

Morocco: Offshore Offer

28 June 2006



With European businesses bent on reducing their cost base, Morocco is becoming a leading provider of offshore services for the francophone and Spanish markets.

The kingdom has devised a strategy aimed at sharpening its competitive edge in offshore services, based on improving its infrastructure and training, as well as offering a set of incentives dubbed the Moroccan offer.

Offshore services are one branch of a larger trend named business process outsourcing (BPO) - the growing trend of relocating entire business functions to either self-owned or third-party service providers, typically in low-cost locations. The development of BPO was initiated in the early 1990s by US- and UK-based businesses, which were soon followed by those in Northern Europe. The French, Spanish, Belgian and Swiss markets started bridging the gap only in the late 1990s, with BPO outlays estimated at slightly over \$10bn in 2005, up from less than \$6bn in 2000, according to McKinsey.

A central plank of its Emergence programme, Morocco's offshoring strategy aims at strengthening the country's attractiveness by establishing an environment conducive to this activity, with a goal of boosting investment and job creation. The programme forecasts that the offshore strategy could create some 91,000 direct jobs and contribute around Dh15bn (\$1.7bn) to GDP by 2013.

With political stability and a business-friendly government, a relatively good telecoms and ICT environment, many young French-speaking graduates, and both geographical and cultural proximity to France, Morocco is well positioned to secure a large share of the francophone BPO market. The kingdom has therefore devised an aggressive action plan based on three pillars: state-of-the-art infrastructure and services, skilled human resources, and an attractive fiscal scheme.

Morocco is creating dedicated zones in four of the main cities, with infrastructure up to the best standards of quality and cost - at less than \$9 per sq metre, about half the current market price for such facilities - as well as tailor-made services. This ready for services office space will come with air-conditioning, lighting and internet connection, as well as an attractive telecoms offer leveraging the competition between the country's three telecommunications operators, as well as aggressive VSAT providers such as Nortis.

In December 2005, King Mohammed VI launched the construction of the Casablanca Near Shore Park, a business area dedicated to offshore services and outsourcing. The offshore zone, to cost Dh1.7bn (\$190m), is being built on a 53-ha area between the country's economic capital, Casablanca, and the Mohammed V airport. The first phase, which will make 25,000 sq metres of office floor available, is expected to be operational in July 2007. The government hopes it will yield revenues of Dh5bn (\$550m) and create some 30,000 BPO jobs, and about as many indirect jobs. Two more phases will be developed over the next eight years.

The next step will be the launch of RabatShore, which will target in priority offshore ICT services, due to the presence in the capital of the country's largest engineering school. The objective here is to create 12,000-15,000 jobs. Next in line are TangerShore and MarrakechShore.

Morocco boasts a large pool of human resources at a competitive cost, producing up to 50,000 university graduates annually. The kingdom is developing a training strategy to ensure a proportion is well-suited to BPO jobs, with the additional objective to train up to 25,000 recruits by 2009, from low-skilled administrative functions to technicians, engineers and managers. Plans are already underway to boost this to 100,000 by 2015, a key condition to maintain an abundant supply of labour, at least in part to prevent wage inflation.

In early 2006, the King inaugurated a training centre for offshore services jobs and information technologies, based within the Casablanca Near Shore Park. The project, to cost Dh47m (\$5.2m), has a hosting capacity of 3000 students.

Morocco will also offer training assistance and subsidies for companies wishing to train newly hired staff by themselves, to the tune of Dh50,000 (\$5500) per recruit over three years.

Acknowledging that the development of the sector will require Morocco to benefit from transfers of competence and know-how, the authorities have gone back on their usual stance when it comes to attracting foreign investment, which was to provide a favourable environment, but no tax breaks. The Ministry of Finance hence announced a specific tax scheme for BPO activities within dedicated zones. This encompasses a flat rate of 20% on income tax, in addition to the corporate tax relief already included in the investment charter for companies reinvesting part of their profits in the country.

While these incentives were designed for the Casablanca Near Shore Park, it seems likely they will be replicated to other dedicated zones as these come on stream.

With less than 5% of the French-speaking call-centre business having moved offshore as of 2004, there is little doubt that the offshore sector still has a lot of growth potential, and not only for call centres and BPO. Indeed, Morocco could also develop knowledge process outsourcing (KPO) activities, which generate far more added value. This was evidenced in January 2006 when European banking leader BNP Paribas announced it was stepping up its presence in Morocco by investing some Dh75m (\$8.3m) over the 2005-2009 period to develop Mediha Informatique and BDSI, two local subsidiaries in charge of software development for the group. This move will create some 370 jobs.

Other offshore software development operations established in Morocco include Unilog, Atoss Origin and SQLI. Another example of value-added activity is the establishment of design agencies such as Teuchos in the aeronautics sector, and Matra Engineering in the automotive sector.

Overall, Morocco has made great strides in developing an attractive environment for offshore services, and engaged in a long-term strategy

aimed at ensuring the sound development of the sector. It now has to regulate the sector effectively to consolidate its mounting reputation, and keep looking for options to further enhance the industry, as competitors such as Tunisia, Senegal and Madagascar could come up with equally attractive schemes.