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MOROCCAN COMPANIES DEVELOPMENT IN AFRICA: REALITY AND OUTLOOK

Work team:

Taoufik OUKESSOU (DEPF)
Fatima HAMDAOUI (DEPF)
Nicolas VINCENT (AFD)
Clémence VERGNE (AFD)
Bertrand SAVOYE (AFD)

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The Analyses and conclusions of this document do not reflect in any way the point of view of the Ministry of Economy and Finance or the French Development Agency.

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INTRODUCTION

Placing Africa at the heart of its strategic choices, Morocco is gradually consolidating its position on the continent, through the strengthening and diversification of trade, the support of its companies on the continent, the conclusion of a multitude of cooperation agreements (about 1000 agreements with 28 African countries) in different fields (education, health, training, infrastructure, agriculture...)…

Morocco's relations with the continent are now part of a new global strategic vision, based on balanced and mutually beneficial relations. In this sense, Moroccan public companies played a pioneering role in Africa, particularly in the development of basic socio-economic infrastructures. Private companies, having initially invested mainly in the service industry (banks, insurance, etc.), continue to expand their operations to other booming industries (real estate, industry, trade and distribution, etc.).

Thus, a strong growth of Moroccan investments in Africa is observed during the last decade. Morocco is now among the first African investors of the West African Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC).

The purpose of this study, the fruit of a collaborative effort jointly conducted by the French Development Agency (AFD) and the Department of Economic Studies and Financial Forecast (DEPF) of the Moroccan Ministry of Economy and Finance, is to highlight the potential of Africa and to identify the strategies deployed by Moroccan companies operating in the continent, their aspirations and their implementation methods.

The study was conducted in two phases. A first phase dedicated to the analysis of the African competitive context aims to identify the African socio-economic dynamics and the drivers of growth and draws an overview of the presence of international companies in Africa, with particular emphasis on French, American, Chinese and South African multinational companies.

The second phase of the study is based on a field survey of twenty Moroccan companies[1] (sixteen in Morocco and four in Senegal). They were asked about their strategies and the development of their activities in Africa.

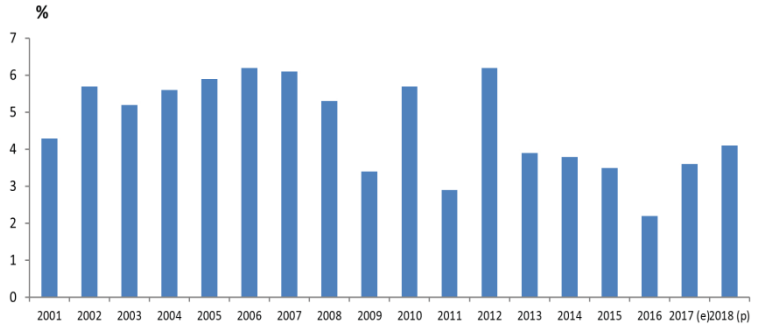
[1] The survey was conducted by the International business consulting firm “Bearing Point”. The results should be treated with caution, given the non-exhaustive nature of the survey.

I. AFRICA: A GREAT GROWTH POTENTIAL AND AN ATTRACTIVE DESTINATION FOR INVESTMENT

1. A SUSTAINED ECONOMIC DYNAMICS, DRIVEN MORE BY DOMESTIC DEMAND

Africa has become an important growth hub and an attractive destination for FDI over the past two decades. This continent recorded between 2001 and 2015 annual growth levels above the world average. Africa is, in fact, second in terms of rapid growth after South East Asia. Except for the slight deceleration in activity recorded in 2016, Africa is expected to return to sustained growth levels according to the latest forecasts from the main international organizations.

African GDP Growth



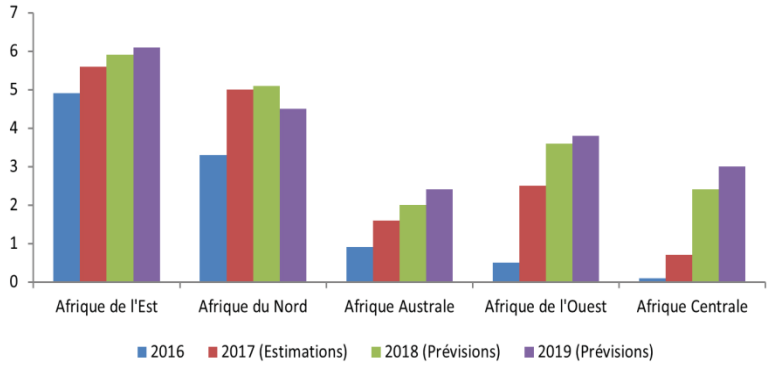
Source: African Development Bank (AfDB) data, DEPF development

While the African growth momentum is a proven fact, there are, nevertheless, wide disparities from one region to another. A McKinsey[2] study ranked African countries in three groups according to their economic growth momentum:

- **The first**, which accounts for 19% of Africa's GDP, brings together countries whose competitiveness has improved in recent years and whose economy depends a little if not at all on natural mineral resources (Ivory Coast, Kenya, Ethiopia, Rwanda, and Morocco).
- **The second**, representing 43% of Africa's GDP, brings together countries such as Angola, the Democratic Republic of Congo, Nigeria and Zambia, whose growth has been strong over the recent period, but these countries are going through periods of instability and are expected to diversify their economies.
- **The third** group, representing 38% of the continent's GDP, is made up of countries with more moderate growth such as South Africa or the three Maghreb countries whose economy has been affected by the "Arab Spring" (Egypt, Libya and Tunisia).

[2] "Lions on the move II: Realizing the potential of Africa's economies", McKinsey Global Institute, 2016.

GDP growth by sub-region of Africa



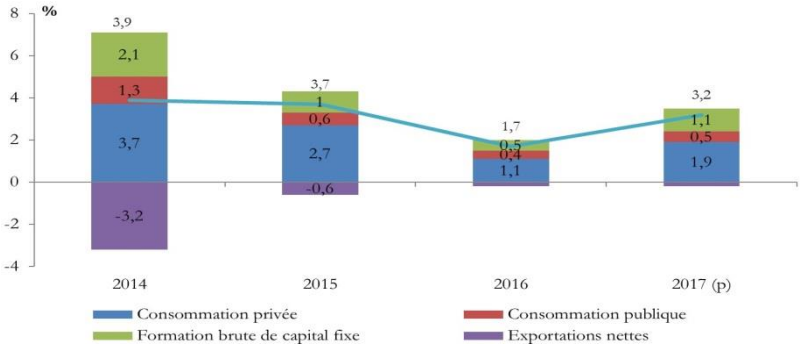
Source: African Development Bank (AfDB) data, DEPF development

East Africa North Africa Southern Africa West Africa Central Africa

While African countries are highly diverse, overall, African economic growth is supported by some improvement in economic fundamentals and resilience to crises in several African countries. This dynamic trend is mainly due to the recovery of the global economy and domestic demand in African countries. Although natural resources and raw materials are still major factors in Africa's growth, their importance has declined significantly as endogenous factors, including consumer demand, now play a more important role.

In fact, growth has been driven in recent years, particularly by private consumption, in relation to the expansion of the middle class and demographic strength; and by investments mainly driven by the improvement of the business environment in several countries and the dynamics of public spending (mainly infrastructure and wages). The negative contribution of net exports is explained by the sensitivity to commodity price cycles and the slowness of the process of improving the profile of African exports.

Components of African GDP



Source: AfDB

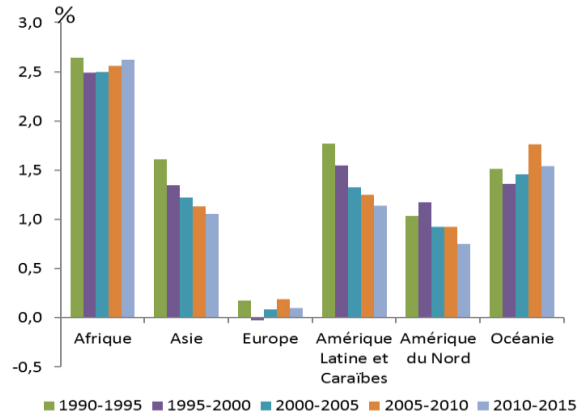
2. POPULATION GROWTH, URBANIZATION AND THE EMERGENCE OF THE MIDDLE CLASS FUEL THE INCREASE OFPRIVATE CONSUMPTION

2.1. A demographic boon to turn into opportunities

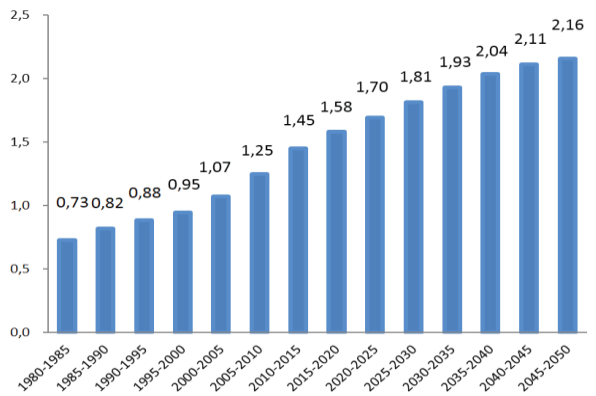
In most African economies, the rise in domestic demand is naturally fueled by the demographic dynamism of the continent. The African population has almost tripled between 1980 (estimated 478 million inhabitants) and 2015 (estimated 1.2 billion inhabitants) and could reach 2.1 billion inhabitants by 2050[3], half of which would be under 25 years.

In fact, Africa has a young demographic structure, with about two-fifths of its population under the age of 14, and almost one-fifth (19%) between the ages of 15 and 24. The population aged 25 to 64 reached 425.7 million people in 2015, or 36.2% of the total population. The senior population (aged 65 and over) accounted for only 3.5% of the total population in 2015.

Population growth by region 1990-2015



African population growth (in billions)



Source: UN DESA 2017, DEPF development

The continent's annual population growth rate was 2.5% over the period 1980-2015, and is expected to remain at 1.5% over the next 10 years. The 10 countries that contribute most to this growth are; Nigeria, Ethiopia, the Democratic Republic of the Congo, Egypt, the United Republic of Tanzania, Kenya, Uganda, Sudan, South Africa and Algeria.

Africa's share of the world's population grew from 10.8 percent in 1980 to 15.9 percent in 2015, according to United Nations estimates. This share is expected to reach nearly 30% (2.92 billion people) in 2063, making Africa the world's leading demographic power, ahead of China and India.

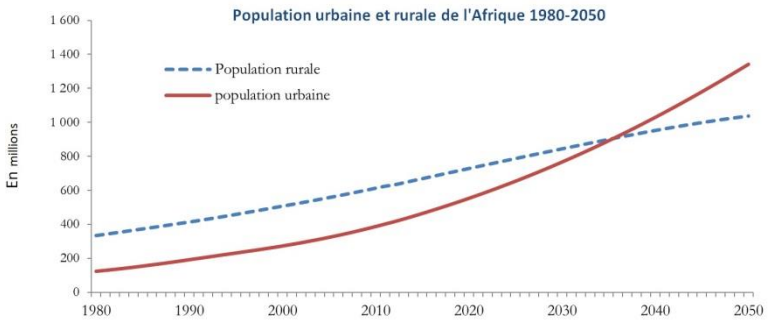
2.2. An accelerated urbanization offering growth potential to seize

Africa is also characterized by accelerated urbanization, which brings both new consumption patterns and new needs for African populations. The share of the urban population is estimated at 40.4% in 2015, compared to only 26.7% in 1980. The number of African city-dwellers has thus almost quadrupled over the last thirty years; from 127.8 million people in 1980 to 471.6 million people in 2015.

[3] According to United Nations forecasts.

The average growth rate of the urban population has reached 3.7%, and is expected to remain at 2.6% over between 2025 and 2050. Thus, the urban population could reach 56% of the total population in 2050, or 1.34 billion. According to UN-Habitat, by 2040-2045, the continent would represent more than 20% of the world's urban population.

Urban and rural population of Africa 1980-2050



Source: Population estimates and projections, World Bank

Urbanization implies a transformation of lifestyles and consumption, thus representing opportunities for companies operating in the real estate and infrastructure sectors, but also in trade and distribution. However, this urbanization, if not accompanied by the consequent development of infrastructures, could lead to a deterioration of the living conditions of the African population, including health problems.

2.3. An emergence of the middle class to be convert into a lever of growth

The aforementioned developments have been accompanied by an expansion of the African middle class[4]. Across the continent, 350 million Africans are now part of the middle class[5]. The latter is, in fact, likely to grow steadily in the coming years, driven by a growing economic environment.

This should result in many business opportunities, following the expansion of new business sectors (telecommunications, transport, distribution, banking...). Household and business spending is expected to grow by $ 645 billion and $ 970 billion by 2025, respectively, to make African countries a $ 5.5 trillion mega-market[6].

Improved purchasing power suggests a potential demand for new goods and services. The banking sector, for example, is set to develop in the future, given the low access of the African population to the formal banking system (only 20 to 30%).

As a result, Africa offers significant electricity potential, as 60% of Africa's rural population does not have access to electricity. In addition, Africa's growing energy needs would require upgrading of its energy resources other than oil (gas, hydro, solar, wind, etc.).

[4] The various definitions of the middle class are based on numerical (income), social (socio-professional categories), or behavioral (practices) criteria. The approach chosen is that based on income: the World Bank has retained $ 12 to $ 15 per person per day as an international criterion of belonging to the middle class, which are too high for Africa. The AfDB has adopted a more specific approach to Africa, from $ 2 to $ 20 per person per day.

[5] According to a joint study by the African Development Bank and the Organization for Economic Co-operation and Development (OECD), published in May 2017.

[6] According to a study by McKinsey Global Institute: "Lions on the move II ".

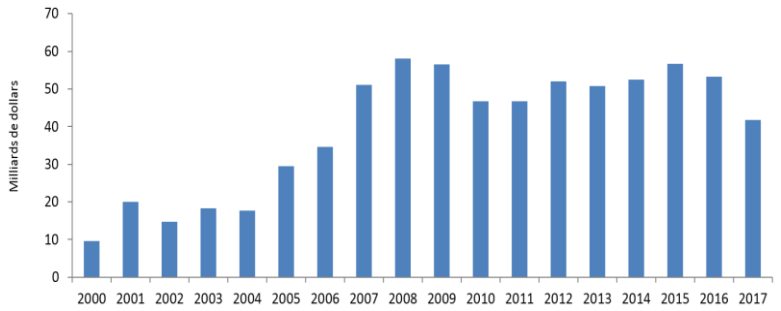
The retail and agri-food sectors also present great opportunities. The presence of the world leaders in supermarkets on the continent (Wal-Mart, SPAR, Casino...) is a testament to this.

As the infrastructure gap remains quite large, African governments are increasingly using public-private partnerships to finance infrastructure projects, providing a great opportunity for foreign investors.

3. IMPROVING AFRICA'S ATTRACTIVENESS FOR FOREIGN DIRECT INVESTMENTS (FDI)

In the wake of its continued economic growth, Africa has seen its attractiveness improve with regard to foreign direct investment. According to UNCTAD, FDI flows to Africa amounted to $ 56.6 billion in 2015 and $ 53.2 billion in 2016, before declining to $ 41.8 billion in 2017. These flows are expected to increase about 20% in 2018 to reach $ 50 billion. Moreover, growing regional integration in Africa is expected to generate greater flows of FDI.

Evolution of foreign direct investment inflows in Africa
(In billions of dollars)

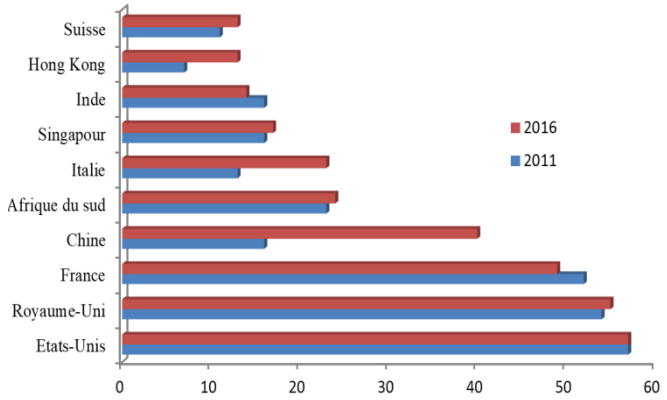


Source: UNCTAD, World Investment Report 2018

In terms of FDI stock, the United States is the largest investor in the continent followed by two Western European countries (the United Kingdom and France). They inherit a historical presence in Africa and cultural and linguistic affinities facilitating the development of the activity of their economic operators on the continent.

Chinese investment comes in fourth, but has the fastest growth rate. Chinese projects have mainly focused on southern Africa and natural resource exporting countries, oil in particular.

Evolution of the FDI stock of the main investor countries in Africa (in billions of dollars)



Source: UNCTAD, World Investment Report 2018

The performance of African countries in the business climate, according to the Doing Business report of the World Bank, has contributed to improving the attractiveness of the continent for FDI. For example, Rwanda, which does not have significant natural resources, has managed to significantly improve its attractiveness to FDI over the last few years, with a particular focus on improving its regulatory framework.

Foreign direct investment in Africa, which is focused on the natural resource sector, is gradually diversifying into other business sectors, as Ernst & Young's "Africa Attractiveness Survey 2017" highlights.

Share of sectors by FDI (2016)		Share of sectors in number of FDI projects (2016)	
1. Real estate and construction	**40.6%**	**1. Telecommunications, media and new technologies**	**19.5%**
2. Transport and logistics	**13.4%**	**2. Retail and consumer goods**	**15,2%**
3. Extractive industries	**13.3%**	**3. Business Services**	**11.8%**
4. Clean technology	**9.5%**	**4. Financial Services**	**9.9%**
5. Telecommunications, media and new technologies	**3.4%**	**5. Transport and logistics**	**7.7%**
6. Retail and consumer goods	**3.4%**	**6. Real estate and construction**	**6.7%**
7. Automotive industry	**2.7%**	**7. Clean technology**	**6.2%**
8. Business Services	**1.7%**	**8. Automotive industry**	**4.9%**
9. Financial Services	**0.9%**	**9. Industrial products**	**4.6%**
10. Industrial products	**0.4%**	**10. Extractive industries**	**4.1%**

The real estate and construction sector is ranked first, with a share of 40.6% of FDI in Africa in 2016. In fact, the continent's strong demographic growth and the transition to a more urban lifestyle are contributing to the increase in demand for real estate projects; and building infrastructure to meet the needs of a growing and more urban population.

The transport and logistics sector ranks second, accounting for 13.4% of FDI in Africa, followed by mining (13.3%). Despite the volatility of many commodity prices, the sector continues to attract many foreign multinational companies.

FDI dynamics also reflect the significant growth in services. The telecommunications, media and new technologies sector accounted for one out of five investment projects in 2016. The retail and consumer goods sector remains dominated by European and Asian groups and is the second largest recipient of FDI in terms of the number of investment projects in 2016.

The financial sector also attracts a growing share of FDI and ranked fourth in terms of the number of investment projects in Africa in 2016. It also stands out for the large share of African investments. South African banks are by far the most active, followed by Togo and Morocco.

Overall, the increase in FDI in Africa is a reflection of the progress made in economic and social development, as a result of the mitigation of conflict and its consequences, the emergence of democratic regimes, but also in favor of a reform momentum, albeit in different rhythms from one country to another.

4. DIFFERENTIATED STRATEGIES OF MULTINATIONAL COMPANIES OPERATING IN AFRICA

4.1. Increased weight of emerging and African countries groups

Over the last two decades, in addition to Western countries, Africa has become the preferred target of new emerging powers, including China, India, Brazil, the Gulf countries and Turkey. In particular, China's market share on the African continent increased from less than 2% in 1990 to more than 16% in 2011[7].

According to the study "l'Afrique et les grands émergents"[8], the main assets of the groups coming from emerging countries in Africa are the following ones:

- An offer of products and services adapted to the "bottom of the pyramid"
- Innovative technologies adapted to African countries
- The offer of package deals associating companies of several sectors (mining + energy + construction and public works, for example)
- Government support from countries of origin, especially in the case of China
- The presence of a diaspora in Africa (China mainly and India to a lesser extent) or linguistic proximity to Portuguese-speaking African countries for Brazil
- The absence of colonial debt in Africa
- Lower risk aversion than that of companies from developed countries given high levels of risk in emerging countries of origin.

The sectors most represented are, of course, oil and hydrocarbons, mining, as well as construction and public works and infrastructure. It should be noted that India's investments are more service-oriented than those of Brazil and China.

Overview of the major Chinese, Indian and Brazilian companies present in sub-Saharan Africa[9]

Country	Company	Industry
China	China Petroleum and Chemical Corporation (Sinopec)	Oil and hydrocarbons
	China National Petroleum Corporation (CNPC)	Oil and hydrocarbons
	State Grid	Electric utility
	CRBC	Construction
	CITIC	Finance
India	Airtel	Telecommunications
	Tata	Various (Industrial, banking...)
	Godrej	Chemical industry
	Cipla	Pharmaceutical industry
Brazil	Vale	Mining
	Petrobras	Oil and hydrocarbons
	Andrade Guttierez	Construction
	Odebrecht	Construction

[7] Source: "Un partenariat pour l'avenir :15 propositions pour une nouvelle dynamique économique entre l'Afrique et la France", Ministry of Economy and Finance, December 2013.

[8] The study was conducted jointly by AFD and FERDI (Foundation for Studies and Research on International Development, published in 2013.

[9] Source: " L'Afrique et les grands émergents", AFD and FERDI, April 2013

The turn of the 2000s was also marked by the dynamics of intra-African investments. The leading role of South Africa alone accounts for 16% of Africa's GDP and 40% of the continent's industrial output. Of the top 500 African companies, 127 are South African, accounting for 60% of the turnover of these 500 companies, and cover most sectors[10].

Other African countries have also managed to gain a foothold in the continent, particularly in the banking sector where there is not only a strong presence of Nigeria but also of Togo. Morocco has also been able to export both products and know-how in a variety of sectors, particularly in the financial services, telecommunications, real estate, construction and chemical industries.

Several factors explain the competitive advantages of African investors:

- Focusing on the African market: for local players, Africa is their priority and for many, their only market, which leads them to develop specific products adapted to the local market.
- The control of the ecosystem: the leaders of African groups benefit from close relations with decision-makers, especially politicians, and from stronger relationships, often personal, with partners and suppliers.
- Flexibility: managers of local companies are often more comfortable with an informal environment, to which they are more accustomed than the management of multinational companies from Western countries. Decision-making is also often faster for a local player than for a subsidiary of a large group, whose major decisions are approved by headquarters.
- Access to information: African markets are poorly covered and available data is unreliable. Local players are better able to access "parallel" information and are better able to judge the potential of a market without necessarily having official or conventional market data.

4.2. Differentiated sectorial dynamics

Beyond the origin of multinational companies operating in Africa, the analysis of the relevant business sectors completes the vision on the drivers of African growth. In this respect, the study focuses on three sectors: telecommunications, banks and retail.

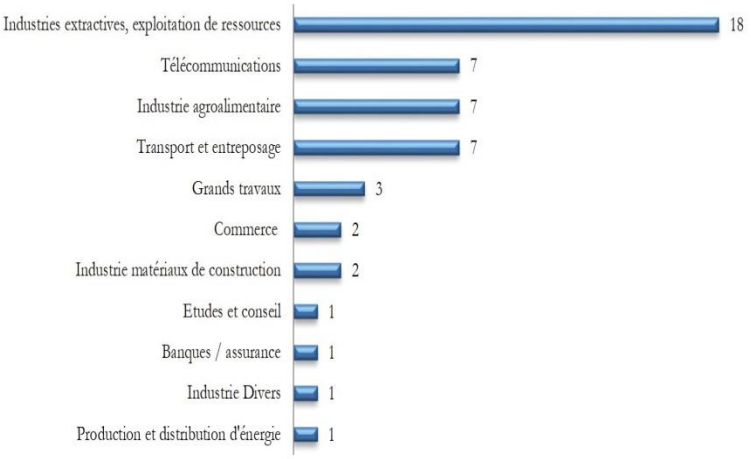
The multinationals with the highest turnover in Africa are in the natural resources sector

The weekly newspaper “Jeune Afrique “ publishes the ranking of the top 500 African companies each year, as well as the ranking of multinational companies in Africa[11] based on the turnover achieved on the continent.

[10] Source: “Information Report on the Presence of France in a coveted Africa", Senate of the French Republic, 2014..

[11] Jeune Afrique, Special Issue No. 43, "The Top 500 African Companies", 2016 Edition

Top 50 most active multinational companies in Africa by industry



Companies operating in the natural resources sector dominate the ranking (Glencore, Total and Trafigura make up the Top 3). The natural resources sector (oil, mining ...) represents more than a third of these 50 multinational companies.

The transport sectors (Emirates, Air France, Turkish Airlines, Lufthansa ...); telecommunications (Vodafone, Orange, Airtel, Etisalat ...) and the agri-food industry (SAB Miller, Castel, OLAM and Nestlé ...) come in second position with 7 companies each. This performance is representative of both past investments, the local competitive situation and the dynamics of these sectors. Thus, air traffic is expected to grow by 6.2% per year in Africa for the next ten years. Due to the difficulties of African companies, the bulk of intercontinental traffic is now handled by European or Gulf-based carriers. The agri-food industry is driven by the rapidly growing beverage segment with double-digit growth in several countries; and attracting the interest of foreign investors, on the lookout for strong local brands or as a partner to implement and develop international brands.

Telecoms leaders in Africa are consolidating their positions

In the process of becoming the second largest continental market in the world, the African telecommunications sector has expanded rapidly in recent years. While in 2000 there was a telephone for 50 people, there was in 2014 a phone for less than two people and more than 620 million mobile subscribers[12]. In a region where fixed infrastructures are poorly developed, the mobile phone is an important gateway to internet access. Africa has been able to bring out services and applications related to mobile technology to meet the daily needs of populations (payment, health, agriculture ...).

After an average annual growth of 4.6% over the period 2010-2014, the growth of the sector is slowing down (an average annual growth rate of 2.9% is expected over the 2014-2019 period) [13].

The telecommunications market in Africa is shared by a small group of "big" players (MTN, Vodacom, Orange, Etisalat-Maroc Telecom, Airtel) who share half of the SIM card stock[14] in Africa and over a hundred "Small" local players present on one or a few countries. The market leader, the South African operator MTN, is present in 17 African countries.

[12] Source: Senate of the French Republic, Information Report on the "Presence of France in a coveted Africa" 2014.
[13] Source: Digiworld Yearbook, Africa and Middle East, 2016
[14] Source: Digiworld Yearbook, Africa and Middle East, 2016

Africa represents a growth driver for European operators. Thus, Orange began really early a strategy of conquering the African continent, through the buyout or the acquisition of a majority stake of historical national operators. By the end of 2014, Orange was present in 15 African countries, mainly in French-speaking Africa.

MTN and Orange are now very active in their respective regions (English and Southern Africa for MTN, French-speaking West Africa for Orange), and compete in certain strategic markets. In the countries where they compete, the leading position belongs to MTN which is No. 1 in Ivory Coast with 39% of market share, in Ghana with 51% of market share and in Cameroon with 59% of market share. In the Ivory Coast, where Maroc Telecom is also present under the Moov brand, the market is divided between these three operators, with MTN in first place, Orange in second and Moov in third.

American and Chinese telecom operators are not present on the "B to C" telecom market in Africa. On the other hand, the American giants of the web are looking to expand into the Internet access infrastructure segment (drones and satellites for Google and Facebook), mobile devices (Android One for Google) and develop targeted applications for Africa. China is pushing its Huawei and ZTE equipment, through aggressive pricing and conditional loans to Chinese suppliers.

African banks are adopting offensive strategies and gaining new ground

Sub-Saharan Africa represents a significant development opportunity for banking groups regardless of their origin, as only 12% of the population now holds a bank account[15]. However, this development requires adaptations and innovations to meet the needs of African consumers. As a result of the continent's weak banking system, the weight of the informal economy and the lack of infrastructure, alternative payment solutions are emerging, such as mobile banking. If 2% of the world population has a mobile payment account, this proportion reaches 12% on average for sub-Saharan Africa, and up to more than 30% of the population in the Democratic Republic of the Congo, for example.

International banks started very early in Africa, firstly through the presence of colonial powers, particularly in the case of France and the United Kingdom, but also through organic growth and acquisition, as a result of decolonization. Western banks have traditionally focused on "affluent" businesses and individuals. The image of European banks remains rather "upscale", while local banks have a more "mass-market" positioning.

The position of French banks in Africa has seen a certain decline in recent years in favor of some banking groups, especially Moroccan and South African. In 2008, Crédit Agricole sold Attijariwafa Bank its shares in its Congolese, Ivorian, Cameroonian, Gabonese, and Senegalese subsidiaries to finance its development in Eastern Europe.

While Chinese and European development strategies are mainly focused on acquiring and participating in domestic banks, African banks are growing both through organic growth - particularly South African banks - and by acquisition. Present in 19 African countries, Standard Bank is one of the major players in the banking sector in Africa. On the other hand, African groups, if they grow first by geographic and linguistic proximity, they will expand well beyond, as shown by the presence of Standard Bank in French-speaking African countries, or the announced will of Attijariwafa Bank to expand in English-speaking Africa..

Attijariwafa Bank is present today in 16 African countries and looking to expand beyond Francophone Africa. Other Moroccan banks are not far behind, since the BMCE Bank of Africa is present in 18 African countries and plans to eventually cover the entire continent, and the BCP group is present in 12 African countries, mainly in French-speaking Africa.

[15] Source: "Recent Trends in Banking in Sub-Saharan Africa", European Investment Bank, 2016.

As highlighted in the European Investment Bank's report[16], African banks now have a systemic presence in 36 African countries, having surpassed the Western banking groups historically present on the continent. The same is true when looking at the origin of lenders for infrastructure financing. The share of loans granted by traditional European lenders (particularly French and English) fell by half between 2006 and 2013, to the benefit of African banking groups.

Compared to European groups, African groups show more flexibility and inventiveness. For example, African banks are developing adapted credit processes for informal sector workers who are unable to provide the "traditional" guarantees required by banks, which is more difficult for a European bank to design[17].

Chinese investors are also showing interest in the African banking sector. While Chinese banks primarily target Chinese investors and companies in Africa, they are gradually turning their attention to retail banking in Africa. In 2007, the Chinese bank ICBC acquired a 20% stake in the South African Standard Bank[18]. Chinese giant CDB (China Development Bank) also signed an agreement with Société Générale in 2014; to benefit from greater financing capabilities and partner expertise on topics such as investment or retail banking in Africa.

Major international distributors are making their way forward cautiously

Population growth is making Africa a growing consumer base for mass retailers. Urbanization and the emergence of middle classes are revolutionizing the consumption habits of the continent and promote the emergence of a large modern distribution.

However, the sector faces considerable constraints. The development of an efficient distribution network comes up against practices that are characterized by cronyism and corruption. Logistics represents a real challenge and results in high costs due to lack of infrastructure. The weakness of the local agri-food base intensifies the logistical problems for the modern distribution players who are forced to import a significant part of the food, which creates a considerable price differential compared to the informal one. Governments are struggling to fight the informal economy, given the social issues involved. Finally, the security risk in some countries affects the enthusiasm of some international investors. Faced with these constraints, Western multinationals are positioning themselves primarily through the acquisition of local players or through partnerships.

Western retail groups such as Wal-Mart, Carrefour and Auchan are gradually expanding on the continent, with some degrees of success and various strategies.

If the mass retail sector is growing, it still only concerns relatively developed African economies. Leading industry groups are reluctant to invest heavily in markets where demand is not yet mature for a modern mode of distribution. This is why French giants like Carrefour or Auchan have not yet expanded their presence beyond North Africa, while Shoprite and Walmart operate mainly in Southern Africa. Unlike Walmart, which has opted for an acquisition strategy, Shoprite has primarily opted for organic growth, and is actively involved in the construction of its future stores and shopping centers.

[16] Recent Trends in Banking in Sub-Saharan Africa, March 2016.

[17] Source: BCG Perspectives "Dueling with Lions: Playing the New Game of Business Success in Africa".

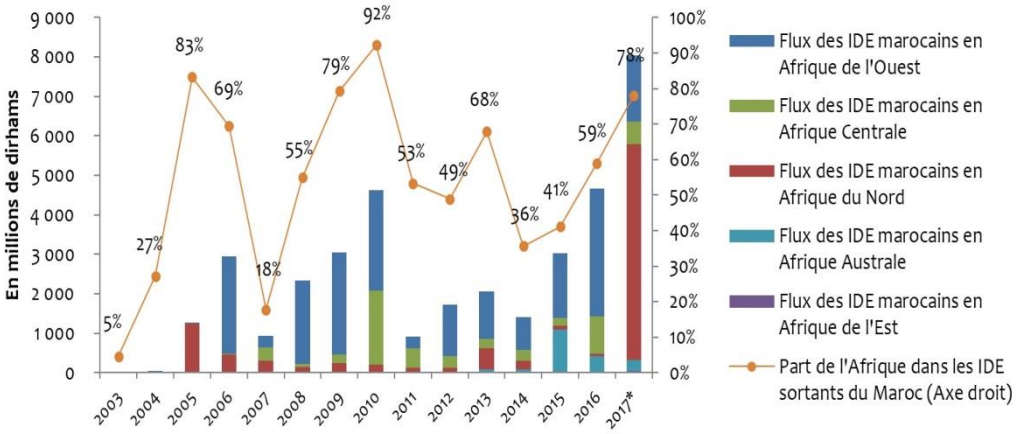
[18] Source: South African Institute of International Affairs, “Chinese Financial Institutions and Africa" 2011.

II. ANALYSIS OF THE DEVELOPMENT OF MOROCCAN COMPANIES IN AFRICA

1. MOROCCAN INVESTMENTS IN AFRICA UNDERGOING GEOGRAPHICAL AND SECTORIAL DIVERSIFICATION

Moroccan direct investment in the continent, with a cumulative value of 37 billion dirhams between 2003 and 2017, constitutes the bulk of outward FDI in Morocco, with an average share of 60% of total outflows. These flows are addressed mainly to West African countries (with an average share of 55%), followed by North Africa, Central Africa (25% and 15% respectively) and Southern Africa (5%).

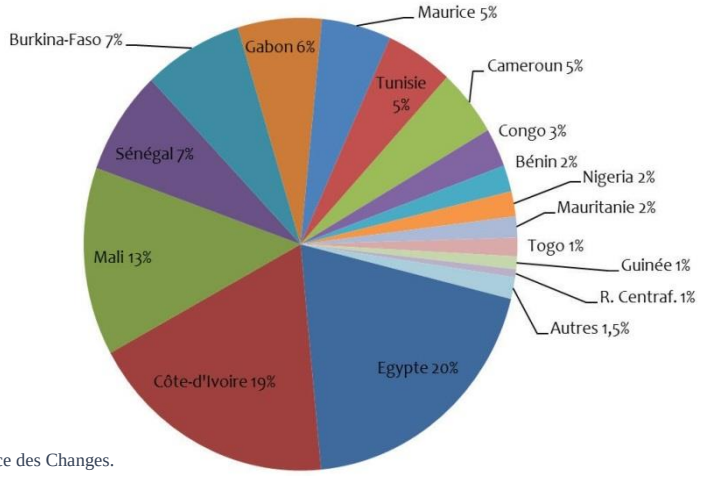
Evolution of FDI outflows from Morocco to Africa and from the continent in total flows
(In millions of dirhams)



Source: Office des Changes.

Morocco's direct investments are present in 30 African countries. Egypt and Ivory Coast are the leading recipients of Moroccan FDI in the region, with a share of 20%[19] and 19% respectively of flows over the period 2003-2017, followed by Mali (13%). %) and to a lesser extent Burkina-Faso and Senegal (7% each) and Gabon (6%).

Geographical structure of outward FDI from morocco to Africa between 2003 and 2017



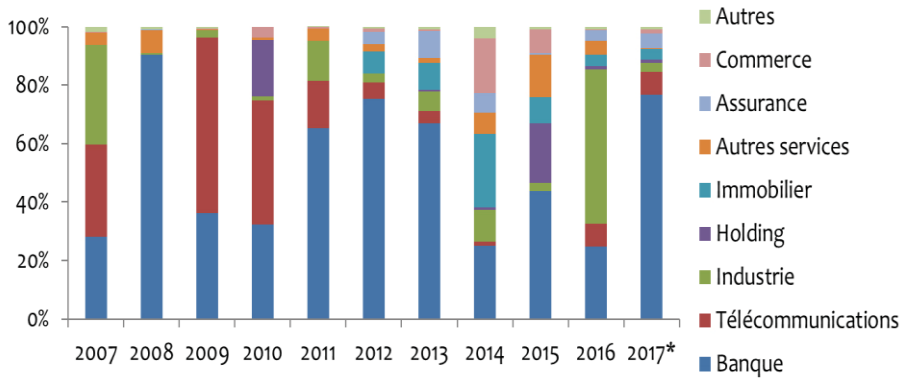
Source : Office des Changes.

[19] Trends Egypt owes this share to a significant investment in the banking sector, made in May 2017, worth more than 5 billion dirhams.

The banking and telecommunications sectors were the first to seek growth opportunities internationally. In fact, thanks to the reforms carried out in the past, Morocco has managed to build a solid financial system that has given rise to competitive banking groups, able to establish themselves in Africa and to contribute favorably to the financing of African economies. The same goes for the telecommunications sector, given the pioneering reforms undertaken by Morocco in this sector since the 1990s.

Thus, the sectorial distribution of Moroccan investments in Africa over the period 2007-2017 indicates a reign of flows in these sectors, with a share of 53% and 17% respectively; and to a lesser extent, Industrial (11%) and Holdings (5%).

Structure of outward FDI from Morocco to Africa by industry between 2008 and 2017



Source : Office des changes.

* Provisional

It should be noted that the Industrial sector's share was only 5.1% between 2007 and 2015; whereas in 2016 alone it reached almost 53% of the outflows from Morocco to the continent with nearly 2.5 billion dirhams invested; mainly in Côte d'Ivoire, Benin and Cameroon.

This momentum is set to continue if we take into account the important agreements signed recently which should generate significant financial flows in the coming years. These projects include fertilizer production (Gabon, Rwanda, Ethiopia and Nigeria), Cement (Ivory Coast, Ghana and Mali), pharmaceutical industry (Ivory Coast, Rwanda), truck assembly (Senegal) and agribusiness (Guinea, Benin, Cameroon, Ivory Coast, Mauritania or Tanzania).

2. DEPLOYMENT OF MOROCCAN COMPANIES IN AFRICA: KEY LEARNINGS FROM THE SURVEY

2.1. Expansion in Africa is often the result of opportunities that Moroccan companies have seized

Among the panelists[20], many said that turning to Africa was the result of opportunities that have come to fruition. Most of them subsequently implemented a development strategy in Africa based on the experience gained.

[20] Sixteen companies were interviewed in Morocco and four in Senegal, see characteristics of the sample in Appendix 2.

Some have shown an interest in Africa for several years, without taking the initiative for active development. For most, these companies had already developed sporadically in Africa and had grasped the continent's potential. They seized opportunities when they presented themselves, to get their African expansion off the ground.

For some companies, development in Africa has been the result of solicitations from partners seeking expertise. This is particularly the case of one of the respondents, an industrial engineering company present in Africa for about twenty years. It was solicited in 1996 by a French partner in the framework of one of their projects in Senegal. The company had already developed a relationship of trust with a number of European engineering leaders in the framework of projects in Morocco. Today, the company often works for clients in Africa as part of the detailed engineering of their projects. The company now generates more than 70% of its turnover in Africa, particularly in the oil and gas sector.

This was also the case for a Moroccan public works group met in the course of the inquiry. The company's first major contract in Africa was born of the solicitation of a Lebanese company in 2005, with which the company had already collaborated, and which was looking for a partner for the construction of a dam in Burkina Faso. It is through the opportunities of construction sites that the management has taken measure of the African potential. Since 2012, the company has put in place a real development strategy in sub-Saharan Africa, deliberately turning its ambitions towards the continent.

The ability to define and implement a proactive development strategy is often a function of the size of the company. In fact, large companies can more easily mobilize resources for their development in Africa.

2.2. Various factors underlie the development of Moroccan companies in Africa

Among the reasons cited by companies for their African development are three main common factors, which are (1) Africa's economic growth and the resulting opportunities; (2) the lowest level of competition on the continent resulting in higher potential profit margins; and (3) the search for growth drivers for companies that have reached a certain level of maturity in the Moroccan market. Moreover, in rare cases, Moroccan companies developing in Africa are motivated by the search for natural resources or the optimization of cost structures.

African growth represents a source of opportunities for Moroccan companies

The economic dynamism and potential of African markets are cited first and foremost by companies that have made a clear choice to develop their activities in Africa. This potential results both from the continent's demographic growth, from the increase in the purchasing power of the population and from the evolution of consumption habits following the emergence of the middle classes.

When it comes to primary consumer goods, such as staple food, demand is directly related to population growth. The population growth of sub-Saharan Africa is therefore a motivating factor in itself for some companies.

On a broader level, for companies active in the agri-food sector, the size and potential of the market are key factors in African development decision-making. For instance, the African development of one of the study's respondents, a specialist in the processing and distribution of meat was motivated by the continent's market potential. Indeed, meat consumption is currently growing in Africa. According to FAO estimates, it is gradually becoming widespread and is set to go from 10.9 kg per year per person in 2015 to 13.4 kg in 2030. The company now exports to more than a dozen African countries and generates about 10% of its turnover in Africa.

The changing consumption patterns of the population of sub-Saharan Africa and the development of the middle classes also translate into a certain potential for the retail sector. It is this market potential that has attracted a large distribution group that qualifies Africa as a "continent of the future".

The growth of African middle classes is also reflected in an increase in the demand for medium-cost and economic housing, which has pushed the main Moroccan real estate groups to invest in sub-Saharan Africa. For example, a stakeholder in the real estate sector has started the development of an economic housing project in the Ivory Coast and recently announced the signature of an agreement for the realization of a residential program in East Africa. Nevertheless, the low rate of use of the banking system of the African population coupled with high interest rates leads to financing difficulties for the end customers, which in turn impacts property developers.

Also, economic growth and investment dynamics have created a promising business tourism market in Africa that offers opportunities for construction, hotels, transport, and infrastructure stakeholders.

Africa is a growth market, where margin potential is greater

Moroccan companies in several sectors state that Africa is a growth market where it is easier to expand than in the national market. For many companies, the competition is less fierce than in Morocco and it is easier to develop, because some services are little offered if not absent from the market.

This is particularly the case of assistance, a complementary service of insurance, little developed on the African market. Major international insurance groups have somewhat neglected the assistance market in Africa to date. A major Moroccan insurance group has nevertheless started in this sector, in association with a global player in assistance to offer a complete service to its African clients. This group is present in 26 African countries and offers this complementary service in nine African countries. If the platform is based in Morocco, the company employs nationals to provide local customers with as personalized a service as possible.

Moreover, the lower competition in some sectors in Africa allows for higher margins. The growing competition in the public works sector in Morocco has pushed one of the panel companies to consider the African market as a growth driver. According to this company, the Moroccan market became particularly competitive at the turn of the 2000s, limiting the margins obtained on projects. With the crisis, many European companies (French, Spanish, Portuguese and Turkish) have sought to gain a foothold in the Moroccan market. The margins generated by the company are larger in Africa, where it has stronger bargaining power.

Africa represents a growth driver for companies having reached a critical size in the Moroccan market.

The potential of the African market is also to be put in perspective with the growth opportunities that Moroccan companies have on the national market. For a number of them, it is the narrowness of the Moroccan market that pushes them towards sub-Saharan Africa.

Some companies that have reached a critical size in the Moroccan market seek a way beyond Moroccan borders to continue growing. One of the respondents in the pharmaceutical sector decided to expand in Africa on the basis that he had reached a critical size in the Moroccan market with limited growth prospects. It is therefore to seek new sources of growth that the group has decided to expand in Africa. Today, the company is posting double-digit annual growth rates in some sub-Saharan African markets.

Accesses to raw materials or security of supply are also motivations guiding the action of Moroccan companies

To a lesser extent, access to raw materials is a factor of development in Africa for some industrial companies. This is the case of a large mining group that exploits gold deposits in Gabon and Sudan. The group is also developing projects in Congo, Guinea and the Democratic Republic of Congo and is currently in the exploration phase in Burkina Faso, Ethiopia and Mali.

The development of Moroccan companies also responds, to a lesser extent, to a need to secure supply, for imported raw materials not available in Morocco. For example, a wood panel manufacturer has set up an industrial unit in Gabon to guarantee its supply of Okoumé following the introduction of legislation requiring the processing of Gabonese timber locally.

The optimization of the cost structure is a development factor, especially for service companies looking for lower labor costs

For other companies, particularly in the services industry, it is the low cost of the African workforce that seems to be a motivating factor. Three Moroccan groups specializing in customer relationship management are based in sub-Saharan Africa.

These development factors vary, of course, depending on the sector of activity in which a company operates. Thus, unsurprisingly, companies operating in the secondary and tertiary sectors primarily consider demand-side development factors, whether from governments, other companies or end consumers.

Investment dynamics, highlighted by the Royal tours, create a "ripple effect"

In addition to some pioneering companies, particularly in the financial and banking sector, most of the companies in the panel have been in Africa for about a decade. This dynamic, favored by a voluntarist economic diplomacy, benefited from the multiplication of Moroccan companies in Africa and created a ripple effect recognized by several players interviewed.

The country Visits made by His Majesty King Mohammed VI to Africa have opened up great prospects for the development of Moroccan companies on the continent. On the one hand, these Visits contribute to the influence of Morocco in Africa and reinforce the positive image that the Kingdom enjoys in the continent; on the other hand, they allow the building of strategic partnerships consolidated by major projects. Thus, the public works group questioned implemented an important project in the Ivory Coast, which led to the creation of a subsidiary, following the Royal visit in 2014. Moreover, according to a player in the banking sector, the impetus given by the Royal Diplomacy has prompted several Moroccan groups to adopt a resolutely proactive strategy in Africa.

Several companies also cited the good diplomatic relations between Morocco and various African countries, particularly French-speaking, as factors favoring their decision to develop in the countries in question. These good relationships provide reassurance as part of an implementation decision.

The presence of Moroccan banks in sub-Saharan Africa also contributes to a certain extent to this ripple effect. Several panelists emphasized the simplification of procedures such as obtaining bank guarantees when a bank of which they are customers is located in the target African country. Two panelists also mentioned the greater responsiveness of Moroccan banks in financing their project, compared to other banks solicited. In this case, relations between the parent companies in Morocco have facilitated their operations.

Finally, if the presence of multinationals in the targeted African countries is not considered by the Moroccan companies surveyed as a motivating factor or a driving force; it is, nevertheless, a reassuring signal, as one bank player in sub-Saharan Africa points out.

2.3. Market potential and accessibility, as well as political stability are the main criteria for selecting the targeted countries

For many companies, the choice of target countries in Africa is governed by the opportunities that arise, but also by the attractiveness of the market, its ease of access as well as the political context.

The market potential is naturally the primary criterion

If market accessibility criteria such as geographical and cultural proximity are essential to the selection of a country, it must above all be that it represents an attractive market for the Moroccan company.

Before deciding whether or not to set foot in a country, most companies carry out market studies, examine local regulations, and analyze the risks inherent in setting up in the country in order to decide on the opportunity then on the modality of development in the target country.

Market potential is valued by size and competitive intensity. Thus, for a respondent operating in the agri-food sector, the most attractive markets are the most populated countries whose local production does not cover the needs of the population, mostly located in East Africa. For this player, the countries of the Central African Economic and Monetary Community offer less potential because they together represent only 40% of Moroccan consumption and have local producers meeting most of the needs.

Market accessibility depends on geographical and cultural proximity

Geographical and / or cultural proximity is a key aspect facilitating market access. Mauritania and Senegal are thus prized by Moroccan exporting companies for their greater ease of access. In fact, these countries are easily accessible by road, as a truck can arrive in less than 24 hours in Mauritania, and make the Casablanca-Dakar link in 35 hours. That is why several companies have set up commercial representations. More recently, direct shipping lines have been opened between Morocco and several West African countries (Mauritania, Senegal, Guinea Conakry, Ivory Coast, and Nigeria). This geographical area is thus served by several modes of transport. However, transport and customs costs remain very high compared to other regions of the world and cripples intra-African trade. Geographical proximity plays a particularly important role in the case of bulky products with low added value, for which an excessively high transport cost is crippling in terms of overall cost. A company exporting bulky equipment cited the cost of transportation, as one of the main challenges for growth in Africa.

The opening of a direct air link is also an accelerator for the development of Moroccan investments in a country. On the contrary, the lack of direct flights can be an additional difficulty for Moroccan companies wishing to expand into certain markets. Thus, Ethiopia, cited by several companies as a market with high potential, remains difficult to access because of the lack of direct airline with Morocco.

In addition, the quality of the country's transport infrastructure can be a decisive factor in the choice of location. Thus, the relatively good state of the road network in the Ivory Coast contributed to the decision of one of the panel companies to set up shop in Abidjan.

Apart from geographical proximity, cultural proximity is another important factor in choosing the location. It is not based primarily on language but also on religion. For example, sharing a single language facilitates the sending of expatriates. Thus, a distribution group oriented its expansion towards French-speaking Africa at first, in order to be able to send its managers there more easily, having few English-speaking executives. Similarly, cultural proximity played an important role in the selection of markets in which the meat exporting company expanded. In fact, "halal" products have an advantage in terms of market penetration in predominantly Muslim countries. The Moroccan origin of the company gives it certain legitimacy in these markets, compared to Brazilian competitors for instance.

Other companies, not operating in sectors where faith plays a role in the perceived quality of the product, have reported enthusiasm on the part of some contractors for the idea of working with a Moroccan company; especially from Muslim African countries. This is the case of a public works company which reports having observed this phenomenon in Muslim countries in particular. Morocco is seen as a brother country, cultural proximity thus playing a role in the ease of access to the market.

The stability of the country is an essential criterion and a reason for giving up a potential market

The stability and the political context of the countries are also essential criteria for Moroccan companies. In fact, political and security risks are often sufficient grounds to prevent or interrupt the expansion of a company in a country. When the security risk is high, foreign companies should be able to put in place appropriate safeguards for their employees and activities. Such devices require significant resources within reach of large international groups but not necessarily SMEs.

In general, if the attractiveness factors are often economic (market potential, the country's growth rate...), security and political aspects are key criteria in the selection of a target country. For example, in West African countries, Senegal is often cited as a model of stability. In contrast, the 2010/2011 political crisis in the Ivory Coast slowed down Moroccan investments. As soon as the country regained its stability, investments regained their strength. A company operating in the field of IT services has marked a pause in the expansion of its Ivorian activities at the time of the crisis. In the same way, it is the political stability of Senegal compared to the difficulties of the Ivory Coast that pushed a manufacturer of construction materials to build its first factory in the country in 2006.

2.4. The geographical expansion of Moroccan companies begins first in West Africa but opens up to other sub-regions

Given the selection criteria mentioned above, West African countries are often the gateway for Moroccan companies in Africa. UEMOA, which brings together eight countries within a monetary and economic union[21], is particularly attractive for Moroccan companies. This area is explicitly mentioned by a number of companies as the most attractive African zone for the development of their activities.

Expansion into a West African country can serve as a base for companies wishing to grow in the sub-region. This is notably the case of a company operating in the field of IT services for which Senegal is today a base for the company's activities in the rest of the sub-region of West Africa. The Senegalese subsidiary is thought of as an expansion platform for activities in Gabon, Guinea, Mali, etc.

A second IT service provider that participated in this survey has also established itself in West Africa to gradually grow in the sub-region. After setting up first in Senegal in 2003, a subsidiary was created in Ivory Coast. The director of the Senegalese subsidiary manages today, on a regular basis, the Senegalese and Ivorian subsidiaries, both reporting to the head office. The vast majority of the companies we met started their African expansion in the West African region.

For most Moroccan companies, setting up in a country in the zone is therefore seen as a first step towards expansion in the entire sub-region.

While West African markets attract Moroccan companies for reasons of language and geographic proximity, these markets are becoming increasingly popular for the market potential of English-speaking Africa. For example, Kenya and Ghana have been cited as markets of interest by companies operating in the agri-food sector, or IT services. Ethiopia, a fast-growing market in East Africa, is considered one of the most attractive markets for IT and money services companies due to the growth of its economy, its population and still limited presence of foreign companies in the market.

These markets are also appreciated for some of their cultural characteristics closer to the "Anglo-Saxon" world. Nevertheless, this Anglo-Saxon culture can represent a barrier to entry for Moroccan companies. In fact, the language barrier can be a problem. In addition, differences in legal and regulatory practices may be detrimental to Moroccan companies investing in English-speaking Africa. Thus, Business law in Africa is English of British inspiration and requires Moroccan companies to adapt their practices. In the health sector, for example, English-speaking African countries are not governed by the same rules as the countries of the West African Health Organization[22], and their culture would be closer to that of the American “Food and Drugs Administration”.

2.5. The establishment of Moroccan companies in Africa follows an incremental approach

This study made it possible to segment the ways and means of expansion of Moroccan companies in Africa into three broad categories that are not mutually exclusive. The first method is often to export goods or services without local presence. The second method covers partnerships and business alliances of various kinds, without direct presence. Finally, the most successful method is direct investment, by acquisition or creation of structure ex nihilo, with or without a partner. Among the companies met, these three methods of implementation are represented.

[21] Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal and Togo..

[22] Specialized Agency of the Economic Community of West African States (ECOWAS) in charge of health issues

Exports and project contracts are often the first stage of expansion in Africa.

Exports of goods or services are often the first stage of expansion in Africa, since they do not require the sending or the recruitment of resources on the spot, nor substantial investments. It also makes it possible to test the potential of the market and to deepen the knowledge of the local demand before considering a local presence.

In this way, an agri-food player, now an exporter on African markets is considering a manufacturing operation, when its African activities would have exceeded a threshold volume. Other service companies establish subsidiaries after successful contract development. Obtaining first contracts enables companies exporting services to set foot in Africa by sending resources from Morocco or using subcontractors.

Going through the export stage is however not possible or relevant in certain sectors (extractive industry and exploitation of natural resources, financial services, telecommunications, mass retail). In fact, the mass retail sector naturally requires the development of a network of on-site sales outlets. In addition, certain industrial players favor the establishment of a production site when transport costs are prohibitive (furniture case), customs taxes too high or when other types of barriers to entry exist. Thus, one of the panelists clearly favors setting up an industrial operation and works in this sense. Its exports to the African continent are sporadic and not subject to a proactive strategy.

Business alliances and partnerships act as accelerators of growth

Setting up partnerships with local and international companies allows Moroccan companies to facilitate and accelerate their expansion in Africa.

The establishment of lasting relationships with local partners is seen as a key success factor for setting up Moroccan companies in Africa, by the majority of companies met. In fact, the partners bring their network, their knowledge of the ecosystem and their mastery of local practices; essential elements for a successful implementation. They also allow the company to cover a larger territory than by its own means. Finally, partnerships also make it possible to share or transfer risks.

Several types of partnerships, covering different phases of the value chain, have been cited:

- Prospecting, relationship establishment, consulting (legal, financial, tax, etc.): For instance, an industrial stakeholder interviewed has taken up the habit, before each implementation project, of seeking the counsel of his partners, with whom he wishes to develop a relationship of trust over the long term. This network of partners is essential to act as a local representative of the company before an implementation.
- Marketing and distribution: As an example, the pharmaceutical group met has developed a sales network in Senegal, Cameroon and the Ivory Coast, managed by a local partner. The company also uses two French purchasing centers with logistical capabilities throughout the African continent to market its products to pharmacies and hospitals. The partnership with these plants allows the company to optimize distribution costs, their flows to Africa being greater than flows from Morocco. They also help to better control export risks in sub-Saharan Africa by providing a guarantee of payment.

• Operations and services: A large Moroccan group, that has created an assistance branch in sub-Saharan Africa, uses local service providers to conduct its assistance operations (carriers, breakdown service companies, garage owners, etc.) in the countries covered by the company. Real estate and construction companies are also establishing operational partnerships. An interviewed construction company relies regularly on local partners of Lebanese origin for the realization of its projects. Foreign partners, particularly French, are also sought after in the context of high-end real estate projects, for their know-how in this segment.

In some sectors, the use of institutional partners can provide a competitive advantage (access to attractive property for example) and facilitate administrative procedures with the public authorities.

It should be noted that in some (relatively rare) cases, the company may be "forced" to work with one or more local partners to operate. This was the case for a construction contractor who obtained a contract in Ivory Coast, on the condition of carrying out the work in collaboration with an Ivorian partner.

Finally, among the companies we met, few highlighted partnerships with Moroccan companies in Africa. For instance, a large Moroccan insurance group has developed a partnership with a major Moroccan bank to market its travel insurance products in countries where the bank is established. Partnerships between Moroccan companies are more common among large groups that have already established collaborative relationships in the Moroccan market. SMEs are, at first glance, less concerned, although they perceive the interest and do not exclude this possibility.

In addition, Moroccan companies benefiting from a growing place in Africa are now sometimes solicited by companies wishing to enter the African market. For example, a panelist reported that he had been solicited by groups from emerging economies - Indian in particular - wishing to partner with a Moroccan partner to facilitate their establishment on the African market. Complementarity between these two types of players could create "win-win" partnerships. The alliance with an English-speaking partner could foster development in East African markets, while the Moroccan partner could facilitate the establishment in the markets of French-speaking Africa.

Direct investment is the recognition of African options for Moroccan companies

Operating in one or more African countries through direct investment is a form of achievement for Moroccan companies expanding in Africa.

In some cases, direct investment is an indispensable condition for entering a market, either for reasons related to the nature of the business or to circumvent barriers to entry. Thus, the mass retail sector necessarily entails a form of direct investment.
In addition, direct investment can meet a need for command and control of operations, particularly through management. Thus, the strategy adopted by one of the interviewed players is to train at the headquarters executives who are then dispatched to the African subsidiaries of the company.

Optimizing the cost structure to improve competitive positioning in the target market is also an incentive for direct investment. Cost reduction may be related to tax, customs, lower human resource costs, lower transportation costs, etc.

Finally, the setting up of a direct subsidiary in a country of sub-Saharan Africa can also help to serve the geographical expansion on a larger scale. For a company in the IT sector, its Senegalese and Ivorian subsidiaries constitute expansion platforms in the West African sub-region.

Among the companies we've met, five opted for an acquisition in order to develop locally. The reasons given to favor an acquisition are the time saved and the capitalization on the knowledge of the local context and the experience gained by the acquired company that reduces the risk of error. Moroccan banks have developed mainly through acquisitions, either local actors or subsidiaries of foreign groups. Complementarity and the existence of strong synergies between the new investor and the founding shareholders, is also key. Direct investment in the form of a Greenfield is preferred in low-capitalization sectors such as computer services, for instance. In fact, most of the companies in this sector that we've met have created local subsidiaries, either alone or sometimes in a joint venture with a local player. The creation of a structure from nothing can also be motivated by the absence of local players in a given sector or the lack of interesting targets. For most of the companies we've met, the development of their own site was carried out about ten years after their first African activities. In fact, such an investment requires some knowledge of the market and the ability to cope with the difficulties that will arise to sustain the structure. Companies developing an expansion by acquisition can, in contrast, capitalize on the experience and network of the structure in place.

Some groups are therefore open to both forms of investment and are exploring both ways according to the particular context of each country. For instance, one panelist is considering both, acquisitions in certain countries based on opportunities, and the creation of production units in countries that do not have a local industry.

Self-financing remains the general rule and sometimes supplemented by external funding in the case of large groups

The African expansion of the panel companies was most often self-financed. In fact, the financing of exports, the provision of services or the opening of distribution subsidiaries can be mobilized without external contributions, even for smaller companies.

On the other hand, Moroccan companies that have implementation projects requiring heavy investments (setting up a production unit, major acquisitions, etc.) call upon investment funds or international funding agencies. Thus, Label'Vie's equity stake in Ivorian CDCI's capital in 2015 was realized in partnership with the Amethis investment fund (Rothschild Group). Two panel companies discussed international funding agencies for one of their projects in East Africa.

Three panel companies benefited from bank financing for their investments in Africa. These are large groups that have used bank loans to supplement their own financing. For SMEs, access to bank financing, in Africa as in Morocco, seems more difficult.

The representatives of the banking sector we've met stressed that financing tools for companies wishing to expand in Africa exist. Moreover, Moroccan banks have set up support mechanisms for their clients exporting or setting up in Africa (advice, organization of B to B meetings, and participation in Morocco Export caravan symposiums ...). The financing difficulties of certain projects in Africa are related to the risks inherent to these projects.

Moroccan management: a conveyor for transferring skills to African talent

Most of the companies we met chose Moroccan management for their African subsidiaries. This choice is favored in the case of a first set up ex-nihilo which naturally requires a greater level of control. In the public works sector, a surveyed company systematically sends Moroccan works managers to manage its projects in Africa.

Some players favor African managers trained in Morocco within the parent company. These profiles are valued because they combine the knowledge of the local context and the mastery of the company's know-how and processes, and they benefit from the trust of the headquarters management. In the same way, a panel company recruits African engineers that it trains in Morocco before entrusting them with management positions in Africa.

Certain companies prefer local management, either after several years of presence when the level of control of activities can be reduced, or when it's an acquisition. In the case of presence by acquisition, local management is generally retained, and certain management positions are entrusted to managers from the parent company in Morocco (strategic positions such as risk management or compliance in the banking sector for example, or positions related to the implementation of synergies)

In certain specific sectors such as the hotel industry, management is mostly foreign (non-Moroccan, non-African) given the scarcity of skills required.

As for the operational staff, the employees are generally African. These can be supported occasionally by experts sent by the parent company in support of projects requiring special skills not available locally.

Some panel companies have experienced social tensions in their African subsidiaries. Intercultural management is a novelty for most Moroccan companies that must develop the skills of their managers on these topics.

Expatriate management is also a challenge for Moroccan companies. This problem has been raised by a banking company, which is facing recruitment difficulties for expatriate positions in Africa and must review its expatriation model. This player is moving towards the establishment of "regional talent pools" to evolve in different countries of a sub-region. However, mobility is hampered by highly regulated labor markets. Several companies reported having encountered difficulties in obtaining visas for their employees. The enhancement of the African experience, the establishment of international career paths and the definition of appropriate retribution policies are necessary to support the development of Moroccan companies in Africa.

2.6. Expansion in Africa involves specific risks that are managed through preventive measures

Security and political risks remain a reality

Although declining for several years, security and political risks persist in some countries. Several companies interviewed highlighted the security risk for human resources and facilities. When the risk is high, it may be a reason for quitting a project. Among the measures put in place to manage this risk, we can mention intervening in the countries which is considered particularly dangerous except if it's done with partners having significant security means. As an example, a panel company has relinquished its direct local presence in Nigeria as a result of security concerns, but continues to work in the country as a subcontractor of a large European group which ensures the safety of the personnel who are sent on the spot. Medium-sized companies do not necessarily have the financial means to call on private companies. They sometimes rely on their local partners or customers.

The risk of political instability is also present, particularly in the sectors where the main sponsors are the public authorities. Thus, the construction sector is particularly sensitive to this, as evidenced by the experience of this company which had to interrupt projects in development in Ivory Coast during the politico-military crisis. Other players delayed projects in Gabon more recently.

Administrative risks (project delays due to delays in administrative procedures), legal and tax (difficulty to implement the announced tax provisions) are also a reality faced by Moroccan companies. For example, a financial services provider faced fiscal adjustments, the outcome of which remained uncertain for a long time, which resulted in a lack of foreseeability of results. These risks are mitigated by the collaboration with strong partners able to unblock situations with the public authorities, as well as through tax due diligence beforehand.

The risk of payment is still perceived as important

Several actors cite the risk of delay or even failure to pay as a major stumbling block to expansion in sub-Saharan Africa, particularly as regards public procurement. The background of some African States has pushed some companies to systematically refuse to work for public sector clients. For exporting companies, this risk is controlled by the requirement of payment in advance via letters of credit for example. When the company develops a long-standing relationship with a customer and trust is established, these requirements are naturally made more flexible. It should be noted that this risk has been qualified or even contradicted by other panelists who consider that the risk of late payment is not higher in sub-Saharan Africa than it is in Morocco. For these players, this has to do more with "clichés" conveyed than a reflection of the reality of business.

Moreover, even if the customers are creditworthy, there may be a risk of late payment due to the exchange controls of the central banks of some countries. In fact, a lack of foreign currency, or a limitation of foreign currency issuing by the country can block or delay a process of payment. This issue has been raised in particular with Ethiopia and Mauritania.

Some stakeholders mentioned the establishment of risk cover through the Moroccan Export Insurance Corporation (SMAEX), for payment risk and for other types of risks (political risks, risks related to market research…). The semi-public company, which is 35% owned by the state; provides market credit insurance which covers the exporter against the risk of non-payment of his trade receivables[23]. It also holds a public export offer covering the guarantee of political, catastrophic and non-transfer risks. Lastly, it provides cover for extraordinary commercial risks and the sharing of risks associated with any commercial action abroad through trade insurance and market research insurance.

However, some of the companies we met pointed out the relative inadequacy of services offered by SMAEX to their needs (the investment risk not being covered), the difficulties to obtain reimbursement, and even the refusal to cover certain African countries.

2.7. Moroccan companies have a lot to offer

Europeans have in their favor their historical imprint and the support of their public authorities

Moroccan companies across all sectors are facing stiff competition from Europe, particularly France. A number of interviewees referred to the fact that French companies, especially in the case of large companies, benefit from the entire French system designed to encourage exports and investments.

In addition, European groups, particularly multinational ones, have access to international financial markets and benefit from funding conditions and coverage systems that are inaccessible to Moroccan companies. This is a crippling factor for the development of Moroccan investments in Africa, which was brought up by several players interviewed.

[23] Source: SMAEX website

Finally, measures and structures supporting exports and FDI are naturally more developed in Western and European countries than in Morocco, or they are much more recent. For example, Maroc Export organizes prospecting visits open to Moroccan exporters and investors in several countries in sub-Saharan Africa. Some companies we interviewed have benefited from them. Although, the companies we met deplore the fact that support schemes are still too scarce and call for their expansion (chambers of commerce, investment promotion unit in embassies and consulates, etc.).

Moroccan companies are also facing increasing competition from emerging countries. Depending on the sectors of activity, Chinese, Turkish, Brazilian or Indian competitors are cited by Moroccan companies expanding in Africa.

Local or emerging market players bring competition to the price field

Local businesses are also significant competitors, sometimes operating in the form of groupings in order to be able to compete with major foreign groups. Moreover, many companies have highlighted the weight of local competitors of Lebanese origin. In certain sectors, such as construction and distribution, they benefit from strong competitive positions.

A dichotomy is emerging between Western companies operating on a qualitative positioning and companies coming from emerging economies, distinguishing themselves mainly by price. This is particularly the case in the pharmaceutical sector, a highly competitive sector since there are more than 600 laboratories in Africa and the vast majority of these are from countries outside Africa. Large Western laboratories operate with high price and quality standards, while many Indian and Chinese laboratories offer generic medicines on the market at a lower cost.

Competitors from emerging economies also stand out; in a completely different way from the one historically suggested by Western companies. Thus, in the public works sector, Chinese companies offer package deals to African clients, including teams, infrastructure and financing.

Moroccan companies stand out with a good value for money and a "proximity" or "adaptation" factor

In comparison with European companies in particular, Moroccan companies offer very reasonable prices. Some cite price as their main competitive advantage. It is this price competitiveness that has allowed a Moroccan engineering company to expand in Africa as a subcontractor of major European groups.

When caught in the grip of Western competitors who are well established and often synonymous with quality; and Indian or Chinese competitors able to offer extremely competitive prices, Moroccan companies are opting for a mid-range positioning with a better value for money. In particular, it is the positioning adopted by a pharmaceutical company that claims to be significantly cheaper than European laboratories while offering products of a higher quality than those of Indian or Chinese competitors or, ultimately, better value for money.

However, some Moroccan companies are penetrating the African market through high-end products or services. This is particularly the case in the real estate and hospitality industry.

If geographical and cultural proximity is one of the reasons pushing Moroccan companies to develop in some countries rather than others; it also represents a competitive advantage over European or Asian companies. Companies in the construction sector report that some contractors are enthusiastic about working with an African company, while the habits of European companies, even Chinese, are increasingly associated with a form of neocolonialism. Moreover, this factor is multiplied in the Muslim majority African countries whose entrepreneurs feel greater cultural proximity to Morocco. This factor played in favor of a Moroccan agribusiness player, whose "halal" products enjoy greater legitimacy among African consumers than those of its majority Brazilian competitors. If the Moroccan company, which operates on an entry-level positioning, cannot compete in price with its South American competitors, it benefits from an advantage linked to the origin of its product.

In addition, Moroccan companies can showcase their experience in sub-Saharan Africa in a relatively close context. This advantage is highlighted in the banking sector, in the real estate sector and in IT services. Thus, a Moroccan bank considers that its business model, which had proved successful in Morocco while the country was in a development phase comparable to that of sub-Saharan countries today, can make a difference. This advantage has also been put forward by an IT services player who considers that the product it offers, which was developed for the Moroccan market, is more adaptable to the African context

Also, companies that have participated in major sectorial programs in Morocco that are now a reference for many African contractors, enjoy a competitive advantage.

Thus, while price may be a competitive advantage over European competitors, it is other factors - geographic, cultural or linguistic proximity, product quality, adaptability to the African context, etc. - that give it the edge over competitors from emerging countries.

CONCLUSION

Due to the dynamism of its growth and its large natural wealth, Africa is attracting a growing number of investors. This African dynamics are due, among other things, to the continent's strong demographic growth, urbanization and the rise of the middle classes. The main drivers of African growth, rising private consumption and investment offer a pool of opportunities for multinational companies in the service sector in particular. In this market, Western companies have a historic presence but face increasing competition. In fact, African groups and groups from major emerging countries (China, Turkey, Brazil...) are progressively establishing themselves on the continent.

As for Moroccan companies, they are actively participating in this dynamic, Africa being today the primary destination of Moroccan investments abroad. Traditionally focused on services - banking, insurance and telecoms in particular - Moroccan investments are diversifying into new sectors such as construction, distribution and industry. Moroccan companies that are expanding in Africa are primarily looking for growth drivers. In some sectors, the Moroccan market has reached a level of maturity that is pushing national champions to explore new growth paths internationally. Apart from those who have seized opportunities, a number of players have built a proactive development strategy in Africa, especially since the continent has become a priority in Morocco's external economic strategy.

The main selection criteria for the countries targeted by Moroccan companies are the market potential, its accessibility, as well as its stability. The combination of these factors has led the majority of Moroccan companies to turn first to the West African markets. For the most advanced groups, the next frontier is English-speaking Africa, and particularly East Africa.

Three methods of expansion, not mutually exclusive and sometimes progressive, are observed. The first stage of expansion for many Moroccan companies is to export goods or services, without local presence. At the same time, setting up operational or commercial partnerships with local and international companies enables Moroccan companies to accelerate their growth. Finally, the most successful stage of expansion is direct investment, by acquisition or creation of structure ex-nihilo.

The self-financing of development activities in Africa remains the common choice, except in the case of large groups with substantial investment projects. In terms of human resources management, most companies choose a Moroccan management at first when they're creating structures. On the other hand, those that expand by acquisition retain the management of the target company, initially in any case, in order to benefit from their expertise and knowledge of the local market.

Although declining for several years, security and political risks remain a reality in some countries. Administrative, legal and tax risks also impact the timing and profitability of projects. The use of local partners remains the preferred measure to deal with them. Also, the risk of late payment or failure to pay in sub-Saharan Africa is perceived as high by the Moroccan companies we met.

In the face of competition, Moroccan companies stand out by their greater ability to adapt to the African context and in some cases by a good value for money with an occasionally intermediate positioning in terms of price and perceived quality.

The companies we met in this study make a generally positive assessment of their development activities in Africa, although sometimes below the estimated potential. It has allowed them to grow, to open up internationally and to acquire new skills. Nevertheless, some pointed out difficulties in the execution of their projects, delays and sometimes failures. Overall, they view the business climate in Africa as favorable to Moroccan players. For many, most of the future growth is expected from Africa.

In fact, Moroccan companies, especially SMEs and SMIs, have a legitimate place in Africa to provide their expertise and benefit from Morocco's already well-established image. Thus, in order to assert a better positioning of these companies on this continent where competition is more and more fierce, it seems necessary to:

- Building Regional Value Chains (RVCs): In an environment marked by the emergence of new regional clusters, it seems essential to take better advantage of the emergence of regional value chains (CVRs). Thanks to its geostrategic strengths and its sectorial progress, Morocco is indeed essential as a conveyor of intracontinental integration. Morocco is in fact one of the few countries on the continent to participate in global value chains in different industrial sectors, such as the automotive industry or the textile industry. A regional value chain formed with industries from some West African countries may be of interest to combine Moroccan expertise and positioning, and low labor costs in some ECOWAS countries. But this regional value chain cannot be decreed: it involves making efforts between the various public and private players to identify appropriate regional value chains (RVCs), the targeted sectors, the resources to be implemented, the resources to pool, drivers of Competitiveness, the players / countries of the chain, the openings...

- Building strategic alliances: due to the presence of the competition, particularly, Asian and Turkish on the African continent for all ranges of products (agri-food, industrial, technological ...), building winning alliances seems a relevant strategic choice. In this sense, Morocco, which enjoys a privileged position in several areas (logistics, infrastructure, economic ...) is positioning itself as a key player. The Chinese mega-project of the Silk Road, which involves Morocco in terms of its geostrategic advantages, is a perfect example of this.

- Involve more private players in the construction of Morocco's economic strategy in Africa, relying of course on the public resources set up for this purpose (export support, market analysis, risk coverage, etc.)

- Set up large companies-SME alliances to act as a conveyor of Morocco's economic integration in Africa: faced with the difficulty for SMEs to deal with often difficult African realities, having the support of large Moroccan companies in the framework of coherent ecosystems seems essential in order to reach a certain size that supports the presence of Moroccan SMEs-SMIs in African markets.

APPENDIX I: FOCUS ON MOROCCAN ESTABLISHMENTS IN SENEGAL

I. A rather favorable context for FDI

Strengthening the flow of foreign direct investment is a key element of Senegal's development strategy

The Senegalese government set up in 2000 a support organization for national or international investors, APIX, whose role is to welcome and support domestic and foreign investors; monitor and evaluate investment projects in Senegal, and assist investors in their search for financing and / or partnership. It is a one-stop shop for companies wishing to set up shop in Senegal. As an example of a concrete measure, the APIX allows to obtain in 48H the execution of the administrative registration formalities of the companies and in 21 days the obtaining of the approval to the status of the free export company. Like Maroc Export, APIX also promotes Senegal to foreign investors through the organization of information and promotion seminars in Senegal or the organization of prospecting missions[24].

In 2002, a **Presidential Investment Council** was set up in order to identify the constraints related to investment in Senegal, to facilitate the implementation of operational reforms favoring investment and to introduce an investment culture. Several measures have since been taken to encourage investment in Senegal, such as reducing the costs of setting up a business, or lowering corporate taxes.

Adopted in 2012, the **Plan for an Emerging Senegal (PES)** [25] aims at the economic emergence of the country by 2035 and has identified several promising sectors[26]:

- **Mines:** phosphate resources, limestone, basalts
- **Agriculture:** very fertile country and areas with high potential (around the Senegal River, in Casamance, in the center and east for cotton growing, in Kaolack for peanuts, in the Saint Louis region for rice, etc).
- **Fishing:** waters rich in fish
- **Agri-food industry:** processing of agricultural and fishery products
- **Pharmaceutical industry:** opening of a production plant of the Moroccan group Sothema in Dakar, presence of Sanofi group etc.
- **Construction:** construction of infrastructure, roads, highways, etc.
- **Tourism:** opportunities in business tourism thanks to the many international organizations that have set up their offices in Dakar, cultural tourism in Saint Louis, religious tourism in Touba and green tourism in Casamance
- **Distribution:** several projects are underway
- **Financial services:** many players (23 banks) and a low rate of use of the banking system - 15% in 2015[27]
- **Information technology:** launch of many projects that involve changing to a paperless system in the administration

[24] Source: APIX
[25] Source: Plan for an Emerging Senegal, 2014 https://www.gouv.sn/IMG/pdf/PSE.pdf
[26] Source: AFD agency interview in Dakar
[27] Source: The Central Bank of West African States (BCEAO), 2015 Data

Senegal is attractive to foreign investors in the region

The stock of FDI in Senegal has multiplied by ten in one decade (from 242 MUSD in 2002 to 2,346 MUSD in 2012)[28], a sign of real appeal to foreign investors.

FDI inflows in Senegal were marked by an irregular trend during the period 2000-2005, followed by a continuous and sustained growth phase from 2006 to 2011. The main sectors receiving FDI over this period were real estate, the financial sector, mining and manufacturing industries as well as the sectors of distribution, hotels and restaurants[29].

With a stock of FDI of 727 million euros in 2012, France remains the leading investor in Senegal with 40% of foreign investment. Several countries have strengthened their presence in Senegal in recent years[30]:

- European countries: Italy, Germany and Spain
- Emerging economies: China, Malaysia, Morocco and India
- Countries in the sub region: Mali and Ivory Coast

Investments are still mainly concentrated in Dakar, the Petite Côte and the Saint Louis region.

Moreover, among the main assets of Senegal; these are cited by investors[31]:

- The most complete infrastructures in West Africa
- Positioned as a gateway to UEMOA markets
- One of the most qualified people in West Africa, mastering both French and English
- A Senegalese diaspora returning to the country bringing its resources and experience
- Institutional and political stability
- A welcoming culture, one of openness and tolerance ("Senegalese teranga")

However, despite the reforms initiated by the government, investors deplore the slowness of the Senegalese system, and the high taxation[32]. In terms of business climate, in 2015, the country ranks 147th out of 183 countries in the World Bank's "Doing business" ranking[33].

II. Moroccan establishments are diversifying and are interested in key sectors

Moroccan FDI in Senegal has so far mainly involved the banking sector, but they are diversifying

Moroccan FDI in Senegal amounted to nearly 2.7 billion dirhams over the period 2007-2017. 80% of these investments have been directed towards the banking sector. In fact, the Moroccan players investing in Senegal do so mainly in the services sector; nevertheless the trend is towards a greater diversification of investments in terms of sectors.

[28] Source: "Foreign direct investment in Senegal", Embassy of France in Senegal, Regional Economic Service, June 2014
[29] Source: BCEAO, Report on the evolution of foreign direct investment in UEMOA countries during the period 2000-2011
[30] Source: "Foreign direct investment in Senegal", Embassy of France in Senegal, Regional Economic Service, June 2014
[31] Source: AFD Agency interview in Dakar
[32] Source: AFD agency interview in Dakar, Moroccan business interviews
[33] Source: Doing Business in Senegal, World Bank, 20155

Moroccan direct investment to Senegal [34]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Industry	9,1	-	-	1,7	1,0	0,2	0,1	-	7,2	14,9	10,3
Real estate	-	-	-	-	-	-	-	1,0	1,8	5,6	24,9
Holding	-	-	5,6	-	-	-	0,3	0,1	2,2	7,6	19,7
Tourism	-	-	5,0	-	-	-	-	-	-		
Banking	256,0	1 427,9	286,5	-	-	20,7	-	-	13,9	58,7	
Inssurance	-	3,3		-	-	-	-	-	-	8,4	17
Construction	-	-	-	-	-	-	0,1	1,9	-		
Energy and Mining	-	-	-	-	-	-	-	-	20,9		
Agriculture											3,2
Trade	-	-	-	-	-	-	-	203,9	25,6		4,4
Transport	18,3	-	-	-	-	-	-	0,7	-	0,2	
Other services	-	-	-	10,6	1,0	-	3,9	34,7	109,8	41,6	3,5
Education										9 ,8	
Various	-	-	-	-	-	-	-	1,7	-	0,2	0,1
Total	**283,4**	**1 431,2**	**297,1**	**12,3**	**2,0**	**20,9**	**4,4**	**244,0**	**181,4**	**147**	**83,1**

The establishment factors of Moroccan companies specific to Senegal are, in particular, due to good bilateral relations

Apart from the establishment factors common to all countries of sub-Saharan Africa, the companies surveyed in the framework of this study insist on the good bilateral relations between Morocco and Senegal among their factors of establishment in the country. As a sign of these good relations, His Majesty King Mohamed VI made 8 visits to Senegal between 2001 and 2016 making Senegal the country where the greatest number of Royal tours took place during this period.

[34] Source: Office des Changes

Moroccan investments in Senegal concern key sectors for the development of the country

Moroccan companies investing in Senegal are present in key areas for the development of the country, such as the banking sector, energy or housing. These investments and projects therefore have significant impacts on the economic and social ecosystem of Senegal. The development of real estate projects can also change the landscape of certain neighborhoods and the living conditions of the surrounding communities. Apart from the jobs that result, the development of local production units by Moroccan companies will help develop industrial sectors.

APPENDIX II: OVERVIEW OF THE PANEL OF COMPANIES MET

Industry	Company size[35]		
	SME Turnover lower than 175 Million dirhams per year	"Big SME" Turnover between 175 and 1,000 million dirhams per year	Large company Turnover greater than 1,000 million dirhams per year
Agri-food industry			2
Chemical and plastic industry		1	
Pharmaceutical industry		1	
Consumer goods industry			1
Electrical equipment industry	1		
Construction materials industry		1	
Real estate and construction	1		2
Trade and distribution			1
Financial Services - Banking and Insurance			3
Consulting and engineering	2		1
IT services		3	
TOTAL	4	6	10

[35] According to the ANPME definition, small and medium-sized companies are those whose annual turnover is below 175 million dirhams. Source: CDVM Report, Financing SMEs in Morocco, 2011

APPENDIX III: MOROCCO-SENEGAL BILATERAL REGULATORY FRAMEWORK

Trade exchanges

- General Preferential Trade System, signed in 1963: aims to promote trade between emerging countries
- Preferential trade agreement signed in 1987: guarantees preferential rates as well as customs and tax provisions

Investment and labor law

- Establishment agreement signed in 1965: guarantees to nationals of both parties equal access to the business capital establishment and paid activities under the conditions established by the national law.

Tax system

- Double Taxation Agreement signed in 2002: guarantees non-double taxation on corporation tax, the minimum flat tax on companies, income tax, the fixed contribution to be paid by the employers and the tax of capital gain on built or undeveloped land.

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DEPF Policy Africa

DEPF Policy Africa

CONTACT

Address

DEPF

Boulevard Mohamed V.
Quartier
Administratif,
Rabat-Chellah Maroc

Phone

(+212) 5
37.67.74.15/16

Online

Email : depf@depf.finances.gov.ma
Website: depf.finances.gov.ma