



KINGDOM OF MOROCCO

Court of Accounts

Chamber IV

Summary Report n°3/14/CH IV

**Performance Audit of
The Marketing and Export Office (MEO)**

March 2015

SUMMARY

Presentation

The Marketing and Export Office¹ (MEO) is a public corporation created in 1965. It enjoyed the monopoly of the export of agricultural and agri-food products, the control of such exports and the organization of Moroccan participations in international fairs and events abroad.

After the liberalization of the export sector 1986, Law n° 30.86 of 1993 on the reorganization of MEO put an end to this monopoly and redefined the Office's scope of intervention now limited to the export of agricultural and agri-food products.

To make it possible for MEO to adapt to its new context, a restructuring plan was launched in 2005 by the public authorities. In 2009, the Office was the object of a strategic study to specify a repositioning strategic plan. However, these two actions could not allow MEO to enjoy a successful transition to be able to operate in an increasingly competitive context.

I. ASSESSMENT OF REORGANIZATION AND REPOSITIONING

I.1 Unfinished reorganization

MEO restructuring plan, initiated as of 2005, relates mainly to the (i) institutional, (ii) portfolio and contributions, (iii) social and financial aspects.

With regard to the institutional aspect, the plan recommended the transformation of MEO into a public limited company integrating the activities of its subsidiary companies, SOCOBER and SOCAMAR. To materialize this aspect, a draft law on the transformation of MEO into a public limited company was examined in 2006. Nine years later, this draft law did not go through.

As for the portfolio and contributions aspect, the restructuring plan provided for the rehabilitation of MEO portfolio, along with the liquidation of the companies that are out of business and the maintenance of those in business. However, in 2014, this rehabilitation was still not completed. Indeed, five companies were not liquidated although some of them had been out of business since the 1990s (SOPEM and IMEC).

Concerning the social aspect, while the voluntary departure operation made it possible for MEO to reduce its wage bill in a gradual fashion, it had the direct consequence of reducing its manpower and causing the vacancy of key managerial positions.

¹ Office de commercialisation et d'exportation (OCE)

Within the framework of such restructuring plan, it was recommended that MEO should disengage the pre-financing of agricultural seasons taking into account the problems involved in this system and the collection of the amounts advanced to farmers, assessed as of the season 2012-2013 at 300.26 million MAD, or 15 times the average annual revenues of MEO. However, it was noted that MEO continued pre-financing producers in various forms. Moreover, the actions conducted by the Office to collect its outstanding debts have not been successful, in spite of its recourse to the services of specialized companies.

I.2 Failed strategic repositioning

In 2009 the Office entrusted to a private firm the preparation of a study in order to specify a new strategic plan and its translation into multiannual action plans, as well as the design and establishment of a new organizational model for 1.8 million MAD.

The study led to a strategic plan proposing a new positioning. Adopted by MEO board of directors in January 2010, this plan hinges on two major axes, namely (1) a sourcing policy and (2) a sales strategy.

1.2.1 Sourcing policy

The sourcing policy consist of specifying the priority geographical areas that would accommodate the aggregation projects of the Office in view of their potential as regards agricultural production, as well as defining the methods of the local organization of development through the search for finance mechanisms for agricultural seasons and support for the agricultural supplies of producers.

- **Geographical targeting**

The study recommended a geographical targeting of producers, priority crops and basins. The basins should be served by four preparation and packaging stations as well as 21 collection and valorization platforms distributed among the four priority regions adopted, namely: Eastern Region, Gharb, Doukkala-Abda and Tadla in addition to four refrigerating centers located in Casablanca, Agadir, Berkane and Tadla.

However, it was noted that except for the refrigerating stations held by the subsidiary company of MEO in Casablanca, Agadir and Berkane, MEO could not ensure an effective presence in these priority basins.

- **Financing agricultural seasons and supporting agricultural supplies of producers**

MEO intervention system within the setting of pre-financing producers was supposed to set up a tripartite contractualization involving producers, a financial institution and MEO within the framework of the financial advances upon production. These

advance payments were to be made exclusively in the form of inputs for agricultural supplies of producers. Within this framework, MEO signed in 2009 an agreement with OCP² for a budget amounting to 90 million MAD.

However, MEO did not respect its contractual obligations. Indeed, while the Agreement targeted the producers of the Doukkala-Abda Region, its implementation rather benefited Souss-Massa Region with approximately 60% of the distributed inputs. Moreover, the major part of inputs benefited large-scale farmers. Hence four producers monopolized more than 86% of the inputs distributed, out of a total of 26 producers, in violation of the provisions of the Agreement which exclusively targeted small and medium-size farmers.

In addition, the analysis of the administrative files of the recipients of these inputs within the framework of such agreement showed that MEO managed this project with little rigor, considering the significant input amount advanced to some producers, as well as the expertise which it did not provide to this project.

Consequently, this project left uncollected outstanding debts amounting to almost 11.23 million MAD due to OCP (out of a mobilized amount of approximately 16.48 million MAD). This has caused MEO to lose a valuable partner (OCP) which could have supported it in other actions within the framework of its missions and hence would have contributed to solving the problem of pre-financing producers.

- **Valorization**

MEO strategic plan provides for a set of actions in the valorization stations. It also recommended the establishment of a system for the certification of agricultural products in order to improve their competitiveness, to control their traceability and to open onto new export markets.

Mechanisms to introduce in the stations

Preparation and packaging constitute a major step for the preparation of the agricultural products for both domestic consumption and export. However, while for many products distributed locally these operations are limited, the exported products require preparation and packaging in conformity with the regulations and requirements of the consumers of targeted markets.

In this regard, the strategic plan recommended to MEO establishing the necessary mechanisms and tools for the alignment of the processes of conditioning, storage and packing to the standards and requirements of the target markets.

However, it was noted that MEO did not implement any element of this valorization system. Indeed, for the refrigerating centers, the only technical infrastructures of MEO Group in business, none of the above-mentioned mechanisms was set up. The

²Office Chérifien des Phosphates

same applies to the packaging station of Sidi Slimane, which MEO provided free of charge to SOCAMAR³. Indeed, it was noted that the operation of the aforesaid station is governed by no technical framework or specifications defining the valorization procedures to be followed and the technical requirements to respect by type of crop and target market.

Support program for the certification of small and medium-sized agricultural producers

MEO choice to position itself in the niche of local and solidarity-economy products placed it in direct relationship with small farmers operating under agricultural co-operatives or economic interest groups (EIG), which are generally production entities with an artisanal character.

However, to market this category of products at the international scale, particularly in the European and American markets, some technical requirements to access markets are to be respected. The large stores which monopolize the major part of trade in these countries impose, on their suppliers, the certification of both the products exported and the related packaging infrastructures. These certifications should be established on the basis of processes identified by these stores and attested by reputable firms.

To be able to penetrate these markets, MEO signed in September 2011 a partnership agreement with the ministries in charge of foreign trade and finance, relating to a support program for the certification of small and medium-sized agricultural producers for the period 2011-2013. The agreement concerns the certification of 3.818 beneficiaries and 158 infrastructures for an area of 10.450 hectares over the period of 2011-2013.

To carry out this program, the State was committed to mobilizing 10.6 million MAD, eight million MAD of which was provided in May 2012 to finance a support program for the certification of small and medium-sized farmers for the agricultural season 2012-2013. However, until June 2014, no action had been conducted within this framework.

It emerges from the preceding exposition that MEO remains incapable of performing the legal mission assigned to it under Law n°30.86, namely exporting agricultural and argi-food products. This finding was corroborated by the analysis of MEO export activity, which showed that the Office reached very low or even insignificant levels: a turnover of approximately 246.412 MAD for the agricultural season 2013-2014, achieved via the E-commerce sites of the Office, which gets products in small amounts to markets abroad, often regarded as samples.

³ Société de commercialisation d'agrumes et autres fruits et légumes au Maroc (Company of Marketing Citrus Fruits and other Fruits and Vegetables in Morocco)

I.2.2 Key lines of the marketing strategy

MEO strategic plan provided for a positioning by product/market pairs and the actions of “branding” and certification to allow the products of the Office a better access to the markets.

- ***Product/market positioning***

In order to conform to the orientations of the Interdepartmental Commission and the provisions of the governmental strategy in the agricultural foreign trade fields, the strategic plan proposed to MEO devoting itself to its basic sector, namely the agricultural and agro-industrial sector including the entire set of its components: conventional products in their fresh and processed condition, bio-products, local products, fair-trade products, 4th range products ⁴ and agri-food products.

However, in terms of achievements, the breakdown of the sales of MEO Group by product/market pair showed that it does not have any presence on the local and international markets of agri-food and 4th range products.

As for the other products, MEO does not have an effective presence on the international market.

- ***Branding⁵ and labeling***

This relates to establishing a differentiation of MEO products (trademark, labeling, quality, origin) on the basis of which the Office could communicate. It also relates to the organization and support of certification and labeling of the products marketed and exported by MEO.

The analysis of this aspect demonstrated that MEO Group does not have a trademark policy that is well defined by product category (biological, fair trade...) and has not implemented any mechanism of product branding as stipulated in its strategic repositioning plan. The concentration of its efforts of sourcing and marketing on local products and fair trade has driven it to a difficult situation. Indeed, the small producers of co-operatives offer products under various manufacturer trademarks with varying qualities, prices and packaging forms so that there are as many marks, prices and qualities as there are producers for the same product. However, in order access international markets, supply should be homogeneous and rewarding in terms of trademark, packaging and price. Never the less, except for the initiative launched by the Office in May 2014 with argan oil co-operatives (relating to the creation of a trademark for consumption argan oil and another for cosmetic argan oil), no branding action was undertaken by the Office for the other products, knowing that it lists more than 2936 products.

⁴ 4th range products are fruit and vegetables ready for consumption (washed, prepared, cut out and ready to use).

⁵ Branding (or trademark management) is the entire work which consists in building the brand image.

In addition, MEO created a trademark called “Amurinou” in 2013. However, no communication was conducted with regard to this trademark; nor was the relevant stratification carried out by sector or level of quality required for its horizontal use for products of various sectors.

With regard to labeling⁶, the agreement concluded by MEO in September 2011 to support the certification of small and medium-sized agricultural producers has been blocked since that date.

II. ASSESSMET OF THE PERFORMANCE OF LEGAL MISSIONS

MEO missions, as they are performed, also result from its strategic repositioning plan, particularly with regard to the trade of local and solidarity-economy products, as well as local trade. With regard to this aspect, it should be emphasized that the Office manages to sell the products inside the country via its subsidiary company, SOCAMAR, considering that the above-mentioned Law n° 30.86 authorizes it to operate only on the international market.

In addition, MEO performs other missions entrusted to it within an agreement framework, consisting of the supply of some administrations.

In order to carry out its missions, MEO mainly conducts the following activities: (1) the aggregation of small and medium-sized farmers, (2) the marketing of products on the local and international market, and (3) providing supplies to local communities.

II.1 Aggregation

This model of organization that allows farmers to team up with actors with strong managerial capacities, makes it possible for aggregate producers to benefit from modern production technologies and funding as well as access to domestic and foreign markets. It hinges on a partnership ranging between the productive upstream and the commercial and industrial downstream, on the basis of contracts specifying the obligations of the two parties within the framework of well-identified aggregation projects.

For MEO, as an aggregator, three aggregation forms result from its strategic repositioning: 1) aggregation of small and medium-sized producers, 2) aggregation of local and solidarity-economy products, and 3) aggregation for providing supplies to processing industries.

⁶ A label is a distinctive sign (or labels created by a professional organization) affixed on a product to certify its origin, the quality and manufacturing conditions with standards pre-established in the relevant specifications.

II.1.1 Aggregation of small and medium-sized producers

Within the framework of the Green Morocco Plan, in May 2010 MEO as an aggregator signed seven aggregation agreements with the Agricultural Development Agency (ADA) and Regional Directorates of Agriculture (RDA) concerned.

According to the information provided by MEO, except for “Tadla-Azilal Apples” Aggregation, none of the above mentioned aggregations was implemented. The relevant investigations showed that other aggregations were implemented but without any significant results.

In general, the performances achieved within the framework of the seven aggregation projects remain insignificant. Hence for the agricultural season 2012-2013, the achievements hardly exceeded 0.41% in terms of production, 1% in terms of aggregate area and the number of farmers concerned.

The marketing network offered by MEO is the same one practiced by the producers relying on their own resources, who manage to sell their products at prices better than those obtained by the Office.

Thus, MEO, as an aggregator, did not provide any added-value to the product and failed to honor its contractual obligations with respect to the aggregate farmers.

Reports of MEO meetings with its partners (ADA, RDA, ORMVAG, farmers...) show an outstanding amount to be collected as of 4 June 2013 of approximately 1.5 million MAD for the citrus fruits project and one million MAD for the artichoke project.

II.1.2 Aggregation and development of local and solidarity-economy products

It is a form of commercial aggregation, since MEO intervenes primarily in the phase of product marketing by constituting the interface between supply and demand. This “marketing aggregation” allows, inter alia, reducing the networks of intermediaries and ensuring for aggregate producers the marketing of their products at the local and export levels at higher incomes. It also allows, in the event of international sales, sharing export costs.

The assessment of this form of aggregation as presented by MEO Group shows 780 co-operatives incorporated for the agricultural season 2013-2014 with a turnover amounting to more than 17 million MAD. With regard to the marketing of local products, the Office created 8 “joint stores” (through which it achieved a turnover of approximately 16.7 million MAD for the agricultural season 2013-2014) and e-markets.

The investigations conducted, particularly with the department in charge of the management of procurement for partner co-operatives, showed that the figures put

forward by MEO are exaggerated. Indeed, out of the 780 declared co-operatives, there are 230 co-operatives and 10 EIG whose products are listed by the Office.

As for the turnover of solidarity stores which reached, according to MEO, 16.7 million MAD for the agricultural season 2013-2014, it actually amounts to only 2.2 million MAD. The difference, 14.5 million MAD, corresponds to the transactions of olive oil sales to the Royal Armed Forces.

II.1.3 Aggregation for providing supply services to processing industries and the development of the exports of processed products

According to the strategic plan, the Office should offer marketing services by type of customer. The agro-industry professionals belong to the customers of MEO, which should provide them with a set of services, including supply from collection and development platforms as well as supply clustering.

Within this framework, MEO signed a framework agreement with the Federation of the Canning Industries of Agricultural Products of Morocco (FICOPAM⁷), on 10 February 2014, which aims at organizing the supply of the sectors of table olives, capers, medicinal and aromatic plants as well as fruit and vegetable canning by individual co-operatives and producers via the action of aggregation and development of MEO Group.

However, as of July 2014, no measures had been taken to implement such agreement and no agreement by sector had been concluded within this framework.

II.2 Marketing

II.2.1 Marketing on international markets

The analysis of MEO “export” activity shows that this mission is carried out only as an ancillary one. Its share in exports of agri-food and agricultural products has been increasingly declining over the years, due on the one hand to its incapacity to adapt to the de-monopolization of the sector initiated in 1986 and the appearance of new exporting groups of agricultural and agri-food products, which are well-structured with strong growth potential and, on the other hand, the incapacity of the Office to secure an adequate supply of exportable products.

While the best performance in terms of quantities exported over the period under study corresponds to the agricultural season 2009-2010 with approximately 6.337 tons of processed vegetable products, early fruit and vegetables as well as citrus fruits products exported together, this figure remains very poor compared to the one

⁷ Fédération des Industries des Produits Agricoles du Maroc

achieved a few years earlier. Indeed, MEO achieved, only for citrus fruits and early products, in 1998-1999, a quantity amounting to 90.218 tons.

In addition, with reference to the targeted export sales within the framework of the strategic plan shows that the achievements are rather insignificant, since they do not even reach 1% of the objectives expected by season.

Finally, as for the status of MEO as an exporter, it should be noted that it does not have a real presence on the export market. The exported quantities remain insignificant as against those exported by the other “top 20” exporting groups.

It stands to reason that the entire set of the preceding analyses converge towards the same conclusion: **MEO is not a significant actor in the sector of the export of agricultural and agri-food products, and therefore does not accomplish its legal mission.**

II.2.2 Marketing on the local market

Since MEO is not entitled to operate on the local market, it does so through its subsidiary company, SOCAMAR. To this end, several marketing channels are used, namely solidarity and fair stores, the large and medium-sized stores (LMS), E-commerce and direct sales.

- **Solidarity and fair stores**

The interest of MEO Group in local and solidarity-economy products drove it to implement a mechanism dedicated to co-operatives and small producers, consisting, inter alia, of the marketing of their products through a wholesale, semi- wholesale and retail store. The first shop was opened in April 2012 in Casablanca, then five others in 2013 in Mohammedia, Agadir, Larache, Fès and Témara. The year 2014, in turn, witnessed the opening of two stores, one in Béni-Mellal and the other in Marrakech.

With regard to the turnovers of the seasons 2012-2013 and 2013-2014, respectively 6 and 16.74 million MAD, they are achieved mainly by the store of Casablanca with a turnover share of almost 86% and 94% successively.

The turnovers of solidarity stores for the seasons 2012-2013 and 2013-2014, (excluding the transactions of olive oil sales to the Royal Armed Forces), are poor, as they stood at 3.01 and 2.22 million MAD respectively.

- **Other marketing channels**

The marketing of local and fair trade products is also carried out via the e-business platform available to MEO Group, made up of four online sale sites. Through this channel, the products are sold at the domestic and international scales. The turnover recorded for this channel remains weak, approximately 0.32 million MAD for agricultural season 2013-2014, including all markets.

Concerning the sales to LMS, MEO via its subsidiary company, SOCAMAR, conducts rather small specific operations relating to unprocessed agricultural products.

As for direct sales, over all the period under study, SOCAMAR marketed only Tadla apples within the framework of the agreement of aggregation linking MEO Group to small and medium-sized producers in the region. Through this agreement, the Group was committed to collecting the harvest in its refrigerators to commercialize it on the local and export markets. The sales recorded within this framework remain weak, since SOCAMAR acts merely as an intermediary agent.

In conclusion, the level of the transactions conducted for the domestic market, including all channels, remains poor and falls way short of the targeted objectives. Hence the agricultural season 2010 - 2011, the target achievement rate in terms of turnover is 1.41%. This rate is 0.04%, 2.13% and 3.39% for the three following seasons.

II.3 Providing supplies to local communities

Except for its legal mission established by Law n° 30.86, consisting in the export of agricultural and food industry products, MEO performs other ancillary missions entrusted to it within an agreement framework by certain administrations. These operations do not involve any movement of MEO funds, since the payment is directly made by the related administrations. The Office plays only the role of the project owner which conducts the preparation and launching of the invitations to tender and the establishment of the consultation regulations.

Concerning the provision of supplies to some populations in need, MEO draws from its own funds, initially, for the payment of its suppliers, and then collects the relevant amounts from the Compensation Fund, ONICL⁸, and licensed vendors.

III. Assessment of the financial position of MEO group

In the absence of consolidated financial statements of MEO Group (MEO, public corporation and its subsidiary company, SOCAMAR), in conformity with Law n°38-5 on consolidated financial statements of public establishments and companies, the

⁸ National Interprofessional Cereals and Pulses Board

Court conducted the assessment of the financial position of each entity taken separately over the period from the agricultural season 2008-2009 to the agricultural season 2012-2013. Thus, it initially analyzed the composition of the products of MEO exploitation⁹, then it studies the interpretation of some accounting and financial indicators relating to each entity.

III.1. Concerning MEO public corporation

The analysis of the revenues generated from the various activities and missions conducted by MEO shows that most of such income is increasingly generated from ancillary missions. Likewise, a good part of its revenues comes from the hiring of buildings not related to the operation. Indeed, since the agricultural season 2009-2010, the share of the revenues coming from the export, which is the legal mission of MEO, are increasingly declining over all the period under study. Hence for the agricultural season 2012-2013, MEO intervention fees related to its mission are practically null (0.08%), as against 56.02% for those related to providing supplies to some administrations and 43.90% correspondent to collected rents. This situation makes the Office dependent on ancillary and transitory activities.

In addition, the analysis of MEO accounting and financial indicators showed that the Office no longer creates any value. Over the period under study, its added-value remains negative. Put differently, the output of the Office is lower than its intermediate consumption. The tax and staff expenses exacerbate the deficit, leading to a gross operation insufficiency sometimes exceeding 80% of the total income (case of the agricultural season 2010-2011).

Similarly, financial profitability is poor, even negative, which means that the capital invested by MEO no longer generates any profit.

III.2. Concerning the subsidiary company SOCAMAR

With regard to SOCAMAR, a subsidiary company at 100% of MEO and operational lever of its core business, it is a structurally loss-making entity. While it generates a positive added-value, unlike MEO, such value is absorbed by labor and technical factors. For some financial years, particularly 2009-2010 and 2012-2013, the added-value remains insufficient to cover the two production factors. This leads directly to a negative operating income and hence a net loss over all the period under study.

In addition, equity declined due to cumulative deficits suffered during the various campaigns.

⁹ The analysis of the composition of operating revenues related only to OCE. For the remainder of the analyses, they related to the two entities, OCE and SOCAMAR.

In conclusion, the preceding analyses converge towards the same finding: **MEO and SOCAMAR are two financially unprofitable entities.**

MAJOR RECOMMENDATIONS

After a first mission conducted by the Court of Accounts in 2010, following which the public authorities were invited to reflect upon the future of MEO in view of its precarious situation, the present audit mission allowed reconsidering the same findings with more problematic dimensions that require immediate reactions from the competent authorities.

In its current configuration, the MEO is not viable.