TRANSITION TO TRANSITION (T2T) INITIATIVE

"Stimulating Growth and Investment During Transition"

Casablanca, 27 February 2012

REPORT

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INTRODUCTION

On 27 February 2012, the European Bank for Reconstruction and Development (EBRD) organized a conference in Casablanca as part of its Transition-to-Transition (T2T) initiative, in association with the Centre for Mediterranean Integration (CMI), the General Confederation of Moroccan Enterprises (CGEM), the Centre for Young Leaders (CJD), and the Moroccan Association of Businesswomen (AFEM). The event provided a platform for countries of the Southern and Eastern Mediterranean region and the Bank's current countries of operation in Central and Eastern Europe to exchange transition and reform experiences, with participants from both the public and private sectors sharing their expertise.

The event was attended by Nizar Baraka, Minister of Economy and Finance of Morocco,; Abdelkader Amara, Minister of Industry, Commerce and New Technologies of Morocco,; Gordon Bajnai, former Prime Minister of Hungary; Bozidar Djelic, former Deputy Prime Minister of Serbia; Mohamed Horani, President of General Confederation of Moroccan Enterprises (CGEM); Hazim Sebbata, President of Centre for Young Leaders (CJD); Soraya Badraoui, President of Moroccan Association of Businesswomen (AFEM) and Erik Berglof, Chief Economist of EBRD, as well as many other prominent figures from the public and private sectors.

OPENING PLENARY:

Understanding the Economic Challenges Facing Morocco, through Transition and Reform Insights from Central and Eastern Europe

Nizar Baraka, Minister of Economy and Finance of Morocco; Abdelkader Amara, Minister of Industry, Commerce and New Technologies of Morocco; Gordon Bajnai, former Prime Minister of Hungary; Bozidar Djelic, former Deputy Prime Minister of Serbia; Mohamed Horani, President of General Confederation of Moroccan Enterprises (CGEM); Hazim Sebbata, President of Centre for Young Leaders (CJD); Soraya Badraoui, President of Moroccan Association of Businesswomen (AFEM) and Erik Berglof, Chief Economist of EBRD participated in the opening plenary. The panel, moderated by Jonathan Charles, Director of Communications of EBRD, provided a platform for participants to highlight Morocco's short and long-term challenges and to offer insights from transition experiences in Central and Eastern Europe (CEE) that would allow Moroccan policy-makers and business leaders to better target the critical areas that need to be reformed in order to achieve private sector growth that overcomes social exclusion.

Nizar Baraka, Minister of Economy and Finance of Morocco, opened with an overview of the country's economic situation and the challenges the country will face moving forward. The market economy principles that have guided Morocco's economic development since independence and several major policy steps, including the signing of Free Trade Agreements and privatization initiatives, have allowed the country to gradually deepen its economic liberalization process. Morocco’s solid macroeconomic indicators and strong financial sector are key assets for the country, which proved resilient in the recent financial and economic crises. Morocco is now entering a new stage of transition, the Minister said, and the recent political changes, as embodied in the new Constitution and Government, are setting the ground for renewed economic dynamism. The creation of the Business Climate Commission, the Competition Council and the Regional Investment Centers are examples of the Government’s ambition to promote private sector development. Morocco’s advanced status with the European Union (EU) will also, he noted, provide a good opportunity to further upgrade the country’s economy. Looking ahead, the country still faces a number of challenges and clear progress is necessary in five key areas. These include the need to accelerate economic diversification, improve productivity and competitiveness, create more jobs - especially for the youth - through the development of SMEs, reform economic governance and lastly, pursue regionalization so as to achieve a more balanced development across Morocco’s different regions.

Mohamed Horani, President of the General Confederation of Moroccan Enterprises (CGEM), highlighted Morocco’s openness to the global economy and the political and economic reforms undertaken over the past ten years. The Arab Spring has provided the country with an opportunity to intensify the reform process and to design a new Constitution in a short period of time. Employment is Morocco’s top priority, he stressed. There is a clear social demand to address unemployment that needs to be addressed, and this is one priority area which CGEM has outlined in its 2020 Vision for the country. In order to create more jobs, investment will be critical, he said. Morocco already offers investors a promising business climate and the ongoing regionalization process will offer new prospects for investors. He argued that the low level of Maghreb regional integration is a major constraint to further economic growth and should be a top issue for policy makers.

Gordon Bajnai, former Prime Minister of Hungary, acknowledged that Morocco’s transition is characterized by continuity and as such it is similar to the transition experience of Hungary. Transitions, he noted, are neither easy nor are they linear processes. Hungary, for instance, experienced many fluctuations, often because the political, economic and social transition processes did not always coincide. Convergence of these processes, he insisted, is key. The role of policy makers is to ensure that the transition process results in more winners than losers and that societal demands are adequately addressed. Employment is therefore a crucial element to address during transition. In order to create new jobs, governments need to support private investment, especially in SMEs. There is, however, no single model for transition, and each country needs to follow its own path, based on common principles that will help guide the process and sustain the country’s long-term vision even when the country faces difficulties in the short-term.

Bozidar Djelic, former Deputy Prime Minister of Serbia, stated his belief in the virtue of dialogue and exchanges of experience. He highlighted three major areas that have played a critical role in Serbia’s transition and development. Firstly, competitiveness in an international market. Morocco, he said, has made significant progress in terms of business climate. In order to achieve further results, he suggested improving the efficiency of the judicial system, which may have a meaningful impact on the investment climate in the country, as was the case in Serbia. Economic specialization is also necessary and the country needs to strategically identify the products and services that will be driving its economic development in the next five to ten years. Competitiveness, he added, can notably improve through greater regional integration, as evidenced by the Central European Free Trade Agreement (CEFTA), which was established with the support of the EU and now represents 30% of Serbia's trade flows. The second priority he identified was the development of the knowledge economy. He underscored the importance of investing in and supporting the best performers on national level rather than investing primarily in technoparks as this may have only limited effects on the local economy. Youth unemployment is the third priority that must be carefully addressed. He encouraged Morocco to participate in the OECD PISA assessment in order to measure the ability of its graduate students to apply their knowledge to the requirements of the job market. Unemployment among low-skilled youth is also a concern and literacy programmes should not be overlooked. As in Serbia, the Moroccan public sector offers good working conditions and therefore attracts a lot of top candidates, away from the private sector. The image of the private entrepreneur in society needs to be improved in order to facilitate a shift in labor market dynamics and make private sector employment more attractive to graduates.

Soraya Badraoui, President of Moroccan Association of Businesswomen (AFEM), shared her organization's outlook on the country's economic situation and the challenges it faces. Although reforms have been initiated in Morocco for many years, and accelerated as a result of the Arab Spring, many social demands still remain. Employment, health, and equality, including gender equality, need to be addressed. While women represent roughly 50% of Morocco's population, they make up only 25% of the workforce. AFEM activities are geared towards addressing this issue as well as spurring female entrepreneurship. She called on EBRD to address gender inequality in its work in Morocco.

Erik Berglöf, Chief Economist of EBRD, highlighted the diversity and richness of the transition experiences in both the CEE and MENA regions. Comparing the two regions, he emphasized that many MENA countries have been in transition for several years now, and therefore, these countries will not face the same difficulties that CEE countries faced in the initial stages of their transitions. For example, the banking systems in most CEE countries had to be built from scratch, while it is already well-established in MENA countries. He noted that sustainability and inclusiveness of reforms will have to be a top priority for MENA countries in areas, where youth and gender inequalities are critical concerns. The CEE countries did not face these same unemployment challenges. In order to ensure that results reach all segments of the population, EBRD will work at the local level on municipal infrastructure projects. As a final point of comparison between the two regions, he underscored the importance of the role played by the EU. For CEE countries, integration into the EU was a priority from the start and proved very helpful in their reform process. MENA countries are faced with a more delicate EU context.

Hazim Sebbata, President of the Centre for Young Leaders (CJD), emphasized the necessity for Morocco to adjust to continuous changes and develop adequate responses to these changes. The country has undertaken a series of reforms in a holistic manner, but now needs to increase the pace of implementation of these reforms. In addition, it is essential that competitiveness and global integration objectives do not outweigh the social and environmental aspects of development policies. Competitiveness strategies, for instance, need to take into account the development of human capital, the promotion of skills and the financing of innovation. It is now time for Morocco to invest in a new generation of entrepreneurs, especially at the local level. Morocco, he said, still lacks regional financing mechanisms, which could help promote more balanced regional development.

Abdelkader Amara, Minister of Industry, Commerce and New Technologies of Morocco, concluded the opening session by sharing his insights into the country's strategy for the future. The dynamism of Moroccan businesses and civil society, the establishment of various sectoral policies and roadmaps, and the new political foundations are strategic assets for the country and should be capitalized on. He highlighted that the government's ambition to pursue regional integration in the Maghreb also offers new prospects for economic growth. It is crucial to prepare for the country's future, which, in his view, needs to be embedded in the knowledge economy. Progress has been made in this area but further action will be required to foster innovation. Governance, he added, is a priority and institutional changes will be necessary to ensure that public policies and bodies achieve greater results and respond to the demands of Moroccan society in a more coordinated fashion.

PARALLEL ROUNDTABLE DISCUSSIONS

Roundtable 1: Promoting Growth and Employment Through Development of Small and Medium Enterprises (SMEs)

The session was co-chaired by Latifia Echihabi, Director General of the National Agency for the Promotion of Small and Medium-size Enterprises (ANPME) and Marko Skreb, Chief Economist of Privredna Banka Zagreb (PBZ) and former Governor of the National Bank of Croatia. The discussion was attended by the CEO of Unicredit Bank Serbia, executives of Moroccan banks and SMEs as well as by representatives from Bank Al-Maghrib (the Central Bank of Morocco), the Ministry of Economy and Finance, the Central Guarantee Fund, and staff from the EBRD Financial Institutions team, Office of the General Counsel and Office of the Chief Economist. The discussion focused primarily on the access to finance for SMEs and highlighted the need for financial markets to play a central role in the development and improvement of SME competitiveness. The session aimed at addressing the following topics: increasing the availability of funding mechanisms, improving the competencies of SMEs, identifying the necessary conditions to improve the financial and institutional climate, and addressing the needs of microenterprises, small and large SMEs in all phases of the business cycle. Participants shared lessons learned from the CEE transition experience and discussed the relevance of these lessons in the Moroccan context.

Marko Skreb shared the experience of Croatian banks which were often reluctant to extend loans to SMEs as they generate the highest level of NPLs, with a 25% average, against a 12% average overall. SME lending is higher risk for banks because of the typical low capitalization of SMEs and the limited financial expertise they have. However, he explained the significant lesson learned by the Croatian banking sector, which applies to the Moroccan context, is that the banks should provide SMEs with the necessary tools to improve financial competencies rather than only products. This requires that the banks are receptive to the needs of SMEs and understand the challenges they face.

Representatives from Moroccan SMEs explained that the relationships between administrations and banks have transformed from transaction-based relationships into partnerships, however, SMEs also require financing from additional sources such as venture capital funds and business angels. Funds have invested only in the largest SMEs thus far. SMEs also require proper financial education and access to markets.

Klaus Priverschek, CEO of Unicredit Serbia shared his bank's experience of working with the SME market. In Serbia, there is a very high concentration of SMEs in and around Belgrade, the capital city, and those that do export, export primarily to neighboring markets. They face challenges related to property rights. In addition, many potential SME owners face difficulties accessing information on establishing and managing SMEs. To address these challenges, the Government has put in place a system to provide this information, however, SMEs still face difficulties accessing finance, and international financial institutions (IFIs) play a crucial role in providing this. In addition, like Morocco, Serbia has a large informal sector. Mr. Priverschek explained the importance that loans are made through regulated channels, rather than informal ones. NGOs can play an important role in achieving this. In an attempt to address the problems created by the large informal sector in Morocco, the 2011 finance law grants fiscal amnesty to all SMEs which identify themselves; however, it has produced few results thus far.

Bank Al-Maghrib has undertaken several other initiatives aimed at improving access to finance for SMEs. In particular, the 2005 directive on the instruction of loan applications made it compulsory for firms to submit certified accounts, approved by an accountant, as a component of loan applications. In addition, Morocco was the first country in the region to put in place a guarantee system. Although MAD 2 billions of loans benefit from the guarantee system, the system does not cover loans made to the smallest enterprises.

Representatives from the EBRD underlined that the Moroccan banking system is sophisticated, but that relationships between banks and SMEs need to be transformed further from transaction-based relationships to partnerships. The EBRD would therefore work with the authorities, banks, and SMEs in order to facilitate further collaboration between the banks and SMEs. The EBRD would also work on improving the business environment in areas such as bankruptcy law.

Although the Moroccan banking system is sophisticated, access to finance remains a major challenge for most Moroccan SMEs, which continue to face difficulties accessing banks' loans. Few alternative means of finance are currently available, as private equity targets only the largest SMEs and the Casablanca Stock Exchange is still developing.

Recommendations:

- Banks should provide SMEs with solutions rather than just products. This requires that the relationships between Moroccan SMEs and banks evolve towards long-term partnerships.
- The informal sector must be addressed. Contrary to the CEE experience after communism, Morocco does not need to create new SMEs; however, many existing SMEs operate in the informal sector.
- EBRD could have a strong impact working on access to finance for enterprises, which are too small to work with banks but too large to work with microfinance institutions.

Roundtable 2: Modernising the Agribusiness Value Chain and Investing in Food Security: Finding Opportunities in Constraints

This session was chaired by Amine Berrada Sounni, President, National Food Processing Federation (FENAGRI) and Miodrag Kostic, CEO, MK Group, Serbia. Participants represented the local business community, public sector, and civil society. Milan Djakov, Director of the Indemnity Fund Serbia, shared his experience with the EBRD sponsored warehouse receipt programme in Serbia. The CEE experience was also shared by a representative from Nibulon, a Ukrainian grain company, who highlighted his company's experience in upgrading production and storage facilities in Ukraine.

The discussion covered issues along the whole food value chain, with a strong focus on logistics and the lack of specialized storage, including the lack of closed cooling chain storage, and transport, which leads to substantial food losses. In this context a need to upgrade port facilities was mentioned. Access to finance, in particular long-term finance, was mentioned repeatedly as one key bottleneck to investment in such infrastructure assets. The absence of soft commodity collateralization options such as warehouse receipts or crop receipts further impedes access to finance for primary producers.

The conversation also covered the constraints faced by many companies transforming primary produce into higher value processed foods. For example, Russia is the largest importer of Moroccan oranges. Once exported to Russia, oranges are processed into juice, and there are very few higher value added processed exports from Morocco. This is partially driven by preferential tax treatment for primary produce relative to processed goods, which distorts input prices for the processing industry. Participants expressed differing views on how successful the government's Green Plan has been in addressing these linkages and supporting the transformation into higher value-added production; however, most agreed that more needs to be done.

Water efficiency was addressed as a cross-cutting issue affecting production at all stages of the food value chain that needs to be addressed on the institutional level. In addition, land-fragmentation poses a major constraint on competitiveness in the primary sector. While long-term lease agreements exist, the market is not well developed and it is difficult to consolidate such land-leases. This must also be addressed on an institutional level.

Recommendations:

- Improve access to long term local currency financing that will allow private sector investment in specialized infrastructure and storage facilities. This will improve efficiency and decrease losses along the food value chain.
- Increase options to collateralize soft commodities. This is particularly needed in an environment where land holdings are fragmented. These may include both post and pre-harvest financing options
- The food processing industry is in need of substantial investments coupled with an overhaul of the tax and tariff system, which distorts processing input prices.
- Investment in R&D for water efficient crops including seed varieties that are adapted to the Moroccan agricultural conditions is needed.
- Development of trading infrastructure, such as port-infrastructure, should be a priority to decrease the food losses the sector currently faces.
- The recently signed bilateral and multilateral trade agreements have thus far not resulted in significant improvements in the food trade balance partially driven by a lack of EU quality and hygiene standards.

Roundtable 3: Preparing for a Sustainable Energy Future

The session "Preparing for a Sustainable Energy Future" was co-chaired by Moulay Abdellah Aloui, President of the Federation of Energy of Morocco, and Milko Kovachev, former Minister of Energy of Bulgaria. The session was attended by representatives from the Ministry of Energy and Mines, Moroccan Agency for Solar Energy (MASEN), Agency for the Development of Renewable Energy and Energy Efficiency (ADEREE), energy investment funds and private sector renewable energy companies. Representatives from the private sector and policy experts from CEE also participated in the session. The discussion focused on energy security, integrated water and energy management, the development of renewable energy, and regionalization within the context of the challenges faced by Morocco in addressing its lack of indigenous fossil fuel resources and growing demand for electricity as well as within the context of the country's upcoming energy strategy.

Energy Security and Regional Electricity and Gas Markets within Maghreb

The major objective of the country's energy policy is to reduce dependency on imports. Morocco currently imports approximately 95% of its primary energy consumed. As the country is an important corridor for pipeline gas transit of Algerian gas to Spain and Portugal, the discussion addressed the further expansion of gas supply from the Algeria-Spain gas pipeline as well as the need to address the security of energy supply through the diversification of sources. This is currently a major challenge for the country. A contract has recently been negotiated between Morocco and Algeria, which stabilizes gas use and pricing. The country also plans to construct a liquefied natural gas (LNG) terminal in order to diversify energy sources.

Mediterranean energy cooperation is a priority for cross-border energy policy. In addition, export of green electricity to Europe is seen as a large potential future sales market for Moroccan electricity generators.

Participants from CEE, shared their countries' experiences enhancing energy security despite their dependence on Russian natural gas. These experiences are very relevant to the Moroccan energy situation. Gas (in particular CCGT) will remain the most widely used fuel for electricity generation in the mid-term future, especially in a carbon-constrained environment, In order to avoid paying monopoly prices to Gazprom, however, CEE countries are working to strengthen interconnections, link national electricity and gas markets and diversify sources of supply. In the Moroccan case, further integration of energy markets in North Africa and the Mediterranean region will make it more difficult for any single country to exercise a dominant position as a producer or a consumer. The LNG terminal will also be important in price negotiations with Algeria.

Integrated energy and water management

There is a need to find synergies and common approaches to integrate energy and water management, including potential options for solar desalination. Integrated water and energy management is increasingly important in the context of regionalization of management and efficient resource management.

Renewable energy – hope for energy and industrial policy

Morocco has adopted ambitious quantitative targets for renewable generation capacity, 2GW of wind and 2GW of solar power are to be installed by 2020. If these targets are met, renewable energy sources would constitute over 30% of installed generation capacity in the country, which poses a challenge to system operation because of the variable nature of these sources. Wind and solar power plants are developed through a tender process for BOO licenses to private developers for specific sites and technologies. Electricity is then purchased by the state agencies, ultimately by the National Electricity Office (ONE), under long-term off-take agreements at fixed prices.

In order to expand solar power generation, MASEN was established to organize tenders, purchase electricity and on-sell it to ONE. The price difference is covered by the state budget. The first tender for a 125MW power plant using concentrated solar power technology with chemical energy storage in Ouarzazate has been issued and the conclusion of the tender is expected within the next several months.

Government guarantees are required by investors to mitigate the credit risk created by state-owned off-takers. The impact of these financial liabilities on public finance and the sovereign debt rating will need to be monitored in the event of rapid deployment of the more expensive renewable technologies. Risks can be mitigated by increasing both the transparency and the commercial strength of the sector. This can be achieved through commercialization, unbundling, the gradual introduction of a bilateral electricity market and the establishment of an independent sector regulator in line with good international practice.

The renewable energy targets are included in both energy and industrial policies. In energy policy, they aim initially to substitute for energy imports and eventually to create a green generation base for future electricity export to Europe. As part of the country's industrial policy, they aim to stimulate innovation and education, create jobs and lead to domestic manufacturing of new technologies. In particular, the support for solar energy is integrated with industrial development policies, as Morocco hopes to become a leader in manufacturing solar power technologies. In order to support this, the Government has funded a Renewable Energy Research Centre, which supports research & development primarily in solar technologies.

CEE participants shared the success stories and lessons learned supporting renewable energy in Europe where excessive and premature support for solar PV created additional financial burdens in relatively wealthy countries. CEE participants recommended implementing stable support policies that do not strictly target specific technologies, if these technologies are costly and less mature. They stressed that in Morocco rapid deployment of wind power may be very cost-effective as the country has high quality wind resources (40% load factor). If the most efficient wind turbines are used, the cost of wind electricity should reach grid parity, so operational subsidies would soon be gradually phased out. Solar power remains a less mature technology, although costs of photovoltaic panels decrease each year, pointing to the rationale of careful, phased deployment. Concentrated solar power (CSP) remains the least mature and most expensive solar technology and there are merits in delaying deployment until its commercial viability improves.

The discussion addressed the EBRD's experience working in this sector. EBRD has vast experience financing privately developed renewable energy under various policy regimes. Larger projects are financed directly, while smaller projects are reached through local financial intermediaries or private renewable energy development funds. The Bank also offers policy advise and technical assistance to develop adequate support regulations.

Energy Efficiency

Efficient energy consumption is also included in the country's new energy policy. ADEREE was recently established, as a successor to the entity that was created in 1982 in order to address energy efficiency (EE). EE is primarily addressed in the country energy plan through developing EE standards setting codes for buildings, coaching industrial plants on EE and establishing a system of energy auditors. ADEREE has developed a solar heating programme for residential buildings, which includes installation subsidies per square meter of solar collection, however, its approval by the government is still ongoing. Relevant experience to accelerate deployment can be shared with Turkey.

Currently, the EU finances 2 million EUR for improvements of energy performance in buildings in order to demonstrate the profitability of such measures. According to expert estimates natural insulation, using simple, locally available technologies can reduce air conditioning energy consumption by 50%.

CEE experience indicates that cost-reflective end use energy prices and tariff structures that reflect the different values of energy by location and time are necessary, though not always sufficient, conditions for successful EE improvements.

EBRD has expertise and experience in financing EE projects for enterprises, as well as funding EE measures in public and residential buildings. The Bank has a specialized team that focuses on energy efficiency projects in order to ensure they reach successful financial closures. Large-scale projects are financed directly with tailor-made technical assistance to project sponsors. To finance smaller projects, the Bank develops partnerships with local financial institutions and extends credit lines that are on-lent to small enterprises, households, energy service companies or municipalities with specially structured technical assistance packages. As in the case of renewable energy, the Bank also engages in regulatory advice and technical assistance to public agencies in order to remove discrete barriers that inhibit energy efficient investments.

Regionalization

The Moroccan government is undergoing a process of decentralization and is delegating further powers to the regional authorities, in several sectors including the energy sector. ADEREE supports the development of the regional energy strategies. Cities are encouraged to demonstrate the pilot implementation of new approaches to introduce energy efficiency by integrating renewable sources and green transports. This is part of the initiatives under the "Union pour la Mediterranee".

Independent regulator

An independent sector regulator, which balances the interests of both consumers and producers, is a crucial institution in well functioning energy systems. Establishment of an independent energy Regulator is envisaged by 2013 with the enactment of the gas law.

Recommendations:

- Continue addressing security of supply by deepening energy markets, including cross-border trade and diversifying the sources of energy supply, including increasing the use of privately developed and commercially attractive renewable resources.
- Mitigate the investment risk in the energy sector by further commercializing, unbundling, and introducing a bilateral electricity market.
- Establish an independent sector regulator that balances the interests of both producers and consumers.

Roundtable 4: Financing Private Enterprise to Support Competitiveness, Innovation and Employment

This session was chaired by Abdelali Benamour, Chairman, Competition Council and Alain Pilloux, Managing Director, Industry, Commerce and Agribusiness, EBRD. The session was attended by experts and representatives from the public and private sector as well as from private sector companies in Poland, Serbia, Turkey and Latvia. The dialogue primarily addressed the need for government and businesses to create an improved environment for innovation-driven competitiveness and increased productivity that would create new, higher-paid, higher-quality jobs beyond the transition period.

Abdelali Benamour opened the session by discussing the need Morocco faces to increase its competitiveness in the global market through innovation. Morocco's competitiveness in the global economy is currently derived from the cost advantages industry achieves obtained by paying workers low wages, however, the country still faces difficulties competing in the global market. For example, the rate of coverage of imports by exports is only 50% of which, over 25% comes from phosphate mining. He also highlighted the need for Morocco to adopt a growth model that accounts for growing social demands such as those adopted in other emerging markets like Brazil.

Reforms to develop innovation thus far have been limited, and there is a need to adopt further reaching reforms in order to develop the country's long-term competitiveness despite the political costs these reforms may bring in the short run.

Participants from CEE and Turkey explained that the reforms their governments implemented that had been critical in increasing the competitiveness of their economies had targeted the overall business and investment climate rather than specific sectors or companies. For example, these reforms included upgrading infrastructure, often through public-private partnerships, as well as reforming tax systems including the adoption of flat taxes in some countries. These reforms have not only attracted foreign investment, but have also stimulated investment by local businesses. Participants from CEE stressed the need to create favorable conditions for innovators by addressing the barriers to innovation businesses currently face. They also expressed skepticism about the measures that can lead government to directly stimulate innovation.

Currently, the government has implemented policies to promote innovation such as creating "innovation cities," however; there is a need to incorporate policies that encourage innovation into the sector specific policies launched by the government in the recent years such as the Plan Emergence, which aims to facilitate the development of globally competitive industries in Morocco, the Green Plan for the agriculture industry, and the Halieutis Plan for the fishing Industry.

There is also need to reform the country's education system. There is a disconnect between the primary and secondary education systems, which instruct students in Arabic, and the Universities for sciences and technology, which instruct in French. In addition, in order to compete in today's world students must master Arabic, French, and English. The selection process for Universities was discussed as a barrier to innovation. In addition, participants suggested that many universities are not adequately funded because of very low tuition costs.

There is also a need to conduct a thorough review of the features of vocational and continuing training programs. The Office Chérifien des Phosphates recently launched a program that will train 15,000 youth and will subsequently employ a third of those trained. Participants encouraged the development of additional programmes of this nature that provide both training and employment in innovative fields.

Innovative ventures have limited access to finance. Participants cited a risk averse mentality in the banking sector, an insufficient familiarity with innovative projects, and rigid regulations in the financial sector as the primary reasons they are not able to obtain financing from banks. There are still very few venture capital funds and business angels investing in innovative projects.

The session concluded with discussion on the general climate of reforms, and the conditions under which further-reaching reforms could be implemented. The conversation addressed the growing gap between the elite and the rest of society and the potential implications this may have for further reform. While the provisions recently taken by the King to accelerate democratization are welcomed, further reforms will be needed in order to improve the business climate for investment in innovative businesses and technologies. Participants highlighted the need for the public sector to continue pushing through reforms and for the private sector to increase its willingness to support innovation in all sectors of the economy.

Recommendations:

- Reform the education system to provide students with the skills the labour market is seeking by launching additional programs such as the one run by the Office Chérifien des Phosphates that will both train and employ youth in innovative fields.
- Develop of an innovation policy that spans all sectors and complements the existing sector specific policies.
- Create favourable conditions for innovators by addressing the barriers that currently exist such as a lack of access to finance and a lack of collaboration between the universities and industry.

Roundtable 5: The Role of Private Equity Investment in Creating Long-term Value for the Economy

This discussion session was co-chaired by Brahim El Jai, Vice President, Moroccan Assocation of Private Equity (AMIC) and Robert Manz, Managing Partner, Enterprise Investors, Central and Eastern Europe. The session was attended by participants from Syntaxis Capital, Central Europe and Mediterra, Turkey as well as major private equity funds in Morocco, lawyers, consultants, accounts, Ministry of Economy and Finance officials, and industry specialists. The conversation focused on the challenges and opportunities faced by the private equity

(PE) industry in Morocco and the Maghreb region, and comparisons and lessons learned from the development of private equity in CEE and Turkey.

Comparison between CEE and Morocco

Robert Manz opened the discussion by sharing his experience with the PE industry in Poland, which started to develop in the 1990s. Key similarities were drawn between the PE industry in CEE and Turkey and Morocco. Both have nascent but developing PE industries with country-focused funds that are evolving and expanding region-wide. Other similarities include high levels of returns, dynamism and deepness of capital markets, and a presence of local managers. There are however, key differences, which include the lack of independence of fund managers in Morocco, a limited presence of institutional investors, and the absence of the long-term objective to join the EU.

Despite the significant differences between the PE industry in Morocco and in CEE and Turkey, there are several lessons learned from CEE that highlight the following:

- It is important to market the success of private equity investments in the country, as well as incentives, so as to attract foreign direct investments;
- High growth potential sectors should be identified so funds are able to focus on best market opportunities;
- Independent qualitative fund managers generally come from international companies; hence the possibility to mobilize the Diaspora (as seen in Turkey);
- An appropriate ecosystem should be in place, eliminating legal and regulatory constraints and limiting the direct intervention of the government for the financing of innovation and support to SMEs;
- Exits should be facilitated by taking into account economic cycles.

Building an investor rationale, regional integration

Funds in CEE were able to attract foreign capital as EU and NATO integration provided investors with a clear idea of market direction and priorities. This allowed investors to make long-term bets knowing what the policy goals and directions of the national governments were as well as the direction that industries and businesses were likely to move in. There is a clear need for Moroccan funds to identify the country's key factors of competitiveness and attractiveness for foreign investors. The Arab Spring provides an important element of such a story. Regional integration was also identified as an important component for attracting foreign investments, particularly given the unique position of the Maghreb region as a portal to Africa. Integration would also increase the market from approximately 30 million people in Morocco to more than 100 million people across the Maghreb region, which provides further opportunities for growth. It would also make companies more attractive to strategic investors as it would enhance exit prospects. Lastly, regional integration is not just a potential aspect of the investment story for investee companies, but it can be an important aspect of fund managers' strategies. While local funds often benefit from the support of local investors, regional funds may attract more international commercial capital, and wider access to attractive investments that help grow portfolio companies.

Creating Value in Portfolio Companies

Participants from the CEE and Turkish funds emphasized that in their first 10 years, the successful investments made were in industries such as financial services, most commonly in commercial banks, but that they have now moved into niche commercial services such as receivable collection companies. The most successful investments came in companies that were locally dominant, but had the potential to be globally successful. This example was perceived as highly relevant for the Moroccan funds.

PE funds in Morocco should therefore identify and focus on niche markets or sectors with high growth potential, local strength and global prospects, thus enhancing prospects for exits. For example, Morocco has attractive companies in a number of sectors including food, agribusiness, and infrastructure.

There are opportunities for the industry to shift from a focus mainly on growth capital to succession-oriented transactions as the private equity product becomes more well-known in the market and as the generation who established companies post independence increasingly faces succession challenges. Venture investment also has potential to succeed in Morocco and may also create employment, however, most funds currently active in the market do not specialize in venture capital. The policy approach to funding new ventures has promoted extensive government involvement, which as pointed out by some participants may distort market opportunities and create non-commercial results.

The benefits of developing mezzanine funds that invest in debt rather than in equity in Morocco were also addressed. Mezzanine funds are currently active in the lower middle market in CEE, but almost not active in Morocco. They are involved not only in buyouts, but also provide growth capital directly to companies.

Strategic exits are a critical issue in the Moroccan PE industry. While the Casablanca Stock Exchange, much like the Warsaw Stock Exchange, has enabled funds to make a substantial number of successful exits, the financial crisis has affected the enthusiasm of potential investors. The industry has seen more success in exits from regional companies as there are more potential investors at the regional level.

Fundraising

Fundraising and access to new commercial investors were identified as important priorities for Moroccan funds as approximately 60% of capital investment still comes from Development Financial Institutions (DFIs). Four criteria for the evaluation of funds by commercial investors were identified:

- The fund teams should have complementary experience in investing, developing investments, bringing value to investments, and knowledge of exits;
- The team should have a proven track record, with value creation and high level of returns;
- Fund structure should allow for alignment of interests at all levels.
- The investment pipeline should be well developed and be coherent with the investment strategy and market opportunities.

Participants agreed that funding from IFIs and DFIs was critical for first time funds, but that bringing commercial capital in the later stages is crucial. It was also noted that the independence and commitment of fund managers as not only fund managers, but as co-investors is important to attract investment.

Regulatory Framework

There is a need in Morocco to improve the fiscal and legal frameworks for private equity funds in order to attract both domestic and international investment into locally based funds. A taskforce from AMIC was mandated to benchmark 17 fiscal elements that affect management, fundraising, and target enterprises in order to attract international investors. In addition, between 2000 and 2005, substantial progress was made in the regulatory environment for equity funds, however, substantial challenges still remain. A new law has been drafted over the last years, but has not yet been approved by the Parliament, which would increase transparency and flexibility with respect to the legal and fiscal modalities. Participants pointed to similar legislation passed in Tunisia prior to the revolution as an example of the legislation needed in Morocco.

Substantial legislative changes would also be required for the emergence of mezzanine funds in the region. Mezzanine funds would require a framework for secured lending in addition to a bankruptcy regime that facilitates restructuring and gives priority to new money. A legal framework that allows companies to take on an appropriate level of debt is also necessary.

Participants stressed that the aim of any legal changes should be to remove barriers for commercial investors. It was also emphasized that any government matching programs may distort the market.

Recommendations:

- Improve the legal and fiscal frameworks, including taxation of funds and private equity investments, fiscal consolidation and strengthening of corporate governance.
- Accelerate the development of a national strategy to support innovation and identify a workable model for early stage and venture investment
- Develop and market a compelling investment story for foreign private investors, which is likely to encompass regional integration combined with a role in continental Africa.

CLOSING PLENARY:

Morocco's Blueprint Through Transition and Beyond

The closing plenary was moderated by Fadel Agoumi, Publishing Director of La Vie économique. The moderators of each round table discussion reported on the findings and recommendations of their respective discussions.

Latifa Echihabi, co-chair of the session *Promoting Growth and Employment through the Development of Small and Medium Enterprises (SMEs)*, reported that the discussion focused on access to finance for SMEs. Morocco's banking sector is, by international standards, solid and mature and the quality of Central Bank supervision is well recognized. This, however, makes it difficult for SMEs, who lack the adequate skills to abide by the strict rules imposed by commercial banks, to obtain formal financing. SMEs in remote areas of the country do not have access to support services and face significant obstacles in obtaining formal financing. Alternative financing mechanisms, such as business angels and private equity funds, are still at an early stage of development in the country. The panel suggested three areas that should be prioritized in order to increase access to finance for SMEs: increase support for micro-enterprises; strengthen the financial skills of SMEs; and facilitate the integration of informal SMEs into the formal sector.

Amine Berrada Sounni, co-chair of the session *Modernizing the Agribusiness Value Chain and Investing in Food Security: Finding Opportunities in Constraints,* explained that there has been a sharp decline in the added value of Moroccan agricultural production in the past several years as well as a net deterioration in its food trade balance. The discussion consequently revolved around two main questions: 'How to increase the quantity and quality of Morocco's production?' and 'How to promote food processing activities and thereby lower imports of processed products?' The country needs to address the issue of land ownership, which is a major impediment to economies of scale. In addition, Morocco has positioned itself in the fresh market but the link between fresh products and the agro-industry is still under-developed. The discussion addressed the lack of access to international markets, some of which are protected, and stressed the fact that the current tax system incentivizes agriculture production over the agro-industry. The session's participants therefore identified a set of solutions that includes: improving the fiscal system; reducing land atomization; increasing efforts on marketing and the development of Moroccan brands; and adjusting the current Green Plan. He concluded by suggesting the need for Morocco to move away from a strategy based on productivity and adopt, like many CEE countries did, an industrial strategy whereby the demand for products will be driving the offer, and not the opposite.

Moulay Abdellah Alaoui, co-chair of the session *Preparing for a Sustainable Energy Future*, provided his assessment of Morocco's strengths and weaknesses in the energy sector. The country is highly dependent on imported energy, which has large financial consequences. Although oil still dominates the country's energy mix, he noted, the use of coal and renewable energies is gradually increasing. Access to energy has improved significantly because of the rural electricity programme and there is now a solid network of both public and private providers nationwide. In addition, structural reforms over the last 4-5 years have led to the creation of key institutions such as ADEREE and the Research Institute on Solar and Renewable Energy (IRESEN). Looking forward, he argued that although Morocco's Solar Plan is set to play a major role in the country's future, it will also be necessary to invest in natural gas in order to respond to an increasing domestic demand for energy. He said that a national plan for the production and distribution of gas is currently being developed and added that the building of a nuclear power plant by 2030-2040 may also be considered.

Alain Pilloux, co-chair of the session, *Financing Private Enterprise to Support Competitiveness, Innovation and Employment* discussed the findings from the round-table discussion. He insisted on the need for countries to invest in innovation in order to improve their competitiveness and business climate. Morocco has been working on this for many years, he noted, and significant efforts have been made to ensure macroeconomic stability and to prepare for the country's economic transition to a true knowledge economy. To boost competitiveness, he highlighted, Morocco needs to develop a real 'industrial policy' whereby specific sectors (such as agri-business, for instance) would be selected to become the future leaders of the country's economy. The development of SMEs, as addressed in other discussions as well, is a priority. Education and skills mismatch, including language skills, remain a critical issue in Morocco, as was the case in CEE, and will need to be tackled strategically.

Brahim El Jai, co-chair of the session *The Role of Private Equity Investment in Creating Long-term Value for the Economy,* presented an analysis of private equity development in Morocco. PE activities started about ten years ago, he explained, and there has been clear progress in the number of funds and investors. There are now 20 funds in the country, which primarily invest in industry and services. The number of beneficiary companies, however, remains limited (around 100) because of the lack of transparency of management methods in many Moroccan companies. For this reason, investments have mainly been concentrated in large companies. Private equity funds, he acknowledged, have also been cautious in their approach and have not been supportive enough of SMEs or companies still at early stages of development. Raising funds to invest in these companies remains a challenge. He also underlined the discrepancy in development between local and regional levels as local investors tend to favor local markets while international investors prefer regional ones. In this area too, he noted, greater regional integration in the Maghreb would offer significant opportunities for economic dynamism.

Mats Karlsson, Director of the Center for Mediterranean Integration (CMI), discussed the many challenges and opportunities that lie ahead for Morocco and called for an ambitious strategy aimed at developing the country into a new 'BRIC'. Its proximity to major markets is an asset for this, but Morocco will have to diversify its economy in order to successfully achieve this. More importantly, he said, this kind of transformation cannot happen without regional integration. The MENA region currently represents only 2-3% of global trade and could benefit greatly from further progress in this area. Education and, more broadly, the knowledge economy, are areas where major breakthroughs are needed. Benchmarking, as suggested in the opening plenary discussion, is very useful and this is why the CMI has recently developed a University Governance Screening Card, which enables higher education institutions in the MENA region to compare themselves to their counterparts around the world, monitor the progress of their governance practices over time, and assess the overall performance of their education system. Beyond education, he pointed, it is crucial to develop a comprehensive knowledge economy strategy, which will enable more Moroccan businesses to integrate into the global and regional value chains. This is the objective of CMI's current work on knowledge economy and employment. What is at stake, he emphasized, is to support social cohesion and to limit the transaction costs of the transition process.

Alain Pilloux, Managing Director for Industry, Commerce and Agribusiness at the EBRD, concluded the day's exchanges by stressing the importance of the EBRD providing not only financing opportunities but also, and more importantly, advisory and technical assistance. The objective of the EBRD, he stated, is to take advantage of the ongoing changes, to tackle structural issues at the sector level, and to work as a partner not only as a financier. The EBRD has deliberately chosen to open its country office in Casablanca in order work closely with and understand the needs of the private sector.

ANNEX

European Bank
for Reconstruction and Development

TRANSITION TO TRANSITION INITIATIVE

A peer-to-peer approach for transfer of reform experience to the Southern and Eastern Mediterranean region

Summary of the T2T Initiative

The Transition-to-Transition (T2T) Initiative is a framework within which the EBRD can facilitate and exploit a "peer-to-peer" exchange of transition and reform experience between the Bank's current countries of operations and countries of the Southern and Eastern Mediterranean region.

In this spirit and among other activities, under the heading "From One Transition to Another", the Bank will help organize a series of events in the region in the coming months (Egypt, Morocco, Tunisia and Jordan). The Bank's role will be that of a facilitator, bringing old and new "peers" of reforms together, and a listener in order to better understand the differences between the reform experiences in the two regions.

Focusing on private sector development, the transfer will involve plenary panel discussions with high-level policy makers, private and public sector experts and think-tanks on broader reform insights, including political and social aspects, as well as thematic, interactive parallel sessions on specific experience in EBRD priority sectors.

Background and motivation

At the summit in Deauville in May of this year, the G8 gave an ambitious new mission to the EBRD and other international financial institutions to assist the recovery and the transition of a number of economies in the North Africa and Middle East region. In this process, the EBRD would like to engage with a wide range of stakeholders in the private as well as in the public sector and civil society to assess and respond to those challenges in the best possible fashion and in a spirit of collegiality and shared purpose.

The Southern and Eastern Mediterranean region has had a mixed reform experience thus far and the international institutions are to varying degrees associated with this record. In addition, there is an inherent negative sentiment about Washington Consensus conditionality and Western-imposed solutions. As a result, policy recommendations coming from sources associated with these institutions and such approaches are easily rejected.

As the people in the Southern and Eastern Mediterranean region get to grips with the challenge of translating the civil values for which they fought in the recent popular protests into practical and sustainable policies and institutions, they are keen to hear and learn from other transition experiences and countries that have been through the process themselves and managed to implement transition successfully. Several countries in Central and Eastern Europe, as well as other emerging countries around the world serve as reform models for the new governments in the Southern and Eastern Mediterranean region. Some direct contacts have already been established, but there is scope for much more exchange.

The EBRD was asked to enter the Southern and Eastern Mediterranean region because the European transition experience was deemed relevant and the Bank’s model of development in Central and Eastern Europe with a strong focus on the private sector was seen as the most acceptable and appropriate for the new region. However, the historical and political context, as well as the specificity of the recent experience of the “new” region, would require the

Bank to take a position of a “listener”, at least at the beginning, to better understand the differences in reform experience in the two regions and in that way respond adequately to the needs and the challenges of the ”new” region.

The attractiveness of the peer-to-peer approach

The ultimate choices, models of governance and policies will have to come from the people in the Southern and Eastern Mediterranean region themselves. However, without seeking to impose specific models, others who have been through the process can share opinions, experiences and best practices learned as developed by local actors. The process of dialogue and conversations can create new thinking and opportunities for exploring alternative perspectives.

International experience shows that peer exchanges work best when the exchanges are designed as mutually beneficial, i.e. not strictly in a paradigm of teaching/learning (more advanced to less advanced). This does not mean that the skills exchanged/knowledge transferred have to be equally beneficial to all participants, but it does preserve the space to appreciate local conditions and stimulate creative thinking and perhaps new knowledge to address the particular issue in the exchange.

The greatest impact is achieved when the peers are actively engaged in the design of the transfer of experience, so peers are not seen as "outsiders," but rather as partners. This takes time and trust, and investment over time to provide opportunities for local actors to build their own knowledge (through learning other experiences) and to participate in meaningful civic discourse at home. This is why follow-up exercises and events will be most important.

The role of the EBRD in the peer-to-peer transfer of experience

The EBRD can facilitate the sharing and transfer of transition experience from the existing countries of operations to the Southern and Eastern Mediterranean region by formulating the adequate framework and creating a platform for such exchanges.

The Bank's role will be that of a facilitator, bringing old and new "peers" of reforms together, and listener in order to better understand the differences between the reform experiences in the two regions.

Focusing on private sector development, the transfer will involve events and activities in different locations with the participation of high-level policy makers, private and public sector experts and think-tanks on broader reform insights, including political and social aspects, as well as expert-to-expert exchanges on specific experience in EBRD priority sectors.

High-Profile Advisory Board

To give visibility to the initiative, a Board of prominent policymakers from the two regions will be approached to lend their names to it. The Board would provide advice on the framework and platforms for such exchanges of experiences, policy strategies, case studies and analytical tools, and meet in different constellations for high-profile “peer-to-peer” exchanges of experiences.

A group of policymakers have already confirmed:

- Kemal Dervis, Former Finance Minister of Turkey
- Simeon Djankov, Finance Minister of Bulgaria
- Bozidar Djelic, Former Deputy Prime Minister of Serbia
- Jan Fischer, Former Prime Minister of Czech Republic
- Radoslaw Sikorski, Foreign Minister of Poland
- Valdis Zatlers, Former President of Latvia
- Gordon Bajnai, Former Prime Minister of Hungary
- Ivan Miklos, Former Deputy Prime Minister and Minister of Finance of the Slovak Republic

This group will be joined by a set of prominent policymakers from the countries of the Southern and Eastern Mediterranean.

Draft schedule of forthcoming events and activities

i) Launch event at the World Economic Forum on the MENA region - 21-23 October 2011, Dead Sea, Jordan

To launch this initiative, the EBRD Office of the Chief Economist (OCE), jointly with the WEF team, has conceptualized a panel on the transfer of reform experience from Central and Eastern Europe to the Southern and Eastern Mediterranean region, which will be held at the WEF regional meeting in Jordan in October.

The EBRD Chief Economist will take part in several panels of the public and private programme of the World Economic Forum, including sessions on the transfer of reform experience, with findings and successful case studies from the transitional economies of the Bank’s existing region.

An accompanying media effort prior to and during the Forum will be prepared jointly with the EBRD Communications Department. The launch event will be followed by a set of activities and events in the region.

ii) EBRD ‘T2T’ events in the Southern and Eastern Mediterranean region – Q4 2011/Q1-2 2012

The Bank, jointly with local partners, will organize T2T events in each of the following countries:

- Egypt: Cairo – 24 October 2011
- Tunisia: Tunis – 12 December 2011
- Morocco: Casablanca – 27 February 2012 (programme in the Appendix)
- Jordan: May 2012

High-level policy makers from the “old” and “new” regions will be brought together on a panel to share insights about broad reform experiences, including political and social aspects, and potentially explore alternative perspectives for the “new” region.

In addition, thematic, interactive parallel sessions on specific experience in the EBRD priority sectors will bring together public sector experts, think-tanks, entrepreneurs and banks for an exchange of views on how to stimulate private sector investment in the new region.

A draft working agenda for the events in Egypt is included in the Appendix. Subsequent events in the other countries would follow a similar format, adjusted to local circumstances.

iii) Follow-up activities

The EBRD will also seek to partner with other well-established international institutions and organizations to give further visibility to this initiative (tentatively through the Centre for Mediterranean Integration (CMI), but others could be contemplated), in the form of joint programmes and activities.

To continue the sector dialogue, the Bank will consider hosting regional events across the Southern and Eastern Mediterranean events, focused on specific sectors, providing opportunities for further strengthening and deepening of the T2T dialogue across countries in this region.

Stimulating Growth and Investment During Transition

Transition to Transition (T2T) Initiative

Organized by the European Bank for Reconstruction and Development (EBRD)

with

the Centre for Mediterranean Integration (CMI)

the General Confederation of Moroccan Enterprises (CGEM)

the Centre for Young Leaders (CJD)

and

the Moroccan Association of Businesswomen (AFEM)

27 February 2012

Sheraton Hotel, Casablanca

The Transition-to-Transition (T2T) Initiative is a framework within which the EBRD can facilitate a "peer-to-peer" exchange of transition and reform experience between the Bank's current countries of operations (Central and Eastern Europe and Turkey) and countries of the Southern and Eastern Mediterranean region.

The aim of this meeting is to understand the short- and mid-term priorities for Morocco, particularly the private sector, by engaging and sharing of reform experiences among public and private sector experts from Morocco, Central and Eastern Europe (CEE) and Turkey.

Agenda

27 February 2012

09:00 - 09:30 Registration and welcome coffee

09:30 - 10:30 **Opening Plenary**

Room Fes 1&2

Understanding the Economic Challenges Facing Morocco, through Transition and Reform Insights from Central and Eastern Europe

Transition experience in central and eastern Europe suggests that the benefits of moving to a more open and accountable government and economy are attractive to many stakeholders of society, but they may only materialize in the medium and longer term. During the period of transition, uncertainty can cause slow-down in investment, and economic challenges can emerge in the immediate term. Evidence from earlier transitions shows that the sequencing of political, economic and social reforms in an uncertain economic and political environment is very important, and so is the role of the state institutions, an enabling business environment as well as external anchors.

How will the country achieve growth while overcoming social exclusion? What kind of Morocco will emerge from the current transition?

Moderator: Jonathan Charles, Director of Communications of EBRD

Panelists:

- Nizar Baraka, Minister of Economy and Finance of Morocco
- Abdelkader Amara, Minister of Industry, Commerce and New Technology of Morocco
- Gordon Bajnai, Former Prime Minister of Hungary
- Bozidar Djelic, Former Deputy Prime Minister of Serbia
- Mohamed Horani, President of General Confederation of Moroccan Enterprises (CGEM)
- Hazim Sebbata, President of Centre for Young Leaders (CJD)
- Soraya Badraoui, President of Moroccan Association of Businesswomen (AFEM)
- Erik Berglof, Chief Economist of EBRD

10:30 - 11:00 Coffee break and networking

11:00 – 13:00 **Parallel, interactive roundtables**

Participation in all roundtables is by invitation only

Format: *Closed, by-invitation-only, interactive roundtables aimed at sharing of experience among all participants. The format will be a roundtable, with no formal presentations. The Chair of each session will introduce the subject matter for discussion, request 3min introductory remarks by the discussion leaders for a max of 25 minutes then open the discussion to all participants. 15 minutes before the end of the session, the Chair will formulate preliminary conclusions. The Chair of each session is expected to prepare the issues for discussion with the discussion leaders ahead of the meeting and define and circulate a note on these issues to all the session participants in advance of the meeting.*

ROUNDTABLE DISCUSSION 1

Room Fes 1

Promoting Growth and Employment Through Development of Small and Medium Enterprises (SMEs)

Although Micro, Small and Medium-Sized Enterprises (MSMEs) account for over 93% of active enterprises in Morocco and contribute to 38% of GDP and 46% of total employment, they are yet to effectively realize their full potential in creating and sustaining inclusive growth in Morocco as access to private sector finance is still a major challenge for many SMEs. Loans to SMEs account for only about 24 percent of total lending and obtaining the necessary level of collateral to borrow continues to be difficult for many SME entrepreneurs. The SME sector in Morocco faces a number of structural weaknesses including lack of competitiveness, low capitalization, under-funding, as well as poor productivity, and limited management skills.

What are the most appropriate ways of supporting the development of SMEs across Morocco, as the main contributor to employment and growth for the whole country? How can the availability of appropriate financing (including “mini-finance”) and credit schemes for SMEs be increased, in urban as well as remote rural areas? How can the financial literacy and bankability of SMEs improved? What is needed to deepen financial intermediation and strengthen the institutional environment to support lending to SMEs? What are the roles of the Central Bank, the government, commercial banks, the capital market and international institutions in ensuring a flow of finance to SMEs?

Discussion Chairs: Latifa Echihabi, Director General, National Agency for the Promotion of Small and Medium-size Enterprises (ANPME) and Marko Skreb, Chief Economist, Privredna Banka Zagreb (PBZ), Croatia and former Governor, National Bank of Croatia

Introducers:

- Karim El Aynaoui, Director of Economics and International Relations, Bank Al-Maghrib (Central Bank of Morocco)
- Saad Hammoumi, Vice President, SME Commission, CGEM
- Soumia Alami Ouali, Director for SME banking, People's Bank (Banque Populaire)
- Mohamed Aitri, President, Prominox
- Mykola Udovychenko, Chairman, Ukrexim Bank, Ukraine
- Klaus Priverschek, CEO, UniCredit Bank, Serbia
- Francis Malige, Director, Financial Institutions, EBRD

ROUNDTABLE DISCUSSION 2

Room Fes 2

Modernising the Agribusiness Value Chain and Investing in Food Security: Finding Opportunities in Constraints

Agriculture accounts for 13% of Morocco's GDP but absorbs 41% of total employment. Primary agricultural production suffers from insufficient use of fertilizers, inefficient irrigation, outdated machinery and inefficient subsidies. A complex land tenure structure, combined with inefficient use of water for irrigation, poses further productivity constraints. Irrigation consumes around 86% of Morocco's available surface water, permitting year-round irrigation of about 900,000 of a potential 1.35 million hectares. Inefficient irrigation limits agricultural production and creates vulnerabilities to extreme climate events such as droughts. The majority of agricultural production is traded and exported unprocessed, leaving substantial room to develop higher, value-added, processed products. Infrastructure along the value chain, logistics and distribution channels remain underdeveloped and there is a lack of modern and efficient supplier networks. Private sector financing for the agriculture sector remains scarce. These challenges, however, can be attractive investment opportunities.

How can the private sector support the liberalization of the agricultural sector to promote greater productivity, competitiveness, efficiency and higher value-added products? How can access to finance by increasing collateralisation options be improved? What are the challenges and opportunities for the private sector to invest along the entire food value chain and encourage transfer of skills and know-how, leading to a more productive, competitive sector?

Discussion Chairs: Amine Berrada Sounni, President, National Food Processing Federation (FENAGRI) and Miodrag Kostic, CEO, MK Group, Serbia

Introducers:

- Aziz Abdou, Member of the Board, Moroccan Association of Fruit and Vegetable Producers and Exporters (APEFEL)
- Kacem Bennani Smires, CEO, Groupe Delassus
- Hakim Marrakchi, Director General, Maghreb Industry
- Neven Vrankovic, Vice President, Atlantic Grupa, Croatia
- Milan Djakov, Director, Indemnity Fund, Serbia
- Gilles Mettetal, Director, Agribusiness, EBRD

ROUNDTABLE DISCUSSION 3

Room Fes 3

Preparing for a Sustainable Energy Future

Morocco is importing close to 95% of its primary energy demand, while industrialisation and consumer demand are on the rise. To meet increasing demand, coupled with limited domestic fossil fuel reserves, the use and development of renewable energy technologies has been a priority for the Government, but has only recently become a major policy objective. Morocco aims by 2020 to improve energy efficiency by 12% and have 42% of power generation capacity from renewable sources. If the country is to succeed in its targets and make the electricity sector more financially viable in the long run, a major reform of the energy sector will be needed, as well as private sector investment in renewable capacity, including wind, biomass and solar.

What are the development levers that could enable Morocco's to pursue market liberalisation reforms, unbundling and privatization of its energy sector? How can the Moroccan industry be supported to invest in acquiring technology to improve energy efficiency and increase its use of renewable energy? How can the country implement robust legal frameworks to promote the development of renewable capacity and develop a transparent financial support system to meet its targets? What measures are needed to develop a competitively traded electricity market for renewable energy and address institutional barriers to unlock potential for energy efficiency?

Discussion Chairs: Moulay Abdellah Alaoui, President, Federation of Energy and Milko Kovachev, Former Minister of Energy, Bulgaria

Introducers:

- Mohamed Yahya Zniber, Secretary General, Ministry of Energy and Mines
- Yassine Belkabir, Manager, Ouarzazate Project, Moroccan Agency for Solar Energy (Masen)
- Sonia Mezzour, Secretary General, Agency for the Development of Renewable Energy and Energy Efficiency (ADEREE)
- Zbigniew Prokopowicz, CEO, Polish Energy Partners
- David Koranyi, Former Under-Secretary of State of Hungary and Energy Security Expert
- Terry McCallion, Director, Energy Efficiency, EBRD

ROUNDTABLE DISCUSSION 4

Room Marrakech-Rabat

Financing Private Enterprise to Support Competitiveness, Innovation and Employment

Morocco struggles with high and persistent unemployment, especially among young university graduates who have unemployment rates of above 40%, which is especially high in urban areas. The gap between the male and female labour force participation is also considerable. While the education system generates a large number of higher-education graduates, the economy is dominated by sectors employing mostly low-skilled workers. There is a need to continue shifting from a low value-added and low-cost production structure to a high value-added, knowledge-intensive economy. In order to achieve this shift, the business environment must be enhanced to promote competitiveness of the economy. Investments in human capital, promoting higher levels of research and development, modernizing production facilities, improving the management and transparency of SMEs, development of technology clusters, incubators and related infrastructure are necessary *now* in order to compete in an innovation-based global economy.

What can government and businesses do to create a better environment for innovation-driven competitiveness and increased productivity, beyond the transition period? Which sectors have high potential for job creation and building of niche industries? How can the country best leverage on its human capital and support entrepreneurship, to generate employment, improve regional integration and promote a more resilient and diverse market economy?

Discussion Chairs: Abdelali Benamour, Chairman, Competition Council and Alain Pilloux, Managing Director, Industry, Commerce and Agribusiness, EBRD

Introducers:

- Mounia Boucetta, Secretary General, Ministry of Commerce, Industry and New Technologies
- Fathellah Sijlmassi, President, Moroccan Investment Development Agency (AMDI)
- Omar Balafrej, Director General, Casablanca Technopark
- Brahim Berrada, Assistant General Manager, Hightech Payment Systems HPS
- Piotr Jelenski, Chief Financial Officer, Asseco, Poland
- Dragica Pilipovic, General Manager, Serbia Broadband (SBB)
- Aytac Mutluguller, Manager, International Finance and Investments, Sisecam, Turkey

ROUNDTABLE DISCUSSION 5

Room Lewa-ElAin

The Role of Private Equity Investment in Creating Long-term Value for the Economy

Morocco's entrepreneurship potential is much larger than what is currently being realised and further developing the country's financial sector will help the country tap this potential. Morocco is perceived as having a developed private equity

Industry for the region, which however remains rather fragmented. Diversification of the private equity product offering remains very low, the venture capital industry is at an early and formative stage. Investment strategies are mainly focused on capital expansion of primarily larger companies. Against this background, the private equity industry faces the challenge of a continued deployment of funds in light of the crisis, the need to strengthen and increase locally-based fund managers given lack of management and investment expertise and further develop the institutional investor base.

What can government and business do to promote the country and local teams for them to become more attractive to foreign and local private investors? What are the pre-requisites for attracting a stable international, regional and local investor base, promoting greater investor interest in this asset class and in the underlying investee business? What can be done to promote the development of more specialised funds and/or investment products, such as venture capital or mezzanine financing in the country? How can fund managers create long-term value for portfolio companies (including implementation of best practices related to environmental, social and corporate governance) and contribute to regional integration and consolidation? What is needed to foster a competitive financial sector to encourage further growth, availability of a wide range of financial instruments and exit routes via capital markets?

Discussion Chairs: Brahim El Jai, Vice President, Moroccan Association of Private Equity (AMIC) and Robert Manz, Managing Partner, Enterprise Investors, Central and Eastern Europe

Introducers:

- Hassan Laaziri, Director General, CDG Capital Private Equity
- Anas Guennoun, Principal, Abraaj Morocco
- Omar Chikhaoui, Director General, Capital Invest
- Ben Edwards, Managing Partner, Syntaxis Capital, Central Europe
- Murat Erkurt, Founding Partner, Mediterra, Turkey
- Anne Fossemalle, Director, Equity Funds, EBRD

13:00 – 14:30 Lunch and Networking

Dafra

15:00 - 16:30 Closing Plenary

Room Fes 1&2

Morocco's Blueprint Through Transition and Beyond

Morocco's foundations for future economic success are being laid in parallel with its transition to democracy and fully-functioning market economy. Government and business leaders will face the challenge of managing a delicate balance between uncertainty in the short term, protecting the economically vulnerable population and accomplishing economic competitiveness in an increasingly complex and volatile global market. There is one certainty, however, that Moroccans are determined to rely on their home-grown development programmes and agendas.

What proposals, guidelines and strategic advice can the participants of this meeting offer the EBRD and Morocco for a successful partnership in building a sustainable and prosperous future for the country?

The plenary will begin with the moderators of the group sessions reporting back to the plenary on the findings of their respective sector discussions, followed by the government responding to those challenges and ending with an interactive discussion and Q&A with the audience.

Moderator: Fadel Agoumi, Publishing Director, La Vie Economique

Discussion Leaders

- Latifa Echihabi, Director General, National Agency for the Promotion of Small and Medium-size Enterprises (ANPME)
- Amine Berrada Sounni, President, National Food Processing Federation (FENAGRI)
- Moulay Abdellah Alaoui, President, Federation of Energy
- Abdelali Benamour, Chairman, Competition Council
- Brahim El Jai, Vice President, Moroccan Association of Private Equity (AMIC)
- Mats Karlsson, CMI Director
- Alain Pilloux, Managing Director, Industry, Commerce and Agribusiness EBRD

CONTACT INFORMATION

Erik Berglöf
Chief Economist
European Bank for Reconstruction and Development
One Exchange Square, London EC2A 2JN
Tel: +44 20 7338 6805
Mob: + 44 78 0251 0725
Email: berglöfe@ebrd.com

Bojana Reiner
Adviser to the Chief Economist
European Bank for Reconstruction and Development
One Exchange Square, London EC2A 2JN
Tel: +44 20 7338 6940
Mob: + 44 79 2103 9865
Email: reinerb@ebrd.com

Rebecca Greenberg
Intern, Office of the Chief Economist
One Exchange Square, London EC2A 2JN
Tel: + 44 20 7338 7235
Email: greenber@ebrd.com