

2
Payment periods in Morocco: an overview

7
Economic prospects for businesses

8
Appendix: charts

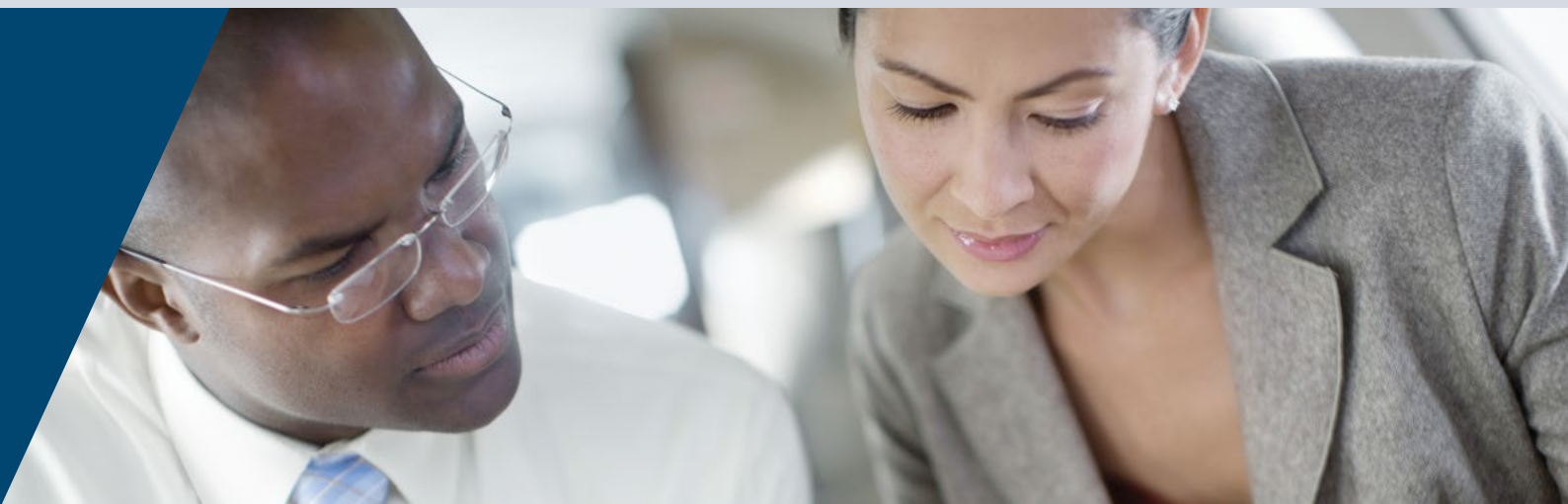
MAY 2015

PANORAMA

Morocco: credit opinion survey

COFACE ECONOMIC PUBLICATIONS

By Coface Group MENA economist



Corporate payment habits and the proportion of overdue payments they record are a good indicator of the health of an economy. Longer payment terms are an indicator not only of a company's poor financial health but are also likely to have a knock-on effect on all its

suppliers. In 2011, Morocco introduced regulation setting out the rules for payment deadlines in order to harmonise company practices in this area. However, there are no studies providing an overview of these practices. After initiating payment surveys in 2003 for China and seven other Asian countries, Coface now intends to

replicate this for Morocco. This publication is in three parts. First, we set out the background to the survey conducted. In the second section we provide an overview of payment practices. Finally, we conclude the study with the respondents' view of Morocco's economic prospects.

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PAYMENT SURVEY BACKGROUND



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This first published survey of company payment periods is based on a survey of a voluntary sample of Moroccan businesses, invited to take part electronically. The questionnaire was organised around three key themes. The first relates to company payment practices. The second is concerned with the payment periods observed by the companies. The third and last series of questions asks for their views on the Moroccan economy.

Out of a total of 3000 questionnaires sent, 307 companies responded to the survey, giving a return rate close to 10%.

The number of respondents means we were able to cover all activity sectors

across the economic fabric. The most represented sectors in the study are, in order of importance: the processing industries, trade and distribution and construction. The sample also includes companies of all sizes. Of the 307 respondents, 30.6% are businesses with fewer than 20 employees, 36.4% businesses with between 20 and 100 employees and 25% of the businesses had between 100 and 500 employees. The rest of the sample, i.e. less than 7%, is comprised of large and very large structures with employee numbers in excess of 500.

The companies in our sample are mostly present on the domestic market. 61.5% of the surveyed companies operate only on the Moroccan market. 31.9% are present

on the Moroccan market and export to the rest of the world. Finally, fewer than 7% of respondents focus exclusively on exporting. These dynamics are also reflected in export turnover where 70% of the surveyed companies stated that the share of exports in their business activity was under 25%.

Breaking down the sample into exporting companies and local companies gives us a reasonably representative overview of local payment practices in Morocco. We have been careful to include companies regardless of their destination market(s), so as to be able to compare the differences in payment practice between the export and domestic markets.

1

PAYMENT PERIODS IN MOROCCO: AN OVERVIEW

This survey of payment delays allows us, above all, to establish an overview of the practices observed in Morocco. We asked the companies questions about several aspects linked to their payment practices, such as the companies' preferred payment methods, credit practices with regard to suppliers or clients, as well as questions about overdue payments.

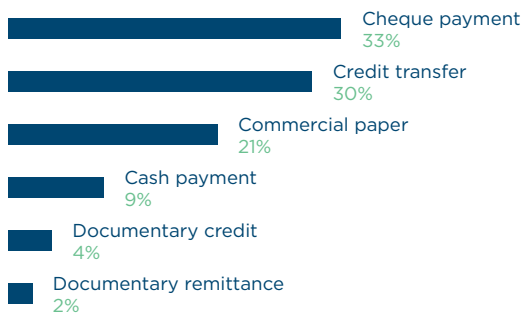
Analysing the results allowed us to uncover the major trends regarding the payment behaviour of Moroccan companies and to find out the reasons behind these trends.

Payment method preferences and credit practices

Payment methods

Among the payment methods used by Moroccan companies, cheques and bank transfers seem to be the favourite. After that comes commercial paper, cash settlement and then, to a lesser extent, credit and documentary drafts.

Payment preferences

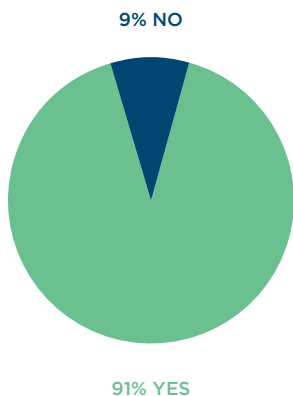


Source: Coface survey 2015

Credit practices

Many of the surveyed companies offer credit to their customers. Out of the 307 respondents, more than 90% of the sample claim to grant payment facilities to customers.

Whether the interviewed companies offered credit sales



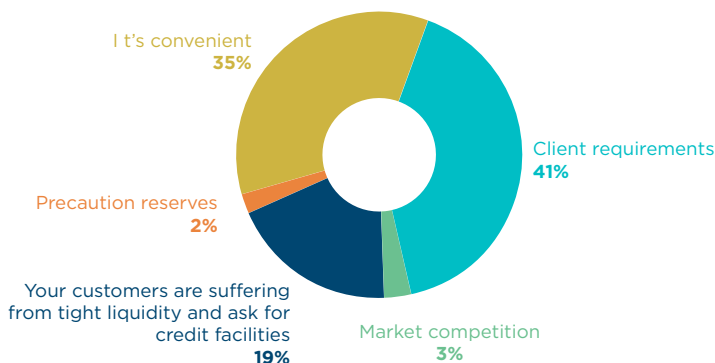
Source: Coface survey 2015

The first reason given by Moroccan companies for agreeing to provide credit is mainly linked to customer demand. The second reason cited relates to the practices embedded in corporate behaviour. Finally, many companies grant extended payment terms to their customers when the latter are experiencing financial difficulties. It should be noted, finally, that competition is more rarely cited as a reason.

Meanwhile, it transpires from this survey that the most frequent payment period is between 30 and 60 days: the proportion of companies stating that they grant average payment terms of between 30 and 60 days is 39%, while those granting terms of between 60 and 90 days represent 25% of respondents. Finally, only

10% of the companies grant payment terms longer than 120 days. When one compares these results with those of European countries, it appears that payment terms in Morocco are within the European average. The European Payment Index (EPI) compiled by the debt recovery and credit management company, Intrum Justitia, puts the average payment period for European companies at 49 days. This average is shorter for Anglo Saxon and Scandinavian countries, where payment periods are between 30 and 40 days. French companies come next with an average of 55 days (EPI 2013). Finally at the bottom of the table one finds the countries of southern Europe, with 85 days for Spain and Portugal, and 96 days for Italy. When we now compare these results for Morocco with the

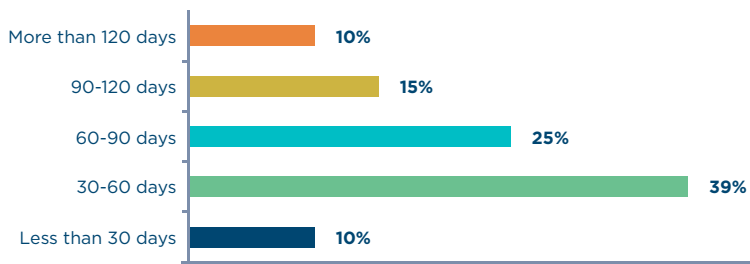
Main reasons for offering credit sales



Source: Coface survey 2015

results observed for China in Coface's annual survey, it appears that the payment periods for Moroccan companies are longer than those for Chinese companies, which average 30 days.

Average credit sales



Source: Coface survey 2015

With regard to the maximum credit period Moroccan companies give to their customers, over 30% of companies replied that they gave terms longer than 120 days and 27% terms of 60 and 90 days. Moreover, 62% of companies believe that these credit terms are lengthening.

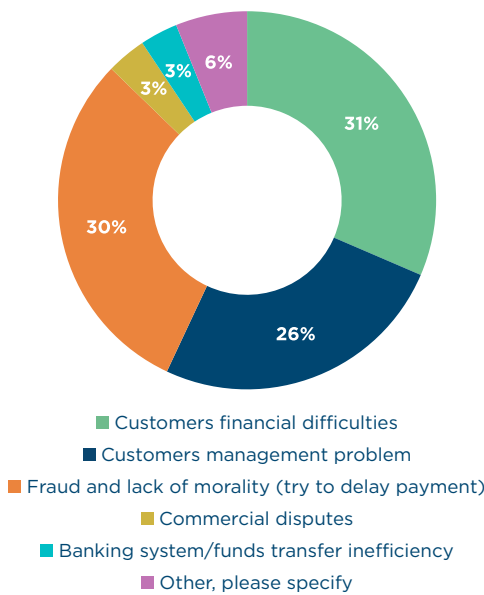
Management of trade receivables

Internally, a company’s management of trade receivables is, in hierarchical order, the responsibility of the executive management, the finance department and the sales department. Only 13% of the companies in the sample have a department dedicated to this business area. Moreover, 80% of the surveyed companies do not use a third party to manage credit risk. However, of those which insure themselves against non-payment risk, over 40% confirm use of a credit insurer, 15% favour factoring, 13% delegate this management to banks and 13% make use of debt collection firms.

Overdue payments

Overdue payments affect a company’s health, by reducing liquidity, increasing bad debts and sometimes putting a halt to investment projects. We asked the Moroccan companies about their overdue payment experience and then analysed the impact of these overdue payments on the health of their company and any decisions taken in response.

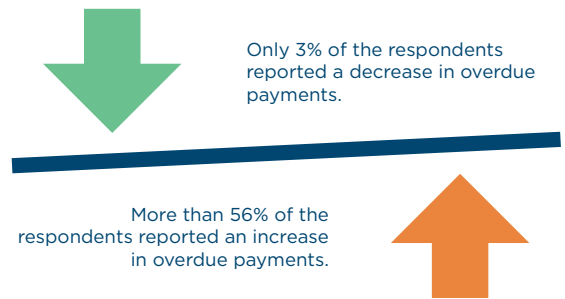
Main reason for overdue payments



Source: Coface survey 2015

The average overdue payment period observed by the surveyed companies is 30 days after the invoice payment date. Out of the whole sample, 35% of companies cited this period. The remaining responses break down fairly evenly across the other choices given. Accordingly, 17% of companies experienced overdue payments averaging between 60 and 90 days, 13% between 90 and 120 days and 12% between 120 and 210 days. Less than 7% of the sample confirmed experiencing overdues above 210 days. If one compares these results with those observed in France and Europe, the average number of days past due is between 1 and 15 days for French companies and almost 14 days as a European average.

We also asked the companies about the reasons for the late payments. 70% of them referred to a rise in late payments. Moreover, 56% of our sample felt that the average past due period had lengthened.



Source: Coface survey 2015

Company views varied depending on the type of customers they have. Accordingly 63% of businesses experienced an increase in overdue payments in the private sector compared with 56% in the public sector. For 40% of the sample, overdue payments in the public sector are stabilising.

With regard to foreign companies, 75% of the sample observed a stabilisation in overdue payments. The large companies are more likely to experience an increase in overdue payments. In contrast, VSEs have seen overdue payments stabilise. This result seems consistent with the results observed in other countries. So, a survey into payment behaviour by Altares produced the same results regarding VSEs. Effectively, micro-businesses have much less negotiating power than larger companies. If they let late payments build up, they could endanger future trade relations with their suppliers.

In 2011, a law governing corporate payment practices was introduced into Moroccan regulations. Law 31-10 of the commercial code stipulates that if there is no agreement between the two parties, statutory payment terms are fixed at 60 days following the date of receipt of the goods. For companies that have agreed terms, these cannot exceed 90 days counting from the date of receipt. Finally, in the case of overdue payment, the law allows the affected companies

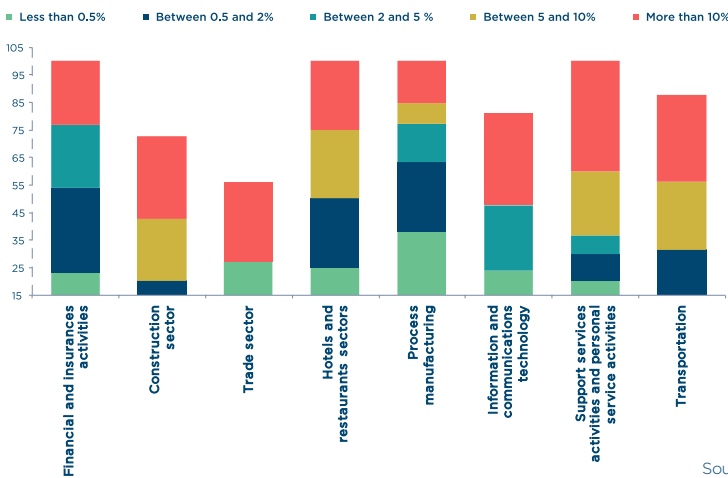
to charge their customers late payment penalties. These penalties are calculated with reference to the Central Bank's key interest rate plus a rate fixed by decree. The purpose of this law is to regulate payment deadlines between companies by harmonising the payment behaviour of the contracting companies. The law also allows the payment behaviour of Moroccan companies to be aligned with European standards, according to which payment terms are fixed at 60 days (DIRECTIVE 2011/7/EU).

Payment deadlines seem, therefore, to conform to the requirements of the legislation. As we have shown above, these are between 60 and 90 days. There is still a question regarding late payment penalties. Although they are included in the framework of the law, the practice of charging penalties does not yet seem to have become embedded in Moroccan corporate payment habits: over 80% of the companies do not charge their customers late payment penalties. After analysing the reasons given by the companies to explain overdue payments, it appears that 57% of respondents attribute late payment to their clients' poor financial health or management problems. The same proportion considers that overdue payments are part of the normal practice of not respecting deadlines.

Payment failure ratios

With regard to payment failure ratios, these appear fairly significant in Morocco as 28% of the surveyed companies declared a ratio above 10%. The companies hit hardest by non-payment are those in the building and public works, new technologies and business services sectors. Those recording the lowest percentage of non-payment were in the financial services and processing industries sector, with 37.9% of these companies in the processing industry, resulting therefore in a payment failure ratio under 0.5%

Overdue ratio distribution by sector



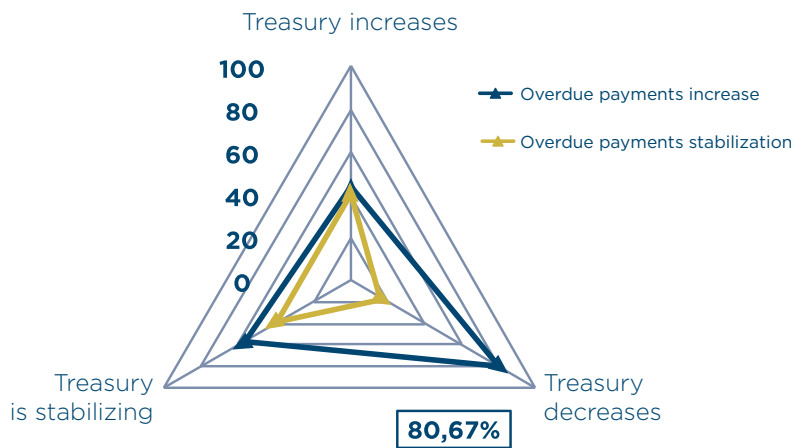
Source: Coface survey 2015

Impact of overdue payments and non-payment on a company's health

Impact of late payments on company health

An increase in overdue payments affects company health. This is because when a business does not settle its invoices on time, the whole chain suffers. We wanted to understand the impact of overdue payments on the companies' financial health. Business liquidity is the first to suffer from late payments. Chart X shows that when late payments increase by more than 80%, our sample, experiences a reduction in cash flow.

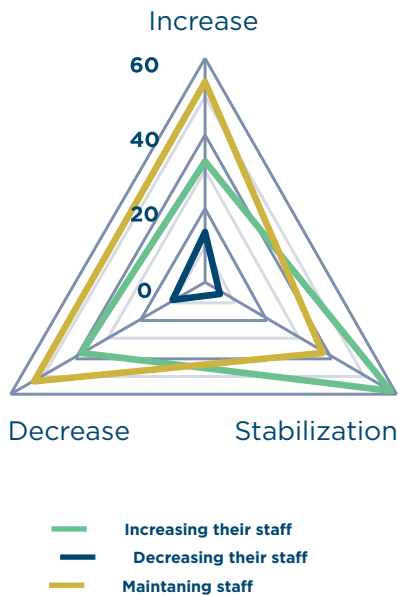
Overdue payments impact on treasury



Source: Coface survey 2015

For our sample, it would seem that an increase in overdues does not significantly impact on the decision to invest. Investment is not therefore the first adjustment variable, and contrary to the conclusions of other studies, the issue of late payments seems to be a secondary determinant of investment decisions in Morocco. Nonetheless, this relationship is true when it comes to hiring decisions. The stronger the reduction in late payments, the more likely company employee numbers are to stabilise or even increase. Intrum's EPI shows the same correlation for European companies. 40% of European business leaders consider that late payments dissuade them from recruiting, while a quarter of them confirm that they lead to lay-offs.

Overdue payments impact on employment



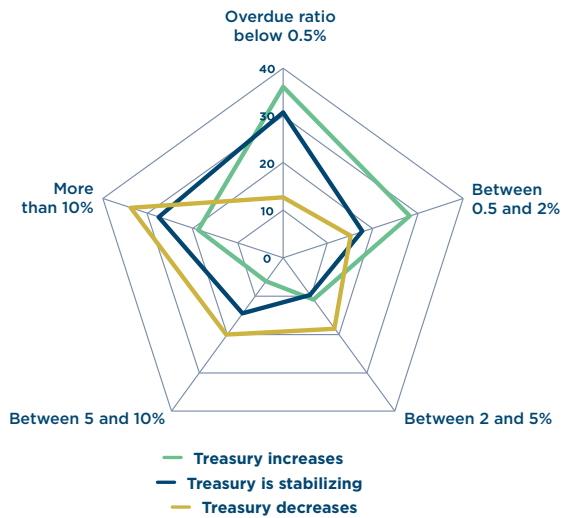
Source: Coface survey 2015

Impact of non-payment on company health

However, when one analyses the effect of payment failure ratios on company cash flow, it appears that the higher a company's payment failure ratio, the greater the noticeable impact on its cash flow. Conversely, the lower a company's payment failure ratio, the greater the increase in cash flow.

According to the data collected, for over 50% of the companies surveyed the economic event which most affects a company's ability to pay is primarily the contraction of Morocco's economy. Financing difficulties also feature among the reasons cited by over 33% of the surveyed companies.

Impact of non-payment on company treasury



Source: Coface survey 2015

The business climate and the regulatory environment are, for their part, also key when it comes to managing payment deadlines. A favourable regulatory environment enables better cover in the event of non-payment. And, the prospects for an improved business climate in Morocco are generally good. 30% of the surveyed companies think the business climate is set to improve, while more than 40% think it will remain stable.

Finally we asked the companies about collection practices in the event of non-payment. Over 40% of the sample prefers to come to an amicable agreement between the two counterparties. The second most-used option is to stop delivery. Only 12% of the sample make use of debt recovery procedures whether through the courts or through a third party.

2 ECONOMIC PROSPECTS FOR BUSINESSES

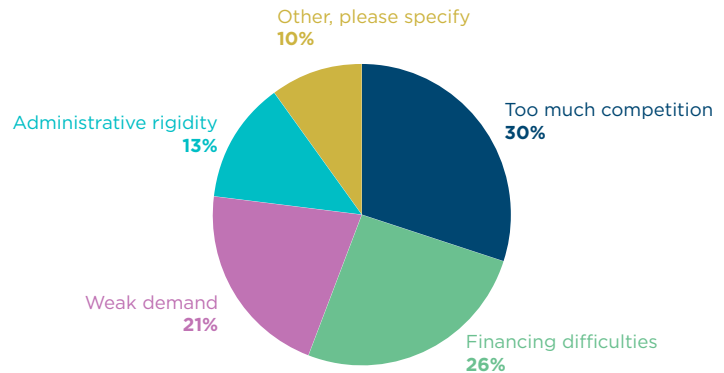
The economic prospects for Moroccan businesses seem to be generally positive, with 38% of the sample forecasting an improvement in Morocco's economy and 40% expecting it to remain stable. Likewise, over 40% of the companies recorded an increase in sales in the past 12 months and over 50% are predicting an increase in sales over the next 6 months. This trend seems to be true for businesses operating on the domestic market as 57% of those which export are expecting export sales to stagnate. Sale prices are expected to remain stable, with 50% of employees confirm that they have remained stable over the past 12 months, and 55% think that they are likely to remain so over the next 6 months.

This positive outlook is also reflected in decisions to invest, with 35% of the sample expecting an investment in the next 6 months. With regard to recruitment, 35% of the businesses expect to increase staff numbers and 49% expect to keep staff numbers level for the next 6 months.

Business liquidity is however expected to fall, with 70% of the companies expecting cash flow to reduce or stagnate.

Finally, we asked companies about barriers to their development. For 30% of them, the reasons give were too much competition, followed by financing difficulties and weak demand.

Reasons that could limit company expansion



Source: Coface survey 2015

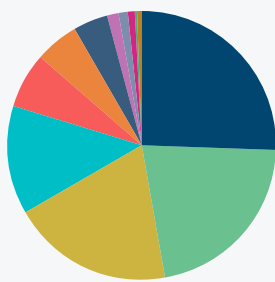
APPENDIX: CHARTS

OUR SAMPLE

307 companies responded to the survey

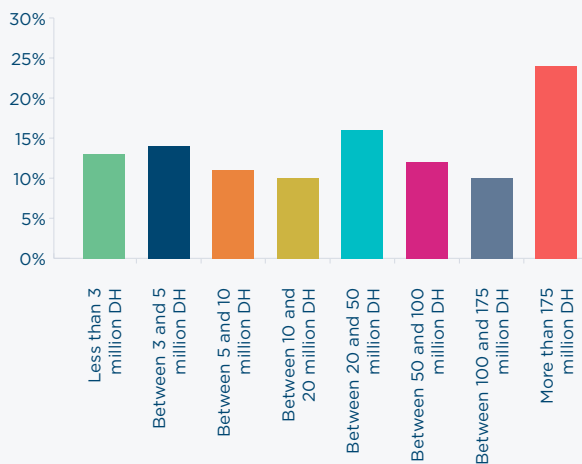


Sectors of interviewed companies

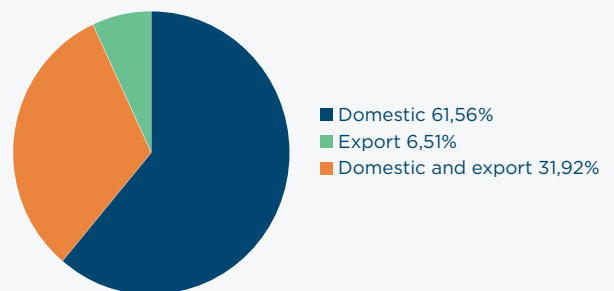


Process manufacturing	25,73%
Trade sector	21,5%
Support services activities and personal services activities	19,54%
Construction sector	13,03%
Information and communications technologies	6,84%
Transportation	5,21%
Financial and insurances activities	4,23%
Hotels et restaurants sectors	1,3%
Public administration	0,98%
Extractive industries	0,98%
Télécommunications	0,33%
Education, health and social work activities	0,33%

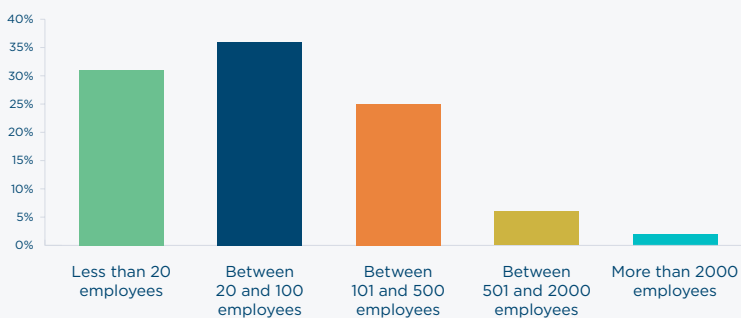
Sales revenues in 2014



Nature of the market

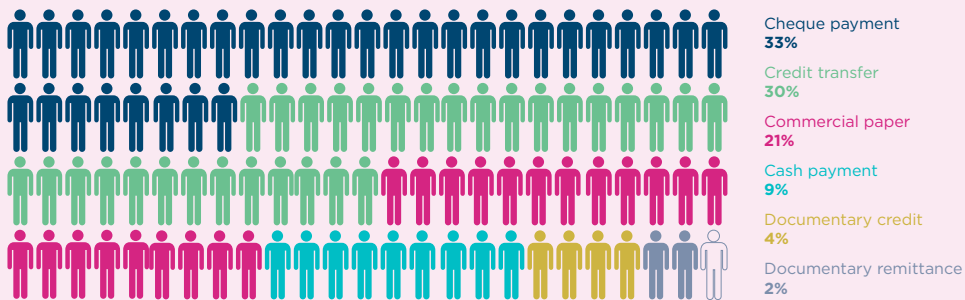


Number of employees in 2014



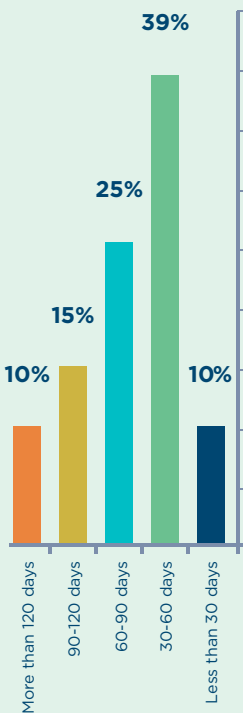
PAYMENT METHODS

Préférences des modes de paiement

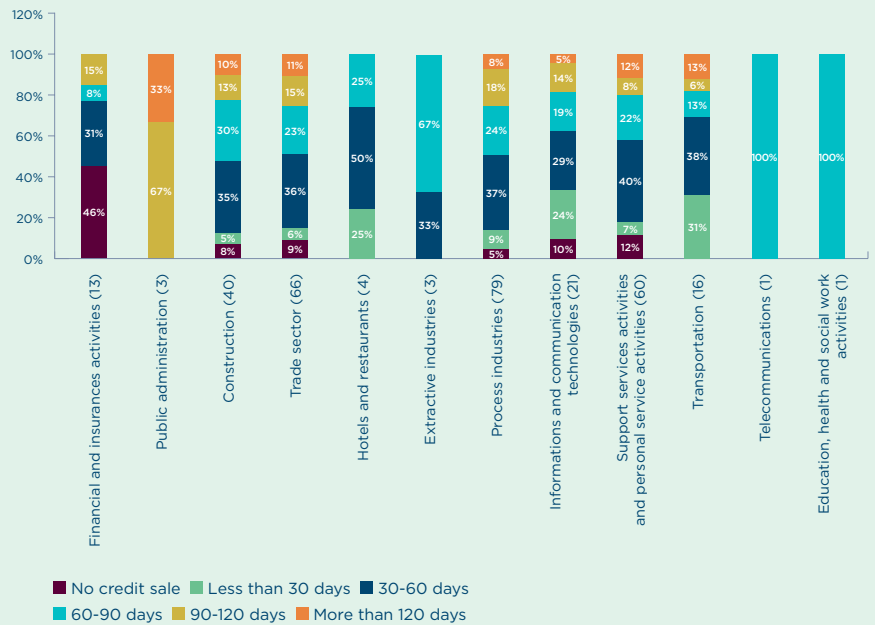


PAYMENT PERIODS

Average credit sales



Credit sale distribution by sector



RESERVATION

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