

Labor Market in Morocco: Challenges and Opportunities

This note analyzes the key characteristics of the labor market in Morocco to identify relevant policies to promote a dynamic and inclusive labor market which contributes to the development outcomes of Morocco. It is the result of a collaboration between the High Commissioner of Planning and the World Bank and provides the background information for the Systematic Country Diagnostic, prepared by the World Bank in consultation with national stakeholders, which identifies the major challenges and opportunities in achieving poverty reduction and shared prosperity and in turn helps formulate the priorities of the World Bank in Morocco.

Morocco has made considerable economic and development progress in the past 15 years. Its Gross Domestic Product (GDP) per capita grew at 3.2 percent on average and it is the only country in the Maghreb which did not experience any negative growth during this period. At the same time, Morocco has reduced poverty from 15.3% in 2001 to 8.9% in 2007 to 4.8% in 2014.¹ Poorer regions have been converging toward richer ones, hence reducing inequality across regions. Morocco is currently a low middle income country, with a Gross National Income (GNI) per capita of 3,340 USD in 2016.

Morocco is enjoying a demographic dividend, but quality of the workforce is low. With population growth slowing, to 1.25% between 2004 and 2014, the dependence rate has halved and will stay low until 2030. This provides a great opportunity for the country, but also places additional pressure on the economy to create sufficient jobs for 300,000 working-age people entering the labor market every year. Despite a young population (46% under the age of 25) and growth in enrollment, educational attainment is low: 73.3% of the adult population (age 15+) have only primary education or less; of the workforce, only 5% having completed tertiary education in 2015.

Overall, Morocco's labor market is characterized by three key challenges:

- (1) *Lack of inclusion:* Youth and women are less integrated into the labor market. Female labor force participation is particularly low. Youth participation has declined as the share of youth staying in school more than doubled. While this indicates better skill enhancement, youth unemployment rate also increased, especially among higher educated youth, signifying difficulty at entry.
- (2) *Slow job growth:* Job creation has not been sufficient to absorb the inflow of working-age population. Formal employment is concentrated in older and larger firms while small and medium enterprises face numerous constraints to operate and expand.
- (3) *Low quality of jobs:* Informality dominates the labor market. The growth of non-agricultural employment is slow and employment in the services sector is concentrated in low-skilled services. Productivity is low, and workers lack sufficient mechanisms for protection and social dialogues.

The result is misallocation and under-utilization labor, which prevents the economy from reaching its potential. Nevertheless, there are opportunities to strengthen the Moroccan labor market and increase its contribution to Morocco's economic growth. It is up to the Government to improve the functioning of the labor market, especially on the demand side to generate more and better jobs. This requires a more transparent and flexible regulatory framework to encourage private sector development. At the same time, complementary supply-side policies could be important to improve educational attainment and remove the entry barriers for youth and women. Further details on the labor market trends of Morocco are presented below.

¹ Measured at the national poverty line.

Labor force participation is low and has been decreasing. The participation rate has been declining from 54.5% in 1999 to 46.4% in 2016 (Figure 1). At 70,8%, the rate for men is similar to other countries, but the rate among women (23.6%) is lower than the average of low middle income countries, although it is higher than the average of Middle East and Northern Africa (MENA). The participation rate is particularly low among women in urban areas (16.6%). Men are mainly inactive because they are in school (45.9%) while two thirds of women are inactive because of housework. The decline in labor force participation is the largest (from 45.8% in 2000 to 32.2% in 2014) among youth (aged 15-24), partly because of the increase in schooling: enrollment rate increased from 27.3% to 46.4% in the same period. The increase in schooling also helped to lower the share of youth not in employment, education, or training (NEET), down from 35.7% to 27.8%. However, NEET is higher among women and older youth (aged 18-24). The gender gap is also shown in the fact that 70% of male NEET are unemployed, while 93% of female NEET are inactive.

Figure 1. Labor force participation is declining

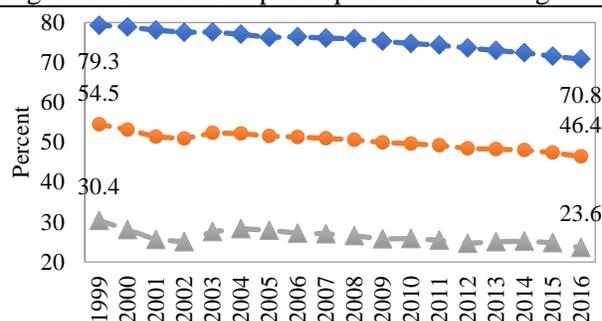
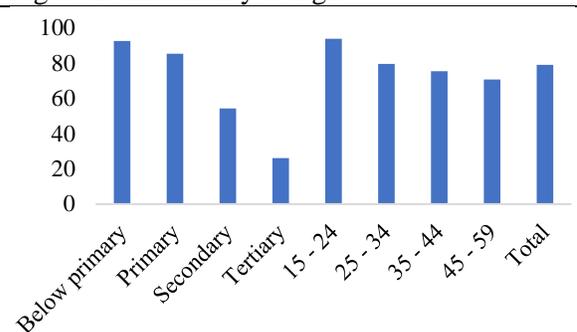


Figure 2. Informality is high



Source: HCP (Labor force survey).

Unemployment, while declining, remains an urban phenomenon. Unemployment declined from 13.8% in 1999 to 9.4% in 2016. Employment is lower in urban areas (35%) than in rural areas (55%) in 2015. However, this may change as the majority (71%) of jobs created over the last 15 years have been in urban areas. Thus, urban unemployment rate declined significantly from 22% to 13.9% in the same period.

Slow job creation and entry barriers generate high unemployment among the young and educated. With the working age population increases by 300,000 a year, job creation, at 129,000 per year, has been insufficient. Youth unemployment is twice the rate of total population. This rate among urban youth has been worsening since the financial crisis, growing from 31.3% in 2010 to 41% in 2016. Those with tertiary education are five times more likely to be unemployed than those without any education. More alarmingly, almost three quarters of youth with tertiary education are unemployed. Furthermore, unemployment tends to be long: more than 70% are unemployed for more than a year, and this share is higher among those with tertiary education. This is not necessarily because of high reservation wage as two thirds of the unemployed, and 38.6% of the highly educated unemployed, are willing to accept salaries lower than the minimum wage. Those with tertiary education are also more active in searching for employment.

The labor market is mostly informal, signaling low job quality. Among the employed in 2015, 22% are unpaid family workers, 32% are self-employed, and 27% are employed but without contracts. This situation has improved since 2000, but only slightly, and remains to be significantly higher in rural areas and among those who are less educated (Figure 2). The financial crisis in 2008 also exacerbated this situation as more than half of jobs created in this period are part-time or seasonal. The high informality not only undermines the protection and income available to workers (for the same educational level, formal workers earn three times as much as informal ones), but also raises dissatisfaction: 23% of the employed expressed desire to change their employment for better pay, working conditions, or stability.

Protection and representation for workers and employers is limited. The Employment Code of Morocco, put in place in 2003, introduced important standards for working conditions regarding minimum working age, working hours, minimum wage, and social security. Nevertheless, since the majority of workers are informal, the Code applies to only a small share of the working population. Similarly, even though the Code forbids discrimination against unionized workers, unionization and employers' organization is low. Only 3.3% of the employed are affiliated with a union and this share is only 1% in rural areas. Even among salaried workers, only 6.3% are unionized. There has also been an increase in the number of firms without union representation. On the employer side, the principal organization is the General Confederation of Enterprises of Morocco (CGEM), but it represents only 14% of employers, mostly medium and large firms. Small firms, especially family businesses, are largely absent. Social dialogues, therefore, often resort to strikes, mainly regarding wages, lay-offs or benefits: there were 265 strikes in 2015 alone and the number of working days lost increased from 8 to 18 between 2000 and 2015, most of which are in industry and services sectors.

Employment in industry and services have not grown significantly. While Morocco's sectoral composition had been highly advanced, with services and industry accounting for 53.5% and 34.8% of GDP in 1980, respectively, it has not changed over the years. Furthermore, the employment structure does not match the structure of the economy: agriculture continues to account for around 40% of employment, while industry stays at 20%. Construction and services are the two sectors that have grown the most, adding 31 and 87 thousand jobs per year between 2000 and 2014, respectively, but they are mostly low-skilled (retail, wholesale, hoteling, transport, etc.).

As a result, productivity remains low. Productivity, as measured by GDP per worker, grew between 2000 and 2014, which made it the biggest contribution to GDP growth. Nevertheless, it remains lower than Algeria and Tunisia. Firm productivity is even lower, and has been declining faster than the world average (-2.3% vs. -1.1%). In addition to low education and high informality, inefficiency of investment is another factor that explains the low productivity. Investments, accounting for 32% of GDP in 2016, came mostly from the Government and public enterprises, signaling a weak environment for private investment.

Small and medium firms have not been the driving force for employment and productivity growth. Employment concentrates in firms that are larger (at least 100 employees), older (more than 20 years), and in low-skilled manufacturing. Firms in Morocco also tend to be older (20 years on average) compared with the world and regional average (16.5 and 17.5 years, respectively). They also tend to be larger (55.5 full-time employees on average compared with 29.9 regional average). While Moroccan firms tend to expand faster, its rate of firm creation is much lower than other countries in the region.

Corruption and labor regulation rigidity are major obstacles for firms and job creation. Although Morocco does not suffer as much from political instability or lack of electricity access as other MENA countries, many firms (20%) cited corruption to be their main obstacle. This points toward a gap between the law, which aligns with international standards, and practice. In fact, non-compliance of the law constitutes both an obstacle to the promotion of decent work and an encouragement for informal economic activities which in turn undermines fair competition. Non-compliance, to some extent, is due to the rigidity of the law, which imposes constraints on many aspects, ranging from fixed-term contracts to lay-offs to maternity leave. The minimum wage is relatively high, and is not always met: the minimum wage of 2,571 Moroccan Dirhams per month (or 260 USD) accounted for 100% of the average income per capita or more than 50% of the average wage in the formal private sector in 2015. Collective agreements and large seniority bonuses further raise the cost of labor in the formal sector, which may contribute to limiting the demand for jobs among employers. These constraints call for more flexible labor regulations and a more enabling environment for the private sector, which are key to job creation.

Going forward, the Government has launched multiple initiatives with ambitious goals to promote employment. The National Agency for Promotion of Employment and Skills (ANAPEC) launched Vision 2020 in 2015 to expand the agency's coverage. Created in 2000 to train job-seekers to match labor demand, ANAPEC has reached mainly people with tertiary education because people of lower education, which account for only 18% of ANAPEC beneficiaries, are less aware of the services offered by the agency. The Vision 2020 therefore plans to double the number of agencies in its network, better support young graduates, especially those in long-term unemployment, and expand to women and non-graduates. ANAPEC also launched three programs: Idmaj (wage subsidies for unemployed graduates); Tehil (youth training); and Moukawalati (entrepreneurship promotion through training and financial assistance). In parallel, relevant ministries have embarked on three strategies on: (i) youth integration, which plans to improve the training system and brings youths into the labor market through internship or skill matching; (ii) employment, which aims to increase employment and productivity; and (iii) microenterprise promotion, which intends to support microenterprise financing. On the demand side, many sectoral plans (e.g. Morocco's Global Jobs and Moroccan Green Plan) aim to promote job creation through macroeconomic and sectoral policies (e.g., compensation reform, flexible exchange rate policy, pro-growth sector strategies).

The Government of Morocco would benefit from international experience in implementing such ambitious programs. Experiences in other countries show that interventions need to be targeted to the specific problems of the labor market. On the labor market governance, for example, while regulations are important to maintain minimum standards for salary workers, they tend to exclude women, youth, and low-educated workers, who are more likely to be in the informal sector. Rigid regulations, in turn, are likely to encourage more informality. Vocational training is more successful when targeting people who really need skill enhancement (e.g. women and the long-term unemployed) and its impact is visible only in the long term. Employment services are effective only when there is sufficient labor demand, but are less successful for people that are traditionally marginalized, such as women and youth. For these groups, other support programs (e.g. child care) and social awareness are more effective in removing discriminatory practices. Wage subsidies tend to work well in counteracting short-term negative economic shocks, providing experience to young people, or reintegrating older workers and the long-term unemployed, but the uptake may be low if too many restrictions are placed on firms. Finally, entrepreneurship programs have higher impact on self-employment than on income. For them to be successful, financial assistance needs to be accompanied by regular follow-up, training, mentoring, and networking. It is also important to ensure that they are targeted toward people with appropriate capacity and they are not crowding out other investments.

Overall, it is important that the support policies by the Government be integrated in the broader national strategy and complemented with an enabling policy framework for job creation. One challenge to the uptake of the ANAPEC initiatives is that they are not yet integrated in the broader labor market network and supported by sufficient communication strategies. Similarly, the success of wage subsidies programs depends on combining them with other services (e.g. vocational training and employment services). In general, the Government must ensure an enabling environment (macroeconomic stability and the rule of law) for businesses to grow and create jobs. It is also essential that the government invest in infrastructure, human capital and other factors necessary for job creation.