

# PANORAMA MOROCCO

The Coface economic publications

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The Coface subsidiary in Morocco, directed by Jean-Marc Pons, helps companies wishing to make their way in the Moroccan market, with full knowledge of the facts and safely.



The «Arab Spring» was rather mild in Morocco, compared with what is still going on in other countries in the region. This results from the role of the king, the Commander of the faithful, but also from the fact that leaders in Morocco have attempted to anticipate the rise of unrest and discontent. Today, the country has a true asset with its manageable external indebtedness and its solid and dynamic banking sector.

However, despite true economic and social progress, and despite the benefits that it derives from phosphates, tourism and better infrastructures, Morocco remains a rural, poor and insufficiently diversified country.

Strongly dependent on raw materials, the Moroccan economy remains fragile. Poorer harvests than in 2011 and the deteriorating economic situation in the European Union, its main economic and commercial partner, are weighing on its growth that could be limited to some 3% in 2012. Companies consider payment delays to be excessive, in a country where the driving force behind SMEs - namely credit remains scarce - and continues to be an obstacle.

As the springboard into Africa, Morocco has a Coface rating of A4, one of the best in the region. However, it must still meet three major challenges: education, health and corruption.

Much will depend on the implementation of the new constitution, the attitude of the government directed by the leader of the Justice and Development Party (moderate Islamists), and greater social justice. In other words, a reduction of poverty, inequality and unemployment.



## Rémi Genevey

Strategic Director of the Agence française de développement (AFD - French Development Agency)

# Muslim economic sensitivity is liberal

Rémi Genevey represented the Agence française de développement (AFD) in Morocco from 1999 to 2002, before becoming its Mediterranean Director until December 2005, then Strategic Director since November 2010. In his view, Moroccan leaders did not wait for the «Arab Spring» to realise the risks of spreading fundamentalist movements and the rise of discontent within part of the population. Tangible economic and social progress has been made. However, Morocco remains poor and rural. While it appears to be, for example, one of the most innovative countries in terms of renewable energies, its major challenges continue to be education, health and corruption. These are the battle cries of the Islamist-Conservative Party of Prime Minister Abdelilah Benkirane, in favour of private initiative. Just like the Muslim economic sensitivity that, in general terms, is liberal.

➔ **The “Arab Spring” was rather mild in Morocco, compared with what is still going on in a number of other countries in the region. Is this due to the fact that the King is also the Commander of the faithful? Or perhaps the fact that quick social and political responses have allowed to curb the rise of unrest?**

Rémi Genevey (RG) : Both factors played a role, but not on their own. The King certainly represents a legitimacy that transcends current Moroccan politics. He was able to calm things down by announcing the new constitution, at the end of which he appointed Prime Minister Abdelilah Benkirane, the leader of the Islamic-conservative PJD party that won the widely anticipated elections of November 2011.

However if Morocco has avoided the explosion of violence from the Arab Spring, this dates back to an older reality. In Morocco, there is no majority political or religious current that could open the door to a traditional partisan management of democracy. Hassan II had decided on political openness that provided access, managed by himself, to various political currents, and he also appointed a government of technocrats. The elections organised in 1997, two years before his death, resulted in fragmented and un-exploitable results. The King also maintained his royal prerogatives: religion, justice, interior, foreign affairs.

For a few years, Mohammed VI, made no change to the status quo. But after September 11 2001 and the attacks in Casablanca in May 2003, the Kingdom’s authorities became aware of the risks of a potential spread of fundamentalist movements in Morocco. A good many observers were persuaded of it, as the movement of Sheikh Yassine, Justice and Charity, recognises neither the King’s legitimacy nor his executive powers, nor even his religious affiliation as Commander of the faithful. Without a political representation properly speaking, its activities

were tangible most particularly in the «beach camps» and in its fundamentalist events that were prohibited.

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### *An “Initiative for human development” in order to combat inequality*

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The story accelerated after the attacks in Casablanca, and the royal economic stance has been clearly oriented towards its «Initiative for human development» that is intended to combat poverty and exclusion, to reduce the gaps between cities and the countryside, and between men and women, notably through the elimination of illiteracy.

➔ **Since then, has tangible progress been made in an effort to reduce inequality and poverty?**

RG : True economic and social progress has been made. The Moroccan GDP has doubled in 10 years, with prudent macro-economic management and public finances. Over the course of 10 years, from 1998 to 2007, the Minister for the Economy, Finance, Privatization and Tourism, Fathallah Oualalou, implemented a policy intended to limit the growth of both the domestic and foreign public debt, and to bring Morocco into the international financial markets under very favourable conditions.

The promotion of foreign investment and reduction of the weight of agriculture also played a role. Lyautey’s aphorism of «to govern is to rain» is less true than it was in the past. Of course, the country remains rural and poor. The per capita income is still less than half of what it is in Tunisia.

➔ **Can one speak of equivalent progress on the political level? Some people present to the constitutional reform as a major turning point, while others claim that it was just smoke and mirrors...**

RG : Mohammed VI has made a progressive and measured break with the past. He has retained executive power but no longer provides the direct management of the ruling powers, foreign affairs or religious affairs. As for the PJD that holds the Prime Minister's position, it has played its role, even though the government has brought together an odd alliance.

Of course, the administrative and political alchemy specific to Morocco remains, with the weight of the Makhzen and the King's advisers. One must not be naive and think that a definitive turning point has been reached, nor be cynical and refuse to recognise the ongoing changes or to see the Moroccan desire to provide the West with the democratic image that it expects of the country.

➔ **France is sometimes accused of being excessively indulgent with regard to Morocco?**

RG : It's true that the judgment regarding this country full of culture and charm is often emotional, and sometimes at odds with pure economic logic. But the AFD can testify to the quality of the professionals with whom it works and who can perfectly balance both the French and Moroccan cultures. There's also the quality of the central administration. It nevertheless remains that the government can have its own political priorities for the allocation of the foreign resources available to it. The AFD has financed a number of infrastructure, irrigation, urban development and social housing projects, but has intervened little in the areas of health and education, that were not within its historical areas of intervention. The «Initiative for human development» has prompted us to be more active in these sectors. Indeed, health and education are the two priority subjects for the PJD, whose preferred terrain is social.

➔ **The project for the port of Tangier and the creation of a TGV (high speed train), in which you are participating, have nevertheless prompted a certain polemic within the Moroccan economic world...**

RG : Though initially sceptical, I have had to adjust my view regarding the port of Tangier. Its initial part has proven to be a true success of territorial and industrial development. Regarding the high speed train, one might think that there could have been other priorities. But in both cases, these projects reflect the King's desire, since his acceding to the throne, to work on the central powers re-establishing the confidence of the inhabitants of the North, who had been kept at bay for 30 years. This opening up of the area also included improving the water and electricity distribution, the creation of the world's first private wind farm, a Mediterranean access towards Algeria between Tétouan and Tlemcen, and a renewed struggle against the growing of cannabis.

➔ **On the economic front, the PJD seems to be liberal and to be more trusting in market forces than in the State. Is this a strength for the private sector?**

RG : Mistrustful of the centralised State, the PJD is indeed liberal. In general terms, Muslim economic sensitivity is closer to Friedman than to Keynes. It looks to private initiative, and to the development of SMEs.

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*As in Turkey, Morocco's SMEs are being created by a middle class that has slowly emerged in the last 10 years.*

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Just as in Turkey, for example, the ones created in Morocco are through the efforts of a middle-class that has been slowly emerging in the last 10 years. And not by the new generation of the entrepreneurial elite that we find in major public or private companies such as Omnium Nord-africain (ONA - leading Moroccan industrial group).

➔ **Is this private sector solid?**

RG : It's less powerful and less dense than in other countries in the region. Very often linked to major groups such as ONA, it has experienced several shocks with the end of the multi-fibre agreement, since Moroccan companies were insufficiently structured to resist the competitive impact from Asian countries. Exploding oil prices then came on top of this competitive shock.

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*Unlike in Tunisia, the banking sector is a true strength and can rolled out into Sub-Saharan Africa, after having been cleaned up in the 1990s.*

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But this country has genuine strengths such as the banking sector that was cleaned up in the 1990s, in favour of privatisation. The reconfiguration of the system and quality financials are now allowing it to play an important role, with the ability to extend into sub-Saharan Africa. This is not the case of Tunisia, for example.

Overall, the trend points to annual growth of 5% since the start of the 2000s, which is not negligible. However, this remains insufficient to overcome the inequalities and to absorb the arrival of young people in the labour market. Few social safety nets exist. It would be necessary to ensure quality training in response to the country's economic needs. Notably engineers who sometimes lack international experience, while the great mathematical tradition of the Arab countries no longer has to be proven. As well as resolving the problems of a dual country where a significant part of the Berber population has not mastered Arabic as the language of day-to-day expression.

➔ **What are Morocco's main black marks?  
Corruption, one of the favourite subjects of Islamists?**

RG : Corruption is always mentioned as the leading obstacle for SMEs that wish to invest in Morocco. When interviewed, foreign investors regularly mention two problem areas: the difficulty with relying on rules and the law; the difficulty with establishing indisputable property rights.

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*The major challenges continue to be education, health and corruption. But also water management in a country that is devoid of hydrocarbon resources that can be developed at the current prices*

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The other major challenges continue to be health and education, but also water management. Drinking water, of course, but also agricultural water given the weight of agriculture and of the challenges of climate change, in this country where great disparity exists between regions with too much water and regions with not enough. In this regard, the social and religious component is significant. Considered to be a «gift from Allah», water is assumed to be free. The under-pricing of agricultural water is not specific to Muslim countries, and is also the case in most developed countries. This hinders the efforts to find correct pricing, which is always complex but indispensable in order to reduce the weight of subsidies, but also in order to clean up the major urban centres and to improve drinking water distribution.

Similarly, agricultural subsidies, notably for foodstuffs such as flour, and for energy products increase the budget deficit in a country that is devoid of hydrocarbon resources that can be developed at the current prices.

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*In the area of renewable energy, Morocco is one of the most innovative countries. Significant wind turbine and solar projects have been launched*

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For this reason, Morocco has truly plunged itself into renewable energy with significant wind turbine and solar programmes being

undertaken by both public and private operators. Other projects have been carried out or are in progress, such as the solar energy production project at Ouarzazate that uses cutting-edge techniques or the deployment of decentralised installations that, by means of solar panels, supply disadvantaged regions. In the area of renewable energy, Morocco has been very shrewd, and is one of the most innovative countries.

➔ **Are the relations with France not a bit strained?**

They may be somewhat cooler on a political level, but they're too well-established to be threatened. Even though the presence of the Turks and of the Chinese is heightening the competition that already existed with the Germans or Italians. As to the interest of the United States, it's more strategic than purely economical and it's difficult for the King or Moroccan government to appear to be too pro-American.

➔ **And how are the relations with Europe developing given the drama surrounding immigration via the Straits of Gibraltar?**

RG : Morocco is a passage point for emigrants, notably from sub-Saharan Africa, wanting to cross the Straits of Gibraltar, and we've witnessed some terrible human dramas. In response to this, Spain has received financial aid from the European Union that, despite often being criticized for slow and burdensome procedures, has dispatched significant teams to Moroccan territory, which can only have a positive effect with regard to accelerating the disbursement of its loans. The AFD is one of the most important providers of development financing in Morocco, as is the EIB (European Investment Bank).

But overall, and despite the challenges that still lie ahead, Morocco has made progress. It was previously common to hear that what was missing in Morocco was progress, rather than money. This is not so much the case today.

Comments gathered  
by Coface



## Pierre Paganelli

Economic studies Country Risk Department, Coface

# MOROCCO: growth limited to some 3% in 2012

Still insufficiently diversified and heavily dependent on commodity prices, the Moroccan economy continues to be fragile. Growth in Morocco will be burdened by the poorer harvests than in 2011 - while 40% of the working population is dependent on them - and by the deteriorating economic situation in the European Union, its main economic and commercial partner. According to our estimates, growth could be limited to some 3%. The strong increase of wages and subsidies, adopted in order to mitigate social tension, has increased the budget deficits. Even though the public debt could be close to 57% of GDP this year, it is primarily domestic and protected from any exchange risk. Another strength is the fact that the Moroccan banking system is the most developed in Africa, outside of South Africa.



**Coface assessment**

Country: **A4**  
 Business climate: **A4**  
 Medium long-term: **fairly low risk**

**Strong points**

- Natural and agricultural resources, great tourism potential
- Favourable geographical position, with the proximity of the European market
- Production up-selling and diversification strategy, with priority sectors, automobiles, aeronautics, electronics, chemistry, textiles / leather, agri-food.
- Macroeconomic stability policy targeted by the authorities
- Political reforms initiated by the Kingdom of Morocco

**Weak points**

- Economy still very dependent on the cyclical agricultural sector
- Insufficient productivity and competitiveness
- Poverty, illiteracy (affecting 40% of the population, especially women) and unemployment (young people in particular), sources of social tension
- Tourism activities vulnerable to the European economic situation and to possible terrorist acts Tourism vulnerable to
- Lack of progress on business environment

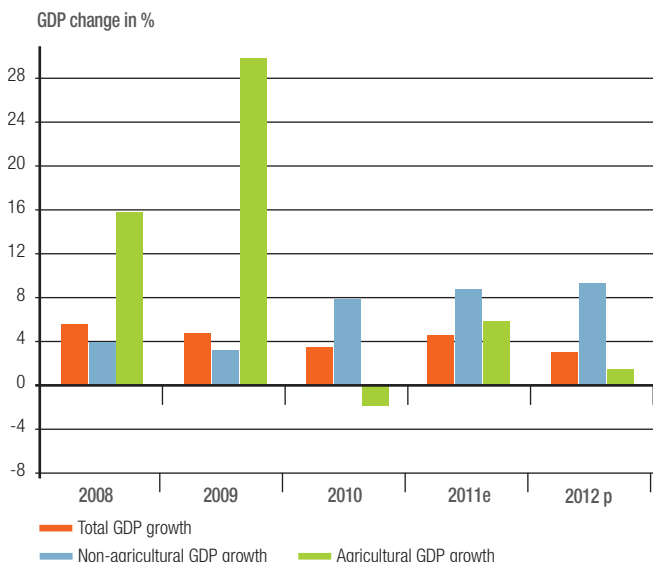
**Continuing cyclical business activity, since dependent on the performances of the agricultural sector and the economic situation in the European Union**

Growth was sustained in 2011, by about 4.5%. Demand was driven by public and private consumption. For its part, the supply side was driven by the good cereal harvest and by the construction and service sectors (most notably telecommunications). Tourism proceeds, for their part, increased slightly (by 4%) and have not been affected by the uprisings in various Arab countries.

The prospects are somewhat less favourable for 2012, notably because it forecasts poorer agricultural harvests (this sector represents 40% of the working population) and the net economic slowdown in the European Union, which is Morocco's main economic and commercial partner. Indeed, the Union accounts for 60% of Morocco's exports, nearly half of its tourism proceeds and 85% of the transfers from expatriate workers (most of whom are in France and Spain). While the authorities are targeting a 4% growth, Coface nevertheless estimates it at around 3%. Domestic demand should continue to support business activities, with relative vigour of private consumption and of the construction (particularly thanks to the development of social housing by the government) and automobile sectors, notably after the commissioning of the Renault/Dacia plant in Tangier (in the north of the country).

Despite a start of diversification in sectors with high added value, growth remains fragile. It is in part dependent on the agricultural sector, and therefore on the hazards of the weather. It also depends on the fluctuations of international commodity prices, such as phosphates (for which Morocco is the world's leading producer and exporter), and energy prices, as the country imports all of its hydrocarbon needs.

**The variation of the results in the agricultural sector are having an influence on economic activity**



**Budget extensions, intended to mitigate the social tension, have burdened the budget deficit and the public debt, the composition of which nevertheless remains favourable**

The budget deficit increased in 2011, to reach approximately 5.5% of GDP. This trend should continue in 2012, though the budget had not yet been adopted in May 2012 due to the political changes that occurred after the legislative elections at the end of 2011 and a difficult international economic situation.

The deterioration of the public accounts results from a strong increase of expenditures for salaries and subsidies.

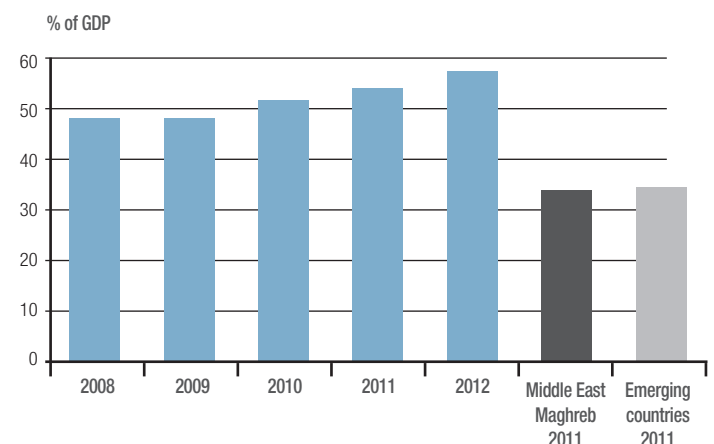
*The authorities increased public sector salaries, they raised the monthly minimum wage and more than doubled the subsidies on foodstuffs and energy*

Indeed, to avoid the socio-political problems experienced in other Arab countries in 2011 and to mitigate the impact of higher worldwide prices for commodities and energy, the authorities raised private sector wages, they increased the monthly minimum wage from the equivalent of €60 to €100, and more than doubled the subsidies on foodstuffs and energy. Representing more than 6% of GDP in 2011, subsidies most notably represent a growing burden on public finances.

As such, the stock of the public debt is increasing as is its level relative to GDP, that could be close to 57% in 2012, which is high in comparison with the two other identically rated Maghreb countries, notably Algeria (10%) and Tunisia (21%). But, its composition is favourable: primarily domestic (nearly 90% of the total debt) and listed in dirhams, meaning that it is protected from exchange risks.

Also, public finance reforms are in progress or planned. The authorities are looking to improve the efficiency of public expenditures, notably through rigorous management of current expenditures.

**The ratio of the public debt relative to GDP is in a stabilising trend, but on a higher level than that of emerging countries**



A large-scale civil service reform, currently being studied, is intended to modernize the sector while reducing the wage bill, currently above 10% of GDP.

Moreover, the progressive discontinuation of subsidies, a delicate social and political matter, is supposed to see their cost fall from 6% of GDP to 2% by 2015. We note that the subsidies on foodstuffs (flour, sugar) are less expensive and better targeted than the ones on energy (gasoline, fuel oil and butane), and the reform of the latter will therefore be much more difficult.

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*The authorities have made efforts to simplify the domestic taxation, to extend the taxation base, to integrate the informal sector and to improve tax collection*

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In terms of proceeds, the authorities are currently making efforts to simplify the domestic taxation, to extend the taxation base, to further integrate the informal sector and to improve tax collection. The authorities are continuing the reform of VAT and customs rates, while planning to reduce the number of rates (from 4 to 2 for the VAT) and of exemptions.

### **Maintaining high deficit in the external accounts...**

Exports should notably continue to be driven by sales of phosphates (a quarter of the total), whereas exports of agricultural products (around 15% of the total) remain vulnerable to weather hazards, despite the efforts to diversify production and the more intensive use of fertilizers.

However, the weak demand from the European Union and the high level of international energy prices will bring negative weight to bear on the balance of trade. Despite tourism revenues and resilient transfers from expatriates, the deficit in the external accounts will remain significant, about 5.5% of GDP for the current account balance. It should only be very partially financed by direct foreign investment flows, coming primarily from the European Union and the Middle East, which are often part of public-private partnerships relative to road, rail, port or tourism infrastructures.

In recent years, various indicators have brought to light an erosion of competitiveness relative to competing countries from Central and Eastern Europe and especially Asia, China in particular. To address this, the authorities are trying to accelerate the structural reforms, in order to increase productivity.

To this end, they are planning to increase the investments in infrastructures and to strengthen the support for industry, tourism and energy, but also to reform the judicial system. Moreover, the application of the «Green plan» (Plan vert), intended to increase agricultural yields, is continuing and, more recently, the authorities have initiated similar efforts in order to develop the fishing sector.

An attempt to reduce its dependency on hydrocarbon imports, Morocco also wishes to invest in the construction of a liquefied natural gas terminal and in renewable energies (solar, wind turbines).

### **... together with foreign indebtedness which can be easily managed**

The stock of the foreign debt should increase appreciably in 2012 and in 2013, but its weight should stabilize at around one third of GDP. Also, its profile and structure remain quite favourable, notably thanks to the active efforts to manage this debt, that is primarily public in nature. Another major advantage is that a part of the Moroccan foreign debt is due under special concession conditions, owed to international institutions and regional development banks such as the African development bank.

Moreover, in spite of the deterioration of the worldwide financial situation, the sovereign spreads on Morocco's CDS have not increased. They are amongst the lowest of the Arab countries that import hydrocarbons and are at the average of the other emerging countries, which reflects the relative confidence of the international financial markets. As such, the country is only very slightly dependent on volatile financial products, while its administered exchange system (the dirham is attached to a basket of currencies consisting 90% of the euro and 10% the American dollar) provides it with a guarantee of relative macroeconomic stability. However, the current weakening of the euro against the dollar is leading the dirham to depreciate against the dollar, which is increasing the cost of oil imports as well as the competitiveness of its exports. With a correct level of reserves representing around 5 months of imports of goods and services, the Kingdom has a certain resistance capacity in the event of a sudden withdrawal of capital.

### **A solid and dynamic banking system**

Outside of South Africa, the Moroccan banking system is the most developed in Africa, where the main Moroccan banks, Attajariwafa Bank, BMCE and BMCI are continuing their ambitious expansion.

Despite an unfavourable international environment, Moroccan banks generally have good control of their risks. They have continued to strengthen their capital and their solvency ratio (regulatory capital over the bank risks) has improved, as it was at 12.5% in 2011, which is a level higher than the internationally adopted minimum regulatory requirements.

While Moroccan economic growth is still influenced by the results of cyclical sectors such as agriculture and tourism, the banking system's exposure to these sectors remains very limited, about 6% of the outstandings for loans to the primary sector and 3% for tourism.

In general terms, the outstanding bank loans are well-distributed between the various economic sectors. PW&CE accounts for just over 13% and loans for industry represent 17% of the total. The trade sector accounts for just over 6% of loans, while the State and local authorities account for 5%. Households, for their part, repre-

sent more than 28% of loans, a large part of which is in the form of real estate loans with guarantees. As such, the authorities, who remain vigilant in view of the quick expansion of property lending, have called on the banks to adopt a good conduct code with regard to mortgage loans. Moreover, the loans, most of which are at variable rates, are therefore particularly sensitive to a reversal of the real estate market.

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*The quality of bank assets is improving with the regular decline of doubtful receivables within the last 5 years*

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In this context, the quality of the assets is improving, with a regular decline of doubtful receivables in the last five years, for which the share in the banking portfolio fell to 4.5% in late 2011. On the other hand, the provisioning of these receivables is dropping.

With regard to banking profitability, the ratio of net earnings over assets rose slightly from 1.2% in 2010 to 1.3% in 2011. However, loans are still largely financed by deposits, which is a sign of still insufficient bank intermediation. Only one quarter of the population uses bank services, and it remains difficult for SMEs to access credit. The government encourages savings amongst rural populations and expatriates, as part of an effort to improve liquidity.

Moreover, the application of measures intended to improve the macro-prudential regulations is progressing. After the 2007 implementation of the standard approach of the Basel II prudential system, the banking sector adopted the system's advanced approaches in 2010-2011, notably with regard to risk coverage provisions using capital.

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*A constitutional reform is in progress in order to balance the monarchy, by strengthening the powers of the prime minister and by giving parliament, greater independence to the justice system and increasing regionalization*

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**A constitutional reform implemented within the context of the upheavals in the Arab world**

In response to growing political and social dissatisfaction and demonstrations, in the wake of revolts and upheavals in the Arab world in 2011, a constitutional reform initiated by King Mohammed VI was approved by referendum in July 2011. This reform is intended to balance the monarchy, through strengthening the powers of the prime minister and parliament, greater independence of the justice system and increased regionalization.

However, it does nothing to modify the essential prerogatives of the monarch, who remains popular despite a population fringe that complains of corruption, clientelism and poor governance. Dispute movements are calling into question certain members of the King's close entourage (the «makhzen»), but not the King's essential role.

The legislative elections, brought forward to late November 2011, ended up with a relative majority of the Justice and Development party (moderate Islamist), the appointment of its leader Abdelilah Benkirane as Prime Minister and the formation of a coalition government in January 2012, with secular parties, Istiqlal, Popular movement and the Progress and Socialism party.

In the end, much will depend on the implementation of the new constitution, but above all on the progress towards greater social justice, by means of reducing poverty, inequalities and unemployment.

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## Mamoun Tahri-Joutei

Economic Intelligence Manager, BMCE Bank

# Morocco wants to become a “regional financial hub”

For the BMCE Bank Economic Intelligence Manager, the banking sector is committed to a notion focusing on internal development. Also, its expansion in Africa and internationally represents a strong springboard for growth. With the ongoing Casa Finance City project, Morocco is striving to become a «regional financial hub» in 2012.

### ➔ Has the banking sector evolved much in recent years?

**Mamoun Tahri-Joutei (MTJ)** : Since the start of the 1990s, the Moroccan banking sector has undertaken a sustained liberalization process, marked by the self-supervision of credit, the strengthening of prudential regulations, greater autonomy and the stiffening up of powers relative to the supervision and control of the central bank.

Moreover, the alignment with international standards, notably with the entry into force of the provisions of the Basel II agreement and of the «IFRS» accounting standards, has increased the transparency and competitiveness of the banking system.

At the same time, the policy of opening up to foreign capital has accompanied business in its development and modernization process.

The introduction of new technologies and know-how has contributed to improving the sector’s efficiency and to the availability of a range of products and services similar to what can be offered in Europe.

But while it is true that the restructuring process has led to a concentration movement amongst banks that dropped in number from 18 to 16, the sector is now focusing on internal growth with the development of the network of branches and the arrival on the market of Poste Maroc. In this way, the indicators for the use of bank services have improved with banking density that now provides for one banking counter for under 8000 inhabitants.

Without overlooking the fact that the expansion of Moroccan banks in Africa and internationally represents a strong springboard for growth in the coming years.

### ➔ What is the contribution of lending institutions to the financing of the economy?

**(MTJ)** : More than fifty years after its creation, the Moroccan banking sector is fully playing its role in support of the economy. Indeed, and even though several countries have been confront-

ted with considerable instability, business activity has remained vigorous. The volume of loans granted by the banking sector has increased considerably, amounting to 85% of GDP in 2011, versus 51% in 2001. And this level remains well above the one posted by the countries in the MENA region, that averages at 60%.

The banking sector has been strongly involved in the financing of infrastructures. The main operations equally involved telecommunications, the delegated management of water and electricity, power plants, refining and railway connections.

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*The liberalization process and the opening to foreign capital have increased the sector’s efficiency. Banks now offer products and services that are similar to the ones offered in Europe*

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At the same time, this strong increase of bank credit has taken place within a context of risk control. The average rate of past due receivables has continued to fall, and now only represents approximately 5%.

The efforts of the sector’s various actors have helped to raise the Moroccan banking industry to a leading position in North Africa. In 2012, Morocco wants to become a «regional financial hub» through the project to implement the Casa Finance City, while continuing to align with all of the security features that have made the Moroccan banking sector into a secure system.

➔ **Are there measures specific to the financing of SMEs?**

(MTJ) : Accounting for 93% of the staff of companies, a SME in Morocco is already a motor for economic growth. It nevertheless remains low in the use of banking services due to the necessary strengthening of its capitalisation, structuring, transparency and qualification of its human resources.

In order to overcome these deficiencies, the banking sector has committed to a virtuous initiative: new internal rating systems for credit institutions were implemented for a better assessment of SMEs, loan systems facilitating the access to funding of young project promoters have been approved and a local strategy has been defined to support SMEs.

As such, the banking system has provided SMEs with access to dedicated structures through business centres that provide

products and services ranging from operating and investment loans through to remote banking solutions and support and consulting platforms.

For their part, the public authorities have worked with economic operators (including the banking community) in order to develop a series of programmes for VSEs and the upgrading of SMEs, in addition to the sector-specific guarantee funds.

These are therefore some of the measures that have helped to improve the access of SMEs to bank loans for their investment programmes, for the modernization of their production tools and for their upgrading or deployment.

**Comments gathered  
by Coface**

## **The Entrepreneurial observatory, the key partner of Moroccan entrepreneurs**

Created in February 2009 by the BMCE Group, the Entrepreneurial observatory (French acronym: ODE) is offering innovative services in order to support Moroccan business at each stage in its life cycle.

Indeed, the success of companies is now based on their ability to deploy strategies and solutions that meet the expectations of customers, while standing out from the competition. To this end, they need to have a good understanding of their environment, and to control the usage of efficient management tools.

As such, the recourse to quality information (economic, commercial or regulatory) and to suitable studies becomes a necessity. The ODE is therefore providing entrepreneurs with access to the expertise of a team with solid skills and complementary professions. It offers a range of high added value services (Internet site, magazine, venue for exchanges...) that has made this support into a reference for anyone wishing to develop a company while making the most of the available opportunities.

This new type of partnership creates added value in the companies and it also contributes to strengthening the Moroccan economy.

**www.ode.ma**

- **47,000 visits and nearly 122,000 page views**
- **25 sector-specific studies and 25 practical sheets**
- **50 types of financing aid and more than 100 listed companies**
- **11 waves of the confidence index**
- **Relationships established with commercial representations from five countries**



## Coface Country Risk Conference in Casablanca on 10 May 2012

On 10 May of this year, and for the first time in Morocco, Coface organised a Country Risk Conference\* that brought together nearly 400 Moroccan decision-makers. It was an occasion for the invited experts to present the prospects for the country's economy, in addition to an overview of country risks around the world. And to initiate a debate on the possible strategies for developing Moroccan companies. Here are some of the ideas put forward by the speakers.

### Overview of the Moroccan economy



**Mohamed Berrada,**  
Chairman of the Links  
Research Centre

*Mohamed Berrada is a former minister for the economy and finance, ambassador to France and Morocco's delegate to the UNESCO, General Manager of the Office Chérifien des Phosphates (OCP) and Chairman and Managing Director of the Royal Air Maroc company. He is now the Chairman of the Links Research Centre and of the Economic and Financial Committee of the French Chamber of Commerce and Industry in Morocco.*

«The financial crisis that came from the United States, that has changed into an indebtedness crisis, more seriously affected Europe, even though the latter was less indebted than the Americans. In reality, it's more of a currency war between the dollar and the euro than an actual euro crisis. Heavily engaged relative to France and Spain where growth has slowed sharply, Morocco has therefore attached itself to an engine that's running out of steam».

«Without democratic reforms, there can be economic growth but no development, which is a more qualitative phenomenon. In Morocco, where there is a desire to strengthen good governance, development should be favoured».

«Morocco began by developing its textile industry in the 1960s/1970s, but this led to a rent-based economy without true innovation, then to financial difficulties that required IMF intervention in the 1980s/1990s».

«Whereas in the past, the economy had moved up and down, since 2000, Morocco has experienced an average annual growth of nearly 5%, despite an international environment that isn't always favourable. And the GDP per inhabitant has doubled in 20 years»... «This movement has been accompanied by a strong decrease of inflation and a decline of foreign indebtedness, from more than 100% of GDP to 50% at present».

«Why have Morocco's high investment rates not brought about stronger growth? Because the investment includes a strong proportion of public investment (which doubled from 2007 to 2010); the impact of this on growth isn't immediate but rather is more long-term, unlike private investment where the effects are felt in the shorter term». But «the efforts in terms of governance have increased the confidence of foreign investors and helped to increase the direct foreign investment flows»...

\* The Conference highlights and the presentations can be found on the site [www.coface.ma](http://www.coface.ma)

... «No government has been able to implement a reform of the Caisse de compensation, i.e. of the subsidy system. These subsidies amount to 51 bil. DH just for energy products and to 81 bil. DH overall. A new policy of targeted subsidies is needed, particularly with regard to oil products».

«The deficit in the external accounts is even more alarming than that of the public finances, as a result of its structural nature».

«Morocco is suffering from the fact that 40% of the population is illiterate, and also from the excessive size of the informal sector. However, the parallel economy serves as a safety valve, and its share should gradually shrink all by itself as progress is made in the area of education».

«The true driver for growth is Moroccan companies, notably industrial companies, that are the first source of employment, both in the traditional sectors and in new technologies».



**Fathallah Oualalou,**  
President of the Rabat city council, former minister for the economy and finance

«The competitiveness problem is not affecting only the Moroccan economy, but rather all of the countries in the Mediterranean basin, including the ones in the European Union. In this context, there is a need not only for diversification of the Moroccan economy, but also for regional integration».

«The “Arab Spring» had a few key aspects, notably the end of the rentier economy system. For nearly 40 years, Morocco was preparing for this spring by means of reforms. However we still have to deal with one fundamental issue: improving education».



**Hassan Benabderrazik,**  
Chairman,  
Agro Concept

«Moroccan agriculture has undergone a transformation, even though the agricultural reforms are not yet finished, most notably for oilseeds. Enormous progress has been made, particularly regarding citrus fruit and tomatoes, with a higher share of exports».



**Saad Benabdellah,**  
General Manager,  
Maroc Export

«A redeployment is necessary, both geographical and sector-specific. An increase in power in Africa and in the Near and Middle East is a necessity. Moreover, Morocco no longer exports only products, but also services, notably in the banking sector».



**Brahim Benjelloun,**  
General Executive Director,  
BMCE

«Moroccan banks have set off in conquest of sub-Saharan Africa, with the BMCE having Mali as its starting point in 1988. Moroccan banks are blazing the trail. They enjoy an excellent reputation in Africa, but they must advance collectively, in partnership with Moroccan companies».



**Youssef Rouissi,**  
Deputy General Manager,  
Attijariwafa Bank

«The Moroccan banking sector successfully made it through the 2009 financial crisis, and continued financing the economy».

«A change has occurred in the size of financing operations in Morocco since the start of the 2000s, as the sizes have multiplied by 5 or 6, with increasingly sophisticated techniques (notably for project financing)».

**Comments gathered  
by Coface**

## Strengths and weaknesses of Morocco: the opinion of six companies

All from very different sectors, the six companies interviewed by Coface all highlighted the fact that Morocco enjoys a geo-strategic position. Near Europe, Morocco is a favoured entry point into Africa. The Franco-Moroccan free trade agreement is also often mentioned as useful as part of the initiatives of companies. And the population, young and increasingly qualified, is an undeniable strength.

On the other hand, the weaknesses pointed out by each company include strong price sensitivity in an environment of intense competition that does not always take the innovation or the technology of the proposed products into account. On top of these margin problems are payment timeframes often considered to be too long.

As for the pitfalls to avoid, they're easier to list than to avoid. Not behaving as though you're in France or in Europe just because the Moroccans speak French, and taking the Moroccan business culture into account simply make sense. As is the need to maintain a degree of rigour and absolute compliance with the law and rules. But this implies vigilance, notably on a legal level, which is sometimes complex to implement.

### Maritime transport

**The AP Moller Maersk Group** has been established in Morocco since 1991. Turnover: 750 million dollars; 1,000 employees. It consists of 5 separate entities, 3 of which operate maritime lines: Maersk Line, Seagoline and Safmarine. APM is active in the management of container loading and unloading terminals, while Damco specialises in the routing of freight and logistics.

#### Strengths

- Sustained growth in the last five years with increased consumption and production.
- Development of partnership agreements with the European Union (advanced status, UfM), but also with many countries (bilateral trade agreements, free trade with the United States, etc.).
- Quick development of transport infrastructures over the last 10 years: ports, motorways, railways etc.
- Transportation is a priority sector in the royal and government agenda.
- Structuring sector-specific plans since 2007: «Green plan» that encourages exports of citrus fruit and early fruits and vegetables, good network of economic business zones with the creation of P2i integrated industrial platforms.

#### Weaknesses

- Overhaul of the labour code and set-up of social protection left unfinished, which leaves the door open to disorganised social movements. The successive governments are having trouble correcting this youthful failing.
- Excessive protection of employees relative to employers and absence of stable legal bases result in additional human resources management costs that can be difficult to provision.
- Absence of generalized unemployment insurance and of social

protection result in a very high management medium cost in comparison with other North African countries. All the more so since there is no training or specific expertise in the area of shipping amongst Moroccan graduates.

- Slow improvement of the business climate. Priority given to improving competition, and to the protection of industrial and intellectual property. But the absence of business ethics, particularly when it comes to payment, compliance with deadlines and solvency, require constant and careful oversight of the files of customers and suppliers. The support from Coface in this domain is very efficient and indispensable.

#### Viewpoint

- The transportation and logistics market has evolved considerably in the last 20 years. The Group must deal with a lack of knowledge about the “supply chain” and of logistics steering tools, in addition to a paucity of IT resources. The customer was therefore focused on prices to the detriment of quality and innovation, leading to the mediocrity of the employed services.
- Support from the authorities through the implementation of infrastructures meeting the international standards and necessary modern tools (Tanger Med, dedicated ONCF lines, integrated industrial platforms and administrative simplification, etc.) and reciprocally the partnership with the MAERSK company, with the opening of maritime lines heading to Russia, for example, have also contributed to the market's fast growth.
- Investing in the market knowledge of actors and establishing close partnership relations with them. But while always remaining fair and without dithering about governance principles at the risk of becoming weak and losing all credibility.
- To set up locally, perform a drastic selection of one's human resources and management committee. Closely and constantly monitor the social climate in order to limit sources of conflicts. Rely on partners that specialise in the management of commercial risks in Morocco.

**Laurent Bresson,**

Maghreb General Manager, AP Moller Maersk Group

## Finance

**The AIXOR Group** is a financial holding company that manages the assets consisting of the companies in which it has equity interests. Aixor has been able to develop know-how and proficiency in its business lines that have helped it to identify investment niches, while implementing the necessary financial means and resources, and while relying on steering tools. The Group's subsidiaries import products or industrial goods in various industrial sectors such as the paper industry, handling trucks, and mass retail distribution together with the GEDIMAT company.

### Viewpoint

- Relative narrowness of the volumes together with high price sensitivity. Being able to offer innovative prices or, inversely, having an indisputable position as leader that will make it possible to bring weight to bear on costs while generating a margin.
- The major difficulty has to do with payment timeframes. The historical tendency to delay paying one's suppliers leads to chain reactions that propagate throughout the economy. Though putting pressure on one's customers is no easy thing, the group has managed to implement various measures: extension of the salesperson's responsibility to include collection in compliance with the agreed deadlines, payment of the salesperson's commission on the gross margin only if the collection occurs in a contractually compliant manner, etc.
- Selection of the Group's clientele on the basis of a financial file that will make it possible for the committee to validate the risk ceiling that must not be exceeded. Each day, the credit manager monitors the accounts receivable and is authorised to block a delivery in case of an anomaly.
- Introduction of a underwriting or mediation procedures in order to avoid recourse to the courts whenever possible.
- Payment behaviour study before starting in a new sector. AIXOR focuses on activities with quick settlements and minimised risks.

**Jean-Luc Martinet,**  
Chairman, AIXOR Group

## Consulting

**ABH ABH** is a young consulting start-up in the areas of strategy, commercial development and change management. Its business involves providing solutions to SMEs and SMIs, and supporting multinationals in their development in the Maghreb and in Africa.

### Strengths

- The market is no longer reserved for the major consulting firms. Its growth and the opportunities that it offers can be beneficial to firms of smaller size.

- Opportunities with SMEs / SMIs exist. Based on the appraisals published by the Moroccan industrial and commercial property office, some 8000 companies generate a turnover of more than €1 million, which offers an appreciable penetration margin. To succeed as an operator, ABH recommends carrying out an initial support mission from end to end, and relying on this reference in order to develop.

### Weaknesses

- Difficult market access without a network
- Relatively difficult to penetrate the circles of relationships, even though companies truly need to adapt their offer to the local market by means of new services, and to the international market by means of B2B opportunities.

**Hamid Badre,**  
Associate Director, ABH

## Agri-food

**The Brasseries du Maroc Group** was created in 1919 by the BGI Group. A subsidiary of the SNI group until 2003, when it was taken over by the Castel Group. Initially specialising in beverages in Morocco and a leader in its market, the Group has progressively diversified into the transformation and distribution of products from the ground. It has industrial units in Tit Mellil, Marrakesh, Fès, Meknes and Ifrane. Listed on the Casablanca Bourse, the Group and its 804 employees generated a consolidated turnover in 2010 of 2.5 billion dirhams.

Building on its historical presence in Morocco, it has developed its business in 32 African countries

### Strengths

- Quality human resources.

### Weaknesses

- Taxation that slows development. The recent tax increase is an obstacle to the development of sales.
- Difficulty obtaining the authorisations needed to open new points of sale.

### Viewpoints

- Implementing a strategy and the means that go along with it. And having no doubts about the strategy. By modernizing one's production tool, launching a training programme for the teams and on all levels, and improving its profitability, the Group has been able to diversify its business and to develop new supplementary products in the agri-food world, while ensuring financial results for its shareholders.

**Jean-Marie Grosbois,**  
Brasseries du Maroc Group

## Heavy construction

**Delattre Levivier Maroc** or “**DLM**” is the leader in heavy construction, boiler-making and piping, and has been active in the Moroccan national market and on international markets for 50 years. Thanks to its experience, sophistication, cutting-edge industrial tool and the expertise of its teams, DLM has earned the confidence of the biggest operators and engineering offices in many business sectors (mines and chemistry, oil / gas, infra-structures, cement, energy).

Listed on the Casablanca Bourse since 2008, the company finances its growth by diversifying its activities into new markets. Its new strategic orientation revolves around three axes: wind turbines, the construction of offshore equipment and exports.

### Strengths

- High investment level in order to supply the sector over periods that can range from 2 to 3 years of visibility. Its order book currently represents two years of turnover.
- Existence of local skills, notably in the recruiting of executives.

### Weaknesses

- Little possibility of local procurement for “flat product” steel and special steels, resulting in a not insignificant lengthening of the supply chain lead times. However, this situation should improve with the recent commissioning of the Maghreb Steel Ain Harrouda plant.
- Significant transportation cost.
- Difficulty recruiting supervisors who suit the profession.
- Subcontractor VSEs lacking professionalism and sometimes working in the informal sector, and therefore unable to meet the required criteria notably in terms of social aspects, quality and timeframes.

### Pitfalls to avoid

- In major contracts, the criterion of the lowest bidder to the detriment of the best bidder remains in effect without considering the costs relative to the criteria of technical competence, quality, safety and the environment. This results in considerable competition distortion.
- Also for large projects, the tax arrangements are more favourable to foreign companies, notably in the VAT recovery system. A foreign principal wishing to subcontract in Morocco must finance the VAT, which is not the case for foreign subcontracting that can be invoiced without VAT, at an equal price. This can be a handicap.
- Faced with a market that is more complex than it appears, SMEs and VSEs should monitor the risk of unfair competition, turn to specialists in order to adhere to the legal and taxation arrangements and, in particular, not start with the notion that everything can be arranged.

- For SMEs, ensuring that one’s business plan is properly taking the cost of money into account (high rate for SMEs).
- Properly assessing one’s working capital requirements, while taking the particularly long settlement timeframes into account.

**Jean-Claude Bouveur,**  
Chairman, Delattre Levivier Maroc

## Agro-industry

### Les établissements Geissmann

Created in Morocco in 1945, this company imports industrial equipment and consumables for the agri-industry sectors (oil works, sugar refineries, beverages, cattle feed, etc.), phosphates, mining and cement, and automobiles. Thanks to the partnerships established many years ago with its foreign principals, it offers industrial equipment, parts and maintenance, as well as chemical products, through its five departments: equipment, multi-layer or modular «process» and transportation belts, industrial lubrication, filtration equipment and products, water treatment.

### Strengths

- Appearance of new industrial sectors such as automobiles, that have increased from 0 to the current 15% of its turnover in 4 years. The growth of the phosphate transformation activity is also creating true opportunities.

### Weaknesses

- Customers do not always have a high technological requirement, while the Etablissements Geissmann sell equipment that contributes to improving productivity.

### Viewpoint

- Time doesn’t count. Be patient, since signing a deal generally takes 2 to 3 times longer than in Europe, notably because the dematerialization of documents does not yet exist.
- Don’t forget that the seller has to deal with various administrative formalities. Don’t take them lightly, but rather adhere to them scrupulously otherwise the payment of your invoices may be compromised.
- To work with a serious partner, surround yourself with legal and tax advisers and obtain information from professional associations, and chambers of commerce in order to gather data.
- Expect that your actions are for the long term. The return on investments will occur more over the medium and long terms.

**Patrick Geissmann**

Comments gathered  
by Coface



## Olivier Foulonneau

Coface Underwriter

# Risk diversification, a reflection of the Moroccan economic fabric

For Olivier Foulonneau, financial information about Moroccan companies is less easy to access than in other countries. However, Coface has organised itself in order to collect reliable information that allows it to better underwrite the risks that its customers ask it to guarantee. It insists on the average length of the payment timeframes from Moroccan companies that one must take into account, notably in industrial sectors such as textiles-clothing and PW&CE, that generate significant flows of late payments.

### ➔ What types of risks will you accept in Morocco?

Olivier Foulonneau (OF): Just like the Moroccan economic fabric, our risks are quite diversified in terms of size and the profile of the covered buyers. We guarantee many VSEs or family SMEs/SMIs, but also local private groups with a larger financial surface, the subsidiaries of multinational groups or state-owned companies. Our guarantees apply to many business sectors: food industry and trade, construction, distribution, mines, chemistry, automobiles, metals, mechanical, electrical equipment.

### ➔ Can financial information be accessed easily? What types of guarantees do you request?

OF : Notably because of the family shareholding of the great majority of Moroccan companies, which are normally quite reluctant to communicate with the exterior, financial information is less easily accessible than in other countries, such as in France, for example. Nevertheless we have been present since 2007 in the area of commercial information in Morocco, initially through the Moroccan company Recours, then directly since 2009 with the opening of Coface Services Maghreb in Casablanca, which has put together a beneficial collaboration with the OMPIC (Moroccan industrial and Commercial Property Office) in the area of making balance sheet available. Moreover, given the very close commercial ties with France, for many years, Morocco has been one of the most important countries in the Africa / Middle East zone, in terms of guaranteed outstandings, databases and payment incidents.

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*A fairly open underwriting policy,  
that very rarely requires  
supplementary guarantees*

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Building on this in-depth knowledge of companies within the Kingdom, the underwriters can reliably analyse the solvency of buyers and the of non-payment risk, resulting in an underwriting policy that is quite open, and that very rarely includes a requirement for supplementary guarantees.

### ➔ Payment timeframes have a reputation for being long. What advice would you give to a company wishing to export to this country?

OF : Historically, the payment timeframes used by Moroccan companies are long, meaning an average of over 100 days. They can even sometimes be 4 to 6 months. This is an important element in terms of cash and credit management, that must be taken into account by every exporter. While late payments are quite frequent, our experience with payments is generally satisfactory, overall, with a high rate of recovery, including since the worldwide financial crisis in 2008. Indeed, this crisis certainly impacted the Moroccan economy, but the GDP growth rate remained on a good level, driven by rather good agricultural harvests in recent years, a generally healthy financial sector and positive momentum of private consumption as well as public and private investments resulting from the delocalization efforts of European industrial manufacturers. Our arbitration policy is nevertheless very attentive to changes in mining prices, proceeds from tourism and the agricultural sector, with which our claims rate is structurally correlated.

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*Caution is the order of the day in the  
textiles-clothing and PW&CE sectors*

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Finally, caution is a necessity in the textiles-clothing and PW&CE sectors, that generate significant flows of late payments.





## Jean-Marc Pons

Regional Manager for the Maghreb, Western and Central Africa, Coface

# Coface Services Maghreb

### An organisation in the service of companies

The financial information to which we have access is the fruit of our collaboration with the OMPIC, the Moroccan Industrial and Commercial Protection Office, primarily with regard to balance sheet data, and with the teams from Coface Services Maghreb for the updating of information collected directly from companies.

In 2007, we signed a technical partnership with AXA Assurance Maroc, in order to be able to issue our Globaliance contract within Morocco. During the same year, Coface Services Maghreb was created in order to facilitate the collection of information and for a better understanding of credit risks. A trusting relationship has been built with companies, which has made it possible to add to the database.

In 2011, financial institutions can rely on the unique credit management system that Coface has set up on the Moroccan market: prevention, protection, management of receivables and collections.

The mobilisation of the company's customer item allows it, in case of a loss, to delegate the compensation to its bank.

In this way, the guarantee carried by the insurer facilitates the company's access to credit.

### Morocco's positioning as a base and development hub for companies looking to Sub-Saharan Africa

Morocco has an excellent image across the continent, and relies on its major companies and quality industrial SMEs in order to target springboards for growth.

Sustained actions are undertaken in order to reach them:

- The Moroccan export promotion centre organises Export caravans in order to bring exporters into contact with their future partners.
- The banking sector, particularly deployed in sub-Saharan Africa in order to accompany Moroccan companies.
- Investment funds, that are increasing the share of Africa in the distribution of their assets.
- The companies themselves that are reacting in face of the price war that resulted from the crisis, and that are displaying considerable capacities for anticipation and adaptation: productivity and quality investments, up-selling and diversification.
- The guarantees provided by public and private institutions.

### Useful contacts

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#### French Chamber of Commerce and Industry in Morocco (CFCIM)

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