



Overview

Morocco's Jobs Landscape

Identifying Constraints to an Inclusive Labor Market

Gladys Lopez-Acevedo, Gordon Betcherman,
Ayache Khellaf, and Vasco Molini

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INTERNATIONAL DEVELOPMENT IN FOCUS

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Inclusive Labor Market**

**GLADYS LOPEZ-ACEVEDO, GORDON BETCHERMAN,
AYACHE KHELLAF, AND VASCO MOLINI**



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Contents

Acknowledgments v

About the Contributors vii

Overview 1

Introduction 1

More and better jobs 2

Inclusion: Integrate youth and women into the labor market 3

Identifying priorities and setting the stage for policy 4

Reference 5

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This report represents the first result of the collaboration between the Haut Commissariat au Plan (High Commission for Planning, HCP) and the World Bank, initiated in September 2019 with the objective of carrying out work of common interest on the issues and challenges of the labor market in Morocco. Among several areas of cooperation, the two parties agreed to jointly develop this report in addition to other background papers. In this context, a working group of specialists from the Employment Surveys Division and the Population Living Conditions Observatory of the HCP participated in the implementation of this work. The Labor Force Survey data as well as the analytical and technical capacity provided by the HCP have enabled a detailed analysis of the labor market situation, its challenges, and opportunities.

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Overview

INTRODUCTION

This report sheds light on major labor market issues and challenges that Morocco faces. It is the first phase of the programmatic jobs program jointly undertaken with the government of Morocco. It is a jobs diagnostic that analyzes data mainly from Labor Force Surveys and employs new analytical methods to identify the main trends in the labor market. The key challenges that emerge will provide the basis for a deeper analysis and policy formulation in the next phase of this program. The report identifies four priorities: (1) accelerate structural transformation to create more and better jobs in higher-productivity sectors, (2) encourage formalization and improve the quality of jobs, (3) increase female labor force participation (FLFP) and connect women to better jobs, and (4) support youth in their transition from education to the labor market and lower the large numbers of youth not working.

Morocco has made significant economic progress over the past 20 years, which has raised the living standards of its people. Per capita income doubled between 2000 and 2019, while the poverty rate fell to one-third of its 2000 level, and literacy rates and health outcomes improved, along with access to basic infrastructure such as water and electricity. Labor productivity also improved, driven by a high share of public capital accumulation, but the pace is slowing, and there is significant scope for improving efficiency.

However, Morocco's economic growth has not been labor-intensive enough to absorb its growing working-age population. Morocco's growth has had a low capacity to generate jobs, and this rate slowed after the 2008 financial crisis, in line with southern European countries. Few jobs have been created in the industrial sector, slowing the pace of structural transformation. The country is also characterized by a large informal sector, high rates of inactivity, low FLFP, a prevalence of low-value-added services, and a difficult business environment, especially for start-ups and young firms.

Morocco is trying to overcome the "middle-income trap," which has been preventing its convergence with more affluent middle-income countries. Indeed, the ratio between average GDP per capita in Morocco and other lower-middle-income countries, as well as with upper-middle-income countries, has declined since 2000.

Morocco is also looking to capitalize on a substantial “demographic dividend” that will last until 2040. The expanding working-age population can be a strong force for economic growth, social inclusion, and development. But at the same time, it raises a challenge to create more and better jobs to absorb the growing labor force. As Morocco looks to adopt a jobs-led growth model, it is important to recognize that economic growth itself does not automatically translate into more jobs. Also needed will be a structural transformation that drives the creation of productive jobs and the inclusion of all groups.

King Mohammed VI has called for a new inclusive development model. It must address regional development imbalances, facilitate inclusion for youth and women, and continue to foster the upgrading of labor force skills. To address these labor market issues, which center on social and spatial inequalities, the King has suggested providing nationwide access to education, vocational training, and social welfare programs through coordinated efforts between the public and private sectors.

The COVID-19 (coronavirus) pandemic and resultant safety measures have halted or slowed economic activity, which is worsening the labor market situation. Demand has fallen and businesses have closed, eliminating or endangering employment for many and reducing household incomes. As of early April 2020, close to 60 percent of businesses had temporarily or permanently shut operations, according to the Haut Commissariat au Plan (High Commission for Planning, HCP), and by June 2020, 66.2 percent of workers were still on temporary layoff, citing the shutdown of enterprises as the main reason. In July, the unemployment rate spiked to 12.3 percent from 9.1 percent before the pandemic. The pandemic undoubtedly complicates prospects for jobs-led growth, and it will make the challenges highlighted in this report even more urgent and deserving of policy makers’ attention.

MORE AND BETTER JOBS

Growth has been dependent upon more capital-intensive sectors, generating labor productivity gains within sectors, but not much across sectors. In other words, labor has largely not moved from low- to high-productivity sectors. This matters greatly because international experience has shown that such a process is crucial for total factor productivity gains and jobs-led economic growth.

Thus, Morocco’s structural transformation has been slow. There has been job loss in agriculture but little job creation in manufacturing, suggesting “premature deindustrialization.” Large numbers of workers have been released from the agriculture sector, but just a small share has been absorbed by the industrial sector. Meanwhile, the share of services has also been slow to increase compared to other developing countries, and a large share of workers remain engaged in informal services.

Structural transformation has also suffered as the private sector has been unable to contribute enough to job creation. Despite some ranking gains in Doing Business Indicators, there are still considerable efforts to be made in the private sector. Public capital accumulation and a difficult business environment for firms, characterized by costly access to land, a complex tax system (and a comparatively high tax burden), lack of skilled labor and training programs, and

insufficient access to financing (IFC 2019) have “crowded out” the private sector, limiting its contribution to job-intensive growth. Meanwhile, while out-migration opportunities were available prior to 2008, potential migrants have had to queue up since the 2008 financial crisis. The fewer number of jobs, along with a growing labor force and persistent informality, has led to higher inactivity and persistent unemployment.

There have been marked regional differences in economic growth, job creation, and sectoral economic drivers. The services sector has driven growth and employment in some regions (Rabat), while the secondary sector (industry) has been more prominent in others (Casablanca). Even within services, growth in some regions has been characterized by more labor-intensive, low-value-added activities (Casablanca), while other regions (Rabat) have experienced growth in higher-productivity services. Hence, there are successful examples to promote spillovers to other sectors and regions.

Constrained by the business environment, private sector sales, which strongly correlate with job creation, have been sluggish. Despite some improvements in the regulatory framework, private firms report challenges in terms of shortages of skilled labor, competition from the informal sector, regulations, and tax burdens. The Moroccan export sector has failed to generate productive spillovers to upgrade local value chains. Together with a lack of industrial employment, this situation has created a dearth of productive jobs in high-value-added sectors.

Morocco has experienced increased formalization, but there is significant scope for further improvement. The proportion of formal waged workers has increased steadily from 29 percent in 2000 to 45 percent in 2019, which means that still more than half of waged workers operate in the informal sector. The result is not only lower government tax revenue but also an inability to benefit from more workers having regular contracts, pension schemes, and access to good and reliable health insurance. Thus, it is important to understand why formal hiring is limited and to develop policies that respond to the constraints.

INCLUSION: INTEGRATE YOUTH AND WOMEN INTO THE LABOR MARKET

The labor market has largely excluded two important groups: youth and women. A large share of Morocco’s young people are not working or investing in improving their employment prospects. About one-third of 15-to-24-year-olds are classified as NEETs—not in education, employment, or training. The NEET phenomenon suggests there are a large number of inactive and discouraged young people, which can hamper their long-term ability to acquire skills and contribute to the country’s economic and social future. At the same time, FLFP has been declining and stands below 30 percent, which is low even within a region characterized by low FLFP. The exclusion of women signals the need to address a variety of factors, including persistent social norms that may impair women’s ability to work. The COVID-19 economic slowdown will likely exacerbate the challenges for these excluded groups.

The participation of youth and women in the labor market is low despite better education. Morocco’s employment problem is characterized more by low labor force participation than open unemployment. Unemployment rates have been fairly level in the past few years (until COVID-19), while inactivity has

increased, exacerbating the NEET and FLFP problems. This inactivity, as well as the low FLFP, has worsened despite improved education and better access to it by women. Many discouraged youth and women have been unable to find good jobs and have stopped seeking work—raising concerns about the quality and relevance of education and the country's ability to reap returns from its large investments in education.

IDENTIFYING PRIORITIES AND SETTING THE STAGE FOR POLICY

To generate more and better jobs and bring more youth and women, especially NEETs, into the labor market, the analysis suggests the following priority areas. These priority areas each point to questions, which inform the agenda for the next stage of the programmatic work.

- First, accelerate structural change and create more jobs in high-productivity sectors. Morocco has transitioned from agriculture to informal, low-value-added services rather than to labor-intensive and productive industrial jobs or high-value-added service jobs. It may need to foster both industrialization and boost high-value-added formal services across the country, or focus on some subsectors and geographic “hotspots.” Either scenario requires further developing workforce skills and diffusing technology and know-how across sectors and regions. But concrete policy recommendations require further analytical work, using disaggregated productivity data.
- Second, promote more formalization in the economy. Having a large informal sector hampers labor productivity, erodes the tax base, and leaves many workers and their families without adequate health and social insurance. Encouraging formal jobs could involve different types of measures—including reforms to the business environment, reducing the cost of labor, or initiatives such as skills development to enhance productivity. Understanding the constraints to formalization and, thus, the actions that would tackle informality, requires analyses of firm-level data and wage data at the firm and individual levels. An important input would also be international experience in addressing informality.
- Third, integrate more women into the labor force. This effort would reduce gender disparities, empower women in household decision-making, increase household investment in education and health, and tap a key resource for economic development. Understanding the factors that drive these trends will be a focus of the next phase of the programmatic work, using World Value Surveys, Gallup data, focus groups, and international experiences with raising FLFP.
- Fourth, support youth in their transition from education to the workforce. Although Morocco has made important gains in education, further improvements are needed to develop a workforce that can drive employment growth and to help young people secure high-productivity jobs. The following issues are identified in the report but require further analytical work, along with a review of international experiences, to identify concrete policy options:
 - The need to lower high drop-out rates for young people
 - The need for scaled-up and high-quality vocational training to improve

employability for 18-to-24-year-olds with no formal education beyond secondary school

- The need to help highly educated youth make the transition from postsecondary institutions to the workforce
- The need for a better-quality education to converge toward international benchmarks and standards

The next phase of the programmatic work program will undertake a careful review of drivers of productivity and informality, FLFP, and transitions from education to the workforce. The objective will be to assemble evidence on concrete policy options to address the issues we have identified in the initial stage. This jobs diagnostic has reviewed trends in the labor market and identified a set of issues that constrain Morocco from generating more jobs and higher-quality jobs and creating opportunities for all segments of the population (including women and youth). Carrying out this work will require access to data that would allow us to deepen our understanding of these issues.

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This report sheds light on major labor market issues and challenges that Morocco faces. It is the first phase of the programmatic jobs program jointly undertaken with the government of Morocco. The report is a jobs diagnostic that analyzes microdata mainly from Labor Force Surveys and employs new analytical methods to identify the main trends in the labor market. The key challenges that emerge will provide the basis for a deeper analysis and policy formulation in the next phase of this program.

Morocco's Jobs Landscape identifies four priorities: accelerate structural transformation to create more and better jobs in higher-productivity sectors, encourage formalization and improve the quality of jobs, increase female labor force participation, and address youth inactivity and its long-term consequences.

Morocco has made significant economic progress over the past 20 years, which has raised the living standards of its people. However, Morocco's economic growth has not been labor-intensive enough to absorb its growing working-age population. It has had a low capacity to generate jobs, and the rate of job creation slowed after the 2008 financial crisis. Morocco is trying to overcome the "middle-income trap," which has been preventing its convergence with more affluent middle-income countries.

The government of Morocco has called for a new inclusive development model. The new model must address regional development imbalances, facilitate inclusion for youth and women, and continue to foster labor force skills upgrading. The COVID-19 pandemic and resultant safety measures have halted or slowed economic activity, which is worsening the labor market situation. The pandemic undoubtedly complicates prospects for jobs-led growth, and it will make the challenges highlighted in this report even more urgent and deserving of policy makers' attention.