INVEST IN MOROCCO

Investment Trends

Morocco is in the race

Morocco has chosen to compete in the global marketplace. As part of this strategy, the government has adopted a proactive approach to attracting new investment, a key driver for growth and employment.

This report offers a panoramic view of the results achieved over the last four years.

2003-2007

ACKNOWLEDGEMENTS

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The beginning of the 21st century has been marked by an acceleration of the process of globalization in the marketplace. In this new environment, one of the government's primary objectives is fostering growth that is both strong and sustainable. Investment generates a multiplier effect through the creation of capital, and is the basic prerequisite for growth. The government is involved in two ways: first, as a public authority and an investor itself; but also through the definition and administration of policies that create favorable conditions for investment.

After more than four years of this policy, what conclusions can be drawn? Where is Morocco at the macroeconomic level? How have growth indicators evolved? What reforms have been implemented? Are both national and foreign investors active in Morocco, and to which sectors? Have they created jobs? What kind of jobs? What future developments can we predict?.

The report "Morocco is in the race: Investment Trends 2003 - 2007" addresses these questions. This report was developed with the support of the United States Agency for International Development (USAID).

The report analyzes mostly private investment, particularly that of foreign firms. However, the role of public investment is acknowledged as an important economic policy instrument.

Contents

LIST OF ACRONYMS

A

ACP	Association des Consultants Pétroliers *(Association of Consultants from the Petroleum Industry)*
AMITH	Association Marocaine des Industries du Textile et de l'Habillement *(Moroccan Association of Textile and Clothing Industries)*
ANPME	Agence Nationale de Promotion de la Petite et Moyenne Entreprise *(National Agency for the Promotion of Small and Medium Sized Enterprises)*
ANRT	Agence Nationale de Réglementation des Télécommunications *(National Telecommunication Regulation Agency)*
APEBI	Association des Professionnels des Technologies de l'Information *(Association of Information Technology Professionals)*
APTIC	Association Professionnelle des Technologies de l'Information et de la communication *(Professional Association of Communication and Information Technology)*

B

BMCE	Banque Marocaine du Commerce Extérieur *(Moroccan Bank of Foreign Trade)*
BPO	Business Process Outsourcing

C

CDG	Caisse de Dépôt et de Gestion *(Deposit and Management Fund)*
CDVM	Conseil Déontologique des Valeurs Mobilières *(Board of Ethics Security)*
CGEM	Confédération Générale des Entreprises Marocaines *(General Confederation of Moroccan Enterprises)*
CI	Commission d'Investissements *(Investment Commission)*
CIH	Crédit Immobilier et Hôtelier *(Bank for Real Estate and Hotel Industry)*
CIME	Club des Investisseurs Marocains à l'Etranger *(Club of Moroccan Investors Resident Abroad)*
COMANAV	Compagnie Marocaine de Navigation *(Moroccan Navigation Company)*
CPE	Contrats Premier Emploi *(First Job Contracts)*
CRC	Client Relation Centers
CRI	Centre Régional d'Investissement *(Regional Investment Centers)*

D

DPL	Prêt d'Appui aux Politiques de Développement *(Loans to Support Development Policies)*

E

EADS	European Aeronautic Defence and Space Company
EU	European Union

F

FCPR	Fonds Commun de Placement à Risque *(Mutual Funds at Risk)*
FDA	French Development Agency
FIDA	Fonds International de Développement Agricole *(International Fund for Agricultural Development)*
FDI	Foreign Direct Investment
FEC	First Employment Contracts
FOMAN	Fond National de Mise à Niveau *(National Modernization Fund)*

G

GDP	Gross Domestic Product
GNP	Gross National Product
GIMAS	Groupement des Industriels Marocains Aéronautique et Spatial *(Group of Moroccan Aeronautics and Space Industrialists)*
3G	Third-Generation Technology

I

ICT	Information and Communication Technology
IDP	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INDH	Initiative Nationale pour le Développement Humain *(National Initiative for Human Development)*
IPMC	Intégration dans un Processus de Modernisation Compétitive *(Integration in a Competitive Modernization Process)*
IT	Information Technology
ITC	Information and Communication Technology
ITO	Information Technology Outsourcing
ITU	International Telecommunications Union

M

MAD	Moroccan Dirhams
MASCIR	Moroccan Association for Scientific Innovation and Research
MASI	Moroccan All Shares Index
MCA	Millennium Challenge Account
MENA	Middle East and North Africa
MFA	Multi-Fibre Arrangement
MMEEI	Metal, Metallurgical, Electric and Electronic Industries
MFN	Most Favored Nation

O

OC	Office des Changes *(Foreign Exchange Office)*
ODA	Official Development Assistance
ONA	Omnium Nord Africain *(Industrial and Financial Services Group)*
OPCVM	Organismes de Placement Collectif en Valeurs Mobilières *(Body Collective Investment in Transferable Securities)*

P

PESF	Programme d'évaluation du secteur financier *(Evaluation Program of the Financial Sector)*
PRONACE	Programme National d'aide à la Création d'Entreprise *(National Program to Assist Enterprise Creation)*

R

RAM	Royal Air Morocco
R&D	Research and Development

S

SCR	Société de Capital Risque *(Venture Risk Corporation)*
SME	Small and Medium Sized Enterprises

SNAT	Schéma National d'Aménagement du Territoire *(National Program of Town and Country Planning)*
SNI	Société Nationale d'Investissement *(National Investment Company)*
SODEA	Société de Développement Agricole *(Society for Agricultural Development)*
SOGETA	Société de Gestion des Terres Agricoles *(Society for the Management of Agricultural Land)*
SOMACA	Société Marocaine de Constructions Automobiles *(Moroccan Company of Automobile Construction)*
SONASID	Société Nationale de Sidérurgie *(National Company of Iron and Steel Industry)*
SSII	Société de Services en Ingénierie Informatique *(Services Society in Engineering)*

› T

TangerMed	Tangier Mediterranean project

› U

UCITS	Undertakings for Collective Investment in Transferable Securities
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development

› V

VAT	Value-Added Tax
VSAT	Very Small Aperture Terminal
VSB	Villes Sans Bidonvilles *(Cities without Shanty Towns)*

› W

WB	World Bank

CHAPTER 1 | PROMOTING INVESTMENT

This chapter focuses on what has been done at the macroeconomic level to promote investment in Morocco, in particular looking at the impact of recent structural reforms and the implementation of economic growth strategies. However, policy reform and a good growth strategy are necessary but not sufficient conditions: investor confidence is based on trust. The final part of this chapter investigates how the modernization of the legal and regulatory environment has promoted investor confidence.

1.1. THE GROWTH STRATEGY

Since 2003, Morocco has maintained a proactive policy aimed at generating a dynamic economic playing field. Globalization and free markets create both opportunities and threats. The ongoing challenge for the Government is to ensure that Moroccan companies benefit from the opportunities created by the global market and are resilient to threats.

Current policy in Morocco acknowledges the role of small and medium-sized enterprises (SMEs), which are essentially the backbone of the Moroccan economy. The National Agency for the Promotion of Small and Medium-sized Enterprises (ANPME), which was created in November 2002, has developed credit schemes to encourage the growth of SMEs. Similarly, national initiatives such as the National Modernization Fund (FOMAN) have been launched in order to offer grants to small firms.

The Emergence Program plays a major role in the Government's growth strategy. This is a new sector-based industrial policy that is focused on protecting the economy from the increased risk associated with Free Trade and also aims to stimulate growth. The program was designed in response to Asia's increasing economic dominance, and focuses on repositioning the brand "Made in Morocco" in the world market.

In addition, the Government is committed to creating the conditions for sustained growth by adopting coordinated policies across sectors. Areas that have been targeted are: housing, city and rural planning and the environment.

1.2. GOVERNMENT POLICY

As early as 1995, macroeconomic stabilization and initiatives to improve fiscal management began to show results. Spurred on by this encouraging sign, extensive structural reforms to promote growth were implemented at an accelerated pace starting in 2003. The main objectives of these structural reform programs are to:

- promote the private sector
- increase productivity
- facilitate Morocco's integration into the world economy

There is a broad consensus amongst Moroccan economic and political actors that integration into the world market and the subsequent opening of Morocco's trade borders has had a positive impact on the economy. Exports have been buoyed by a 2004 agreement, which limits tariffs on commodities traded with the European Union to 10%. The export market has been further expanded through Morocco's Free Trade Agreements with the United States, Turkey, Jordan, Egypt, and the United Arab Emirates.

Government policy has also included a number of significant reforms that have improved the business climate in general. A key reform was the liberalization of air transport that opened the sky for increased trade and also led to a boom in tourism. Another significant reform was the liberalization of telecommunications in 1996 (law 24/96, modified by law 55/01 in 2001) that has made telecommunications one of the most thriving business sectors in Morocco.

To enhance investor confidence, specific attention has been given to the reform of the judiciary system. Consistent with modern trends in commercial dispute resolution, there is also support for arbitration and mediation centers.

Commercial Mediation Debuts in Morocco

"A dispute between the Rabat Bar Association and its insurance company, which left more than 4000 people without health coverage for more than 18 months, has been resolved thanks to mediation. This first high-profile case of commercial mediation came about at the same time as significant legislative and institutional advances in the field of alternative dispute resolution." – La Vie Economique (Sept. 2007)

Given that dispute settlement through mediation offers a much faster, more flexible and less costly option than in-court settlement, there is a strong possibility that this will become a more common practice in Morocco. A political commitment to alternative dispute resolution was demonstrated when Parliament unanimously passed an amendment to Law 08-05 of the Civilian Procedure Code (24 July 2004). This new law builds on work carried out over the past five years by the Ministry of Justice to promote arbitration and mediation.

1.3. AN EVER-CHANGING REGULATORY FRAMEWORK

A strong legal and regulatory framework needs to be in place if Morocco is to compete effectively in the global market. However, it can be challenging to balance the provisions of various international agreements and conventions with the demands of creating a favorable climate to attract new investment. As an example, investor demands for competitive production could conflict with international environmental standards.

Nevertheless, Morocco is firmly committed to the process of modernizing its regulatory framework. This process has included revising investment codes, updating employment law, improving regulation of the banking sector and reform of the overall system of administration. However, simply updating laws is not enough to secure Morocco a place in the global market. Reforming the regulatory framework will have a direct impact on several sets of relationships: government-business; government-government; and business-business. How effective these relationships are will determine the business climate of tomorrow.

› The financial sector is undergoing fundamental reforms.

The Central Bank of Morocco has made significant progress in implementing the recommendations of the *Financial Sector Evaluation Program*, a joint initiative of the International Monetary Fund (IMF) and the World Bank (WB). This initiative seeks to provide member countries with an in-depth evaluation of their financial systems. As a result, the Central Bank of Morocco is taking on an expanded supervisory role in the Moroccan banking system, specifically focusing on risk management.

The Central Bank's new statute provides for its independence from the Ministry of Finance and its exclusive decision-making power regarding monetary strategy. To ensure accountability, the Central Bank is required to report to ad hoc Parliamentary Commissions.

New regulations have been imposed on credit institutions. For instance, the new banking law brings the Moroccan legislation in line with that of developed countries. This law takes into account the recommendations of the Basle Committee regarding bank regulations (Basle I and II), as well as the results of the abovementioned Moroccan financial sector evaluation carried out by the IMF and the World Bank.

Signaling the confidence of international institutions, the World Bank Board of Directors gave its approval in December 2005 for a US$200 million loan to support the financial reform policies undertaken by the Moroccan government. The aim of this development policy loan is to encourage the emergence of a more efficient financial sector through the promotion of better financial intermediation and risk management, as well as increasing the role of the private sector in the provision of financial services.

In the insurance sector, new rules for generating agreements and strengthening control procedures have served to increase investor trust.

The insurance sector has been subject to major reforms. Regulations have been more clearly defined. For example, statutory auditors are no longer bound by professional confidentiality with regard to public administration. The Free Trade Agreements signed by Morocco are also taken into consideration when granting service licenses.

Corporate law, particularly for Companies with Limited Liabilities, has been subject to numerous amendments.

In order to encourage enterprise creation, particularly of SMEs, formal procedures have been simplified and the minimum registered capital required has been reduced to 10,000 MAD. Furthermore, the laws regulating starting up a business online are ready to be put into effect.

Legislation has also changed with regard to the protection of intellectual property.

New laws regarding the protection of industrial property mean that trademarks can now be registered online through OMPIC (the Moroccan Office of Industrial and Commercial Property). Furthermore, the battle against counterfeiting and piracy, one of the major concerns of developed countries, is being waged. Moroccan customs and tax authorities are empowered to suspend the circulation of merchandise that is suspected to be counterfeit. Similarly, appropriate measures have been taken to protect copyright and associated rights (www.marquesaumaroc.com).

To recognize the advances made in electronic commerce and the move towards a paperless economy in general, an electronic signature law (law 53/05) is currently before Parliament

It is anticipated that the National Agency of Telecommunications Regulation will be responsible for the accreditation of services such as certification, automatic date and time stamping and electronic filing systems related to the use of electronic signatures. In addition, a judicial body will be established to regulate all national and international business done via the Internet. The latter still has to be completed by official decrees and orders detailing the terms of implementation. It is anticipated that use of electronic signatures will begin in 2008.

Regulation of the Casablanca Stock Exchange conforms to international standards.

It is widely recognized that the Casablanca Stock Exchange has played a key role in invigorating the Moroccan economy, most notably via privatization operations which are a source of foreign direct investment (FDI). Laws governing the stock exchange are consistent with international market trends.

The Moroccan equivalent of a securities exchange commission, the Securities Ethics Board (CDVM), has provided valuable input into the development of corporate law regarding stock exchange regulations, lawful distribution of shares to the public and shareholder information and protection.

New legal framework for venture capital was established in 2006.

Venture capital is considered to be a powerful financial tool that can stimulate economic growth. New legal provisions provide for financing for small and medium-sized enterprises (SMEs) through capital shares, debt or current account advances. Definitions are also provided regarding the criteria that SMEs must fulfill in order to secure this type of financing, as well as provisions specific to venture capital firms and Mutual Funds,. The role of the Securities Ethics Board (CDVM) at this level has also been clarified.

Regarding administrative law, two significant reforms have been undertaken: the creation of administrative courts and the delegation of public services.

The creation of administrative courts of appeal constitutes the second stage in the construction of an independent administrative jurisdiction. These courts will control seven regional tribunals.

Local authorities in Morocco have called for more private sector involvement in the management of public services. As an example, there is a need for more private companies to manage public transport and the provision of water and electricity services. This requires a solid legal framework, especially as large foreign companies are increasingly winning contracts.

Currently, the law defines the delegated authority as “a contract by which a legal corporate body delegates, for a limited time, the management of a public service for which it is responsible to a public or private legal corporate body, in which they acknowledge the right to receive remuneration in payment from users and/or make a profit from management activities.”

Terms regarding the implementation of business contracts for public services have also been clarified, especially those such as calls for tenders where transparency is essential. In addition, law 54-05 guarantees a level playing field to both Moroccan and foreign businesses.

1.4. MACROECONOMIC ENVIRONMENT

This section features a brief analysis of the main indicators for the macroeconomic environment in Morocco as measured by the rating agencies that classify country risk. Highlights include: steady growth, controlled inflation, fiscal health and a fall in the unemployment rate.

1.4.1. Macroeconomic stability

Despite an overdependence on the agricultural sector, the annual growth rate remains healthy. The period 2003-2004 witnessed strong growth in GDP, at 5.5% and 4.2% respectively. Performance in 2005 was negatively affected by a combination of factors: a fall in agricultural production (-11.8%); the rise in oil prices; and the removal of restrictions on textiles. Nevertheless, GDP increased in 2005 by 2.4%, with non- agricultural GDP up by 4.8%.

The year 2006 saw Morocco on track with a strong growth rate of 8%, marked by a positive contribution from both the agricultural and non-agricultural sectors. In fact, non-agricultural GDP, one measure of Morocco's progress towards a more advanced economy, increased by 4.8% in 2005 and 5.2% in 2006.

1.4.2. Trends in domestic demand, unemployment and inflation

Domestic demand was buoyed by rising incomes in the rural areas, increasing employment, and remittances from Moroccan expatriates. Household consumption increased by 12.8% in 2006.

Enterprises regained confidence in 2006, which translated into an increase in productive investment, (+13.4% in industrial equipment purchases and +18.6 in equipment loans). These indicators reflect both the modernization of industry and an improvement in production capacity.

Although budget constraints make it difficult to expect large increases in public investment, the Moroccan government did augment its investment in 2006 (23.4 billion MAD, or +14.2% compared with 2005).

There was little change in the unemployment rate from 2003 to 2005. In 2006, however, unemployment fell below the 10% mark (9.7% compared with 11.5% in 2005). The fall was most significant in urban areas (from 18.4% in 2005 to 15.5% in 2006), due in large part to a decline in unemployment rates for urban youth aged between 24 and 34 years (from 26.2% to 21.2%). The trend is attributable to general improvements in the economic environment as well as specific pro-employment policies. There were 300,000 new jobs created in 2006, thanks to programs such as First Job Contracts, which exempts employers from social charges for wages up to 6,000 MAD. Other government job-creation measures included training, access to credit, and support for enterprise creation.

Inflationary tensions resumed in 2006 due to the soaring price of crude oil (US$ 65.1 a barrel in 2006 compared with US$ 54.4 in 2005) as well as to short-term increases in the price of some food products. The general cost-of-living index increased by 3.3% in 2006 (1.1% in 2005).

1.4.3. Growth of Foreign Trade

The balance of payments continues to be largely positive; the current account surplus increased from 3.2% of GDP to 3.8% in 2006. Net external assets reached 190 billion MAD at the end of 2006, equivalent in value to one year's imports. This is the result of three factors: a high level of exports;

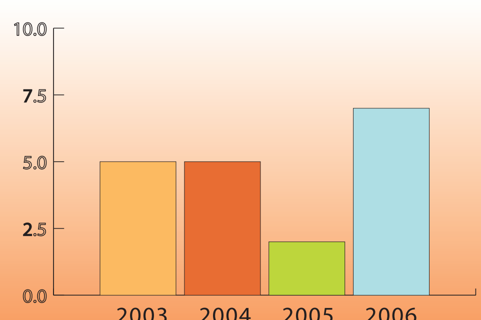


Table 1 : GDP Growth (in %)

Sources : Statisctics Commission

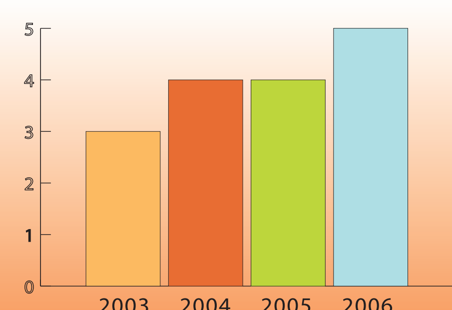


Table 2 : Growth of non-agricultural GDP (in %)

Sources : Statisctics Commission

remittances from Moroccan expatriates in 2006 (47.8 billion MAD, up 17% compared to 2005); and revenues from tourism (52.4 billion MAD, up 28% compared to 2005). Over the same period, revenues from the tourism sector rose from 30.8 billion MAD to 52.9 billion MAD, an increase of 76%.

1.4.4. Restructuring Public Finance

The fiscal reorganization policy initiated in 2003 has shown positive results: on the one hand, tax income has increased (+37% over the period); and on the other, public expenditure has been reduced, particularly through a program of voluntary departure for public servants and the corresponding fall in compensation costs.

However, the high tax burden and the nature of Morocco's fiscal policy, including its often complex application, has a direct impact on the costs faced by business as well as returns on investment. Continued progress towards a sound fiscal policy will be important to ensure that Morocco promotes conditions that favor investment.

The past few years have seen an increase in tax revenues in general, specifically in direct taxes (in 2006, direct taxes accounted for 8.7% of GDP, compared with 6.8% in 2002). The increase in tax income has helped to offset a decline in customs revenues, which fell from 2.7% to 2.1% of GDP over the same period. One element regarding Morocco's tax revenue composition should be noted: similar to other advanced economies, the ratio of direct taxes has since 2004 exceeded that of indirect taxes, while revenues from corporate taxes have exceeded those from income tax.

In sum, the Government's economic policies of recent years have begun to show results, although there are still some areas in need of improvement. As an example, GDP growth is still highly dependent on the performance of the agricultural sector which could be problematic.

The growth strategy outlined in the Emergence Program, combined with a rigorous approach to the management of public finances, are key tactics that will help Morocco fulfill its global role.

Fitch Ratings Ltd has recently recognized Morocco's efforts by awarding it the BBB mark, with the following explanatory note: "the noticeable economic, social, and political progress realized in recent years has engendered a marked improvement in the standard of living and in the external position of the country, in spite of continued budget deficits."

CHAPITRE 2 | POSITIVE RESULTS

The Moroccan economy still relies heavily on its agricultural sector, which accounts for 50% of GDP. However, the process of modernizing the economy is well underway; there has been an overall increase in the number of investment projects in the country and a sharp rise in the demand for a more skilled labor force.

This chapter focuses on some key factors such as the impact of privatization, the growth of both Moroccan and foreign investment funds and the various Government initiatives to create employment that have contributed to these positive results. This chapter also reviews the countries and investors that are currently investing in Morocco and provides an overview of Morocco's main sectors of economic activity.

2.1 WHICH INDICATORS?

Both quantitative and qualitative data was used to identify current investment trends and to predict future ones. Quantitative analysis was based on real cash inflows as registered by the Foreign Exchange Office (Table 3) and projects submitted to the Moroccan Investment Commission (Table 4). Qualitative data was gathered by examining the details of the various investment projects that are currently underway. As a result, indicators such as the type of investment and the sector of activity could be used to identify new trends and most importantly, their impact on the national economy.

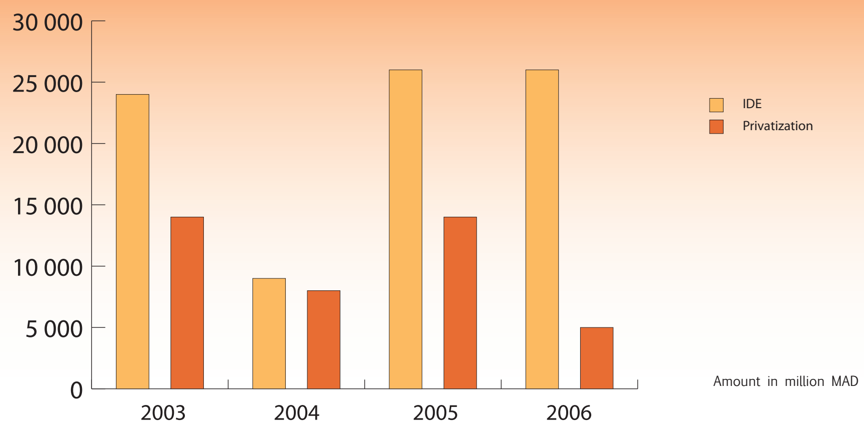
2.2 EXPLAINABLE RESULTS

The Moroccan economy has remained relatively buoyant due to two key factors: positive Government policy on investment coupled with an international climate favorable to Morocco. The improvement in the business climate has encouraged investors and has also bolstered the confidence of all socio-economic actors. This confidence has helped mobilize key economic players and further consolidated the political will necessary to achieve economic growth.

It is important to note that positive results have been achieved in a relatively short period of time. According to the Investment Commission, there were 227 total investment projects with an average of 28.37 projects per semester in 2003-2006. Total investment during these years was more than 110 billion MAD resulting in the creation of approximately 69,165 new jobs.

The first semester of 2007 has shown an even greater increase in the number of investment

Table 3: Investment Flows measured by The Foreign Exchange Office
Source : Foreign Exchange Office



projects. According to the Investment Commission, 51 investment projects were approved in the first semester of 2007. Total investment for this semester was estimated at 51 billion MAD, which is expected to generate 31,690 new jobs. For each semester in the period 2003-2007, average total investment was 13.86 billion MAD and the average number of jobs created was 8,645.

In the last four years, the number of investment projects has multiplied sixfold. In particular, there was an upsurge both in the number of projects and the scale of investment in 2006 and this trend continued into the first semester of 2007.

Privatization

Privatization has had a major impact on investment trends. Government policy towards privatization is based on law 39-89, which was passed by the Chamber of Representatives in 1989. This liberal law on privatization has been very lucrative; by December 2006, more than 83 billion MAD in taxes was deposited in the State Treasury as a result of 73 privatization operations.

Public services in Morocco have also benefited from privatization as large foreign companies such as Lydec and Veolia have taken over the management of water, electricity and sanitation in the large cities.

In addition, large privatization deals have served to stimulate the Moroccan stock market. The biggest privatization deals in 2003-3007 are listed below: :

- Renault

In 2003, the French company Renault SAS bought a 26% stake in the Moroccan Company of Automobile Construction (SOMACA) in a deal worth 65 million MAD. A further agreement in 2005 resulted in SOMACA ceding 12% to Renault, in exchange for 30 million MAD.

Table 4: Amount invested in projects
Source : Investment Commission

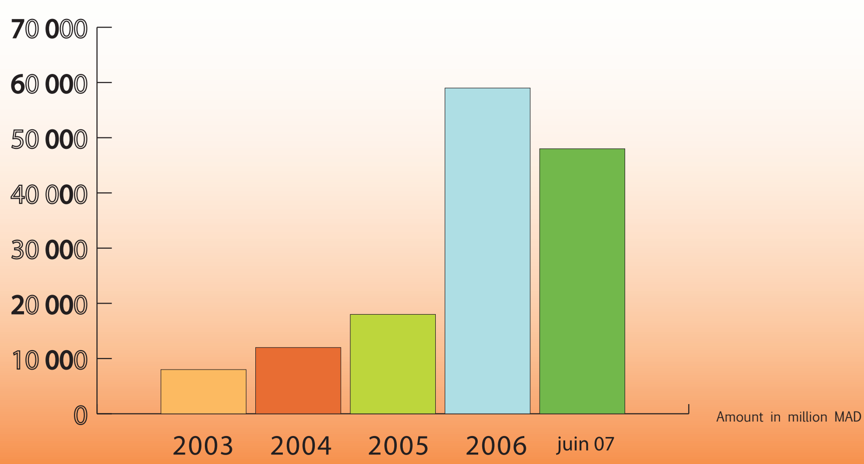
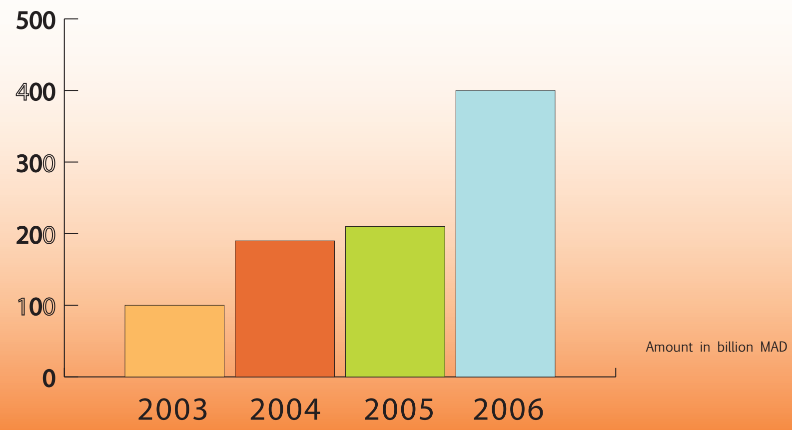


Table 5 : Capitalization of the Stock Market
Source : Casablanca Stock Exchange



> Maroc Télécom: Vivendi Universal

In 2001, the French company Vivendi Universal paid 23 billion MAD to the Moroccan government for a stake in Maroc Telecom. In 2007, another agreement further reduced the Government's share to 30%.

> Régie des tabacs: Altadis

In 2003, the French/Spanish group Altadis bought 80% of the Moroccan tobacco company Régie des Tabacs for 14 billion MAD. In 2006, Altadis completely took over the tobacco enterprise in an agreement worth 4 billion MAD.

> Morrocan Navigation Company (Comanav)

In 2007, the Moroccan navigation company Comanav was sold for 2.250 billion MAD, which was 50 million MAD more than anticipated.

The Stock Market and Investment Funds

Consistent with the overall trend towards privatization, the last five years has also seen a growth in both Moroccan and foreign investment funds. These funds are used primarily for investment in highly profitable companies operating in growth sectors such as industry, distribution, real estate and tourism. Moroccan capital investment funds are often managed by subsidiaries of the large Moroccan banks; however, large foreign investment groups, such as Siparex in France, are frequently shareholders.

The Casablanca Stock Exchange has had three prosperous years since 2003, with an outstanding 71% performance in 2006. By the end of May 2007, in spite of an adjustment, the MASI (Moroccan All Shares Index) had risen 20%.

New listings on the Moroccan stock market have continued throughout 2006 including the computer software giants Matel-PC Market and Distrisoft, as well as SSII Involys and HPS. The amount of foreign investment in stocks and shares rose from 90 billion MAD in 2005 to 124 billion MAD in 2006, a 37.8% increase. However, foreign investment in Morocco is still dominated by French companies, which hold 77% of FDI and 22% of the stock market.

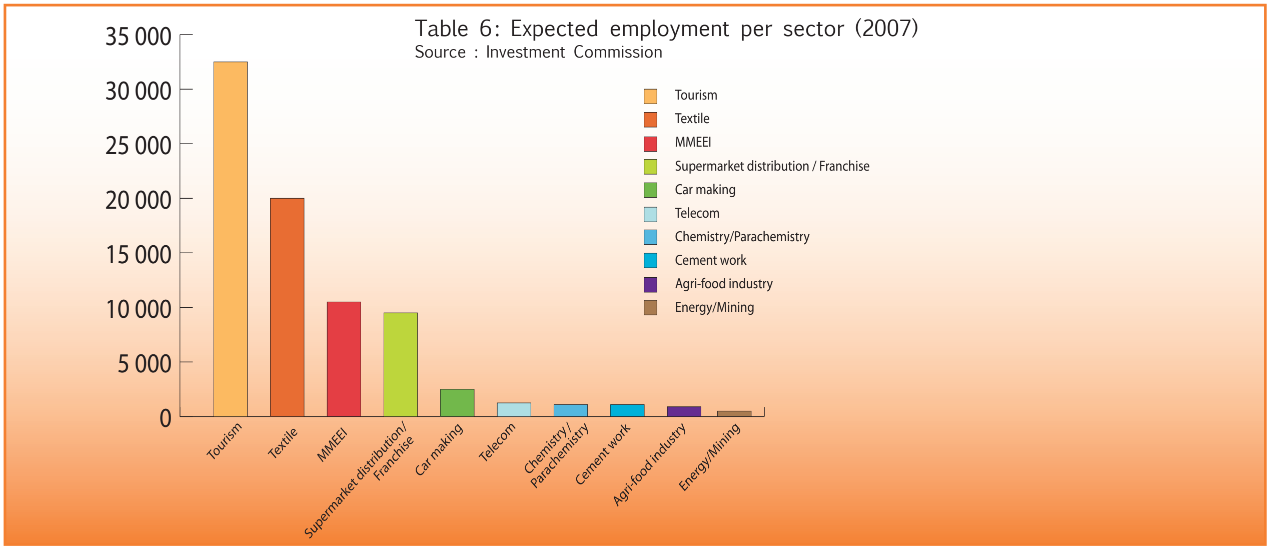
2.3 CREATING EMPLOYMENT

Unemployment remains a major concern in Morocco. Government policy has tried to address this important issue by creating employment in all sectors with a focus on creating more quality jobs overall. The Emergence Program is likely to generate approximately 500,000 jobs by 2015 and it is worth noting that 90,000 jobs will be created in the offshoring sector alone.

The tourism and real estate sectors are the current leaders in terms of job creation. The increased influx of tourists into the country has served to boost employment in the hospitality and service sectors as well as the construction industry. Several government initiatives have also been implemented to capitalize on Morocco's natural assets. As an example, the Azur Plan was launched in 2002 to attract both foreign and domestic investors to the tourism industry in Morocco. The plan includes the development of luxury tourist resorts along the coast and it is estimated that this project alone will create approximately 600,000 new jobs throughout the regions in which it is operating by 2010.

Large-scale construction projects

In the last few years, large-scale construction projects have been planned for many parts of



Morocco. Most of this activity is focused on the major cities such as Rabat, Casablanca, Tanger, Marrakech and Agadir.

In Rabat, the development of the Bouregreg Valley is an excellent example of this kind of large scale investment. Launched in 2005, this ambitious project aims to improve transport links between Rabat and Sale with the construction of a tramway. The project will transform the area around the Bouregreg River by developing the port into a leisure and commercial center. Another large project in Rabat is Saphira, which involves developing the main coastal road. This project encompasses 330 hectares and covers a distance of 10 km to the south of Rabat. Both the Government and the Emaar Group will jointly finance the first phase of the project, which has an estimated cost of 27 billion MAD.

In Casablanca, the huge Grande Marina project promises to transform Casa Port. The project involves the complete renovation of the port and surrounding area, including the construction of residential and business areas. This ambitious plan is scheduled for completion by 2012 with an estimated cost of 5 billion MAD.

Another city in Morocco that is benefiting from large-scale investment is the city of Safi on the Atlantic coast. The Souiria Qdima tourist resort project is potentially one of the biggest in Morocco, easily surpassing those included in the Azur Plan. This luxury tourist resort will include many up-market amenities in order to attract both national and international clientele and is supported by both Spanish and Emirati capital, costing around 7 billion MAD and creating an estimated 12,000 jobs.

The northern city of Tangier has also benefited greatly from the construction trend. The mega Cap Malabata Resort project includes tourist, commercial and residential developments and investment in the Tangier City Center project totals more than 9 billion MAD. In addition, the Tanger Med is a major development project currently underway.

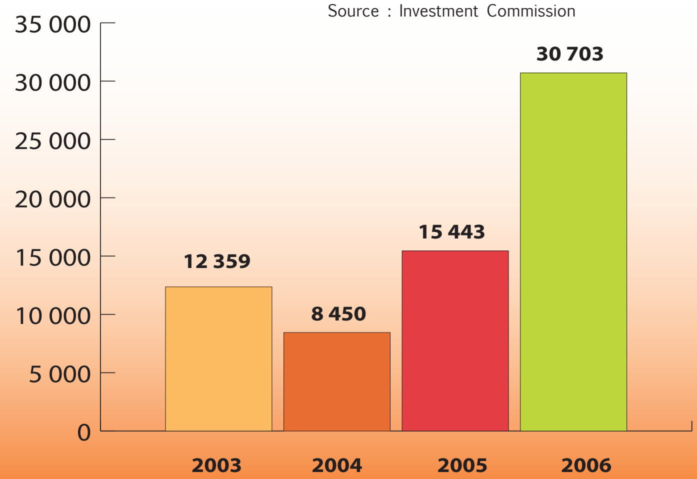
The Tanger Mediterranean (Tanger Med) project, launched in February 2003 by King Mohammed VI, aims to take full advantage of the city's strategic location at the crossroads of North-South and East-West maritime routes. As a result of this project, Tanger Med will be the first container port for the Mediterranean and Africa and will serve to increase Morocco's competitiveness in the global market.

The project began in July 2007 with the launching of the first container terminal. The first phase of the work was anticipated to cost approximately 2.6 billion MAD and was undertaken by the Bouygues Group. The Maersk Evergreen Group oversaw construction of the first container terminal and management of the second terminal was awarded to a consortium of Moroccan (Comanav) and European operators.

Tanger Med (I et II)

The second phase of the project, Tanger Med II, is expected to begin sometime in 2012. In addition to three container berths, plans include a terminal for liquid natural gas and a re-gasification unit. The port will have the capacity to hold more than 8.5 million containers which would make Tangier the leading port in the Mediterranean.

Table 7 : Expected employment creation through investment projects (2003-2006)
Source : Investment Commission



Along with state of the art infrastructure, the Tanger Med project also includes motorway and rail connections. From Larache to the province of Chefchaouen, the coastline will be completely transformed with an estimated public investment of 15 billion MAD and it is anticipated that the project will generate approximately 140,000 jobs.

2.4 RESULTS

2.4.1. By country of origin

Which countries invest in Morocco?

Foreign direct investment (FDI) is greater in Morocco than any other country in the MENA region (Middle-East & North Africa). Largely due to historical and geographical ties, the major players have traditionally been France followed by Spain and Italy. However, this has changed with the arrival of various Arab investors. For example, during the period 2003 to 2006, it was Arab countries along with Europe that together represented 95% of foreign investment.

Arab investors have always been present in Morocco. However, in the last few years, investment from the Arab Gulf States has intensified largely as a result of the shift in flows of petrodollars (away from the American market) and the increase in the price of oil that has allowed Arab investment across North Africa to flourish. In addition, cultural and linguistic ties have made it easier for Arab investors to do business with their Moroccan 'brothers'.

Large-scale and big budget Arab investment is particularly noticeable in the real estate and tourism sectors. However, other sectors are also reaping the rewards. Investment in industry and the service sector is on the increase and large-scale projects in horticulture and fishing are on track to rise as a result of the Free Trade Agreement with the United States.

This trend was first hinted at in 2004 when the Saudi Arabian company, Corral, invested 6 billion MAD in Morocco. It was confirmed in 2006 when Arab investment projects totaled 17 billion MAD and by August 2007, the Investment Commission had authorized over 20 billion MAD worth of Arab investment.

Who are the Arab investors?

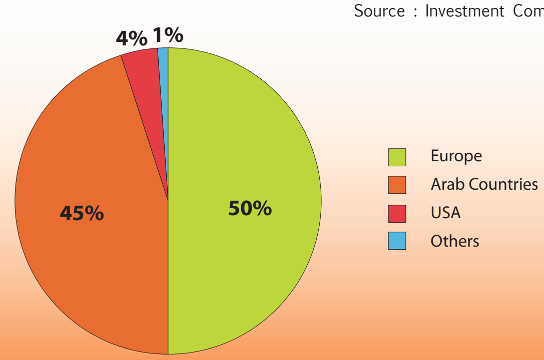
Current investment is dominated by four highly reputable companies:

- The Emirati Emaar group;
- Dubai International Properties;
- Qatari Diar, and
- Gulf Finance House.

Emaar Properties, part of The Emirati Emaar Group, operates mainly in real estate, distribution, health, education and the leisure industry. Most activity focuses on Dubai, most notably the magnificent Burj Dubai project, which will be the tallest building in the world when completed in 2008. Another high-profile project for the group is the King Abdellah Economic City in Saudi Arabia. The master plan for this ambitious project is to construct an 'economic city' for over 2 million people that will be the focus of economic activities not only in Saudi Arabia but also throughout the world.

Sama Dubai is a subsidiary of Dubai International Properties and is renowned for its premiere commercial and leisure developments. The word 'Sama' means 'reaching for the sky' and this is exactly what the company has set out to achieve. Created in 2004 and now operating in eleven countries, the company has formed strong business partnerships in order to promote significant developments such as the Salam Resort in Bahrain and the Dubai Lagoons and the Dubai Towers in Qatar.

Table 8 : FDI projects in Morocco by country of origin 2003 - June 2007
Source : Investment Commission



Qatari Diar, created in 2005, is the investment fund and the economic arm of the state of Qatar. Its main focus is real estate projects either for business or tourism. The company's largest project to date is Lusail; an immense development project that involves the construction of a new city for 2000 000 inhabitants over a distance of 30 square kilometers. The Doha Convention Center is another prestigious example and it is set to become one of the world's busiest exhibition centers and an example of world-class architecture.

Gulf Finance House (GFH) is an Islamic investment bank worth $US 300 billion that was created in 1999 in Bahrain. Its main investment projects are concentrated in the Gulf Region and also MENA (Middle East North Africa). It is probably best known for four major projects all generating more than $US 8 billion: the Jordan Gate, Al Areen Development, Legends Dubailand and the Bahrain Financial Harbor.

It is interesting to note that the Gulf Finance House also participates in a fund for IT investment, namely the Injazat Technology Fund, as well as industrial companies such as the Bahrain Aluminum Extrusion Company. These Arab companies might assist Morocco in the diversification of investment projects. As set out in the strategy of the Emergence Program, Morocco is eager to create diverse employment opportunities, particularly in relatively new sectors such as Information Technology.

What projects are they financing?

Of all the projects financed by Arab investors in Morocco, those that focus on Casablanca and Rabat are the most significant in terms of generating future employment. The following is a brief overview of key projects:

› *Casablanca Marina*

This project is one of many focused on Casablanca and which will take advantage of its privileged coastal position. The project covers a considerable distance (24 hectares) from the city port to the Hassan II mosque and consists of a hotel, a conference center, business and residential complexes. It is scheduled for completion in 2012 with a total cost of 5 billion MAD to be jointly financed by the Management Fund (70%) and Dubai International Properties (30%).

› Cap el Hank, Casablanca

This project also aims to boost economic growth in Casablanca and to reinforce its position as an economic center. The white lighthouse on the headland of Casablanca acts as center stage for this development that will cover approximately 25 hectares. The estimated cost of 4 billion MAD is to be jointly financed by Dubai International Properties (70%) and the Moroccan CDG group (30%).

› *Cap Tinja, region of Tanger*

Cap Tinja, a deal worth 6 billion MAD, is just one of several ambitious projects which aim to revitalize tourism in Tangier. The brainchild of the Emaar group, this project takes advantage of the natural beauty of Tinja's setting and blends it with modern luxury facilities, which will include Mediterranean style beach and garden villas. It is expected that this project will boost Tangiers's capacity to accommodate tourists by adding 600 hotel rooms and 670 quality villas.

› *Royal Resort Cap Malabata, region of Tanger*

Another luxury resort in Tangier is Cap Malabata, a 6 billion MAD investment being made by the Gulf Finance House. When completed, this resort will further enhance Morocco's reputation as a premier golf destination by combining an 18-hole golf course with a luxury resort.

› *Houara, region of Tanger*

The group Qatari Diar has also been eager to participate and has begun development of a luxury resort in Houara near Tangier. The list of modern facilities is exhaustive, including 5 star hotels and over 150 luxury villas. Total investment is expected to exceed 3.35 billion MAD and result in the creation of more than 1500 jobs.

Bouregreg Valley, Rabat

Focused on developing the Bouregreg River valley near Rabat, this promises to be one of the largest development project ever undertaken in the Moroccan capital. The project will transform nearly 5000 hectares between Rabat and Sale and take nearly ten years to complete. With an estimated total value of 18 billion MAD, this Dubai International Properties venture, in collaboration with the Moroccan group CDG and SABR Aménagement, is expected to generate 40,000 jobs.

Saphira, Rabat

The Saphira project also aims to rejuvenate the capital by focusing on the main coastal road south of Rabat. An initiative of Emaar Properties, facilities are expected to include retail and commercial properties as well as medical and educational facilities. This long-term investment is estimated to cost 27 billion MAD and is predicted to create close to 8000 jobs.

Chrifia, Marrakech

Situated on the route to Ouarzazate, just outside of Marrakech, this luxury resort will include both business and leisure facilities with an estimated initial investment of approximately 9 billion MAD. The project is managed by Dubai International Properties, in collaboration with the Moroccan CDG group.

Oukaimeden

Located in the snow-capped Atlas Mountains, Oukaimeden is set to become the Middle East and Africa's only combined golf and ski resort. This original and innovative project offers outdoor recreational activities that take advantage of the unique natural beauty of this area. The venture, worth 13 billion MAD, further strengthens the position of Emaar Properties as a key investor in Morocco.

Who are the other investors?

Spain invests more in Morocco than any other country in Africa. This is due to a number of agreements made between the two countries and a fruitful, ongoing dialogue regarding how to improve the business climate. In addition, there have been a number of measures implemented by the Spanish government to further encourage investment in Morocco: Prospinver, Papi and Pidinver are instruments that finance market studies which are intended to assist potential Spanish investors. Also, an investment debt conversion program (for a sum of €50 million) has already financed sanitization projects in cities in the north of Morocco.

The United States supported two projects in the textile industry in 2004 (Eurojeans & Wash and Polydesign Systems) that have an estimated value of US$ 120 million. In addition, Fruit of the Loom also closed a deal worth US$1.4 billion. In 2006, US investors moved into two other sectors. First Rest International moved into the distribution sector with business worth US$ 120 million and Jlec invested US$491 million in the metal, metallurgical, electric and electronic sector.

The increased US activity in Morocco is largely due to the 2006 Free Trade Agreement between the two countries. Arab investors have benefited from increased access to the USA and European markets and US companies in Morocco have found it easier to break into European and Arab countries.

2.4.2 Main sectors of activity

The distribution of investment per sector of activity is in line with Government strategy over the last few years and also reflects Morocco's natural competitiveness: tourism alone has attracted more than 50% of investment.

Industry

Currently, the Emergence Program is the Government's industrial development strategy. At this point, IT offshoring is the sector showing the first concrete results and the first signs of success.

Steps taken

- Agreement between the Government and the Moroccan Association of the Textile and Clothing Trade (AMITH) signed in 2002.
- Program of Integration in a Competitive Modernization Process (IPMC) provides aid to companies, guarantees funds, direct investment and funds by sectors.
- *Establishment of National Program to Start up a Business (PRONACE).*
- Launching of the Emergence Program.

Results

- 1,084 companies benefited from technical assistance between 2003 and March 2006.
- *National Modernization Fund (FOMAN) provided € 5.2 million in financing.*
- Forecast of 400,000 to 500,000 new jobs by 2015 in the 7 sectors of the Emergence Program, including 90,000 jobs in the offshoring sector.

Emergence Program

With the aid of an international committee that provided strategic advice, the Government carried out a study to gauge Morocco's competitiveness using international benchmarks. Seven sectors were identified as future drivers of growth:

- Offshoring ;
- Automobile equipment ;
- Aeronautic equipment ;
- Specialty electronics ;
- Agro-processing ;
- Sea products ;
- Textiles.

In addition, the Emergence Program includes the pharmaceutical sector and products derived from phosphates. As a result of this new industrial strategy, it is expected that between $US 90 and 100 billion additional GDP will be generated by 2015. This would reduce the current trade deficit by half.

In total, 300 concrete actions and 700 accompanying measures have been planned to sustain these ambitious objectives.

Offshoring, one of the seven priority sectors, has already achieved remarkable success and benefited from Government initiatives to attract investors. Well-known companies in the field of Information Technology Outsourcing (ITO) or Business Process Outsourcing (BPO) such as Cap Gemini, Unilog, SQLI, Atos, Steria, Tata Consulting and Axa have begun operating in Morocco.

Example: CasaNearShore

Launched in 2005, CasaNearShore is an industrial park for enterprises wishing to relocate or externalize their activities. It is situated on the road linking Casablanca to the Mohammed V airport and represents an investment worth US$329 million. The first phase of the project will cover an area of 35,500 m² dedicated to services. By 2010, the second phase will add 172 000 m² of office space and 37,500 m² for services.

In CasaNearShore, office rent is just 90 MAD (about US$ 10) per month per meter square or about half the current market price. This offshoring park has already attracted many IT enterprises and is now concentrating on drawing businesses focused on "back office" activities in the financial and insurance sectors.

Additional measures to encourage growth in industry include corporate tax exemption on exports for 5 years and a 50% reduction on the following years.

- *Training :*

The Government supports training programs for new Moroccan recruits to industry for up to 3 years, totaling up to 65, 000 MAD per trainee.

- *Insertion Contract::*

Law n° 13/98 and Law n° 39/06, complementing Law n° 1-93-16, authorizes a tax exemption for 24 months on employee contributions and wages for the tax on professional training and income tax. The exemptions are valid for an additional 12 months in cases where the candidate has been permanently recruited.

- *Advantages linked to income tax::*

Eligible businesses may benefit from a contribution from the state in order to maintain a 20% of gross salary cap for income tax.

Since 1993, the most dynamic sectors in industry have been metallurgical, electronic (+ 10%) and textile and leather making (+ 2.5%). This is mainly due to safeguard measures implemented by the European Union as well as an agreement made between the Moroccan government and AMITH (the Moroccan Association of Textile and Clothing Industries) that was signed in October 2005.

These policies have made it possible for the industrial sector to strongly rebound in 2006 (with 4% growth compared to 2.5% in 2005).

In the last few years, international companies have become more interested in setting up production units as well as R&D laboratories in Morocco. These companies are attracted by Morocco's highly skilled cadre of engineers that have expertise in designing semiconductors, making precision mechanic parts and/or constructing motor vehicles. .

State-of-the-art industry: Manufacturing electronic components

Manufacturing electronic components is by far the most productive branch of the electronics field. This activity alone accounts for 99% of electronic production and is almost entirely intended for export.

The manufactured components are semiconductor-based products such as diodes, transistors and integrated circuits destined mainly for the telecommunications sector, consumer electronics, aeronautics, data processing, automotive and household appliances.

These products are used by multinational corporations such as ALCATEL, BOSCH, FORD, IBM, PHILIPS, THOMSON, NOKIA, etc.

TIMESONLINE

The Times : June 4, 2007

Qatar invest in Morocco by James Rossiter

CONSTRUCTION & PROPERTY

Qatari Diar, the new owner of Chelsea Barracks in London, has started to sell off parts of a new $600 million (£303 million) hotel and golfing resort on the coast of Morocco. Qatari Diar, the property unit of the state of Qatar, has begun a two-year project to turn 230 acres around Tangier into a resort, al-Houara, which will include a 620-bedroom five-star hotel, an 888-bedroom four-star hotel, 199 villas and 415 apartments, all set around an 18-hole golf course and a new market. Agents at Sothebys International have been hired to sell the housing. Qatar has been buying and developing aggressively since setting up the Qatar Investment Authority two years ago, a $40 billion state-run investment vehicle. In April, Qatari Diar was part of the Project Blue consortium, which bought Chelsea Barracks for about £940 million. Completion of the deal is due next year once planning permission is in place.

Le Monde.fr

September 5, 2007
By Florence Beaugé

Their envoys march in closed ranks in Rabat, Tanger and Marrakech in search of opportunities in real estate or tourism. Not a week passes without learning of the launch of a new project, usually something amazing. The Gulf countries invest massively in Morocco. At the head of the squad is the United Arab Emirates, followed by Saudi Arabia then, almost head to head – Qatar, Kuwait and Bahrain. The figures make you dizzy. They are often overestimated but the phenomenon is real: petrodollars are raining down on the Kingdom of Morocco.

This is an unexpected blessing that largely has to do with the consequences of 11 September 2001. Since the attacks against New York and Washington, the petro-monarchies had great difficulty investing in western countries. The increase in the price of gold, along with petrol, resulted in colossal amounts to invest. The result was that the Gulf countries turned towards their "brothers", of which Morocco is one. King Mohammed VI has fostered excellent relationships with his royal counterparts in the Middle East.

In 2007 alone, foreign direct investment (FDI) in Morocco should rise to US$ 3 billion (compared with $500 million per year in the middle of the 90's). Two thirds of this amount comes from the European Union, the remaining third from the Gulf countries. The Europeans (with France and Spain at the top) are the foremost foreign investors in Morocco, but maybe not for much longer. "Arab investment will continue to increase. In 2008, I predict that Europe and the Gulf countries will be head to head", declared Hassan Bernoussi, director of investment at the Moroccan Ministry of Economic and General Affairs.

It is the emirate businesses which at the moment are snapping up the biggest projects, the majority of the time in partnership with the Deposit and Management Fund (CDG). The real estate giant Emaar has unveiled a new tourist resort not far from Tangier, baptized Tinja. Almost representing a small city, with 2,500 luxury houses, sports clubs, hotels, shops.... In total, more than US$ 1 billion worth of investment. This same group, Emaar, will begin redeveloping the coastal road of Rabat in 2008 ($12 billion over seven years), constructing a ski station at Oukaïmeden in the High- Atlas, and also investing in three other tourist projects near Marrakech.

Another emirate company, Dubai Holding, will collaborate with CDG Development for the Bouregreg Valley project between Rabat and Sale; and once again it is Dubai that will manage the future duty-free zone in the new port of Tangier.

The regional capital of the north, Tangier, has become an object of desire. Qatari Diar has swooped in with a new ultra luxurious, sea-view complex close to Tangier, 2.5 kilometers along the Atlantic coast. The Qatari group aims to outshine its rivals by constructing an 18 hole golf course, an equestrian center, a conference center (" the largest in Africa" it has declared) and a life-like kasbah where Moroccan handicrafts will be made and sold. Amongst its other projects is the development of the port of Asilah on the Atlantic coast and luxury property in Marrakech and Agadir. The main target is rich bourgeois Moroccans - as well as the Spanish, French and British who want to retire in luxury.

To answer the critics who remark that these fabulous business deals are made without invitation to tender - in violation of legal codes in the Kingdom – Moroccan representatives respond that it was to save time and they got " indisputable international references" to do so. For the moment in time, Morocco is not going to let go of this "windfall". In fact: "The aim of Morocco is to attract 10 million tourists in 2010 as opposed to 6 million in 2005. Hence we must rapidly increase our capacity to welcome them", stressed Hassan Bernoussi, before adding: "Thanks to investors from the Gulf, we are on track to achieve that."

L'ECONOMISTE
Le premier quotidien économique du Maroc

ALE MAROC-USA : LANGUAGE BARRIERS!

June 20, 2007
by Marie-Hélène Giguère

A year after the Free Trade Agreement with the United States, Moroccan enterprises are still struggling to gain a foothold in the USA. This was revealed by the American Chamber of Commerce (AMCHAM) last Monday night in Casablanca.

Naturally, a few "success stories" go against the grain. However, overall the work remaining to be done is enormous. One of the principle hurdles, according to Amcham Program Manager Rabia El Alama, is the difficulty Moroccan entrepreneurs have in communicating. "If you knew the number of letters addressed to future American partners that we receive. They are poorly written and full of mistakes making them incomprehensible. We try to correct as many as we can but cannot do everything," she complains. The language barrier therefore constitutes an area where much work remains to be done.

Moroccans are also said to be overcautious when dealing with Uncle Sam. She adds the convincing anecdote about an American that imported artichoke hearts from Holland. "One day, he realized that the actual product was Moroccan. He tried to contact a producer in the Moroccan Kingdom to see if he could get supplies directly from him. But no one in his company could speak English." In addition, the small entrepreneur first refused to do business with the North American. "For him, it was much more reassuring to remain with his traditional European partners," continued El Alama. So it's no surprise that exports from Morocco to the USA increased by only 17%, in 2006, while imports were up by 67%.

With an economic fabric made up largely of small and medium size enterprises, the potential for exports of Morocco to the USA is naturally limited. "For this reason it is necessary to aim at clear-cut niches and not hesitate to group together several SMEs to reasonably satisfy demand," says El Alama. By way of example, there is said to be high demand for argan-based cosmetics: "The Azbane company has developed a product line exported over there."

In addition, the rules and regulations of export to the world's greatest economic power are so many and so strict that small fry manage to export only with difficulty. "The rules of origin and transshipment give rise to lots of misunderstanding," says El Alama. For example, for customs duty to be truly abolished, the goods or merchandise must not be subject to any transformation during conveyance. "If the boat transporting the exports stops at Rotterdam, a certificate must be issued by the local port authorities, certifying that they have not been touched," explains the program manager. In the absence of proof, a tax could be levied, once arriving at the opposite side of the Atlantic. "Don't hesitate to check with us or customs services before sending the goods," she advises.

However, one year after the Free Trade Agreement Morocco is better represented in the USA, in particular though trade shows about Morocco. "It is a key to the door. Americans do not know about the Kingdom, one has to show it to them," says El Alama.

One of the success stories is that of a small company, Manar Marbre, in Erfoud. This Moroccan SME specializes in the exploitation of fossilized marble. Formerly reserved for the Italian market, this unique product is now exported to North America. This company has obtained contracts from hotels after winning a contest for bathroom decoration at a trade show in Seattle and is now negotiating a contract with a distributor in Florida.

Key achievements of the Free Trade Agreement

• In 2006, the first year of the Free Trade Agreement, bilateral trade amounted to 1, 396 million dollars (11.6 billion MAD), vs. 970 million (8 billion MAD) the previous year.

• Moroccan exports to the USA showing the highest growth rate were woven garments (+89 %), fruit and nuts (+78 %), shoes (+66 %), knitwear (+62 %) and food preserves (+41 %).

• In the other direction, Moroccan imports showing the greatest growth were plastics (+1.112 %), ore fuel (+243 %), grain (+98 %), electrical machines (+95 %) and cattle feed (+57 %).

• Two American franchises (Burger King and Starbucks Coffee) are expected to set up businesses in the Kingdom in forthcoming months.

This dynamic sector is continuously evolving and shows the potential to contribute greatly to economic growth in Morocco.

In the automotive and aeronautics industry, the Tangier free zone is a prime destination for the establishment of production units. In 2008, Tangier Automotive City, a specialized industrial park, will be launched to attract car part manufacturers and other subcontractors.

In the textile sector, the dismantling of the Multi Fibre Agreement (MFA) has proven challenging for Morocco. Due to its low added-value services and reliance on subcontracting, the Moroccan textile sector has become less competitive than China or India.

Nevertheless, the sector has repositioned itself. Today, the Moroccan textile industry is involved in the entire value chain. The diversification of textile goods and the adoption of a strategy directed towards rapid adjustment programs have both served to push the industry forward.

Overview of the Textile Sector

To encourage growth in the textile sector, an agreement to restructure the sector and give it new impetus was signed in 2002 between the Government and textile and clothing industrialists.
The agreement is intended to facilitate the transition of the industry and to establish the framework necessary for it to be repositioned in the value chain. At the same time, it made full use of the opportunities offered by the Free Trade Agreements signed with the United States and Turkey amongst others. It has helped companies reorganize themselves by providing financing through two guarantee funds and other transitional measures to enhance competitiveness.
Three large projects stand out in this sector. The first is that of the Italian group, Legler, in association with the Moroccan Atlantic Confection Group. The total cost of the project is 750 million MAD and it is anticipated that it will create 1,500 jobs in Skhirat. Legler Morocco is intended to be the largest textile project set up in the Arab world and the Mediterranean region. This project received a 10% donation from the Hassan II Fund for Economic and Social Development.
The second project is Fruit of the Loom, which includes the construction of a spinning, weaving and dyeing unit in Skhirat. The total amount of this investment is anticipated to be approximately 1.4 billion MAD with some 1150 jobs to be created.
The third project was launched by SETTAVEX, a subsidiary of TAVEX Spain, which is planning to expand its activity to Settat for a total investment of 634 MAD and 70 new jobs.

Information Technology and Telecoms

Steps taken

- Liberalization of the sector (Law N° 24/96, supported by Law N° 55-01 of November 2004).
- Creation of the National Telecommunication Regulation Agency (ANRT).
- Licenses granted::
  - Fixed operators: Maroc Telecom and Meditel
  - Mobile operators: Maroc Telecom and Meditel
  - Limited operators: Wana
  - VSAT operators: Space COM, Gulf Sat, Cimecom.
  - GMPCS operators: European Datacom, Globalstar, Orbcom, Soremar, Thuraya
  - Radio Thrunk operators: Moratel, Inquam
  - ISP (Internet Service Provider): Maroc Telecom, Medi Telecom, Wana, ISPs
  - 3G Technology: Maroc Telecom, Medi Telecom and Wana
- Signing in 2006 of a contract to develop the ICT sector between the Moroccan Government and the Professional Association of Information & Communication Technology (APTIC).

Results

- Number of landline subscribers: 1,611.000.
- Number of Internet subscribers: 433,399.
- Contribution of the IT sector to GDP in 2006: 6.5%.

The new interest that foreign operators have shown in the Moroccan telecommunication market is due to the liberal policy that the Government passed in 1998 (Law N° 24/96). Landline and restricted mobility licenses were granted in 2005 and 3G licenses were granted in March 2007.

At present, the Moroccan telecom market is divided among three main operators: Maroc Telecom, Meditel and Wana. This sector is attractive to investors due to the availability of a highly qualified labor force. Unlike the past, where activities in this sector were concentrated for a long time on CRCs (Client Relations Centers), the sector has become more and more diversified and is increasingly offering added-value services.

Information Technology and Offshoring

Many published studies and economic analysis emphasize that governments in developed states, as well as developing countries, should give priority to the Information and Communication Technology (ICT) sector.

This strategy serves two purposes. First, ICTs are fast becoming a major source of wealth and job creation. Second, development in this sector has a transversal effect that puts them at the forefront for structuring both the economy and society as a whole.

Since 2001, Morocco's ICT sector has registered a steadfast increase, going from an annual growth of about 6.5% between 2001 and 2004 to an annual growth of 10% between 2004 and 2006, and a prospective 11% growth between 2006 and 2007.

In the same way, ICT turnover has increased from € 2.6 billion by the end of 2004, to € 3 billion by the end of 2005 and exceeded € 3.5 billion by the end of 2006 (€ 3 billion of which was generated by the Telecom segment, and the remaining 0.5 billion by the IT sector). This new energy has increased the ICT contribution to GDP from 5% by the end of 2004 to more than 6.5% by the end of 2006.

Despite the fact that 85% of ICT activity is concentrated around Casablanca and Rabat, the sector employs 40,700 people which is 0.5% of the working age population.

The turnover generated from exports went from €40 million by the end of 2004, to nearly €200 million by the end of 2006 (APEBI).

This is an encouraging trend that is supported by the implementation of the Emergence Program that includes the further development of offshoring as part of its goals.

The Government expects that the Emergence Program will create 91,000 jobs and contribute 15 billion MAD (US$ 1.7 billion) to GNP by 2013.

The offshoring sector is thus considered to be a key area for strong economic growth and Morocco was recently ranked the top African country in the field of Telecommunication and ICTs by the International Telecommunication Union (ITU).

Supermarket distribution and franchises

Steps taken

- Free Trade Agreements signed with the European Union, the United States, Turkey, Jordan, Egypt and the United Arab Emirates.
- Policy of price liberalization

Results

- Presence of several European large distribution chains: Auchan, Metro.
- 341 franchise networks identified in 2006; 2274 sales outlets

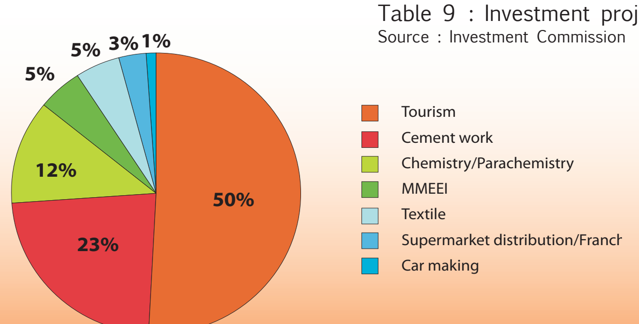
New consumer confidence has helped improve consumption levels, mainly among the middle-class. This has contributed to the increasing number of supermarket distribution and franchises, which are becoming an emergent but promising economic and commercial model in Morocco.

The increase in consumption, associated with an increase in spending, has allowed for the expansion of supermarket franchise networks from major to medium-sized cities all across the country. The expansion is further encouraged by a reduction in tariffs and the elimination of standard prices as a result of the Free Trade Agreements (European Union, Turkey, Arab countries and the United States).

Hanouty, the Moroccan franchise network

Hanouty (Finance.com group) is aiming to become a revolutionary concept in the field of proximity trade. Last April, 100 Hanouty sales outlets were inaugurated between El Jadida and Kenitra. Hanouty sales outlets are neither supermarkets nor simple groceries. Hanouty is a mini-market with modern equipment, including automatic teller machines and multifunction kiosks. In the long term, three thousand sales outlets will be open across the country.

Table 9 : Investment projects by sector
Source : Investment Commission



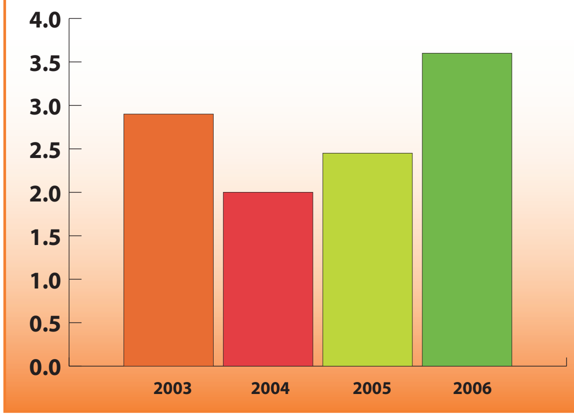


Table 10 : Changes in industrial production index (in %)
Source : Statistics Commission

Tourism

Steps taken

- Azur Plan
- Open Sky Policy

Results

- 10 million tourists by 2010, including 7 million foreign tourists
- 6 seaside resorts, 100,000 beds
- 600,000 jobs by 2010
- US $ 7 billion worth of investment

The priority given to the tourism sector (through the 2010 Vision and the Azur Plan) and also to real estate has created favorable conditions for massive and regular investment in these two sectors. During the last few years, there has been an increase in the activities of all construction firms and, consequently, of all suppliers of basic materials such as cement and reinforced concrete.

2010 Vision and the Azur Plan

To capitalize on its natural assets and its rich and diversified cultural heritage, Morocco has chosen to promote its tourism sector with the goal of triggering integrated and sustainable development.

The 2010 Vision strategy is ambitious both quantitatively and qualitatively. By 2010, 10 million tourists are expected including 7 million international tourists. The amount that is anticipated to be generated from foreign exchange tax is € 48 billion and 600,000 new jobs.

The Azur Plan is a key part of the Government's tourism strategy and six projects are currently underway:

- Lixus Larache - Thomas & Piron (Belgium): 490 hectares, 15,000 beds;
- Mazagan El Jadida - Kezner (South Africa): 500 hectares, 8,000 beds;
- Mogador Essaouira - Accor (France), Thomas & Piron (Belgium): 356 hectares, 7900 beds;
- Taghazout - Capital Colony (USA): 685 hectares, 24,000 beds;
- Saïdia Berkane, Fadesa (Spain): 614 hectares, 28,000 beds;
- White Beach Guelmin, Fadesa (Spain): 525 hectares, 26,000 beds.

Real Estate Development

Steps taken

- Implementation of SNAT (National Program of Town and Country Planning)
- Policy of social housing; VSB program (Cities without Shanty towns)
- Program to reform the housing sector

Results

- Elimination of the existing slums by 2010 (approximately 212, 000 households)
- Large regional projects such as Tangier Med (140, 000 jobs)

Growth is due to the large-scale construction projects in the tourism sector and also the increase in housing due to the acceleration of Government policy.

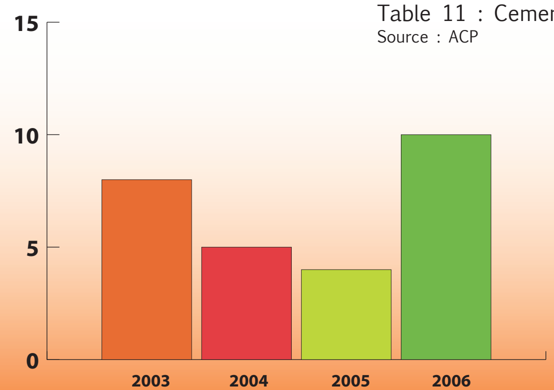
New Cities

Improved town and country planning, as well as a Government commitment to improving housing standards, has led to an ambitious housing policy.

This policy has been marked by the construction of a number of entirely new cities: Tamesna, near Rabat (250,000 inhabitants); Tamansourt, near Marrakech (120,000); Meloussa, 15 km from Tangier (30 000); and Tagadirt, close to Agadir (250,000).

Similarly, large-scale development and planning work have been carried out in the Kingdom's two largest cities, Casablanca and Rabat.

Table 11 : Cement sales - indicator growth of the construction sector (in %)
Source : ACP



CHAPITRE 3 | INVESTMENT BY MOROCCANS RESIDING ABROAD

According to a study published by the International Fund for Agricultural Development (IFAD) and the Inter-American Development Bank (IDB), emigrants in industrialized countries throughout the world sent back more than US$300 billion to their country of origin in 2006. By contrast, the amount of development aid granted by donor countries to developing countries in the same year was only US$104 billion according to the Organization for Economic Cooperation and Development (OECD). The OECD study " Sending Money Home: Worldwide Remittances to Developing Countries," reports that last year (2006) Asia received the highest amount in remittances at US$ 114 billion, followed by Latin America and the Caribbean (US$68 billion), Eastern Europe (US$ 51 billion), Africa (US$39 billion) and the Middle East (US$29 billion). With regards to countries, India is top of the league receiving US$ 24.5 billion - followed by Mexico, China, the Philippines and Russia.

In Morocco, remittances increased to approximately US$5 billion in 2006, a trend set to continue in 2007. "This total, which is a rough estimate, indicates that all the small amounts sent home by Moroccan expatriates when added up, surpass the amount of public development aid," observed Kevin

Table 12 : Growth in remittances as compared to GDP (in %)
Source : Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007

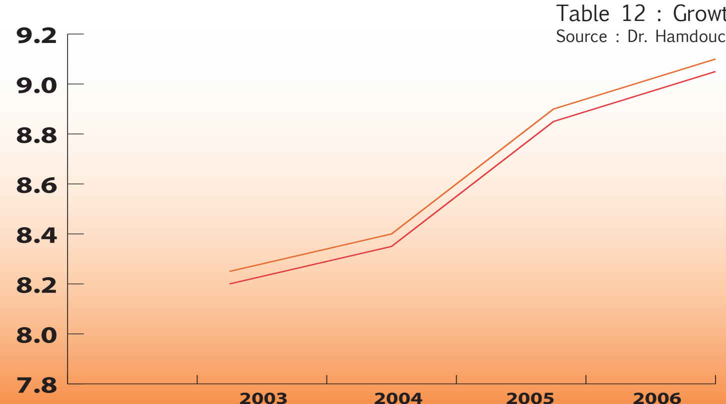
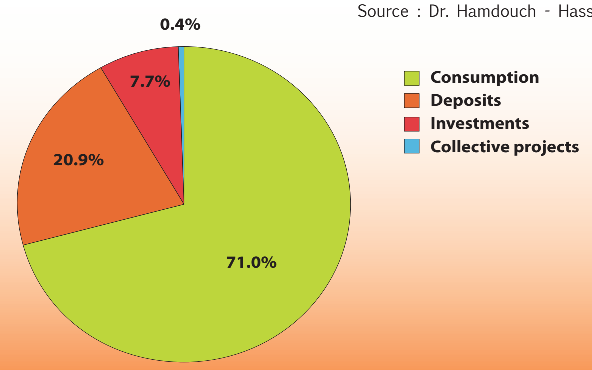


Table 13 : Use of remittances in 2005 (in % of total)
Source : Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007



Cleaver, Vice President of IFAD. About 150 million Moroccans abroad send remittances home regularly, typically between $100-300 per transaction.

This chapter will focus on the impact of remittances on the Moroccan economy and the investment trends of Moroccans residing abroad. Where does this money go? Which sectors of the economy do emigrants favor? What are the obstacles to increasing this investment? The chapter sets out to answer these questions and reviews Government initiatives to further promote remittances and channel this source of investment more efficiently.

3.1. REMITTANCES: A BLESSING FOR MOROCCO

Contrary to misconception, the approximately 3 million Moroccans residing abroad are sending increasing amounts of money back home. In fact, remittances to Morocco have risen steadily since the last decade, officially reaching US$5,048 billion in 2006, or 9.1% of GDP. Unofficially, the figure is probably much higher as not all remittances go through official channels such as banks and post offices, but rather are hand carried back to Morocco.

This 'blessing' from emigrants is much greater than Official Development Aid (ODA), more than three times that of Foreign Direct Investment (FDI) and more or less equivalent to revenue coming from tourism.

As remittances are not regulated in the same way as other sources of private revenue, they play a less volatile and more stabilizing role during periods of crisis. However, despite their numerous advantages (poverty reduction, financing the trade deficit, contributing to hard currency reserves), remittances can also have a negative effect on the economic competitiveness of a country. They can in effect increase prices without increasing productivity especially in cases where the country has insufficient infrastructure and a weak economy (Ambrosius 2007). It is therefore widely considered that the contribution of remittances to economic development depends largely on how they are used and most importantly, whether or not they are channeled into productive investment.

3.2. WHERE DOES THE MONEY GO?

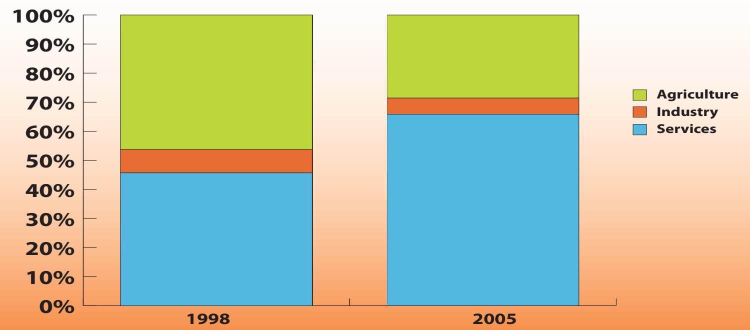
According to a study carried out by the Hassan II Foundation (Observatory of Moroccans Resident Abroad), more than two thirds of remittances are used for household consumption. This has a positive impact on reducing poverty but little impact on general economic development. However, savings represent 20.9% of the total use of remittances and by increasing liquid assets in the banking sector, savings help lower interest rates - encouraging borrowing and investing.

Unfortunately, more than three quarters of deposits stemming from transfers are not remunerated and remittances are increasingly passing through unofficial channels (Hamdouch). Moreover, the regions receiving substantial amounts via remittances do not necessarily benefit from increased investment as a result.

Only 7.7% of the total amount received as remittances, is invested permanently; primarily in real estate. This is not surprising considering that the social background of emigrants is traditionally that of a low-skilled laborer. Although emigrants may return to Morocco with their pockets full, this does not mean that they were transformed into entrepreneurs. In fact, according to a regional study carried out on returning emigrants, only 28% of them had invested productively in Morocco (Hamdouch - 2004).

In 1998, 83.7% of total investment by emigrants was in real estate, reaching 86.1% in 2005 (Hamdouch 2000 & 2007). Previously, the amount that emigrants invested in real estate, as opposed to productive

Table 14 : Productive investment by Moroccans residing abroad in 2005
Source : Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007



investment, was much greater in Morocco than in their host country. However, this gap is now closing as emigrants are choosing to settle permanently in their host country. For example, in 2005, 83.5% of Moroccan expatriates invested in real estate outside of Morocco, compared to 63% in 1998.

3.3. MOROCCANS RESIDING ABROAD AND PRODUCTIVE INVESTMENT

3.3.1 Investment in low budget projects

Making a profit is not the only consideration taken into account when emigrants make investment decisions. They also look for opportunities that require a low initial lump sum and no specific skills. This explains the relatively low investment in industry as opposed to the agricultural sector and service industry. According to a study by the Hassan II Foundation (2004) on emigrant investment in Morocco, two thirds of the investment is done from abroad which means that these investment projects are sometimes not well prepared and designed: only 18.6% of investment projects were subject to feasibility studies and just 10.6% of investors sought financial advice (this percentage is nevertheless higher amongst investors who had higher levels of education and amongst industrial projects).

A study by the Hassan II Foundation also confirmed the prevalence of small projects: 40% of projects cost less than 500,000 MAD whereas those over 5 million MAD represented only 14% of total investment. Large-scale investment was focused on the industrial sector, whereas the small projects ere mainly in the agricultural and commercial sectors.

In two thirds of cases, investment is entirely self-financed. The remaining third tends to rely on credit. If only returning emigrants are considered, more than 86% of investment is self-financed (Hamdouch 2004).

3.3.2. Expanding the service industry

The new investment trend of Moroccans residing abroad reflects the modernization of the Moroccan economy.

In fact, emigrants invest more and more in the service industry to the detriment of agriculture. Agricultural investment has been reduced by 38% between 1998 and 2005 and now represents less than one third of total productive investment. In contrast, the share of investment in services has gone up by more than 44%, thus constituting more than 65% of total productive investment from emigrants.

Industrial investment has always played a minor role, constituting only 5% of total productive investment by Moroccans abroad. In fact, it has now dropped by 30%, which can be explained by the fact that startup costs are high and often above the financial capacity of the majority of emigrants.

A new investment trend has also developed within the service sector. Due to the low startup costs of small business, commerce has always been an attractive prospect for investment. However, the dominance of commerce is being challenged by the tourist industry, which has seen an increase of nearly 138% between 1998 and 2005.

Khachani (2005) explains this fluctuation by referring to the emergence of a new generation of emigrants, "the bourgeoisie"- better educated, better off and more gifted at doing business than the previous generation. These new entrepreneurs invest in state-of-the-art sectors such as new information technology and communications. As an example, approximately 30 to 130 enterprises which make up the Casablanca Technopark are owned by Moroccan expatriates (Khachani 2005). Equally, this new generation invests in the transport sector and the stock exchange. While the great majority of expatriates still invest in real estate and small businesses, this emerging minority – who are not considered emigrants because they have always lived abroad – are actively looking for investment opportunities. It is likely that their level of investment will continue to grow as a result of the liberal provisions contained in the Free Trade Agreements made between the United States and Europe.

According to Dew Hass (2003), the 'coming to maturity' of the first waves of emigrants, more than their entrepreneurial spirit, explains the roots of the move towards investment diversification and the expansion of the service sector.

According to him, the life cycle of the emigrant affects investment priorities, which are essentially dictated by past investment and the length of time spent in the host country. Hence, their first investment is generally made in real estate and is made between 5 and 14 years after their initial departure. Subsequently, they will be more inclined to invest in agriculture and after 25 years in the host country, they will look to invest in small business.

Whether old or new generation, emigrants are currently favoring the diversification of productive investment and this is mainly in the service sector. Unfortunately, not all regions are benefiting.

3.3.3 Regional disparities

Emigrants tend to remit back to their region of origin or where their families reside. In regions with high levels of migration (Taza-Al Hoceima-Taounate, Oriental, Souss-Massa-Draa and Tadla-Azilal), between 38% and 66% of bank deposits consist of remittances, a greater proportion than the national average. Conversely, in more dynamic regions – those with less migration - such as Grand Casablanca and Rabat, this rate is only 12% (Ambrosius 2007).

However, it should be noted that regions with a high level of migration and thus high levels of remittances are not necessarily experiencing increased investment as a result. The Oriental region is a good example. Here, of the 12% of total deposits and 26% of savings stemming from remittances, only 4% of total credit has been used to finance investment (Ambrosius 2007).

In fact, the majority of investment has occurred in the most dynamic regions of Morocco, which are also the least touched by migration (Grand Casablanca, Rabat-Salé and Marrakech). It is also worth noting that financial resources in the poorest regions are usually channeled into the most developed regions as they offer the best investment opportunities.

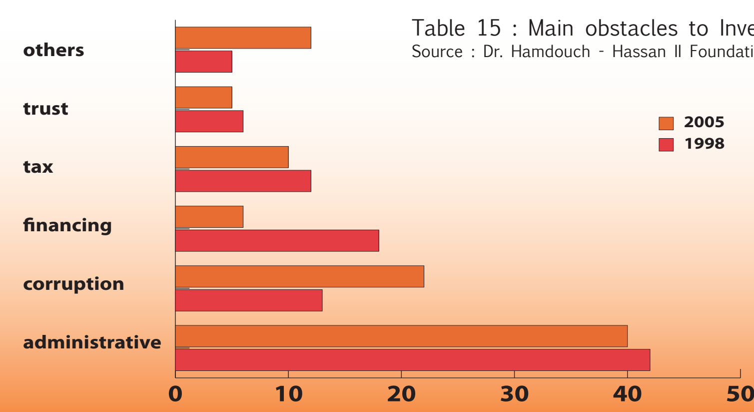
Unfortunately, the banking system exacerbates this regional disparity. The most rural and poorest regions in Morocco also happen to be the ones least covered by the banking network. The Moroccan banking system, though one of the most modern in Africa, is largely concentrated in urban centers and only 25% of Moroccans have a bank account. As a comparison, this rate is 40% in Tunisia. In 2005, the region of Tadla-Azilal had 1 bank per 32,000 residents: in Grand Casablanca, the ratio was 1 per 5,000 habitants.

This inter-regional imbalance is also found at the intra-regional level largely due to the exodus of families of emigrants to the large urban centers of their region who usually take their investment dollars with them. The large cities offer better public infrastructure and as a result, more attractive investment prospects.

Efforts are currently being made to integrate the banking system and promote investment in general in order to prevent entrepreneurs from only investing in the most developed regions to the detriment of the regions that are structurally weaker: "migration will become a factor in the development of the richest regions and a factor in the under development of the poorest regions, the latter paying a high price in terms of social cost while receiving only a small share of investment" (Ambrosius 2007).

Despite significant amounts received as remittances and positive investment trends among emigrant Moroccans, the overall impact on economic growth has not been substantial. The level of productive

Table 15 : Main obstacles to Investment
Source : Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2000 - 2007



investment from Moroccans abroad remains relatively low especially when compared to their investment in their host countries. Furthermore, any investment made by this group has not created significant amounts of employment and it actually contributes to economic disparity in the country. Nevertheless, Morocco is aware of these challenges and is committed to maximizing the contribution of emigrants to the economic development of their country of origin.

3.4. ENCOURAGING MOROCCAN EXPATRIATES TO INVEST AT HOME

3.4.1. Obstacles to investment

According to two studies on emigrants carried out in 1998 and 2005, the main obstacle to investment is the Moroccan administration. In particular, emigrants complain about the burdensome and lengthy administrative procedures and the prevalence of corruption and 'client-favoritism'. According to the last survey in 2005, the perception is that corruption increased by 64% during the last decade (Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007).

Other impediments to investment are essentially of a fiscal nature, although these are being less and less cited as an obstacle.

According to a report by the French Development Agency (2003), it is difficult to obtain a bank loan in order to set up a business. The FDA also observed that, in general, the banking system is not geared towards doing business and it can in fact limit spending and access to credit in the most remote regions in Morocco.

3.4.2 Initiatives to promote investment

By the Government

The Government is aware of the potential contribution of remittances to economic growth. As a consequence, two national institutions have been created specifically to manage the economic aspect of Moroccans residing abroad.

The Hassan II Foundation for Moroccans Resident Abroad was created in 1989. Its main aim is to promote and safeguard the rights of this constituency and to encourage productive investment by offering expatriates financial advice and support. The Foundation has carried out a number of studies on emigrant investment and organized a seminar focusing specifically on this theme in July 2007.

The Ministry Delegate responsible for the Moroccan Community Residing Abroad organized a National Workshop on Migration in July 2006. The workshop provided a launching pad for ideas and as a result, a series of recommendations were made regarding the issue of remittances and their possible investment. In addition to general recommendations aimed at improving the business climate and developing the local banking network in Morocco, the following regional initiatives were also suggested:

· Regional Investment Centers (CRI) would set up a database of projects for the Moroccan community abroad to invest in;

· Regional Investment Funds would be created through remittances and used for local and regional development;

· Moroccan expatriate associations would become involved in development projects implemented by the National Initiative for Human Development (INDH);

· A pilot project would be implemented in which the Moroccan community abroad, local and regional authorities, the Government and international cooperation would jointly collaborate.

The Regional Investment Centers (CRI) have already investigated how to simplify administrative procedures both for setting up a business and for gaining access to land for real estate developments. 'One-stop' solutions have been implemented so a potential investor only has to register in one place. At the CRI of Casablanca, for example, it is now possible to set up a business in less than 24 hours and the CRI in Kenitra can do it in less than 4 hours.

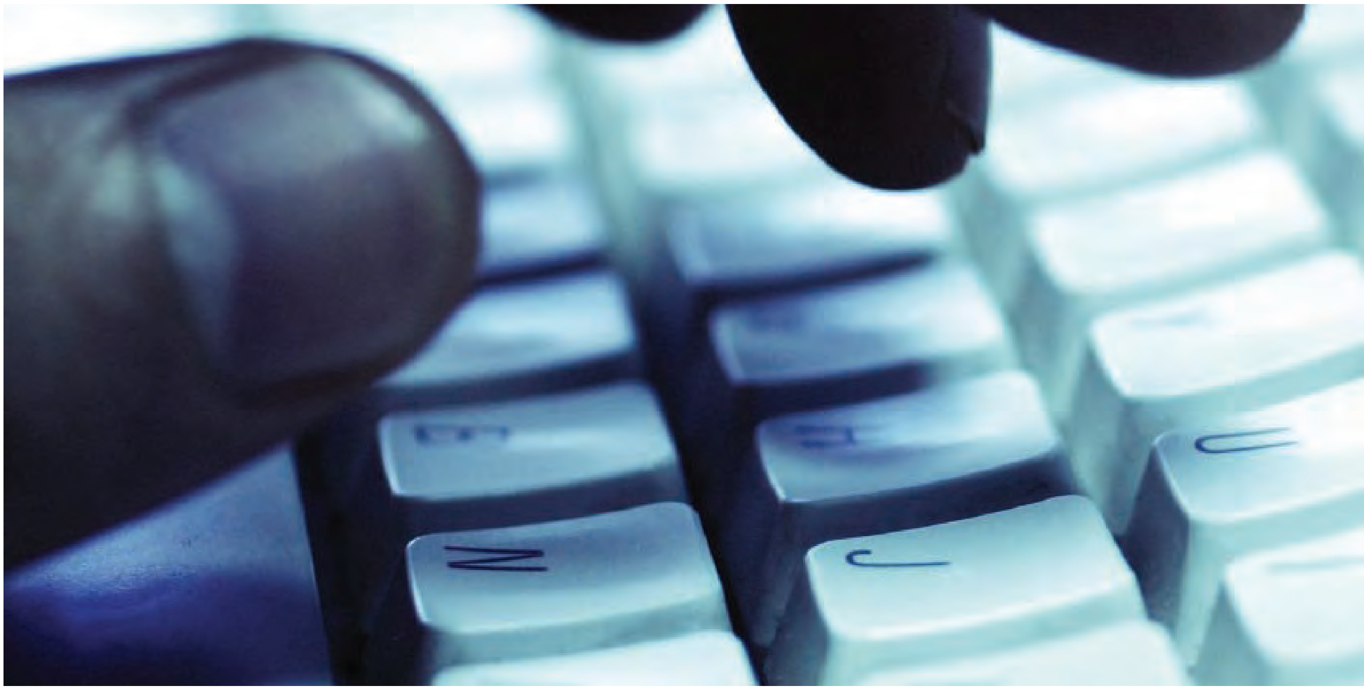
Moroccan expatriate community associations

Efforts are also being made at the grassroots level. For example, the Club of Moroccan Investors Residing Abroad (CIME) aims to assist expatriates in the process of investing in Morocco, particularly in their region of origin.

The Financial Sector

Remittances must pass through the banking system in order for them to be channeled towards investment. In order to assist this process, Morocco has been establishing branches of Bank Populaire in various host countries since 1971. There are now around forty such branches in France, Germany, Great Britain, Spain, Denmark, Italy and Belgium.

Credit services such as Western Union and MoneyGram as well as private banks have recently multiplied their efforts to attract emigrants' business. As an example, Attijariwafa Bank (the largest bank in Morocco) has developed a number of financial products aimed specifically at Moroccans abroad. This year (2007), it launched the rechargeable card 'Kesma' which allows families of emigrants to withdraw money without a bank account. Two other



banks, the Société Générale and Banque Populaire, also offer services to attract emigrants and their families.

However, despite their efforts, the role of the banks in transferring remittances has diminished considerably since the last study (Dr. Hamdouch - Hassan II Foundation, observatory MRE 2000). Remittances are now sent via the banking system in just 21% of cases (Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007). This decrease is not only attributable to the appearance of new credit institutions offering a much faster service than the banks but is also the result of emigrants bringing back money themselves during visits to Morocco (especially between 1998 and 2005) – the latter now represents nearly 40% of all monetary transfers (Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007).

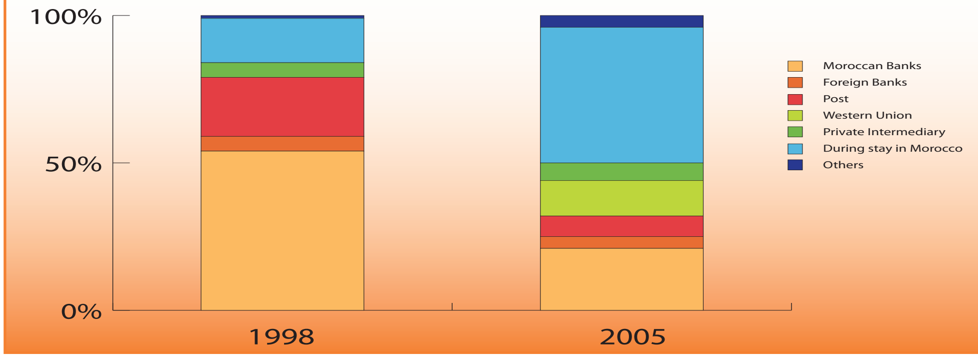
As previously discussed, Morocco must continue to make efforts to channel a greater share of remittances into productive investment. At the same time, it is essential that efforts are made to ensure that the most marginalized regions also benefit from this non-traditional source of economical growth.

In addition, joint collaboration is required by and between the private sector and the Diaspora. Advances in information and communication technology will foster this important contact between Moroccans residing abroad and their homeland.

Furthermore, more public investment into the most underdeveloped regions is a prerequisite if private investors are to be attracted.

The National Workshop on Migration (2006) suggested implementing a database of potential investment projects specifically for emigrants in partnership with Regional Investment Centers (CRI) and banks. This would allow emigrants to access valuable technical and financial support that will improve their confidence in the profitability of their investment.

Table 16 : Channels for remittances (in % of total remittances)
Source : Dr. Hamdouch - Hassan II Foundation, Observatory MRE 2007; Berrada 2007



In order to counteract unofficial channels of money transfers and to promote access to credit for those who are marginalized, it is imperative that the banking network is extended throughout Morocco. Also, mechanisms need to be implemented to link remittances to micro credit for example, or to regional development funds. The revenue generated from remittances could also be used as collateral for the banks wishing to guarantee credit (Ambrosius 2007).

Finally, emigrants originating from one region tend to settle in the same region in their host country. Thus, development initiatives at the local level as well as decentralized cooperation will allow the potential of Moroccans residing abroad, their remittances, and their newly acquired skills to be harnessed and used for the good of all Moroccans.

CONCLUSION | PROSPECTS

This report "Morocco is in the Race: Investment trends 2003-2007" illustrates that Morocco has benefited from significant private investment in the past four years. Morocco has taken its place in the international race.

A political commitment that inspires confidence

Although it can be difficult to measure the impact of government investment promotion policies, there has clearly been in Morocco a dedicated effort to attract new investments which will stimulate overall economic development, especially an increase in employment.

Political will is key to ensuring a business climate of confidence, and to offset perceptions linked to risk and instability. Morocco's economic policy promotes stability and encourages foreign and domestic companies to invest or reinvest in a secure framework. Investors are encouraged to take an active role in the country's development: especially welcome are investments that will enhance local expertise and deliver "Made in Morocco" products.

Investment is everyone's business:

"Faced with tougher and tougher international competition to attract investment projects, local development agencies must define their 'marketing strategy' in order to increase their share of the market" according to Fabrice Hatem, economic advisor at the French Agency for International Investment.

Future investment flows remain uncertain, unless the traditionally conservative Moroccan banks increase their contribution of resources to risk-bearing activities. Only a banking strategy that is creative and daring, based on an element of risk, can accompany the enterprises that are working to build Morocco's economy.

Diversification has three dimensions

Diversification of countries investing in Morocco (FDI)

According to UNCTAD, France and Spain were the main foreign investors (63% of FDI) in Morocco during the period 1997-2004. This is primarily due to geographical proximity as well as cultural and historical links.

However, analysis of data from the Investment Commission regarding investment projects between 2003 - June 2007, shows that investment commitments from Arab countries are now at 45%, compared to 50% from Europe. This is a sign of new vitality and equilibrium.

Yet, Morocco still has to promote itself abroad and also overcome language barriers. The country has not yet fully benefited from the Free Trade Agreement signed with the United States.

There have been positive signs since 2005. For example, US investment (worth 2 billion MAD) in the textile, distribution and industry sectors is likely to motivate and give confidence to Northern European investors. Furthermore, the various Free Trade Agreements that Morocco has signed with Europe, the USA and Arab countries has opened up a combined market of over 1.1 billion consumers.

Diversification of Moroccan regions benefiting from investment projects

Investment between 2003 and 2005 focused on labor-intensive sectors (i.e. textile, industry and tourism) and was mainly in the Rabat-Casablanca area. Investment in tourism was concentrated mainly in the regions of Agadir and Marrakech.

Regional investment offers the opportunity for SMEs, often run by families, to flourish. Competition at the regional level is key to developing Morocco's competitiveness in the global market place; in addition it is likely to be SMEs which create needed employment over the medium to long-term.

There are encouraging signs. Due to land settlement policy and the geographical diversification of investments in tourism, all parts of the Atlantic and Mediterranean coastlines have benefited from investment commitments since 2006.

The Northern region has drawn particular attention from land developers who quickly saw its potential. Large projects near the city of Tangier, such as Tangier Med Port, will help rebalance job distribution in the region.

The construction of highways and other large-scale projects has contributed to this geographical redistribution of investment.

Diversification of sectors of activity

During the period 2003 - 2007, 74% of large-scale investment projects were concentrated in the tourism and real estate sectors. These two sectors are booming and it is expected that this trend will continue for several years.

Vision 2010 for the tourism sector, an aggressive plan to increase the number of visitors to Morocco (referred to also as the Azur Plan) is currently being implemented.

At the industrial level, the Emergence Program is well underway. Seven growth sectors, each with a specific plan of action to attract investors, have been identified.

In the manufacturing sector, the increase in "Made in Morocco" goods is perceptible. New activity in technical services such as aeronautical maintenance has materialized through win-win partnerships. For example, Snecma Morocco Engine Services, held by Snecma and Royal Air Morocco (RAM), now carry out the maintenance and repair of engines and auxiliary power units for Boeing.

Morocco is conscious that today's innovations are tomorrow's investments. Thus, the project MASCIR (Moroccan Association for Scientific Innovation and Research), which intends to attract high level researchers, has made progress in four technologically advanced sectors: ICT, biotechnologies, nanotechnologies, environment and energy. This project involves Al Akhawayn University and Moroccan researchers from prestigious foreign universities.

The agribusiness sector offers considerable development potential which the Government intends to exploit by promoting and supporting investment projects in this sector. Similarly, the agricultural sector is undergoing a modernization process. As a result, the Government has chosen to transfer State-owned arable lands to private operators from Morocco or abroad.

For example, agricultural lands managed by Sodea and Sogeta were transferred in two phases to private investors. During the first phase, 44,000 hectares of arable land was transferred to private operators; in the second phase 39,000 hectares were ceded. It is estimated that a total of 4.7 billion MAD will be invested over a period of 5 years and about 17,000 jobs will be created.

In all sectors, the rise of the brand "Made in Morocco"

In the past, Morocco's main attraction to investors was low-cost labor. Today, Morocco wants to be positioned as a stronger contestant in the economic race.

To achieve this, the development focus will need to be diversified beyond single sectors such as tourism and real estate. This will ensure a more balanced distribution of economic benefits throughout the country and will contribute to creating sustainable economic growth.

In order to meet this challenge, Morocco must tap into new pools of investors and focus on generating long-term employment through investment. Furthermore, the banking sector's liquid assets must be transformed into productive investment so that all of Morocco can benefit from globalization.

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    - World Development Indicators: > www.worldbank.org/data
3. Foreign Exchange Office: > www.oc.gov.ma
4. Hassan II Foundation : > www.alwatan.ma
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   › www.casanearshore.com

3. Nouaceur-Casablanca Industrial Park

   › www.sapino.ma/www/presentation.asp

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ANNEX 2: TABLES

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