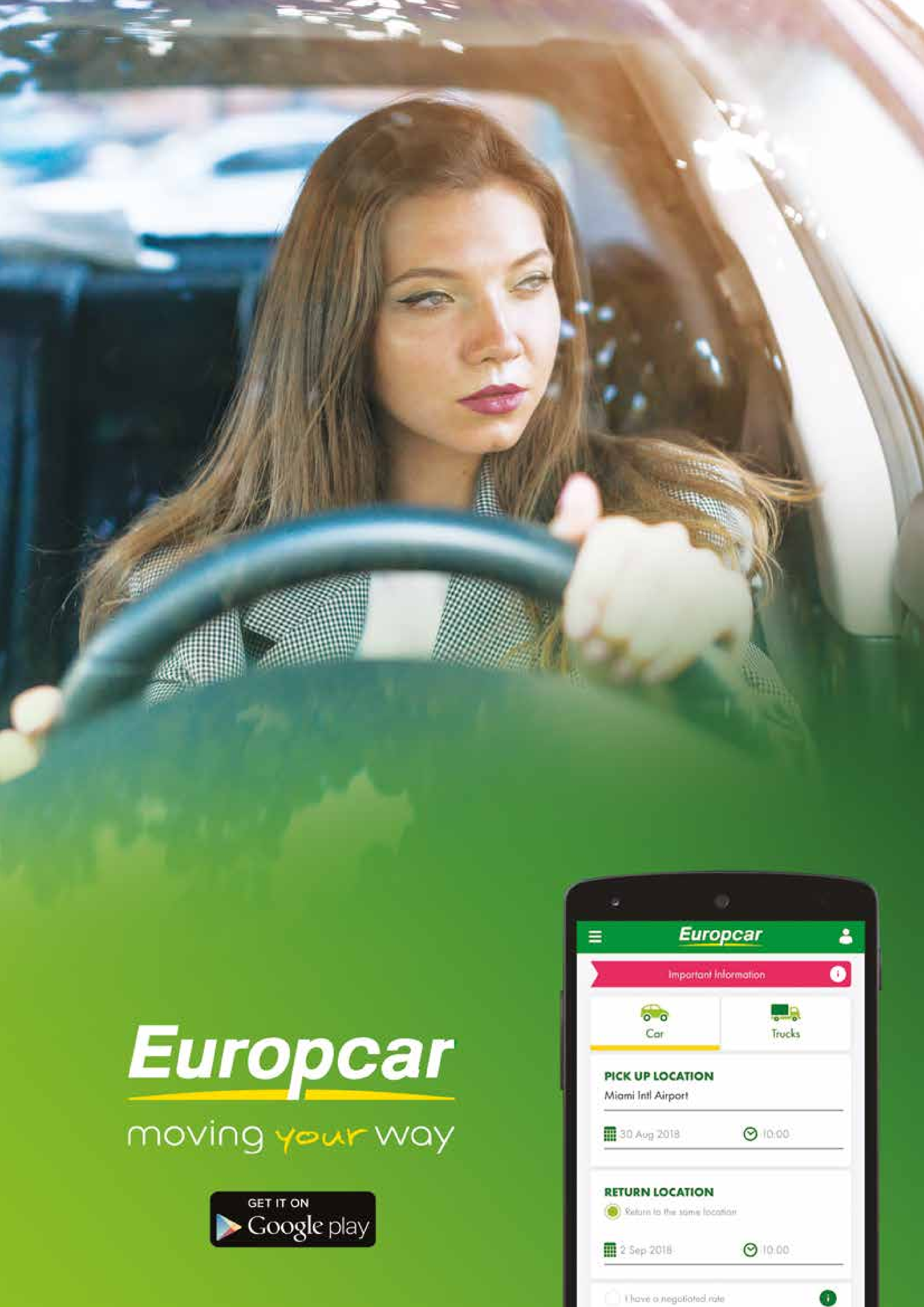
LOOKING AHEAD: Despite some of the challenges, cyberinsurance is expected to continue its strong growth trend across emerging markets as more companies and government institutions migrate their operations online. An increase in data protection laws across these regions should also help to drive expansion, with industry analysts expecting much of the market growth to come from mid-sized companies.

As the market matures, so will the products on offer, and insurers are anticipated to target new sectors and provide more specific policies. For example, in November 2019 Zurich Insurance Group, Switzerland's largest insurer, released cyberinsurance coverage specifically tailored to the manufacturing industry, a sector with traditionally low levels of penetration. Insurance providers are also expected to increasingly follow the examples of industry leaders AIG, Allianz and Lloyd's by explicitly excluding cyber from their conventional property and casualty packages in order to avoid the so-called silent risk of unintended cyber coverage.

31%

of businesses surveyed in a 2019 report were unsure of whether cyberinsurance could meet their needs

Some 57% of companies with annual revenue exceeding $1bn were likely to have cyberinsurance in 2019, compared to 36% of companies with annual revenue below $100m.


Europcar
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Car
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PICK UP LOCATION
Miami Intl Airport
30 Aug 2018
10:00
RETURN LOCATION
Return to the same location
2 Sep 2018
10:00
I have a negotiated rate

Industry & Mining

New strategic development programme in the making
Industrial exports rise as customer base diversifies
Manufacturing continues to attract foreign investment
Range of mineral resources targeted for exploration

Industry employs 20% of workers and is a key source of job creation

Broad base

Policy and incentives lead to growth in new industrial segments

Morocco produces an array of finished products and components for not only traditional markets in southern Europe, but also increasingly across Africa, Asia and the Americas.

With an increasingly diversified manufacturing base, the industrial sector has become an important component of Morocco's GDP. The country produces an array of finished products and components for customers not only in traditional markets such those in southern Europe, but also increasingly across Africa, Asia and the Americas. Firms based in the kingdom produce items as varied as automotives and auto parts, cables, chemicals, textiles, aeronautical products, agro-industrial goods and electronics for both domestic and international customers.

The growing strength of industrial activities is also a reflection of efforts to diversify the economy away from a traditional dependency on agriculture. By betting on the revamping of exports such as textiles and minerals, as well as new value-added segments such as aeronautics and automotives, Morocco is poised to further develop its industrial capabilities in a manner that encourages sustainable and more geographically widespread economic growth.

SECTOR PERFORMANCE: Despite regional political and economic instability over the past decade, Morocco has been able to promote itself as a stable and reliable centre for manufacturing, with a geographic location that makes it cost- and time-efficient to service markets in Africa, Europe and the Middle East. Industrial GDP expanded from $21.6bn to $29.3bn between 2009 and 2018, according to figures from the African Development Bank (AfDB). Over that same period, value-added manufacturing grew from $13.4bn to $17.7bn.

Industry is major contributor to GDP and employs about 20% of the population, according the AfDB. Given the high rate of unemployment – at 9.4% overall and 26.7% for youth as of the end of the third quarter of 2019 – the authorities are looking to industrial development as a means to create jobs. Even with the relative availability of workers, industry is challenged by the inadequate matching of skills with the needs of employers, highlighting the need to improve education and vocational training programmes, especially if new industrial sectors are expected to alleviate unemployment. "The current industrialisation plans were implemented just a few years ago, and we are now starting to see the positive effects of this," Souhail Chalabi, deputy director-general at investment banking firm BMCE Capital, told OBG. "Between 2000 and 2010 Morocco went through a period of deindustrialisation in sectors such as textiles and metallurgies, and saw the closing of refining operations. The new segments Morocco is developing do not yet account for the same volume of jobs as the previous ones."

In 2018 value-added manufacturing reached

$17.7bn

POLICY: The government has leveraged the growing network of industrial zones to incentivise new manufacturing ventures and allow investors to establish capacity in advantageous conditions. Manufacturers in the zones are entitled to corporate tax exemptions for the first five years, followed by a favourable rate of 8.75% for the subsequent 20 years. Exemptions are also available for urban and licence taxes for 15 years, as well as for value-added tax (VAT) and the repatriation of foreign earnings.

While the country is looking to establish a new economic model that will accelerate growth, infrastructure development is likely to facilitate industrial expansion. "It was a good strategic decision to focus on infrastructure development, as it has facilitated business exchanges both within Morocco and with partners across the world," Hicham Bensaid Alaoui, risk, information, claims and collection director at insurance company Euler Hermes, told OBG.

The diversification of industrial offerings was part of a medium-term plan to make the country a competitive manufacturing base in several sectors with high-value-added potential. The 2008 National Pact for Industrial Emergence was a six-year strategy that aimed to attract foreign investment and establish automotive, aerospace, agro-industry and electronics manufacturing centres. The plan also sought to integrate Morocco within global production chains. Other sectors were added to the list of industrial ambitions in 2013, including pharmaceuticals, metallurgy, mechanics and chemicals. The strategy combined incentives with key infrastructural developments and adapted government support to the needs of each subsector.

INDUSTRIAL ACCELERATION: Significant changes to national policy were implemented with the Industrial Acceleration Plan (Plan de d'Accélération Industrielle, PAI) 2014-20. The policy focused on several goals, including the creation of segment-specific ecosystems that would establish connections between global manufacturing firms and smaller suppliers, the transfer of informal activities to the formal sector, the specialised training of human resources to fit the demands of the market, and the improvement of the overall competitiveness of small and medium-sized enterprises (SMEs).

The PAI channelled resources into the establishment of special economic zones (SEZs), where firms are able to take advantage of centralised government services and incentives. The SEZs feature sector-specific clusters, and as of February 2020 key production value chains in auto manufacturing, aerospace and agro-industry had been created. By establishing operations in SEZs, several companies in the same sector are able to work in close proximity and access suppliers more efficiently.

The PAI is largely regarded as a success. By August 2017 the plan had led to the launch of 47 manufacturing ecosystems. By that month it had also reached 97% of its targeted 500,000 jobs created. The programme exceeded another of its goals, to increase the industry's contribution to GDP, from 14% in 2014 to 23%. Morocco reached this target by mid-2017 and as of 2018 this figure was 25.9%, according to the World Bank. The PAI also led to the establishment of the Fund for Industrial Development and Investment (Fonds de Développement Industriel et de l'Investissement, FDII), valued at Dh20bn ($2.1bn) for the 2015-20 period. The fund has been an important source of finance for the government's sectoral programmes. Additionally, the FDII made 1000 ha of industrial land plots with attractive terms available for rent to SMEs.

The success of the PAI has led officials to begin planning the next steps. In December 2019 the government announced it would develop a new PAI to guide development over the 2021-25 period and secure the gains from past industrialisation efforts. The second plan will be created in partnership with regional governments and will focus on integrating SMEs into the value chain and encouraging innovation with a view to prepare the kingdom for technological change. "Although the first iteration of the PAI was successful, it is now necessary to develop a research and development (R&D) component that will ready Morocco for Industry 4.0 and efficiently integrate the use of renewable energies throughout the production process," Yassine Mellouk, managing director of local water infrastructure firm KSB Pompes et Robinetteries, told OBG.

The Industrial Acceleration Plan 2014-20 had created 47 ecosystems and 500,000 jobs as of August 2017

In 2018 industry's contribution to GDP reached **25.9%**

Some industry observers note that to bring R&D up to par with its counterparts, the government and the private sector will have to allocate more investment. To this end, the second PAI will place a greater focus on digitalisation. "The industrial sector is grappling with the Moroccan market's long payment terms, which can impact companies' sustainability and financing capacities," Ridha Chouk, managing director of paint and coatings firm Akzo-Nobel Coating Morocco, told OBG.

Morocco's industrial development goals are receiving support from international financing bodies. In March 2019 the AfDB granted the kingdom a loan of €268m ($301.2m) to support the second phase of the PAI. The financing will be channelled towards improving logistics infrastructure and supporting banking guarantees for SMEs.

EXPORTS: The diversification of the industrial base has enabled the sector to secure a greater proportion of overall export volumes. It has also strengthened the economy by diluting the risk of lower demand for manufactured products across a larger and more varied basket of goods.

A combination of policy changes, a more attractive environment for foreign investment and improved trade relations have enhanced the export performance of most segments in recent years. Automotive exports, for instance, jumped from Dh42.8bn ($4.5bn) in 2014 to Dh72.3bn ($7.5bn) in 2018, according to the Office des Changes' 2018 annual report. Indeed, positive signs of successful diversification came as early as 2015, the first year that the value of phosphate exports was overtaken by exports of the automotive industry. Agro-industrial exports increased from Dh23.4bn ($2.4bn) to

In December 2019 the government announced it would develop a new Industrial Acceleration Plan to guide development over the 2021-25 period and secure the gains from past industrialisation efforts.

Dh32.3bn ($3.4bn) between 2014 and 2018, and exports in phosphate and associated products rose from Dh38.3bn ($4bn) to Dh52bn ($5.4bn). Although textiles and leather's export performance has fluctuated, the segment has seen improvements, with exports rising from Dh33.5bn ($3.5bn) to Dh37.8bn ($3.9bn) over the same period.

One of the fastest-growing segments has been aeronautics assembly and component manufacturing, which saw its exports roughly double, from Dh7.5bn ($781.4m) in 2014 to over Dh14.7bn ($1.5bn) in 2018. Growth has also been significant in the export of electronic components, which expanded from DhD6.8bn ($706.4m) to DhD8.9bn ($927.2m) between 2014 and 2018. Pharmaceutical exports increased from Dh900m ($93.8m) to Dh1.2bn ($125m), and the total export of non-phosphate minerals grew from DhD3.7bn ($385.5m) to Dh4.5bn ($468.8m). This underlined the need for renewed mineral exploration efforts and enhanced mineral processing capacity (see analysis).

Despite broader economic challenges, industrial exports are expected to continue to increase due to stable demand for the country's main products on the international markets. It will thus be important for firms – and SMEs in particular – to attract foreign customers. "Most of the companies that depend on exports have a largely positive outlook," Alaoui told OBG. "But those that depend on the domestic market will likely face slower growth prospects."

TRANSPORT INFRASTRUCTURE: The rise in industrial exports was facilitated by key investment in transport infrastructure, which accelerated around the early 2000s. The results have had a palpable impact on the ability of industries to operate and export. Since 2010 the network of paved roads has increased from 35,000 km to 43,000 km due to a concerted efforts to build new highways that connect major cities and industrial production centres.

The country's 2000-km railway network received a boost in November 2018 with the completion of a high-speed link between the northern coastal city of Tangier and Kenitra, 350 km to the south. Transport authorities plan to extend the high-speed connection further south, to Marrakech and Agadir, with preliminary studies for the longer line completed in March 2018. There are also plans to extend the Tangier-Kenitra line to Casablanca and link Tangier to Oujada via high-speed rail.

Ports have been targeted for development as well. After the completion of a $1.3bn second terminal at Tanger-Med in June 2019, the facility became the largest port by container capacity in the Mediterranean. Tanger-Med moved 4.8m twenty-foot equivalent units (TEUs) in 2019, with container traffic up 38% from the 3.5m TEU moved in 2018. Such large-scale infrastructure developments have helped increase Morocco's industrial capacity and facilitate exports to the region and beyond.

The upgraded transport infrastructure combined with the emergence of new and value-added industries is expected to help ease unemployment, but additional efforts to enhance integration are necessary. "The government wants to leverage new sectors such as automotives and aeronautics, and take advantage of the infrastructure it has developed," Alaoui told OBG. "However, because the integration of these industries is still relatively weak, their impact on the country's overall economic growth is not as strong as it could be."

Automotive products are the top industrial export, with their value rising from $4.5bn in 2014 to $7.5bn in 2018

Aeronautics assembly and component manufacturing is one of the fastest-growing segments. Its exports rose from $781.4m in 2014 to more than $1.5bn in 2018.

INVESTMENT TRENDS: Industry has been aided by Morocco's overall stability as nearby countries such as Algeria, Tunisia and Libya continue to be affected by political and economic uncertainty. This has made the country a preferred destination for foreign direct investment (FDI). In 2018 the kingdom attracted Dh34.2bn ($3.6bn) in FDI, a 31.3% improvement on 2017 figures, according to the Office des Changes. Although only 14.3% of FDI was directed towards manufacturing, the overall dynamic had a positive – if indirect – impact on the sector. Importantly, industry was the top recipient of accumulated FDI, with an investment stock of Dh137.8bn ($14.4bn) in 2018.

More developed infrastructure and favourable economic performance has attracted investment aimed at boosting manufacturing capacity from both domestic and international operators. In early 2016 OCP Group, the state-owned firm in charge of phosphate production, inaugurated a €488m ($548.6m) fertiliser plant in the Jorf Lasfar industrial complex, 110 km south of Casablanca. The facility has the capacity to produce 1.4m tonnes of sulphuric acid, 1m tonnes of fertiliser and an additional 450,000 tonnes of phosphoric acid. The majority of the unit's production is exported to sub-Saharan Africa through the Jorf Lasfar port.

In September 2017 French aerospace manufacturer Thales opened a 1300 sq-metre 3D metal printing factory in Casablanca to manufacture

While industry accounted for only 14.3% of foreign direct investment (FDI) in 2018, it was the top recipient of accumulated FDI, with an investment stock of $14.4bn.

The automotive and auto parts sector has been a key job creator, employing 180,000 people as of late 2019

Under the Industrial Acceleration Plan 2014-20, $270.9m was invested in chemicals with state support, benefitting 43 companies in the segment.

Agro-industry accounted for

30%

of GDP in 2017

components for the spatial and aeronautic industries. Between 2017 and 2022 the new Thales unit is expected to receive between €15m ($16.9m) and €20m ($22.5m) in investment.

Cosumar, a sugar producer and one of the country's largest agro-industrial companies, is building a Dh350m ($36.5m) plant in Casablanca to produce vegetable oils. The unit – the first of its kind in Africa – will be built in partnership with Singapore-based Wilmar International and is set to begin operations in 2020. The majority of the unit's annual 35,000-tonne output will be exported.

Tunisian cheese products manufacturer Land'Or, announced in June 2019 that the company is investing €10.7m ($12m) to build a factory in Morocco. The new unit is expected to begin operations in 2021, with most of its output expected to service the domestic market. In late December of that year another agro-industrial producer, Moroccan biscuit manufacturer Excelo, finalised a second production line at its Had Soualem factory, a Dh100m ($10.4m) investment that will allow the company to increase annual production to 5000 tonnes.

Government initiatives under the PAI have supported investment in industry. For example, under the programme Dh2.6bn ($270.9m) was invested in chemicals with state support, benefitting 43 companies operating in the segment. Between 2015 and 2020 industrial support programmes are expected to help create 12,450 jobs in the chemicals segment. However, as of 2019 only about half of those jobs had been created, according to government figures published in December that year.

AGRO-INDUSTRY: Morocco's strong agricultural base has allowed it to establish a significant agro-industrial production network. Agro-industry represented about 30% of GDP and about 25% of manufacturing jobs in 2017. Meanwhile, agricultural and agro-industrial exports were the second-most valuable segment in 2018, after automobiles, but outperforming phosphates, textiles and aeronautics.

On the policy side, in April 2017 Moroccan authorities launched a Dh12bn ($1.3bn) agro-industry programme to be implemented through to 2022. The plan aims to create approximately 370 new manufacturing units and over 38,000 additional jobs. At least a third of the new factories are expected to benefit from financial support from the government.

Although many agro-industrial producers in the kingdom are focused on exports, there is significant potential for growth in the domestic market, as imports continue to be substantial. Imports of retail-related food products from abroad reached $1.4bn in May 2019, according to figures by the US Department of Agriculture. The food retail market represented 13% of GDP in 2018.

The segment has also benefitted from a $200m World Bank programme to improve market efficiencies and distribution. The loan scheme – launched in late 2017 and running through to 2023 – aims to support the inclusion of small producers into value chains and distribution channels geared towards the export of agricultural goods, with a particular focus on olives and citrus. Improving the processing, packaging and distribution infrastructure is critical for the future development of the segment. "There is an increasing environmental awareness from the consumer," Salahaddine Mouaddib, CEO of Pepsi-Varun Beverages Morocco, told OBG. "The biggest concern for manufacturers is how to adapt the packaging to the expectations of the market. The more eco-friendly a product is, the more it will sell."

AUTOMOTIVE: By taking advantage of its close proximity to Europe and setting the right incentives for manufacturers and suppliers, Morocco has transformed itself into a global centre for the automotive industry. As of early 2020 two French automobile manufacturers – Renault and Groupe PSA – established a presence in Morocco, and in December 2017 Chinese electric car manufacturer BYD announced it signed an agreement to build a facility that would produce battery-powered passenger cars, buses and trucks. These producers have brought with them an array of suppliers to industrial zones in Tangier, Kenitra and Casablanca (see analysis).

The segment has benefitted significantly from the PAI. Between 2014 and 2018 automotive exports increased from D42.7bn ($4.4bn) to Dh72.3bn ($7.5bn), according to figures from the Office des Changes. The kingdom filled orders for approximately €3bn ($3.4bn) worth of automotive components for European automakers, according to the Moroccan Association for Automotive Industry and Trade (Association Marocaine pour l'Industrie et le Commerce de l'Automobile, AMICA). "In addition to attracting new manufacturers, there are several suppliers that have established multiple production facilities across the country, which stands as a real testament to what Morocco has to offer," Abdelaziz Meftah, general manager of AMICA, told OBG.

Incentives play important role in attracting manufacturers to the market. Morocco offers five-year corporate tax exemptions for automotive industry manufacturers, as well as a 25-year exemption if the majority of production is for export. Additionally, the authorities offer subsidies for industrial land acquisition, as much as 30% of rebates on investment costs and VAT exemptions.

The automotive and automotive parts segment has been a key job creator, employing some 180,000 people in the kingdom as of late 2019. The two largest employers in Morocco – Sumitomo and Yazaki – employed 18,000 and 14,000 people, respectively, as of the end of 2019, according to figures by AMICA.

TEXTILES: Another job-generating sector is textiles, which employed 185,000 people in 1200 companies as of late 2019, according to figures provided by Moroccan Association of the Textile and Apparel Industries (Association Marocaine des Industries du Textile et de l'Habillement, AMITH).

It has been a key export, with textile and leather exports reaching Dh37.8bn ($3.9bn) in 2018. The EU is the main purchaser of Moroccan textiles, and during the first nine months of 2019 the kingdom saw its textile exports into the trade bloc climb by 2.5% relative to the same period of 2018, according to AMITH. Morocco was the eighth-largest supplier of textiles to the EU, accounting for 3.1% of the European body's textile imports in 2019. Efforts to make textiles more competitive under the PAI, including a focus on product development and branding, have helped the segment grow (see analysis).

AERONAUTICS: Despite being relatively new to the country, Morocco's aeronautics industry has grown significantly in recent years. As of late 2019 the sector had 140 firms in operation that employed 17,000 people, and mobilised annual exports of $1.4bn, according to figures by Moroccan Aerospace Industries Group (Groupement des Industries Marocaines Aéronautiques et Spatiales, GIMAS). Between 2017 and 2019 the sector had an annual growth of over 20%. Morocco-based manufacturers make components for around 30 aircraft models produced by international industry leaders such as Airbus, Boeing, Embraer, Bombardier and Sukhoi.

Industrial GDP expanded from $21.6bn in 2009 to $29.3bn in 2018

Aeronautics manufacturing has been buoyed by overall positive trends in the global market. "As we mostly produce for export, we are not as dependent on the performance of the local economy as other sectors," Maria El Filali, director-general of GIMAS, told OBG. "Instead, our performance is linked to that of the international aviation sector, which has significant growth prospects."

Like several others, the growth of the aeronautics sector has been supported by SEZs, which centralise government services and suppliers, and cater to the needs of manufacturers. More importantly, policymakers and sector players have been successful in expanding the geographic distribution of manufacturing capacity across the kingdom, with

Textile and leather exports reached $3.9bn in 2018. The EU is the main purchaser of Moroccan textiles, and in 2019 the kingdom was its eighth-largest supplier.

Pharmaceuticals are produced primarily for the domestic market

Between 2014 and 2019 the aeronautics sector increased its level of industrial integration from 17.5% to 39%, and the authorities expect this to reach 42% by end-2020.

aeronautics factories established in Casablanca, Kenitra, Tangier, Salé and Oujda. One of the main areas for aeronautics manufacturing, the Midparc Industrial Zone, opened in 2013 near Casablanca. It spans 125 ha and hosts an array of multinational aeronautics manufacturers including Bombardier and Hexcel. Those operating in Midparc Industrial Zone are offered subsidies to boost access to land and encourage the building of industrial facilities, as well as support human resource training.

A major development occurred in 2016 with the signing of an agreement between Boeing and Morocco to establish the country as a central Boeing supplier. The agreement also encouraged over 100 of the aeroplane manufacturer's suppliers to establish a presence in the kingdom. Such agreements with international suppliers have helped improve local manufacturing capabilities. Between 2014 and 2019 the aeronautics sector increased its level of industrial integration from 17.5% to 39%, according to GIMAS. Industry authorities expect industrial integration will reach 42% by the end of 2020.

Aeronautics manufacturing has profited from a concerted focus on training that has given it access to a workforce with the specialised skills that employers require to produce complex parts and equipment. To that end, in 2011 the Moroccan Aerospace Institute was established to act as the industry's main training body. Capabilities were reinforced in mid-2019, when GIMAS signed a deal with the Bureau of Professional Training and Employment Promotion, which oversees the state's training programmes, in order to establish a training centre for aeronautics maintenance and repair. "Morocco is among the most competitive destinations in terms of local skills," Khaldoun Bouacida, managing director of chemical producer BASF, told OBG. "Multinationals are incentivised by the quality of talent available."

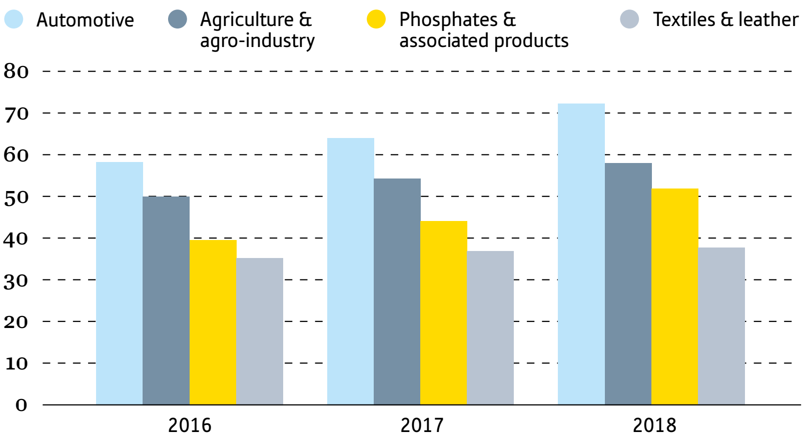
PHARMACEUTICALS: Morocco's pharmaceutical manufacturers benefit from competitive input costs and an advantageous location. Even so, producers focus primarily on the domestic market, exporting only around 10% of output. As such, the value of pharmaceutical exports are low, increasing from Dh986m ($102.7m) in 2014 to Dh1.2bn ($125m) in 2018. That year, there were 49 production facilities, which met about 60% of local demand. The industry had a turnover of Dh15.5bn ($1.6bn) in 2018 and employed 12,000 people directly.

Despite the low level of exports, recent developments are likely to boost production and increase exports in the coming years. In October 2018 India-based manufacturer Cipla inaugurated its first production facility in the kingdom. The Dh60m ($6.3m) factory – built in partnership with two Moroccan firms, Cooper Pharma and Pharmaceutical Institute – will manufacture inhalers to treat respiratory diseases. In June 2019 Mylan Maroc, a subsidiary of US-based Mylan, announced plans to construct a Dh120m ($12.5m) unit outside Casablanca that would produce antivirals for hepatitis C. The unit's output will not only be for domestic consumption, but the medications will also be exported to key markets in North Africa and other emerging countries.

OUTLOOK: Years of incoming investment and diversification have strengthened Morocco's industrial sector, increasing its contribution to GDP and expanding its reach throughout the country. Efforts to establish new manufacturing segments such as automotives and aeronautics have helped to diversify the economy, as well as find new export markets.

The implementation of the PAI has further encouraged industrial production, and it is expected that the second iteration will build on the success of the first. However, it will be necessary to channel more financial and administrative support to SMEs to help them thrive. If GDP is to expand to its full potential, businesses will need to be integrated into the global value chain. Nonetheless, prospects remain positive as government and private training programmes fulfil the demands of a growing manufacturing base.

Top industrial exports, 2016-18 (Dh bn)



Source: Office des Changes

Mohammed Amal Guedira, Founder and CEO, Automotive Moroccan Group Business and Consulting

Ahead of the curve

Mohammed Amal Guedira, Founder and CEO, Automotive Moroccan Group Business and Consulting, on building a value-added automotive ecosystem and developing new technology

What factors make Morocco's automotive industry attractive to foreign investors?

GUEDIRA: Morocco benefits from political and macroeconomic stability, and has seen stable growth, controlled inflation and low debt. The country also has a strategic geographic position, at the junction of Europe, Africa and the Arab World. In addition, the country offers access to more than 1bn consumers through the free trade agreements that are in progress. Its advanced road, port, air and telecoms infrastructure make Morocco a multi-connected nation, where the movement of people and goods is very fast.

Regarding the attractiveness for foreign companies to invest in the automotive sector, there are many competitive advantages and incentives, such as our free zones and industrial acceleration zones, which offer attractive taxation rates for investors. Qualified human resources are also available, with institutes for vocational training and hiring within the automotive industry. Upskilling human resources has been identified as a strategic goal to increase the investment attractiveness of Morocco. Training institutes have been established to meet the private sector's needs and to strengthen companies' productivity and competitiveness.

Morocco also has a diversified real estate offer within integrated industrial platforms, with attractive financing rates as well as government subsidies for investors who come and create jobs in the automotive industry and improve the local integration rate.

How can the development of small and medium-sized enterprises (SMEs) within the automotive ecosystem be encouraged?

GUEDIRA: The automotive industry in Morocco is based on the presence of two large manufacturers, Renault and PSA. These two companies are committed to investing in production sites and achieving high local integration rates. Around 250 tier-1 and tier-2 equipment manufacturers have settled around these firms in recent years to both supply them and export around the world, taking advantage of free trade agreements. Morocco has created an automotive ecosystem that can achieve our goals, namely job creation, increasing the local integration rate and increasing the industrial sector's contribution to GDP.

The sustainability of these ecosystems depends on developing the sector's subcontractors, particularly SMEs, which can increase local manufacturing. The types of support that have enabled these equipment manufacturers to grow are now being accessed by all of the sector's SMEs, which will reduce the risks that could impact Morocco's automotive industry, in particular competition from other emerging countries.

In what ways can Morocco anticipate the evolution of the automotive sector?

GUEDIRA: The automotive sector is facing three major disruptions that will revolutionise the entire ecosystem: autonomous vehicles, electric vehicles and car sharing. The automotive industry is going to fundamentally change its DNA, and industry leaders are showing agility and adaptability so as not to fall behind. A large proportion of the vehicles produced in the future will likely be powered only by batteries. While today's cars are made up of around 30,000 parts, electric cars only need 10,000. Parts manufacturers must take this into account and prepare themselves. They must also produce lighter, cleaner and safer vehicles, meaning new materials may come into play in vehicle production.

Consequently, the automotive world is experiencing a major revolution, and research and development (R&D) centres are working tirelessly to produce the car of the future today. We can see that in Morocco as well, with several automotive R&D centres collaborating with universities and industrial stakeholders. This close collaboration is necessary to allow all players based in Morocco to be ahead of the curve in terms of new technologies and adapt their production accordingly.

The industry has the capacity to produce 700,000 automobiles a year

In the driver's seat

Automotive manufacturers and suppliers flock to the kingdom

By setting the right policies, incentives and conditions for foreign direct investment, automotive manufacturing in Morocco has developed from a burgeoning subsector with potential to become the top export product by value in 2018. The country has been able to attract some of the world's largest car manufacturers and integrate them into an efficient ecosystem characterised by industrial and special economic zones that grant producers easy access to government services and a network of suppliers.

The industry has attracted investment from major players from Japan, the US, Europe and China. As of late 2019 the automotive segment had the capacity to produce 700,000 cars a year, led by two manufacturers – French firms Renault and Groupe PSA – and 200 suppliers that employed 180,000 people, according to the Moroccan Association for Automotive Industry and Trade (Association Marocaine pour l'Industrie et le Commerce de l' Automobile, AMICA). It is also one of the prime generators of employment, creating almost 117,000 jobs between 2014 and 2018 – representing 28.8% of all new jobs over that period, according to figures from the Ministry of Industry, Investment, Trade and Digital Economy.

In the short to medium term officials are looking to expand installed capacity to manufacture up to 1m vehicles per year. "The world's major automotive players are all in Morocco," Abdelaziz Meftah, general manager of AMICA, told OBG. "The country has graduated from making items such as cables and car seats to a more diversified and complex array of products and components."

HISTORY: The automotive industry has been present since the 1960s, with local producer Société Marocaine de Constructions Automobiles (SOMACA) assembling vehicles out of the Ain Sebaa industrial zone located near Casablanca for manufacturers such as Renault and Fiat. Locally produced vehicles were initially made for the domestic market, but later filled modest export orders. In the early years, some exports were geared towards European markets such as France and Spain, as well as Egypt and Tunisia. Morocco began to focus on attracting a larger number of automotive parts suppliers in the mid-2000s to reinforce manufacturing capacity and strengthen the value chain. The country also moved towards privatisation to attract foreign investment. State-owned SOMACA was privatised in 2003 and in March 2019 Renault became the sole owner.

A critical step was taken in 2007 when the government signed an agreement with Renault to build a large-scale manufacturing plant in Tangier. The €600m ($674.5m) unit had an initial production capacity of 400,000 automobiles, 90% of which were to be exported. Production began in 2012 out of the Tanger Free Zone, and the arrival of Renault attracted automotive parts suppliers from around the world, such as Yazaki, Leoni, Antolin and Delphi. These entrants became integral elements in the automotive ecosystem in northern Morocco.

The industry was strengthened by the opening of the $2.3bn Tanger-Med Port in 2007. At the time, the port was the largest in Africa, and in June 2019 it became the largest port by container capacity in the Mediterranean after the inauguration of the $1.3bn second terminal. The port, which is located near the heart of automotive production, has played a key role in facilitating increased exports across the Mediterranean and beyond.

EXPORTS: Increasing private sector participation have facilitated enhanced production levels and a greater contribution to exports. Between 2005 and 2010 automotive production rose from Dh12.7bn ($1.3bn) to Dh22.7bn ($2.4bn), while annual export output value more than doubled, from D9.2bn ($958.5m) to Dh18.9bn ($2bn). The upward trend has continued in recent years, with annual automotive exports increasing from D42.7bn ($4.4bn)

Morocco has been able to attract some of the world's largest car manufacturers and integrate them into an ecosystem characterised by industrial and special economic zones.

Between 2014 and 2018 the automotive industry created almost

117,000

jobs

Some $2.9bn of vehicles were exported in the first four months of 2019, accounting for 27% of total exports

The opening of a new automotive manufacturing plant in Kenitra's Atlantic Free Zone in June 2019 brought 27 car parts producers to the area.

to Dh72.3bn ($7.5bn), according to the Office des Changes. Vehicles alone, totalling Dh27.7bn ($2.9bn), accounted for over 27% of all exports in the first four months of 2019, up 0.3% year-on year.

INVESTMENT: The sector received a boost in June 2019 with the opening of Groupe PSA's $630m automotive manufacturing plant in Kenitra's Atlantic Free Zone. The facility will have a capacity of 100,000 vehicles by 2020, expanding to 200,000 by 2023. The facility was estimated to employ 1600 workers at the end of 2019, a figure expected to expand to 2500 in 2020. The new unit will focus on the production of Peugeot 208 vehicles for the Middle Eastern and African markets, and will also manufacture car engines. There will be a high locally sourced input component, with 60% of the parts purchased from Morocco. The company is looking to source even more from the local supply chain. In 2018 PSA ordered €850m ($955.6m) in local parts, and plans to increase this to €1bn ($1.1bn) by 2022.

Similarly to Renault's factory attracting suppliers, the Groupe PSA investment brought with it to Kenitra an additional 27 car parts producers. Citic Dicastal, a Chinese firm specialising in manufacturing aluminium alloy parts for wheels, built a €350m ($393.5) facility nearby in late June 2019. "The Atlantic Free Zone created a full ecosystem within the region, and many new local firms have set up operations in order to supply sector players with the required components," Badr Lahmoudi, general manager of Dicastal Morocco Africa, told OBG. Also that month, Nexteer Automotive opened a 107,000-sq-foot facility to manufacture electric power steering systems for Groupe PSA. The company's first plant in Africa plans to employ 500 people in 2020. "We received great support from the Moroccan authorities with this crucial investment," Hervé Boyer, president of Europe, the Middle East, Africa and South America for Nexteer Automotive, said in a statement announcing the plant.

To satisfy growing demand from the automotive industry in northern Morocco, in September 2019 the authorities announced the expansion of the Tangier Automotive City, from 178 ha to 517 ha.

"The pro-investment approach towards starting new businesses in the region is extremely valuable."

Other new additions to Kenitra's automotive cluster include Chinese supplier Nanjing Xiezhong, which announced in July 2019 it would build a $15m facility to supply Groupe PSA with air conditioners, and Naples-based group Proma, which inaugurated a $33m stamping site that will employ 121 people in September of that year. Meanwhile, in September 2019 Yazaki announced it would open its fourth plant in the kingdom in Kenitra in early 2020.

NORTHERN EXPANSION: The northern Tangier cluster has expanded even as suppliers have been drawn to Kenitra. In July 2018 local media reported that Volkswagen was looking to build a production unit in Tangier, although as of early 2020 no plans had been finalised. In June 2019 Galvanoplast, an automotive component treatment specialist, inaugurated a Dh140m ($14.6m) facility in Tangier. Furthermore, in November 2019 ContiTech, a subsidiary of German group Continental, announced plans to open a €3.6m factory in the city that will produce heating and cooling systems. The 5500-sq-metre unit will employ 100 people and service automakers in Tangier, Kenitra and Europe.Because of growing demand from new operations to service the industry in northern Morocco, in September 2019 the authorities announced an expansion of Tangier Automotive City's area, from 178 ha to 517 ha. The free trade zone caters to automotive manufacturers and is located around 20 km from Tanger-Med Port.

NEW DEAL: Automakers are also looking to take advantage of Morocco's stability, workforce and location. In December 2017 Chinese electric car manufacturer BYD signed a deal to build a factory that produces battery-powered vehicles in the kingdom. Once operational, the unit is expected to employ 2500 people. However, as of early 2020 a timeline for the project had not been released.Major players are looking to replicate the success of the well-established automotive clusters in Tangier, Casablanca and Kenitra. "We are looking to expand these ecosystems into other regions," AMICA's Meftah told OBG. "For instance, we want to establish a cluster for auto parts manufacturing near Agadir." It will also be important for the industry to move up the value chain and adopt new technologies. While Morocco has established itself on the world stage, it will be necessary to focus on innovation. "In the coming years, Morocco is expected to adapt automotive production and distribution that aligns with eco-friendly standards," Oussama Berrada Gouzi, managing director of automotive firm Global Engines, told OBG. "With the help of sound regulations, hybrid vehicles in particular have a significant integration potential in the market."

Indeed, hydrid and electric cars are becoming more sought-after in the local market. "Consumer trends are shifting in Morocco, and we are witnessing increasing demand when it comes to premium and eco-friendly vehicles," Mehdi Bouhafs, managing director of Scandinavian Auto Maroc, told OBG.

Textile exports to the EU rose from €2.7bn in 2016 to €2.9bn in 2018

Stretching the fabric

The re-energised textiles industry aims to expand its reach

With a long tradition in leather and garment manufacturing, textiles is one of Morocco's most important industries, accounting for 15% of industrial GDP, according to the Moroccan Association of the Textile and Apparel Industries (Association Marocaine des Industries du Textile et de l'Habillement, AMITH). While textiles and garments have grappled with periods of crisis, broad industrial policy measures are helping to relaunch the industry.

NEW DYNAMIC: Under the umbrella of the Industrial Acceleration Plan (Plan de d'Accélération Industrielle, PAI) 2014-20, textiles representatives signed an agreement with the authorities in 2015 to revamp the industry with a focus on product design, the development of local brands and enhanced competitiveness. "The PAI encouraged companies to help suppliers move up the value chain and improve their products in exchange for government support," Fatima Zahra Alaoui, acting general manager of AMITH, told OBG. The plan also stipulated closer cooperation with the Office of Vocational Training and Employment Promotion, which oversees the state's professional training programmes.

AMITH has long been working to facilitate the transfer of skills in knowledge. In 2008 it partnered with the government to establish the Casa Moda Academy, a sector-specific training school that offers professional licences. By focusing on the training of human resources, the facility aims to improve the design and quality of textile output.

The benefits from the agreement are already evident. By 2018 investment in the sector reached Dh4bn ($416.7m) up from the Dh300m ($31.3m) in annual investment before the signing of the agreement, according to figures provided by AMITH.

It will be important looking into the future for producers to take advantage of the country's comparative advantages. "We not only have a competitive proximity to European markets, we also have a great level of flexibility," Alaoui told OBG. "This is important because as fashion cycles are getting shorter and shorter, Moroccan manufacturers can respond quickly to changing preferences."

KEY PARTNER: The EU is the main destination market for the kingdom's textiles. Between 2016 and 2018 the value of Moroccan textile exports to the bloc increased from €2.7bn to €2.9bn, according to AMITH. Although the kingdom is the eighth-largest supplier of textiles to the EU globally, it ranks second in the Mediterranean basin, coming after only Turkey, which exported €14.6bn worth of textiles to the European bloc in 2018.

Moroccan producers have traditionally focused on southern Europe, but are increasingly looking further abroad for customers. "Markets like Spain and France are not very dynamic," Alaoui told OBG. "Northern Europe is becoming more commercially attractive, and we are working to expand the presence of Moroccan textiles in these markets."

THE NEXT STEP: To be able to compete on a global scale, producers are keen to position the country as a sustainable textiles manufacturer. "We must embrace sustainability," Alaoui explained. "Customers are demanding environmentally conscious practices, and manufacturers need to adapt and comply."

The kingdom is also looking for partnerships to help the country adopt new technologies and advance textiles manufacturing. In November 2018 the Ministry of Industry, Investment, Trade and the Digital Economy signed an agreement with the Swiss government that included technical assistance and a Dh13m ($1.4m) package aimed at improving the performance of small and medium-sized enterprises (SMEs) in the textiles industry over the 2019-21 period. The investment, of which Dh11.7m ($1.2m) will be financed by the Swiss Secretariat for Economic Affairs and the remaining Dh1.3m ($135,000) by the Moroccan government, will support 25 SMEs.

Textiles account for
15%
of industrial GDP

In November 2018 Morocco signed an agreement with the Swiss government that included technical assistance and a $1.4m package aimed at improving the performance of small and medium-sized enterprises in textiles.

Morocco has sizeable reserves of phosphates, iron, zinc and copper

Below ground

Mineral producers are digging for more than phosphates

40,000
people were employed in mining in 2018

With the world's largest known reserves of phosphates, mineral resources have traditionally played an important role in the Moroccan economy. The authorities have established the country as a major exporter of the resource, and are now looking to diversify the sector towards other minerals. The government has implemented a series of initiatives aimed at attracting domestic and foreign investment into the exploration of less-developed segments of mining activity. A recent revamp of the regulatory framework – coupled with a more diligent promotion of its potential – is helping Morocco gain a foothold in new segments. While some regulatory and operational improvements are yet to be made, the industry has a solid base from which to grow. Mining is one of the top source of exports, accounting for 20.9% of the total, and there were more than 40,000 people employed in the sector in 2018, according to government figures.

The Ministry of Energy, Mines and the Environment (Ministère de l'Energie, des Mines et de l'Environnement, MEME), is in charge of implementing and coordinating overall policy, and the National Office of Hydrocarbons and Mines (Office Nationale des Hydrocarbures et des Mines, ONHYM) also provides oversight for the industry. As Morocco works to diversify its economy, the extraction and processing of a wider variety of its mineral resources has been identified by government officials to be a strategic imperative for economic development.

LEADING SEGMENT: Mining accounts for 10% of GDP, but roughly 90% of extraction is phosphates. Morocco is the largest exporter of phosphates and holds 75% of the world's reserves. In 2018 phosphates and its derivatives were the third-largest export after automotive and agro-industrial goods, bringing in Dh52bn ($5.4bn). For the second consecutive year, the export value of phosphates grew, expanding by 11.6% in 2017 and 17.6% in 2018, according to the Office des Changes. The higher export levels were driven by an 18.4% increase in the sales of natural fertilisers and chemicals. Total phosphate production reached around 34.3m tonnes in 2018, according to the most recent figures from MEME.

In 2018 phosphates were the third-largest export, bringing in $5.4bn. That year the export value of the mineral grew for the second consecutive year, expanding by 11.6% in 2017 and 17.6% in 2018.

MAJOR PLAYERS: The processing and export of phosphates is handled by the OCP Group, which is 95% owned by the government. The group exports phosphate rock, fertilisers and phosphoric acid. Benefitting from higher international prices, OCP Group had a 19% increase in net profits in 2018, reaching Dh5.4bn ($562.6m). Revenue for the year also rose, by 15% to approximately Dh55.9bn ($5.8bn), while the earnings before interest, tax, depreciation and amortisation margin was 30.5%, up from 26.2% in 2017. The company has a 65% market share in the phosphate-based fertiliser market in Africa, and has been investing heavily in production to further increase its foothold across the continent.

Another key player is Managem, part of the Al Mada holding company and the industry's largest private operator. The firm produces fluorine, copper, cobalt, silver and copper in Morocco, and is developing mining operations in Sudan, Guinea, the Democratic Republic of Congo and Gabon. At home Managem operates seven mines, extracting zinc, copper and lead reserves at Draâ Sfar; silver from Imiter; copper from Akka; fluorine deposits at El Hammam; copper from Bleida; copper from Oumejrane; and cobalt reserves from the Bou-Azzer mine near Ouarzazate. Managem is also developing two mining projects at Tizert and Bouskour. The Tizert facility, in the Souss-Massa Draâ region, is expected to produce around 3.3m tonnes of copper ore annually, while the Bouskour mine has an estimated 9m tonnes of copper reserves.

In 2014 Managem stopped operations at its Akka gold mine after its reserves fell below commercially viable levels. This led the group to focus on adjacent copper reserves first discovered in 2007. A number of small-scale finds of gold reserves have been discovered across the kingdom, but as of early 2020 no large-scale gold prospects had been found.

DIVERSIFIED POTENTIAL: In addition to phosphates, Morocco has sizeable reserves of iron, zinc, lead, copper, fluorine, silver, manganese, salt, cobalt and gold. Excluding valorisation, Morocco produced 126,000 tonnes of copper, 102,000 tonnes of zinc, 100,000 tonnes of iron and 99,000 tonnes of manganese in 2017, according to ONHYM. In 2018 the main processed mining products were solid fertilisers (8.6m tonnes), arsenic (6.9m tonnes), phosphoric acid (5.7m tonnes) and cobalt cathodes (1924 tonnes).

Foreign mining companies are present in the country, and efforts to attract new investors to intensify exploration efforts are paying off. In mid-2018 UK-based firm Altus Strategies was granted six exploration permits to search for copper, zinc, tungsten and tin across several locations. In January 2019 Canadian firm Maya Gold and Silver began commercial production of silver out of its Zgounder mine. The firm has an 85% stake in Zgounder, while the remaining 15% is controlled by ONHYM. Australian firm Kasbah Resources holds a 75% stake in the Achmmach Tin project, which is scheduled to start production before the end of 2020. The underground mine is expected to have an initial lifespan of 10 years, with an annual production of 750,000 tonnes of ore.

REGULATIONS: Investors have been encouraged by an mining code adopted in May 2016 that made critical changes to the previous law dating to 1951. The updated regulation differentiated between three mining titles: research permits, which are granted for a period of three years and can be renewed for an additional four years; exploration licences, which are assigned for two years and can be renewed for one year; and operational licences, the duration of which was extended from four to 10 years. The law also increased the size of exploration concessions, which can range from 100 sq km to 600 sq km.

Under the previous code, any firm could buy a mining title as long as it fulfilled minimum criteria. However, many concessions were acquired and left idle, with investors opting to speculate and sell the land later. When the law changed and more stringent requirements were put in place, around 30% of the existing 7600 mining permits were annulled. Under the updated regulation, firms with a mining permit and wish to move from the exploration to the exploitation of mineral resources need to produce an environmental assessment study and a 10-year investment plan.

BENEFITS: The government introduced several incentives to attract investors. Mining companies that export their output or sell it to processing companies for subsequent export can benefit from a reduced corporate tax rate of 17.5%.

Equally important is the state's contribution to mining development. Projects involving an investment of over Dh200m ($20.8m) are able to benefit from government contributions to the cost of basic infrastructure such as roads or water access. However, the state's contribution cannot exceed 5% of the total investment for the project. The kingdom's skilled workforce and notable mining expertise is also attractive to investors, and a number of large operators have had an impact on the sector by providing specialised knowledge and training.

FINANCING: One of the major challenges facing the sector in the coming years will be to adapt financing structures that meet the requirements of mining operations and project development timelines. Channelling such funds will allow domestic mining ventures to advance to commercially viable stages of production. While engineers and geologists have found a number of areas with significant potential, they have been unable to acquire the bank financing needed for testing and studies. If Morocco is able to overcome its financing challenges and leverage its skilled human resources, mining is likely to sustain accelerated growth in the short to medium term. However, it will be imperative to focus on exploration efforts outside of the well-established phosphate segment to ensure sustainability in the long run.

Mining companies in Morocco that export their output or sell it to processing companies for subsequent export can benefit from a reduced corporate tax rate of 17.5%.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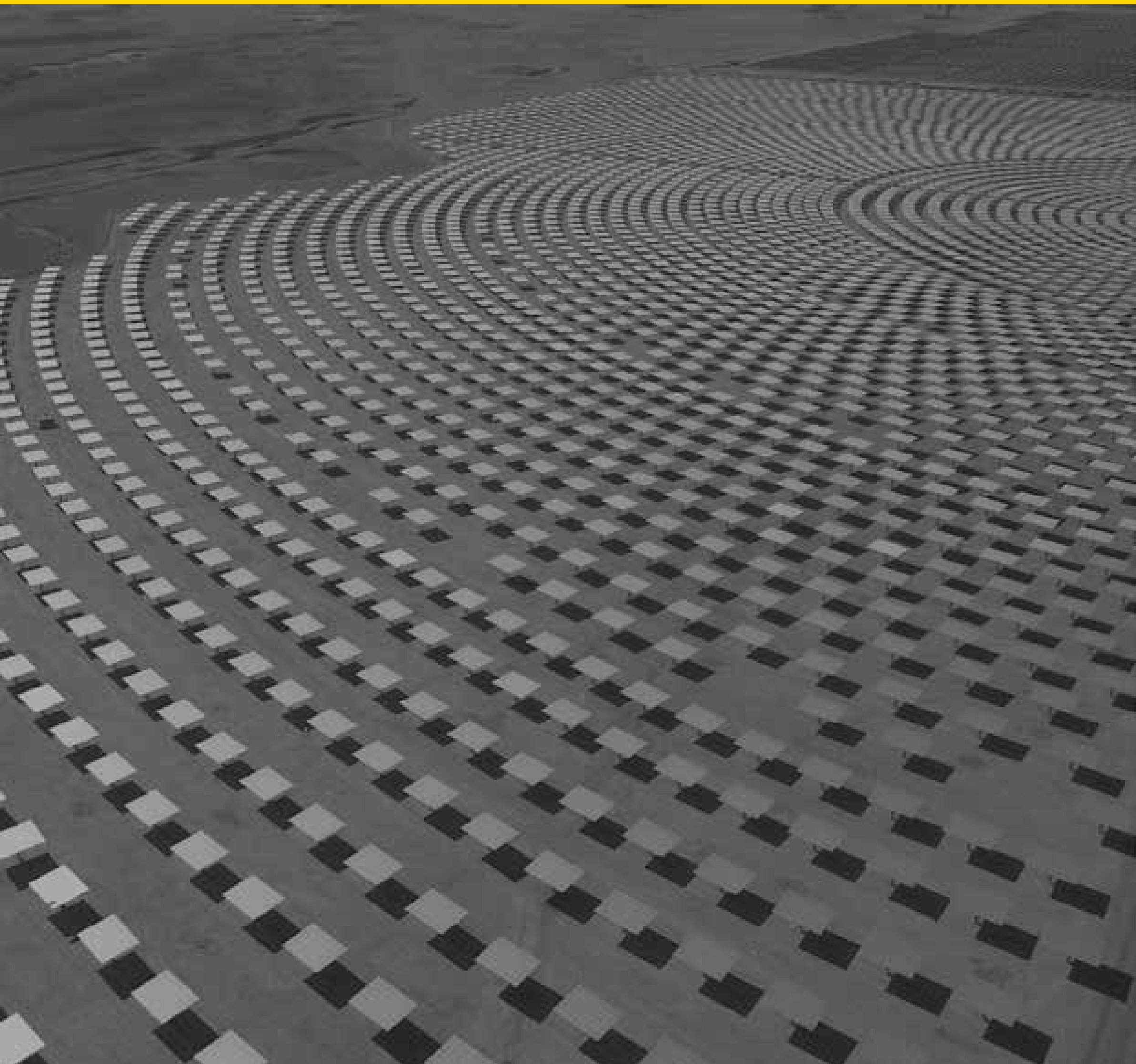



Morocco's first concentrated solar power unit was completed in 2016

Power revamp

The country is increasingly turning to renewable resources and natural gas to diversify its energy mix

Morocco has long depended on international markets to fulfil its energy generation needs. Unlike nearby countries such as Algeria and Libya, Morocco has not had the advantage of large-scale hydrocarbons reserves to fuel its economic development. Although this has left the country vulnerable to fluctuating global oil prices, it has also led policy-makers to make strategic decisions regarding future generation capacity. As such, Morocco has embarked on a major rollout of renewable energy sources, alongside the modernisation and expansion of its electricity transmission and distribution networks and an acceleration of its hydrocarbons exploration efforts. The country is also looking to phase out its pollutant fossil fuel generation infrastructure for cleaner natural gas. These measures aim to reduce energy imports and carbon emissions, two critical long-term goals for the sector.

ENERGY GOALS: Since the government embarked on a programme to incorporate renewables into the energy mix in 2008, the country's generation capacity has changed significantly, with solar and wind power infrastructure playing an increasingly important role. Although Morocco still relies largely on fossil fuel power plants, there are also plans to expand natural gas capacity in the years ahead.

This is particularly crucial as energy consumption continues to rise. Morocco's development in the past two decades has led to the emergence of new industrial sectors and an expansion in economic activity, resulting in the growth of the middle class and a rise in income for this section of the population, affecting consumption patterns throughout the economy. As such, Morocco's total primary energy consumption rose at a compound annual growth rate (CAGR) of 5% between 2004 and 2018, compounding the need to boost generation capacity.

However, the country must strike a balance between meeting its future energy demand and promoting efficient usage. In 2016 the government committed to reducing greenhouse emissions by 17% in 2030 under the Paris Agreement, and have provisionally agreed to a further 25% reduction in emissions over the same period if the necessary international support mechanisms are put in place.

Accomplishing these goals will require a significant amount of investment, and will also depend on the government's capacity to implement regulatory reforms and effectively manage the series of energy-related projects in the pipeline.

> "Since the government embarked on a programme to incorporate renewables into the energy mix in 2008, the country's generation capacity has changed significantly, with solar and wind power infrastructure playing an increasingly important role"

STRUCTURE & OVERSIGHT: The main government body responsible for managing the sector is the Ministry of Energy, Mining and the Environment (Ministère de l'Energie, des Mines et de l'Environnement, MEME), which is charged with overall policy making. The National Office of Hydrocarbons and Mines (Office Nationale des Hydrocarbures et des Mines, ONHYM) is tasked with handling the processing of contracts for mining and oil and gas exploration projects, as well as supporting international firms looking to enter the kingdom's energy sector. Another key player is the main utilities company, the National Office for Electricity and Drinking Water (Office National de l'Electricité et de l'Eau Potable, ONEE), which manages the production, transmission and distribution of electricity, and water access and infrastructure. In 2018 ONEE's power stations produced 10,911 GWh of electricity, accounting for

Total primary energy consumption rose at a compound annual growth rate of 5% between 2004 and 2018, compounding the country's need to boost generation capacity.

Rural electricity supply has improved significantly in recent years, rising from 45% in 2000 to 99.6% in 2018

In 2018 the country's installed power generation capacity totalled 10,938 MW and its overall production was recorded at 34,519 GWh.

31.8% of the country's total output. Additionally, several independent power producers are active in the kingdom, including Taqa Morocco, which operates the coal-fired plant at Jorf Lasfar. In 2018 Jorf Lasfar produced 14,772 GWh of electricity, accounting for 42.8% of the country's total output.

The government's focus on renewables has brought a host of new state entities to the forefront of Morocco's energy sector. One key player is the Moroccan Agency for Sustainable Energy (l'Agence Marocaine pour l'Energie Durable, Masen), formerly known as the Moroccan Solar Agency, which was established in 2010 and plays a critical role in developing solar energy projects. The Moroccan Agency for Energy Efficiency is charged with directing the country's energy efficiency strategy across the business, industrial and residential sectors.

Although the government initially aimed for a 12% reduction in electricity consumption by 2020 and a 15% reduction by 2030, these targets were revised in 2017 as part of the National Energy Efficiency Strategy, which set the more ambitious goal of a 20% reduction in electricity usage by 2030.

In order to advance these efforts, the National Authority for the Regulation of Electricity was established to act as an independent watchdog for the electricity segment. Although the decree to create the organisation was passed in 2016, the regulator became fully operational in 2019. Its main tasks include overseeing competition in the electricity market, ensuring producers have fair access to transport infrastructure and establishing tariffs.

The government initially aimed for a 12% reduction in electricity consumption by 2020 and a 15% reduction by 2030, but these targets were revised in 2017 to the more ambitious goal of a 20% reduction in electricity usage by 2030.

PERFORMANCE: The energy sector is highly dependent on coal, oil and gas imports. In 2018 the installed power generation capacity totalled 10,938 MW and its overall production was recorded at 34,519 GWh, according to ONEE. The majority of electricity was produced by thermal generation, which accounted for 27,653 GWh, a 3.9% increase on 2017. Of this total, the country's four coal-fuelled power stations contributed 21,260 GWh, an additional 5197 GWh originated from two gas-fired, combined-cycle power plants and 1028 GWh was produced by oil-based thermal generation.

Although coal, oil and gas still account for most of the energy mix, hydroelectric power production rose by 42.9% from 1184 GWh in 2017 to 1693 GWh in 2018. Additionally, solar energy output rose by 128.8% that same period, from 415.3 GWh to 950.2 GWh. Wind power production grew by 26.6%, from 3034.8 GWh to 3840.7 GWh.

TRADE BALANCE: While the energy sector plays a significant role in Morocco's economy, it continues to rely on imports for the majority of its supply. The country spent Dh76.4bn ($8bn) on energy imports in 2019, down 7.2% from Dh82.3bn ($8.6bn) the previous year. Nevertheless, the energy sector accounted for 15.6% of total imports in 2019. The financial resources required to secure annual energy consumption has meant that the country is highly dependent on global energy markets.

According to the most recent figures from MEME, 91.7% of Morocco's energy was provided by imports in 2018, which has substantial implications for the country's annual budget planning and trade balance. Although the country has been able to take advantage of lower international oil prices since mid-2014, which have enabled it to reduce its fossil fuel subsidies, unpredictable global economic conditions – compounded by tensions between the US and Iran in early 2020 – have highlighted the potential for further disturbances in energy markets in the shorter term and Morocco's need to reduce its exposure to international energy markets.

ELECTRICITY: As the country's economy has developed, electricity consumption has risen, with demand increasing at a CAGR of 5.7% between 1998 and 2018. Per capita electricity consumption grew by 134.7% over the same period, from 453 KWh to 1063 KWh. Although demand continues to rise, it has slowed slightly in recent years due to government measures to encourage a reduction in electricity usage. In 2014 ONEE signed a programme contract with the government aimed at restoring the organisation's financial viability, which involved tariff adjustments to encourage customers to reduce their consumption of electricity.

Rural electricity supply has improved significantly, rising from 45% in 2000 to 99.6% in 2018. In 2018 ONEE claimed that it had been able to connect 40,000 villages across the country as part of its rural electrification plan launched in 1995, with 513 villages and 13,800 homes connected in 2018 alone. In order to connect isolated communities, the authorities are increasingly turning to off-the-grid methods, with some 71,000 homes using small-scale solar energy kits to supply electricity.

INVESTMENT DRIVE: In addition to extending the reach of electricity access, investment is also being directed at modernising and improving the country's existing production, transmission and generation infrastructure. In July 2019 ONEE approved a Dh51.6bn ($5.4bn) investment programme, which will run until 2023. Approximately Dh8.6bn ($896m) was allocated to thermal and renewable energy generation projects, and Dh8.7bn ($906.3m) was earmarked for regional electricity interconnection projects between Mauritania and southern Morocco, and between Portugal and the north of the country. In addition, Dh4.2bn ($437.6m) will be directed to rural electrification programmes across the country, while the remaining Dh25.5bn ($2.7bn) will be allocated to the water segment.

Investment has also been directed towards the creation of new regional transmission links. In May 2019 the authorities signed an agreement with the government of Spain to develop a new electricity line between the two countries. This will be the third electricity line between Morocco and its northern neighbour. The project comes in the wake of recent efforts to expand electricity trading ties with European partners. In 2018 the country signed a deal with the European Internal Electricity market, which includes Germany, Portugal, Spain and France. Additionally, in 2015 Morocco and Portugal signed a deal to construct a 1000-MW transmission cable connecting the two countries.

WATER: Much like the electricity segment, water access and distribution infrastructure have also benefitted from Morocco's economic development, attracting expansion projects across different regions of the country. Much of this has been geared towards improving water access in rural areas, although significant investment has also been directed to upgrading water treatment systems in order to increase access in urban and industrial areas. For example, in 2016 the African Development Bank approved a €88.8m loan to improve water provision in the country's north-west. The project included improvements to water treatment systems supplying larger cities such as Rabat and Casablanca, as well as nearby smaller towns and rural areas.

Of the Dh25.5bn ($2.7bn) earmarked by ONEE to upgrade water treatment and distribution systems between 2019 and 2023, Dh15.2bn ($1.6bn) has been set aside to improve water supply in urban areas through the construction of 3400 metres of new piping. In addition, Dh5.7bn ($593.8m) will be allocated to increasing water distribution in rural areas, supplying an additional 308,000 people. According to government estimates, these measures will expand rural water access to 99.3% of the population. The remaining Dh4.6bn ($479.2m) will fund the construction of 64 new water treatment units.

RENEWABLE RESOURCES: Although the country continues to search for viable hydrocarbons reserves, it has also accelerated the development of renewable energy. According to local media,

In 2019 the National Office for Electricity and Drinking Water approved a

$5.4bn

investment programme


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the country is on track to have renewables supply around 42% of its installed power generation capacity by the end of 2020 and 52% by 2030, objectives set by the National Energy Strategy in 2009.

Morocco's geographic location and climate conditions give it a strategic advantage in the renewable energy segment. According to government estimates, the country has around 3000 hours of sunlight per day and an annual solar energy potential of 5 KWh per sq metre. Morocco also has significant wind generation potential, measured at approximately 5000 TWh per year, and a potential useful capacity of 25,000 MW. The most recent ONEE figures stated that the country had an installed capacity of roughly 1770 MW in hydroelectricity generation, 1220 MW in wind power and 711 MW in solar energy as of the end of 2018.

While the implementation of the National Energy Strategy has already brought many changes to the structure of Morocco's generation infrastructure in the last decade, the country is still likely to face some difficulties in meeting its ambitious energy targets. "The biggest challenge will be reaching the goal of 52% renewables on the grid by 2030," Taoufik Laabi, general manager of local consultancy Glob Energy Conseil, told OBG. "Not only will the pace of existing projects need to be accelerated, but additional medium-sized projects will need to be developed alongside an updated regulatory framework."

These measures will require considerable financial commitment. According to the International Energy Agency (IEA), Morocco is expected to require as much as $30bn to achieve its stated renewables goals by 2030. As such, the country has sought funding and assistance from both international companies and multilateral organisations in order to develop its renewables capacity.

SOLAR: Morocco's renewable energy drive has made considerable strides in recent years. A major development, and the first of its kind in the country, was the completion of the first stage of the 580-MW Noor Ouarzazate concentrated solar power unit, which began operation in 2016. Noor I has a generation capacity of 160 MW and was delivered by Saudi developer ACWA Power. In 2018 Noor Ouarzazate II, III and IV became operational, adding 200 MW, 150 MW and 70 MW, respectively.

Other significant solar projects are already in progress, including the Noor Midelt solar generation project, which is set to be built in the Atlas Mountains. The development will be funded by a host of multilateral institutions, such as the World Bank, the European Commission, the Clean Technology Fund and the African Development Fund. The project will involve the construction of 800 MW of solar generation capacity and is estimated to cost $781m. The tender was launched by Masen, and will comprise a hybrid system with both photovoltaic and concentrated solar generation technologies.

Sector players are confident that partnerships with multilateral institutions will help accelerate the

The Integrated Wind Energy Programme aims to establish 2000 MW of annual wind energy capacity by 2020

country's renewables agenda. "The Clean Technology Fund, which supports large infrastructure projects with low greenhouse gas emissions, has seen promising results, with more than 85 projects already registered worldwide and more in the pipeline. It has contributed significantly to helping Morocco reach its objective of 52% renewable energy consumption by 2030," Badis Derradji, regional managing director of Saudi Arabia-headquartered power generation company ACWA Power, told OBG.

In May 2019 a consortium of French energy company EDF Renewables, Abu Dhabi-based firm Masdar and Morocco's Green Energy of Africa were awarded a contract to construct the first section of the Noor Midelt plant. In June 2019 the Moroccan authorities launched the pre-qualification phase of the second section of the project, which will include 230 MW of solar generation capacity. Industry stakeholders are confident that these developments will enable the country to meet its aim of 42% renewables on the grid in the short-term future. "With these two projects and what has already been accomplished at the Noor Ouarzazate development, Morocco should be able to achieve its 2020 goal in the next few years, even if these projects do not come on-line until 2022 or 2023," Laabi told OBG.

WIND & HYDROPOWER: Alongside promising developments in the solar segment, Morocco continues to expand its wind and hydropower generation capacity. The Integrated Wind Energy Programme was launched in 2010 with the aim of establishing 2000 MW of annual wind energy capacity by 2020. As a result of these efforts, wind generation grew 10-fold from 0.3 TWh in 2007 to 3 TWh in 2017. With 1207 MW of capacity across 12 wind farms as of 2018 and 1330 MW set to come on-line between 2019 and 2021, Morocco is on track to achieve its goal.

A considerable amount of new capacity will be installed as part of the government's plans to

Renewables are targeted to account for

52%

of the electricity mix by 2030

There was an installed capacity of 1770 MW in hydroelectricity generation, 1220 MW in wind power and 711 MW in solar energy as of the end of 2018.

Greater use of natural gas should help to lower the energy import bill

In 2018 the upstream sector received

$2.9bn

in investment

develop five wind farms with a combined capacity of 850 MW. The new sites will be located in Midelt, with a capacity of 180 MW; Essaouira (200 MW); Tarfaya (100 MW); Tangier (70 MW); and Boujdour (300 MW). In November 2019 Masen and ONEE announced that an agreement had been signed with Morocco's Nareva Holding and Italian firm Enel Green Power for the construction of the Dh4bn ($416.7m) wind farm at Boujdour.

Additionally, in December 2019 the authorities signed a deal with a consortium of Japanese contractor Mitsui and France's EDF to construct the first phase of the 150-MW Taza Wind Park, located 12 km north of the town of Taza in the north of the country. The first phase will bring 87 MW of wind generation capacity on-line and is set to be completed in late 2021. It will comprise 27 general electrical wind turbines with a capacity of roughly 3.2 MW each. According to the authorities, the first phase of the park will result in the removal of 200,000 tonnes of CO_2 emissions. Local media reported that the project is budgeted at a total of Dh2.5bn ($260.5m).

Although hydropower generation has been in place in Morocco since the 1960s, new dams are expected to open in the coming years. According to the most recent IEA figures, the country had roughly 1770 MW of installed hydropower capacity in 2017. While there is little scope for new large-scale hydroelectric power stations, several small and medium-sized projects are in progress.

The largest project currently underway is the Dh3.8bn ($395.9m) Abdelmoumen pumped storage station in Taroudant, which is expected to commence operations in the first half of 2022. The authorities have also identified sites for 300 MW of small-scale hydropower projects.

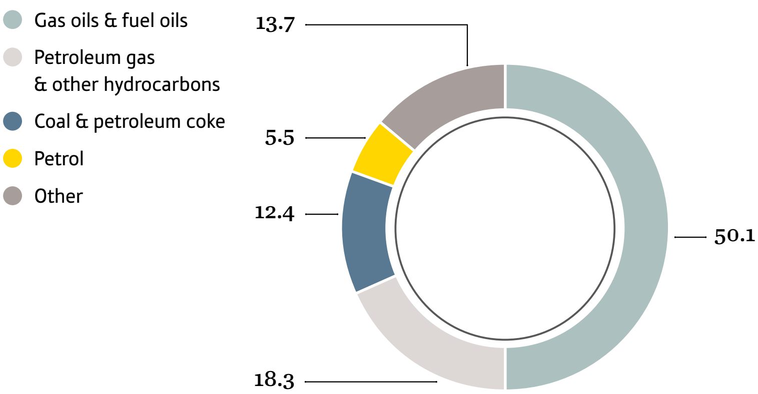
UPSTREAM: Alongside efforts to expand its renewables capacity, Morocco is taking steps to develop upstream exploration in order to reduce reliance on energy imports and provide more revenue for the sector. Although confirmed oil and gas discoveries have been minimal, the country is one of the region's least explored areas in terms of hydrocarbons resources, highlighting the possibility for future discoveries. To this end, the government has sought to establish favourable fiscal conditions to encourage upstream operations. Furthermore, through ONHYM, the country has accelerated its investment promotion efforts, which has helped to attract international interest in both onshore and offshore exploration projects. In 2018 the upstream sector received a total of Dh27.5bn ($2.9bn) in investment, according to ONHYM. Foreign upstream operators, which accounted for 90% of these investments, had been allocated 70 exploration permits and 10 exploitation licences.

NATURAL GAS: Morocco is looking to increase its use of natural gas as a substitute for some of its coal and fuel oil generation capacity. In addition to reducing the use of pollutant fuels, a rise in gas-powered plants would provide the flexibility needed for Morocco to prepare for greater use of renewables, as supply can often be inconsistent.

The country began using natural gas to power some of its industry in 2004, and has been importing gas from neighbouring Algeria since 2005 to power some of its units. The Tahaddart power plant, Morocco's first gas-powered unit, has a 384-MW capacity. In 2009 the kingdom began operating a second plant at Ain Beni Mahtar, which has a capacity of 452 MW.

As of February 2020 all of Morocco's imported natural gas came from Algeria, transported via the Maghreb-Europe pipeline, which carries Algerian natural gas to Spain and Portugal. Morocco imports approximately 600m cu metres of natural gas per year under a 10-year contract signed with Sonatrach in 2001, Algeria's state-owned energy company. The kingdom also receives an additional 500m cu metres of Algerian gas transported through Moroccan territory. While the agreement with Sonatrach has enabled Morocco to supply its two gas-fuelled

Energy imports, Jan-Oct 2019 (% of total value)



Source: MEME

plants, as of early 2020 there had been no indication whether the agreement would be renewed or extended beyond its expiration date of 2021.

Additionally, in January 2020 UK industrial firm Sound Energy announced that it had received approval from the Moroccan government to build and operate a 120-km gas pipeline, which will connect a proposed new gas treatment plant and compression station to the Maghreb-Europe pipeline. By 2030 Morocco aims to add 2400 MW of combined-cycle technology to expand its gas-fuelled power generation capacity, as well as increase its use of natural gas in energy-intensive industries.

To this end, there are plans to develop a new liquefied natural gas (LNG) import terminal, two 1200-MW, combined-cycle power plants, an onshore regasification unit and a pipeline to link the terminal to the Maghreb-Europe pipeline. The terminal is set to be built in Jorf Lasfar, on Morocco's Atlantic coast, and the two new power plants will be located in Jorf Lasfar and Kenitra, respectively. Overall, the gas-to-power project is estimated to require approximately $4.5bn in investment. Although the tender for the gas-linked infrastructure was expected to be launched in 2019, the project was delayed and, as of February 2020, there had been no further updates on the tender's progress.

In order for these projects to run smoothly and to attract further investment in the up, the country will need to ensure that a robust regulatory framework is in place for the use of gas by both the power sector and industrial clients, as well as transportation and pricing. "Studies are being implemented to establish the legal framework. Once this has been done, a gas code will be submitted to Parliament for approval," Laabi told OBG. "In any case, a new gas-fired power plant is needed imminently in order to offset the intermittent nature of renewable energy."

OUTLOOK: The energy sector is poised for promising medium-term growth as it continues to receive significant public and private investment to expand generation capacity and distribution networks. At the same time, efforts to increase the role of renewable resources and natural gas in the country's energy mix are set to lower the energy import bill and reduce fossil fuel emissions. However, in order to ensure that private investment objectives are met, upgrades to the sector's regulatory framework will need to be completed.

Meanwhile, ongoing hydrocarbons exploration efforts are likely to continue to support the expanding upstream sector, particularly as much of the country's territory remains underexplored (see analysis). Morocco has already shown that it can be a reliable partner in the exploration and development of hydrocarbons resources, and the policies it is currently pursuing should help the country reduce its reliance on energy imports in the years ahead.

By 2030 Morocco aims to add 2400 MW of combined-cycle technology to expand its gas-fuelled generation capacity, as well as increase its use of natural gas in energy-intensive industries.

Abderrahim El Hafidi, General Director, National Office for Electricity and Drinking Water

Setting new targets

Abderrahim El Hafidi, General Director, National Office for Electricity and Drinking Water (Office National de l'Electricité et de l'Eau Potable, ONEE), on developing utilities capacity

How would you assess Morocco's efforts to manage its energy bill, and will it be reduced in the future?

EL HAFIDI: Morocco is focusing on rationalising expenditure, while providing high-quality service and optimising investments. The electricity mix has undergone profound transformations. In the 2000s we relied mainly on fossil fuels, while today we have diversified our offer by promoting the development of local, clean energies, such as solar, wind and hydro.

It has been several years since we have understood the importance of these energy sources for the country's future. In 2009 the average cost of a kilowatt produced by renewable energy was four times higher than the current one. We have already achieved competitive production levels, and the 2020 target, which aims for a 42% share of renewables in the country's capacity mix, is on track and will soon be met. This is also the case regarding our 2030 target, as we expect 52% of the capacity mix to come from renewables by this time.

As a producer, our main objective now is to have a highly competitive production cost per kilowatt. As part of its wind energy programme, Morocco aims to produce one of the cheapest KWh in the world with a 850-MW integrated wind project located in five different sites, at an average cost of $0.03 per KWh. Renewable energies will generate intermittency due to the fluctuation of wind and sun cycles, hence the importance of having the necessary skills to be able to store energy and to manage intermittency and production stoppages of wind and solar facilities.

Today, Morocco has a considerable electricity reserve margin, thanks to the additional production capacity of ONEE, and to the exchanges between Morocco and Europe, which give us flexibility to meet peaks in electricity demand. Morocco can now export some surplus electricity to Spain when conditions are favourable for renewable energy generation. Overall, the country's electricity mix has been completely re-engineered thanks to the rise of renewable energies, although the baseload of energy needs remains fuelled by coal. Renewable energy remains the priority when pumping energy from the grid. ONEE is currently delegating the renewable part of its business to the firm Masen, but will continue to produce electricity from "clean coal", natural gas, imports and everything linked to pumped energy transfer stations, such as hydropower stations and hydroelectric plants, provided they fall within the grid stability requirements.

What are the objectives of the new electricity and drinking water investment programme?

EL HAFIDI: ONEE is the main producer of drinking water, and has one of the main production stations in Africa. Today, it produces 1.1bn cu metres of drinking water per year, and fulfils close to 90% of the country's needs. It is also involved in water distribution in several cities, particularly in rural areas. A contract between ONEE and the state has also just been approved, announcing investment projects worth Dh51.6bn ($5.4bn) between 2019-23, shared between water and electricity, with Dh25.5bn ($2.7bn) to be invested in the water and sanitation sector. This entails programmes for treatment plants built with surface resources, such as dams, desalination programmes for drinking water, irrigation for agriculture and water supply, and transport capacity-building projects. Attention will be paid to the supply of drinking water in urban areas in order to meet the growing needs of urbanisation. We also aim to increase access to drinking water in rural areas from 97% to 99.3%, benefitting more than 300,000 additional people. Optimisation is another important project, especially in terms of transport, production and distribution efficiency. The move towards digitisation, such as remote reading of water metres, should be of benefit to us. Regarding electricity, our objective is to obtain more than Dh25bn ($2.6bn) of investment to secure an additional capacity of 4262 MW, more than 99% of which should be coming from renewables.

Around $197.4m was invested in exploration and production in 2018

Upstream drive

The search for hydrocarbons continues as Morocco seeks to reduce its reliance on energy imports

As Morocco continues to rely on imports of coal, gas and oil to satisfy its energy requirements, the need to reduce its dependence on imports has long been a priority. To this end, the country has sought to develop its renewable energy capacity, alongside new hydrocarbons exploration projects. A combination of favourable regulatory conditions and successful investment promotion has helped attract international interest in recent years, expanding the country's potential resource base.

Commercially viable discoveries of oil and gas reserves could have a significant impact on the economy. According to the most recent figures from the Ministry of Energy, Mining and the Environment, the country relied on imports for 91.7% of its energy supply in 2018. However, the country spent Dh76.4bn ($8bn) on energy imports in 2019, down 7.2% from Dh82.3bn ($8.6bn) the previous year.

UNTAPPED POTENTIAL: Although sizeable hydrocarbons reserves have yet to be found in Morocco, it remains one of the most underexplored countries in the MENA region. The Atlantic coast and vast tracks of desert hold considerable potential for both onshore and offshore discoveries. However, as of 2019 only 44 offshore wells and 310 onshore wells had been drilled. According to the National Office of Hydrocarbons and Mines, Morocco has approximately 0.04 wells per 100 sq km, but the authorities hope that increased exploration efforts will result in sizeable discoveries in the years ahead.

Morocco is known to have vast non-conventional reserves, with studies in the 1980s and 1990s estimating a combined 57bn barrels of shale oil reserves located in the Atlas Mountains, the Rif region and the south of the country. This includes 15bn barrels of shale oil in the Timhadit field and 23bn barrels of shale oil at Tarfaya. Despite this potential, there were no specific plans for the commercial development of non-conventional reserves as of February 2020.

REGULATORY FRAMEWORK: In recent years the country has prioritised developing conventional reserves. The regulatory framework for Morocco's upstream segment is governed by the National Office of Hydrocarbons and Mines (Office Nationale des Hydrocarbures et des Mines, ONHYM). The state entity was established in 2005 following the merger of two other sector bodies – the Bureau of Research and Mining Investment, and the National Office for Research and Petroleum Exploration – and is responsible for overseeing the exploration and development of mineral and hydrocarbons reserves across the country. ONHYM collects data about subsoil and geological features related to hydrocarbons and mineral reserves, supports in the negotiation of contracts between the state and investors, and takes part in upstream activities as a shareholder in exploration and development projects.

Increased interest in hydrocarbons projects has helped boost investment levels in recent years. Total investment in hydrocarbons exploration and production grew from $128.1m in 2017 to $197.4m in 2018, according to the most recent ONHYM figures. The majority of this funding was provided by international operators, with ONHYM contributing 3% and 1.7% of annual investment in 2017 and 2018, respectively. According to the Ministry of Economy and Finance, in the third quarter of 2019 extractive industries, including oil and gas exploration, generated Dh3.8bn ($397m), up 6% compared to Dh3.6m ($375m) the previous quarter.

Investment has been partly encouraged by a favourable regulatory and fiscal environment. The Hydrocarbons Law was modified in 2000 in order to create more attractive conditions for investors. Under the current law, the state – through ONHYM – must hold a stake of no more than 25% in upstream contracts. In addition, intangible assets and costs of exploration can be amortised for periods of between

In 2018 Morocco relied on energy imports for

91.7%

of its total supply

As of 2019, 44 offshore wells and 310 onshore wells had been drilled, with the potential for new discoveries

Incentives for companies entering Morocco's hydrocarbons sector include exemptions on Customs duties and value-added tax, and a 10-year corporate tax exemption.

two and 10 years. Other incentives include exemptions on Customs duties and value-added tax on materials, equipment and services imported for exploration and development operations, as well as 10-year corporate tax exemption starting on the day that commercial production of hydrocarbons commences. Additionally, operators are exempt from paying royalties on the first 300-500 tonnes of oil produced, and the first 300m-500m cu metres of natural gas. Profit, dividend and capital transfers are also free of additional taxes or limitations.

INTERNATIONAL PLAYERS: These incentives, coupled with gradual increases in international oil prices, have contributed to growing investor interest. In 2016 UK upstream developer Chariot Oil and Gas won a 75% stake in three exploration plots near Mohammedia in partnership with ONHYM, which controls the remaining 25%. The concession area covers 4600 sq km at a depth of up to 500 metres. In 2019 the firm also won a 75% stake in the Lixus offshore concession, covering an area of around 2400 sq km. Furthermore, in September 2019 Chariot announced that Lixus could potentially contain recoverable resources of up to 56bn cu metres of gas over five different wells in the concession, although further assessment studies were still in progress as of February 2020.

Italian upstream operator Eni inaugurated its subsidiary Eni Morocco in 2016 and has since been investing in the country's upstream potential. The operator first entered Morocco through a 40% stake in four Rabat deep offshore permits acquired from Chariot. Its presence in the country has increased in recent years with an agreement to hold a 75% share in the offshore exploration concession in the Tarfaya area, which comprises 12 offshore blocks. ONHYM holds the remaining 25%. The concession covers roughly 23,900 sq km with a maximum depth of 1000 metres. However, in March 2019 Eni reduced its presence in the concession by signing a farm-out agreement with Qatar Petroleum (QP), allocating it a 30% participating interest in Tarfaya. The deal changed the ownership structure of the project, leaving ENI with a 45% stake, QP with 30% and the remaining 25% controlled by ONHYM.

In January 2020 the government approved plans to develop a 120-km pipeline between a proposed gas treatment plant and the Maghreb-Europe pipeline, which runs from Algeria to Spain.

Meanwhile, the prospect of sizeable gas reserves was announced by UK firm Sound Energy in 2018 at its onshore Tendrara concession in the east of the country. The company operates concessions in Tendrara, Greater Tendrara and the Anoual Permit, in partnership with US-headquartered Schlumberger and ONHYM. However, inconclusive results for two of its latest wells led Sound Energy to look for a potential buyer for some of its stake in May 2019, with the firm claiming that assessing the real potential of Tendrara's natural gas reserves would require further exploration efforts.

In late 2019 Sound Energy announced it was in negotiations with an undisclosed buyer to sell part of its 47.5% stake in the Tendrara project for $113m as a means of obtaining financing for future exploration and development projects. The company planned to reduce its involvement in the project to 23.3% following the sale. In October 2019 the firm signed an agreement to sell its gas output from Tendrara to the state-owned National Office for Electricity and Drinking Water, which is responsible for electricity production, transmission and distribution. The output is set to be channelled towards electricity production at the utility's gas-powered thermal plants at Ain Beni Mahtar and Tahaddart. Although the plants are currently supplied with natural gas imported from Algeria, the deal between the two countries is set to end in 2021, with the prospects of a renegotiation still uncertain as of February 2020.

Despite selling part of its share in the Tendara project, in January 2020 Sound Energy received approval from the government to build and operate a 120-km gas pipeline connecting a proposed gas treatment plant to the Maghreb-Europe pipeline, which runs from Algeria to Spain.

Another UK-based company, SDX Energy, is active in five onshore concessions in the Gharb Basin, where it has been producing gas since 2018. In October 2019 local media reported that the firm was in the process of conducting an exploration campaign, with plans to drill an additional 12 wells by the end of the first quarter of 2020.

LOOKING AHEAD: Although sizeable hydrocarbons reserves have yet to be located in Morocco, favourable regulatory conditions and rising oil prices continue to attract investor attention. This will prove crucial in the coming years as the country seeks to reduce its reliance on energy imports.

As new licences are being issued, the segment's momentum is likely to continue. For example, in September 2019 Europa Oil & Gas secured an eight-year exploration licence for the 11,228-sq-km Inezgane Offshore Permit near Agadir. Europa holds 75% of the concession and ONHYM owns the remaining 25%.

Saïd Mouline, CEO, Moroccan Agency for Energy Efficiency

Sustainable incentives

Saïd Mouline, CEO, Moroccan Agency for Energy Efficiency (Agence Marocaine pour l'Efficacité Energétique, AMEE), on incentivising companies to increase their energy efficiency

How is Morocco promoting energy efficiency?

MOULINE: For over 10 years Morocco has been transitioning to sustainable energy, creating new energy markets around high-power, renewable energy programmes. These efforts have been led by the Moroccan Agency for Sustainable Energy, while energy efficiency and smaller-scale renewable energy projects in the construction, transport, industry and agriculture sectors have been managed by AMEE.

These projects play an important role in investment in the sustainable energy sector and have the ability to catalyse national economic development, reduce energy use and dependence, and lower our greenhouse gas emissions. Morocco has set a target of generating 52% of electricity from renewable sources by 2030. Out of all our sectors, transport is the most energy-intensive, representing 38% of the country's energy consumption, followed by construction at nearly 33%, industry at 21%, and agriculture and fishing at almost 8%. As such, several strategies have been identified – particularly in the areas of regulation, finance, communication and training – aimed at reducing energy consumption. The transport sector represents the greatest potential for energy savings, as much as 24%, followed by industry and construction, with 17% and 14%, respectively.

Which types of energy-saving programmes have already been launched in Morocco?

MOULINE: We are currently implementing several strategies related to saving energy. These include sustainable construction programmes, thermal building regulations, promoting sustainable mobility and increasing energy efficiency in public lighting.

We have already implemented technical requirements for new thermal regulations in the construction industry. The thermal regulation decree will help us achieve our objectives for the sector related to the environmental friendliness of new buildings. In the agricultural sector AMEE is implementing a national programme to support and improve the industry by encouraging the use of solar water pumps for irrigation instead of gas or diesel pumps. Every 1% of energy savings Morocco achieves represents Dh700m ($73m) in savings on our energy bill.

What are the incentives for companies to implement energy efficiency initiatives?

MOULINE: We are working to publicise incentives to the industrial sector in two ways. First, local banks can provide industrial stakeholders with special financing for projects aimed at saving energy. Moroccan companies can access loans for such projects with an investment subsidy of 10% and also receive free technical assistance for project evaluation, implementation and verification. Out of the 230 projects already completed, 215 were in the transport, industry, tourism, food and construction sectors. We have also been working alongside a number of international institutions and banks to establish other lines of credit to encourage such initiatives.

The second component is awareness and training. To this end, AMEE has held training sessions with the UN Industrial Development Organisation that focused on accelerating energy efficiency projects within the country's industrial sector. Moroccan companies are eligible to receive government support if they have implemented energy-management systems that are in line with the ISO 50001 standard.

Additionally, we periodically organise seminars in different industrial regions related to energy usage in segments of the sector. We also work to raise awareness on national energy efficiency policy and inform companies on how the new energy audits will be implemented. Our efforts specifically geared towards manufacturers are helping them significantly reduce their energy bills while increasing their competitiveness and lessening their impact on the environment.

Global Perspective

Leapfrog or lock in

To meet increasing demand for power and expand access in underserved regions, governments must choose whether to invest in traditional or new sources of energy

850m

people around the world lacked access to electricity in 2019

The duel aims of rapidly reducing greenhouse gas emissions and providing greater access to energy for underserved regions of the world are proving to be a complex challenge in need of innovative solutions and major investment. Repeated warnings from scientists regarding the economic and environmental consequences of unabated carbon emissions have seen the topic of climate change increasingly appear on the agendas of companies and governments worldwide. In 2018 the UN's Intergovernmental Panel on Climate Change released a special report titled "Global Warming of 1.5°C", which stated that global CO_2 emissions must be cut in half by 2030 and reach net zero by 2050 to avoid the planet warming by 1.5°C above pre-industrial levels, an ambition set out in the 2015 Paris climate agreement. At the same time, the International Energy Agency (IEA) notes that 850m people around the world lacked access to electricity in 2019, a service that is desperately needed to raise development outcomes and transform livelihoods. As such, huge volumes of new energy infrastructure are needed.

Many developing countries find themselves at a crossroads when deciding which new energy sources to invest in. On the one hand, conventional fossil fuel infrastructure has the backing of a well-developed industry with many skilled professionals, but its capital-intensive nature often requires a long-term commitment. Renewable energy, on the other hand – specifically off-grid solar home and mini-grid systems – offer a cost-effective, private sector-led solution that bypasses centralised grid models, effectively leapfrogging traditional stages of the energy development continuum.

SUSTAINABLE SOURCES: Unlocking the full potential of renewable energy will be one of the central components of addressing the sustainable energy challenge. After years of development, renewables have proven themselves a viable, cost-effective alternative to fossil fuel. They are currently the fastest-growing energy source in the world, according to BP, and the company predicts renewables will make up half of the growth in global energy supplies by 2040 and be the largest source of power. Renewable energy has indeed been expanding rapidly in developing countries, and at a rate that exceeds developed economies. Emerging markets accounted for approximately 70% of new global investment in renewables in 2018. China has been driving the market, while Abu Dhabi, Dubai, Saudi Arabia, Chile, Mexico and Peru have witnessed record low prices for green energy in recent years.

Renewables are currently the fastest-growing energy source in the world, and by 2040 it is predicted that renewables will make up half of the growth in global energy supplies and be the largest source of power.

Decreasing costs mean renewables are becoming increasingly cost-competitive in relation to fossil fuels. Significant progress has been made in leveraging technology across the supply chain, lowering prices and improving performance. This trend is being observed not only for renewable energy sources, but also for electric vehicles and batteries. The International Renewable Energy Agency expects all renewable technologies to fall within the fossil fuel cost range by the end of 2020.

RENEWABLE ENERGY GOALS: A growing number of countries have adopted ambitious targets for the deployment of renewable energy. Government goals and investments made by the public and private sector provide insight into the extent to which countries are locking themselves into fossil fuel infrastructure or moving into the renewables space.

Kenya has become a leader in Africa in terms of renewable energy. The country launched the continent's largest wind farm in July 2019 as part of its goal of generating 100% renewable energy by 2030. Morocco, meanwhile, has also become well known in the renewables space with major projects such as the Noor Solar Complex. The North African nation has the goal of producing 42% of its electricity from renewable sources by 2020, and 52% by 2030. Other important developments are seen across the continent. Egypt's 1.5-GW Benban solar complex, finished in October 2019, can provide renewable energy to more than 1m homes and is helping the country reach its target of achieving 20% renewable generation in the electricity mix by 2022 and 42% by 2035. Nigeria aims to generate 30% of its electricity from renewables by 2030, while South Africa has proposed 14.4 GW of new wind power capacity to be installed between 2022 and 2030 – a large increase from the 1.9 GW installed as of 2019.

In Asia, meanwhile, Sri Lanka has a goal of generating 60% of its energy from renewables by 2030, with a particular focus on wind. Papua New Guinea is targeting 35% renewable generation by 2030 and 100% by 2050, with significant hydropower projects in progress.

Across the ocean, Mexico has a goal of 35% renewable energy by 2024, with over 21 GW of renewable capacity under development as of September 2019, including almost 12 GW of solar and nearly 7 GW of wind. Colombia produced an impressive 65% of its electricity from hydropower in 2019, and aims for renewable sources as a whole to make up 30% of generation by 2030. Trinidad and Tobago, a large producer and consumer of natural gas, has the target to generate 10% of electricity from renewables by 2021.

While renewables currently account for a fraction of the Gulf region's overall energy mix, the percentage is set to grow. Saudi Arabia has a target of 58.7 GW of installed solar and wind capacity by 2030, with 3.1 GW worth of projects being tendered in 2019, mostly in the solar segment. The UAE has a 44% renewables target for 2050, while Dubai, specifically, has set a 75% target. Abu Dhabi recently started commercial operation of its 1.2-GW Noor Abu Dhabi solar plant, and Dubai is developing the 5-GW Mohammed bin Rashid Al Maktoum Solar Park, set for completion in 2030. It will cover an area of 80 sq km, providing power to approximately 1.3m homes. Bahrain has announced a target of having 10% renewable energy in its mix by 2035, and Oman and Kuwait are targeting 30% and 15% renewable power by 2030, respectively.

FOSSIL FUEL INVESTMENT: Despite ambitions to use more renewable sources of energy, conventional sources remain preferable in many quarters. Coal and gas are often singled out as cheaper and more reliable options, despite their environmental impact. Indonesia stands out as one of the world's largest producers of coal, excavating around 485m tonnes annually. It is also a significant consumer, with domestic coal use set to double between 2018 and 2027. In addition, the country's new 2-GW coal-fired Batang power plant is expected to come on-line in 2020. Vietnam is also planning to commission more coal-fired power plants, with coal set to increase its share in the electricity mix from 33% in 2018 to 43% in 2030. Overall, coal consumption remains elevated in Asia: while global demand recorded a decline during 2019, demand in Asia is expected to grow throughout the 2020s.

In the Gulf, countries are seeking to substantially diversify their sources of revenue, yet governments remain firmly in the oil and gas business. The UAE plans to increase its oil production capacity to 4m barrels per day (bpd) by the end of 2020 and to 5m bpd by 2030. Kuwait, home to vast reserves of heavy crude, is increasing its heavy oil production from 60,000 bpd in 2019 to 110,000 bpd by 2030, in addition to boosting non-associated gas production capacity. As the region shifts to higher output, fossil fuels are set to remain the foundation of producing countries' development models and the predominant source of domestic energy use.

Despite its commitment to renewables investment, Mexico is increasing funding for oil production, with the government funnelling $600m towards revamping oil production since the end of 2018. Meanwhile, as the largest hydrocarbons producer in the Caribbean, Trinidad and Tobago is also seeking to increase its oil and gas production, particularly through the Ruby Project, which will see oil and natural gas output from the country's Ruby and Delaware reservoirs beginning in 2021.

In Africa, Nigeria is seeking major new investment in its petroleum industry, reaching out to Saudi Arabia and Russia for support and expertise. South Africa is expected to maintain or grow coal in its energy mix, following the government's October 2019 announcement that it would increase coal-fired energy production, which already accounted for 77% of electricity

Coal consumption remains elevated in Asia: while global demand recorded a decline in 2019, demand in Asia is expected to grow throughout the 2020s.

Of the 650m people around the world expected to be without electricity in 2030, nine out of 10 are likely to be living in sub-Saharan Africa, according to the World Bank.

production in the country in 2019. At the same time, additional fossil fuel resources are being found in Africa, such as in Uganda's Albertine Rift Basin. Exploration efforts are also continuing, with international companies heavily investing in Morocco to find new deposits. To the south, Côte d'Ivoire signed a number of contracts with European energy giants Total and Eni in 2019 to search for oil off its coast.

ENERGY ACCESS: While debates continue over the kind of energy infrastructure to develop, access to that energy – particularly in rural regions of the world – remains a central challenge. Among those underserved areas, perhaps the greatest need is in sub-Saharan Africa. According to a May 2019 World Bank report, "without more sustained and stepped-up actions, 650m people [globally] will still be left without access to electricity in 2030. Nine out of 10 of them will be living in sub-Saharan Africa." In Nigeria, Africa's most populous country, around 70m people lacked electricity in mid-2019. The government has a target to increase access to 90% of the population by 2030, up from 57.7% in 2018.

In developing Asia, approximately 350m people lacked access to electricity in 2018, according to the IEA. In Papua New Guinea only 13% of the population are connected to the grid. The country aims to reach a 70% electrification rate by 2030.

Bolstering access to energy has a strong economic rationale and can mitigate challenges to development. Access to lighting and steady electricity for greater computer use dramatically improves the prospects for economic productivity and wellbeing, allowing schoolchildren to study at home after the sun sets and employees to work more efficiently. A lack of access to power or regular disruptions curb economic growth and leads to financial losses for companies. Goal 7 of the UN Sustainable Development Goals calls for universal access to affordable, reliable, sustainable and modern energy services by 2030. This is helping to accelerate demand for low-carbon and ultimately net-zero emission energy systems. One option in this regard is off-grid solar power.

OFF-GRID SOLUTIONS: The IEA estimates that decentralised solar photovoltaic (PV) systems and mini-grids would be the most cost-effective solution for more than one-third of the global population that lack electricity, particularly in sub-Saharan Africa. Moreover, the African Development Bank (AfDB) has estimated that 40% of the continent's new electricity connections will need to come from off-grid solutions. As a result, the region stands as an enormous untapped market for the deployment of renewable energies.

Traditional grid-based electrification models involve centralised power stations distributing electricity via transmission lines to urban areas. This works well in densely populated cities and large towns, however, this model is usually cost prohibitive in rural areas of developing countries. Furthermore, extending central grid infrastructure takes a significant amount of time, and populations in many underserved regions are growing faster than grid expansion can take place. Therefore, effectively combining off-grid and on-grid models is a way to help address the access gap.

Off-grid options include solar home systems, which are often PV rooftop panels and a battery pack that enable the charging of basic items such as light bulbs, mobile phones and radios. Productive Use Leveraging Solar Energy applications are a commercial option for small enterprise activities such as solar irrigation, milling and refrigeration. In addition, standalone mini-grids offer an electricity distribution network for small-scale needs. These off-grid solutions allow electricity to reach the most remote households and enterprises, while enabling less carbon-intensive development. Importantly, they offer a cost-effective solution by reducing the need of governments to invest in building large-scale power plants and transmission infrastructure.

GAINING GROUND: Significant progress is being made in the off-grid space: the World Bank notes that over 700,000 solar systems had been installed in sub-Saharan Africa by August 2019. The market has seen growing involvement from local and international companies, in addition to governments and multilateral organisations. As a result of decreasing costs and efficiency improvements in solar panels and batteries, private companies – notably distributed energy companies – have been able to enter the market and provide services where state utilities had previously struggled. New financing and investment structures have also emerged to support the growth of off-grid systems. The traditional structure involved investors building power infrastructure with governments committing to long-term purchasing agreements. Now, in order to support off-grid solutions, governments must create a supportive legal environment and facilitate lending for the expansion of distributed energy companies.

Although the segment is moving in a positive direction, much more financial backing and government regulatory support will be needed for future mini-grid developments. The World Economic Forum states that a significant investment and policy gap will leave 670m people without electricity by 2030 – 80% of which will be in sub-Saharan Africa – if effective action is not accelerated. The IEA, for its part, forecasts financing needs for mini-grids of $20bn-25bn annually to 2030.

PRIVATE SECTOR: Companies such as M-KOPA, BBOXX, ZOLA Electric and Lumos have brought a game-changing advancement. These firms offer home and mini-grid solar systems on a pay-as-you-go basis using mobile technology; customers pay using their mobile airtime credit. M-KOPA is a major player in Kenya and has been a pioneer of the pay-as-you-go solar model. BBOXX operates in 12 countries including Rwanda, Kenya, Togo, the Democratic Republic of Congo and Pakistan, while ZOLA Electric operates in Nigeria, Ghana, Rwanda and Tanzania. Lumos is the largest provider of off-grid solar in Nigeria, with around 100,000 customers in mid-2019. By offering a cost-competitive alternative, these businesses have helped replace diesel generators, which cost Nigerian customers about $70 per month to fuel. Lumos' system, in contrast, involves a $40 start-up fee and monthly payments of $15.

In Mexico, while there is a high electrification rate, companies are working to fill the remaining gap. Around 2.5m people – or 2% of the population – do not have grid connectivity as they are too remote. A similar number have poor grid access, creating a market of 5m in need. Rural electrification company Iluméxico installed over 20,000 solar home kits between 2009 and 2019, assisting around 90,000 people. Since 2017 the company has employed the solar-as-a-service model, where it owns the solar kits and charges fees for electricity, which include battery upgrades and maintenance.

GOVERNMENT INITIATIVES: A number of governments have been rolling out programmes to provide off-grid solutions. Both Kenya and Ethiopia have adopted universal electricity access targets, with Kenya aiming to reach its goal by 2022 under the Last Mile Connectivity Project. In addition to grid expansion, off-grid energy has a key role in the strategy. Ethiopia aims to achieve universal access by 2025 through its National Electrification Programme, which involves providing 35% of the population with off-grid solutions. In another important area, Nigeria has updated licensing and registration regulations for mini-grid providers, which has helped boost off-grid solar development.

In the Gulf, although Oman has a 100% electrification rate, the state-owned Rural Areas Electricity Company is developing 11 off-grid hybrid solar-diesel projects in isolated areas. These will be developed as independent power producer projects and will replace existing diesel mini-grid networks. Overall the projects will provide around 48 MW of solar power, 70 MW of diesel power and 28 MW of energy storage facilities.

MULTILATERAL SUPPORT: Among international development organisations, the AfDB launched a lending programme in July 2019 to support the expansion of distributed energy companies. The programme provides credit in local currency, helping to address the mismatch between traditional foreign exchange funding and customers paying in local currency. As part of the programme's 2018 trial, a CFA15.75bn ($27.1m) loan was awarded to ZOLA Electric to provide off-grid solar solutions to 100,000 households in Côte d'Ivoire by 2020. The World Bank's Lighting Global initiative, meanwhile, has had major successes in Papua New Guinea through its Lighting PNG programme: 60% of households were using off-grid solar technology in 2019, up from just 2% in 2012. This dramatic growth has made the country a world-leading market for off-grid solar. The World Bank's Lighting Africa initiative is advancing similar programmes and aims to expand off-grid solar to 250m people by 2030.

In the continent's west, meanwhile, the Nigeria Electrification Project has received significant international support. As part of the project, the Rural Electrification Agency has obtained $350m from the World Bank and $200m from the AfDB to subsidise companies supplying off-grid solar solutions. The funding is aimed at lowering feed-in tariffs and connecting roughly 1m rural households over a period of five years, beginning in late 2019.

The African Development Bank launched a lending programme in July 2019 to support the expansion of distributed energy companies with credit in local currency.

700,000

solar systems had been installed in sub-Saharan Africa as of August 2019

Transport & Logistics

New ports along the Atlantic and Mediterranean coasts

Airport upgrades lead to increased passenger capacity

Public and private sectors work to ease road congestion

Significant plans to expand national railway network

Morocco's rail plan aims to nearly double the number of cities served

Expansion plans

Investments aimed at increasing connectivity between major cities are set to boost the sector and the economy

With 90% of people and 85% of goods – excluding phosphates – being transported via the kingdom's roadways, economic development on the national and local level goes in hand in hand with road development.

Upgrades in transport and logistics infrastructure have been key to driving economic growth in Morocco in recent years. As the country develops and urban areas expand, the interconnectivity of economic centres and efficient connections to the rest of the world will be paramount to supporting the growth of other sectors, such as agriculture, manufacturing and tourism. Over the last two decades the kingdom has spent an average of about Dh40bn ($4.2bn) on transport and logistics, representing 10% of total investment in the country and 20-25% of the state's investment's budget. As of January 2020 the sector accounted for around 6% of GDP.

PUBLIC-PRIVATE PARTNERSHIPS: As a relatively cost-intensive sector, an increasing number of projects are being funded and executed through public-private partnership (PPP) models, following the passage of a 2014 law outlining their framework. Amendments to the law in 2019 enlarged the application of PPPs beyond government ministries to the level of local administrations and public entities. The 2019 amendments also created a commission under the auspices of the prime minister to help fast-track and supervise PPP contracts and provide technical support to administrations at the local level in writing contracts.

Building on the success of Casablanca Technopark, established under a PPP model, tenders for the development of three new industrial parks in the Casablanca area under PPP schemes are planned for early 2020. Other regions are also seeing benefits from this new model of financing. In December 2019 Dakhla received Dh2bn ($208.4m) for the development of what will become the largest water desalination plant in the kingdom, which will support local agriculture.

According to the Islamic Development Bank (IDB), the kingdom received about $7bn in funding from the bank as of April 2019, 27% of which has been earmarked for transport infrastructure projects, with PPPs accounting for an increasing amount. PPPs have seen the highest success rate among funding models: 89% of PPPs have come to fruition, compared to 86.5% of private projects and 72.5% of public ones, according to the IDB.

As of January 2020 the transport and logistics sector accounted for

6%

of GDP

ROAD NETWORK: With 90% of people and 85% of goods – excluding phosphates – transported via the kingdom's roadways, economic development on both national and local levels goes in hand in hand with road development. Over the past 20 years the government has built approximately 1800 km of roads, connecting most major cities via toll expressways. The Ministry of Equipment, Transport and Logistics (Ministère de l'Equipement, du Transport et de la Logistique, METL) is in charge of road development and aims to build an additional 3400 km of expressways and 2000 km of highways by 2030, at an estimated cost of $9.6bn. Part of this work will include the Dh1.7bn ($177.1m), 30-km Tit Mellil-to-Berrechid highway, the construction of which should start in 2020; and the Dh5bn ($520.9m), 60-km Rabat-to-Tit Mellil highway, which will alleviate traffic between the economic and political capitals.

These investments are aiming to address the growing number of vehicles in circulation. According to a 2017 METL census, there were over 4m vehicles in the kingdom, an 18% increase from the previous 2014 census. This included 2.8m personal cars, or 70% of the total, and 1.1m professional vehicles. The distribution of vehicles across the kingdom was uneven, with 50% of vehicles registered in the Casablanca-Settat or the Rabat-Kénitra regions. The market, however, is expected to grow; currently, 38% of Morocco's 7m households own a vehicle, and prices for cars are declining.

As of January 2020 Morocco's road network consists of more than 57,330 km of road, of which 76% is paved. National roads account for 41% of the country's network while regional and provincial roads make up 21% and 18%, respectively. The remaining 20% consists of highways and expressways managed by the Moroccan Highway Administration (Autoroutes du Maroc, ADM).

In early 2020 the METL announced a change regarding the concessions of national highways controlled by the ADM. While each concession was previously subject to different conditions, the new policy will group all of them under one contract as a means of increasing profitability and streamlining management.

TRANSPORT OF GOODS: The transport market is largely characterised by singular private operators and an ageing fleet. The largest actor, the state-owned National Transport and Logistics Company, owns over 130,000 vehicles, has over 210,000 sq metres in storage capacity and transports about 20,000 tonnes of goods annually. However, excluding informal actors, approximately 80% of the 84,300 companies operating in the transport sector own less than two vehicles, with one-third of these vehicles over 15 years old.

Some 75% of the value of all transported goods is moved via the country's road network, so improvements in road quality and fleet efficiency translate to immediate benefits for the entire sector and wider economy. To this end, the METL implemented new measures in March 2019 aimed at increasing freight capacity by at least 30% for vehicles transporting three to 19 tonnes. It also introduced subsidies aimed at encouraging operators to replace vehicles weighing 14 to 19 tonnes with ones over 19 tonnes. Other METL-funded measures include training programmes aimed at upskilling the workforce and increasing competition within Morocco.

The ministry is also making efforts to increase the digitisation of trade processes, remove entry barriers, integrate informal actors, institute sector-specific payment delay fines, and make overall policy changes that will align the sector with European standards in terms of training and environmental considerations.

Transport companies are hoping for better government assistance in accessing foreign markets through revised trade agreements, as well as better overall management of domestic trade, which will boost efficiency and output of local producers and transport services companies. Transport companies have also voiced a desire for greater access to logistics zones and easier regulations regarding renewing or upgrading permits.

RAIL: Aside from roads, rail accounts for a significant share of the transport of people and goods across the kingdom. Morocco's railway network includes 1300 km of track, with 120 stations serving passengers as well as freight. The network is exclusively managed by the publicly owned Moroccan National Railways Office (Office National des Chemins de Fer, ONCF), and carries around 70% of goods to and from the kingdom's ports. The ONCF possesses 19,000 containers for a total freight capacity of 80,000 tonnes per day. Additionally, it operates 106 ha of logistics zones, including 19 ha of dry ports in Marrakech-Sidi Ghanem, Casa-Mita and Fes-Bensouda. Four new logistics zones are in the pipeline at Mohammadia-Zenata, Tangier-Dalia, Nador-Sefouna and Oujda-Beni Oukil, which, when completed, will increase the total area of logistics zones to 212 ha.

In an effort to aid the automotive industry, the ONCF dedicates six trains per day between Casablanca and Tangier in each direction, with a capacity of 1500 vehicles daily. The transport services come in addition to the agency's vehicle storage services in Casablanca-Mita.


In 2020 the flag carrier initiated the first direct link to China, with service between Casablanca and Beijing

The ONCF in late 2019 received the last of its 47 new vehicle carrying wagons from manufacturer Gefco. The agency currently carries around 20,000 Renault vehicles from an assembly plant in Kéntira. Following a contract signed in 2019 between ONCF and the vehicle's producer, Groupe PSA, the agency will transport between 100,000 and 200,000 vehicles annually between Kénitra and the Tanger-Med port.

HIGH-SPEED RAIL: Representing an important leg of the national infrastructure modernisation strategy, Morocco's 2040 Rail Strategy is the kingdom's long-term overall development plan for the national rail network and its various components. The plan has an allocated budget of Dh20bn ($2.1bn) that will fund a variety of projects and updates, such as improvements and general maintenance to reinforce the existing network, new rail connections to existing and future ports, an extension of conventional rail lines to cities not currently served by the network and the establishment of high-speed rail links between major cities. By 2040 the rail plan seeks to nearly double the number of cities served from 23 to 43.

Part of the kingdom's rail strategy saw the 2019 opening of the Dh3bn ($312.5m) Tangier-Casablanca high-speed rail line. The 323-km bullet train is the first of its kind on the continent, and has reduced travel time between the two cities from 5 hours and 45 minutes to 2 hours and 10 minutes. In the pipeline is an extension of the high-speed network from Casablanca to Marrakech and then on to Agadir, with the ultimate goal of creating a 1500-km high-speed rail network alongside a standard network of 2700 km by 2030.

In December 2019 the METL announced it would invest in a Dh3.8bn ($395.9m) project that would connect Casablanca's Mohammed V International Airport with the high speed-rail network, increasing the connectivity of the country's largest airport to other cities.

AIR: Air traffic to and within the country continues to expand, with 2018 seeing a record number of 22.5m

Part of the kingdom's rail strategy saw the 2019 opening of the $312.5m Tangier-Casablanca high-speed rail line, the first of its kind in the Africa.

The government is making efforts to increase the digitisation of trade processes, remove entry barriers, integrate informal actors and make overall policy changes that will align the sector with European standards.

passengers passing through the country, representing an annual growth of 10.4%. While national traffic experienced more steady and sustained growth, international traffic – representing more than nine in 10 passengers – surpassed the 20m threshold for the first time in 2018, according to the Moroccan Airports Authority (Office National des Aéroports, ONDA). In late December 2019 the country's air transport segment saw another landmark moment, with Mohammed V International Airport recording over 10m passengers that year, a 5% compound annual growth rate over five years. The national carrier, Royal Air Maroc (RAM), represented 65% of seats arriving at and departing from the airport. The completion of upgrades at Terminal 1 in January 2019 saw the area of the airport increase to 76,000 sq metres and its annual capacity to 14m passengers. The capacity increase came with material upgrades as well, with travellers set to benefit from more efficient immigration and Customs procedures.

"Airports are increasingly becoming living areas similar to shopping malls rather than just transportation zones. The Casablanca airport is capitalising on this trend and still has many opportunities to increase its revenue," Christophe de Figueiredo, CEO of Swissport Maroc, told OBG. In 2019 the Swiss aviation services company renewed its licence with the ONDA for seven years to continue providing ground-handling services to 22 airlines in 15 airports throughout the country. Swissport Maroc will invest over Dh200m ($20.8m) in new equipment and staff training.

INTERNATIONAL EXPANSION: In addition to its short-haul flights within the country, RAM operates medium-haul flights to Europe and Africa, and transatlantic long-haul flights to the US, Canada and Brazil. The airline currently has a fleet size of 61, consisting mostly of Boeing aircraft. It is expected to join the Oneworld Alliance on March 31, 2020, offering the third-largest global airline alliance by number of passengers a foothold into the growing African market, adding 34 new destinations and 24 countries to the group's portfolio. The news comes in addition to RAM's inauguration of a new route between Philadelphia in the US and Casablanca, following the opening of direct routes from Boston and Miami in 2019, significantly reducing travel time between the two continents.

In terms of passenger traffic, Europe is by far the largest destination market for Moroccan aircraft, representing more than three in four passengers. Consistent with historical links and cultural proximity, France is the leading market, with Paris airports Orly and Charles de Gaulle receiving about 10% of all national flights, followed by Spain and Belgium. Beyond Europe, the Middle and Far East region comes second in terms of passenger traffic. Since the relaxation of tourist visa requirements for Chinese nationals in 2016, arrivals of Chinese citizens to Morocco increased sharply, raising by 550% from 2018 to reach 350,000 in 2019. Also in 2019 RAM announced it would initiate the first direct air link between Morocco and China, and in mid-January 2020 the first of three weekly flights left Casablanca for Beijing, with a flight time of just under 13 hours.

Upgrades to Casablanca's Mohammed V International Airport increased annual capacity to 14m passengers

Airport upgrades have been initiated at facilities in Guelmim, at a cost of Dh273.5m ($28.5m); in Zagora, for Dh106m ($11m); and in Errachidia Moulay Ali Cherif, at a cost of Dh82.1m ($8.5m). Other major airport extensions include a new terminal at Rabat-Salé, which is to be co-financed by the ONDA, the African Development Bank and the French Development Agency for Dh1.6bn ($166.7m). Once complete, it is expected to nearly triple the airport's current annual capacity to 4m passengers. Nador International Airport has also started a $31m expansion project, and in Marrakech there are plans to develop a second airport, which is estimated to cost $520m and hopes to absorb the projected influx of more than 14m passengers annually by 2020.

Over the longer term, airport extensions throughout the kingdom are projected to increase capacity to accommodate a total of 50m passengers by 2030, and are going to require a combined investment of some $1.7bn between 2018 and 2030.

AERONAUTICS: The growing Moroccan aerospace sector has seen increasing support and development in recent years, and shows much potential in manufacturing parts and finished aircraft, as well as providing maintenance and airport services. The growth of the local aeronautics parts industry has relied on the participation of major international companies like Boeing, Safran Aerosystems and Spirit AeroSystems, as well as a supply chain of internationally certified local subcontractors, who have supplied over one-third of parts used in national production.

Over the last 20 years the subsector has grown from just a handful of companies to nearly 140 different actors, employing over 16,000 people. It generates Dh17bn ($1.8bn) in revenue and Dh14bn ($1.5bn) in exports, or just under 6% of GDP.

AIR FREIGHT: Despite a relatively low volume, the amount of goods transported by air within the kingdom and abroad increased by 7.47% to 80,000 tonnes in 2018. The World Bank recently ranked Morocco sixth in

Passenger numbers increased by

10.4%

in 2018

Casablanca is slated to see the construction of four new tram lines

The transport and logistics sector created
24,000
jobs in 2016

Africa in terms of the volume of air freight. "Considering its proximity to export markets, Moroccan air freight is fairly limited. Development of the cold chain and perishable products can open new opportunities for the segment," de Figueiredo told OBG.

LOGISTICS: Comprehensive improvements to transportation and trade infrastructure are expected to enhance the logistics sector's overall performance countrywide. According to the World Bank's Logistics Performance Index, Morocco's ranking dropped by 23 spots between 2016 and 2018 to 109th out of 160 countries. The World Bank cited poor international price competitiveness and shipments frequently missing their scheduled delivery dates as reasons for the considerable decline in ranking. The logistics sector employed about 500,000 people and generated some Dh50bn ($5.2bn) in revenue, or 5% of GDP, in 2017, up from Dh34bn ($3.5bn) in 2010.

Oversight of the sector is managed by the Moroccan Agency for Logistics Development (Agence Marocaine de Développement Logistique, AMDL) and the Moroccan Observatory for Logistics Competitiveness (Observatoire Marocain de la Compétitivité Logistique, OMCL). According to the AMDL, logistics costs equal 19.6% of GDP, exceeding the 15% goal set by the agency in 2015. By comparison, logistics costs represent 10-16% of GDP in Europe and 15-17% in emerging markets. With 60% of costs of road transportation related to trans-shipment, the AMDL is building an interconnected grid aimed at increasing efficiency. Despite slow progress towards the agency's goals, storage costs dropped by 35% between 2010 and 2019 to reach Dh35 ($3.65) per month for rent and Dh1.90 ($0.20) per day per pallet, according to the OMCL. In 2016 the transport and logistics sector received about Dh32.3bn ($3.4bn) in investment, or 10% of total investment, and generated 24,000 jobs.

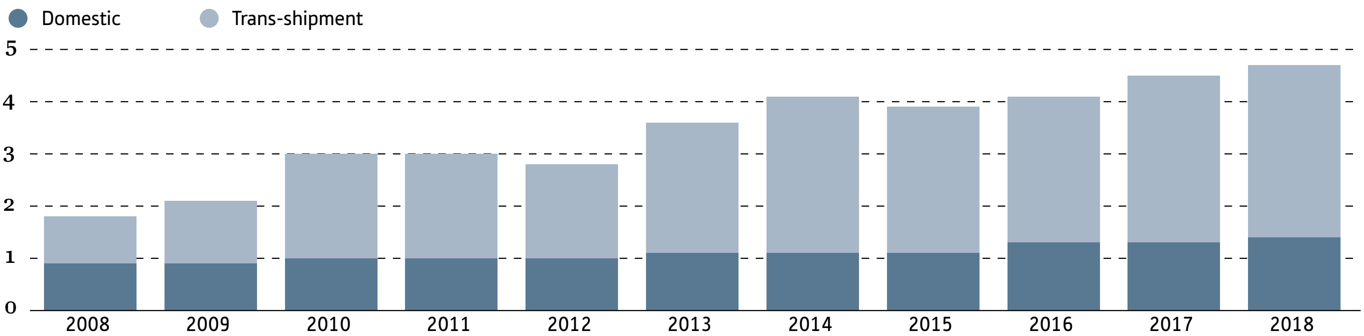
The availability of land and its affordability in and around the kingdom's economic centres continue to pose challenges for logistics businesses. By 2030, however, the AMDL plans to develop 3300 ha of multi-flow logistics parks, 1100 ha of which are planned for the greater Casablanca area. These parks will offer end-to-end services, including transportation, storage, and clearance in ports and dry ports, optimising time management and costs across the value chain.

PUBLIC TRANSPORTATION: The rapid growth of urban centres has made the decongestion of the country's roads a top priority (see analysis). Approximately 80% of people on the move use public transportation, according to a study by Casa Transports, the authority tasked with carrying out Casablanca's transportation development plan for 2015-20. The plan includes the Dh25bn ($2.6bn) construction of four new tramway lines with a combined total of 76 km of track, as well as two bus rapid transit (BRT) lines totalling 24 km.

Another BRT line will be implemented in Agadir in 2022, for an estimated Dh900m ($93.8m). Rabat is investing $560m in a 20-km extension of its tramway network by 2022. Tramway projects are also in the pipeline for Agadir, Fez, Marrakech and Tangier.

OUTLOOK: While the transportation and logistics sector continues to grow in value and volume, efficiency remains an issue, and local players continue to face relatively high operational costs. Nevertheless, the modernisation of equipment and better integration of transportation modes, coupled with an increased digitisation of processes, are supporting the sector's development. However, a more appropriate legal framework and increased focus on training will prove crucial to integrating informal actors for more inclusive growth.

Total containter traffic, 2008-18 (m TEUs)



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Nadia Laraki, Managing Director, National Ports Agency

New bearings

Nadia Laraki, Managing Director, National Ports Agency, on new strategies aimed at boosting competitiveness

How can the National Port Strategy help strengthen Morocco's international competitiveness?

LARAKI: Morocco recently implemented several restructuring projects within the framework of the National Port Strategy (Stratégie Nationale Portuaire, SNP). This strategy constitutes a fundamental plan not only to respond to the evolution of port traffic but to seize new opportunities to further integrate the kingdom into the global economy.

Morocco, strengthened by its geographic location and through the implementation of the SNP, has the ambition to consolidate its position on the international maritime scene as a logistics hub, particularly in the Mediterranean basin. The main pillars of this strategy are the creation of new ports, such as Nador West Med, Kenitra Atlantic, the Port of Safi and Dakhla Atlantic; the extension of current port infrastructure; and the reclassification of certain ports, including Tangier City, Kenitra, the Old Port of Casablanca and Safi Port.

The economic benefits of the kingdom's ports extend beyond their immediate hinterlands and are felt across all economic sectors of the country. Any gains in competitiveness achieved by our ports have benefits for the entire Moroccan economy. The energy sector, in particular, has benefitted with the doubling of coal traffic capacity at the port of Jorf Lasfar. Other developments currently under way are poised to stimulate economy-wide activity as well. There are two new terminals at the Port of Casablanca: one dedicated to cruise ships and another for containers. A recently commissioned third terminal will see processing capacity increase to 1.6m twenty-foot equivalent units.

In what ways is the private sector expected to contribute to the development of port infrastructure?

LARAKI: The evaluation of costs for the main projects planned within the SNP amounts to Dh75bn ($7.8bn). Public-private partnerships (PPPs) will be used to mobilise financing and optimise public investments. To this end, the establishment of Law 15-02 provides for several forms of PPPs and is expected to encourage private intervention for all kinds of port activities.

The regulatory framework for the port sector encourages PPPs for a number of projects and offers several opportunities to potential investors. Our expectations are particularly high, with some of the world's top port operators promoting Morocco as a regional centre. By providing efficient services at the lowest cost, we can add value for every user of our ports.

Which technological innovations are set to improve port performance across the kingdom?

LARAKI: In terms of innovation, our ports will be designed to adapt continuously to accommodate and anticipate any and all changes in the maritime industry. This sector has seen major advancements in recent years in areas such as containerisation, ship size, speed and overhauls. These innovations have reverberations on the development of ports and terminals, and result in changes to on-site working conditions, for instance, in the tools and technology used. Ports must therefore constantly adapt in order to remain competitive.

Ports are not immune to the disruption caused by the digital revolution. Responding to this, the National Ports Agency – in coordination with the sector's stakeholders – has set up a community information system called PortNet. In addition to facilitating the exchange of information between various port actors, PortNet will initiate a comprehensive digital transformation of our ports to adapt to new standards.

Achievements in this area include the digitisation of manifests, enabling electronic payments and more concise appointment scheduling for trucks. These improvements have contributed to boosting Morocco's ranking in the cross-border trade segment of the World Bank's 2020 "Doing Business" report. The kingdom's overall position in the ease of doing business index improved, too, rising seven places to 53rd out of 190 countries.

Morocco's 27 commercial ports process 92.3m tonnes of goods per year

Wider berth

The government is upgrading the country's ports with an eye to transforming Morocco into a regional shipment hub

Morocco has 27 commercial ports that see a combined annual traffic of 92.3m tonnes in goods. The kingdom's 2030 National Port Strategy, spearheaded by the National Ports Agency (Agence Nationale des Ports, ANP), allocates investment of close to $7.5bn to expand and upgrade the country's ports along the Atlantic and Mediterranean coasts. The ANP will oversee the management and development of all ports, expect for Tanger-Med, whose renovations will be administered by the Tanger Med Port Authority (TMPA). "The Moroccan port landscape is evolving to better integrate regional economies and increase the role of the private sector in specific development strategies," Sghir El Filali, the director of strategy and regulation at the ANP, told OBG.

PERFORMANCE: Since a 2007 restructuring of its port management operations, the ANP has worked to designate land for infrastructure development and increase private sector involvement in port management. The restructuring also unified pricing across ports, introduced upskilling programmes to bring staff training up to international standards and defined overall strategic development plans. Efforts so far have led to increased productivity and reduced shipment delays, shortening the average time a container is parked at a port from 10 days in 2017 to 6.5 days in 2019. "The ANP is working to transform Moroccan ports from areas for just importing and exporting into real economic centres driving the development of their surroundings," El Filali told OBG.

With the future trade landscape and shipment volumes in mind, the ANP has projected port capacity will need to reach 300m tonnes per annum in 2030 to keep up with demand, from its current capacity of 40m tonnes as of the end of 2019. Investments worth Dh6bn ($625.1m) have been planned to this end, with Dh2.7bn ($281.3m) already spent in 2018, and another Dh3.2bn ($333.4m) earmarked for further infrastructure development and upgrades by 2020.

TANGER-MED: Morocco's Tanger-Med was the first African port to be awarded EcoPort status by the European Sea Ports Organisation, following a previous ISO 14001 certification for its environmental management. Beyond port and trans-shipment activities, the TMPA oversees the Tanger Free Zone, Tanger Automotive City, Tétouan Park and Tétouan Shore for outsourcing activities, a Logistics Free Zone and Renault Tanger-Med. At end-2019 there were around 900 companies operating within Tanger-Med, with combined investments nearing Dh100bn ($10.4bn), of which more than half came from private actors.

Tanger-Med 1 comprises two container terminals with a total capacity of 3.5m twenty-foot equivalent units (TEUs), in addition to a railway terminal, a hydrocarbons terminal, a goods terminal and a car terminal. "When we envisioned Tanger-Med, we did not expect to have such significant traffic," Mostafa Al Mouzani, the former director of TMPA, told OBG. "So when we decided to build Tanger-Med 2 and Nador West Med, we took into account future volumes." Following an investment of Dh14bn ($1.5bn), Tanger-Med 2 opened in June 2019 with two container terminals and a total capacity of 6m TEUs. As of January 2020 Tanger-Med covered 1000 ha, offered a capacity of 9m TEUs and was one of the largest port hubs in the Mediterranean and the Atlantic Ocean. Tanger-Med provides end-to-end logistics services for goods and is connected to 186 ports, including 38 in Africa. In 2018 the port saw Dh30bn ($625.1m) in revenue.

RIPPLE EFFECTS: The success of Tanger-Med has led other ports in the country to adopt similar development models. "Tanger-Med was a leap forward for trans-shipment activities in Morocco, having introduced innovations like twin-lift handling and reduced the operating time of its containers from 20-30 moves per hour (mph) to 40 mph within three years," Al Mouzani added. Additionally, innovations throughout the port have led to shorter connection

Since a 2007 restructuring, the National Ports Agency has worked to designate land for infrastructure development and increase private sector involvement in port management.

As of January 2020 Tanger-Med covered 1000 ha, offered a capacity of 9m twenty-foot equivalent units and was one of the largest port hubs operating on the Mediterranean and the Atlantic coasts.

Modernising ports will increase efficiency in the sector and bring economic benefits to surrounding areas

times between the kingdom and Asia, dropping on average from 60 to 25 days.

To unleash the full potential of Tanger-Med, the country needs to further tap into the port's wider import-export potential. The Moroccan National Railways Office (Office National des Chemins de Fer, ONCF) currently connects inland industrial zones with Tanger-Med 1 by rail, but capacity may soon be reached. Increasing development in Tangier is also making land availability an issue; the city's population doubled over 2003-12, creating new transportation challenges in residential and economic areas.

NADOR WEST MED: About 400 km east of Tanger-Med, the port of Nador West Med, expected to come on-line in 2021, is set to increase regional market opportunities, play a major role in the kingdom's energy strategy and reduce the burden on Tanger-Med. The port's management will be split between the ANP and the TMPA, at 51% and 49%, respectively. In 2018 a consortium consisting of SGTM Maroc, Luxembourg-based Jan De Nul Group and Turkish STFA Group won the bid for the construction of the new port, expected to cost around Dh7.6bn ($791.8m). Once completed, the port will be able to process 25m tonnes of hydrocarbons, 7m tonnes of coal and 3m tonnes of general cargo. In terms of trans-shipment capabilities, the port will have a capacity of 3m TEUs, with the potential to add another 2m TEUs.

The port of Nador West Med, expected to come on-line in 2021, is set to increase regional market opportunities, play a major role in the kingdom's energy strategy and reduce the burden on Tanger-Med.

DAKHLA ATLANTIC: The southern city of Dakhla is also expecting to see the construction of a new port. A call for tenders went out in December 2019, and construction is expected to start in the second half of 2020. Among those vying for the 60-ha, Dh10.2bn ($1.1bn) project are Morocco's Somagec, France's Eiffage and Greece's Archirodon. The port is expected to act as a hub for West Africa, and will have connections to Casablanca, Tanger-Med and Las Palmas in Spain. Dakhla Atlantic Port is expected to boost the regional fisheries, agriculture, mining, energy and tourism trade sectors, eventually building capacity to process an estimated 2.2m tonnes of goods per year.

DRY PORTS: With more highways and railways being constructed throughout the kingdom, its ports have seen significant reductions in congestion and more goods arriving as scheduled. In January 2020 there were three dry ports in the country – in Casablanca, Fes and Marrakech – with four more planned throughout Morocco's northern region. In 2019, the ANP acquired 146 ha of land for a planned a 200-ha dry port at Zenata, at a cost of Dh700m ($72.9m).

PORTNET: The country's first blueprint for digitisation, Digital Morocco 2013, saw the creation of PortNet. Under the direction of the ANP, PortNet has led the charge in digitising all clearance processes at the kingdom's entry points. Since 2011, PortNet has gradually been rolled out at ports across the country, significantly increasing logistics productivity. By the second quarter of 2020 the operation of several port activities were planned to be externalised to private companies, with the goal of easing traffic at entry points. "The digitisation of documents and processes has helped reduce logistics costs and accelerated trade flow, especially around Gibraltar," Alexis Rhodas, the general manager of local logistics company GEFCO Maroc, told OBG. In 2019, PortNet partnered with Royal Air Maroc to create E-Freight, a platform that extends electronic clearance to cargo arriving by air.

FULL POTENTIAL: The modernisation of Moroccan ports has enhanced the nation's logistics sector through increased cooperation with private actors to boost efficiency across the value chain. The country has gained experience working with global operators and has emerged as a training centre for both Morocco's and Africa's workforces. Anticipated increases in trade volumes are going to require more investment to better connect inland economic regions with international markets and to unleash the full potential of Morocco's new and burgeoning industrial zones.

Digital clearance processes have been gradually rolled out at entry ports

A public transport modernisation plan was announced in February 2019

On the move

Changes in population and movement patterns have led the public and private sectors to come up with new urban mobility solutions

As economic development progresses and urban centres rapidly grow, Moroccan cities are increasingly facing urban mobility challenges and seeing disruptive technologies change the way these problems are addressed. For example, Rabat, which saw its population increase by 18% over the last decade, is expected to accommodate 1.94m passenger movements per day in 2024, up from 1.49m in 2014. Casablanca's 2019 figure of 7.8m movements per day is expected to rise to 10m by 2030. This sustained increase will require a harmonised effort between public and private players as well as the integration of various modes of transportation in and between cities.

BUS LINES: Bus transportation in Morocco is based on a concessions model. In August 2019 private transport operator ALSA, a subsidiary of UK-based National Express, inaugurated 37 bus lines in Rabat. Its fleet of 250 vehicles is set to increase to 350 over the coming years. The administrative capital also introduced a single, multi-modal ticket to make transportation easier.

In November 2019 Casablanca's contract with M'dina Bus came to an end and a new partnership was inked with ALSA, which will progressively take over M'dina's fleet and add 700 new buses by 2021. ASLA hopes to generate more than €1bn in revenue and double its presence in Morocco. The country, however, faces the challenge of an ageing fleet, and there have been calls for investments that would make buses a more attractive mode of transportation.

CONTRACT PROGRAMME: In February 2019 the Ministry of Equipment, Transport and Logistics (Ministère de l'Equipement, du Transport et de la Logistique, METL) announced a new programme aimed at modernising country's public transportation systems. The programme includes revisions to the legal framework governing public transportation, upgrades to the quality of service for all stakeholders and the modernisation of transportation companies' resources. The METL also plans to develop upskilling programmes and upgrade its own nationwide fleet, and hopes to finance both projects through revenue from its own services. The METL aims to make public transport more comfortable for passengers while reducing carbon emissions from road transport by 35% by 2030.

ROAD CONGESTION: While efforts are being made to enhance public transport services, the government is also looking to improve conditions for users of private transport. With over one in four cars registered in Casablanca, the parking occupancy rate in the economic centre stands at an average of 85%, though it can reach 125% at times. In 2017 the government initiated a five-year plan to reorganise the city's parking network, using public-private partnership models for projects that will add an additional 30,000 parking spaces around the city, up from 15,000 in 2017.

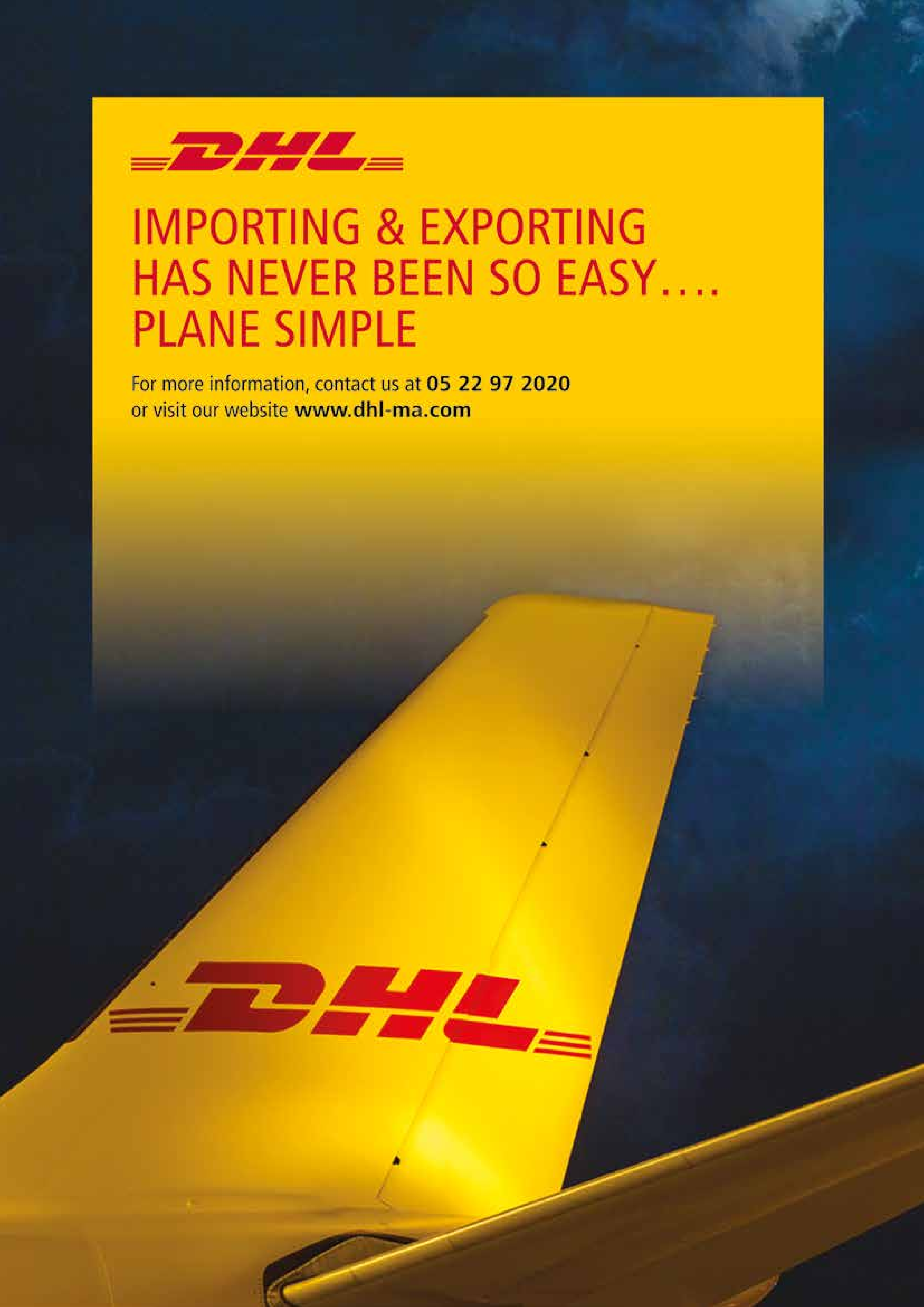
RIDE-HAILING APPS: Following global trends, ride-hailing apps are slowly gaining popularity in Morocco, reducing the number of vehicles on the road and relaxing demand for parking spaces. Dubai-based ride-hailing service Careem filled in the vacuum left in Morocco when Uber had to end its services in 2015 for not complying with regulations.

While Careem connects independent drivers with customers, the Paris-based ride-hailing service Heetch follows a different strategy, working with taxi unions to offer an online platform that connects drivers to passengers. Another ride-hailing app, the local firm Roby Taxi, entered the market in December 2018, offering taxi services for a fixed monthly fee of Dh490 ($51.05). Roby plans to work with 150,000 of Morocco's 240,000 taxis by 2024.

PATH AHEAD: The government's initiatives are on the right track to further integrate public transportation networks and increase private sector participation. Public transportation should be considered as a means of boosting socio-economic integration, connecting suburban areas with economic centres and also providing for more inclusive development.

Ride-hailing apps are slowly gaining popularity in the kingdom, reducing the number of vehicles on the road and relaxing demand for parking spaces.

A private transport operator won a contract in Casablanca and plans to deploy 700 new buses within the country's economic capital by 2021.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Global Perspective

Ticket to ride

A combination of large-scale infrastructure investment and vehicle-sharing platforms is boosting urban mobility

Around the globe the urban transportation sector is experiencing rapid expansion, driven by economic growth and a global demographic shift towards urbanisation. Politicians, urban planners and private sector actors are working together to find new solutions for reducing congestion and increasing the speed and efficiency of urban transport. However, unless proactive steps are taken to plan and invest in well-executed infrastructure, urban mobility can deteriorate.

ROAD VEHICLES: Urban residents continue to rely heavily on privately owned vehicles. Worldwide, the number of cars in use is expected to exceed 2bn by 2040, according to investment research firm Bernstein. Much of this will be driven by new vehicle purchases by the burgeoning middle class in emerging markets such as India, China, the Philippines, Indonesia and Vietnam. By 2025 the 600 largest cities in the developing world are expected to house 235m middle-class households earning an average annual wage of over $20,000 a year, according to the McKinsey Global Institute.

In addition, many mega-cities across the globe have experienced significant increases in motorcycle usage. In Mexico City motorcycle ownership increased from just under 294,000 in 2000 to over 3.5m in 2017. "The motorcycle market is relatively new in Mexico; it is growing slowly but hasn't yet become part of the lifestyle like in other countries," Fernando Zapata, director-general of Grupo Zapata, told OBG. While the adoption of electric vehicles could help reduce air pollution, it still does not address the congestion problem. Thus, long-term solutions are likely to be driven by public transport.

RAIL: In some major cities metro rail lines form the central pillar of the public transport system. The metro system in South Korea's capital city Seoul transports 7m passengers per day over 1600 km of track. The system includes nine lines and a commuter rail linking the central station to Seoul's new international airports.

Seoul has set a high standard for urban mass transit, and global governments are looking to catch up. City planners in Algeria inaugurated the country's first metro line in the city of Algiers in 2011 and in 2018 added two metro lines and two new tram lines. Algiers now has 17 metro stations, which carried between 100,000 and 200,000 passengers per day in 2018.

Other countries are working to adapt older systems for rapidly expanding populations. In Brazil many of the mass transit systems built in the early 20th century were dismantled between the 1930s and 1970s, although Rio de Janeiro and São Paulo are the only two cities that have fully functional underground metro systems. Municipal authorities are undertaking efforts to improve this system further, with a major extension of the São Paulo metro system earmarked for completion by 2020. The expansion project features 11 new stations along 14.4 km of track with four integrated bus terminals, and has been developed under a public-private partnership supported by the World Bank.

In Jakarta severe congestion has rendered buses slow and inefficient. The centrepiece of the city's public transport overhaul is a mass rapid transit system. The first phase of the project, which opened in March 2019, comprises 13 stations across 16 km of track, connecting the south of the city to the business district. The $1.2bn project is expected to move 170,000 passengers per day. The second phase of the project, which will extend to the north of the city, is expected to open in 2024. The government hopes that public transport will accommodate 60% of commuters by 2030.

BUS: Mass transit systems that are bus-based provide another critical tool for improving urban mobility. In Latin America, Bogotá, Mexico City and Santiago de Chile have invested heavily in this segment. Bogotá's TransMilenio articulated bus system was an early pioneer in this regard, with 12 routes spanning more than 114 km as of March 2019. The city's bus network carries more than 1.7m passengers every day.

Smaller cities are also implementing smart bus systems, many of which incorporate new green technology.

The number of cars in use worldwide is expected to exceed

2bn

by 2040

While the adoption of electric vehicles could help reduce air pollution, it still does not address the problem of congestion. Thus, long-term solutions are likely to be driven by public transport.

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Construction & Real Estate

Efforts to support local and small-scale developers

Cement sales rebound after three years of decline

Market welcomes new real estate investment scheme

Revamped price database for property valuation

Public policy has been directed towards supporting small-scale firms

Building momentum

Healthy public investment and regulatory reforms support a recovery in construction activity

The construction sector is forecast to grow by an average of

3.1%

per year until 2028

Morocco's construction sector has performed moderately well since the global financial crisis of 2007-08. According to the most recent figures from the Ministry of National Planning, Urban Planning, Housing and Urban Policy, the sector contributed 6.3% to economic growth in 2017, or Dh59bn ($6.1bn), and created 15,000 jobs, including 1000 in rural areas. "Thanks to the quality of the workforce, including engineers and other skilled professionals, the sector has seen its performance and expertise improve in recent years," Zaid Lahbabi, general manager at Global Infrastructure Development North Africa, a private contractor, told OBG.

The construction and public works sector grew by 1.3% in the third quarter of 2019, compared to a decline of 0.1% in the same period of 2018. Policies aim to support small and medium-sized enterprises (SMEs) and upskill workers. In June 2019 a decree was passed stating Moroccan firms must hold at least a 15% stake in public construction projects. By developing the local workforce, authorities aim to increase the sector's annual turnover from Dh53,000 ($5520) per worker in 2014 to Dh67,000 ($6980) by 2022.

PERFORMANCE: According to a report published by market analysis firm Fitch Solutions in 2018, Morocco's construction sector is expected to grow by an average of 3.1% per year until 2028. The agency forecast that growth will be slower compared to recent years, as large-scale projects such as the Casablanca-Tangier high-speed rail line and the Tanger-Med II port have been completed. Fitch also noted that the kingdom will be outperformed by other countries in the MENA region such as Egypt and Qatar, where average growth is expected to reach around 8% over the same period. Nevertheless, the outlook for the sector remains promising, with a large portfolio of projects supported by government funding, which should provide a steady flow of investment opportunities. The authorities are confident that the sector will see healthy growth in the years ahead, with the government aiming to generate Dh81bn ($8.4bn) from construction activity by 2022, creating around 1.2m new jobs.

By developing the local workforce, the authorities aim to increase the sector's annual turnover from $5520 per worker in 2014 to $6980 by 2022.

Despite slowed growth in recent years, construction remains a major contributor to the economy. In 2018 the sector accounted for the second-largest proportion of newly established companies, at 17% of the total. While this is a sign that construction activity is healthy, the market is characterised by a high number of small firms and a small number of larger players, resulting in price competition among small-scale subcontractors.

PUBLIC INVESTMENT: The 2019 budget earmarked Dh40bn ($4.2bn) for the construction sector, down from Dh42bn ($4.4bn) in 2018. Roughly Dh18bn ($1.9bn) of this total was allotted for major public infrastructure projects, including the construction of government and administrative buildings, hospitals, airports, and cultural and religious sites.

Around Dh9bn ($937.6m) was allocated to road management, while Dh4.6bn ($479.2m) was set aside for highways, to be divided between 35 construction projects and 18 feasibility studies. Some Dh1.1bn ($114.9m) was assigned to construction projects, civil engineering and studies being carried out by the National Railways Office. This funding helped to accelerate plans to upgrade and extend the rail network, with the aim of improving connections between the country's special economic zones and coastal and dry ports.

The ports segment received Dh11.6bn ($1.2bn) of the sector's total budget, which was used to support the 20-year National Ports Strategy. The strategy aims to increase the country's maritime shipping traffic from 92m tonnes in 2010 to 300m tonnes in 2030. Its share of the 2019 budget was largely allocated to the development of new ports such as Dakhla Atlantique and Nador West Med, as well as the expansion of existing facilities. To this end, the National Ports Authority launched a Dh3.2bn ($333.4m) programme to upgrade ports between 2019 and 2021, under which a maritime station and fixed footbridge will be built in Casablanca.

The water segment was also a major recipient of construction funding, receiving a total of Dh6.4bn ($666.8m), divided among urban and rural drinking water supply and water sanitation. As cities rapidly expand and Morocco's economy remains dominated by the agriculture sector, water systems are a major part of the country's public infrastructure strategy. Furthermore, the Priority Programme for Drinking Water Supply and Irrigation 2020-27 was adopted in January 2020, which plans to allocate a total of Dh115bn ($12bn) to the development of water infrastructure over the seven-year period. This investment will go towards the construction of 20 dams, with the goal of raising water storage capacity from 5.4bn cu metres to 27.3bn cu metres by 2027.

PUBLIC-PRIVATE PARTNERSHIPS: In order to meet its infrastructure financing needs, which are estimated at 8-14% of GDP, Morocco is increasingly looking to public-private partnerships (PPPs) to fund construction projects. Of the total Dh77bn ($8bn) of public investment earmarked in the 2020 budget, Dh12bn ($1.2bn), or 15.6%, is to be financed by PPPs, with plans for this proportion to increase over the coming years.

To this end, in January 2020 an amendment to Law No. 46-18 governing PPPs was introduced, which widened the scope of PPP applications to include local authorities. Additionally, the amended law established a National PPP Commission, which is overseen by the prime minister and is responsible for setting the national PPP strategy, defining best practices for contracting and providing technical assistance to local administrations in organising PPP contracts.

CEMENT: The production and consumption of cement remains stable, with a steady flow of investment helping to raise capacity after a period of decline. The kingdom is home to four cement producers: LafargeHolcim, which held a 54% market share as of 2017; Ciments du Maroc, with 24%; Ciment de l'Atlas, with 14%; and Asment de Témara, with the remaining 8%. In 2017 these producers generated a total Dh16bn ($1.7bn) in revenue. In 2020 the segment is expected to generate approximately Dh18.8bn ($2bn).

According to government statistics, cement sales increased by 2.5% in 2019 to reach 13.6m tonnes, compared to a decline of 3.6% the previous year, when 13.3m tonnes of cement was sold, breaking the segment's downward trend after three consecutive years of falling sales. BMCE forecast that this growth will continue into 2020, with an "expected revival of activity" as a result of a public works budget of approximately Dh32bn ($3.3bn). However, the firm also noted that in the years ahead cement sales may be negatively affected by slowing demand in the real estate market, rising electricity costs and the introduction of a 2.5% social solidarity contribution on companies' taxable profits exceeding Dh40m ($4.2bn) in FY 2019/20.

Muted growth did not impede the expansion of cement manufacturing facilities in 2019. The Société Générale des Travaux du Maroc signed a Dh2.4bn ($250m) agreement in June 2019 with the national infrastructure company Tekcim to build a cement plant in El Jadida, which will have a capacity of 1.4m tonnes and is scheduled to be completed in 2022.

The 2019 budget earmarked roughly $1.9bn for the development of major public infrastructure projects

Additionally, in May 2019 Ciments du Maroc announced the acquisition of Atlantic Ciment and Cimsud, two subsidiaries of local conglomerate Anouar Invest. Atlantic Ciment is in the process of developing a 2.2m-tonne cement plant in Settat, while Cimsud is building a 500,000-tonne grinding plant in Laâyoune. The new facilities will supplement its three operating plants in Agadir, Safi and Marrakech.

CASABLANCA: The year 2020 marks the end of the 2015-20 Development Plan for Casablanca, which aimed to improve the city's quality of life, regional connectivity and economic attractiveness. Some of the plan's major achievements include the completion of the Dh200m ($20.8m) sea promenade for the Hassan II Mosque, the largest mosque in Africa; a Dh300m ($31.2m) initiative to renovate the Casablanca medina, its pre-colonial old town; and the Dh1.3bn ($135.4m) Marina Shopping Mall, which opened in April 2019 and has a total gross leasable area of 43,000 sq metres, comprising offices, commercial areas and residential units.

Meanwhile, new projects in Casablanca continue to be announced. In December 2019 real estate company Compagnie Générale Immobiliere launched the marketing of its Luxuria Tower development, a 1792-sq-metre residential building containing 50 high-end apartments.

To support these developments, the city is looking to expand its public transport system to cover 100 km by 2022. The tramway network stands at a total length of 47 km, with plans to construct two new lines to extend it by 20 km by 2022. The authorities also plan to reinforce Casablanca's rapid-service bus lines, which currently have a capacity of 100,000 passengers per line per day.

Efforts are under way to increase car park capacity in the city in order to alleviate congestion and reduce inner city traffic. This is particularly important as the country continues to expand its road and highway infrastructure, with the construction of the Dh2bn

Cement sales rose by 2.5% in 2019 to reach 13.6m tonnes, compared to a decline of 3.6% the previous year, breaking the segment's downward trend after three consecutive years of falling revenue.

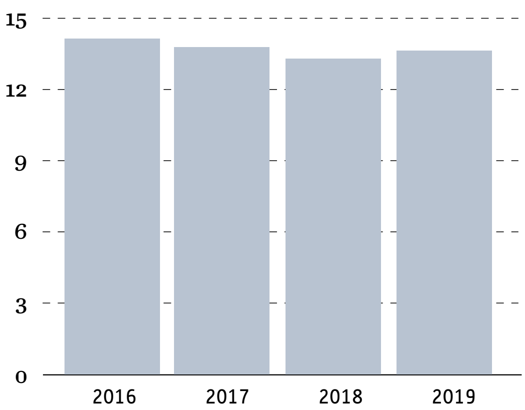
($208.4m) Casa-Berrechid highway and the enlargement of the Berrechid Tit-Mellil highway connecting the city to nearby industrial zones. This comes alongside the announcement in 2019 of the construction of a new rail line connecting Mohammed V International Airport to the existing high-speed railway, at a total investment of Dh3.8bn ($395.9m).

RABAT: Major construction projects are also under way in Morocco's capital city, Rabat. Construction of the 250-metre Mohammed VI Tower began in 2019 at an expected cost of Dh4bn ($416.7m), and it is scheduled to be completed in 2022. The tower is being developed by Belgian contractor Besix and local firm Travaux Generaux De Construction De Casablanca. The 55-storey building will include 12 floors of offices, 14 floors of residential units and a luxury hotel.

ECO-CITIES: Alongside the expansion of infrastructure in Morocco's existing urban centres, new, sustainable cities are increasingly being developed. Four eco-city projects have been launched by phosphate company OCP Group and state-owned investment fund Caisse de Dépôt et de Gestion du Maroc (CDG). The first phase of the city of Zenata, located 30 km north of Casablanca, is set to be completed in 2020 at a cost of Dh11bn ($1.1bn). The 8-sq-km development will contain 2000 residential units. The city is being financed by a Dh23bn ($2.4bn) investment from the CDG and is expected to cover a total 18.3 sq km, 30% of which will be green space. The eco-city will also include an industrial area, schools and health care facilities, clean transportation infrastructure and a dry port.

RENEWABLE ENERGY: In line with the increased uptake of sustainable building methods, the kingdom is looking to raise its renewable energy capacity with the aim of using 42% renewables by 2020 and 52% by 2030. Morocco's current renewables output is supplied by 11 wind farms, accounting for 33%; four solar power plants, representing 19%; and hydroelectricity making up the remaining 48%. To meet its goal of 6000-MW capacity by 2020, the country plans to construct an additional 640 MW of wind power and 1150 MW of solar power generation. These projects will be complemented by new power plants to supply the distribution network. The 580-MW Noor Ouarzazate solar plant was finalised in 2018 and successful storage tests were completed in December 2019 by Swedish energy storage firm Azelio. In 2020 two other major solar plants, Noor Midelt I and II, are to be built with a capacity of 800 MW and 230 MW, respectively (see Energy & Utilities chapter).

Cement sales, 2016-19 (m tonnes)



Source: MHPV

Two major solar power plants are expected to be completed in 2020, adding 1030 MW of new capacity

STRUCTURAL DIFFICULTIES: In order for the sector to expand it still needs to overcome a number of structural challenges that impede development. The sector remains reliant on bank loans; in 2018 its outstanding debt totalled Dh95.7bn ($10bn). In recent years banks have taken a project-appraisal method rather than a client-appraisal approach, and readjusted budgeting plans to ensure that contractors are held accountable and funds are not directed to other projects.

The sector's reliance on bank loans has been compounded by an increase in payment delays. According to a study conducted by French insurance firm Euler Hermes, the average length of payment delay for Morocco's construction sector increased from 57 days in 2015 to 71 days in 2017.

Another structural problem faced by the sector is the prevalence of informal activity. In the construction sector, subcontractors often work on an informal basis or employ informal staff. In order to tackle this issue, a contract was signed between the government and the professional associations for engineering and construction in September 2018 to enforce a code of conduct for public works, with the aim of better regulating local firms and outsourcing companies.

OUTLOOK: For Morocco's construction sector to achieve its target of generating Dh81bn ($8.4bn) by 2022, it will need to maintain a steady momentum of public investment. At the same time, efforts to upgrade the legal framework in order to enable effective PPP projects, formalise small-scale subcontractors and upskill the workforce will be required to raise productivity and increase the value of infrastructure projects.

The sector aims to generate

$8.4bn

in revenue in 2022

Nouzha Bouchareb, Minister of National Planning, Urban Planning, Housing and Urban Policy

Next generation

Nouzha Bouchareb, Minister of National Planning, Urban Planning, Housing and Urban Policy, on promoting environmental sustainability in future construction projects

What steps are being taken to develop environmentally sustainable cities?

BOUCHAREB: Morocco has considerable renewable energy potential, with 3000 hours of sunlight per year, 5 KWh per sq metre per day of irradiation and 25,000 MW of wind power. The country has set ambitious targets to integrate renewables into the energy mix in order to reduce costs and greenhouse gas emissions. In rural and landlocked areas particularly, renewables present an opportunities to improve living conditions and ensure access to reliable, profitable and sustainable energy. This was shown by a pilot project in the village of Id-Mjahdi, where an independent solar power production system covers the energy needs of its 50 inhabitants through a mini-electricity network. This type of project offers sustainable and efficient alternatives to supply-isolated villages, which are more difficult to connect to the national electricity grid.

Renewable energy also presents new opportunities for cities. The introduction of solar-powered water heaters and electricity production systems in the residential and tertiary sectors will reduce the national energy bill, as well as have a significant socio-economic impact by creating jobs and stimulating both the energy sector and the entire value chain. Morocco has shown its commitment to promoting the use of renewable energy in cities by strengthening its legal framework through the opening of the low-voltage market, the promotion of energy services companies, compulsory energy audits and various other initiatives.

In addition the generation infrastructure being developed in cities such as Ville Mohammed VI and the eco-cities of Zenata, Lakhyayta and Chrafate uses a new approach aimed at integrating energy and environmental concerns in the design stage.

How does regionalisation benefit communities?

BOUCHAREB: The project of advanced regionalisation, launched by King Mohammed VI, is an evolution of previous initiatives to bring about decentralised management and aims to promote democracy and socio-economic development.

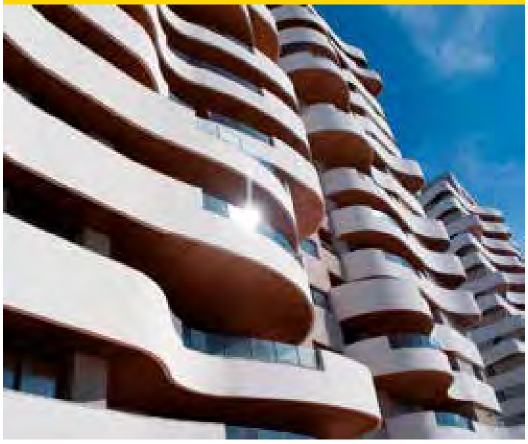
In this context, advanced regionalisation is a powerful lever for the involvement of local players in the development process of their community. The design of a future development and territory planning strategy is based on the creation of new roles for the state, the implementation of incentives that favour economic growth, and the preservation of national heritage in order to ensure sustainable development while protecting citizens' interests both now and for years to come.

At the same time, regionalisation encourages global integration and strengthens the economy. It also supports fragile territories in their specific evolution and adaptation to changes such as coastal development, urbanisation, globalisation and climate change.

In what ways can Morocco integrate renewable energies into its construction sector?

BOUCHAREB: Morocco is already making progress in producing affordable, reliable and sustainable energy, particularly from solar and wind generation. The kingdom plans to increase its use of renewables to 52% by 2030; currently, solar energy already meets 35% of Morocco's electricity needs. However, the use of renewables by the construction sector – for example, the installation of solar cells on buildings – is still in its early stages. In terms of solar thermal energy, the sector has significant potential to install solar-powered water heaters, which would reduce household energy bills and national energy consumption. In order to utilise this source, we need to develop an integrated programme combining technical, financial and incentive plans.

Although limited, the market for thermally efficient materials has expanded since the General Regulations on Construction established energy performance rules for the sector in 2015. To promote further growth, the use of locally sourced materials should be encouraged.



The system of valuing real estate for tax purposes is being overhauled

Greater alignment

A new investment scheme and valuation system bring welcome changes, while developers re-evaluate offerings against demand

The Moroccan real estate sector recorded a subdued performance on most indicators in 2019, as prices and demand continued to fall or show little improvement. According to the real estate price index published quarterly by Bank Al Maghrib, the country's central bank, and the National Agency for Land Conservation, Valuation and Cartography (Agence Nationale de la Conservation Fonciere, du Cadastre et de la Cartographie, ANCFCC), property prices decreased by 0.2% year-on-year (y-o-y) in the first quarter of 2019 but rebounded to post a 0.9% y-o-y increase in the third quarter. Prices in the residential category rose by 0.4%, while land prices were up by 1.5% and professional properties – including commercial premises and offices – saw prices 2.2% higher. However, the overall transaction volume dropped by 0.8% y-o-y in the third quarter, driven by professional property transactions falling by 2.5%.

Nevertheless, building is maintained at a steady pace, with 165,526 residential units delivered in 2018, up from 155,577 in 2017, and shopping centres continue to open in large cities. Looking ahead, a new collective real estate investment scheme (organisme de placement collectif immobilier, OPCI), similar to real estate investment trusts, is set to bring new life to the sector, which, along with construction, represents some 18% of GDP.

FINANCING DEVELOPMENT: In June 2019 the regulatory framework for OPCIs was introduced, bringing with it the potential to add Dh200bn ($20.8bn) worth of assets to the market. At the time, a target was set to transform 15% of the country's real estate base into such assets. OPCI portfolios are focused on rental properties and non-built land, and allow investors to enter the market without facing the risks associated with managing the properties themselves. OPCIs will be regulated by the Moroccan Capital Markets Authority, and investors can expect returns of 6-7%, which is higher than that of stocks and bonds. To help promote the scheme, the 2019 Finance Law instituted a 60% tax exemption on dividends from OPCIs. The first OPCI accredited in the kingdom – and North Africa more widely – was launched in December 2019 by AjarInvest, a subsidiary of the Caisse de Dépot et de Gestion (CDG), a state-owned investment fund, and CIH Bank.

RETAIL: The price of commercial premises around the country dropped by an average of 0.4% y-o-y in the third quarter of 2019, while the number of transactions fell by 1.2%. While the retail segment showed signs of quarterly growth in many cities, in Rabat and Casablanca transactions declined by 34% and 9%, respectively. According to a report by global real estate consultancy JLL, the vacancy rate at retail properties in the economic capital of Casablanca expanded from 7% in the first half of 2018 to 9% in the first half of 2019, with the rate expected to contract to mid-2020. Retail rental rates, meanwhile, remained stable y-o-y.

JLL reports that retail space in the economic capital rose from 138,000 sq metres of gross leaseable area (GLA) in 2017 to an estimated 190,000 sq metres in 2019, and is projected to reach 265,000 sq metres in 2020. The Marina Shopping Centre, a Dh1.3bn ($135.4m) complex comprising 43,000 sq metres of GLA on the Atlantic coast in Casablanca, opened in April 2019, while the 5000-sq-metre Le Mercato d'Anfa shopping mall, built by developer Anfa Realties at a cost of Dh50m ($5.2m), opened in Dar Bouazza south of Casablanca in October 2019.

As consumer demand is driving a more diversified offer in leisure and entertainment, market players are investing in the segment. There were four large-scale malls in Casablanca as of 2019 and three in Rabat, with the latter city welcoming the Arribat Center mall in November 2019, a Dh2.4bn ($250m) project by the Aksal Group that hosts 135,000 sq metres of GLA for additional commercial and leisure

Collective real estate investment schemes are focused on rental properties and non-built land, and allow investors to enter the market without facing the risks associated with managing the properties themselves.

Retail space in Casablanca is projected to reach

265,000

sq metres of gross leasable area in 2020

Office and industrial space in Casablanca increased by 200,000 sq metres in 2019, bringing the total stock to 1.9m sq metres as of the end of the year.

options. The Aksal Group opened Morocco Mall Casablanca in December 2011, which is the second-largest mall on the continent, and is working towards similar projects in Rabat and Marrakech.

OFFICE SPACE: In the third quarter of 2019 the number of transactions in the office segment saw the strongest fluctuation among property lines, with an 11% y-o-y decrease; however, prices increased by 12%. Many major cities experienced quarterly declines in transaction volume during the period: a contraction of 78% was seen in Tangier, 63% in Agadir and 40% in Casablanca. JLL notes that Casablanca had an office supply stock of 1.72m sq metres of GLA in 2017, 1.77m sq metres in 2018 and 1.86m sq metres in the middle of 2019.

Unused stock remains in the market, keeping supply higher than demand. Construction is continuing nonetheless, with various sites under way for office and industrial space. In the economic capital, the delivery of major projects in 2020 – such as the CFC Tower with 13,000 sq metres of GLA and 50,000 sq metres of additional space at the Casa Nearshore business centre – will complement the deliveries of 2019, which included the 20,000-sq-metre Marina Marjane Towers. Completed in April along with the Marina Shopping Centre, these four units helped increase the supply of retail and industrial space by 200,000 sq metres of GLA in 2019, bringing total stock to 1.9m sq metres at the end of the year.

An October 2019 study by financial services firm Deloitte found that 22% of Casablanca's 200,000 sq metres of office space under construction during that year was pre-ordered, down from 38% in 2018. Despite this fall in build-to-order projects, the study shows that Casablanca's central business district is enjoying its highest project initiation numbers since 2014, supported by the arrival of new tramway lines to facilitate movement of professionals in the city (see Transport & Logistics chapter). "Casablanca's population is expanding by 150,000 inhabitants each year. The real estate market – both residential and non-residential – will need to keep growing in the coming years to meet that demand. This should ensure stable activity for construction companies," Karim Ammar, managing director of construction equipment supplier PERI Morocco, told OBG.

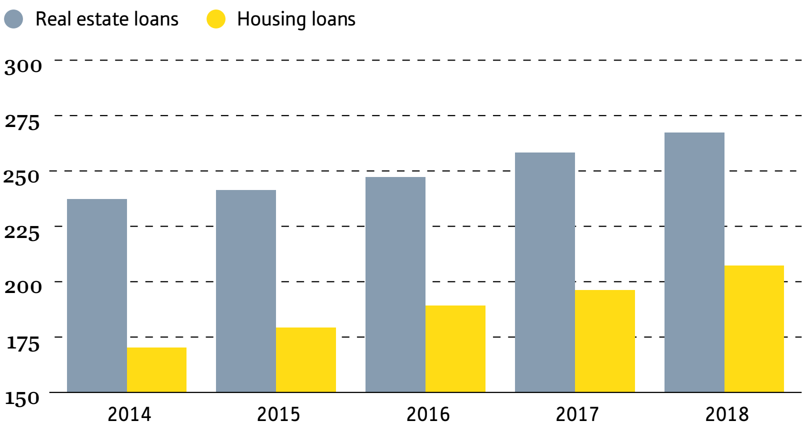
RESIDENTIAL: The kingdom's overall residential market also recorded slight y-o-y movement in the third quarter of 2019, with a 0.4% increase in prices and a 0.8% decrease in transaction volume. Quarterly, the number of villa transactions dropped by 14% in Casablanca, 22% in Rabat and 25% in Agadir, while rising by 25% in Fez and 23% in Tangier. Apartment transactions also grew by 17% in Tangier in the third quarter compared to the previous three months, while the category expanded by 9.5% in Fez. No major city saw apartment transactions fall by more than 10%. The transaction volume for houses, meanwhile, grew by 23% quarter-on-quarter in Marrakech and fell by 36% in Fez.

From a financing perspective, around 30% of Moroccan household income is absorbed by loans, while the rate is slightly higher, at 32%, for public servants, who enjoy specific advantages for loans. "The maximum borrowing capacity of households should be Dh4000-4500 ($415-470) per month to be able to finance property investments," Sara Kadiri, head of sales at real estate website Mubawab, told OBG, indicating that the mismatch between supply and demand in this segment is more about price than quality. "There is strong demand from the middle class for properties valued between Dh700,000 ($72,900) and Dh1m ($104,000), but supply is lacking. Upper-middle-class demand for properties over Dh1m ($104,000) is also underserved," she said.

Real estate values for taxation purposes have historically been shaped by the reference systems published by the ANCFCC and the General Directorate of Tax, but these have been criticised for not properly reflecting the market value of properties and standardising them without incorporating a unit's unique attributes. Officials of these organisations have moved to remedy this by developing a single valuation system to avoid divergence between the administrations; rezoning areas for more detailed mapping; and better integrating factors such as the age of the building and specific characteristics of the unit or land plot into valuations. The new price database – which is digital, accessible to the public and set to be updated more frequently – was introduced in Casablanca in mid-2019 and is slated to be applied in all cities by June 2020.

SOCIAL HOUSING: In the social housing category of the residential market, over 400,000 units have been built since the adoption of the social housing programme in 2010, including nearly 110,000 units constructed in 2017 and 2018. These units of 50-80 sq metres are sold for Dh250,000 ($26,100) or less. According to Youssef Ibn Mansour, former president of the National Federation of Property Developers, a drastic improvement was made in the social housing deficit between 2000 and 2018, with the figure falling from 1.2m units to 400,000 over the period.

Lending to the property sector, 2014-18 (Dh bn)



Source: MHPV

As of late 2019 some 80% of all residential buildings under construction fell within the parameters of social housing. Such projects benefit from tax waivers and duties payable exemptions, in addition to a value-added tax break for buyers and easier access to credit. However, these incentives are set to end in December 2020, and many stakeholders are waiting to see if the benefits will be extended or revised in some way. Mansour also notes that many families who can afford homes in the Dh350,000-800,000 ($36,500-83,300) price range cannot find properties that cater to the segment, and thus fall back on social housing, which keeps demand high.

One problem with social housing is that the locations where many of the units are being built are in new areas that lack proper city infrastructure, due to cheaper and more available land. "There is robust demand for properties in the Dh150,000-300,000 ($15,600-31,300) price range and about 1m unoccupied buildings. This mismatch is mainly due to the poor quality of the apartments on the market and a lack of appropriate services in those living areas to support uptake of the properties," Kadiri told OBG.

NEW CITIES PROGRAMME: In order to decongest a handful of large cities and meet demand for housing in certain regions, the New Cities Programme was launched in 2004 as a mega-project to create additional urban centres. The project was awarded to public contractor Al Omrane, and 15 years later four cities with a total capacity of 1m people had been completed at a cost of more than Dh100bn ($10.4bn). The cities are Tamansourt, near Marrakech; Tamesna, near Rabat; Chrafate, outside Tangier; and Lakhyata, south-west of Casablanca.

However, the uptake of residential properties in the new cities has been limited, with residents citing a lack of public infrastructure and other amenities, which has a knock-on effect on resale values. As of early 2018 just 150,000 people lived in the four locales. To revitalise their offering, in January 2020 Al Omrane signed a deal with Aswaq Management Services Africa. The management firm is tasked with creating and carrying out a strategy that will renew the image of these cities as attractive places to live, while efforts are ongoing to build up security, connectivity and the necessary infrastructure.

Office prices rose by 12% year-on-year in the third quarter of 2019

The CDG and state phosphate company OCP Group are also working to create new cities, including the eco-cities of Ben Guerir in the Marrakech-Safi region and Zenata outside of Casablanca. The former is being built to strict LEED standards for 90,000 residents, with the Mohammed VI Polytechnic University as the area's focal point. Zenata, for its part, is being built with a focus on air quality, sewage, transport and job creation. Green space is emphasised, the direction of winds off the Atlantic ocean have been modelled for a natural cooling effect and rainwater will be directed to retention ponds.

OUTLOOK: The anticipated establishment of various OPCIs during 2020 is set to bring more investors into real estate. However, the funds channelled through these vehicles must be used to finance offerings that are more in line with buyers' needs, especially in the residential segment. An adequate supply of housing catering to all income segments is needed, but developers must be cognisant of the factors that potential buyers consider, from quality to supporting area infrastructure. Nevertheless, construction will drive on across all real estate segments, as Morocco experiences rapid population and economic growth.

In order to decongest a handful of large cities and meet demand for housing in certain regions, the New Cities Programme was launched in 2004 as a mega-project to create additional urban centres.

Nawfal Bendefa, Managing Partner, REIM Partners

Commercial demand

Nawfal Bendefa, Managing Partner, REIM Partners, on how real estate investment trusts (REITs) will impact the market

In what ways do you anticipate REITs will impact the commercial real estate market?

BENDEFA: REITs are not an industry but a mechanism of support, an investment tool for all industries that rely on real estate as a tool for productivity, such as schools, offices and factories. How the commercial real estate segment performs is linked to the health of the industry as a whole. In an economy where education is taking off, and where health care, industrial and tourism infrastructure are needed, there is going to be a demand for commercial real estate to back these industries.

In Morocco we are in the midst of a growing appetite for industrial real estate. We have seen this demand in recent years, and the expectations for the future are promising. There is increasing supply and demand for office and retail space. We are also seeing more activity in the tourism sector, which is driving demand for tourism real estate and will add positive dynamics to the supply and demand of health and education services.

REITs will create a dynamic market by bringing in a new category of investors who will invest in commercial real estate without having too much exposure to the industrial aspect. New platforms are going to be created – some listed, some private – with different products being offered depending on the performance of the market at any given time. These new products will have a positive impact on the commercial real estate market.

To what extent will the new REIT legislation help attract foreign investment in Morocco?

BENDEFA: With the new legislation, we will now be able to attract asset managers who have an allocation for REITs. We currently have very low liquidity in our stock exchange. REITs will be a new product on the exchange, which will make it more attractive to foreign investors. Global asset managers' strategies are often varied, and new REIT offerings will help Morocco – as well as other frontier markets – attract investors looking for new countries and markets to diversify their portfolios.

The framework and legislation have been well developed by regulators and its fundamentals are the same as REITs in the UK, the US and other developed markets. We will now see how the market reacts. The next step will be to introduce listing incentives to ensure that the product is put out to the market and not used as a private tax efficiency tool. Morocco's REIT legislation only allows the REIT to be managed externally. The regulators will require a licensed manager for REITs. Only licensed asset managers will be allowed to manage REITs.

How has the real estate market performed recently, and in what direction is it moving?

BENDEFA: In recent years the market demand for commercial real estate has been showcasing strong and steady growth. As long as the economy grows and infrastructure is developed, interest in commercial real estate will increase. However, demand in Morocco is also driven by industry penetration and the transformation of existing assets into a more modern and actively managed real estate market.

Many international investors from developed economies have shown concerns about how technology may be disruptive and how consumer behaviour is changing, but these dynamics do not apply to Morocco as the market here is still undersupplied. Though the dynamic is not present here at the moment, it does not mean it will not be present in the future, and this is one of the main advantages that Morocco has. We have been observing the risks in other markets and are designing our commercial real estate market in response to those risks. The key is to design a dynamic space upfront that will be able to respond to all the changes in demand.

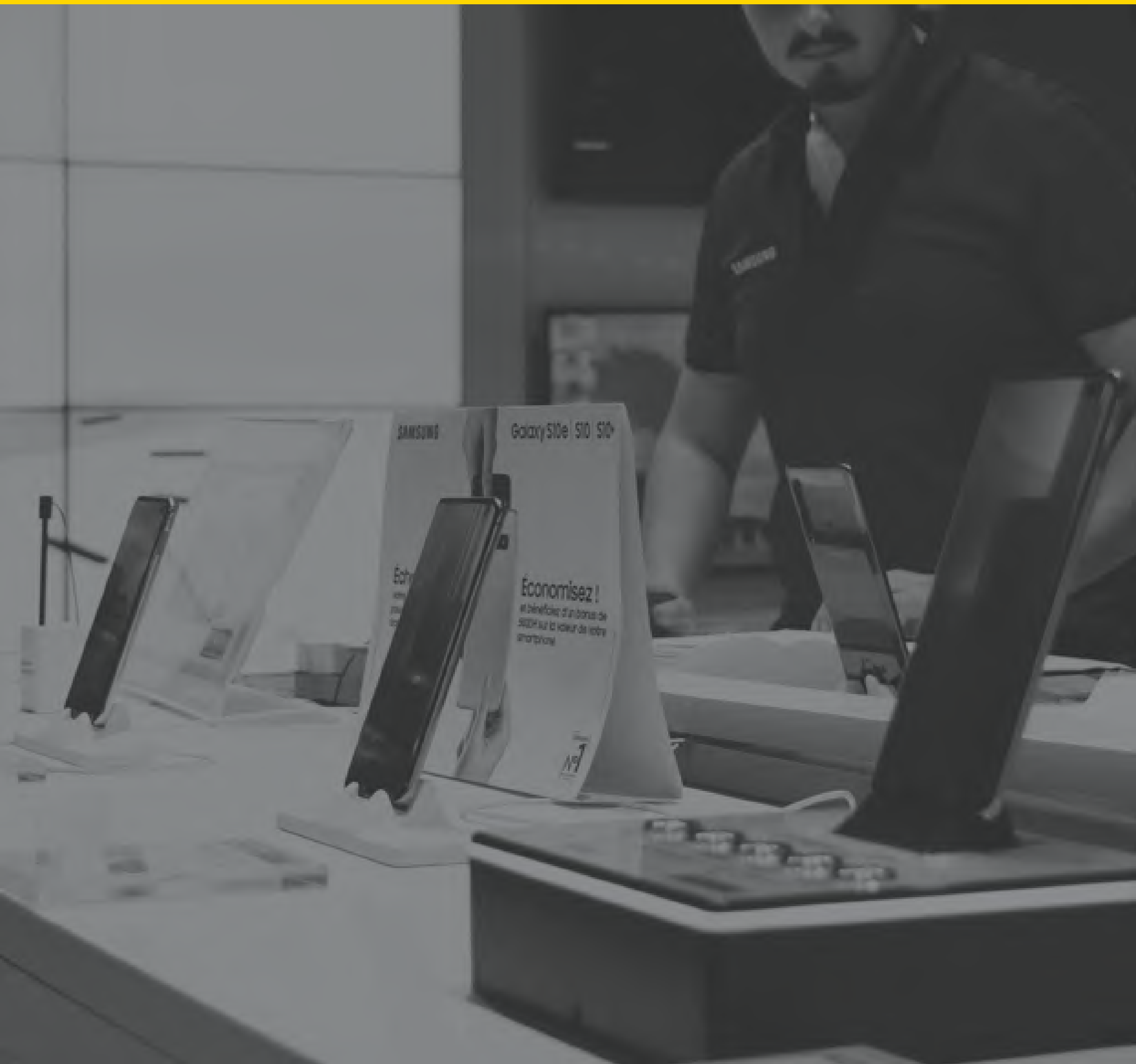
ICT

Technology training centres set to open nationwide

ICT sector accounts for 5-6% of the kingdom's GDP

New funding schemes in place for tech start-ups

Public sector organisations contribute to tech ecosystem



Education & Entrepreneurship are key to a brighter future

HP's vision is to create technology that makes life better for everyone, everywhere.

It is more than just a statement, It is a daily practice across the company.

As leaders of digital transformation, it is our responsibility to not only create the future, but to also ensure it is conducted in the most beneficial way making hope and opportunity more real than ever.

Our mission is to upskill individuals to prepare them for the jobs of the future whilst keeping creativity and diversity in the core. We also believe that it is our responsibility to help close the STEM skills gap, supporting not only our youth's education, but also their integration into the labor Market.

Salah Ouardi
Managing Director, North Africa

Coding : No longer a privilege but a necessity

HP is a proud participant of the hour of code, a strong example of the programs that grant success. Organized by Code.org and backed by a broad of partners, the initiative enables students to get hands-on with one of the most important skillsets of the future. Teams host sessions for students of all ages, giving them coding tutorials and lessons so they can jump the hurdle and see firsthand that computer science is approachable and fun.

In a strong collaboration with SOS Village Morocco, our teams provided one day session for kids at El Jadida center, bringing not only knowledge, but also fun and affection.

HP LIFE : Helping young entrepreneurs accelerate the learning Curve

Following the latest government decisions to create the Entrepreneurship Support Fund, Morocco has deployed new mechanisms to support young entrepreneurs.

The program aims at fighting unemployment by financially supporting new project leaders to become independent entrepreneurs. Young entrepreneurs are also in the heart of HP Global programs especially HP LIFE : an online program of the HP Foundation that grants entrepreneurs & innovators all over the world free access to business and IT skills trainings.

HP Morocco has taken a step further supporting young Moroccans through several partnerships, jointly with the Moroccan Ministry of Higher Education and Research, "Réseaux entreprendre Maroc", and others, giving HP LIFE more context and highlighting the importance of education and entrepreneurship for a better future.

The portion of Moroccans who own a smartphone rose to 80% in 2019

Up to speed

A push to adopt new technologies strengthens the country's position as a regional and continental innovator

The ICT sector generates between 5% and 6% of GDP, of which telecommunications companies represent about half. However, technological developments coupled with strong political will and economic imperatives are pushing Morocco's ICT sector growth beyond the telecommunications subsector. "Incorporating digital solutions in business operations is not an option – it is a must to keep Moroccan companies at the forefront of regional and international standards," Lamiae Benmakhlouf, the managing director of Moroccan Information TechnoPark Company (MITC), told OBG.

Following broader international trends, the expansion of digital solutions has received support from the authorities at various levels. While improvements in infrastructure have been led by updated laws, uptake has been largely supported by Digital Morocco 2020 (Maroc Digital 2020), a national development blueprint adopted in 2016 to supplement the achievements of Numeric Morocco 2013 (Maroc Numéric 2013), adopted in 2008. In 2017 the blueprint established the Digital Development Agency (Agence du Développement du Digital, ADD) to oversee progress and regulate ICT-related projects and reforms. The agency's missions include reducing the urban-rural digital divide, achieving a shift from e-government to digital government, and promoting the digitisation of business processes.

OVERSIGHT: The ICT sector is regulated by the Ministry of Industry, Trade, Investment and the Digital Economy (Ministère de l'Industrie, du Commerce, et de l'Economie Verte et Numérique, MCINET), which is responsible for promoting a dynamic ICT-driven economy. The National Telecommunications Regulatory Agency (Agence Nationale de Régulation des Télécommunications, ANRT), the subsector watchdog, has been key to liberalising telecoms and enabling technological development throughout the kingdom, as established by the 1997 Law No. 24-96 and its subsequent amendments. Other major actors in the sector include the newly instituted ADD and the Federation of Information Technologies, Telecommunications and Offshoring (Fédération des Technologies de l'Information des Télécommunications et de l'Offshoring, APEBI), a private sector-focused organisation that works to promote technological advancement and supports local IT companies' global growth.

PERFORMANCE: The liberalisation of the telecoms industry began in 1998 with the dismantling of the Post and Telecommunications Office and the creation of the national Maroc Telecom, which subsequently underwent privatisation. After three successive share acquisitions in 2001-07, Paris-based Vivendi acquired 53% of Maroc Telecom for a total of Dh45.4bn ($4.7bn) and 0.2% of Vivendi shares. The government then listed 14.5% of shares on both the Paris and Casablanca stock exchanges in 2014.

During the same year, UAE-based telecoms operator Etisalat became the majority shareholder following its acquisition of all of Vivendi's shares for $5.7bn. In 2019 the Moroccan government sold an additional 6% of shares to local institutional actors for Dh125 ($13.02) per share and then listed another 2% of shares on the Casablanca Stock Exchange as a public offering, leaving the government of Morocco with the remaining 22% stake. This change in shareholder structure took place during the same year Maroc Telecom increased its international presence to include 10 African countries, following its acquisition of Tigo Chad from Group Milinet. Maroc Telecom remains the country's largest telecoms provider as of 2019, with 19.3m users.

The second-largest market player is Orange Maroc, with 16.5m users. It was the first private actor to enter the market, in 2000, under the brand name Medi Telecom (MediTel). With ownership initially shared between Altice Portugal (32.18%), Spain's

The ICT sector generates
5-6%
of GDP

The National Telecommunications Regulatory Agency, the subsector watchdog, has been key to liberalising telecoms and enabling technological development in the kingdom.

More than 90% of Moroccans accessing the internet are going online with the use of a smartphone

The World Economic Forum's network readiness index, part of its "Global Internet Technology" report, ranked Morocco 78th out of 139 countries in 2016, up from the 88th spot in 2010.

Telefónica (32.18%), Moroccan investment fund FinanceCom (18.06%), and the state-owned Caisse de Dépôt et de Gestion (CDG) (17.59%), MediTel became fully Moroccan in 2009, with FinanceCom and CDG each controlling half. The French telecoms operator Orange took a 40% stake in the company a year later, paying €640m, followed by a second share acquisition in 2015, making it the majority shareholder with a 49% stake in the company, and leaving FinanceCom and CDG with a 25.5% share, each. In 2019 Orange Morocco accounted for 10% of the group's MENA revenue.

The third-largest operator, Inwi, entered the market in 2009. Royal holding company Société Nationale d'Investissement owns 69%, with the remaining 31% split between Kuwaiti telecoms operator Zain and Al Ajial Investments, also of Kuwait. As of the third quarter of 2019 Inwi counted 11.7m users.

MOBILE: In the first quarter of 2019 the Moroccan mobile market reached 44.73m users, representing a penetration rate of 127%. While more than nine out of 10 subscriptions were pre-paid, post-paid plans saw a 20% year-on-year (y-o-y) increase in the first quarter of 2019, according to the ANRT. Through the same period, Maroc Telecom held 43% of the mobile market, while Orange and Inwi claimed 35% and 22%, respectively. As a comparison, the three operators held 47%, 30% and 23%, respectively, in 2012.

DATA: Despite the apparent market saturation, telecoms operators have been able to increase their revenue through the expansion of consumer data use. In the first quarter of 2019, two out of three Moroccans had access to the internet, representing a y-o-y increase of 9.32% to 23.1m users. This rise is mainly due to an increased use of mobile internet, which represented a staggering 93% of internet connections for the same period. Following the launch of 4G in 2014, LTE is now available in 60% of the country, according to Huawei's 2019 Global Connectivity Index. In the mobile internet segment, Maroc Telecom held half of the market, while Wana Corporate and MediTel claimed just over a quarter and a fifth, respectively, as of 2019. In 2019 Orange Maroc announced a Dh1.2bn per annum plan to upgrade 4G and optical fibre infrastructure. Meanwhile, Maroc Telecom plans to invest Dh10bn in infrastructure in 2019-21, reaching Dh68bn in total investments and Inwi is seeking to develop 5G.

With online content diversifying and prices decreasing, the percentage of Moroccans who own a smartphone rose to 80% in 2019. Three-quarters of internet users are online on a daily basis, with their primarily use being social media. The increase in data consumption has offset the decrease in revenue from voice over internet protocol, with the average revenue per user (ARPU) from data consumption rising from Dh24 ($2.50) per month in the first quarter of 2016 to Dh31 ($3.23) per month three years later, despite a decline in market prices throughout the same period.

HOME INTERNET: These market changes have been supported by infrastructure upgrades and better preparedness among stakeholders to provide new digital services. The World Economic Forum's network readiness index, part of its "Global Internet Technology" report, measures the ability of a country to exploit ICT opportunities and ranked the kingdom 78th out of 139 countries in 2016, up from the 88th in 2010. The ranking underlines the need for Morocco to direct efforts towards the development of more robust infrastructure, the provision of more systemic training and the promotion of digitisation in the private sector. Nevertheless, it also recognises the fruitful efforts made in reducing costs and greater ICT use in the government. The World Economic Forum's report is not the only index where Morocco is looking to improve its standing. Both the public and private sectors recognise the significance that a developed ICT sector has for the economy. "In order to reach its objective of ranking among the top 50 in the World Bank's "Doing Business" report, Morocco must reduce its digital gap through a clear regionalisation plan," Salah Ouardi, the managing director of HP Morocco, told OBG.

In terms of infrastructure, the country's fibre-optic network is largely dominated by Maroc Telecom (25,000 km), followed by Wana Corporation (6000 km) and MediTel (5000 km). The country's 10-year broadband strategy, implemented in 2012, aims to get the entire population connected to the internet by 2022. Part of the plan obliges telecoms operators to use 2% of their revenue to develop the network in commercially non-viable zones. Although 60% of households possess a computer or tablet, there is a significant technological rural-urban divide, with ownership rates at only 36% in rural areas, compared to that of 72% in urban areas.

Fibre-to-the-home connections reached 107,000 in the third quarter of 2019, according to ANRT, a 65% increase from 2018. Market actors recognise

In the first quarter of 2019, two out of every three Moroccans had access to the internet, representing a year-on-year increase of 9.32% to 23.1m users.

the benefit of sharing telecoms infrastructure in the development of high-speed internet across the country. With civil works accounting for 50-70% of deployment expenses, sharing infrastructure would dramatically reduce investments costs for service providers. Law No. 121-12, adopted in February 2019, considers fibre internet to be a universal service and reiterates an earlier obligation for operators to publish a technical offer for infrastructure sharing. The new law also allows operators to install fibre networks in public spaces, and requires all new buildings to be connected to the high-speed network.

To this end, Orange adopted a plan in 2019 to connect 1m households to the network over a period of four years. It also signed an agreement with the Office of Vocational Training and Work Promotion (Office de la Formation Professionnelle et de la Promotion du Travail, OFPPT) in April 2019 to develop curriculum for jobs training programmes on fibre network instillation and maintenance.

As of January 2020 about 180,000 households could access the programme. There is strong agreement in the private sector on the importance of creating a skilled workforce in tandem with adopting new technologies. “As Morocco continues its digital transformation, what remains the most important resource is grey matter,” Mountasser Fassi Fihri, the CEO of Involys, a Moroccan software solutions provider, told OBG. “The country needs to invest significantly in human resources in order to remain competitive.” Indeed, increased investment is needed throughout the sector, not just in infrastructure and training alone. Plans for 5G are currently under way, and more focus will need to be placed on security moving forward. “With the arrival of 5G, cyberthreats are likely to increase in Morocco,” Driss Benomar, the CEO of Alomra Group, a Casablanca-based security solutions firm, told OBG. “Further infrastructure investment will be needed to protect the local environment.”

ADD: Under the auspices of the Ministry of National Education, Vocational Training, Higher Education and Scientific Research (Ministère de l’Education Nationale, de la Formation Professionnelle, de l’Enseignement Supérieur et de la Recherche Scientifique, MENFPESRS), the ADD was created by decree in December 2017 and became fully operational following the appointment of its CEO, Mohammed Drissi Melyani, in February 2019. The agency’s task is to enhance the country’s innovation ecosystem through increased digitalisation in the public and private sectors, training public defenders to use digital solutions, developing and proposing legislation, and managing the overall evolution of the sector.

In its first operational year, the agency created the online platform startuphub.ma as part of its mission to boost access to digital tools and help start-ups scale up. The platform aims to facilitate

With civil works accounting for 50-70% of deployment expenses, sharing infrastructure would dramatically reduce investments costs for service providers.

500
new e-commerce outlets started operating in 2019

access to financial services and ease dealings with the government by digitising the way young businesses can be categorised as a “young innovative start-up”, a classification which provides access to credit cards with an annual cap of Dh500,000 ($52,000) to be used for online purchases of foreign technology services. By the end of the first half of 2020 the agency plans to have established a digital lab for public administrations that will allow for the easier development and testing of new digital solutions, and will also provide training curricula and programmes to improve human resources.

The government’s efforts to embrace and facilitate digitalisation are already paying dividends, as seen by the kingdom’s rise to 53rd out of 190 countries in the World Bank’s “Doing Business 2020” report, up seven places from 2019. The increase is mostly attributed to wider adoption of digital solutions in the country’s public sector. The report, however, underlines the need for greater education and training in order for the country to reach the full potential of the new technology in place. In nine years Morocco saw a remarkable 101-place increase in the paying taxes indicator, following the digitisation of revenue collection and alignment of local tax rates to international standards.

E-GOV: Pioneering the use of ICT in daily operations, the government has been ramping up efforts to implement digital solutions. By 2020 over 80% of operations at the Ministry of Interior and all PortNet services were digitised, with nearly all Morocco’s port operations for international trade being electronic since 2019. “While developing and installing digital solutions is an important first step, we need to put more emphasis on upskilling the human capital that will deliver these services, and better educate the population for maximum effectiveness,” Mohamed Nebri, the chief of strategy and communications at ADD, told OBG. The country’s judicial system also saw improvements in the “Doing Business” report, implementing new legislation and procedures promoting transparency.

The ADD is similarly working to improve the interoperability of platforms across government organisations, which will enhance cooperation between institutions. The agency proposed legislation in 2019 that would unify digital administration among different public sector institutions, aiming to more efficiently deliver government services to the end user.

E-COMMERCE & ONLINE PAYMENTS: Online merchants, too, are benefitting from recent developments in ICT. Active e-commerce outlets numbered around 1000 in 2019, according to the Monetic Interbank Centre (Centre Monétique Interbancaire, CMI), including 500 that started operations in 2019 alone. While online shopping is slowly gaining popularity in the kingdom, the sector needs to overcome cultural challenges for more sustained growth, as

Moroccans predominantly prefer cash; some 90% of online purchases were paid with cash on arrival in 2019. An expansion of electronic payments would surely boost economic activity, and to this end ANRT, in partnership with Bank Al Maghrib, the country's central bank, issued 11 electronic payment licences to financial institutions in November 2018.

The adoption of mobile wallets has also yet to gain momentum. According to the central bank, only about 360,000 e-wallets have been created since their legalisation in 2015. While this may fall short of the private sector's expectations, some 1.5bn transactions from over 6m users are expected by 2024. Delays in greater adoption of mobile payments have been attributed to a lack of interoperability among operators and mismatched value proposals to unbanked populations, notably merchants who consider mobile payments a traceability tool rather than a beneficial financial product. Inwi is the first telecoms operator in the kingdom to invest in the segment, launching Inwi Money in the second half of 2019. During its first quarter Inwi Money registered Dh7m ($730,000) in transactions from over 140,000 clients. It also inked a deal with Marjane, the kingdom's largest retail store network, to offer a mobile money payment option in all Marjane's locations starting in January 2020. Nevertheless, in 2018, 14.2% of Moroccans made at least one purchase online – equal to more than one in five internet users. This represented a 6.2% increase since 2015. E-commerce experienced sustained growth in 2019, with a 13% full-year increase in volume, and seeing a 42.8% increase in value, for a total of Dh2.3bn ($240m), during the first half of the year, according to the CMI. However, the 2019 UN B2C E-Commerce Development index ranks Morocco 95th out of 152 countries as the share of the financially included population remains low, at 29%, below the world average (40%) and the continent average (60%).

ARTIFICIAL INTELLIGENCE: With disruptive technologies becoming a cornerstone to economic development and business efficiency, the kingdom is ramping up efforts to change the mindset of local actors on artificial intelligence (AI). A recent study conducted by Microsoft and EY on the perspectives for AI development in the Middle East and Africa shows the kingdom made seven AI-related investments totalling about $7m in 2008-18.

By way of comparison, the leading AI countries in the region, Turkey and the UAE, made $3.46bn and $2.15bn in investments through 252 and 160 transactions, respectively. To increase kingdom-wide AI investment and projects, MENFPESRS, in partnership with the ADD, launched a programme called AI Kharizmi, the Arabic root for algorithm. The Dh50m ($5.2m) project aims to source and develop AI-based solutions for 11 specific sectors of the economy, including agriculture, tourism and health.

EDUCATION & TRAINING: While effort has been directed at upskilling the workforce and better educating and preparing young people for the evolving

Private sector providers recognise the benefits of shared infrastructure

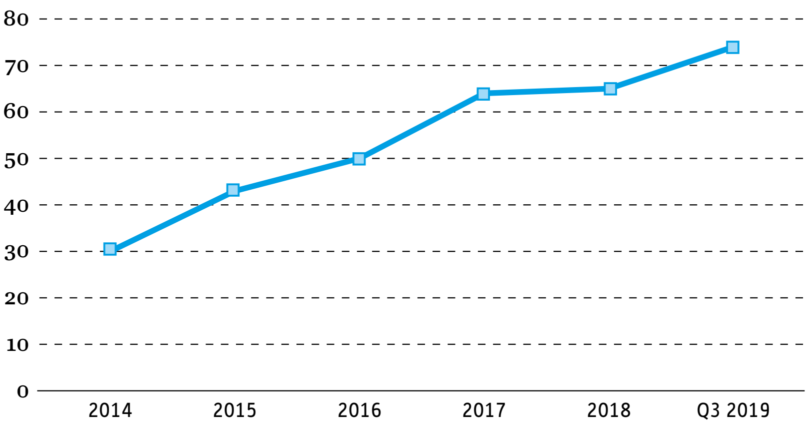
labour market, a more proactive stance from the government, in partnership with the private sector, is needed to supply the job market with a relevantly skilled workforce, notably in terms of coding and soft management skills. "Before thinking about future trends like smart cities and AI, it is paramount that we fill the country's skilled workforce gap," Abdellah Idrissi, CEO of Sicotel, a telecoms engineering company, told OBG.

Following the king's throne speech in August 2018, the private sector has been eagerly waiting to see the results of the OFPPT's nationwide training schemes. The organisation is currently working to implement its Cities of Professions and Skills programme (Cités des Métiers et des Compétences), which will see education centres devoted to a range of relevant subjects opened throughout the country.

TECHNOPARKS: Within the sector, growth at the entrepreneurial level has been largely supported by the MITC. "Technoparks can be considered a kind

With disruptive technologies becoming a cornerstone to economic development and efficiency, the kingdom is ramping up efforts to change the mindset of local actors on artificial intelligence.

Internet penetration rate, 2014-19 (%)



Source: ANRT

Authorities aim to connect the whole kingdom to the internet by 2022

In 2019 the government launched 212 Founders, an ICT-focused development fund, with $72.9m in capital covering seed investments of up to $104,000 and growth investments of up to $312,000.

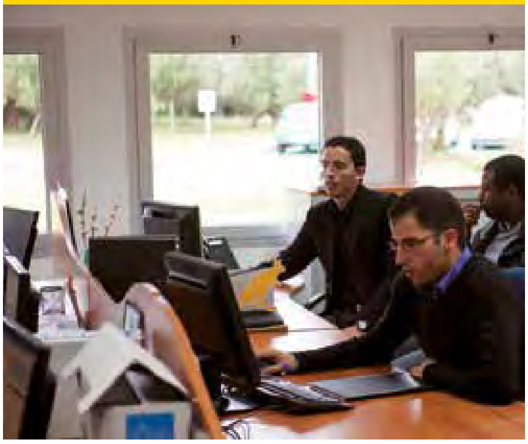
of ecosystem, working to bridge the gap between innovative Moroccan tech start-ups and the business community at large," Benmakhlouf told OBG. As of January 2020 the MITC has hosted about 1200 start-ups, with 300 working from one of its three facilities in Casablanca, Rabat and Tangier. A fourth facility is expected to open in Agadir in June 2020.

In addition to standard incubation services, the MITC aims to foster open innovation and create a suitable start-up environment. The MITC recently partnered with IBM and Happy Ventures, the latter of which specialises in consulting and strategy, to create Tech-Innov, a platform that enables public-private partnerships on an open-source model to help innovative start-ups tackle public challenges. Furthermore, in early 2020 Tech-Innov partnered with eco-city Zenata on a programme called Smart Z to help local start-ups develop and implement tech-enabled, eco-responsible projects in the city.

Other examples of MITC collaboration include a three-year partnership with Réseau Entreprendre Maroc, which financed development programmes for start-ups, and a partnership with Microsoft, related to virtual reality, the internet of things and AI, which concluded in 2018.

DEVELOPMENT FINANCING: A major hurdle for tech start-ups is financing. "Traditional banks do not want to engage in seed investing, as the risks are perceived as too high. We need to create alternative solutions for our innovative start-ups to thrive," Benmakhlouf said. To this end, the MITC, through its subsidiary MITC Capital, established the Morocco Numeric Fund in 2010, a Dh100m ($10.4m) seed investment fund. The fund – co-owned by the Moroccan state and private actors including BMCE Bank, CDG, Attijariwafa Bank and Banque Populaire du Maroc – entered its second phase in 2018 with an additional Dh200m ($20.8m). In early 2019 CDG launched 212 Founders, another development fund, with Dh700m ($72.9m) in capital covering seed investments up to Dh1m ($104,000) and growth investments up to Dh3m ($312,000).

OUTLOOK: Greater promotion and adoption of digital solutions has the potential to shift the backbone of the kingdom's ICT sector beyond just telecommunications. While international rankings place the kingdom among some of the best performing countries in both the North African region and the continent of Africa in ICT-related indices, infrastructure development and upgrades must be strengthened in order to create more inclusive and productive development. Enhanced and updated training programmes will be crucial to changing mindsets on the benefits of technology, as well as preparing the current and future workforce to overcome modern challenges. With the kingdom's regulatory framework moving in the right direction, ICT developments will continue to bridge national divides and cement Morocco's position as one of the most important players on the African continent.



The 2020 budget maintained tax exemptions for offshoring companies

Here to help

The government is working with the private sector to make the country an ideal offshoring destination

As one of the main pillars of Morocco's National Pact for Industrial Emergence, the country's offshoring sector has undergone a transformation thanks to infrastructure development and policies aimed at making the kingdom the preferred offshore destination in French-speaking Africa and beyond.

NEW OPPORTUNITIES: With global companies moving towards a more Anglo-Saxon organisation style, increasingly outsourcing their operations, Morocco is seeing new opportunities and two specific challenges: the readiness of its market, and competition from sub-Saharan countries. As Morocco continues to develop and its living standards rise, European companies mindful of labour costs are looking south for their low-skilled, labour-intensive activities. "Morocco offers a relatively better environment for outsourcing. Reliable technical infrastructure, a favourable geographic position, cultural proximity, political stability and a skilled labour force make the country an appealing destination," Nadia Ben Bahtane, group marketing and communications director at Moroccan offshoring company Intelcia, told OBG.

NOTABLE PROGRESS: While the 2020 goals of 100,000 jobs and Dh16bn ($1.6bn) in revenue outlined in the Industrial Acceleration Plan (Plan d'Accélération Industrielle) 2014-20 may seem optimistic, considerable progress has been made; at the end of 2018 the sector employed nearly 80,000 and its revenue exceeded Dh10.5bn ($1.1bn), making it one of the top-five foreign exchange generators.

COMPARATIVE ADVANTAGE: Morocco's competitive advantages are threefold: geographic proximity to buyers' markets, making it a so-called near-shore zone as opposed to a sub-Saharan offshore zone; relatively developed transportation, education and technology infrastructure; and a population skilled in Arabic, French, English and Spanish.

"Investors, especially those interested in West Africa, are increasingly using Morocco as a launching pad for their West or Pan-African expansion plans," Zouheir Lakhdissi, CEO of Dial Technologies, a digital transformation solutions provider, told OBG.

TRAINING: Yet, any further advancements in the business process outsourcing or information technology outsourcing subsectors confront the major structural challenge of a skilled workforce."Morocco needs to adapt its IT skills training to meet the needs of the market in order to ensure a successful digital transition," Amine Kandil, the CEO of N+ONE, a local cloud solutions provider, told OBG. While major companies such as Intelcia run their own training centres and international actors like Renault and Swissport enter the market with well-defined needs and training processes, state training programmes are necessary for sector-wide development.

"High turnover rates are inherent to our sector. Training can be long and costly, and retention is not guaranteed in such a competitive environment," Ben Bahtane said. To help curb the extra costs incurred, the government has created financial incentives to support rural youth employment, including implementation and training subsidies for certain rural areas. The Office of Vocational Training and Work Promotion is partnering with private companies to develop and implement tailormade curricula.

ECOSYSTEM: While the 2020 budget law ended five-year tax exemptions for newly established export companies in accelerated industrial zones, it maintained corporate tax exemptions for offshoring companies. The government is supporting employment in the sector with subsidies ranging from Dh15,500($1615) to Dh33,000($3438) per employee.

"It is key for Morocco to develop the proper ecosystem for micro-, small and medium-enterprises, particularly in emerging sectors," Omar Chekrouni, the managing director of Arkeos, told OBG. "In addition to financing, it is important to guide start-ups in developing and executing their business plans."

Morocco's competitive advantages are three-fold: geographic proximity to buyers' markets; relatively developed transportation, education and technology infrastructure; and a population skilled in Arabic, French, English and Spanish.

Greater development of the ICT sector will require a more systemic approach to skills development in order to integrate market needs in terms of language requirements and both soft and technical skills.

Mohammed Drissi Melyani, CEO, Digital Development Agency

Connectivity boost

Mohammed Drissi Melyani, CEO, Digital Development Agency, on strategies to strengthen digital infrastructure

What steps are being taken to accelerate digital transformation in Morocco?

DRISSI MELYANI: Morocco's digital transformation is a major initiative, and the government is working to create a suitable environment for its implementation. The goal is to work alongside both the public and private sector to digitalise the national ecosystem, with a focus on administration, business and society.

In terms of administration, the government has introduced a series of measures to help achieve its objectives, developing a strong digital culture, encouraging public institutions to utilise digital technology, and promoting of e-governance policies to improve the transparency, openness and integration of processes. The government is also supporting the growth of digital infrastructure such as cloud services and cybersecurity, adapting digital regulations, and creating a coherent and proactive strategy for legal monitoring of new technologies. The country's digital transformation is also combined with a roadmap for the development of human capital at a national level, to support the development of new technologies.

How can technology strengthen the competitiveness of the economy?

DRISSI MELYANI: Two main factors contribute to Morocco's competitiveness: internal factors relating to the structure of the economy, which is largely made up of micro-, small and medium-sized enterprises (MSMEs); and external factors that attract investors to its ecosystem, such as infrastructure, human capital, training and innovation, access to finance, taxation and business climate.

Faced with the challenges of economic openness and globalisation, Morocco is looking to increase the productivity of its MSMEs, improving competitiveness on an international scale and aligning itself with international standards. This can be achieved by integrating new technologies across all sectors and initiating innovative projects to add value to the digital chain. It is from this perspective that Morocco has launched a series of major projects to develop an ICT-oriented industry, including the creation of a network of offshore multinational IT firms and the establishment of technology parks for incubating start-ups. These policies also aim to improve the competitiveness of MSMEs by modernising information systems, training managers on new technologies and offering financial support for IT projects.

In order to better implement technology, it is first necessary to identify the main obstacles encountered by each sector. These challenges fall into several categories, including finance, administration, culture and security. There is still a lack of knowledge of the technologies on the market, a shortage of local technical expertise, concerns about the safety and confidentiality of digital services, and a resistance to change. Also, new technologies are expensive in terms of implementation, which is an additional deterrent.

In what ways can international companies participate in Morocco's digital transformation?

DRISSI MELYANI: Morocco benefits from several factors that make it an ideal location for foreign investors, with a broad range of investment areas, a qualified workforce and a government strategy to promote openness to the global economy. Big data and data analysis have already improved business performance and increased profitability in a range of sectors, including industry, health, security and smart cities. When it comes to the development of digital infrastructure, the use of public-private partnerships can be effective, particularly in terms of meeting financing needs. This model makes it possible to benefit from the private sector's expertise, and ensures an optimised sharing of risk. This participatory approach also helps to facilitate the country's digital transformation and improve social inclusion.

Global Perspective

Bridging the divide

The ever-expanding digital economy is creating widespread opportunities in the developing world

More and more commercial transactions are moving online and the so-called digital economy continues to expand its reach into every facet of the traditional analogue economy. For businesses this means they have access to new channels to reach existing clients as well as new opportunities to expand market share with a competitive digital offering. For consumers the ever-expanding digital economy promises greater access to products and services at their fingertips, as well as increased ease in accessing and comparing information about them. This also tends to encourage more competitive pricing among providers. In emerging economies the development of digital channels has, in some cases, allowed sectors to essentially skip stages of development seen in other countries, moving directly to digital solutions rather than having to invest in vast networks of hard infrastructure.

DIGITAL DIVIDE: While it is clear that the digital economy has opened up many potential growth opportunities, one of the most important barriers is the so-called digital divide. The quantity and quality of mobile phone network coverage in some emerging and developing economies still lags behind that of more advanced economies. That said, there is no country of any income level in which access to mobile phones and the networks that support their use is universal, although this digital divide is obviously far more acute in lower- and middle-income economies. It can be a particular challenge in countries marked by relatively lower rates of urbanisation or tough terrain, which complicates the extension of physical networks.

However, the example of the success of M-Pesa in extending financial services to rural areas of Kenya, to the great benefit of farmers in particular, show that these challenges are far from insurmountable. What is key moving forward is to recognise that alongside the requisite hard infrastructure investment, there is also a need for policymakers to put in place soft infrastructure: the legislative and institutional frameworks necessary to sustain growth in the digital economy. Countries in the Gulf have been among the most forward-looking in this regard. While the digitalisation of public services in countries like the UAE is driving the transition towards digital, the favourable regulatory environments in place are helping to foster and support digital innovation in many economic areas.

MOBILE BANKING: One example brings home the manifold opportunities that digital can present. Building on the early success of pilot projects in Africa and elsewhere, Kenyan mobile network operator Safaricom brought M-Pesa to market in 2007, in partnership with Vodafone. This revolutionary service allows anyone in Kenya with a mobile phone to use it as an electronic wallet, letting users borrow small amounts, transfer money to others, pay utilities, and deposit and withdraw funds via agents, thereby bringing such services to large swathes of the population not served by the conventional banking system.

This coincided with a surge in cellular subscriptions in the country. Having already risen from fewer than five subscriptions per 100 people in 2003 to 30 by 2007, the total increased three-fold over the following decade, reaching 86 by 2017. By early 2019 the service had garnered over 21m users in Kenya alone and was processing 1.7bn transactions per year in the country. In 2019 M-Pesa was preparing to enter Ethiopia, a country twice the size of Kenya and one of the fastest-growing economies of the past decade. This follows its earlier success in neighbouring Tanzania, as well as further afield in countries like Egypt, Afghanistan and India, as well as in Eastern Europe.

The M-Pesa model has spread to other countries and given rise to copycat services from traditional banks and mobile network operators worldwide. In developing economies with relatively poor fixed telephony infrastructure and a sparse network of bank branches, the rapid improvement in mobile network coverage and the increasing ubiquity of mobile smartphones is allowing

In emerging economies the development of digital channels has, in some cases, allowed sectors to move directly to digital solutions rather than having to invest in vast networks of hard infrastructure.

Alongside requisite hard infrastructure investment, there is a need for policymakers to create the necessary legislative and institutional frameworks to sustain growth in the digital economy.

Building on the success of mobile money, a wider range of more sophisticated financial services are being made available to emerging market consumers.

financial service providers to reach more new clients than ever. Futhermore, once the initial investment is made in establishing a digital platform, the cost of each new client is minimal compared to the marginal cost of attracting those same clients via the rollout of physical infrastructure. Indeed, in Kenya the number of ATMs in operation has dropped by about a third, as more of the population has switched to using mobile money.

EMERGING OPPORTUNITIES: Building on the runaway success of mobile money systems, a wider range of more sophisticated financial services is being made available to emerging market consumers. Insurance technology (insurtech), for example, is becoming an increasingly important force in the insurance sector globally. Tellingly, its emerging market share has been rising steadily in recent years. In the second quarter of 2018 China, India, Israel and South Africa together accounted for a third of all insurtech deals globally, and the highest projected growth rates over the coming decades are in large emerging markets.

Digital trends from advanced economies are lagging in many emerging and developing markets. However, the generally higher economic and population growth in the latter ensure they are likely to remain among the most important growth drivers for years to come. Retail and transport are cases in point. Uber, for example, is beginning to tailor its app to lower-income markets, developing Uber Lite in India so that riders can get the same service with lower data intensity. This is important in markets where network infrastructure has not yet reached the most advanced levels, but which are now nonetheless among the firm's most important revenue drivers. In some cases, ride-hailing apps such as Uber are filling a gap in the market which stems from the fact that some countries' public transport system is poorly developed and inefficient. In late 2018, for example, Uber executives hailed Argentina as the company's fastest-growing market despite the fact that it is only operating in the capital, Buenos Aires, and notwithstanding the economic challenges currently facing the country. Uber executive Andrew Macdonald cited the city's lack of public transport options as the main driver of demand. This is likely to represent a growth opportunity in many other emerging and developing markets where public transport is underdeveloped.

Meanwhile, India has become the fastest-growing geographic market for Amazon, as well as the fastest-growing subscriber base of any country for its Prime service. Although the biggest names in the global tech industry are profiting from surging growth in emerging markets, they are by no means alone in looking to capitalise, with these markets also seeing the birth of behemoth competitor firms. Alibaba, for example, is the dominant player in China's online retail space, and it is rapidly expanding its footprint throughout emerging Asia and beyond, including in India, where it is competing directly with Amazon. In fact, since 2015 Alibaba's online sales have surpassed those of Amazon, eBay and Walmart combined. While the population density in Alibaba's natural target markets clearly puts it at an advantage in this regard, digital firms from the region are by no means relying solely on regional demographics to fuel expansion. Didi Chuxing, China's answer to Uber, began aggressively expanding its global footprint in 2018, entering Brazil, Mexico, Taiwan, Japan and Australia, where it is taking on Uber head-to-head.

SUB-SAHARAN AFRICA: Sub-Saharan Africa saw a surge to 75 mobile cellular subscriptions per 100 people in 2017. At just under 70 cellular subscriptions per 100 people, Tanzania lagged slightly behind the regional average, while Nigeria tied the average of 75. Other countries in the region in which OBG operates fared even better: Kenya (86), Ghana (127), Côte d'Ivoire (131), Gabon (132) and South Africa (162), compared to the global average of 104.

Even those countries whose ICT infrastructure compares favourably with the regional average are not resting on their laurels, however. In this regard Côte d'Ivoire is a case in point; its National Agency for the Universal Service of Telecommunications is in the process of deploying a 7000-km fibre-optic network to rural areas. Speaking to OBG, Serge Kouakou, general manager of Orange Business Côte d'Ivoire, noted that "on multiple levels the government-led fibre-optic national infrastructure project is a tremendous opportunity for Côte d'Ivoire's digital transformation. Fibre optics allows more bandwidth than copper infrastructure, and it is a more stable technology to use than copper, considering Côte d'Ivoire's climate. The service's reliability should increase and rural populations can gradually gain access to better internet and telecommunication services."

ASIA: In terms of mobile cellular subscriptions per 100 people, Thailand and Indonesia are the standout performers in the Asia-Pacific region, with 176 and 174 respectively, well ahead of the regional average of 119. Myanmar, at 90 subscriptions per 100 people, is on a similar level to India (87). At 105, China is around the global average and not far behind the Philippines (110). All of the other countries in the region in which OBG operates rank above the regional average, as follows: Mongolia (126), Vietnam (126), Brunei Darussalam (127), Malaysia (134) and Sri Lanka (135).

Having only opened its mobile telephony segment to foreign investment in 2013, Myanmar is currently catching up in terms of developing its infrastructure, making great strides in recent years. "Telecommunications is a textbook example of great development in Myanmar, where companies can receive their licence, connect to the network and start operations within a year. It has become a little more challenging recently, however, since the permit system for extending the fibre-optic network has been decentralised to regional governments, which do not always fully understand its importance," Lin Roye, deputy managing director at Myanmar Fibre Optic Communication Network, told OBG. In a similar vein, U Myo Ohn, CEO of Campana Group, underlined the continued importance of mobile connectivity, even as the fibre-optic network expands, noting that "mobile internet is cheaper and more widely available because more telecom towers are being installed, resulting in better connectivity. Mobile reaches users faster, but only when fibre optics arrives do you truly have broadband." As such, Myanmar demonstrates very clearly the broader difficulty of extending fixed-line infrastructure to remote areas in challenging terrain, underlining the continued importance of mobile internet connectivity.

MIDDLE EAST & NORTH AFRICA: At 112, the average number of mobile cellular subscriptions per 100 people in the MENA region is slightly above that of the global average. There is significant divergence across the region, however, with Turkey lagging at 96 and the UAE far ahead at 211. The North African countries, for their part, are somewhat above the global average, with Egypt at 106 and the Maghreb countries clustered in the low 120s. Saudi Arabia (122) and Kuwait (124) are at similar levels, while others in the Gulf have made more progress, notably Qatar (148), Oman (150) and Bahrain (158). Countries in the Gulf Cooperation Council (GCC) were among the earliest to recognise the potential of increased digitalisation across all economic areas, as well as the importance of implementing the necessary legislation. For example, in 2018 Bahrain introduced a nationwide Law on the Protection of Personal Data. In fact, the island nation has long been a digital pioneer, introducing the region's first 4G-LTE network in 2013.

In another important initiative, in September 2018 Abu Dhabi Global Market – the emirate's international financial centre – announced the creation of a "digital sandbox" to accelerate financial services innovation, and boost financial inclusion in the UAE and across the region. This will provide a regulatory environment for financial institutions and financial technology (fintech) players to experiment on new products and services through digital platforms. A number of GCC countries have also been at the forefront in trying to bring the digital economy within the tax net. As part of a drive to develop their digital economies and close the gap with their peers in the Gulf, the Maghreb countries have introduced important institutional initiatives in recent years. Building on its significant investments in ICT infrastructure, Algeria has been trying to foster ICT start-up clusters and, through the Algiers Smart City initiative, improve urban living standards in its capital using digital solutions. Speaking to OBG, Cameron MacLeod, founder of the Global Civic Innovation Centre, explained that "just as large portions of the developing world used mobile phones to leapfrog landline technology, artificial intelligence, drones, 3D printing, biotech and other exponential technologies are set to provide the world's least-developed regions with the opportunity to apply these innovations at a faster and more scaleable rate than in the developed world with its entrenched legacy infrastructure." This is the logic underpinning the Algiers Smart City. "The project has been developed as an answer to three fundamental challenges: a fairly isolated technology ecosystem, limited technology transfer and low confidence in growing tech giants," Riad Hartani, strategic technology adviser to the Algiers Smart City project, told OBG.

LATIN AMERICA & CARIBBEAN: Some countries in this region have mobile cellular subscriptions per 100 people on a par with advanced economies, with Argentina, Panama and Trinidad and Tobago all above 140 in 2017. Colombia was not far behind at 127, with Peru at 121. At 113, Brazil was just ahead of the regional average of 107, while Mexico stood at 89. Even though some countries in the region may have lagged behind in terms of mobile phone penetration rates, several have been leading the charge in soft infrastructure: policy experimentation to foster, regulate and tax the digital economy. In 2018, for example, Mexico became one of the few countries in the world to have promulgated a dedicated fintech law. The new legislation governs firms operating in the crowdfunding, online payments and cryptocurrency segments, and includes measures to guard against money laundering. Among other elements, the law introduced an accelerated process for the registration and approval of fintech firms, which is expected to allow them to operate in Mexico within six to 12 months of beginning the process. The legal framework also includes a regulatory sandbox, which allows fintech firms to operate on the basis of a temporary authorisation so that they can test their product.

Countries in the Gulf Cooperation Council were among the earliest to recognise the potential of digitalisation for all areas of the economy, while also pioneering the implementation of legislation to support the digital economy.

Agriculture & Fisheries

National sector policy delivers improved output results

Clusters and cooperatives help smaller-scale farming

Government continues to invest in water management

Aquaculture activities set to take off under new plans

The agriculture sector accounts for nearly 74% of jobs in rural areas

Bearing fruit

The sector development plan makes concrete gains, but challenges to reaching full potential persist

Agriculture remains a critical sector for the Moroccan economy. Given its major role in providing employment and disposable income, agriculture can impact the country's annual GDP growth rates in a way that few other sectors can. The past decade has seen the implementation of the Green Morocco Plan (Plan Maroc Vert, PMV), which was launched in 2008 to increase agricultural output, make the sector more competitive and increase its resilience to the threats posed by climate change.

The PMV, along with an improvement of Morocco's overall trade performance, has helped the sector progress with higher volumes of output and exports. However, water scarcity and desertification have become challenges to agricultural activity in many regions of the country. In addition, the prevalence of small-scale farming operations has made it difficult for certain segments of the farming population to modernise agricultural practices and expand.

Other aspects of the sector have seen palpable improvement. Irrigated land has increased significantly since the launch of the PMV. The sector has continued to attract foreign and domestic investment, and increase the amount of value added for the processing of agricultural goods. Cooperatives have made a deep impact on value chains and employment, and emerging product segments based on the country's competitive advantages are showing potential to become valuable avenues for growth. More broadly, the development of the sector remains linked with overarching government goals of reducing rural migration into the kingdom's cities through the improvement of socio-economic conditions across various agricultural regions.

SECTOR HIGHLIGHTS: Agriculture accounts for 13% of total GDP, according to mid-2019 government figures. Its socio-economic impact, however, is much larger, as it provides about 38% of national employment and nearly 74% of jobs in rural areas.

"Despite the PMV, which set out to reduce the volatility of agricultural activity, variations in our yearly economic growth rates showcase that Morocco is still very dependent on the sector," Souhail Chalabi, deputy director-general at BMCE Capital, told OBG. "We have still not been able to make the agricultural sector less dependent on the weather."

This vulnerability is largely based on the country's significant production of cereals, which occupied 59% of Morocco's agricultural land as of mid-2019. Since most cereal production areas depend on rainfall, annual GDP growth rates vary significantly. A 2019 study from the Ministry of Economy and Finance showed that between 2008 and 2018, Morocco's annual cereal production could either push annual GDP growth up by 1.7% or reduce it by 1.6%.

PMV: In 2008 the Ministry of Agriculture, Maritime Fishing, Rural Development, Water and Forests (Ministère de l'Agriculture, de la Pêche Maritime, du Développement Rural et des Eaux et Forêts, MAPMDREF) launched the PMV. The plan deployed substantial public resources and mobilised private investment to make the agricultural sector more competitive, as well as increase its value-added through agro-industrial activities. It also aimed to support agricultural incomes and enhance the productivity of smaller-scale farmers.

The plan achieved most of its stated goals and increased the overall value of the agricultural sector. It did this largely through the development of several traditional Moroccan crops and regional products, better promotion and marketing, and the improvement of integrated supply chains that rely on aggregation and industrial processing. Furthermore, the strategy introduced a number of better management practices for water resources by subsidising the expansion of drip-irrigation infrastructure.

ENHANCED OUTPUT: The improvement of production and export values was notable over the

Agriculture represents

13%

of GDP

GDP growth is strongly dependent on local agriculture. The sector is heavily reliant on the production of cereals, which occupy around 59% of agricultural land.

Because of their importance to domestic and foreign markets, citrus producers benefit from large subsidies

The EU is an essential partner for Morocco, purchasing

60%

of the kingdom's agricultural exports as of October 2019

implementation period of the PMV, especially for certain high-value segments of agricultural output. Olive production, for instance, expanded by an annual average of 7.4% during the 2008-18 period, while citrus production and red meat production rose by 6.3% and 4.8% on average, respectively.

Higher production volumes drove exports up from Dh39bn ($4.1bn) in 2014 to Dh54.9bn ($5.7bn) over the first 11 months of 2018, according to the Office des Changes, which oversees the country's foreign exchanges. Exports of fresh, dried and frozen fruits increased by a yearly average of 13.5% over the 2008-18 period. Frozen and fresh vegetable exports expanded by 8.5% yearly over the same period, and fresh tomato exports rose by approximately 5.6%. The plan helped to increase the role of high-value export-oriented crops, such citrus and other tree crops, as well as horticulture, mostly by expanding cultivated areas. Under the PMV, an additional 400,000 ha of fruit and olive trees were planted, according to figures from the World Bank.

As in a number of other sectors, the EU remains a key partner, purchasing roughly 60% of Morocco's agricultural exports as of October 2019. For example, France and Spain alone bought over 73% of Morocco's fresh tomato exports in 2018. The same year, Spain, Italy and Portugal accounted for around 86% of the kingdom's shellfish exports.

These developments helped enlarge the sector's overall value. Before the start of the PMV, the annual growth of the agricultural sector's value added averaged 2.2% during the eight years between 1999 and 2007. At the same time, non-agricultural value added and GDP growth rates stood at 4.7% and 4.2%, respectively, according to figures from the Ministry of Economy and Finance. This tendency reversed following the implementation of the PMV, which boosted annual growth rates for agricultural value added to an average of 6.9% over the 2008-18 period, compared to an average 3.8% rate for annual GDP growth and 3.2% for non-agricultural value-added growth during the same time.

The dependence of the sector's value added on weather patterns has started to be somewhat mitigated, due to the reduction of the relative weight of cereal production in the overall structure of the sector. In a mid-2019 report, the Ministry of Economy and Finance estimated that while an 81% decrease in cereal production caused by drought lowered the sector's value added by 41% in 1995, a similar drought-driven decrease of 71% in 2016 only shrank agricultural value added by 13.7%.

INVESTMENT: A key goal of the PMV was to boost private and public investment volumes. To do this, the authorities introduced new support measures, such as backing agricultural goods to facilitate higher productivity and added value in order to capture export markets. The government provided a greater focus on large-scale agriculture infrastructure development, while also encouraging private investment through subsidies allocated by the country's Agricultural Development Fund.

From 2008 to 2017, the state's overall investment in the sector expanded from Dh3.5bn ($364.6m) to Dh9.5bn ($989.7m) annually. Of this, annual state support to encourage private investment rose from Dh1bn ($104.2m) to Dh3.2bn ($333.4m) over the same period. By 2017 the percentage of government expenditure allocated to the encouragement of private investment in the sector had reached 34% of annual government spending on agriculture, up from 29% at the start of the programme.

By increasing the amount of financing going towards the support of private investment, the authorities were able to trigger Dh56bn ($5.8bn) of private investment into the sector for the 2008-17 period, at an annual average of Dh6bn ($625.1m). Support for private investment had key long-term benefits for the sector. As much as 47% of investment support financed by the Agricultural Development Fund went to establishing irrigation systems and land structuring, while 21% was allocated to helping producers increase mechanisation.

IMPLEMENTATION SUPPORT: The plan's execution also benefitted from international support. The World Bank provided several financing initiatives, including $400m in loans during the 2011-14 period to improve wholesale markets and slaughterhouses, and set up food safety management mechanisms, and $220m in investment operations for irrigation projects. The World Bank's Global Environment Facility provided $10m in grants to support climate change adaptability and land conservation efforts. Further multilateral support was secured in 2015 with the provision of $132m in financing from the African Development Bank to help fund the PMV, following an initial €105m from the institution.

In 2014 the authorities performed a review of the PMV's implementation up to that point. The report yielded several recommendations for the rest of

The Green Morocco Plan has seen the volume of private and public investment increase across the sector, with an annual average of $625.1m in new private investment over the 2008-18 period.

the plan's execution, including a stronger emphasis on the backing of investment in food-processing activities and market diversification, speedy implementation of reforms regarding the domestic market and improved food safety regulations.

MAIN CROPS: Cereal production remains a key segment of the country's agriculture sector, with wheat and barley as the main crops. Although the area allocated to cereal production has been reduced over the years, cereal output is still an essential measure of the sector's performance. The 2019 cereal crop harvest results amounted to 2.7m tonnes of common wheat, 1.3m tonnes of durum wheat and 1.2m tonnes of barley. This represented a decrease of 49% compared to cereal output during the previous harvest, leading the authorities to issue tenders to US and EU suppliers to import roughly 3.7m tonnes of cereals before the end of 2019.

The annual production of citrus fruits such as tangerines, oranges, lemons and limes is also an important asset for the sector. The majority of the country's citrus output is consumed locally. Out of a total production of 2.6m tonnes in the 2018/19 season, only 792,000 tonnes were exported, according to figures by the US Department of Agriculture (USDA). However, irregular weather patterns in 2019, which brought hotter than expected conditions in some citrus-producing areas in the south of the kingdom, were forecast to cause citrus production to fall by 32% in the 2019/20 season, to around 1.7m tonnes. Heat stress affected various citrus crops at blossoming times throughout the season. Lemon and lime production was expected to decline by 11% to 40,000 tonnes. Mandarin and tangerine output was expected to settle at 910,000 tonnes for the 2019/20 season, a 34% decline relative to the 2018/19 season.

Citrus remains a major export segment. Besides the key markets of the EU, a handful of other countries are becoming increasingly important export markets. For instance, mandarin and tangerine exports to Russia increased by 64% in the 2018/19 season, reaching 337,290 tonnes, while Russian imports of Moroccan lemons and limes rose by 39%. Meanwhile, exports of oranges to Canada increased by 25% that same season, reaching 10,511 tonnes, while lemon and lime exports grew by 43%.

Because of its importance to domestic and foreign markets, the citrus segment benefits from significant subsidies and support programmes. For instance, new citrus plantations get a subsidy of $1145 per ha, which helps add drip irrigation systems. Farmers building citrus conditioning areas can also get a 30% subsidy on the cost of construction.

Olives are another important segment for Moroccan agriculture, though its full potential has yet to be reached. At the start of the PMV, the government had set the goal to establish over 1.2m ha of olive plantations and to reach an annual production of

Despite a drop in production due to weather conditions, citrus remains a significant export segment. Mandarin and tangerine exports to Russia increased by 64% in 2018/19.

2.5m tonnes. A programme contract signed between the state and segment stakeholders for the 2009-20 period has underwritten production and processing-capacity increases for the segment. The authorities are aiming to boost the exports of olive oil to 120,000 tonnes and table olives to 150,000 tonnes by 2020. However, during the 2018/19 season, Morocco only exported 34,000 tonnes of olive oil and roughly 77,500 tonnes of table olives.

The programme has nonetheless achieved some improvements, mostly on the production side. Between 2009 and 2018 plantations rose to 1.04m ha, a 35% increase, while processing capacity improved over the same period, going from 700,000 tonnes to 1.7m tonnes per year, or 70% of the objective set out by the authorities. Competition from other olive oil-producing countries such as Tunisia, Spain, Italy and Portugal will require the kingdom's oleiculture segment to increase its integration and processing capabilities and enhance quality controls in order to capture a bigger share of international olive oil markets. Current government support mechanisms include a 10% subsidy on investment costs for olive processing and bottling facilities.

SUGAR: The production of sugar is one of the most critical segments of the kingdom's agro-industrial capacity. Cosumar, the country's only sugar refinery, remains Morocco's largest agro-industrial player. In 2018 the company produced 5m tonnes of sugar producing-plants, namely beetroot and sugar cane, over an area of 80,000 ha, posting a turnover of Dh7.6bn ($791.8m). The firm's activities include the aggregation of 80,000 growers.

Installed capacity at Cosumar is currently at 1.65m tonnes of refined sugar, but this is significantly over annual domestic consumption levels, which were at 1.2m tonnes in 2018. The company exports sugar to 44 countries and is expanding operations abroad. For example, it is building a sugar refinery in the northwest of Saudi Arabia with a production capacity of 840,000 tonnes, as well as a sugar conditioning unit in Guinea with a capacity of 50,00 tonnes, in partnership with local light manufacturer Sogecile. Much of the sector's initial development arose out of favourable conditions at home. Indeed, sugar consumption levels remain high in the kingdom, with an annual average of 35 kg per person in 2018.

PRODUCTION CLUSTERS: A big focus of Morocco's agriculture policy in recent years has been the creation of production clusters across the kingdom, with the aim of allowing farmers to share production, distribution and marketing methods in order to improve their competitiveness. This has not only made the sector more productive overall, but it has also permitted smaller growers to be effectively integrated into larger value chains.

Clustering has been especially important for Morocco, as the majority of the country's farmers command small plots of land. "The average size of plots is less than 2 ha, which makes it difficult to develop economically thriving agriculture," Faouzi Bekkaoui, director of the National Institute for Agricultural Research of Morocco, told OBG.

Over the 2008-18 period the government expanded agricultural lands for olive tree plantations by 35%

A big focus of agriculture policy in recent years has been the creation of production clusters, allowing farmers to share production, distribution and marketing methods.

On a smaller scale, agricultural cooperatives, which enable the integration of smaller and often artisanal producers into larger production chains and provide easier access to international markets, have flourished under the PMV's implementation. Cooperatives are increasingly seen by policymakers as a way to reduce rural poverty and create employment opportunities. As of 2015 there were about 11,000 agricultural cooperatives in Morocco, according to the UN Food and Agriculture Organisation. The simplification of their legal status in 2014 also made it easier and cheaper for farmers to develop new horizontal partnerships. This has helped the development of cooperatives for milk production, olives and olive oil, dates, fruit, honey and argan oil, among other products. "The cooperatives have been assisted by government policy, which has contributed to them becoming more resilient and diversified. Many of them started with the production of argan oil and have now moved on to cactus products and others segments," Bekkaoui told OBG.

AGRO-INDUSTRY: The sector's most valuable processing activities are taking place on a larger scale. The agro-industrial segment is made up of nearly 2080 companies and employs more than 143,000 people, according to 2018 figures from the USDA. That year, agro-processing was worth $19.4bn, with 70% of the market accounted for by retail distribution and the remaining 30% by the food industry. The segment mobilised around $2.8bn in imports of food-processing ingredients in 2018.

In 2017 the Moroccan government signed a programme contract with agro-industrial stakeholders, which involved investment commitments of up to Dh12bn ($1.2bn) over the 2017-21 period. The majority of the investment is set to be committed by the private sector, at Dh8bn ($833.4m), with the

In 2018 agro-industry was the most valuable agricultural segment, worth $19.4bn. That year, the segment mobilised $2.8bn in imports of food-processing ingredients.

Fisheries production volumes rose by 20% between 2010 and 2018

The value of fisheries reached

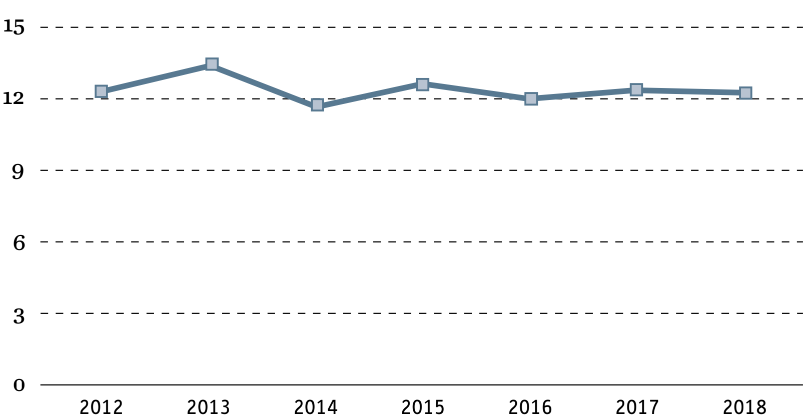
$1.2bn

in 2018

MAPMDREF and the Ministry of Industry, Investment, Trade and the Digital Economy contributing an additional Dh2.8bn ($291.7m) and Dh1.8bn ($187.5m), respectively. The deal is set to accelerate sector growth and allow for the creation of an additional 38,000 jobs across the segment by 2021. One key aspect will be the expansion of conditioning, transformation and distribution networks for operators.

Another objective is boosting the volume of agro-industrial exports, which the authorities expect to grow by an additional Dh13bn ($1.4bn) annually by 2021. As a point of reference, from Dh29.3bn ($3bn) in 2010, agri-food exports rose by 96% through to 2018, reaching Dh57.3bn ($6bn), or 21% of total exports that year. As of late 2019 the project created by both ministries had already led to an investment of approximately Dh5.1bn ($531.3m) across 194 related agro-industrial projects, achieving 43% of the 2021 investment targets and 65% of the objectives in terms of job creation, according to local media.

Agriculture, forestry & fishing value added, 2012-18 (% of GDP)



Source: World Bank

As a mechanism to link small producers with large agro-industrial players, the World Bank provided $200m towards the Strengthening Agri-Food Value Chains Programme. The programme, which will run until late 2022, is focused on improving the competitiveness of small and medium-sized agricultural processors, integrating them into larger value chains.

FISHERIES: Processing has also become more relevant for maritime resources. Fishing, which is overseen by the Department of Maritime Fisheries within the MAPMDREF, has grown both in terms of its impact on national growth and employment figures. The government's Halieutis Plan, which focuses on the development of fisheries over the 2009-20 period, has galvanised economic activity. "The Halieutis Plan has implemented a positive dynamic in the fisheries sector through sustainable management of sea resources. It has also increased processing and value-added activities, and established a development framework for aquaculture," Younes Ayouch, director of strategy and cooperation at the Department of Maritime Fisheries, told OBG.

Production volumes rose by 20% between 2010 and 2018, reaching 1.4m tonnes, and the sector directly employs approximately 98,000 people in processing and associated activities. The sector's value increased from Dh6.7bn ($698m) to Dh11.6bn ($1.2bn) over the same period, while exports of fish and seafood reached $2.4bn in 2018.

"The fisheries sector is already equipped with the right infrastructure and benefits from an automated, digitalised system that guarantees transparency. It is now time to diversify the sector, develop the processing segment and bring more added value to the economy," Amina Figuigui, managing director of the National Fisheries Office, told OBG.

A new sector development plan, which is scheduled to cover the decade from 2020 to 2030, was being drafted as of early 2020. The authorities expect to put more emphasis on the ongoing expansion of aquaculture by channelling investment into new aquaculture farms (see analysis).

WATER RESOURCES: Morocco is particularly exposed to the effects of droughts and water stress, a vulnerability that has been showcased several times, as in the 2015/2016 season when national GDP growth was cut by around 1.5% because of the severe drought that affected the kingdom in 2015, according to the World Bank.

"Access to irrigation water remains one of the most prominent challenges for Moroccan agriculture. In order to address the situation in the long run without driving up the country's energy bill, Morocco will have to increase the use of drip irrigation systems, as well as wastewater treatment," Youssef Moamah, CEO of irrigation solutions firm CMGP, told OBG.

At the moment, around 20% of Morocco's agricultural land is irrigated, with the remainder not supported by irrigation systems. Consequently, years with insufficient rainfall have a significant impact on agricultural output, as around 60% of agricultural production comes from the 20% of territory that benefits from irrigation, according to Bekkaoui.

IRRIGATION PLANS: Irrigated lands are an essential component of the sector's output. According to figures by the MAPMDREF, irrigation accounts for 99% of sugar production, 82% of vegetable output, 100% of citrus production as well as 75% of milk production. The PMV has worked to not only increase irrigated areas, but, when possible, substitute traditional irrigation systems for drip irrigation through the National Programme for Water Savings in Irrigation, which has operated with a budget of Dh9.5bn ($989.7m). As of early 2020 as much as 585,000 ha had been equipped with drip irrigation systems across Morocco, facilitating 1.6bn cu metres of annual savings in water consumption as of 2018. "Water economy has been identified as a government priority, and subsidies from 80% to 100% are offered to farmers investing in drip-irrigation systems," Marouane Benmouama, head of North-west Africa at irrigations solutions specialist Netafim.

However, the expansion of irrigation infrastructure has led to new challenges, including the lack of adequate training in equipment operation, leaving the country without the necessary workforce to support the increase in irrigated territory. "While the state has heavily subsidised the acquisition of irrigation material, there is still a lot of work to be done on the training side, as we often notice misuse of the equipment by farmers," Simohamed Azzouz, managing director at Magriser, told OBG.

Irrigated land is set to continue surging in the coming years. Through to 2027 the MAPMDREF aims to increase the area covered by drip irrigation systems to 940,000 ha, which, if achieved, will allow annual water savings to hit 2.5bn cu metres.

OUTLOOK: Morocco's agriculture sector has grown exponentially since the implementation of the PMV in 2008, and the overall positive trend is likely to continue. Growth has materialised through better agricultural output and higher export volumes for some of the country's strategic crops. This expansion has been very positive for the Moroccan economy as well as for those whose jobs depend on agriculture.

Expanding irrigated land is crucial to Morocco's agriculture output

The overall positive impact of the PMV has nonetheless brought new challenges. Although agricultural production was raised significantly, the slow establishment of adequate refrigeration space and transport networks to carry produce to market in a timely manner has led to instances of spoilage. Mechanisation levels have improved, but many small-scale farming operations continue to face obstacles to finance their equipment needs.

Mitigating the effects of climate change will also determine the future of agriculture in Morocco. Although government measures have helped align water-saving measures with sector practices, water management will be increasingly critical as higher temperatures become the norm and population growth puts further pressure on hydraulic resources.

The Ministry of Agriculture, Maritime Fishing, Rural Development, Water and Forests aims to increase the land area covered by drip irrigation systems to some 940,00 ha by 2027.

Natural aquaculture output could be as high as 380,000 tonnes per year

Expanding scope

Investing in aquaculture to leverage untapped resources

To expand aquaculture's economic impact, the authorities have established five regional plans for aquaculture development across the country and introduced tax incentives that should boost sector activity.

Morocco has access to a significant volume of maritime resources. In 2019 the kingdom's maritime fisheries sector had an output of close to 1.46m tonnes and was valued at nearly Dh11.7bn ($1.2bn), according to the Department of Maritime Fisheries (Département de la Pêche Maritime, DPM). Much of its development strategy has been based on the Halieutis Plan, which was launched in 2009 with the goal of improving performance, enhancing food security and maintaining the long-term sustainability of aquatic resources. The plan is set to run to 2020, but the authorities set out goals for a second phase, which will run from 2020 to 2030.

UNEXPLORED POTENTIAL: Marine aquaculture in Morocco holds a lot of promise. Although an increase in aquaculture output from 433 tonnes in 2013 to 900 tonnes in 2019 was recorded, which took the segment's value from Dh15.5m ($1.6m) to Dh30.5m ($3.2m), activity remains below its potential. According to the National Aquaculture Development Agency (Agence Nationale pour le Développement de l'Aquaculture ANDA), the country's natural aquaculture potential could be as high as 380,000 tones per year.

Expanding aquaculture's economic impact will likely depend on increasing product diversification and the geographic distribution of aquaculture farms. In recent years aquaculture activity has revolved to a large degree around four species: oysters, sea bass, seaweed and clams. According to figures from the DPM, oyster farming remains the most valuable segment, growing from around Dh4.2m ($438,000) to Dh17m ($1.8m) between 2013 and 2019. The second-most-valuable aquaculture product is sea bass, which saw its production and value increase slightly over the same period, from Dh11.4m ($1.2m) in 2013 to Dh12.7m ($1.3) in 2019. Meanwhile, seaweed and clam production, which has had a more recent start in Morocco's aquaculture sector, reached 273 tonnes and 23 tonnes in 2019, respectively.

INVESTMENT DRIVE: To accelerate the development of the segment, the authorities established ANDA in 2011. The majority of aquaculture activities are centred around four locations: M'diq and Nador on the Mediterranean coast, as well as Oualidia and Dakhla on the Atlantic coast. The bay of Dakhla in particular accounted for Dh15m ($1.6m) of sector value and 398 tonnes of its volume in 2019.

> "The Halieutis Plan, which was launched in 2009, has the goal of improving aquaculture performance, enhancing food security and maintaining the long-term sustainability of aquatic resources"

A key aspect of the government's strategy will be to mobilise investment. In order to attract private investors, ANDA has designed five regional plans for aquaculture development across the kingdom, covering the areas of Dakhla-Oued Eddahab, Souss-Massa, Tangier-Tétouan-Al Hoceima, l'Oriental and Guelmim-Oued Noun. Plans for the remaining regions of the kingdom were under preparation as of 2019, and more than 250 investment projects for the establishment of aquaculture farms had already been selected. "The Finance Law of 2018 introduced incentives in order to attract more investment in aquaculture, which now benefits from tax exemptions and competitive Customs duties that should boost the sector," Majida Maârouf, director of ANDA, told OBG. The authorities are also supporting the development of human resources for the sector, having created a training course in maritime schools.

Aquaculture could increase the exploitation of Morocco's maritime resources in a more sustainable way. It could also expand economic opportunities at a local level. Of the aquaculture investment projects already approved for execution, over 100 of them are being developed by young entrepreneurs and another seven are managed by artisanal fishing cooperatives.

Abdelhamid Aboulkassim, President, Moroccan Interprofessional Federation of Organic Agriculture

From the source

Abdelhamid Aboulkassim, President, Moroccan Interprofessional Federation of Organic Agriculture, on unlocking the economic potential of organic farming

What role does organic farming play in the development of Morocco's agriculture sector?

ABOULKASSIM: Organic farming represents a step forward for agriculture in Morocco. However, with around 11,000 ha of cultivated area and 200,000 ha of untended area – including the cultivation of organic argan and aromatic plants, which make up more than 140,000 ha and 70,000 ha, respectively – it is still an underdeveloped segment. Meanwhile, exports are made up of 10,000 tonnes of processed products and 7000 tonnes of fresh products. It is now that solutions must be found to boost the production and sales of organic farming for flagship products such as citrus fruits, red fruits and olive oil, thus counteracting the low sales seen between 2018 and 2020.

Furthermore, in September 2018 a new law came into effect to regulate the organic production of agricultural and aquatic products. Law No. 39.12 provides a framework for the segment. The organic market is a great niche for Moroccan producers, as both demand and supply are present in the market. Medium and large cities have populations with great purchasing power, who are aware of the problems caused by the misuse of pesticides, and are concerned about their health and protecting the environment.

How can the challenges to organic farming be met?

ABOULKASSIM: A number of challenges, such as the lack of subsidies, certification, supervision and training, slow the development of organic farming. However, many solutions are available to overcome these issues and allow the segment to flourish. For example, organic inputs and seeds must either be made available at subsidised prices or be exempt from value-added tax. It is also necessary to help farmers obtain the organic label that is required to market their product. Furthermore, support structures are required so farmers can obtain export assistance. In addition, farmers must have access to distribution channels, and a regulatory agency must be created to ensure an attractive environment for producers. Lastly, it is important to maximise the value of the product. To accomplish this, sector players must be provided with the means to invest and transform their product locally, creating more added value. Once this is accomplished, the sector will change quickly.

There is great potential for small farms – which are organic by default, because they do not use chemicals – but they are generally located far from large consumption centres. To integrate these operations, it is necessary to develop proper networks from a logistical and organisational point of view. Once grouped, these producers will be able to mobilise sufficient quantities of their product to consumption centres.

Which initiatives should be prioritised under the next Green Morocco Plan?

ABOULKASSIM: With the Green Morocco Plan, agriculture has undergone very important development, but there are two issues to address moving forward. First, distribution channels must be strengthened. In fact, encouraging investment in agriculture has enabled greater production, which in turn has introduced the issue of commercialisation. Morocco is fairly dependent on foreign markets, and for the time being it does not have adequate logistics networks. Second, the delay in establishing an investment code for the transformation of agricultural products has impacted the sector's revenues. It is now necessary to create a real value-added processing industry so that agriculture has a greater impact on the country's overall economic growth. It is also important to conduct research in areas with high added-value or high production potential and to strengthen the organic segment.

Moreover, local products must be promoted. Morocco is making great efforts to develop sustainable agriculture in order to ensure its food security, and organic farming can be a real economic and social lever. It will also reconnect urban centres with rural areas.

Global Perspective

Making every drop count

Governments and the private sector tackle water scarcity through policy reform, technology adoption and infrastructure investment

Global food demand is expected to increase by anywhere between 59% and 98% by 2050. However, global freshwater resources are already overstretched due to climate change and soaring population growth, and it is unclear how agriculture will keep up with these challenges. In recent years climate-induced water shortages in urban areas have brought water scarcity to the forefront of public debate, as major cities such as São Paulo, Cape Town and Barcelona have found themselves on the brink of major water crises.

In response, policymakers have started to scrutinise and reform existing agricultural practices, which on average consume 70% of fresh water supplies around the world. These reforms are part of wider ongoing efforts to conserve water resources. Many governments are now gradually enacting water-saving policies and partnering with private stakeholders to roll out climate-resilient agricultural practices and forward-thinking infrastructure projects.

WATER SHORTAGES: In the world's most water-scarce regions, such as the Eastern Mediterranean, the Middle East, North Africa and sub-Saharan Africa, climate change-induced disruptions to the earth's hydrological cycle have driven unprecedented periods of low rainfall. In fact, 14 of the world's 20 mega-cities are now experiencing water scarcity or drought. On top of that, the challenges of growing populations and decreased rainfall are expected to worsen over time. Some 52% of the world's projected 9.7bn population will live in water-stressed regions by 2050, according to a study by MIT. Rising water scarcity not only poses a major threat to urban populations, but also presents a potentially significant barrier to economic development for many low- and middle-income economies, especially those that are reliant on agriculture for both domestic consumption and export revenue.

ECONOMIC IMPACT: With the amount of water consumed through farming expected to increase by 20% globally by 2050, more efficient use is required to help developing countries avoid significant economic impacts. According to a study by the European Institute of the Mediterranean, climate change and associated changes to temperature and rainfall patterns could cost economies in the Eastern Mediterranean and North Africa up to 2% of their GDP by 2050. Of great concern in North Africa is the impact on agricultural activity, which is estimated to account for 77% of economic losses associated with climate change.

FOOD SECURITY: According to the UN Food and Agriculture Organisation, around 20% of cultivated land worldwide is irrigated, yet it contributes to approximately 40% of total food output. In many parts of the world, farmers are still heavily reliant on increasingly inconsistent and reduced rainfall patterns, which continues to drive food insecurity. In addition, there are regional differences in the prevalence of severe food insecurity. In 2016 about 27% of the population in sub-Saharan Africa was classified as severely food insecure, which is almost four times as high as any other region, and by 2017 this figure had risen to 34%.

Another underlying problem concerns crop yields and agricultural practices. Africa has one of the lowest crop yields across the globe, as approximately 6% of cultivated land is irrigated, compared to 14% in Latin America and 37% in Asia. Of the irrigated land in Africa, more than two-thirds is concentrated in just five countries – Egypt, Algeria, Morocco, South Africa and Sudan – each of which has more than 1m ha of irrigated land. There is considerable opportunity to expand the amount of irrigated land, although lower-income countries often lack the capital to do so.

IRRIGATION POLICIES: Expanded irrigation is one solution to the global challenge of decreasing rainfall and increasing food consumption. In a study published in December 2018, the Malabo Montpellier Panel, a group of international agriculture experts and policymakers, suggested that African countries have the potential to irrigate a further 47m ha of

Many governments are now gradually enacting water-saving policies and partnering with private sector stakeholders to roll out climate-resilient agricultural practices and forward-thinking infrastructure projects.

African countries have the potential to irrigate a further

47m

ha of land

Drip irrigation technology can reduce water use by

30-70%

land to boost agricultural productivity and accelerate economic growth. Among developing economies on the continent, the Moroccan government's large-scale expansion of irrigation through infrastructure investment, training programmes, subsidies and tax exemptions has set the precedent for other countries to follow. As of 2018 Morocco had equipped around 20% of its land for irrigation, which is one of the highest rates in Africa. This was achieved through well-planned policies that are part of a programme that launched in 2008 called the Green Morocco Plan (Plan Maroc Vert, PMV), which aims to expand and modernise irrigation techniques in order to save 1.4bn cu metres of water annually. The PMV has so far been a resounding success. For example, the area of land equipped with drip irrigation reached 450,000 ha by 2014. The overall aim is to increase this figure to around 550,000 ha in 2020.

In Kenya the government is also focusing on expanding its irrigation infrastructure through centralised planning and implementation of national water strategies. Currently only around 150,570 ha, or 2.6%, of Kenya's arable land is equipped for irrigation. The government wants to increase this by 32,000 ha per year and is targeting 704,000 ha of new irrigated areas by 2030. To meet this goal, the government issued the Irrigation Bill at the end of 2017 with the goal of setting up a National Irrigation Development Authority. The authority will be responsible for developing and improving irrigation infrastructure, providing irrigation services to private farming companies and smallholders, and offering technical advisory services during the rollout of irrigation technology. In June 2019 the bill underwent a mediation process in the National Assembly to try to craft a version of the stalled legislation that both houses would pass.

NEW TECHNOLOGY: Regional governments are increasingly pursuing irrigation plans, especially given the rise of new technology. Drip irrigation, for instance, can reduce water use by 30-70% and raise crop yields by 20-90%, according to a World Bank study. In Morocco the authorities are aiming to equip 700,000 ha – or 50% of total irrigated land in the country – with drip technology by 2022, up from 500,000 ha in 2018 and 163,000 ha in 2008. The drip technology that has already been implemented up to 2019 saves the country approximately 800m cu metres of water each year.

In Algeria, where per capita water availability is less than 300 cu metres per year – which is well below the 500 cu metres threshold for the UN definition of absolute water scarcity – areas irrigated by water-saving methods grew from 90,000 ha in 2000 to 600,000 ha in 2018, representing 50% of total irrigated land. Algeria's government has achieved this through investing around $18bn in improving water security in the 2015-19 period alone. By introducing new water-efficient technology across farmlands, the government's medium-term goal to achieve a 20% decrease in current water consumption levels in the agricultural sector is becoming much more feasible, and would free up resources to irrigate a further 200,000 ha in the country.

Mexico is also on a nationwide water-saving drive through the rehabilitation and modernisation of irrigation systems. In Guanajuato state, one of the most important agricultural regions, the local government has been investing in modernisation programmes to boost crop yields and reduce water usage. As part of its State Development Plan 2035, Guanajuato's government has increased funding for irrigation modernisation programmes, which saw public investment in drip, gravity and sprinkling irrigation systems rise from $1.7m in 2017 to $3.2m in 2018.

OTHER INNOVATIONS: In addition to drip irrigation, some governments have begun implementing other precision farming applications, such as solar-powered pumps that transport well water to drip irrigation systems, and soil and crop monitoring by drones. According to the European Committee of Associations of Manufacturers of Agricultural Machinery, precision farming expanded rapidly between 2007 and 2017, and in 2019, 70-80% of new farming equipment used globally contained precision agriculture components.

Tunisian entrepreneurs and companies are at the forefront of developing and piloting this kind of technology. For example, since 2014 local firm Chahbani Technologies has been manufacturing and selling buried diffusers, a system based on early injection and water storage in underground layers of trees, vegetables and container plants. The technology uses less water than drip irrigation, raises crop yields and decreases production costs for farmers by up to 30%.

SUBSTITUTING & DIVERSIFYING CROPS: Governments elsewhere are having to make difficult and sometimes unpopular water policy decisions in the face of climate change and rapid population growth. Egypt, for example, suffers from an annual water deficit of 30bn cu metres. Therefore, water security is currently a major policy priority for the government, particularly during the ongoing construction of the Grand Ethiopian Renaissance Dam (GERD), which could have a negative impact on Egypt's Nile water share. The Nile River provides about 85% of Egypt's water, and, when completed, GERD could see Egypt's water supply reduced by around 60bn cu metres over a 10-year period, potentially resulting in economic losses of approximately $2bn per year, Khaled AbuZeid, secretary-general of the Egyptian Water Partnership, an NGO established in 2003, told local media in October 2018.

Additionally, while it is a major export, rice consumes a significant portion of the Egyptian agriculture sector's water allocation and is coming under government scrutiny. Facing concerns about a growing population and GERD's potential impact on the country's water resources, in 2018 Egypt's Parliament voted to cut the amount of land allocated for cultivating rice by more than half. While the move to greatly reduce rice cultivation is expected to save billions of cu metres of water, there have been concerns raised regarding its impact on local rice farmers and food prices in the

Precision farming expanded rapidly between 2007 and 2017, and in 2019, 70-80% of new farming equipment used globally contained precision agriculture components.

country. Plans to increase rice imports from nations such as Gabon are set to fill this gap, and the Egyptian government is also actively promoting the cultivation of more water-efficient alternative crops like quinoa.

Similar to Egypt's approach, Thailand's government has had to enact difficult and unpopular measures relating to rice cultivation in times of drought. In response to limited water resources in recent years, the Royal Irrigation Department banned off-season rice cultivation in late 2015 in order to prioritise water supplies for household consumption. While these restrictions have been unpopular with many farmers, the government has started offering alternative income sources. In October 2018 the Ministry of Agriculture and Cooperatives unveiled a corn-growing promotion scheme, which offers loans, insurance and price guarantees to farmers who are willing to move away from off-season rice production. The government's overall goal was to switch around 320,000 ha from rice to corn in 2019.

While the Myanmar government is not switching crops as in Thailand, farmers in the country are hoping that investment in irrigation systems will allow them to diversify their production base. Despite having comparable land utilisation and acreages to neighbouring countries like Vietnam and Thailand, Myanmar's farmers produce much less than their regional counterparts do. One of the reasons behind these low production rates is the limited number of crops that farmers are able to grow, precisely because of poor irrigation systems. In 2014-15 about 3m ha of agricultural land in Myanmar was linked to public irrigation systems, which accounted for 15% of the crop area. This is far lower than in Indonesia and Thailand (30% each), China (50%) and Vietnam (70%). According to Thadoe Hein, CEO of Myanmar agricultural technology company Awba, the private sector could play a significant role in aiding the country's irrigation expansion plans. "There is a big opportunity for foreign investors to bring drip irrigation and sprinkler systems into Myanmar," he told OBG. "These systems cost around $2000 per acre and will present a significant change to farmers across the country."

ALTERNATIVE SOURCES: While water conservation efforts can go a long way in ensuring resilience, these proactive efforts will more than likely not be enough for arid Gulf and North African countries, where groundwater resources are fast running out. In these areas, governments are constructing costly and energy-intensive desalination plants to ensure water resilience, which presents sizeable opportunities for private sector players. MENA makes up over 40% of global desalinated water output, and across the region ongoing desalination projects amount to more than $5.25bn, of which Saudi Arabia accounts for $1.52bn, followed by the UAE ($1.28bn), Oman ($501m), Egypt ($498m) and Morocco ($354m).

According to the "Global Water Desalination Market" report published in 2018 by business analytics and consulting firm Adroit Market Research, the global desalination market is likely to expand at a compound annual growth rate of 7.8% from 2018 to 2025, and the pipeline for future projects is strong. Saudi Arabia's government is a big spender in this regard and has committed to investing $80bn in desalination plants by 2025 through public-private partnerships (PPPs) with local and foreign firms. In early 2019 it announced several desalination projects located on the Red Sea coast, worth a total of over $600m.

Climate change, rising populations and associated water constraints are challenges that require both policy changes and innovative private sector solutions. Beyond desalination plants, there are a number of opportunities for private sector involvement in global water resilience efforts in the Middle East, North Africa and sub-Saharan Africa. PPPs for irrigation expansion and modernisation initiatives are being offered across many developing countries, and the global drip irrigation market is expected to be worth $7bn by 2024. Further investment opportunities are expected to emerge as more governments adopt so-called blue future water resilience policies.

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Tourism

Sector expanding at an average of 6% per year

Hotel nights concentrated in a small number of cities

Strong turnout from traditional source markets

Niche segments include sport and nature activities

The number of tourists rose from 9.38m in 2012 to 12.29m in 2018

The next stage

Sector growth continues as policymakers focus on a more robust offering and aim to attract visitors from new markets

Morocco's geographical variety, combined with favourable weather and its proximity to key European tourist markets, have made it one of the most attractive and competitive destinations in Africa. The country's status as a preferred location has been strengthened by its consistently stable political and economic situation relative to the region.

Like most critical sectors in the Moroccan economy, tourism has benefitted from a dedicated sector development strategy, the most recent of which is Vision 2020. However, while arrival figures have been improving, overall results have remained below expectations. This has triggered a re-evaluation of sector policy as the kingdom attempts to increase the sector's weight in the economy.

PERFORMANCE: Despite not reaching the target laid out in the current tourism strategy – which aimed to double the number of tourists between 2010 and 2020 to 20m visitors – Morocco has seen a sustained progression of tourist volume. Arrivals rose from 9.38m in 2012 to 12.29m in 2018, according to the Ministry of Tourism, Handicrafts, Air Transport and Social Economy (Ministère du Tourisme, de l'Artisanat, du Transport Aérien et de l'Economie Sociale, MoT). The number of visitors in 2018, which increased by 8.3% on 2017 figures, was largely driven by healthy increases in tourist volume from key source markets. For instance, the number of Italian and US tourists increased by 24% and 20%, respectively, while the number of German visitors jumped by 19% and Spanish arrivals by 15%. Moroccans living aboard constituted nearly half of all international tourists that year, with arrivals from this demographic increasing by 2% and accounting for 46% of visitors. Of the 6.68m non-Moroccan foreign tourists in 2018, 27.6% were French, 12.2% were Spanish and 7.6% were British.

Growth in the number of tourist arrivals continued during 2019, with government figures showing an 8.2% year-on-year (y-o-y) increase through July 2019, with 7.54m arrivals in the first seven months of the year. The number of hotel nights also increased y-o-y, rising by 6% to 13.97m. The majority of these, at 9.81m, were bought by non-residents, while 4.16m were purchased by residents.

ECONOMIC IMPACT: In hand with rising passenger numbers, tourism receipts have shown a positive performance in recent years, growing from $6.3bn in 2015 to $7.8bn in 2018, according to the IMF. Tourism receipts rose during the first half of 2019 as well. Over the January-June period tourism income amounted to Dh32.7bn ($3.4bn), which represented a y-o-y increase of 4.2%.

According to IMF projections, Morocco's tourism receipts are expected to continue their upward trend in the coming years. In 2020 they could amount to as much as $8.2bn and increase to as high as $10bn by 2024. Tourism receipts as a percentage of GDP is likely to stay stable, however. After rising from 6.2% to 6.8% between 2015 and 2017, and registering 6.6% in 2018, tourism's share of GDP is projected to be 6.4% in 2020 and 6.1% in 2024.

Tourism has proved a consistently strong performer in the economy: between 2000 and 2018 the sector grew at an average of 6% per year. In 2018 tourism accounted for an estimated 833,000 direct jobs, or 7% of total employment in the kingdom, and approximately 1.93m jobs when indirect positions were included, according to the World Travel & Tourism Council. Meanwhile, the MoT recorded the total number of nights sold by hotels and other accommodation at just over 24m that year, an 8.7% increase relative to 2017.

SECTOR OVERSIGHT: Public policy regarding tourism is directed by the MoT, which is in charge of executing the national tourism strategy and putting in place the necessary regulatory measures to facilitate government oversight and monitor private

In hand with rising passenger numbers, tourism receipts have shown a positive performance in recent years, growing from $6.3bn in 2015 to $7.8bn in 2018.

Between 2000 and 2018 the tourism sector grew at an annual average rate of

6%

The Moroccan National Tourist Office promotes the country to both domestic and international audiences

operators' activities. Under the ministry, the Moroccan National Tourist Office – also known by its brand name, Visit Morocco – is in charge of promoting the Moroccan destination to both domestic and international audiences. Another entity under the umbrella of the ministry, the Moroccan Agency for Tourism Development, is charged with promoting the kingdom to tourism investors. The agency is responsible for mobilising investments, assisting in developing land plots associated with tourism infrastructure in target areas, and channelling public and private investment to specific activities.

Government tourism bodies have moved to increase cooperation with international sector institutions in recent times. Morocco's rising profile as a global tourism player was demonstrated in September 2019 when the UN World Tourism Organisation voted to host the 24th session of the body's General Assembly in the kingdom in 2021. The event is set to take place in Marrakech.

GUIDING POLICY: Vision 2020, the sector's current development strategy that was created in 2010, has acted as a roadmap to focus efforts on expanding tourism's footprint. The policy was built around the promotion of six products that are adapted to the kingdom's competitive advantages: beach and resort offerings; ecotourism; entertainment; sports and leisure; local tourism; and heritage tourism.

Through the development of these segments, Moroccan authorities endeavoured to make the country one of the world's top-20 tourism destinations by 2020. Other objectives included reaching 20m visitors per year; doubling the number of beds at accommodation units to 400,000; and creating 470,000 new jobs in order to take the total number of sector jobs to 1m. Vision 2020 also underlined the need to increase domestic tourism, and aimed to triple the number of domestic trips and make tourism more accessible to average Moroccans. The plan also stated the goal of lifting annual tourism income to Dh140bn ($14.6bn) and adding an extra two percentage points to the sector's weight in national GDP. The vision further outlined specific branding and positioning objectives, such as making Morocco the most sustainable tourism destination in the Mediterranean basin.

In September 2019 the UN World Tourism Organisation voted to host the 24th session of the body's General Assembly in Marrakech in 2021.

EXECUTION: Vision 2020 was to be implemented through various subsector strategies unique to the kingdom's different tourism products. For instance, Plan Azur 2020 aimed to expand the country's beach tourism offer; Plan Biladi was formed to enhance the domestic travel experience; and the plan for entertainment, sports and leisure was to pair such offerings with existing infrastructure.

Under Vision 2020, policymakers also highlighted the need to strengthen the sector's tourist operators and other businesses. For this, two programmes were launched. Moussanada Siyaha was allocated a budget of Dh420m ($43.8m) to support 600 small and medium-sized enterprises. The programme was aimed at accommodation providers, tourist transport companies and tour operators, and involved tax breaks and financing to improve information systems and modernise operations. The other programme, Renovotel, was tasked with supporting the increase in hospitality capacity across the kingdom. Although it had been originally established as a renovation fund for the hotel industry in 2003, Renovotel was relaunched in mid-2012 through a partnership agreement among the MoT, the Ministry of Economy and Finance, the National Federation of the Hotel Industry and the National Federation of Tourism. The revamped support mechanism set aside Dh500m ($52.1m) to be used as incentives to encourage private investments of up to Dh1.3bn ($135.4m) for the upgrade of as many as 16,000 beds. The improved Renovotel mechanism also made guesthouses eligible for state financial support.

Plan Azur 2020 aimed to expand the country's beach tourism offerings


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HIGH EXPECTATIONS: While helping to grow the tourism sector and boost visitor volume, the implementation of Vision 2020 has fallen short, and many of the goals were unmet as of early 2020. This trajectory was made clear by the kingdom's Court of Audit in a 2018 report that looked at the strategy's achievements by 2015, at the midpoint of the plan. The court found that Vision 2020 had been based on excessive optimism regarding the sector's expansion and that it had not fully capitalised on the achievements made under the government's previous strategy for the sector, which spanned 2000-10.

Moreover, the court concluded that the strategy's project application was advancing too slowly, with a mere 37 projects finalised as of late 2015 out of a total 944 projects that were initially planned. The total investment anticipated for those projects was Dh151bn ($15.7bn), yet up until end-2015 only about Dh1.4bn ($145.9m) had been spent, according to the report. Low levels of execution also blunted the efficiency of the Moussanada Siyaha and Renovotel support mechanisms. The court found that although the two programmes had a combined provisional budget of Dh920m ($95.8m), only about Dh37.1m ($3.9m) had been committed through 2015.

With it becoming apparent that Vision 2020 was not fulfilling many of its goals, sector operators and tourism authorities set a new course. In mid-2017 the government and the National Confederation for Tourism (Confédération Nationale du Tourisme, CNT) joined forces and established a new strategy for the sector which would deviate from some of the goals and measures included in Vision 2020. However, the completion of the sector's upcoming strategic plan has seemingly faced delays. As of early 2020 no new comprehensive strategy for the sector had been made public, although the CNT has continued to meet with its members and the government on how best to relaunch national policy for the sector.

A new strategy is under discussion to continue on from Vision 2020

One avenue for growth is to target visitors from non-traditional source markets, such as China and India

In December 2019 Abdellatif Kabbaj, president of the CNT, stated in a meeting with sector professionals that Morocco's tourist industry could potentially expand its annual growth in visitor numbers, which have been rising by about 800,000 annually, to 2m. He stated that this could be achieved through several measures. One of the CNT's suggestions was to strengthen the sector's digital footprint by expanding tourism players' online presence and leveraging communications campaigns through the internet. Another avenue for growth is boosting tourist figures from emerging source markets such as India, China and African countries, which would allow Morocco to reduce its dependence on traditional markets such as France and Spain.

Growth can also be harnessed through the development of niche segments. "Morocco is diversifying its offer and focusing on promising niches with high potential, such as sport tourism, medical tourism and ecotourism," Omar Skalli, CEO of Société Royale d'Encouragement du Cheval, the Moroccan royal equestrian society, told OBG (see analysis).

KEY DESTINATIONS: The sector's leisure tourism activity is heavily concentrated in a small number of destinations. A 2018 report by the OECD states that approximately 70% of hotel nights are booked in Marrakech, Casablanca and Agadir. Marrakech indeed continues to be a top location for visitors. In 2019 the city registered nearly 3m tourist arrivals, an 8% increase over 2018, according to the Marrakech Regional Council for Tourism. From January to August 2019, visitors spent 5.56m hotel nights in the city, up from 5.18m during the same period of 2018 and 4.23m in 2010.

Agadir, meanwhile, is a hotspot for beach tourism. The number of hotel nights in the Agadir/Taghazout area reached 4.19m during the January-August 2019 period, compared to 4.11 in the same months of 2018 and 3.32m in 2010. The number of tourists

70%

of hotel nights are concentrated in Marrakech, Casablanca and Agadir

State investment is helping to expand hotel capacity in smaller cities

There were 261,256 beds across all types of accommodation units at the end of 2018. Around 55% of beds were at hotels ranging from three stars to five stars and hotel residences.

visiting Agadir rose by 6.5% y-o-y to 1.1m over the course of 2019, with the increase driven by a 19.3% rise in French visitors and 17% growth in UK visitors.

Another city experiencing consistent expansion is Essaouira, located north of Agadir. Besides the ancient port and medina, which is undergoing significant renovation work, the city has a varied cultural offering and is near popular surfing and kite surf spots along the coast. Between January and August 2019 hotel nights in Essaouira totalled 358,097, compared to 332,676 during the same period of 2018 and a figure of 203,595 in 2010.

ACCOMMODATION: Morocco's accommodation capacity rose by 7426 beds during 2018, leading to a total of 261,256 beds at the end of the year. Over half of this capacity, at 55%, was in hotels ranging from three stars to five stars and hotel residences, according to the MoT. During 2018 the number of hotel nights booked rose by 9% to just over 24m, and 57% of these nights were in Marrakech and Agadir alone. Some 9% of hotel nights were purchased in Casablanca, which saw its figure rise by 3% in 2018 to over 2m nights, pointing to the city's increasing attractiveness as the economic capital.

However, data shows that while Morocco continues to attract high numbers of visitors to its main destinations, efforts to expose a larger volume of foreign visitors to the country's other points of interest have lagged behind. For instance, Fez, which is one of Morocco's most iconic ancient cities, captured 5% of all hotel nights spent by foreigners in the kingdom in 2018, although total nights in the city increased by 16% that year. High growth potential is also visible in Essaouira, which accounted for 2% of hotel nights, but saw its number increase by 11%.

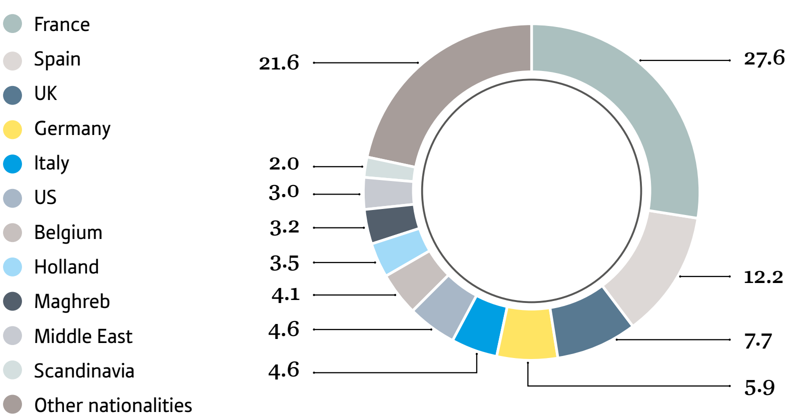
NEW HOTELS: In line with demand, the building of new hotels has continued across some of the kingdom's more attractive vacation spots in 2019. India-based hotel developer Oberoi opened its first Moroccan unit in Marrakech in December of that year. The luxury hotel comprises 84 rooms and villas and was established under a partnership agreement with Moroccan group El Alami. In the north of the country African hotel operator Onomo inaugurated a 94-room hotel at Tanger-Med Port in July. Requiring an investment of Dh35m ($3.6m), the unit caters to business travellers visiting the port and associated industrial areas, as well as visitors who use the port to transit to and from the kingdom.

In late 2019 the Radisson Hotel Group inaugurated its five-star Radisson Blu hotel in central Casablanca. The unit has 120 rooms and is the group's first hotel in Morocco's commercial capital. Nearby, French hotel company Accor opened two hotels, an Ibis and Novotel, in the city of Mohammedia in January. Meanwhile, Spanish hotel group RIU Hotels and Resorts opened a five-star unit in Taghazout on the Atlantic coast in October. The 504-room hotel is the brand's sixth location in Morocco.

Other domestic and international brands have a pipeline of projects to expand their presence in Morocco, such as Marriott planning to open a Marriott W hotel in Tangier in 2023. Additionally, a partnership was formed among Morocco's OCP Group, which handles the country's phosphate industry; the National Railways Agency; and the Hassan II Fund to develop and manage key state-owned hotels. The alliance will have responsibility for critical hospitality assets such as the Mamounia in Marrakech, the Michlifen in Ifrane, the Jamai Palace in Fez and the Marchica Lagoon Resort near Nador in the north.

Other state investments are helping to expand hospitality capacity as well. In the Fez-Meknez region an investment programme worth Dh2bn ($208.4m) is scheduled to add over 5300 beds to the region's capacity of 19,000 beds as of the end of 2019. The programme is expected to establish 79 new accommodation units across the region. Some Dh385m ($40.1m) of this will be allocated to Ifrane province to expand its 3000 beds, as of December 2019, to 5000 beds through the construction of 35 new units.

Breakdown of foreign tourists, 2018 (%)



Source: MoT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CONNECTIVITY: Access to the country's diverse tourism offerings has been made more convenient through the development of transport infrastructure. In addition to upgrading highway infrastructure to link Morocco's northern cities with the rest of the country and the Atlantic coast, the opening of a high-speed train connection between Kenitra and Tangier in late 2018 has added travel options for Moroccans and foreigners alike, with more high-speed train links planned for the coming years.

Air travel has intensified, as well, with the number of world cities that have an air link with Morocco growing from 48 to 121 between 2004 and 2018. From January to October 2019 Moroccan airports received 21m passengers, an 11.7% y-o-y increase. The Mohammed V International Airport in Casablanca remains the country's busiest, accounting for around 40% of all air traffic. From 2009 to 2018 the number of annual passengers through the airport rose from 6.3m to 9.7m and the number of airplane movements jumped from 69,000 to 86,500. In 2019 the facility welcomed over 10m passengers.

Greater air connections are supporting the goal of penetrating new source markets and diversifying the make-up of travellers coming to Morocco. In early 2020 flag carrier Royal Air Maroc inaugurated a direct link between Casablanca and Beijing. The company plans to operate three weekly flights using a Boeing 787 Dreamliner with a 300-seat capacity. The move is likely to encourage more business and leisure travellers from China, and is aligned with government ambitions to increase visitor numbers from high-growth, non-traditional markets. The kingdom's carrier has also recently increased its links with the US by launching a direct flight between Casablanca and Boston in June 2019. The airliner already had direct links between Casablanca and New York, Miami and Washington. In October 2019 low-cost carrier Ryanair opened a route between Essaouira and Brussels, further linking Morocco with traditional European markets.

CULTURE: With Morocco aiming to develop its cultural offer as an integral part of the sector's expansion, an array of investment programmes are helping to both renovate existing historical sites across the kingdom and improve cultural options for citizens and visitors. Early 2018 saw the opening of the Museum of Contemporary African Art in the capital Rabat, and not long after came the inauguration of the Women's Museum in Marrakech. More recently, in January 2020, Rabat hosted the opening of the National Photography Museum.

Sitting on the bank of the Bouregreg River, Rabat is also set to welcome the Grand Theatre complex by the end of 2020. The project includes an indoor theatre with 1800 seats, an open-air amphitheatre with seating for 7000, a smaller theatre space, workshop areas and a restaurant with panoramic views. The complex is slated to be the centrepiece of a mixed-use district that is envisioned to include shopping, dining and other recreational attractions.

Investment programmes are helping to renovate existing historical sites and improve cultural attractions

In addition to the opening of new museums and theatres, renovation work on some historical sites is expanding cultural options for tourists. In Essaouira several projects are under way to increase the city's attractiveness as a tourist destination. One critical project will be the restoration of the city's ancient medina and port area. Authorities are also mobilising Dh350m ($36.5m) to establish a new culture and arts centre, the funds of which are to come from five ministries and the Marrakech-Safi Regional Council. In January 2020 construction began on a 3.6-ha plot to build a 1000-seat theatre, traditional arts museum, music conservatory and book shop. Completion is set to take 48 months. The city inaugurated a new handicrafts complex that same month. The Dh18.5m ($1.9m) project focuses on training programmes for the region's artisans and developing the local handicraft offer.

OUTLOOK: Although Vision 2020 has not achieved all of its initial goals, Morocco's tourism sector is still well poised to continue its steady growth in the coming decade. Many of the country's natural assets have been complemented by significant investments in infrastructure, and a new detailed policy plan for the sector is expected to continue this trend. Importantly, executing an approach that emphasises offerings along the budget spectrum – from luxury to low-cost – as well as developing niche segments to capture many interests will give the sector a certain level of resilience against external shocks.

As key tourism players around the Mediterranean continue to invest in their offering and hospitality services, competition is likely to grow, most notably to attract visitors from China, India and other countries with a growing middle class and higher disposable income. Although Morocco is perceived as safe with beautiful landscapes, continuous investment to promote the country's brand to both established and new source markets will be essential going forward.

Greater air connections are supporting the goal of penetrating new tourism source markets. In early 2020 the flag carrier inaugurated a direct link between Casablanca and Beijing that operates three times per week.

The Grand Theatre complex in Rabat is set to be completed by the end of 2020. It includes an indoor theatre with 1800 seats, an open-air amphitheatre with seating for 7000, a smaller theatre space, workshop areas and a restaurant.

Nadia Fettah Alaoui, Minister of Tourism, Air Transport, Handicrafts and Social Economy

Change of scenery

Nadia Fettah Alaoui, Minister of Tourism, Air Transport, Handicrafts and Social Economy, on developing niche segments and setting sustainability standards

What opportunities are available for foreign investors in Morocco's tourism sector?

FETTAH: As a major contributor to job creation, foreign currency reserves and economic growth, tourism continues to position itself as a key sector in the kingdom's economic and social development. Tourist arrivals increased at an average of 8% between 2016 and 2019, from 10.3m in 2016 to 13m in 2019. The number of nights spent by tourists increased from 19.4m in 2016 to nearly 25.2m in 2019, at an annual growth rate of 9%. Tourism foreign exchange income rose by 25%, from €6bn to €7.5bn over the same period.

Morocco is taking steps to create an encouraging environment for investment, and business creation and development. The kingdom ranked 66th out of 140 countries in the "Travel and Tourism Competitiveness Report 2019", and has very positive scores compared to the rest of the MENA region. In this regard, major reform projects have been undertaken to strengthen online services and simplify procedures for setting up a new business, alongside a range of fiscal, budgetary, land and regulatory incentives.

The country's strategic location in Africa also offers the potential to diversify investment opportunities in the sector, spanning niche markets such as seaside, cultural and nature tourism. At the same time, the government is particularly interested in developing public-private partnerships in the management and implementation of major structuring projects.

In what ways can the country develop niche tourism segments such as ecotourism?

FETTAH: Travellers are becoming ecologically aware, and this is increasingly influencing their choice of destination, encouraging the development of environmentally friendly tourism and highlighting sustainable modes of production and consumption.

Morocco places sustainability at the heart of its tourism development strategy and introduced a set of measures aimed at moving the sector towards an environmentally friendly model, with an emphasis on strengthening sustainability standards and regulation; raising awareness; and offering supervision, support and a range of projects for stakeholders.

At the same time, tourists are increasingly looking for new experiences during their travels. Morocco is full of potential to respond to this desire for a change of scenery, with its natural landscapes – whether coastal, mountainous or desert – and a unique culture.

The expansion of rural tourism will be accompanied by incentives for companies developing projects in this segment. Through the growth of green tourism, Morocco can diversify its offering and create niche markets to generate income and foreign currency. Provinces in the regions of Marrakech-Safi and Souss-Massa have already been identified for pilot projects.

How can Morocco diversify its source markets?

FETTAH: Annual tourist arrivals grew by 5.2% in 2019. In order to sustain this growth, Morocco aims to consolidate its historic source markets while also expanding into new markets with high potential, such as Asia and North America. As such, the ministry's key priorities include developing our knowledge of markets and competition, improving air connectivity, strengthening promotion channels, diversifying our offerings, and forming strategic partnerships with tour operators.

Additionally, special attention is being paid to expanding the country's airports. The new terminal at Mohammed V International Airport raised annual capacity to approximately 14m passengers, while Marrakech Menara Airport can handle up to 9m. Morocco is now directly connected to 130 airports in 60 countries. We intend to continue this momentum and closely follow recent developments in the aviation sector, such as the change in consumption patterns, the rise of low-cost carriers, and the growing need for adaptation in terms of international standards and regulations.

Casablanca is the top destination in Morocco for business travellers

Options for all

Several niche segments are boosting the sector's economic weight

As policymakers and private stakeholders join forces to chart a new path for the tourism sector, more emphasis is likely to put on the development of niche offerings. Several of these have high-value potential and the ability to attract new segments of international travellers. Niche tourism is the base of the sector's Vision 2020 plan, which highlights six tourism categories. Ecotourism, health tourism, and meetings, incentives, conferences and exhibitions (MICE) are segments that have allowed several countries around the world to expand their offering, while other activities such as golf and maritime sports can be positioned as more unique options for travellers. Given Morocco's diversity in terms of geography, climate, urban infrastructure and rural destinations, many of these segments are likely to help the tourism sector grow.

Acquiring information from which to make decisions will be key. In December 2019 the Moroccan National Tourist Office (Office National Marocain du Tourisme, ONMT) launched a call for tenders for a study on foreign tourists' demand in Morocco, comparing this with competing cities in the region and working to improve tourist arrivals from target countries. The last such study was completed in 2012. The 2020 study will focus on specific niche products of the country's tourism offer, such as golf, nautical sports, wellness and nature/adventure.

GOLF: Golfing is becoming a more common reason to visit Morocco. With pleasant weather year-round and an especially mild winter, the sport is now a key focus point for tourism authorities. Morocco was named the best golf destination in Africa by the World Golf Awards organisation in 2015 and 2017, with Marrakech offering 13 courses around the city. Morocco is competing with nearby golfing hotspots in Portugal and Spain, which are especially attractive to European players during the winter. In an event that is sure to boost its attractiveness to golfers, in September 2019 a deal with signed with the Professional Golf Association (PGA) to host one tournament every year for five years, beginning in 2020. In late January 2020 Marrakech hosted the second tournament of the PGA TOUR Champions season at the Samanah Golf Club.

Targeting golfers is key to increasing the tourism sector's economic weight. According to Hamid Bentahar, president of the Regional Council for Tourism (Conseil Régional de Tourisme, CRT) in Marrakech, while an average tourist will spend €1000 per trip, a golf tourist's expenditure can be four times that amount. The city receives an estimated 40,000 golf tourists annually, according to the Marrakech CRT. Beyond the sport itself, in October 2019 Marrakech hosted the International Golf Travel Market, an industry event covering the golf travel segment.

> "While an average tourist will spend €1000 per trip, a golf tourist's expenditure can be four times that amount"

The segment is likely to get a further boost from a joint campaign to be launched in April 2020 by the ONMT, the Royal Moroccan Golf Federation and the International Association of Golf Tour Operators that will run for three years. The campaign aims to raise the international profile of the kingdom's golf infrastructure and facilities.

MICE: Morocco also has several assets to support the MICE segment. Casablanca, the country's economic capital, is the top destination for business visitors and easily accessible from the majority of European capitals. The Mohamed V International Airport in Casablanca already handles roughly 40% of the kingdom's air traffic and welcomed 10m passengers in 2019. Through flag carrier Royal Air

In December 2019 the Moroccan National Tourist Office launched a call for tenders for a study on foreign tourists' demand in Morocco, comparing this with competing cities in the region and working to improve tourist arrivals from target countries.

The kingdom receives about 500,000 medical tourists per year, with plastic surgery procedures very popular

Agadir saw cruise tourist arrivals grow from 93,000 in 2017 to 108,000 in 2018, while Tangier experienced a rise from 24,000 to 31,000 over the same years.

Maroc, the airport connects to four cities in the US and launched a direct link to Beijing in January 2020, which operates three times per week.

Furthermore, the city's hotel infrastructure is expanding gradually, with the total number of rooms rising by an annual average of 6% during the 2013-17 period. The number of hotel nights sold in Casablanca has also been rising steadily in recent years, growing from 1.66m in 2012 to 2.05m in 2018, when the city accounted for 9% of all hotel nights in the kingdom, according to the Ministry of Tourism, Air Transport, Handicrafts and Social Economy.

Expanding the weight that MICE tourism carries in Morocco's biggest city will also depend on its ability to encourage longer stays by business visitors, promoting the idea to come a few days before or stay after a meeting or exhibition. Casablanca's restaurant and shopping offer has expanded considerably over the years, with the city now hosting an array of international retailers.

Marrakech, for its part, is vying for a bigger slice of the MICE segment, which typically accounts for a small portion of the city's tourist activity, despite being the kingdom's top destination for international travellers. While Marrakech has hosted the 2016 UN Climate Change Conference and other international events, segment stakeholders in the city are anticipating a boost with the construction of a new exhibition and convention centre, which was under consideration by local authorities in late 2019. Moreover, the city's tourism operators are joining together and began working to establish the Marrakech Convention Bureau in October 2019 to channel efforts into coordinated promotion of Marrakech as a MICE destination.

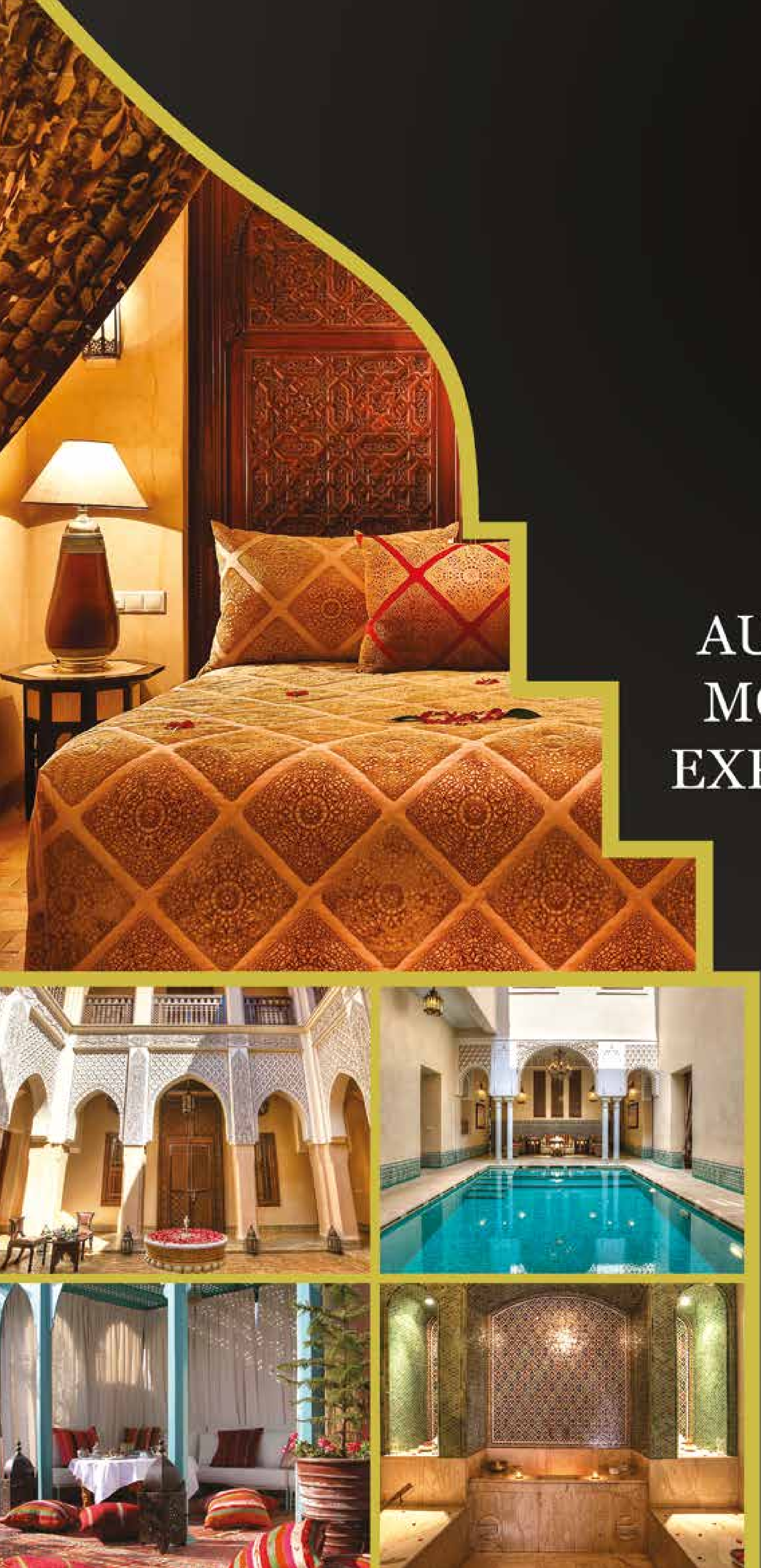
NATURE OPTIONS: With landscapes ranging from desert expanses to snowy mountains and an extensive Atlantic Ocean coastline, Morocco is well suited for the further development of ecotourism. The kingdom also boasts nine national parks that can attract international visitors. Marrakech had over 40 tour agencies specialising in adventure and nature travel as of late 2019, underlining the great potential to sell excursions outside the city to urban visitors.

In tandem with nature tourism, Morocco has been able to position itself as an international destination for a variety of maritime activities. For example, surfers from Europe and other regions of the world flock to Morocco's beaches during the winter. This swell in visitor numbers has long been visible in places like Safi and Taghazout, which host extensive beachfront hospitality infrastructure to cater for surfers. Between the two locations and near Essaouira, Sidi Kaouki has also emerged as a popular location for surfers and kite surfers, with a number of small eco-lodges and family managed guesthouses being established. Further south, in Tiznit, the Greenwave Ecolodge opened on 2300 sq meters of land in May 2018 to cater for tourists looking to surf, fish and paraglide.

CRUISES: Along other parts of the Moroccan coast, cruise tourism has the potential to add visitors to cities such as Tangier, Agadir and Casablanca, which host modern port infrastructure. To date the cruise segment has not been a strategic focus for tourism authorities, and although the overall number of tourists to the country has expanded considerably in the past decade, the number of cruise tourists docking at the kingdom's ports decreased at an average annual rate of 5.7% between 2009 and 2018, according to the ONMT. More recently, however, the trend seems to be reversing. Agadir saw cruise tourist arrivals grow from 93,000 in 2017 to 108,000 in 2018, while Tangier experienced a rise from 24,000 to 31,000 over the same years.

MEDICAL TOURISM: More established niches also present interesting opportunities for the sector to grow over the coming years. Medical tourism has been an active business in the kingdom since the 1960s, but as the country becomes increasingly linked with sub-Saharan African economies, more visitors from the continent are looking at Morocco for various types of medical procedures. The kingdom receives about 500,000 medical tourists per year who are attracted by the affordability of the clinics relative to European countries. Plastic surgery is one of the most popular reasons for medical tourism, with clinics in Rabat, Casablanca, Agadir, Marrakech and Tangier serving foreign patients.

Channelling resources into a wide array of niche segments is likely to support the tourism sector in diversifying its income sources. At the moment the sector remains highly dependent on a small number of destinations, with Marrakech, Agadir and Casablanca accounting for about 70% of all hotel nights in the country in 2018. However, by expanding access to maritime activities, ecotourism, MICE and other offerings, the kingdom will be able to disperse growing tourist traffic more evenly across its territory and deepen the industry's economic footprint.



An African passport has been proposed to facilitate free movement

Cross-border connections

Many African governments are taking steps to promote regional integration and intra-continental tourism

Tourism contributed
$194.2bn
to African economies in 2019

Africa's tourism sector is booming. With a growth rate of 5.6% in 2018, compared with the global average of 3.9%, the continent is home to the second-fasted expanding tourism industry in the world, after the Asia-Pacific region. Representing 8.5% of the continent's GDP, tourism contributed a total of $194.2bn to African economies in 2018. Multiple governments have recognised the importance of tourism to their countries' economic well-being. Many of them – particularly Kenya, Rwanda and South Africa – have adopted strategies to improve their meetings, incentives, conferences and exhibitions offering in a bid to attract business travellers.

Reflecting the rapid growth of Africa's tourism sector in recent years, the number of foreign nationals visiting the continent has also risen dramatically. Around 67m travellers visited African countries in 2018, an increase of 7% from 2017, when 63m people visited the continent. With 10m and 11m arrivals per year, respectively, Morocco and South Africa account for the most foreign visitors.

Despite the sector's impressive growth and increased visitor numbers, Africa still makes up a relatively small proportion of the international tourism market. For example, the continent accounted for 62.9m, or 5.1%, out of a total of 1.2bn global arrivals in 2016, according to the Africa Tourism Monitor complied by the African Development Bank (AfDB).

INTEGRATING AFRICA: African governments are increasingly moving towards continental integration, with efforts to liberalise trade and facilitate the free movement of people. These efforts are expected to have positive impacts on intra-African tourism. One key development is the push for further regional integration via the African Continental Free Trade Agreement (AfCFTA) and the African Union (AU) Protocol on Free Movement. Compared to other parts of the world, intra-regional commerce has historically comprised a relatively small proportion of Africa's total trade. In 2017 intra-African exports accounted for 16.6% of total exports, compared with 68.1% and 59.4% in Europe and Asia, respectively.

Approximately 67m travellers visited African countries in 2018, an increase of 7% from 2017, when 63m people visited the continent.

Increasing intra-African trade is therefore a priority for the continent. In a bid to increase the flow of goods and people across the region by establishing a common market, most African governments have signed up to the AfCFTA. As of December 2019, 28 countries had ratified the agreement, and all African nations except for Eritrea had signed up to it. If fully implemented, the agreement could boost intra-regional trade by 132.7%, according to the Peterson Institute for International Economics. Facilitating the free movement of people across national borders is one of the AfCFTA's primary objectives, as this will facilitate intra-regional trade and, by loosening travel restrictions, potentially increase the volume of intra-African passenger traffic.

While many barriers to the free movement of people – including restrictive visa requirements – remain in place across much of the continent, the push for greater regional integration is a positive development and, with the relaxation of existing travel restrictions, is likely to benefit intra-African tourism. Indicative of the importance many governments attach to increased intra-continental tourism, the AU hopes to double the number of African travellers visiting other countries in the continent by 2023, according to the AU's Agenda 2063.

Primarily backed by countries such as the Seychelles, the AU plans to introduce an African passport for all the continent's citizens in the coming years. The goal behind the African passport, which was initially announced in 2016 and is currently only available to heads of state, is to facilitate the free movement of people across the continent, in keeping with the broader goal of African integration.

VISA OPENNESS: Aside from the African passport, many African countries have already taken steps to

ease the burdensome visa regulations that hold back the potential of intra-African tourism. According to the 2019 Africa Visa Openness Report published by the AU and the AfDB, 47 African countries have either improved or maintained their visa openness scores. African citizens can travel to 27 of the continent's countries visa-free or through visa-on-arrival initiatives. Additionally, in 2019, 21 African countries offered eVisa platforms, an increase from 16 the previous year and nine in 2016.

While many African nations have taken steps to liberalise regulations, visa openness remains uneven across the continent. The Seychelles and Benin, for example, do not impose visas on African visitors. Ethiopia, meanwhile, is trying to become a regional transport hub and has consequently made improving visa openness a priority. The country jumped 32 points in the 2019 Visa Openness Index and is now the 18th-most open African country. Kenya is also highly ranked in the visa openness index, having introduced a visa-on-arrival scheme for African visitors in 2017. More recently, in December 2019 Nigerian president Muhammadu Buhari announced that his country would implement a visa-on-arrival scheme for African visitors in 2020.

However, despite the push for liberalising visa regulations, some African countries are in fact strengthening visa restrictions for visitors from elsewhere in the continent. In October 2018, for example, Tanzania changed its visa-on-arrival scheme for African nationals. The country now requires citizens of Djibouti, Ethiopia and Nigeria, among others, to apply for visas three months in advance.

If successfully implemented, the introduction of the African passport and the general push to liberalise visa and other travel restrictions would improve intra-African tourism. Progress in this area is, however, relatively slow due to bureaucratic deadlock and resistance from some African governments. According to the 2019 Africa Visa Openness Report, the percentage of African citizens who do not require visas to enter African countries remained static at 25% in 2018 and 2019, a modest improvement from 22% in 2017. Meanwhile, the percentage of African citizens eligible for visas on arrival increased from 24% in 2018 to 26% in 2019. It is therefore likely that visa openness will continue to make moderate gains in the short to medium term. However, while this push is generally positive, it will likely be several years before increased continent-wide visa openness has a significant, measurable impact on intra-African tourism.

EXPANDING MIDDLE CLASS: Home to six of the 10 fastest-growing economies in the world, according to the World Economic Forum, Africa has seen its middle class expand exponentially since 2000. Per a report published by data consulting firm Fraym in 2019, Africa is home to one of the fastest-growing middle classes, comprising around 330m people, compared to 313m in 2011. The study found that the Nigerian consumer class grew by almost 140%

The African Union hopes to double the number of Africans visiting other countries on the continent by 2023

between 2009 and 2019. By 2060 the AfDB predicts that the middle class alone will comprise some 1.1bn people, or 42% of the projected population.

This growing cohort is an opportunity for African countries looking to increase intra-continental tourism, as this demographic makes up a significant proportion of the continent's tourism traffic. According to a 2019 report by Jumia Travel, a firm specialising in African tourism, most African travellers – around 46% – visiting other countries in the continent are young professionals between the ages of 25 and 34.

FINANCIAL CONSTRAINTS: Despite this impressive growth, it is unclear whether Africa's middle class will be able to drive the continent's tourism sector in the coming years. There are many high-income earners that form part of the African political-business elite and have substantial investments in sectors such as commodities. However, around 60% of Africa's middle class – approximately 180m people – are in the "barely out of poverty" category, according to the AfDB. As such, their incomes are subject to extreme fluctuations, and individual members of the middle class may not have the required disposable income to spend on trips abroad, even to visit nearby countries. Tourism operators interested in the intra-African travel market will, therefore, need to take these financial constraints into account to price their products accordingly. Assuming that Africa's middle class has the same purchasing power as the likes of China puts operators at risk of setting unrealistic targets and pricing the middle class out of the market. Thus, while Africa's growing middle class will likely travel across the continent and boost tourism, many members of this cohort still face significant financial challenges.

Some high-income individuals may be able to make the most of travel opportunities, however, and this proportion is likely to rise as African economies continue to grow. It is worth noting, though, that

African citizens can travel to 27 of the continent's countries visa-free or through visa-on-arrival initiatives, and 21 African countries offered eVisa platforms in 2019.

Africa's expanding middle class presents an opportunity for countries looking to increase tourism. In 2019 the continent's middle class comprised around 330m people, compared to 313m in 2011.

Targeted infrastructure projects across the continent are expected to add more than 54,110 km of roads

Annual investment in Africa's transport infrastructure is expected to rise by

46.4%

in 2020

this trend could face disruptions as many economies remain vulnerable to fluctuating commodity prices.

TRANSPORT INFRASTRUCTURE: For most African governments, improving transport infrastructure is a policy priority, as high-quality, intra-continental connections facilitate economic integration and improve cross-border networks. According to consultancy firm GlobalData, annual investment in Africa's transport infrastructure is expected to increase by 46.4%, from $47.1bn in 2019 to $69bn in 2020. Targeted projects are scheduled to add more than 54,110 km of roads, 55,345 km of railroads and 599 km of bridges. With anticipated investment figures of $9.8bn, $8.5bn and $7.5bn, respectively, Nigeria, Kenya and Egypt are attracting some of the highest levels of investment in transport infrastructure.

There are a number of individual projects expected to encourage intra-African tourism. For example, the proposed rail line across the Economic Community of West African States, linking Togo to Côte d'Ivoire via the Ghanaian coast, is set to improve transport connections in West Africa. In October 2019 the Ghanaian Ministry of Railways Development signed an agreement with Coastal Railway Network, a private investor, to develop a 530-km line from Aflao to Elubo on a build, operate, transfer basis, as part of the ministry's plans to develop a nationwide rail network.

AVIATION: Despite recent developments, significant challenges remain, which may hinder the growth of intra-African tourism. Aviation infrastructure is one area in particular need of improvement in order to support growing passenger traffic. As of January 2019 Africa was home to 731 airports and 419 airlines. According to the International Air Transport Association, the continent is set to become one of the fastest-growing aviation regions in the world.

However, the segment's potential, and its ability to boost intra-African tourism, is held back by poor infrastructure. Many African airports are outdated and were not constructed to support high numbers of arrivals, and ticket prices remain relatively high. As a result, while recent investment in the transport sector is promising and will undoubtedly benefit the development of intra-continental tourism, some difficulties remain. Infrastructure development has largely focused on road and rail networks rather than expanding airports and flight connections. In order for continent-wide tourism to grow, aviation needs to be a priority for the sector.

NEW OPPORTUNITIES: The general movement towards a more prosperous and integrated Africa has brought with it new opportunities for intra-continental tourism. Combined with the rapid growth of the middle class across much of the region, many countries are liberalising visa regulations and focusing on improving transport infrastructure in a bid to make continental travel easier for African nationals.

In anticipation of rising traveller volumes in the coming years, hotel companies across Africa are attempting to increase the number of rooms available. According to Jumia Travel, Egypt has been leading the way in this regard, with 15,158 hotel rooms in the pipeline as of 2019, followed by Nigeria (7940), Morocco (6395) and Ethiopia (6184).

Despite impressive growth in recent years, obstacles remain for African countries looking to increase their visitor numbers. These include slow bureaucracy, institutional resistance to liberalising visa regulations, financial constraints on the emerging middle class and, despite recent improvement, poor infrastructure. In particular, many airports remain unable to support rising passenger numbers. Nevertheless, despite these issues, the overall trend remains positive for intra-African tourism, with visitor numbers continuing to grow, and signs that governments are pushing for regional integration and greater investment in transport infrastructure.

African tourism grew by 5.6% in 2018, versus the global average of 3.9%

As of January 2019 Africa was home to 731 airports and 419 airlines, and the continent is set to become one of the world's fastest-growing aviation regions.

Health & Education

Steady progress on the goals laid out in Santé 2025

Private sector makes substantial investment in clinics

New framework law set to improve access to schooling

Primary education extended to pupils as young as four

The number of patients per doctor fell from 1600 in 2011 to 1386 in 2018

Balanced approach

A higher sector budget and growing insured population drive investment in private health facilities and pharmaceuticals

In 2020 the government allocated

$9.5bn

to health, education and scientific research

Morocco has made steady progress on Santé 2025, the quadrennial national strategy for improvement of the country's health care sector. The kingdom recently inaugurated a number of new public health facilities and is approaching universal health coverage as it extends insurance schemes to self-employed workers and other segments of the population. The private sector has also made significant investments in new clinics and pharmaceutical production units. Moreover, the kingdom continues to be an attractive destination for medical tourists, who come from sub-Saharan Africa in increasing numbers. At the same time, however, the sector faces serious challenges, most notably those related to a shortage of human resources in the public sector and the prevalence of non-communicable diseases (NCDs).

STRUCTURE & OVERSIGHT: The Ministry of Health (MoH) oversees the sector and manages the kingdom's public health facilities, including state hospitals. The ministry is also responsible for the implementation of health policies such as Santé 2025.

According to the Ministry of Economy and Finance, in 2020 the MoH had an operating budget of Dh15.3bn ($1.6bn), up from approximately Dh13.2bn ($1.4bn) in 2019. Beyond the MoH's operating budget, the 2020 Finance Law allocated the ministry an additional Dh3.4bn ($354m) for investments associated with the implementation of Santé 2025. In 2020 the government allocated some Dh91bn ($9.5bn) to health, education and scientific research, with spending on health care comprising roughly Dh18.7bn ($1.9bn) of the total. The decision to focus on health and education is in line with the vision laid out by King Mohammed VI in a July 2018 speech, in which he called for urgent action to address the kingdom's inequalities.

The private sector accounts for the majority of health care spending in the kingdom, at 52.5% of the total in 2016, according to the World Bank. Doctors in the private sector constitute a majority of doctors/health care professionals. According to state planning and statistics body the High Planning Commission (Haut Commissariat au Plan), of the 23,300 doctors working in the kingdom in 2017, some 12,400 were employed in the private sector and 10,900 in the public sector. In addition, non-governmental organisations – such as the Lalla Salma Foundation for the Prevention and Treatment of Cancer, which has undertaken efforts to improve cancer treatment and awareness – also play a prominent role in the sector.

GENERAL INDICATORS: According to World Bank estimates, since 2000 the kingdom's key health indicators have gradually improved. For example, in 2017 average life expectancy at birth stood at 76.2, up from 68.7 in 2000. Women are expected to live up to 77, slightly longer than men, who are expected to live to around 74. In neighbouring Algeria and Tunisia, average life expectancy was 70.6 and 73.2, respectively, in the same year. Moroccans also live longer than the average person in the MENA region (73.9).

Maternal and infant mortality rates have similarly improved since 2000, with the maternal mortality rate falling to 70 per 100,000 live births in 2017, down from 188 in 2000. While the rate is lower than in Algeria (112), it is higher than in Tunisia (43) and the MENA region overall (57). The infant mortality rate stood at 19.2 per 100,000 live births in 2018, down from 41.7 in 2000. In MENA, Tunisia and Algeria, the average rates were 18.3, 14.6 and 20.1, respectively.

Maternal and infant mortality rates have improved since 2000, with the maternal mortality rate falling to 70 per 100,000 live births in 2017, down from 188 in 2000.

DISEASE BURDEN: As in many other high- and middle-income countries, NCDs represent the greatest threat to public health in Morocco. According to the World Health Organisation (WHO), NCDs were responsible for 80% of all deaths in 2016. The most prevalent was cardiovascular disease, which was responsible for 38% of all deaths, followed by cancer (14%), chronic respiratory diseases (4%), diabetes (6%) and other NCDs that collectively accounted for 18%. Throughout the MENA region as a whole, NCDs were responsible for roughly 74.5% of all deaths. While the rise in deaths associated with NCDs can be partially attributed to positive changes like longer life expectancies and lower instances of communicable diseases, lifestyle-related choices such as tobacco use and poor diet also contribute to the growing numbers.

In February 2019 the MoH unveiled a Dh5.4bn ($563m) national strategy to address and prevent NCDs. The strategy, prepared in partnership with the WHO, sets a number of targets to be completed by 2029. One of the main objectives of the strategy is to promote healthier lifestyles by establishing goals such as a 20% reduction of tobacco consumption and a 10% decline in overall salt consumption. To achieve these goals, the strategy indicates a need for greater ongoing efforts to educate the public about NCDs and healthy lifestyle habits. It also calls for the consolidation of health care services aimed at disease prevention. The strategy aims to reduce premature deaths caused by NCDs by 25% by 2029.

Although NCDs are the leading cause of death in Morocco, a number of communicable diseases remain a concern. For example, in 2017 there were around 99 cases of tuberculosis per 100,000 people, representing an improvement from roughly 115 cases per 100,000 in 2000, according to WHO estimates. Throughout the MENA region, the average incidence of tuberculosis is 31 per 100,000 people.

In 2016 around 14% of deaths in Morocco were the result of communicable, maternal, perinatal and nutritional conditions. In March 2019 then minister of health Anas Doukkali said that the ministry considered the treatment of tuberculosis a high priority and aimed to reduce associated deaths by 40% by 2021.

PRIVATE SECTOR: According to a 2018 MoH study on population and family health, in 2017 there were 333 private for-profit and 23 private non-profit clinics, with combined bed capacities of 8554 and 1165, respectively. While private medical facilities provide a smaller share of medical services in the kingdom, these clinics can be more attractive than public facilities to both patients and doctors. Although roughly 1500 more doctors work in the public sector, private clinics make up a minority of the kingdom's total bed capacity.

Following 2015 legislation allowing individuals – other than doctors – to own private clinics, private medical infrastructure has expanded rapidly, particularly throughout major cities such as Casablanca, Rabat, Tangier and Marrakech. Between July 2018 and October 2019 Moroccan clinic operator Akdital Holding opened four new clinics in the Casablanca area: two multidisciplinary clinics, an oncology clinic and a cardiology clinic. Meanwhile, a number of other private operators have pursued a strategy of consolidation. In mid-2019 Oncologie et Diagnostic du Maroc acquired Clinique Badr in Casablanca, and KMR Holding acquired the Hôpital Privé de Marrakech 2018.

One of the private health sector's main drivers of growth is demand from medical tourists. The most well-established segment in terms of regularly attracting medical tourists is plastic surgery. Tourists from Western Europe and the Middle East comprise many of the foreign patients in local clinics. However, patients from sub-Saharan Africa – in particular from countries such as Côte d'Ivoire and Senegal – are increasingly common. The most sought-after procedures for medical tourists include eyelid surgery, rhinoplasty and face-lifts. In addition to plastic surgery, medical tourists routinely travel to Morocco to receive treatment related orthopaedics, oncology and ophthalmology.

In 2020 the Ministry of Health had an operating budget of $1.6bn, up from approximately $1.4bn in 2019

PUBLIC SECTOR: In 2017 there were 158 public hospitals located in the kingdom. Of these, 25 were university hospitals, 26 were regional, 77 were provincial or prefectural, and 30 were local, with a combined bed capacity of 25,380. A key priority of Santé 25 is to develop the kingdom's public hospital network. In 2018 some 13 new hospitals were built, with a combined bed capacity of 1085. These include provincial hospitals in Temara and Driouch, as well as local hospitals in Imzouren and Ksar El Kebir.

Construction has begun on five health care facilities, including a university hospital centre in Laâyoune. According to the Ranking Web of World Hospitals – an initiative from Cybermetrics Lab, a research group of the Spanish National Research Council – the best performing hospitals in Morocco are the publicly funded Centre Hospitalier Mohammed VI in Marrakech and the Centre Hospitalier Universitaire Ibn Rochd Casablanca, which rank 3133rd and 5189th, respectively.

MEDICAL STAFF: The shortage of human resources is one of the main challenges facing Morocco's public health system. In 2017 there were 4284 patients for every doctor in the public sector, while the figure was notably lower, at 2888, in the private sector. The shortage of doctors and relatively low compensation have led to widespread dissatisfaction among doctors and other health care professionals. In August 2019 doctors participated in a two-week strike organised by the Independent Union of Public Sector Doctors. Earlier that year around 300 doctors in northern Morocco

In February 2019 the Ministry of Health unveiled a $563m national strategy to address and prevent non-communicable diseases.

The value of the local pharmaceutical market is forecast to reach

$3.5bn

by 2029

collectively resigned in protest of the public health system's shortcomings. However, some progress has recently been made, and in Budget Citoyen 2020, a consumer report on the 2020 budget, the government noted that the number of patients per doctor fell from 1600 in 2011 to 1386 in 2018.

INSURANCE: In August 2019 the government adopted a decree that expands coverage under Compulsory Health Insurance (Assurance Maladie Obligatoire, AMO), one of the kingdom's two main public health insurance schemes. The AMO was launched in 2005 with the purpose of providing coverage to those employed in the government and private sectors, as well as their dependants. Through the new plan, patients are eligible to be reimbursed for up to 70% of the cost of their private health care treatment and 80% of their public treatment.

The new decree extends AMO coverage to professionals, self-employed workers and those in liberal professions who do not receive a salary. Those who work in various medical, legal and financial fields are expected to benefit most from the coverage. Once the decree is implemented, 11m insured persons will benefit from medical coverage. According to the latest social security report by the Supervisory Authority of Insurance and Social Security, as of end of 2017 some 9m Moroccans were insured by the AMO. In addition, the MoH announced in December 2019 that children aged five and younger, who are not eligible for the AMO, may receive free cancer treatment.

The Medical Assistance Regime (Régime d'Assistance Médicale, RAMED), which was launched in 2009 to provide medical coverage for people with lower incomes, is the kingdom's other main health insurance scheme. As of September 2019 around 14.4m citizens were covered by RAMED. Members of the Moroccan armed forces are covered by a third government-backed scheme.

PHARMACEUTICALS: In 2018 the value of the local pharmaceutical market was approximately Dh16.53bn ($1.7bn), and it is forecast to reach Dh33.76bn ($3.5bn) by 2029. According to the Moroccan Association for the Pharmaceuticals Industry (Association Marocaine de l'Industrie Pharmaceutique, AMIP), in October 2019 sales of generic drugs were up 9.7% from the previous year, constituting approximately 40% of the local pharmaceutical market by volume and value. Sales of brand-name drugs grew by 1.9% in volume and 5.5% in value over the same period.

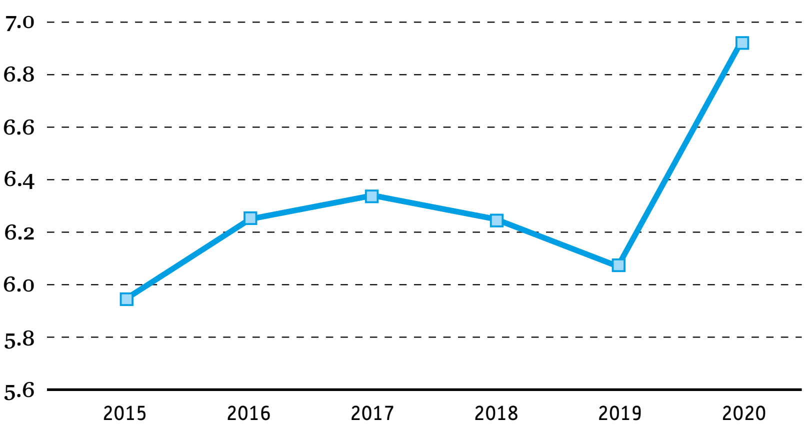
A number of recent regulatory changes are expected to expand the kingdom's market share of generics, and in turn, decrease the price of drugs. There is strong sentiment among industry stakeholders that pharmaceutical companies need to diversify their cost advantages, and find the proper balance between the quality consumers demand, and the prices they are willing and able to pay for.

In March 2019 the government issued a new decree requiring pharmaceutical companies to demonstrate a generic drug's bioequivalence to a corresponding brand-name drug, prior to obtaining authorisation to sell the generic version. "The decree is likely to boost the market share of generics in the local pharmaceutical market," Layla Sentissi, executive director of AMIP, told OBG. "In the short term, pharmaceutical companies that wish to commercialise generic drugs will need to commission bioequivalence studies. In the long term, however, physicians are more likely to prescribe generic drugs, since they are more affordable and studies document their bioequivalence to brand-name drugs," she said.

Sentissi also noted that the market share of generic drugs in Morocco (40% in 2019) is considerably lower than that in markets such as the US, where the market share of generic drugs is approximately 89%. This difference indicates that the kingdom has the potential to significantly reduce overall health costs by continuing to expand the use of generics. "Although bioequivalence studies are now mandatory, high-quality generic drugs have been commercialised in Morocco for decades," Sentissi added.

As of early 2020 bioequivalence studies were mandatory for generic drugs. The new decree seeks to ensure that generic drugs are equally as safe and effective as their brand-name counterparts. Companies currently commercialising generic drugs will be required to submit proof of bioequivalence with their applications for renewed marketing authorisation, which are required every five years. As part of the national drug policy aimed at facilitating access to drugs and reducing health care costs, in February 2019 the MoH announced that the government had lowered the prices of 319 drugs after exempting them from the kingdom's value-added tax. The price decreases followed provisions in the 2019 budget that exempted drugs with public selling prices of over Dh962 ($100). The drugs in question are primarily medications such antibiotics and treatments for anaemia, haemorrhages, epilepsy, sclerosis and polyarthritis. The MoH has reduced the average price of over 3700 medications since 2014, when it began the implementation of Decree No. 2.13.852, which concerned the overall regulation of drug prices.

Health sector budget, 2015-20 (% of total operating budget)



Source: MEF

Another key aspect of the MoH's drug policy is ensuring that drug costs in Morocco match international benchmarks. According to the new decree, the MoH may lower prices if local drug prices exceed international benchmarks, and pharmaceutical companies may request to commercialise drugs at higher prices if local prices are below these benchmarks.

Although the majority of revisions since 2014 have involved price cuts, in April 2019 the MoH increased the prices of 14 drugs. The increases in the public selling prices for the drugs ranged from Dh2 ($0.20) to Dh150 ($15.63), and included brand-name medications such as those used to treat cancer, epilepsy and cardiovascular issues. Sintrom, a medication used to prevent blood clots, saw the lowest increase, from Dh17.90 ($1.87) and Dh20 ($2.08). Protamine Choay, meanwhile, a medication that is most commonly used during heart surgery, was subject to the highest increase, from Dh16.10 ($1.68) to Dh166 ($17.32).

Sentissi welcomed the price revisions, telling OBG that such repricing helps pharmaceutical companies maintain a sustainable business model in the local market because they "incentivise local production and investment, which will help reverse the kingdom's reliance on pharmaceutical imports".

Throughout 2019 a number of pharmaceutical companies in Morocco announced the opening of new production units and investments which are set to further boost local production capacity – a key factor in meeting the goals set by Santé 25 and the Industrial Acceleration Plan (see Industry & Mining chapter).

In June 2019 Mylan Pharmaceuticals Maroc, a subsidiary of US-based pharmaceutical company Mylan NV, announced the inauguration of the company's first production unit in the country. Mylan intends to invest approximately Dh120m ($12.5m) in its local production facilities by 2023. The company also has plans to manufacture drugs such as MyhepAll, a generic medication for the treatment of hepatitis C. As of early 2020 its facilities covered 1500 sq metres, and plans were in the pipeline to expand by around another 900 sq metres. Meanwhile, in January 2019 Moroccan pharmaceutical company Sothema inaugurated a new Dh200m ($20.8m) manufacturing facility, intended to produce a number of anti-cancer drugs. The facility, which is based in Bouskoura, 20 km south of Casablanca, will manufacture cancer treatments based on biosimilars, which are expected to be around 30% cheaper than those currently used. Notably, this facility is among the first in Africa to produce anti-cancer drugs that focus on biotechnological techniques.

In October 2019 sales of generic drugs were up 9.7% year-on-year

Throughout 2019 a number of pharmaceutical companies in Morocco announced the opening of new production units and investments which are set to further boost local production capacity.

OUTLOOK: Morocco's growing insured population and middle class is likely to incentivise additional investment in private health facilities and pharmaceutical production units. At the same time, the government has demonstrated progress in meeting goals set by Santé 25, which is likely to continue given the increase in the MoH's budget in 2020. However, the public health sector will likely continue to face pressure to address the ongoing shortage of health professionals.

Amine Benabderrazik, President, Association of Multinational Pharmaceutical Companies in Morocco

Local focus

Amine Benabderrazik, President, Association of Multinational Pharmaceutical Companies in Morocco (Les Entreprises du Médicament au Maroc, LEMM), on boosting pharmaceuticals

What steps could be taken to successfully boost local production of pharmaceuticals?

BENABDERRAZIK: Around 80% of medicines – both originals or generics – commercialised today in the Moroccan private market are manufactured locally. This is one of the highest local manufacturing rates in the region, and makes Morocco a good model for countries that want to further develop their local production of medicines. For every 10 locally manufactured products, six are original formulas, which is testament to the success of the 50 years of collaboration between multinational and local companies, specifically in terms of technology, and transfer of knowledge and know-how.

Further growth of the market, for local production as well as innovative treatments, requires the fundamental prerequisite of expanding and improving universal health coverage, the biggest challenge today in Morocco. While local manufacturing remains an important aspect in boosting the national pharmaceutical industry, ensuring patient access and product availability are much more critical for our patients and overall health care system. Currently, less than 40% of Moroccans are covered by the compulsory health insurance scheme, and there is an urgent need to find the appropriate way to expand access to all citizens for all types of medication, not only those that are essential.

In what ways can health coverage be increased?

BENABDERRAZIK: The wider availability of generics has not effectively increased coverage or access. About 40% of the private market and more than 90% of the public market are made of generics. Having cheaper medicines does not necessarily correlate with improved access for patients.

Morocco needs to find tangible and innovative ways to expand access to health care, and it can do this by introducing telemedicine; reinforcing the use of digital and health-related applications to help bridge geographic disparities; and, most importantly, by further expanding the list of reimbursed products and innovative treatments, giving patients access to effective treatment options. Public-private partnerships are one model that can be used to successfully implement these initiatives.

Going forward, how important is it for the kingdom to invest in biopharmaceuticals?

BENABDERRAZIK: Since 1970 multinational pharmaceutical companies have contributed to the development of Morocco's pharmaceutical industry. Today it is becoming crucial to strengthen our capabilities in terms of clinical and biomedical research to subsequently attract further investments in biotechnology. This is one of our utmost priorities, and is why we are working closely with Moroccan government to create the legal and competitive framework that would allow the kingdom to fulfil such ambitions. The African market is showing significant growth opportunities, even if it still accounts today for only 1-2% of the global pharmaceuticals market. We must remain consistent with our local ambitions.

In order for Morocco to gain recognition throughout the African continent in terms of clinical research and biotechnology, public and private players in the market need to work together in finding common solutions and establishing an effective strategy to create value-added products in the years to come. On the other hand, intellectual property must also be considered when talking about biotechnology. The framework in Morocco currently covers only marketed medications, thus further regulations are required to ensure that intellectual property protection is fully respected. This will guarantee protection for foreign investors either in biotechnology or in clinical research, and will pave the way for better access to health care and innovation in the kingdom.

Global Perspective

Prognosis positive

Health tech start-ups are finding effective solutions to persistent problems and expanding access in remote areas

With demand for health care on the rise across the developing world and many governments struggling to keep pace with the changing needs of their populations, a new generation of health tech start-ups is entering the market. Harnessing the possibilities brought about by the digital revolution – notably the expansion of mobile phone penetration, but also emerging disruptive technologies such as artificial intelligence (AI), blockchain and drones – these new companies are providing innovative solutions to the health care challenges of the 21st century.

Start-ups utilising digital platforms and logistics software are expanding and enhancing treatment, helping to bridge the rural-urban divide in access to pharmaceuticals and medical professionals, while also improving pre- and postnatal care at a distance through smart phone-enabled telemedicine. Others are forging ahead in facilitating the early detection and treatment of non-communicable diseases (NCDs), along with psychiatric disorders and dementia. Many countries have recognised the potential of these non-traditional private sector players, introducing start-up accelerator programmes and forming deals with emerging tech companies to boost coverage and treatment. Nevertheless, a number of barriers to the expansion of health tech start-ups remain, ranging from underdeveloped ICT infrastructure, a lack of access to start-up capital and limited human resources.

RISING DEMAND: A combination of demographic and economic trends is driving an increase in demand for health care across the developing world. Populations are growing and – in some countries – ageing, while economic development supporting is the emergence of an increasingly prosperous middle class. Indeed, according to the UN, the global population is set to rise from 7.7bn in 2019 to 8.5bn in 2030 and 9.7bn in 2050, with the countries of sub-Saharan Africa projected to account for over half of this expansion. Concurrent with both population growth and a shift in consumer habits and lifestyle choices as a result of greater disposable income, emerging economies have experienced a rapid rise in NCDs, including cancer, cardiovascular and chronic respiratory disease, and diabetes. This shifting disease profile is placing considerable financial strain on developing countries, with a 2019 World Health Organisation (WHO) study of 11 emerging economies finding that the negative impact of NCDs on these states averages 4.4% of GDP per year, largely as a result of lost productivity. Due to these factors, both public and private spending on health care is rising steadily, with the combined value of the sector in emerging markets standing at $1.3trn in 2018 and set to grow by 6.3% annually through the decade to 2030 – double that of developed countries – according to UBS Investment Bank.

STATE CAPACITY: While state investment in the sector is rising across low- and middle-income nations, spending often falls short of what is required to adequately address diverse and changing health needs. The WHO estimates that up to 5bn people worldwide will be excluded from health care by 2030 unless countries invest an additional 1% or more of GDP into primary care provision. With many countries struggling to meet the health care requirements of their populations, a high and rising amount of procedures in the developing world are paid for out-of-pocket, with payments of this kind amounting to around $500bn per year and disproportionately affecting the poorest, residents according to the World Bank.

Faced with these challenges, governments are increasingly looking to leverage digital technologies to improve efficiency and enhance services, especially through the digitisation of health records, with tech start-ups playing a central role in these endeavours. "The biggest challenge by far is the lack of credible data. There needs to be further public-private collaboration in terms of gathering data," George Kesse, global head of business development at the

Standing at $1.3trn in 2018, the collective value of the health care sector in emerging economies is projected to grow by 6.3% annually up to 2030.

Countries are recognising the potential of non-traditional private sector players, and are introducing start-up accelerator programmes and forming deals with emerging tech companies to increase health care access.

Emerging economies face a number of challenges to the provision of health care, such as significant rural-urban divides in access to medicine and medical professionals, and fake or inaccurately labelled pharma products.

Accra-based medical logistics firm mPharma, told OBG. Nigerian mobile health provider InStrat Global Health Solutions also recognises this problem, and is collaborating with local authorities to introduce a digital platform that enables health practitioners to access and manage centrally stored medical records. Similarly, in 2013 Cote d'Ivoire launched OPISMS, a mobile phone-based electronic vaccination booklet developed by two health tech entrepreneurs and backed by the Ministry of Health.

This move towards the digitisation of medical records is, in turn, creating further business opportunities for new companies, providing them with invaluable data that can be leveraged through digital technologies to offer improved care and better responses to changing consumer demand. "If the government guarantees the availability of medical information, big data is going to play a key role in the sector," Sandra Ramírez, country manager for Colombia of the global pharmaceutical company Bristol-Myers Squibb, told OBG. "Providing real-time information about individual patients allows providers to quickly make the right decisions for treatment on a case-by-case basis."

COMMON CHALLENGES: Aside from limitations on the spending capacity of governments, emerging economies face a number of specific challenges to the provision of health care services. These problems include a significant rural-urban divide in access to medicine and medical professionals, along with fake or inaccurately labelled pharmaceutical products. However, tech start-ups are playing an increasingly proactive role in attempting to overcome these issues. In April 2019 the Ghanaian government announced a deal with the US-financed start-up Zipline to use drone technology to make on-demand deliveries of vaccines, blood transfusions and other medical supplies to remote areas of the country in an effort to narrow the gap. In a sign of the growing appetite among investors for innovative health tech start-ups, the project has attracted international investment "in the tens of millions of dollars", according to Keller Rinaudo, CEO of Zipline. Once fully operational, the project is expected to facilitate 600 deliveries per day to 2000 health facilities, serving around 22m people.

Another pressing issue faced by many developing countries is the proliferation of fake drugs, with the WHO reporting in November 2017 that around 10% of all medications sold in low- and middle-income countries are substandard or counterfeit. The problem is particularly acute in Africa, from which 42% of all cases of fake pharmaceuticals reported to the WHO arose. According to the WHO, antimalarials and antibiotics rank among the most commonly substandard or falsified medical products, disproportionately affecting the least developed nations. The WHO estimates that between 64,000 and 154,000 people die each year in sub-Saharan Africa as a result of taking counterfeit antimalarial medication. A number of start-ups have emerged with the aim of combatting this problem. A notable example of this is Accra-based start-up mPedigree. Founded in 2007, the company provides a mobile phone platform that allows consumers to verify the authenticity of medicines. The company has since expanded its operations across the continent and also into India. Similarly, Nigerian tech start-up RxAll harnesses AI to enable drug authentication. While mPedigree functions by tracking the serial numbers displayed on the product packaging through a mobile app, RxAll provides a handheld nanoscanner that analyses the makeup of the chemical compounds found in the medicine before relaying this information to the company's cloud-based platform for analysis.

Digitisation of medical records is creating business opportunities, providing invaluable data that can be leveraged through digital technologies to offer improved care and better responses to changing consumer demand.

START-UP BOOST: Recognising the positive role tech start-ups can play in the expansion and improvement of health care services, many emerging markets are pursuing policies aimed at supporting the burgeoning sector, through accelerator and booster programmes, and public-private partnerships.

Health start-ups have figured heavily in many accelerator programmes and award shows in sub-Saharan Africa. For example, Doctoora came first in the state-backed Nigerian Economic Summit Group Start-up Pitch Competition in October 2019, receiving a prize of N5m ($16,300). The company, founded in 2016, provides a digital platform through which health care professionals can rent space to treat patients on a pay-per-use basis, and allows patients to arrange consultations with doctors, thus better managing underutilised capacity and reducing end costs for the consumer.

Earlier in May 2019 the Australian-headquartered start-up accelerator BlueChilli announced a partnership with Enterprise Singapore to launch a programme to support new South-east Asian companies operating in the health tech segment. The firm also established an innovation centre in Amatil, Indonesia to help build regional capabilities among emerging firms and formed an additional partnership with the Singaporean venture capital firm Hatcher+ to invest in 240 health tech start-ups across the region. Upon becoming fully operational in 2020 the project will provide training, seed funding and mentorship programmes to innovative medical firms in five countries.

Nevertheless, more remains to be done to improve the business ecosystem of developing countries to ensure health tech start-ups can flourish and improve health outcomes. This includes implementing supportive legal frameworks and efforts to ensure that capital is available for new firms. Furthermore, tech start-ups in emerging markets often face hurdles in terms of insufficiently developed ICT infrastructure and a lack of adequately trained tech professionals, with many low- and middle-income countries facing a chronic shortage of software developers. The segment also faces a global shortage of health care professionals. According to the World Economic Forum, only half of all countries have the necessary number of health professionals, and the spread of the global health workforce is inequitably distributed: Africa, for example, has 24% of the global disease burden but only 3% of the world's health professionals.

MIDDLE EAST & NORTH AFRICA: Faced with growing health care demand but an ever-growing presence of

ICT, the economies of the Middle East and North Africa have recorded a rapid upsurge in health tech start-ups. According to Wamda Research Lab, Egypt and the UAE lead the pack in terms of the number of health start-ups, followed by Palestine, Lebanon, Jordan and Saudi Arabia. The lion's share of the region's health start-ups is orientated towards providing greater access to medical professionals by means of digital platforms. One notable success story is Cairo-headquartered online medical portal Vazeeta. Initially launched in 2011 the website provides a searchable database of medical practitioners, allowing patients to compare fees and patient reviews before booking an appointment. Initially limited to Egypt, the company has since expanded its operations to Jordan, Lebanon and Saudi Arabia.

This data highlights the strong potential for international expansion among the region's health tech start-ups. Of the 120 companies surveyed by Wamda Research Lab in 2016, 48% were found to have the potential to grow across countries and continents, given that they address universal health care issues and are linguistically inclusive. A similar initiative is DabaDoc in Morocco, which offers both a website and mobile app that allows customers to find a doctor and book an appointment. In response to a pronounced rural-urban divide in access to health care, Morocco also saw the launch of the Medtrucks, a digital platform using logistics technology to provide mobile medical facilities in remote areas.

SUB-SAHARAN AFRICA: Sub-Saharan Africa has emerged as a leading centre for medical tech start-ups, with the segment attracting $18m in investment in 2018, according to the annual African Tech Start-ups Funding Report. The region faces major challenges with a significant disease burden combining both infectious disease and a recent rise in NCDs. Given the shortage of trained medical practitioners and the continent's underdeveloped transportation infrastructure, telemedicine – the provision of medical services over distance using ICT technology – has seen particular growth, and the market is expected to grow from $18bn in 2015 to $41bn by 2021.

One such start-up is SeekMed, an app that provides digital consultations with health care practitioners from around the world. Other digital platforms aimed at improving outcomes include the Côte d'Ivoire start-up REMA, a mobile app that provides a social network for African doctors, allowing them to collaborate on cases to avoid misdiagnosis.

Despite significant improvements in recent decades, the continent retains the highest global rate of infant mortality, with sub-Saharan Africa having 52.7 deaths per 1000 live births in 2018, according to the World Bank. Faced with this persistent problem, a number of start-ups have emerged to provide mothers with improved access to pre- and postnatal care, including Omomi, a Nigerian app for pregnant women and mothers to monitor their child's health and consult with doctors using a pay-as-you-go subscription.

Other emerging tech companies are providing digital solutions aimed at improving access to authentic pharmaceutical products at affordable prices, such as the MYDAWA website and app in Kenya. The platform allows consumers to purchase medicines directly from suppliers and had over 80,000 registered users as of late 2019. Similarly, the Ghanaian start-up mPharma uses logistics software to manage prescription drug inventories for pharmacies and streamline last-minute delivery of pharmaceutical products. Since its foundation in 2013 the firm has undergone significant expansion, widening its operations to other countries in the region and most recently purchasing Haltons – Kenya's second-largest pharmacy chain – in March 2019.

LATIN AMERICA: Across the Atlantic, Latin America has also experienced a rise in the number and variety of tech start-ups. These include firms providing digital platforms for telemedicine consultations, such as Medicato in Mexico and the Colombia-headquartered app 1doc3. Another notable telemedicine provider is the Mexico-based start-up Docademic, which offers free video consultations with doctors. The platform utilises AI to optimise its operations and uses blockchain to securely store patient data. The region has also pioneered the development of innovative digital products to support healthier lifestyles and achieve early detection of illnesses. Adult obesity has become a major health challenge, with one in four adults in the region being obese in 2019, according to the UN Food and Agriculture Organisation. As part of an attempt to combat this issue, Mexico saw the 2014 launch of InstaFit, an app that provides users with nutritional guides and allows them to stream over 600 workout and meditation exercises. According to the Mexican Psychiatric Association, around 30% of the country's population has some form of mental condition, though only one in five receives treatment. In an effort to address this, 2016 saw the launch of Mexican start-up Jenny, an interactive mobile platform that asks users daily questions about their emotional well-being. Using AI, the app monitors the mental well-being of the user and provides therapeutic recommendations.

ASIA: Supported by rapidly increasing ICT infrastructure and smartphone penetration, Asia plays host to the world's second-largest health tech industry, attracting $6.3bn in investment in 2018. The health start-up ecosystem has been particularly dynamic in South-east Asia, with the region accounting for 22% of all health tech deals on the continent in the first quarter of 2019, up from 11% in 2017, according to figures from Galen Growth Asia.

Many of these start-ups offer online platforms that enable telemedicine consultations with medical practitioners, such as Halodoc and SehatQ in Indonesia, and Teleme in neighbouring Malaysia. In addition, a burgeoning number of start-ups are providing wellness solutions, such as Valea Health in the Philippines. Founded in 2018 the start-up provides a digital platform through which customers can receive virtual health coaching, view fitness classes and receive coaching. In addition, new tech companies are emerging that provide apps offering psychotherapy, life coaching and career advice, such as Mosia in Vietnam.

Egypt and the UAE are regional leaders in terms of the number of health-oriented start-ups, followed by Palestine, Lebanon, Jordan and Saudi Arabia.

The Asian health tech industry attracted
$6.3bn
in investment in 2018

Student enrolment grew from 6.24m in 2009 to 7.19m in 2018/19

Steady progress

Demand for private schooling continues to grow as the Parliament approves the highly anticipated new framework law

In accordance with a new education framework law, the government has until 2025 to enact compulsory education for children between four and 16 years of age.

In 2020 the education budget made up roughly

27%

of planned government spending

In August 2019 the Parliament approved a long-awaited education framework law which aims to increase the quality and accessibility of the education system. The new law, officially known as framework law 51.17, puts into motion proposals recommended in its 15-year plan for the education sector, which runs from 2015 to 2030, and includes the recruitment and training of 200,000 new teachers. The plan bases the need for reform on the education system's weaker areas, such as the economic difficulties faced by graduates.

STRUCTURE & OVERSIGHT: The new law makes a number of important changes to the structure of Morocco's education system. Under the law, primary education, which covers six years, will be made available to pupils as young as four years old. Previously, primary education began at age six, and schooling before that point was considered pre-primary. Secondary education is divided in two three-year stages. The first stage, known as lower secondary, is compulsory, as is primary education. The second stage, known as qualifying secondary, is optional. While students in qualifying secondary schools have the choice to follow a general or technical track, the law outlines measures facilitating access to vocational training for students in lower secondary and improving such training for those pursuing it in qualifying secondary.

Changes and reforms stipulated by the new law will be gradually enacted over the next several years. For example, schools will have three years to integrate children aged four to six into primary schools. Similarly, the government has until 2025 to enact compulsory education for children between four and 16 years of age. While education stakeholders work to successfully meet the law's deadlines, current structures and regulations will remain in place.

The Ministry of National Education, Vocational Training, Higher Education and Scientific Research regulates the education sector and operates public educational facilities. The new education framework law further stipulated the establishment of a national commission to oversee implementation of the law and Morocco's education reform at large. In October 2019 the Cabinet issued a decree directing the creation of such a commission. The office of Prime Minister Saad-Eddine El Othmani will preside over the commission and the ministry will act as its secretary-general.

In 2020 the operating budget for the Ministry of National Education, Vocational Training, Higher Education and Scientific Research was Dh65.3bn ($6.8bn), up from Dh62bn ($6.5bn) in 2019, according to the Ministry of Economy and Finance. The 2020 figure made up roughly 27% of total government spending, an increase from 24% in 2018 and the average of 22% seen from 2007 to 2012. The ministry's budget is part of the Dh72.4bn ($7.5bn) set aside for the implementation of the new education law. Additional funds are associated with plans to invest new higher education and professional training establishments.

According to ministry figures, in the 2018/19 academic year the total number of schools continued a decade-long trend of gradual growth. Between 2009 and 2019 the number of public schools in urban and rural areas grew by approximately 15%, bringing the urban total to 5038 and the rural total to 5994. Student enrolment grew at a similar pace, increasing by around 15% from 6.24m in 2009 to 7.19m at the start of the 2018/19 academic year.

PRIVATE SECTOR: From 2009 to 2019 the growth of private education significantly outpaced that of public education. Between the 2009/10 and 2018/19 academic years the total number of private schools increased by 91%, while their public counterparts grew by 15%. Public schools make up the majority of institutions, comprising 11,032 of the total of 16,680. Private schools, however, showed the highest rate of growth. Of the 4326 schools created from 2009 to 2019, 2872 were private and 1454 were public. Similarly, the number of students enrolled in private education has almost doubled, increasing from 576,700 in 2009 to about 1.04m at the start of 2018/19. In contrast, the number of students in public school grew by 9% over the same period, rising from 5.7m to reach approximately 6.1m.

More resources and the prospect of better academic performance has attracted Morocco's growing middle class to private education in the kingdom. Students and parents cite access to better education and more resources as reasons to opt for private schools over public ones. The student-to-teacher ratio is lower in private institutions, indicating that students have more individual attention. In 2018/19 the country's private schools had roughly 12 students for every teacher, while in public schools the ratio was closer to 23:1. In a May 2019 report from the Higher Council for Education, Training and Scientific Research (Conseil Supérieur de l'Education, de la Formation et de la Recherche Scientifique, CSEFRS), private school students outperformed their public school peers, scoring significantly higher in an international assessment measuring student learning in reading. The report noted that private school participants scored, on average, 461 out of 1000, while the average score among public school students was 340.

In terms of higher education, foreign students, particularly those from sub-Saharan Africa, have been key contributors to the growth of private establishments. "In Morocco, private institutes of higher education are attractive to sub-Saharan students because they can be more affordable than similar institutes located in France," Camal Gallouj, director of HEC Maroc, a private business school in Rabat, told OBG.

Between 2013/14 and 2018/19 the number of students in private higher education grew by approximately 33%; as a subset of this population, the number of foreign students grew by around 56%. Foreign students represent a notably higher percentage of the population in private establishments than in public ones. In the 2018/19 academic year foreign enrollees made up about 16% of the student population in private schools, while constituting only around 1% of the total in public institutions.

ADDRESSING INEQUALITY: Although private schools play an essential role in diversifying education options for students, sector stakeholders have stressed the need to improve the quality of public schools in order to avoid exacerbating inequalities in the kingdom. According to the 2019 CSEFRS report, private school students benefit from more advantageous socio-economic backgrounds. For example, 91% of students in private institutions have at least one working parent, while just 35% of those in public school have this advantage. The report stressed the importance of reforms to improve the performance of public schools and ensure equal access to quality education for all students in Morocco – one of the main objectives of the kingdom's 15-year education plan.

"Public and private schools must be in a complementary relationship," Younes Slaoui, general manager of private school EFI Casablanca, told OBG. "To prevent the education system from magnifying inequalities, public schools must offer education quality standards equal to those in private schools," he said.

Between 2013/14 and 2018/19 the number of students in private higher education grew by about 33%

PUBLIC SECTOR: One of the most widely debated provisions of the new education law stipulates that schools must enable students to achieve proficiency in two foreign languages – in addition to the kingdom's two official languages, Arabic and Amazigh – by the time they complete qualifying secondary school. Although the law does not specify which two languages students must learn, French is widely used in business dealings and in government, Spanish is commonly spoken in northern Morocco and English has become increasingly popular. The law also states that scientific and technical subjects should be taught in foreign languages. Ultimately, the law's foreign-language provisions aim to better prepare graduates for successful participation in Morocco's increasingly globalised economy. The law states that work to implement these provisions must begin by 2025.

Furthermore, the new law continues to guarantee free education for students in public schools. Previous drafts of the law called on high-income families to pay school fees, but these provisions were not retained in the final draft. However, the law does provide for the creation of a fund to diversify the sources of funding for public education. The law states that the government, public institutions and contractors, and the private sector should contribute to the fund, but as of early 2020 no further specifications were provided.

The costs associated with public education are significantly lower than those in private schooling. According to a CSEFRS survey published in June 2019, households with children in private establishments spend approximately 12.7% more on the cost of education per child. The price difference is most notable at the primary level, where households spend up to 18% more. Unsurprisingly, a majority of households oppose the imposition of similar fees for public schools.

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In 2018 the adult literacy rate reached

74%

Despite ongoing challenges, Morocco's public education sector has made significant strides in recent decades. The literacy rate for those 15 years and older rose from about 30% in 1980 to 74% in 2018, according to the World Bank. Moreover, enrolment in qualifying secondary tripled between 2005 (12%) and 2018 (36%), and lower-secondary enrolment increased from 50% to 80% over the same period.

UNIVERSITIES: According to the Ministry of National Education, Vocational Training, Higher Education and Scientific Research, in the 2018/19 academic year there were 876,000 students attending public universities, 49,280 in private institutions and 35,450 in management-training organisations. That same year there were 396 higher-education establishments, made up of 129 public and 163 private schools, 73 management-training organisations and 31 establishments created in partnership with international institutes. Of Morocco's 12 public universities, which manage the 129 public institutions, Ibn Zohr University in Agadir is the largest, with 126,000 students attending in 2018/19. This is followed by Hassan II University in Casablanca (115,662) and Abdelmalek Essaadi University in Tétouan (107,352). Among those students attending public universities, around 424,260 study law, economics and social sciences, which remain the most popular fields. Notably, some 180,570 students study subjects related to science, technology, engineering and mathematics.

The growth of the public university student population has significantly outpaced that of permanent instructors in recent years. In July 2019 Saïd Amzazi, the minister of national education, vocational training, higher education and scientific research, told local media that one of the biggest weaknesses in Morocco's higher-education system is the challenge facing public universities when it comes to adequately supporting the growing student population. This is significant, as the majority of university students in the country attend public establishments. Between 2013/14 and 2018/19 the number of public university students increased by about 44% (607,145 to 876,005), while the number of permanent instructors increased by 17% (12,332 to 14,400). The rise in the public undergraduate population has also outpaced government spending on higher education and research, which grew from Dh8.1bn ($843.9m) in 2014 to Dh10bn ($1bn) in 2019, an increase of around 17%.

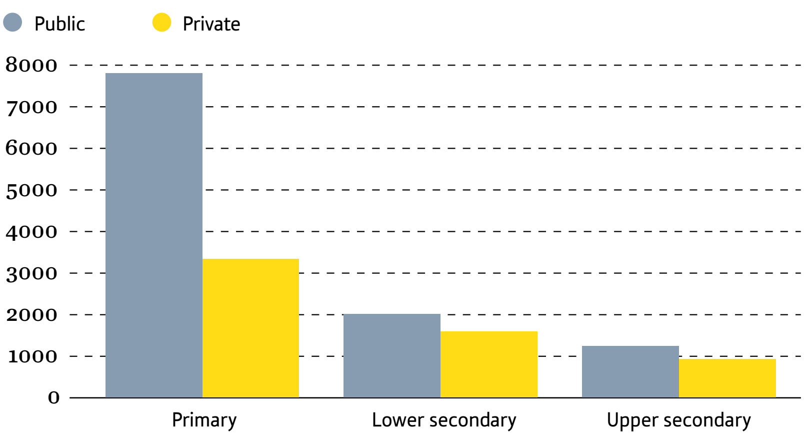
In response, the government has taken steps to increase the resources available to public university students. In April 2019 it released a decree directing the expansion of several universities, including Ibn Zohr University, which will soon have a new graduate teaching school and a humanities-focused college, and Abdelmalek Essaadi, which will have a new multidisciplinary college. In total, the decree provides for the creation of seven colleges and seven graduate schools across multiple universities. At a press conference following the announcement of the decree, government officials said the expansion of these universities is part of a broader strategy to bring university establishments closer to students.

At the same time, a number of new educational technologies are helping to expand the courses available to university students. In July 2019 the ministry launched the Morocco Digital University (Maroc Université Numérique, MUN), a platform that will allow students to take online classes, namely massive open online courses and some small private online courses. The platform is expected to offer programmes focusing on education and training, engineering sciences, IT, economics and finance, basic sciences, health, languages, management and entrepreneurship, the environment, humanities and law. MUN is operated by France Université Numérique, which currently operates a similar platform in France.

UNDERGRADUATE SYSTEM: In January 2020 Amzazi announced that Morocco will adopt a four-year undergraduate system starting in the 2020/21 academic year. Students currently pursue three-year undergraduate degrees similar to those available in other French-speaking countries. According to Amzazi, students beginning their undergraduate education in September 2020 will be the first to pursue four-year bachelor's degrees under a system similar to those seen in English-speaking countries. The minister noted that current undergraduates will complete their degrees under the existing system. Explaining the motivation behind the change, Amzazi stated that the new system is expected to make it easier for Moroccan students to study abroad, learn soft skills and master foreign languages.

For the private sector, Morocco's transition to a four-year degree system signals opportunity for collaboration with universities located in the US and elsewhere that operate under the same system. Amzazi announced the transition during the opening of a conference on the kingdom's adoption of the bachelor's degree, organised by the Ministry of National Education, Vocational Training, Higher Education and Scientific Research, and the US Embassy in Morocco. Beyond serving as a venue to discuss the new undergraduate reform, the conference aimed to promote

Number of schools by level, 2018/19



Source: MoE

exchanges and cooperation between the US and Morocco in the field of higher education in general.

VOCATIONAL TRAINING: The primary provider of professional training in Morocco is the state-run Office for Professional Training and Employment Promotion (Office de la Formation Professionnelle et de la Promotion du Travail, OFPPT). Of 398,590 professional trainees enrolled at the start of the 2018/19 academic year, 301,830 attended OFPPT. The majority of the remaining students were enrolled in the country's numerous private institutions. In 2018/19 the most popular fields for vocational and professional study were administration, management and business (93,600 trainees); metallurgic, mechanical and electric industries (80,380); construction and public works (49,650); and tourism and hospitality (34,750).

In April 2019 the government unveiled a project to establish professional training clusters (cités des métiers et des compétences, CMCs) throughout the kingdom. Each of Morocco's 12 regions will host a CMC, which will be made up of a set of professional training centres tailored to meet the labour needs of the surrounding region. The project seeks to accommodate 34,000 trainees, divided into groups of 20. It will require approximately Dh3.6bn ($375m) in investment, to be financed by the national government, the OFPPT and the individual regions themselves. The first CMCs are planned to be built in the Oriental, Souss-Massa and Laâyoune-Sakia El Hamra regions, and are expected to become operational in 2021. An additional five CMCs will open in 2022 in the Tanger-Tétouan-Al Hoceima, Rabat-Salé-Kenitra, Drâa-Tafilalet, Béni Mellal-Khénifra and Guelmim-Oued Noun regions. The final four CMCs are expected to open in 2023 in the regions of Fez-Meknes, Casablanca-Settat, Dakhla-Oued Ed Dahab and Marrakech-Safi.

The CMCs will provide training in a number of areas: agriculture; agro-industry; fishing; tourism and hospitality; health; crafts; industry; digital technologies, artificial intelligence; offshoring; and customer service. For example, the CMC for the Oriental region will aim to accommodate 2420 trainees and provide training in industry, digital technologies, agriculture and agro-industry, tourism and hospitality, and health. Training in digital technologies is expected to be available in all CMCs, while education focusing on artificial intelligence will only be accessible in the Rabat-Salé-Kénitra and Casablanca-Settat clusters.

OUTLOOK: Equipped with a new education law and an ambitious budget for 2020, Morocco is well positioned to reform its education system. Now that much of the kingdom's 2030 education strategy has been successfully etched into law, the government must undertake the task of executing a number of strategic plans. Notable priorities include updating curricula as public universities transition to the bachelor's degree system and as pre-baccalaureate schools prepare to expand the use of foreign languages in the classroom.

In 2018/19 the most popular field for vocational and professional study was administration, management and business, with 93,600 trainees.

Global Perspective

Talent map

Changing global migration patterns bring both challenges and opportunities for the developing world

258m

people resided in a country other than the one in which they were born as of 2017

As the world's nations and businesses become increasingly interconnected, so too does the flow of global migration. According to the OECD's "International Migration Outlook 2018", in 2017 some 258m people resided in a country other than the one they were born in, and over 5m foreign-born persons were permanently settled in OECD countries. This flow of people not only brings benefits to the lives of the migrants themselves, but also contributes significant economic opportunities to individual businesses and states. Despite this, public opinion in many countries is turning against migration, with increasing numbers of states implementing measures to limit migration flows. This in turn has caused frustration for business leaders and economists, who generally continue to stress the economic benefits of migration. Nevertheless, research suggests that the number of those wishing to – or needing to – migrate across borders will continue to grow.

PACE OF MIGRATION: The growth of global migration is outpacing expert estimates. While the 258m global migrants make up only 3.4% of the world's population, this figure is already higher than the 2003 prediction by the International Organisation for Migration (IOM) that international migrants would reach 230m to account for 2.6% of the global population by 2050.

In its "World Migration Report 2018", the IOM described global migration as "the variable that had shown the greatest volatility in the past and was therefore most difficult to project with some accuracy". Based on the current trends of natural disasters and political headwinds, the reality of global migration is likely to continue surpassing projections.

FORCED DISPLACEMENT: While most migrants choose to move abroad in search of better employment opportunities, between 2000 and 2015 an average of 20,000 people per day, or 6.9m annually, uprooted themselves due to environmental and political crises. The IOM points to conflict as one of the key drivers of global migration, in addition to generalised violence and other factors. According to the UN Human Rights Council, the number of people forced from their homes as a result of persecution, conflict, violence or human rights violations stood at a record 68.5m in 2017.

Forced displacement from troubled countries can benefit businesses that recruit migrants and the nations that provide them with refuge. However, analysts predict years of lag before such large populations can be fully assimilated into the workforce, and begin offering economic benefits such as plugging skills gaps or restoring equilibrium to ageing economies.

CLIMATE CHANGE: Although rarely cited directly by migrants as a cause for their relocation, climate change is undoubtedly a contributor to food insecurity and job losses in agricultural regions, particularly in the developing world. According to the IOM, a rising number of migrants from Africa and Latin America are citing poor harvests as a factor influencing their decision to migrate, while a 2017 study by the World Food Programme found that 47% of the Central American migrants interviewed described themselves as food insecure. Beyond climate change, other often overlooked factors include the increasing prevalence of precarious work, inequality and unequal development.

NEW ROUTES: The international trend towards tighter immigration policy, particularly among more developed countries, appears to already be having an effect on migration flows. A striking example of this can be found in Latin America. Mexico, which previously served as a transit route for migrants on their way to the US, has now become a destination in itself. The number of foreign-born persons in Mexico increased from 970,000 in 2010 to over 1.2m in 2017, according to the UN.

While the US and European states pursuing stricter immigration policies are expected to see labour shortages, particularly for skilled workers, other countries are set to benefit. Nations such as Mexico that previously lost out on the international movement of human capital, now find themselves in a stronger position.

War has historically been a major driving force behind forced migration, but new factors – such as climate change – are increasingly playing a significant role.

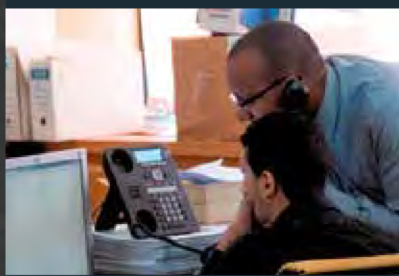
Tax

Changes to progressive corporate income tax rates

New goods to be subject to and exempt from VAT

Regulatory changes related to real estate income

Financial institutions required to report tax residency




The new finance law has changed rules regarding personal income tax

New landscape

The finance law for 2020 has brought significant changes to tax rates and exemptions for a variety of products and businesses

Finance Law No. 70-19 (FL 2020), relating to FY 2020, was enacted by Dahir No. 1-19-125 on December 13, 2019 and published in Official Gazette No. 6838 bis on December 14, 2019. The provisions of the new finance law should be read in conjunction with the recommendations from the national tax conference that took place in May 2019, as well as the conclusions made by the European Commission that placed Morocco on the grey list of tax jurisdictions in non-EU countries. This article includes an overview of the main measures introduced by FL 2020.

Corporate income tax (CIT) and individual income tax (IIT) on professional activities are now subject to the standard regime.

CHANGES TO THE STANDARD CIT RATES: FL 2020 amended the progressive CIT rate that came into force in 2019, increasing the intermediary rate of 17.5% to 20% for companies having a taxable income between Dh300,000 ($13,300) and Dh1m ($104,000). In addition, the marginal rate of 31% was reduced to 28% for companies performing industrial activities with taxable income under Dh100m ($10.4m).

FL 2020 also extended the 37% flat rate currently applicable to insurance companies to *takaful* (Islamic insurance) insurance and reinsurance companies and takaful insurance and reinsurance funds. These new rates are applicable for financial years open as of January 1, 2020.

MINIMUM CONTRIBUTION RATE: The Moroccan Tax Code provides for a minimum CIT contribution, notably for companies that are in a tax loss position after a 36-month exemption period. This contribution is calculated based on the turnover plus other income as defined by Article 144 of the tax code.

The finance law from 2019 increased the rate of these types of contributions from 0.5% to 0.75%. This rate was applicable for financial years as of January 1, 2019.

FL 2020 decreased this rate again to 0.5% but introduced an exception: where the current income, excluding capital allowances, of a company is declared as a loss position for two consecutive years beyond the exemption period mentioned, the applicable rate becomes 0.6%.

These new rates are applicable to declarations filed as of January 1, 2020, and therefore to financial years ending on December 31, 2019.

CHANGES TO THE EXPORT REGIME: Before FL 2020, the Moroccan Tax Code provided for a five-year CIT or professional IIT exemption, followed by a reduced CIT rate of 17.5% and professional IIT rate of 20% for export transactions. FL 2020 changed this by repealing the five-year exemption and increasing the 17.5% CIT rate to 20%.

Transitional measures were introduced along with this provision: enterprises that performed their first export transaction before January 1, 2020 are allowed to benefit from the five-year exemption until its expiry.

The new 20% rate is applicable to financial years that were opened on or after January 1, 2020, which means that the 17.5% is still applicable to financial year 2019.

CASABLANCA FINANCE CITY TAX POLICIES: Before FL 2020, two distinct regimes were applicable to companies benefitting from Casablanca Finance City (CFC) status:

- A five-year exemption followed by a permanent taxation rate of 8.75% for service companies applied to export transactions and foreign source capital gains on the sale of securities; and
- A permanent 10% taxation rate for regional and international headquarters of multinational companies. In addition to this reduced rate, companies were subject to a specific calculation of the taxable basis whereby it corresponded to a minimum of 5% of their operating expenses.

Companies located in industrial acceleration zones will see changes to their corporate income tax rates

FL 2020 repealed the specific regime for CFC companies applicable to regional and international headquarters and introduced a new 15% rate applicable to the whole turnover, with no distinction between local and export transactions. In addition, FL 2020 provides for a new exemption from withholding tax on dividends for companies benefitting from CFC status. This new regime is applicable to financial years open as of January 1, 2020.

A transitional regime was put in place for service companies that obtained their CFC status before January 1, 2020. Such companies will still benefit from the regime that applied before FL 2020 – a five-year exemption followed by a tax rate of 8.75% for export and foreign source capital gains – but they can opt for the new 15% flat rate as well as the withholding tax exemption previously mentioned.

INDUSTRIAL ACCELERATION ZONES: The CIT rate applicable until 2019 for companies located in industrial acceleration zones, previously named export free zones, was 8.75% for a 20-year period (with a 20% rate for professional IIT), after applying a five-year exemption. This rate and exemption was, in principle, not applicable to local turnover, only exports.

FL 2020 suppressed the 8.75% rate for companies setup in those zones as of January 1, 2021. Companies already established in such zones on or before December 31, 2020 will still benefit from the previous regime. Companies created after this date will benefit from a five-year exemption followed by a permanent 15% flat rate, with no distinction between local and export turnover.

SERVICE OUTSOURCING COMPANIES: FL 2020 introduced a new beneficial regime for companies performing service outsourcing activities inside or outside the dedicated offshoring zones (Plateformes Industrielles Intégrées, P2I) in certain cities, such as Casablanca, Rabat or Fez. Such companies will benefit from a five-year exemption followed by a taxation rate limited to 20%. The definition of service outsourcing has yet to be clarified, in particular for companies outside P2Is, as those companies do not need to obtain specific licenses to perform their activities. This new regime is applicable to financial years open as of January 1, 2020.

COUNTRY-BY-COUNTRY REPORTING: Country-by-country reporting (CbCR) will now include a country-by-country split of tax and accounting figures for companies, taking into account the identity, place of exercise and nature of activities of a multinational group that a Moroccan company may belong to. This reporting must be submitted electronically within 12 months from the close of a financial year.

The new Moroccan CbCR will apply to Moroccan companies that:

- Directly or indirectly participate in one or more enterprises or establishments located abroad and that are required to prepare consolidated accounts in accordance with the applicable accounting standards or that would have been required if its participations were listed in Morocco;
- Have an annual consolidated turnover above Dh8.12bn ($845.9m), excluding value-added tax (VAT), in the financial year preceding the one for which the declaration is made; and
- Are held neither directly nor indirectly by any other enterprise located in Morocco or outside of Morocco.

This obligation will also be applicable to any enterprise that fulfils one or more of the following conditions:

- Is directly or indirectly held by an enterprise located in a state that does not require CbCR and that would have been subject to such obligation if it was located in Morocco;
- Is directly or indirectly held by an enterprise located in a state with whom Morocco has not signed an exchange of information agreement for tax purposes; or
- Has been appointed for that purpose by the group of multinational companies it belongs to and has informed the Moroccan tax authorities accordingly.

In addition, the CbCR applies to any enterprise subject to Moroccan CIT, directly or indirectly held by an enterprise that is located in a state that has an exchange of information agreement for tax purposes with Morocco and is required to submit a CbCR, but has failed to automatically share the CbCR it has in its possession.

Lastly, where two or more enterprises subject to Moroccan CIT belonging to the same multinational group are subject to the Moroccan CbCR, one of them can be appointed by the group to submit the declaration on behalf of the others to the extent it informs the tax authorities beforehand. Failing to declare or submit the CbCR is punished by a

Dh500,000 ($52,100) fine. There have been additional changes to IIT.

RETIREMENT PENSIONS & LIFE ANNUITIES: Before FL 2020, a 55% tax deduction was applicable to retirement pensions and life annuities that did not exceed Dh168,000 ($17,500) per year, the surplus benefitting from a 40% tax rebate. FL 2020 increased the deduction to 60%.

DEDUCTION OF RETIREMENT INSURANCE PREMIUMS: Before FL 2020 only premiums relating to retirement insurance contracts valid as of January 1, 2015 were subject to a deduction cap of 50% of the net taxable salary. FL 2020 stipulates all retirement insurance premiums paid as of January 1, 2020 are subject to such limitation, whatever the date of the contract.

NEUTRALITY REGIME FOR SHARE CONTRIBUTION: Under FL 2020, individuals that contribute all the equity securities they hold in one or several companies to a Moroccan holding company subject to CIT are not subject to tax on the net capital gain made on such contribution, to the extent they meet the following conditions:

- The value of the equity securities contributed must be assessed by a contributions auditor;
- The individual undertakes in the contribution deed to pay the IIT on capital gains made upon the contribution when he or she will totally or partially sell, redeem or cancel the securities received as a counterpart to the contribution; and
- In regards to the company benefitting from the contribution, the net capital gain resulting from the sale of the equity securities is determined by the difference between the sale price and the value of the equity securities on contribution date.

A specific declaration should also be submitted no later than 60 days from the date of the contribution deed.

TAKAFUL INVESTMENT CONTRACTS: Until 2019 only income from life insurance and capitalisation contracts whose duration equalled or exceeded eight years were exempted from IIT. In the context of the development of new sharia-compliant investment contracts, thus exemption was extended to takaful investment contracts whose duration equals or exceeds eight years.

CHANGE IN IIT ON REAL ESTATE INCOME: The provisions of FL 2020 changed the triggering event of IIT on real estate income, which as of January 1, 2020 are on the payment of the income instead of the acquisition of the income.

As such, rental income relating to 2019 but which was actually received in 2020 will have to be declared – and the corresponding IIT will have to be paid – in 2021.

TAXPAYERS SUBJECT TO AUDITS: Article 29 of the Moroccan Tax Code provides a specific procedure for tax audits for individuals that consists of an audit of their whole tax situation, through which the tax authorities are able to compare annual expenses of an individual with his or her declared income.

Domestic and international companies focusing on exports will be subject to new tax regulations

Under FL 2020, this procedure can be undertaken only if the annual expenses of a taxpayer exceed Dh240,000 ($25,000), as opposed to Dh120,000 ($12,500) before the new finance law. In addition, FL 2020 included an obligation whereby tax authorities must conduct an oral and contradictory debate with the taxpayer before issuing any reassessment and to take the taxpayer's comments into account, if relevant.

Lastly, FL 2020 included a new tolerance under which the tax authorities are not allowed to undertake this procedure where the amount of expenses exceed the declared income by less than 25%.

Several changes have also been made to the law regarding the application of VAT.

SMALL COMPANIES: Before FL 2020 small manufacturers and service providers – those with an annual turnover below Dh500,000 ($52,100) – were excluded from the VAT. As of January 1, 2020, they will enter into the scope of the tax but will be exempt, with no right to deduct input VAT.

FL 2020 additionally states that this regime only applies to individuals, thus excluding companies from this exemption regime. Companies that perform manufacturing or service activities with a turnover below Dh500,000 ($52,100) will be subject to VAT.

VAT FOR FINANCE PRODUCTS: In order to harmonise the tax treatment of sharia-compliant participative finance products with those of standard bank products, FL 2020 introduced the following provisions:

- VAT exemption on investment goods acquired through a Mourabaha agreement;
- 10% VAT on Salam and Istina'a agreements;
- Possibility to transfer the VAT deduction for those agreements; and
- Exclusion from the VAT deduction applicable to credit institutions acquiring goods for the purpose

The fiscal law for the year 2020 will introduce, change and remove value added-tax on a variety of goods

of selling them through Mourabaha, Salam and Istina'a agreements.

INCLUSION OF GOODS INTO THE VAT: FL 2020 notably added a VAT to the following goods at a rate of 20%:

- Farm equipment with mixed usage; and
- Imported meat and fish for use in restaurants.

CHANGE IN VAT OF CERTAIN GOODS: FL 2020 changed the rate of the following goods:

- Palm oil: from 10% to 20%; and
- Museum, cinema and theatre tickets: from 20% to 10%.

VAT EXEMPTIONS: New regulations in FL 2020 provided for the exemption from VAT of human and animal vaccines as well as certain medicines that are to be listed in a forthcoming decree. Water pumps working by renewable energy for use in the agriculture sector are also now exempt from import VAT.

VAT RATE FOR WINE, ALCOHOLIC BEVERAGES, & GOLD & PLATINUM ARTWORKS: Before the implementation of FL 2020, wine, alcoholic beverages and gold and platinum artworks were subjected to both a specific VAT rate computed based on their volume or weight, as well as the standard 20% VAT rate based on the sale price, or exempted. The specific VAT rate based on the volume or weight was removed from the tax code to become a new excise tax, while only the standard 20% VAT rate will now apply to such products.

Registration duties are to see different regulations under the new law.

NEW REGISTRATION DUTY EXEMPTIONS: Moroccan registration duties apply to certain deeds that are subject to the registration formality and are generally based on the value mentioned in such deeds. FL 2020 introduced new exemptions from registration duty for the following deeds:

- Acquisition of immovable goods by persons benefitting from housing programs Villes sans bidonvilles ("Cities without slums") or Bâtiments menaçant ruine ("Buildings threatening to collapse");
- Acquisition of lands to be used to build social housing through a Mourabaha agreement; and
- Acquisition of developed lands whose constructions will be demolished for the purpose of building a hotel.

NEW PENALTIES FOR REGISTRATION DUTY: Before FL 2020, significant uncertainties surrounded penalties for failing or delaying to register deeds needed to be registered but were exempt from the registration duty. This issue became particularly important for the exemption from registration duties applicable to the transfer of shares in non-predominantly real estate companies in Morocco.

Tax authorities adopted a challengeable position under which they computed penalties based on the theoretical rate applicable in the absence of an exemption, which was, according to tax authorities, 4% for transfers of the above mentioned shares, or the rate that was in force before the exemption came into effect. FL 2020 clarifies this situation and stipulates a 0.5% penalty, reduced to 0.25% in the event of a delay not exceeding 30 days, computed on the same basis as registrations duties, such as the sale price mentioned in the deed for the case of transfers of shares. This penalty cannot be lower than Dh500 ($52.09) and cannot exceed Dh100,000 ($10,400).

The new law also presents several changes to the common provisions.

THE INTRA-GROUP TRANSFER REGIME: Finance Law 2017 introduced a tax neutrality regime for intra-group transfers of capitalised tangible assets, a group being constituted by a Moroccan parent company and its subsidiaries directly and indirectly held at more than 80%.

Despite the benefits of such provisions for restructuring transactions inside a group, the way it was drafted excluded certain transactions that were typically needed in the context of such restructuring, such as particular transfers of shares and patents. FL 2020 extended the scope of this tax neutrality regime to capitalised intangible and financial assets, including intra-group transfers of equity interests and patents.

EXCLUSIONS FOR ACCOUNTING OBLIGATIONS: FL 2020 provides for the exclusion of individuals for whom professional income is determined according to the flat income or auto-entrepreneur regimes from the accounting obligations mentioned by Article 145 of the Moroccan Tax Code, including:

- Bookkeeping;
- Inventory count;
- Electronic invoicing; and
- Electronic mail address.

AUTOMATIC EXCHANGE OF INFORMATION: In accordance with OECD recommendations, FL 2020 introduced the Automatic Exchange of Information for Tax Purposes in Moroccan domestic law. Under this new provision, financial institutions are required to identify information relating to the tax residency of all financial account holders and, if applicable, their beneficiaries.

Such financial institutions should communicate to the tax authorities all information required for the purpose of applying treaties involving Morocco, allowing the automatic exchange of information for tax purposes. Such declarations include information relating to the identification of financial account holders and, if applicable, beneficiaries, as well as financial information relating to those accounts, including income from securities, account balance, redemption value of life insurance and capitalisation contracts, and capital gains from the sale or redemption of financial assets.

Failure to identify or declare such accounts, as well as incomplete or insufficient communication, is punishable by a Dh2000 ($208) fine per account.

A decree should clarify the practical modalities of this new provision, including the deadline of the first reporting. FL 2020 states that the first financial year to be reported will be 2020.

Several changes have also been made in the new finance law regarding procedures for regularisation and newly registered taxpayers.

FIRST-TIME TAXPAYERS: Taxpayers performing an activity subject to professional IIT and identifying themselves for the first time to the tax authorities as of January 1, 2020 will be taxed only on the income acquired and operations carried out after the start of 2020.

VOLUNTARY REGULARISATION OF TAXPAYERS: FL 2020 introduced a 5% contribution applicable to liquidities deposited in a bank account between January 1 and June 30, 2020. This provision covers Moroccan tax resident individuals for their income or profits relating to professional or agricultural activities that were not declared to tax authorities before January 1, 2020 and were compliant with their tax obligations.

The payment of these contributions will be such that the liquidities deposited will be excluded from the expense assessment made in the context of the audit of their whole tax situation.

DECLARING REAL ESTATE INCOME: Taxpayers that failed to submit their annual declaration of global income relating to non-statute-barred years for real estate income are allowed to regularise their situation by:

- Filing a declaration before July 1, 2020; and
- Paying, at the same time as the declaration, a contribution of 10% of the gross amount of real estate income relating to 2018.

Such regularisation will exempt the taxpayer from paying IIT on real estate income and corresponding penalties relating to previous non-statute-barred years.

AMENDED DECLARATIONS: In the event a taxpayer identifies irregularities in their tax declarations regarding CIT, professional IIT, withholding taxes, stamp duties or insurance contract taxes, having as a consequence an underassessment of the turnover of taxable income, discrepancies can be resolved by:

- Filing an amended declaration for the 2016, 2017 and 2018 financial years before October 1, 2020; and
- Paying the additional taxes before September and December 2020.

This procedure results in the automatic cancellation of penalties. In addition, the taxpayer may be exempted from an audit for the financial years regularised, if they consult the tax authorities beforehand on the information they have, and if an explanatory note made by the taxpayer with the assistance of a chartered or licensed accountant is filed along with the declaration.

Exemption from a tax audit may also be possible under conditions where a specific convention has been signed by a professional organisation with the tax authorities.

ASSETS & LIQUIDITIES HELD ABROAD: The spontaneous regularisation relating to assets and liquidities held abroad before September 30, 2019 and declared through the regularisation process before October 31, 2020 will allow the concerned taxpayer to benefit from the cancellation of tax and foreign exchange control-related penalties and fines. The contribution amounts to:

- 10% of the acquisition value of immovable goods, financial assets, securities and other equity or debt securities;
- 5% of liquidities in foreign currency transferred to a Moroccan bank account denominated in foreign currency; and
- 2% of liquidities in foreign currency transferred to a Moroccan bank account in dirhams.

Companies part of an international group operating within Morocco will see new reporting requirements

OBG would like to thank *EY Maroc* for its contribution to THE REPORT Morocco 2020

Abdelmejid Faiz, Tax Partner, EY Maroc

Time for change

Abdelmejid Faiz, Tax Partner, EY Maroc, on reforming the tax framework to improve administration and efficiency

The year 2019 was marked by the organisation of the country's third national tax conference. The objective of this forum was to launch a genuine reform of the Moroccan tax system, the implementation of which could be spread over a maximum period of five to 10 years. It should be recalled that the last major tax reform in Morocco dates back to the mid-1980s and early-1990s, and led to the establishment of the country's first modern, globally coherent tax system based on corporate income tax, value-added tax (VAT) and individual income tax. This ambition to reform the tax system stems from several realities and observations. These include the high concentration of the sources of public tax revenue in a small number of enterprises which drive the creation of national wealth; persistent inequality; and public services not meeting the legitimate needs and expectations of citizens.

Furthermore, there is the perceived instability of the tax system as a result of multiple provisions introduced by successive finance bills, making the system lose its readability and coherence. This has been accentuated by the introduction of some provisions resulting from pressure to defend sectoral interests, along with widespread behaviour marked by non-compliance and the non-acceptance of tax. In fact, while the system is essentially one based on self assessment, a significant number of taxpayers continue to evade their obligations of declaring and paying taxes. Despite significant efforts to improve the dematerialisation process, the relationship between tax administration and taxpayers is still often conflictual. There is also the issue of the complexity of the tax system and the low efficiency of some taxes and levies. Furthermore, the national tax system is juxtaposed with a local tax regime that presents even more problems due to its complexity, lack of coherence and inefficient administration.

Thus, the aims of the announced reforms more or less revolve around four themes that were aligned with the framework of the third national tax conference, namely: tax governance; equity and fairness; tax competitiveness; and legal certainty. The first area of reform aims to strengthen taxpayer confidence in public institutions and improve tax governance. The second aims to introduce a tax system adapted to socioeconomic reality by abolishing derogations that have not achieved their expected objectives. The third component addresses the fight against fraud and the informal sector to ensure fair and healthy competition between economic operators. The last reform aims to improve administration and litigation procedures, as well as services for users. In accordance with the recommendations made at the forum, the reform should be initiated by drafting a framework law that establishes the bases, principles and objectives of the tax reform.

Following the latest official announcements by the minister of finance, this project is being finalised and the necessary procedures for its approval and adoption should begin in early 2020. Nevertheless, there is currently no certainty regarding the adoption of such a law. It should be highlighted, however, that the legislators behind the 2020 Finance Bill have shown a willingness to implement the guidelines set out by the tax forum. Some of the measures included in the bill are the gradual reduction of the minimum tax contribution rate and the reduction of the marginal corporate tax rate to 28% for industrial firms, with a stated objective of eventually reducing it to 20%. In addition, the bill includes the abolition of the five-year corporate tax exemption for exporters, while reserving it for certain sectors identified as primary sectors or job-creating sources. It also includes the abandonment of the reduced rate of 8.75% previously applicable to former export processing zones – and now to industrial acceleration zones – and companies with Casablanca Finance City status; abolition of VAT exemptions for some agricultural equipment; and the modification of the taxable thresholds applied to very small businesses, particularly those subject to the flat-rate scheme.

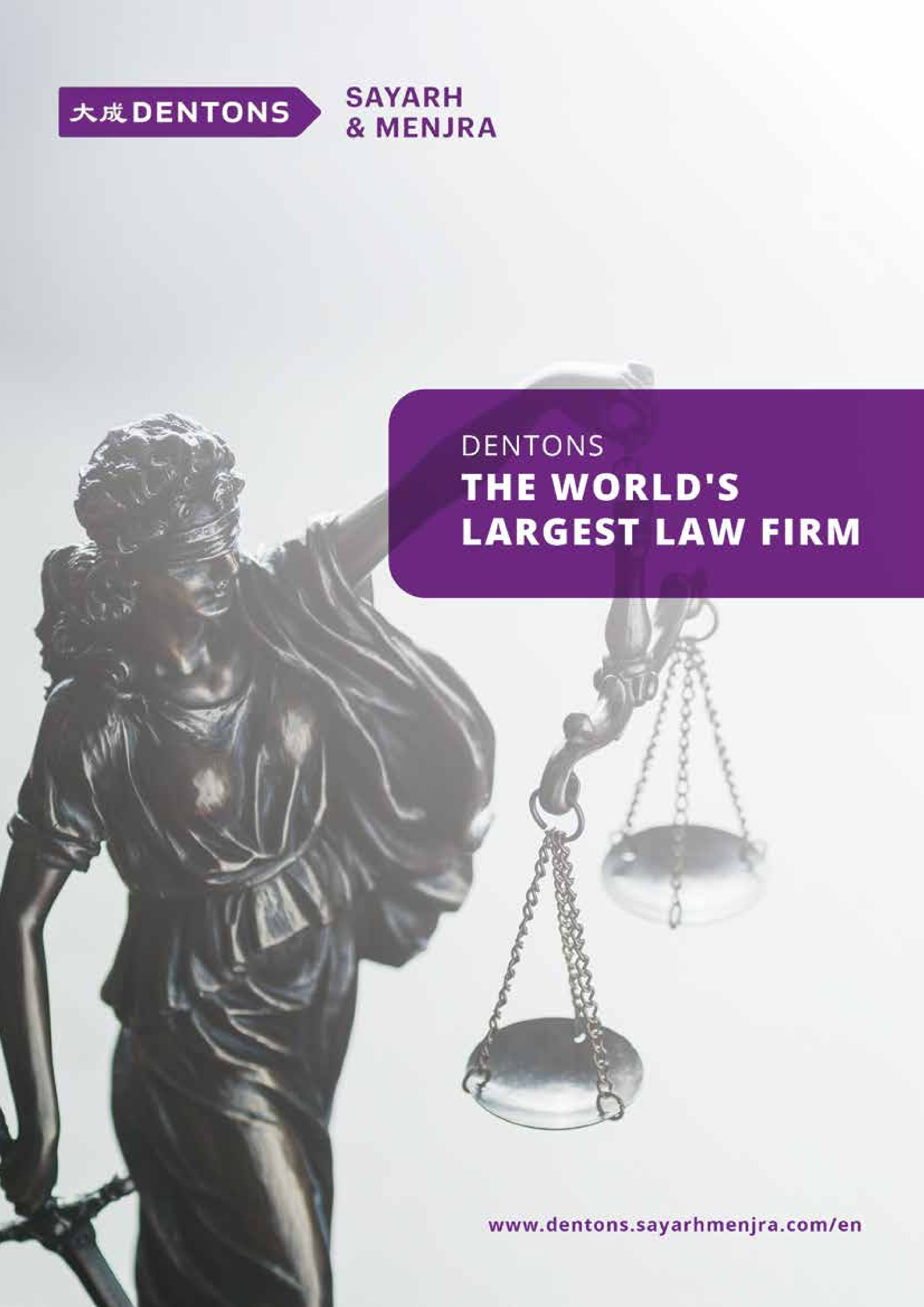
Legal Framework

Corporate law aligned with international standards

New regulations to support renewable energy projects

Finance Law benefits real estate investment trusts

Credit enforcement and pledging practices enshrined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The status of foreign employees has recently seen a major change

Supportive provisions

Investment reform provides new incentives while corporate law is aligned with international standards

The following laws form the basis of the Moroccan corporate legislative corpus: the Moroccan civil code, or *Dahir* (royal decree) des Obligations et des Contrats, of August 12, 1913; Law No. 17-95 on joint stock companies promulgated by Dahir No. 1-96-124 on August 30, 1996; and Law No. 5-96 on limited liability companies, promulgated by Dahir No. 1-97-49 on February 13, 1997.

CORPORATE LAW: The business environment, both global and local, is changing and evolving very rapidly, thus requiring regular updates of the Moroccan business legal framework.

Since their adoption, Law No. 17-95 companies and Law No. 5-96 have been simplified, as a result of digitalisation, dematerialisation and an improving business environment.

In this context, Law No. 5-96 was recently amended in 2019 with the entry into force of Law No. 21-19 on April 29, 2019, which aims to strengthen the protection of minority shareholders, accentuate the principle of transparency and good governance and align with international standards.

The main amendments in the new Law No. 21-19 revolve around the following:

- The supervision of the dividend distribution procedure by the general meeting or, where applicable, by the manager, through the power to set the terms and conditions for the payment of dividends within a period not exceeding nine months after the end of the financial year. This period may be extended by court order at the manager's request;
- Strengthening the rights of minority shareholders holding 5% of the share capital – previously 10% – who may now take part in the decision of the issues to be discussed on the agenda of the general meeting. Moreover, shareholders holding at least 10% of the shares and representing 10% of the shareholders may request the convening of a general meeting; and
- Accentuating the principle of good governance by submitting any disposal of more than 50% of the company's assets during a period of 12 months to prior approval of the extraordinary general meeting and a vote of the shareholders holding at least three-quarters of the capital.

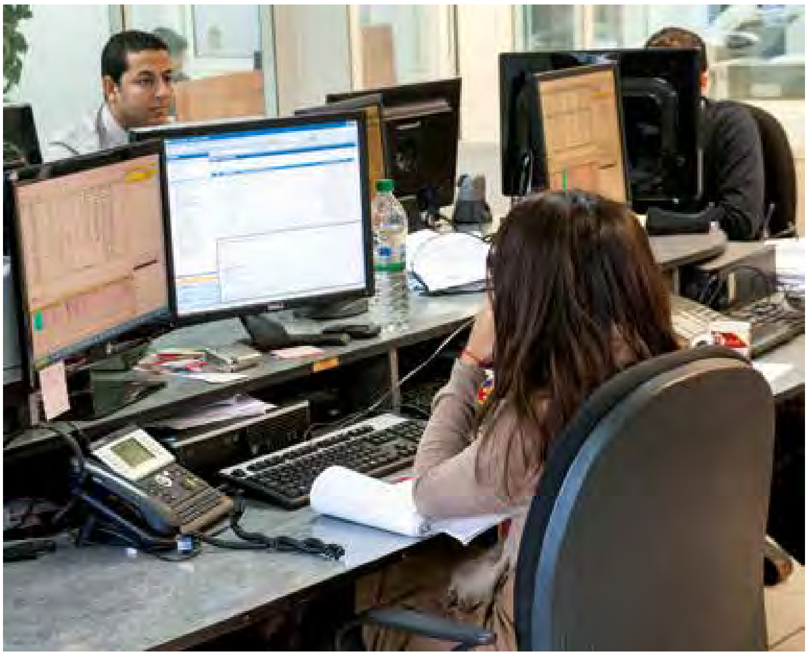
NOTABLE REFORM: The most recent and significant reform relating to Law No. 17-95 was introduced by Law No. 20-19, which was promulgated by Dahir No. 1-19-78 and entered into force on April 29, 2019.

Law No. 20-19 extended the liability of the directors and of the chief executive where applicable, as well as that of the members of supervisory boards, to cover misconduct committed under their management or acts not in the company's interest committed in the exercise of the powers granted to them, with the possibility for the court to order them to return to the company the profits generated by such acts, and to prohibit them from managing, administering, representing or controlling any company for a period of 12 months.

The amendments brought by Law No. 20-19 also relate to publicly listed companies by introducing independent and non-executive directors who are neither chairmen, chief executives, deputy chief executive, nor employees of the company exercising management functions. Publicly listed companies must appoint at least one independent director and have a period of one year to comply, starting from the entry into force of the law.

In line with Law No. 21-19, Law No. 20-19 introduces, for the joint-stock companies, the prior approval of the extraordinary general meeting for any disposal of more than 50% of the company's assets during a period of 12 months.

Furthermore, in terms of digitalisation and after the publication in the Official Gazette on August 23, 2018 of Law No. 87-17 promulgated by Dahir No. 1-18-79 dated August 6, 2018, amending Law



Law No. 88-17 on the creation of companies by electronic means was promulgated on January 9, 2019

No. 13-99 enacted by Dahir No. 1-00-71 of February 15, 2000, establishing the Moroccan Industrial and Commercial Property Office (Office Marocain de la Propriété Industrielle et Commerciale, OMPIC). The purpose of the OMPIC is to manage, for the benefit of the state, the electronic platform for the creation and support of companies by electronic means in order to maintain and operate the related database, as well as guarantee its secure use by all stakeholders. This main law completes the legal regime necessary for the online creation of companies, which was published in the Official Gazette on January 21, 2019.

Indeed, Law No. 88-17 on the creation of companies by electronic means and their support promulgated by Dahir No. 1-18-109 of January 9, 2019 introduces the use of an "electronic platform for the creation and support of companies by electronic means". The website dedicated to the digitalisation of company creation processes will mandatorily host all the legal formalities required for the creation of companies, subsequent registrations relating to it with the trade register, as well as all the formalities for the publication of data and documents relating to it in accordance with the legislation in force.

The procedures for filing documents can be either carried out by the individual or entity concerned, or by a representative holding a special power of attorney, by a notary, a lawyer, or a sworn or chartered accountant.

However, the process of business creation will not be fully digitalised since a regulatory text will set out the reading of paper documents that must be accompanied by electronic filing. The collection of all taxes and fees will in turn be done electronically.

CAPITAL MARKETS: The enactment of Law No. 19-14 relating to the Casablanca Stock Exchange (CSE), brokerage firms and financial investment advisers was promulgated by Dahir No. 1-16-151 of August 25, 2016, providing a new legal framework for the way the CSE is operated today.

In order to revitalise the stock market, the legal framework brought by Law No. 19-14 splits the stock exchange into two markets: the first being for companies with large market capitalisation, while the second, with less demanding access rules, is for smaller companies, which grants them access to important financing resources.

The first and main market consists of four subdivisions, two for the trading of equity securities, one for mutual funds and one for debt securities. The second market comprises at least two subdivisions for equity and bond transactions.

The new legal framework also enhanced prudential rules in addition to reinforcing the supervisory and control powers of the Moroccan Authority of Capital Markets (Autorité Marocaine du Marché des Capitaux, AMMC) on stock exchange companies and professionals, notably by organising and supervising all services and investment advice activities, which in practice was not the case under the previous 1993 law. As such, and depending on the nature of the activities carried out by the investment advisers, the latter will only be able to operate after obtaining approval from the AMMC.

The rollout of Law No. 19-14 continues with an upcoming draft circular relating to communication requirements for alternative market issuers. So far, several clarifications have been provided in terms of disclosure, both at the time of the completion of public offerings and in terms of periodic information. Meanwhile, another circular organising investment advisers' activities was published in January 2019.

The draft circular will also operationalise Law No. 44-12 relating to public offerings and promulgated by Dahir No. 1-12-55 on December 28, 2012, which entered into force with the publishing of application decree No. 2-17-227 on November 16, 2017. Law No. 44-12 implemented an overhaul of the public offering system in Morocco by introducing a new financial transparency mechanism with more detailed reports and quarterly indicators, among other elements. This benefits investors by helping them to better assess the performance of issuers, thus generating greater confidence among investors and boosting local capital markets activity.

The legal framework currently being finalised by the AMMC will provide prospectus templates with information requirements adapted to the nature of the transaction. It will also provide for the possibility of drawing up a reference document (annual report) that can serve several purposes and reduce the processing time prior to the completion of a financial transaction, as well as the introduction of the website as the main information publication medium, allowing for quick and widespread dissemination of regulated information.

INVESTMENT REFORM: To attract more domestic and international investment, a new legal investment corpus was promulgated with Law No. 60-16 of July 2016, replacing the previous investment charter that was adopted in 1995. The investment reform provided for a restructuring of investment promotion activities vested in the newly created Moroccan Investment and Export Development Agency.

Several of the incentives established in the original charter were extended to cover all companies that meet the required conditions to benefit from tax advantages, whether located in free zones or not. This allowed such firms to avail themselves of tax benefits, particularly those available to exporting industries, and of a five-year corporate tax exemption for new industrial companies. However, the Finance Law of 2020 repealed the five-year exemption for exporting companies that will carry out their first export operation starting January 1, 2020. Indeed, as of January 1, 2020 exporting companies will be subject to taxation at the reduced progressive rate of 20% applied to the portion whose net profit is higher than Dh1m ($104,000).

REGIONAL INVESTMENT CENTRES: Similarly, a new tax regime has been introduced for companies with controlled foreign corporation (CFC) status by the Finance Law of 2020, through taxation at the rate of 15% on their total turnover (local and export) beyond the five-year exemption period. It should be underlined that this new provision concerns companies with CFC status as of January 1, 2020. Those holding CFC status before the aforementioned date will remain subject to the former provisions.

One of the main innovations of the investment reform that is already in force was the recognition of the indirect exporter status. This should help support subcontractors of local industries that benefit from tax exemptions and reduced tax rates on the same grounds as direct exporters.

Meanwhile, the year 2019 saw the promulgation of Law No. 47-18, which reformed the regional investment centres (centres régionaux d'investissement, CRIs) and established new regional investment commissions. The new framework announced by Law No. 47-18 is based on three strategic axes: a restructuring of the status, organisation and governance of the CRIs; the establishment of unified regional investment commissions; and the simplification of investment-related procedures at both the national and regional levels.

Law No. 47-18 provides for the establishment of CRIs, which are one-stop shops for investment at the regional level. As such, they will be fully responsible for the processing of investment files, from the submission of applications to incorporation, and even the granting of authorisations to be applied for and obtained with other administrations and public entities.

Law No. 47-18 also provides for the establishment of unified regional investment commissions that will replace all existing territorial investment commissions, thus implementing a single framework for the evaluation, assessment and processing of investment applications. These new commissions will rule and give opinions on applications for administrative acts and authorisations necessary for the realisation of investment projects, such as applications for the temporary occupation of plots of land that are part of the state's public or private domain, and for the lease or sale of agricultural land, among other areas.


All cash transfers from Morocco to a foreign country must be authorised by the Foreign Exchange Regulation

FOREIGN EXCHANGE REGULATION: Under Moroccan law, all cash transfers from Morocco to a foreign country must be authorised under the Moroccan Foreign Exchange (FX) Regulation. Since the 1980s, the FX Regulation has gone through a significant process of liberalisation. The current FX Regulation is set in a new foreign exchange instruction dated January 1, 2020.

However, and so as to not impede foreign investment in Morocco, FX Regulation grants foreign investors, subject to certain conditions, with complete freedom, without limitation as to amounts, to:

- Carry out their investments in foreign currencies in Morocco;
- Transfer abroad all revenues generated by these investments in the form of dividends; and
- Re-transfer abroad all proceeds deriving from the sale or liquidation of these investments (the Convertibility Regime).

The investments covered by the FX Regulation are, inter alia:

- Incorporation of a company in Morocco;
- Purchase of, or subscription to, a Moroccan company's shares;
- Granting of shareholders' loans paid in cash or by supplier's credit; and
- Acquisition of real estate and of the rights attached thereto.

The new instruction's structure has been considerably reduced for more efficiency and understanding by all local and foreign operators. The 2020 version


In 2018 the Moroccan Supreme Court allowed foreign employees to enter into indefinite-term contracts

brings new measures of liberalisation and flexibility in both current and capital transactions, reflecting the irreversible trends in foreign exchange regulations in terms of consolidation of the convertibility regime and simplification of the provisions.

In addition, among the most important changes brought by the 2020 instruction, it is worth mentioning the option for banks to finance all the operations of companies located in the industrial acceleration zones, the new name of free zones; for banks to emit cautions guaranteeing foreign loans by Moroccans residing abroad for the acquisition of real estate in Morocco in foreign currency; for importers of goods to settle an import operation in excess of 10% over the amount domiciled, provided that this excess is charged by the Customs services; for service importers to prepay foreign database subscriptions and licence fees up to 12 months; as well as for importers and exporters to pay by compensation for the detention of ships beyond the ship demurrage period, contribute to a greater liberalisation of the foreign exchange regime.

EMPLOYMENT LAW: Law No. 65-99, promulgated by Dahir No. 1-03-194 of September 11, 2003, forms the Moroccan Labour Code.

In 2003 the Labour Code aligned the legal framework for local employment with most modern employment legislations and practices. It did this by raising the minimum age for employment to 15 years of age, promoting gender equality, focusing on employee health and safety at the workplace, as well as protecting workers who belong to trade unions, among other measures.

On another note, the status of foreign employees has seen a major change recently. In fact, any employer wishing to hire a foreign employee must first obtain an authorisation from the Ministry of Employment and Professional Integration (Ministère de l'Emploi et de l'Insertion Professionnelle, MEIP). This authorisation is granted as a visa stamped on the employment contract.

The date of the visa is the date at which the employment contract takes effect. However, any modification to said contract requires a new visa and the authorisation may be withdrawn at any time by the MEIP. A new visa may also be required every year in case of indefinite-term employment.

In terms of the foregoing, Moroccan courts used to consider the employment contracts entered into by foreign employees as fixed-term employment contracts given that they enter into force on the date of the visa's issuance and end on the expiration date set by the MEIP. It is worth noting that this interpretation was contrary to the non-discrimination principle set forth in the Moroccan Labour Code, as well as the international treaties signed by Morocco, and was continuously protested against by many associations and NGOs which brought the matter to Parliament.

In 2018 the Moroccan Supreme Court – the highest court in the kingdom – changed its interpretation, authorising employment contracts entered into by foreign employees to be considered as indefinite-term employment contracts.

RENEWABLE ENERGY: The regime established by Law No. 13-09 relating to renewable energy provides a legal framework for the development of renewable energy projects in Morocco. Renewable energy projects are defined as all sources of energy that are naturally renewable, particularly solar energy, wind energy, geothermal energy, wave and tidal energy, as well as energy generated through biomass, waste and biogas – excluding hydraulic energy with installed power above 30 MW.

Law No. 13-09 aims to promote energy production from renewable sources, to market and export either by public or private entities. Previously, the National Office for Electricity Water (Office National


Law No. 13-09 of 2010 regulates the development of renewable energy

de l'Électricité et de l'Eau Potable, ONEE), the state-owned entity responsible for the provision of electricity as well as the operation of the transmission system, had a monopoly on the production of electricity. Law No. 13-09 allowed electricity to be produced and exported by private entities. However, the supply of electricity must still be undertaken through the national grid.

The law also established the principle that any renewable energy power producer, whether public or private, has the right to be connected to the medium-, high- and very-high-voltage national electricity grid. According to the provisions of the above-mentioned law, a preliminary statement regime is required for new or upgraded installations that:

- Produce renewable energy of less than 2 MW and more than 20 KW, and are owned by the same operator on one or various sites; or
- Produce 8 MW or more of thermal energy.

EFFICIENCY AGENCY: Furthermore, renewable energy projects with a capacity of 2 MW or more can only be implemented if they are proposed by the Moroccan Agency for Energy Efficiency (Agence Marocaine pour l'Efficacité Energétique, AMEE). The applicant should initially obtain a temporary authorisation for the construction of the renewable facility and then a final authorisation for operation of the plant. If the facility is not used within one year from the date of the granting of the final authorisation, or if electricity production is suspended for more than two consecutive years, the final authorisation may be withdrawn. The applicants under the authorisation regime are also required to meet certain technical and financial criteria. However, no conditions would apply in the case of renewable energy provided by a unique promoter at less than 20 KW.

The supply of electricity must be undertaken through the national electricity network and interconnections. However, Law No. 13-09 allows the possibility for any developer to build a direct electric distribution line, if such line is operated separately from the transmission network, and where:

- The electricity produced is aimed to be exported; and
- The operator has entered into a formal agreement with ONEE.

Under Law No. 13-09, the administrative authority responsible for the development of renewable energy is required to allocate areas designed for the construction of wind and solar facilities of high production capacity. The designated areas will be proposed by the AMEE.

RENEWABLE AMENDMENT: At the same time, Law No. 58-15 was promulgated in 2016 under Dahir No. 1-16-3 of January 12, 2016 to amend and supplement Law No. 13-09. The new amendment increased the installed capacity threshold for hydroelectric power projects from 12 to 30 MW. Law No. 58-15 also introduced the possibility of selling electricity surpluses from renewable sources as part of the facilities connected to the high-voltage and very-high-voltage grid as well as medium-voltage and low-voltage to ONEE and/or to a distribution network operator. Consequently, private investors in renewable power will be able to sell their surplus output to the grid, but no more than 20% of their annual production.

Published in May 2019, bill No. 40-19 aims to strengthen the attractiveness of the renewable energy sector

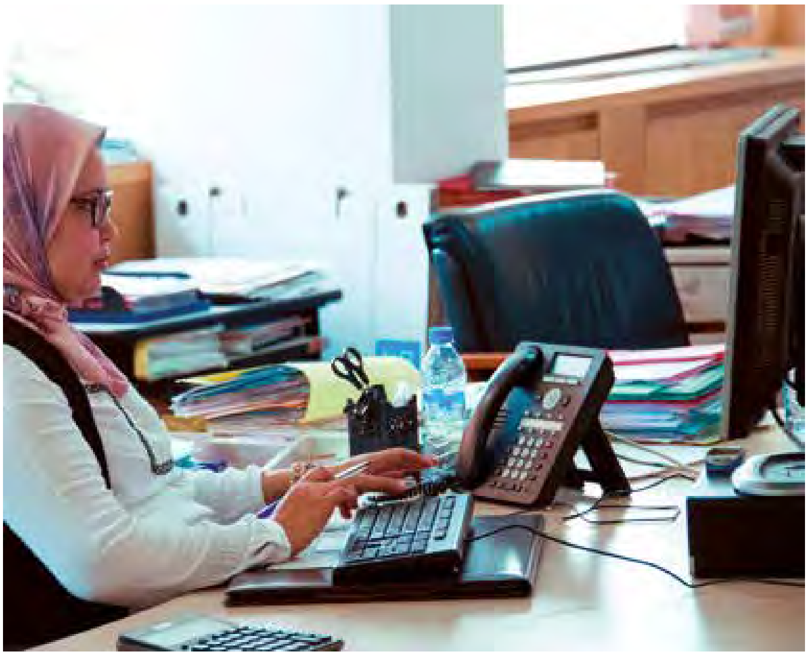
While the granting of the authorisation for any project of electrical production facilities from a hydraulic power source was only submitted to the technical advice of the national network system operator, under the new law it also must be approved by the relevant hydraulic basin.

Published in May 2019, the new bill No. 40-19 amends Law No. 13-09 to strengthen the attractiveness of the renewable energy sector. It takes into account the rise of intermittent renewable energies, which require the national network system operator to set up a backup system and sufficient reserves to guarantee a balance is struck between the production and consumption of renewable energies.

In addition, the bill intends to establish a financial security that would guarantee the implementation of renewable energy projects, as well as the prior authorisation of the administration, in the event of any change of control of the shareholding of the operator holding the authorisation to develop the project.

Moreover, distribution networks operators will have the option to acquire up to 40% of the total energy supplied to customers located in their areas of competence if produced from renewable energy projects.

Last but not least, in response to the operators' request, the bill also extended the deadline for the construction of hydropower plants to five years in order to remedy the current situation, whereby derogations at the end of the regulatory period of three years are a systematic recourse.



Companies benefit from a 60% tax reduction on their dividends as shareholders in real estate investment trusts

REIT: Real estate investment trusts (REITs), also known as *organisme de placement collectif en immobilier*, are an innovative real estate investment vehicle, which thrived and benefitted from strong appetite for them in markets across the world.

REITs have proved their suitability for partnerships and individual investors, as well as the general public. This is partly due to the fact that they are usually subject to a strict legal regime and that they are operated by licensed management companies that are subject to close control and scrutiny by financial markets regulators.

The legal framework governing REITs was introduced in 2016 by virtue of Dahir No. 1-16-130 dated August 25, 2016, which instituted Law No. 70-14.

REITs can be unlisted or listed on the CSE market and should have as a main purpose the development and/or acquisition of real estate properties – including off-plan properties – in order to rent them. They can also carry out any kind of work on such properties – renovation, building work and rehabilitation – and can, as a secondary purpose, manage financial instruments.

REITs can be set up either in the form of a *fonds de placement immobilier* (real estate investment fund), an unincorporated fund which does not have a legal personality, or as a *société de placement immobilier* (real estate investment company), which has a distinct legal personality. Pursuant to the Decree No. 2-17-420 of April 26, 2018 the share capital or initial contribution of the REIT shall be of at least Dh50m ($5.2m).

REITs' assets can be composed of registered real estate properties, real estate rights, shares, *sukuk* (Islamic bond) or rights enabling the direct or indirect holding of a stake in the share capital of a real estate company, shares of other REITs, liquidities or financial instruments whose list is to be determined by decree, debt instruments that do not enable the holding of a stake in the share capital of companies and shareholders' loans.

A REIT may contain several sub-funds, which result in the issuance of specific securities representing the assets of the REIT that are attached thereto. In this case, the REIT's management regulations should specify the characteristics of each sub-fund and the management rules applicable thereto. Furthermore, each sub-fund incurs only the debts and obligations related to such sub-fund and only benefits from the assets of the same.

The incorporation of a REIT or the creation of a sub-fund within a REIT shall be approved by the AMMC, which validates its draft management regulations. REITs are also subject to the law related to public offerings and remain under the control of the AMMC.

It should be noted that it is possible to create a REIT with light functioning rules. However, in this case, the subscription to or the acquisition of the shares of the REIT is only reserved for qualified investors such as banks, insurance companies, pension funds, investment funds, among others.

The tax regime related to REITs was first set by the Finance Law of 2017 and rests on the principle of tax transparency, according to which the revenues generated by REITs are not subject to tax.

REIT AMENDMENT: Subsequently, the Finance Law of 2018 amended the provisions of Article 6-I-A-31 of the General Tax Code by granting a full and permanent exemption from corporate tax to the transactions carried out by REITs. In fact, the Finance Law of 2018 stated that dividends distributed by REITs shall be subject to the following tax regime:

- If the shareholders are individuals, the dividends are subject to a withholding income tax of 15%;
- If the shareholders are companies subject to corporate tax, the dividends will be incorporated to the taxable income of the company and subject to the common corporate tax rates of: 10% for an annual taxable income equal to or less than Dh300,000 ($31,200); 17,50% for an annual taxable income ranging Dh300,001-Dh1m ($31,200-104,000); and 31% for an annual taxable income of more than Dh1m ($104,000).

It is worth noting that the Finance Law of 2019 brought a major amendment to the tax regime applicable to REITs, as set forth in Article 6-I-C-1 of the General Tax Code, by granting companies a corporate tax reduction of 60% on the dividends distributed to them in their capacity as shareholders of REITs.

This major tax incentive, which has been in force since January 1, 2019, was eagerly awaited by the market and operators in the real estate business. It is aimed at dynamising the sector by mobilising domestic savings and enhancing the financing of real estate investment through REITs. According to the Ministry of Economy and Finance, REITs have the potential of raising approximately Dh200bn ($20.8bn) of investment over the medium term.

Law No. 21-18 largely extended the areas of pledges debtors can make

Greater certainty

New rules to ease access to credit and strengthen creditors' enforcement rights

Recent legal developments in the kingdom have been marked by the reform of the pledge regime introduced by Law No. 21-18 relating to security over moveable assets, which entered into force on April 22, 2019.

In a effort to ensure better access to financing for companies, the reform broadened the guarantees they are able to give to their creditors, in particular real estate security interests. It also adapted the pledges regime to existing practices and introduced certain new mechanisms relating to pledging.

COVERED AREAS: First, Law No. 21-18 extended the areas of pledges, which now cover all property, whether real or personal property, or intangible assets. Thus, the new Article 1170 introduced in the Moroccan Civil Code, or *Dahir* (royal decree) des Obligations et des Contrats, specifies that the pledge relates to an asset whether it is a movable or immovable asset, or an intangible right. It confers on the creditor the right to be paid on this asset in preference to all other creditors, in the case of the debtor's failure. Moreover, the same article clarifies the terminology by making a clear distinction between a *gage* (pledge with dispossession) and a *nantissement* (pledge without dispossession). It is specified that a gage requires the dispossession of the pledged asset, unlike a nantissement, which does not require the grantor to be dispossessed of the asset.

The reform goes further by establishing the possibility of constituting a pledge to secure an existing or future claim, whether fixed or variable in amount, or to secure a contingent or conditional obligation. It also strengthens the contractual freedom of parties, who may now mention in the contract only the general description of the pledged asset or agree on the replacement of the pledged asset.

In a bid to boost the attractiveness of the pledges, the new provisions allow the parties to provide for partial enforcement of the pledge, subject to the principle of proportionality between the value of the pledged or secured asset and the part of the obligation performed.

The Commercial Code is not undone, since Law No. 21-18 enshrines certain pledging practices, including those relating to the pledge of business assets, the pledge of certain products and materials, or the pledge of bank accounts and securities, among others. The new law also enshrines the practice of giving a mandate to a pledge agent. This new mechanism gives the option for creditors, in the context of a pledge, to appoint a pledge agent to manage their securities on their behalf, from their creation to their enforcement.

ADVANTAGES: However, the real good news for creditors lies in the flexibility of the enforcement procedure of the pledges. This is the result of the establishment of a judicial attribution of ownership of the pledged property to the creditor in the event of non-payment of the claim, and the options allowing a creditor to proceed with the sale of the pledged or mortgaged asset or to become its owner, without recourse to judicial intervention, in case of a debtor's failure and provided that these two options are provided for contractually. Both elements allow creditors to no longer be hostage of the uncertainty surrounding the sale by auction to enforce their security rights.

Lastly, with the objective of protecting creditors, Law No. 21-18 established a national electronic registry of moveable security rights, the management of which is entrusted to the Department of Justice. Thus, a pledge without dispossession will be effective against third parties only by registration in the national electronic personal property security registry.

By enshrining existing practices and establishing new mechanisms for the enforcement of personal property security rights, the reform introduced by Law No. 21-18 will create more legal certainty when establishing pledges, contributing to the development of investment in Morocco and facilitating access to credit.

OBG would like to thank *Dentons Sayarh & Menjra Law Firm* for its contribution to THE REPORT Morocco 2020

Omar Sayarh, Managing Partner, Dentons Sayarh & Menjra Law Firm

Mehdi Megzari, Partner, Dentons Sayarh & Menjra Law Firm

New definitions

Omar Sayarh, Managing Partner; and Mehdi Megzari, Partner, Dentons Sayarh & Menjra Law Firm, on fair competition as a constitutional principle

Law No. 104-12 relating to freedom of prices and competition, instituted by *Dahir* (royal decree_ No. 1-14-116 on June 30, 2014, its application Decree No. 2-14-652 and Law No. 20-13 relating to the Competition Council instituted by Dahir No. 1-14-117 of June 30, 2014, are now fully in force since the publication of the list of the new members of the Competition Council in the Official Gazette on December 13, 2018, putting an end to the confusion regarding the applicability of the provisions of the new competition legal framework.

The new competition legal framework has strengthened the role of the Competition Council by making it a decisional administrative authority and by giving it a power of sanction, notably regarding anti-competitive practices and merger control. The council ensures the compliance of the economic operators with the principle of freedom of competition, by monitoring anti-competitive practices and economic concentrations.

However, in practice, some operators experience the Moroccan merger control procedure as an obstacle to doing business. Indeed, the new legal framework transferred the competence and decisional powers from the office of the Head of the Government to a currently under-resourced Competition Council that must examine and rule on important contemplated mergers due to the drafting of Law No. 104-12.

Under Law No. 104-12, a transaction is considered a merger when two or more previously independent companies merge and/or when one or more individuals already hold control of at least one company; or when one or more companies, acquire, directly or indirectly, whether by acquisition of interests in the share capital or by purchase of assets, by contract or by any other means, control of the whole or part of another company, or of the whole or parts of several other companies. The aforementioned control should be understood as the possibility offered to a company to exercise a decisive influence on the activities of another company, such as veto rights/unanimous votes on important matters in the concerned company's board or general meetings, a right of ownership or use of the concerned company's asset, among others. Moreover, the establishment of a joint venture can also be considered, under Law No. 104-12, as a merger.

Contrary to EU control regulations, the practice of non-cumulative thresholds, with respect to merger or acquisition transactions, triggering a notice sent to the Competition Council was added by Law No. 104-12 to the existing criterion of a local market share equal to or exceeding 40% owned by the parties concerned by these transactions. Thus, a merger control is triggered if one of the following thresholds is met. The aggregate worldwide pre-tax turnover of all of the parties concerned (companies or group of individuals or legal entities) exceeds Dh750m ($78m); or the pre-tax turnover achieved in Morocco by at least two of the parties concerned (companies or groups of individuals or legal entities) exceeds Dh250m ($26.1m); or the combined market share in Morocco is equal to or exceeds 40%.

The first threshold added by the new legal framework may be confusing. It should be recalled that purely foreign-to-foreign transactions are caught under the Moroccan merger control rules only when consistent with Article 1 of Law No. 104-12; that is to say, when such transactions have the purpose or may have an effect on competition in the Moroccan market or a substantial part of it. However, in practice, an effect on competition in the Moroccan market could be characterised by a simple presence in Morocco and therefore delay some worldwide transactions with no significant impact on the relevant Moroccan market.

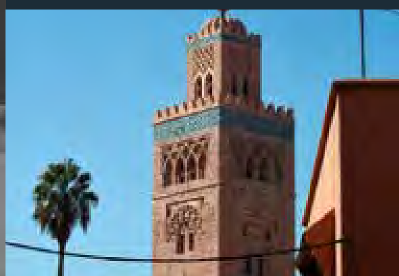
It would be useful to either reconsider the application of non-cumulative thresholds and switch to cumulative criteria or increase the new threshold, but only if and when consistent with Article 1 of Law No. 104-12. The second threshold should also be more explicit by stating that the pre-tax turnover should be the one achieved by at least each of the two the parties concerned.

The Guide

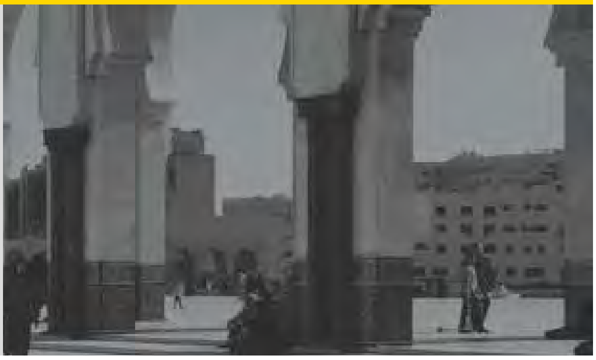
Tips and insights into the city of Casablanca

Selection of hotels in major cities across the country

Essential things to know for first-time visitors







Andreas Wenzel, CEO, German Chamber of Commerce and Industry

Laboratory city

Andreas Wenzel, CEO, German Chamber of Commerce and Industry, on the heritage and modern offering of Casablanca



How would you describe life in Casablanca for corporate travellers and new residents?

WENZEL: Casablanca is a true metropolis with many layers, though at first these are not necessarily easy to grasp for corporate travellers or those who have relocated for business purposes. It is a city that never sleeps, a city that is constantly reinventing itself and therefore best represents modern Morocco. Casablanca is where the money is being made – young Moroccans come to seek their fortunes, and businesses and the creative industries prosper. One will be rewarded for investing time into diving into the varied complexity of the Casablanca lifestyle. It is hectic yet friendly, crowded yet the beaches are easily accessible, and international at first sight but also absolutely Moroccan at its roots.

Which local traditions or customs should foreign residents try to adopt in order to integrate?

WENZEL: While couscous is widely known around the world, in Morocco this staple food is traditionally enjoyed on Fridays. Couscous is typically eaten in groups, such as when a large family sits down together to share a meal from one large dish.

Taking up this tradition on Fridays in a business environment – be it as a company group or with business partners – is one way to integrate. Adapting to this very charming local tradition helps to strengthen ties, build networks and discuss interesting topics outside of the daily work routine.

What are your top etiquette tips for foreign business travellers meeting their local counterparts?

WENZEL: Customs and etiquette in Morocco are neither complicated nor hard to understand – they are fundamentally based on respect and good manners. However, I think three points are of specific importance. First, Moroccans have a strong belief that you should always respect yourself. Second, Moroccans are considerate to everyone they meet and expect the same in return – courtesy is extended to all, and it is never acceptable to be rude. Third, Moroccans require a certain amount of formality in all procedures and negotiations, and they often view informality as a sign of disrespect. Indeed, Moroccans are not straightforward communicators and will often avoid direct confrontation in business, so one must learn to read between the lines.

Are there any areas of the city that you particularly recommend for dining and entertainment?

WENZEL: The city has everything from fast food to fine-dining fusion restaurants, and plenty of fresh fish and seafood on offer. There is a wide range of international hotels and quite a variety of restaurants in the city. However, it is very rewarding to also have a look at Ain Diab for those who prefer the seaside, as well as Gauthier and Racine for a more modern, urban touch. A weekend out to Dar Bouazza provides a combination of good food and the city's beach life. One should not forget Bouskoura, though; this suburb offers a large forest area ideally suited for running and biking, as well as three golf courses, and its restaurants are not to be missed.

If you were to recommend only one attraction in the city to a visitor, what would it be and why?

WENZEL: It is often said that Casablanca has no sights apart from the Hassan II Mosque. However Casablanca was and is a laboratory city, a place that has served as a site of experimentation for many architects – where art deco and Arab-Moorish styles met and gave birth to an architecture that is unique to Casablanca. A short stroll through the city centre will bring you into contact with this very special blend. Each time you look at the facade of a building, you begin to glimpse the richness and diversity of the modern heritage of the metropolis.

JM Suites Hotel & Spa

Rest and relaxation

CASABLANCA

JM SUITES HOTEL & SPA

161 Angle Boulevard Rachidi
T: (0522) 260 666
www.jmsuiteshotel.com
info@jmsuiteshotel.com

Rooms: 22 rooms, comprising 4 junior suites, 12 executive suites, 2 master suites, 2 deluxe master suites, 1 ambassador suite and 1 presidential suite. Three non-smoking floors are available.
Business & Conference Facilities: Business centre with an executive lounge, secretarial services and a meeting room for 40 with audio-visual equipment.
Health & Leisure Facilities: Fitness centre, spa, sauna, hammam and massage services.
Guest Services: Car hire, airport shuttle, dry-cleaning, car park and valet, 24-hour concierge, room service, currency exchange and shoeshine service.
Dining: JM Café (breakfast buffet), La Table du JM (French cuisine) and JM Cigar Lounge. Special diet menu available with in-room dining.

FARAH CASABLANCA

160 Avenue des Forces Armées Royales
T: (0522) 458 100
www.farahcasablanca.com
reservation@farahcasablanca.com

Rooms: 279 rooms including 24 suites with internet and satellite TV. Bathrooms equipped with free toiletries and a hair dryer.
Business & Conference Facilities: Business centre.
Health & Leisure: Spa, fitness centre and indoor swimming pool.
Guest Services: Wi-Fi, free parking and air conditioning.
Dining: Local and international cuisine at on-site restaurant for breakfast and dinner. Drinks available at the bar.

SOFITEL CASABLANCA TOUR BLANCHE

Rue Sidi Belyout, Centre Ville
T: (0522) 456 200
www.sofitel.com
h6811@sofitel.com

Rooms: 171 rooms, including 30 suites. Butler service included for the Opera and Imperiale suites. The Opera suites also include a private hammam, bay windows and a terrace.
Business & Conference Facilities: 5 meeting rooms and business centre. Copy, printing, fax and secretarial service. Translating and interpreting services available upon request.
Health & Leisure Facilities: Outdoor pool, heated indoor pool, fitness centre, hammam, beauty salon and water sports.
Guest Services: Non-smoking rooms, facilities for disabled guests, room service, dry-cleaning, concierge, shuttle service, Wi-Fi, parking and child care.
Dining: L'Arabesque (French cuisine), L'Atelier Oriental (Lebanese cuisine) and Le Casart Bar.

HOTEL PALACE D'ANFA

171 Boulevard d'Anfa
T: (0522) 954 200
www.lepalacedanfa-hotel.com
reservation@lepalacedanfa-hotel.com

Rooms: 156 rooms, including 17 suites.
Business & Conference Facilities: 9 business rooms available for conferences, seminars, gala dinners, cocktail dinners or weddings.
Health & Leisure Facilities: Outdoor pool, spa, fitness and health centre.
Guest Services: Non-smoking rooms, room service, dry-cleaning, concierge, shuttle service, Wi-Fi, parking, rooms with VIP services.
Dining: La Brasserie (French cuisine), illycaffé and Dar El Badii (Moroccan cuisine).

Farah Casablanca

Sofitel Casablanca Tour Blanche

Hotel Palace d'Anfa

Odyssee Center Hotel

ODYSSEE CENTER HOTEL
Angle Rue Kamal Mohamed et Rue Mohamed Al Quori
T: (0520) 483 800
www.odysseecenter.com
salam@odysseecenter.com

Rooms: 138 rooms and suites with high-speed internet, satellite TV and safe. Junior suite is 45 sq metres and executive suite is 75 sq metres.
Business & Conference Facilities: 24-hour business centre, 2 conference rooms (35 sq metres and 150 sq metres) offering audio-visual equipment and catering.
Health & Leisure Facilities: Access to Miami Fitness Club and Spa and beach. Cardio and weight equipment. Fitness group classes available. Heated indoor semi-Olympic pool.
Dining: L'Escale buffet restaurant, La Galerie restaurant and lounge, Library bar, Time Lobby Bar, Zaman Oriental Lounge and Club. Room service is also available.

RABAT

Sofitel Rabat Jardin des Roses

SOFITEL RABAT JARDIN DES ROSES
450 Souissi
T: (0537) 675 656
www.sofitel-rabat-jardindesroses.com
H6813@sofitel.com

Rooms: 229 rooms, including 37 luxury suites. Air conditioning, cable, satellite, and web-friendly TV and sound system, Wi-Fi, safe and mini-bar in all rooms.
Business & Conference Facilities: 14 meeting rooms with a capacity for up to 500 people. Large ballroom for galas and weddings. Business centre with all essential secretarial services.
Health & Leisure Facilities: 1500-sq-metre spa inspired by Arab-Andalusian architecture and 8 beauty salons. Fitness centre, hammam, massage, two outdoor pools and one indoor pool, sauna, beach and water sports, solarium and tennis courts. Stroll around 7 ha of Andalusian gardens.
Guest Services: 24/7 luggage service, parking with valet assistance, 24-hour room service and boutique shopping facilities.
Dining: Café La Galerie (coffee and snacks), Amber Bar (cocktails), El Patio (international cuisine), Al Warda (Moroccan cuisine), Golden Fish (seafood) and So Lounge.

FEZ

Barceló Fès Medina

BARCELÓ FÈS MEDINA
53 Avenue Hassan II
T: (0535) 948 800
www.barcelo.com/en-us/barcelo-hotels/hotels/morocco/fez/barcelo-fes-medina/
fes@barcelo.com

Rooms: 134 air-conditioned rooms with internet, satellite TV and safe.
Business & Conference Facilities: 300 sq metres for meetings and conferences, banquet rooms, and fax and photocopy service.
Health & Leisure Facilities: Fitness centre, outdoor swimming pool, hammam, spa, massage, terrace and solarium.
Guest Services: Free Wi-Fi, private parking, car rental, wire transfer service, 24-hour reception, rooms with VIP services.
Dining: Bistro (international restaurant) and Fitzgerald (jazz bar).

HOTEL SAHRAI
Bab Lghoul, Dhar El Mehraz
T: (0535) 940 332
www.hotelsahrai.com
info@hotelsahrai.com

Rooms: 50 guest rooms and suites, ranging from 30 sq metres to 80 sq metres. The Sahrai suite offers a large private, outdoor terrace, walk-in closet and open living room.
Business & Conference Facilities: 100-sq-metre meeting room that accommodates up to 120 people for conferences, weddings or events. Catering available for breakfasts and lunches.
Health & Leisure Facilities: Givenchy spa, traditional hammam, fitness centre and panoramic infinity pool with swimming lane.
Guest Services: Free Wi-Fi, cleaning service twice a day and room service.
Dining: Amaraz (Moroccan cuisine), Relais de Paris (Parisian brasserie menu), Les Arcades (snack menu and light refreshments) and The Jungle Bar (cocktails at night, concerts and DJ sets from Thursday to Sunday).

MARRAKECH

HOTEL & RYADS BARRIÈRE LE NAOURA
Rue Djbel Lakhder
T: (0524) 459 000
www.lenaoura-marrakech.com
reservationsnaoura@groupebarriere.com

Rooms: 78 rooms, 7 suites and 16 riads (3 to 6 bedrooms). Each room has a butler service, bay windows and a terrace.
Business & Conference Facilities: A large room of 100 sq metres, 3 spaces of between 45 sq metres and 50 sq metres, and a business centre. Copy, printing, fax and secretarial services available upon request.
Health & Leisure Facilities: Outdoor pool, fitness centre, hammam and beauty salon.
Guest Services: Non-smoking rooms, facilities for disabled guests, room service, dry-cleaning, concierge, shuttle service, Wi-Fi, parking and child-care service on request.

Dining: Fouquet's (French and Moroccan cuisine), Le Wardya (Mediterranean cuisine) and Le Nuphar Bar.

DEMEURES D'ORIENT RIAD & SPA
10 Arset Ben Nacer Riad Larrouss
T: (0524) 381 200
www.demeuresdorient.com
reservation@demeuresdorient.com

Rooms: 12 suites, consisting of 5 junior suites, 3 deluxe suites, 3 royal suites and 1 apartment with 1 spa with 2 massages cabins. Outdoor dining and relaxation areas. 1000-sq-metre rooftop on the second floor with a bar and pergola, sunbeds, dinning and relaxation areas with a view of the Koutoubia and Atlas Mountains. Each suite offers a view of the hotel's inner patio, garden and the pool.
Business & Conference Facilities: 1 very large room. Wi-Fi and retro projector available. Printing service available at reception.
Health & Leisure Facilities: 1 outdoor heated pool measuring 11 metres by 2 metres, spa with 2 treatment rooms and 1 marble hammam facility, beauty salon and hairdresser services.
Guest Services: Non-smoking units, butler service, room service, dry-cleaning, concierge, shuttle service, Wi-Fi, parking, babysitting, cooking classes, and day trips with private chauffeur and guide. Parking available in front of the entrance to the riad.
Dining: Moroccan and international cuisine lunches and dinners served by Chef Rachid, La Table de Demeures d'Orient (bar and tea lounge), breakfasts, lunches and dinners are served at the hotel's patio across the pool and also on the rooftop by demand.

RIAD KNIZA
34 Derb l'Hotel Bab Doukkala
T: (0524) 376 942
www.riadkniza.com
riadkniza@riadkniza.com

Rooms: 11 units consisting of 2 deluxe rooms, 2 superior deluxe rooms, 2 junior suites, 4 senior suites and 1 royal suite.
Health & Leisure Facilities: Indoor pool, spa with 1 treatment room for massage and 1 hammam.
Guest Services: Room service, dry-cleaning, concierge, shuttle service, Wi-Fi, parking, and day trips with private chauffeur and guide.
Dining: Riad Kniza restaurant (Moroccan cuisine).

BARCELÓ PALMERAIE

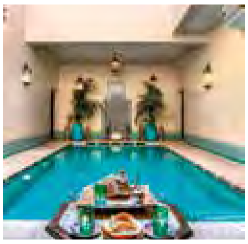
KM6 Route de Fes
T: (0524) 393 800
www.barcelo.com/en-gb/barcelo-palmeraie/
palmeraie@barcelo.com

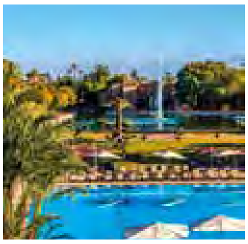
Rooms: 252 rooms.
Business & Conference Facilities: 10 meeting rooms with capacity for up to 400 people for events, conferences and other functions, featuring air conditioning, natural light, all the necessary technical equipment and high-speed internet.
Health & Leisure Facilities: 500-sq-metre wellness centre for hotel guests only, featuring a spa, fitness studio, outdoor pool, children's pool, hammam, hot tub and special treatment rooms.
Guest Services: Wi-Fi, bike hire, child care, free kids' club for children aged 6 to 12, outdoor adventure playground, dry-cleaning, ironing and laundry services, 24-hour reception, room service, concierge, bureau de change, gift shop and newsstand, hair salon, car park, pets allowed, free daily transport to the centre of Marrakech, airport collection and transfer service, sports facilities, closely located golf courses.
Dining: Meze (Moroccan cuisine, open for dinner) L'Oliveraie (buffet with international cuisine), L'Oasis (poolside bar serving light and healthy food) and Ambulance Bar (art deco bar with relaxing and modern atmosphere).

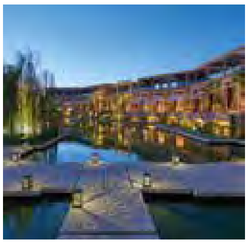
MANDARIN ORIENTAL, MARRAKECH
Route du Golf Royal
T: (0524) 298 888
www.mandarinoriental.com
hbenlahssen@mohg.com

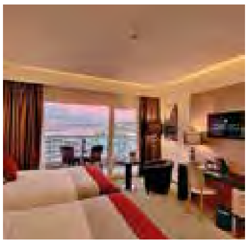
Rooms: 63 units, comprising 54 villas and 9 suites. Two infinity pool suites with direct access to the spa facilities. Each villa offers butler services, a private garden with heated pool, jacuzzi, outdoor dining and relaxation areas. Each suite offers plunge pools and terraces with views of the Atlas Mountains.
Business & Conference Facilities: 310 sq metres of meeting space, along with 3 function rooms and garden terrace. Wi-Fi and visual equipment available.
Health & Leisure Facilities: Jogging path around the 20-ha property, outdoor and indoor heated pool facilities, spa with 4 treatment rooms, 2 spa suites with private gardens, 2 hammams, beauty salon, hairdresser services, fitness centre and yoga studio.
Guest Services: Hotel bicycles, 2 golf courses, kids' club, non-smoking units, butler service, room service, dry-cleaning, concierge, specialised dining services for residents of the villas, shuttle service, Wi-Fi, free parking, child care, cooking classes, and day trips to the surrounding area with a private chauffeur and guide.
Dining: Mes'Lalla (Moroccan and international cuisine), Ling Ling by HAKKASAN (Cantonese cuisine), Le Salon Berbère (bar and tea lounge), picnics at the chef's vegetable garden available upon request and lunch at the pool garden (Mediterranean cuisine).


Demeures d'Orient Riad & Spa


Riad Kniza


Barceló Palmeraie


Mandarin Oriental, Marrakech


Royal Tulip City Center

TANGIER

ROYAL TULIP CITY CENTER
Route de Malabata
T: (0539) 309 000
www.royal-tulip-city-center-tanger.goldentulip.com/en-us?arrival
info@royaltulipcitycentertanger.com
Rooms: 218 rooms, including 96 standard and business rooms, 56 luxury rooms, 19 executive rooms, and 29 suites including 1 presidential suite and 1 royal suite.
Business & Conference Facilities: A high-tech 800-sq-metre conference centre with a capacity of 1000 guests. Business centre with full range of services.
Health & Leisure Facilities: Health club, spa, swimming pool and gym.
Guest Services: Room service, free parking, valet service, private transfer, concierge and Wi-Fi in all rooms.
Dining: restaurants, bars and lounge, serving all type of cuisine, including French gastronomy.

HILTON TANGER CITY CENTER HOTEL & RESIDENCES
Place du Maghreb Arabe
T: (0539) 309 700
www.tangercitycenterhotelandresidences.hilton.com
tanger.info@hilton.com

Rooms: 180 rooms, including 19 suites. Each executive rooms offers access to the VIP lounge. Some rooms include a sofa bed to accommodate additional guests.
Business & Conference Facilities: Dedicated events floor with 5 flexible meeting rooms and an elegant hall for coffee breaks.
Health & Leisure Facilities: Outdoor rooftop pool, fitness centre, steam room and sauna.
Guest Services: Non-smoking rooms, 24-hour room service, dry-cleaning, concierge, paid shuttle service, free Wi-Fi and free underground parking.
Dining: La Kasbah (all-day dining, international cuisine), Kas'Bar (lounge and bar), La Terrasse (rooftop lounge by the pool, closed during winter) and The Lounge (lobby bar and cafe).


Hilton Tanger City Center Hotel & Residences

MÖVENPICK HOTEL & CASINO MALABATA
Avenue Mohammed VI, Baie de Tanger
T: (0539) 329 300/50
www.movenpick.com/en/africa/morocco/tangier/hotel-malabata-tanger/overview/
hotel.tangier.casino@movenpick.com
Rooms: 205 double rooms, including 2 for disabled guests, 1 executive floor, 7 Junior suites, 18 ambassador suites, 1 presidential suite and 1 royal suite.
Business & Conference Facilities: 3 flexible conference rooms of 336 sq metres. Business centre with full range of services.
Health & Leisure Facilities: Health club, sauna, jacuzzi, outdoor swimming pool, massages and beauty care.
Guest Services: Room service, free parking, valet service, private transfer, concierge and Wi-Fi in all rooms.
Dining: Layali (Moroccan cuisine), Paradisier (international cuisine), Phoenix Lobby Bar and Nyx Bar.

FNIDEQ

BANYAN TREE TAMOUDA BAY
Route Nationale 13, Oued Negro
T: (0539) 669 999
www.banyantree.com/en/morocco/tamouda-bay
tamoudabay@banyantree.com

Rooms: 92 villas including garden pool villas, waterfront villas and spa sanctuary pool villas. All rooms are equipped with LED televisions, a mini-bar, patio, a range of designer toiletries and free Wi-Fi.
Business & Conference Facilities: 3 meeting rooms and business centre with full secretarial support available.
Health & Leisure Facilities: Indoor and outdoor swimming pools, fitness centre with yoga studio, full-service spa, kids' club and library.
Guest Services: Concierge services, 24-hour front desk, tour assistance, airport shuttle and gift shop.
Dining: Tingitana (all-day dining, Moroccan and eastern Mediterranean cuisine), Saffron (Thai), Volubilis (cocktail lounge with tapas) and Azura Beach Restaurant (snacks and seafood grill in summer). Free breakfast and 24-hour room service.

OUJDA

ATLAS TERMINUS
Boulevard Zerktouni, Place de la Gare
T: (0536) 711 010
www.atlas5stars.com/en/morocco-resorts/oujda/atlas-terminus-oujda-hotel info.terminus@hotelsatlas.com

Rooms: 82 rooms, including 1 royal suite, 18 junior suites and 11 ambassador suites. Safe, mini-bar, internet and cable TV.
Business & Conference Facilities: Conference room for up to 350 people and 2 smaller rooms for 20 people each. Business centre with full range of professional services.
Health & Leisure Facilities: Spa and wellness centre, massage treatment and outdoor swimming pool.
Guest Services: Room service, laundry and dry-cleaning service, concierge and free parking facilities.
Dining: Romarin (international cuisine), Al Yacout (Moroccan cuisine), VIPs Bar, Dragon (Chinese cuisine), Actor's Nightclub and lounge bar.

Facts for visitors

Useful information for new arrivals and returning travellers

LANGUAGE: While classic Arabic and Amazigh are Morocco's official languages, the most widely spoken is the local dialect *darija*. French is also spoken in business, government circles, schools and universities. It is common to hear people mixing Arabic and French when speaking. Different Berber dialects are spoken in the Atlas Mountains (Rif, Middle Atlas, Anti-Atlas, High Atlas), while Spanish is used in the north, particularly around Tangier and Tétouan. English is becoming more common among businesspeople and government officials and can be used in most hotels.

VISAS: Most visitors do not need a visa and are allowed to remain in the country for 90 days. However, depending on the passport used to enter the country, visitors might need an electronic travel authorisation It is advisable to check the latest visa requirements prior to travel as some exceptions exist. A 90-day, single-entry tourist visa costs $22. Passports must be valid for at least six months beyond the date of entry.

CURRENCY: The dirham is the local currency. The country's ATMs can be used to withdraw cash using internationally accepted bank cards. Some local banks only accept withdrawals that amount to a minimum of Dh500 ($52). Coins and bills with denominations of up to 200 are used on a regular basis.

DRESS: As Morocco is a Muslim country, visitors are advised to dress conservatively. However, in major urban centres and tourist areas, dress is more liberal. Non-Muslims are generally not allowed to enter mosques. When entering a mosque, shoes should be removed and women should cover their hair.

ETIQUETTE: It is typical to inquire about family and health. In business settings, a handshake is usually the first introduction. Once a relationship is established, it becomes more common to kiss on both cheeks, starting with the left, and shake hands. In a greeting between a man and a woman, the woman must be the first to extend her hand. If she does not, a man should bow his head. Avoid offering items with the left hand.

BUSINESS HOURS: Business hours run from 9.00am to 6.00pm, although public sector institutions normally close at 5.00pm. Ramadan should be taken into consideration when planning meetings as normal business hours are likely to change. Daylight savings time was formerly observed between the last Sunday of March and the last Sunday of October, with the exception of the month of Ramadan. However, Morocco made daylight savings permanent in 2018, effectively changing from the GMT+0 to GMT+1 time zone.

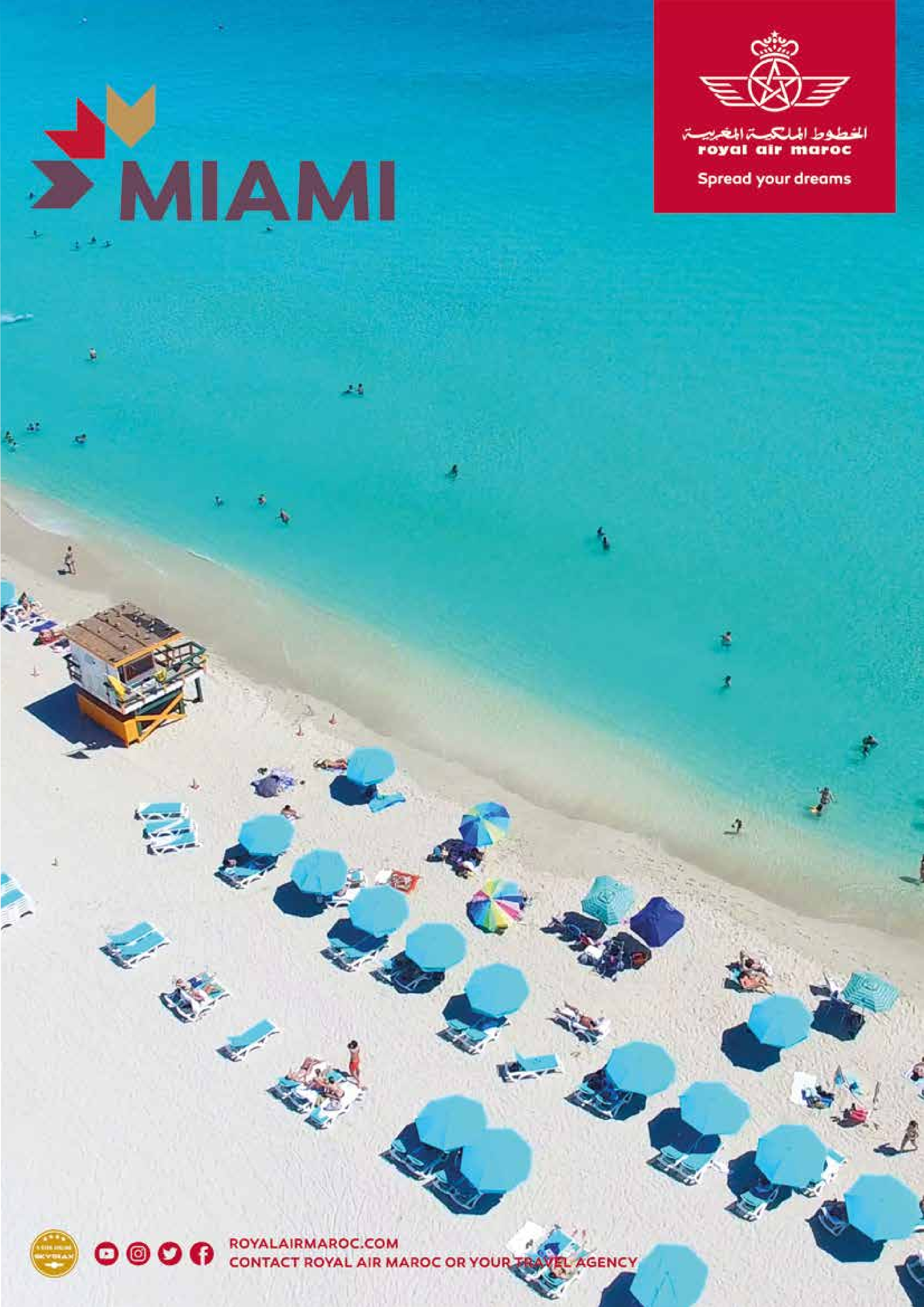
COMMUNICATION: Mobile phone use is widespread, and it is advisable to buy a local SIM card on arrival, which typically costs around $2. The connection may not always be optimal, but wireless internet is widely accessible and 4G is available in the largest cities.

TRANSPORT: Morocco has a relatively efficient public transportation system, connecting the main urban centres and points beyond. Domestic flights are available daily, and are recommended for destinations like Agadir, Ouarzazate or Dakhla.

In Rabat and Casablanca, trams are available, as well as buses and taxis. "Petits taxis" are used for short distances, are usually shared with other travellers and typically have an initial fee of Dh2 ($0.21). Meanwhile, "Grands taxis" are used to travel over longer distances, such as the trip from Mohammed V Airport to downtown Casablanca, with a general fee of Dh300 ($31). Ride-hailing apps such as Heetch and Careem are also now available in some major cities.

ELECTRICITY: Standard electrical outlets are 220-V/50-Hz AC, type C or F, the same as in most European states. Bringing an adaptor is advisable, as these are sometimes not readily available outside of the major urban centres or areas frequented by tourists.

TIPPING: A 10% service charge on top of 10% tax is added at hotels. Some restaurants add a charge of 5-15%. Where this is not applied, it is advisable to add 10-15% to the bill. For taxis and other services, it is common practice to round up to the nearest Dh5 ($0.52).



MIAMI
الخطوط الملكية المغربية
royal air maroc
Spread your dreams
ROYALAIRMAROC.COM
CONTACT ROYAL AIR MAROC OR YOUR TRAVEL AGENCY