

# Entrepreneurship, Employment, and Economic Growth in Morocco: A Computable General Equilibrium Analysis

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## Abstract

Morocco has positioned employment creation and inclusive economic growth as central pillars of its national development strategy, particularly amid structural challenges in the labor market. Persistent youth unemployment remains a critical issue, with rates for individuals aged 15-24 reaching approximately 35-38% in recent quarters of 2025, significantly higher than the overall unemployment rate of around 13%. This disparity is exacerbated by labor market duality, characterized by a large informal sector (accounting for 30-40% of GDP and over one-third of workers), low female labor force participation, and a predominance of low-value-added activities. Additionally, small and medium-sized enterprises (SMEs) dominate the economy, representing over 93% of firms, yet many operate as very small entities with limited growth potential, contributing to inefficiencies in job absorption and resource allocation.

Entrepreneurship is increasingly recognized as a vital mechanism to drive productive investment, absorb excess labor supply—particularly among youth—and bolster economic resilience. Despite these efforts, the macroeconomic impacts of entrepreneurial activity on employment and growth are not fully quantified, especially when considering sectoral interdependencies, informal-formal linkages, and constraints in factor markets such as access to finance and skills mismatches (World Bank, 2024; HCP, 2025).

Morocco's hosting of the TotalEnergies CAF Africa Cup of Nations (AFCON) 2025, held from December 21, 2025, to January 18, 2026, across nine venues in six cities, marks its second time organizing the tournament (after 1988). This event, combined with co-hosting the FIFA World Cup 2030 alongside Spain and Portugal, presents unprecedented economic opportunities through massive public and private investments in infrastructure (stadiums, transport, hospitality), tourism, construction, and digital services.

These mega-events are projected to generate substantial spillovers for entrepreneurial activity, particularly benefiting SMEs, startups, and local service providers in sectors such as tourism, construction, and creative industries. Estimates suggest the 2030 World Cup could create over 100,000 jobs annually, add 1.7% to GDP growth, and yield a direct economic impact of \$850 million to \$1.275 billion for Morocco's share of matches, with broader effects from enhanced global visibility and infrastructure legacy. The AFCON 2025 similarly amplifies short-term demand for local businesses, while the dual events accelerate long-term opportunities in digital entrepreneurship and sustainable sectors. Quantifying how entrepreneurship can magnify these spillovers—through job creation, innovation, and inclusive participation—is essential for evidence-based policy in this transformative period (Morocco World News, 2025; MIPA Institute, 2024; Confederation of African Football, 2025).

Indeed, entrepreneurship drives economic growth by promoting new firm formation, mobilizing capital, enhancing resource allocation efficiency, and boosting productivity through innovation and competition. In developing economies, it often manifests as self-employment

and mixed-income activities, serving as a bridge between labor markets, capital accumulation, and sectoral expansion—particularly in services, construction, informal sectors, and emerging areas like digital and green industries.

Empirical evidence from African contexts, including Morocco, demonstrates a positive and significant relationship between entrepreneurial activity and growth, with startups contributing to job creation and structural transformation. In Morocco, programs supporting micro-entrepreneurship and youth-led ventures have shown potential to generate employment, especially for disadvantaged groups, though challenges persist in scaling high-growth firms. Entrepreneurship not only absorbs labor but also fosters resilience by diversifying the economy beyond traditional sectors, aligning with national strategies for inclusive development (Global Entrepreneurship Monitor, 2023; Ibourk & Amaghouss, 2016; World Bank, 2019).

In this context, the present study relies on a Computable General Equilibrium (CGE) model based on the Partnership for Economic Policy standard model (PEP-1-t) developed by Decaluwé et al. (2013), in order to analyze the economy-wide effects of entrepreneurship on employment creation and economic growth in Morocco. The main objective is to provide an ex-ante evaluation of entrepreneurship-oriented policies and investment dynamics, particularly in a context of large-scale infrastructure projects and mega-events, and to assess their macroeconomic and distributional impacts.

The CGE framework is particularly well suited for this analysis, as it captures intersectoral linkages, factor market interactions, and household income distribution within a coherent general equilibrium setting. It allows for a comprehensive assessment of how entrepreneurial activity affects production, labor demand, factor returns, and household welfare simultaneously.

Entrepreneurship is explicitly modeled as a distinct factor of production, representing entrepreneurial and managerial ability, alongside labor and physical capital. Following the approach adopted in the CGE literature (Diao et al., 2012; Dissou et al., 2016; Cockburn et al., 2014; Savard, 2010), firms require entrepreneurial input in order to operate and generate output. This factor captures activities related to firm creation, organization, risk-taking, and management, which are particularly relevant in developing economies characterized by a high prevalence of self-employment and small and medium-sized enterprises.

In the production structure, sectoral output is generated using a nested production function in which value-added combines labor, capital, and entrepreneurship. Households supply entrepreneurial endowments and receive entrepreneurial income in the form of profits or mixed income. The entrepreneurial factor market clears through an equilibrium condition equating total demand by firms to total supply by households. In the short run, the supply of entrepreneurship is assumed to be fixed, reflecting entry barriers, credit constraints, and institutional rigidities in the Moroccan economy.

The model is calibrated using a Social Accounting Matrix (SAM) for Morocco for the year 2019, which represents the circular flow of income across production activities, factors, institutions, and the rest of the world. The entrepreneurial factor is identified using mixed income and self-employment earnings from national accounts, which are reallocated from capital income to create a separate entrepreneurship account in the SAM. This approach is

consistent with standard practices in CGE modeling of entrepreneurship and informality in developing countries.

Labor is disaggregated into three categories based on skill and education level: unskilled labor (USK), medium-skilled labor (MSK), and skilled labor (SK). This disaggregation allows the model to capture differential employment effects of entrepreneurship across labor segments. In addition, production activities related to education, health, and social action are disaggregated to reflect their importance in human capital formation and employment generation.

The representative household account is disaggregated into three household groups—poor households (HP), middle-income households (HM), and rich households (HR)—using data from the National Survey on Household Consumption and Expenditure (NSHCE 2014, HCP). This disaggregation enables the assessment of distributional effects and inequality outcomes through standard indicators such as the Gini index (Gini, 1921), the Atkinson index (Atkinson, 1970), and household welfare measures.

### **Simulation strategy**

Policy simulations are designed to capture increases in entrepreneurial capacity and productivity, which may result from improvements in the business climate, access to finance, infrastructure investment, or entrepreneurship-support programs. These shocks are introduced either through an increase in the supply of the entrepreneurial factor, an improvement in its productivity, or a reduction in entry costs faced by firms. The resulting impacts on output, employment, factor incomes, and household welfare are analyzed within the general equilibrium framework.

### **Preliminary results.**

Preliminary simulations suggest that an expansion in entrepreneurial capacity leads to significant gains in employment and GDP, with heterogeneous effects across sectors. Labor-intensive and service-oriented activities benefit the most, while household incomes improve through both wage and entrepreneurial income channels. These results highlight the strategic role of entrepreneurship in maximizing the growth and employment dividends associated with major international events in Morocco.

**Keywords:** Entrepreneurship; Employment; Economic Growth; Computable General Equilibrium; Morocco; Small and Medium-Sized Enterprises; Household Welfare; Labor Market

**JEL Classification:** C68, L26, O17, O40, J23