

SURVEY



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Morocco: drawing out of payment periods, a perplexing trend?

Contrary to 2016, which was characterized by a low economic growth of 1.4%, 2017 is marked by higher expectations with growth expected to exceed 4%. Paradoxically, the question of payment periods and delays has never been more current now in this context.

Therefore, the periods observed are far from the 60 days recommended by the new regulatory framework, but this extension may be temporary and could be explained by economic factors. Companies are in fact expecting a stabilization of payment periods and delays in the coming months.

- 2** Payment periods that are clearly getting longer
- 4** How are late payments evolving?
- 4** A few explanations...
- 6** Companies anticipate a stabilization of their payment periods and an improvement of their economic environment
- 7** Appendices

Especially since the implementation of the new Act 49-15 to develop the regulatory framework governing payment periods in Morocco has fuelled debate. The text provides for, among other things, reducing the legal term between the issuance of the invoice and the final payment to 60 days.

For the third consecutive year, Coface is conducting the Moroccan payment behaviour survey, the aim of which is to monitor the evolution of payment periods and delays. A new development, the 2017 edition also questions companies about their payment behaviour expectations for the next 6 months.

The preliminary results of the Coface survey show the lengthening of payment periods in 2017, regardless of the sector of activity, size or type of business. This finding differs significantly from that which has been reported in previous surveys. In 2017, the average payment period has reached 99 days versus 82 in 2016.



While more than 30% of respondents said in 2015 that that the time between the transmission of invoice and collection was between 30 and 60 days, this share decreased to 24% of respondents in 2016 and 11% of respondents in 2017.





Who are the participants?

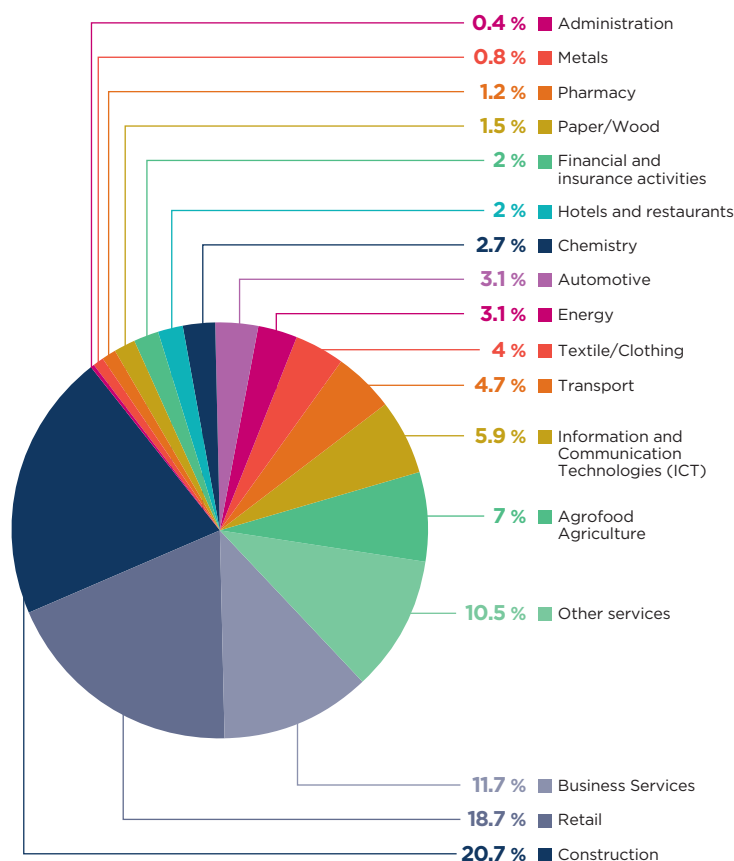
256 companies in different business sectors were willing to participate, 48 more than in 2016. Among the sectors most represented, the respondents work in construction (20.7%), distribution (18.7%), manufacturing (13.7%), services (business services 11.7% and other services 10.5%), agri-food (7.0%) and telecommunications (5.8%). The panel for this survey edition includes more exporting companies than in 2016: 3.5% only sell their products abroad and 28.5% are present in both the international and domestic markets. Conversely, 67% of the companies operate only in the domestic market, compared with 69.7% in 2016 and 61.5% in 2015. Companies with fewer than 20 employees remain the most likely to have responded to the survey, but the percentage of medium-to-large-sized companies is larger at close to 10% ⁽¹⁾.



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1 PAYMENT PERIODS THAT ARE CLEARLY GETTING LONGER

Chart 1
What is your main business activity?



Source: Coface payment Survey

In the first section, we questioned companies about the average payment period they face with respect to their business. While more than 30% of the respondents in 2015 stated that it took between 30 and 60 days between the issuance of the invoice and the collection of payment, we note that this percentage decreased to 24% of the respondents in 2016 and 11% of the respondents in 2017. Companies that reported payment periods of more than 120 days have increased significantly, while the proportion of companies with customer delays between 90 and 120 days remained stable. On average, payment periods were 66 days in 2015, 82 days in 2016 and 99 days in 2017.

^{1/} The Coface Morocco payment survey is a voluntary survey conducted on a sample of Moroccan companies, solicited electronically. The survey campaign took place between July and August 2017. The survey includes three families of questions and asks the companies about their experience over the past 6 months as well as their expectations for the next 6 months. It covers the payment practices of companies, payment periods and delays observed as well as having a section related to the economic conditions and situation of the companies. Of all the questionnaires sent out, 256 companies responded to our study, in other words a response rate close to 24%.



While some sectors such as construction observe traditionally long payment periods, longer periods appear to affect virtually all the sectors represented. In the first half of 2017, payment periods averaged 105 days for construction, 102 days for distribution and trading, 98 days for business services and 90 days for agri-food. They were 87, 89, 64 and 63 days respectively in 2016 (*charts 2 and 3*).

The proportion of payment periods exceeding 120 days has therefore increased significantly. It is at 45% for construction companies (38% in 2016), 46% for distribution companies (29% in 2016), 33% for agri-food companies and 47% for business services (*chart 12*). It should be noted that the service sector, represented by business services and other services, is an area where payment periods are generally shorter⁽²⁾.

As regards the distribution of **payment periods according to the size of the company** surveyed, larger companies (annual turnover of more than 175 million) is more likely to encounter payment periods exceeding 120 days. For very small companies (less than 3 million Moroccan dirhams), the periods are better distributed since 34% have payment periods of more than 120 days, 21% between 90 and 120 days, 17% between 60 to 90 days and 27% less than 60 days.

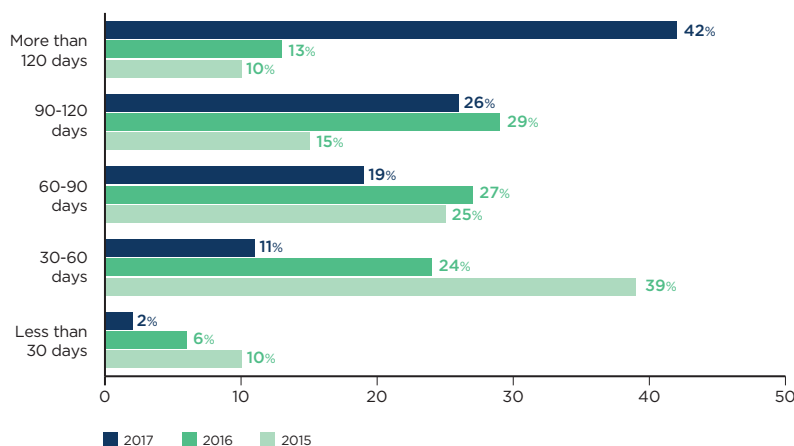
When respondents are asked about the evolution of their **payment periods according to the size of their customers** (*chart 11 in the appendix*), more than 50% say they suffer longer periods regardless of customer size. 53% of the sample noted an increase in payment periods for small and medium-sized companies, 10 points higher than in 2016.

Payment periods over the last six months have been drawn out both when customers are private companies and when they are public (*chart 10 in the appendix*). In fact, 59.4% of respondents observed that their payment periods with public companies (46% in 2016) have gotten worse over the course of the last six months. The figure is the same for private companies (compared with 52% in 2016). Only foreign companies appear to have been spared (payment periods are stable for 65% of the sample).



2/ The different surveys conducted by Coface in Morocco as well as in other countries (Asia, Poland, Germany and UAE) revealed that some business sectors, due to constraints specific to the nature of the sector or type of product, generally observe longer payment periods (construction) whereas others observe relatively short payment periods (services).

Chart 2
Average Payment term



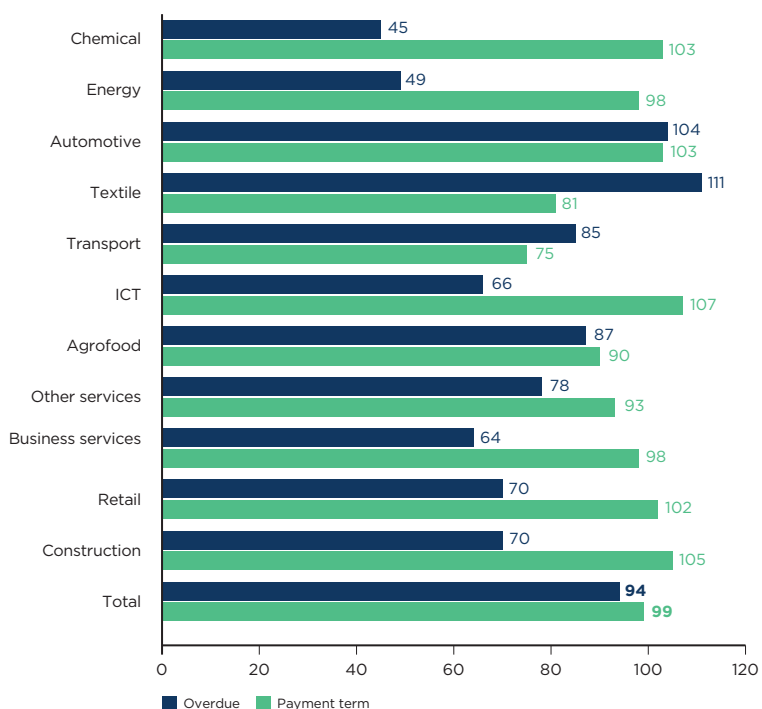
Source: Coface payment Survey



All sectors appear to be affected by a significant drawing out of the periods in the first half of 2017.



Chart 3
Payment term and payment delay by sectors and by number of days



Source: Coface payment Survey



2 HOW ARE LATE PAYMENTS EVOLVING?

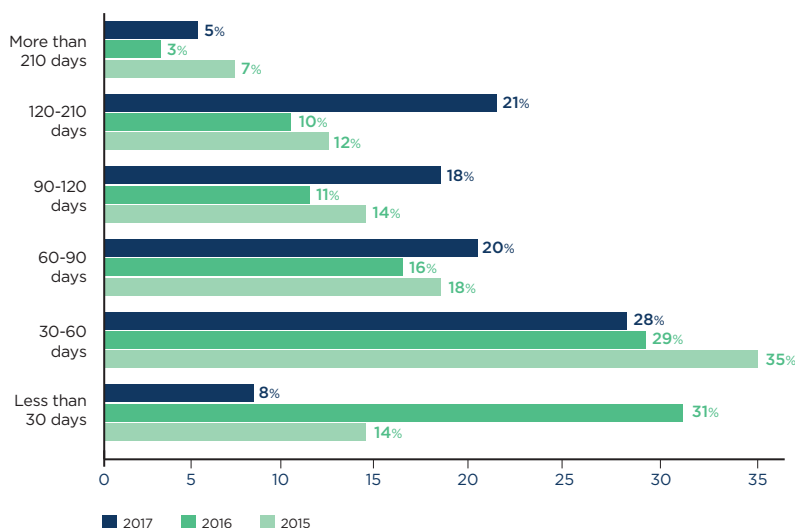
While late payments in 2016 tended to decrease, they are increasing in 2017. While the percentage of respondents with average delays of 30 to 60 days is stable (28%), companies with delays of 120 days or more are clearly increasing (21.4% for delays of 120 to 210 days and 5% for delays surpassing 210 days).

In terms of delays by business type, our respondents with customers in the public sector are more likely to report an increase in late payments. By sector, the companies with the longest delays are the industrial sectors, such as textiles (111 days) followed by automotive (104 days) and agri-food (87 days). Outstanding invoices also rose sharply, with more than 30% of the sample claiming to have outstanding invoices of more than 10%.

Despite a backslide in the payment periods of their customers, more than 83% of the sample does not apply a late payment penalty and 36% favour the establishment of an amicable agreement when they are faced with a default in payment by their customer. However, 30% of companies opted to stop deliveries (*chart 5*).

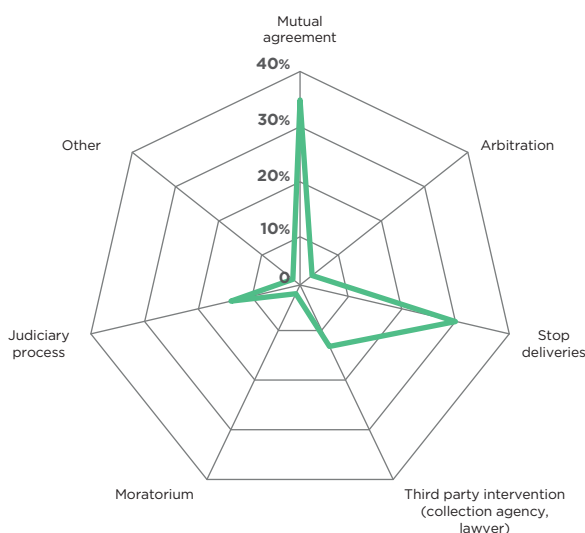
Finally, for exporting companies, it would seem that late payments abroad are concentrated mainly in Sub-Saharan Africa (27% of the sample) and in Europe (22%).

Chart 4
Average payment delay



Source: Coface payment Survey

Chart 5
Measures taken in case of late payments



Source: Coface payment Survey

3 A FEW EXPLANATIONS...

While economic activity made a marked recovery in the first half of 2017, the longer payment periods observed seem paradoxical. The economic downturn in 2016 could provide clues for an explanation. The decline in growth of almost 3 percentage points and the contraction of the agricultural GDP by more than 10% had an impact on business activity and its consequences seem to persist in the first quarter of 2017. Business failures⁽³⁾ increased by 15% on an annualized basis over the same period, with a peak between December 2016 and January 2017. This also corresponds to the period of increased political uncertainty related to the government's five month vacancy.



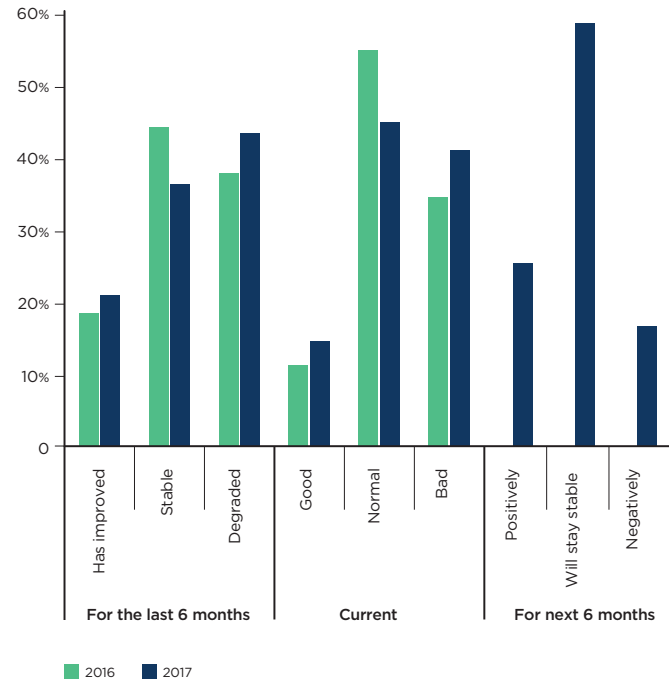
3/ Public data provided by Inforisk in 2017.



2016 economic downturn could provide piece of explanations. The decline in growth of almost 3 percentage points and the contraction of agricultural GDP by more than 10% had repercussions on business activity and its consequences seem to persist in the first quarter of 2017.



Chart 6
Cashflow situation



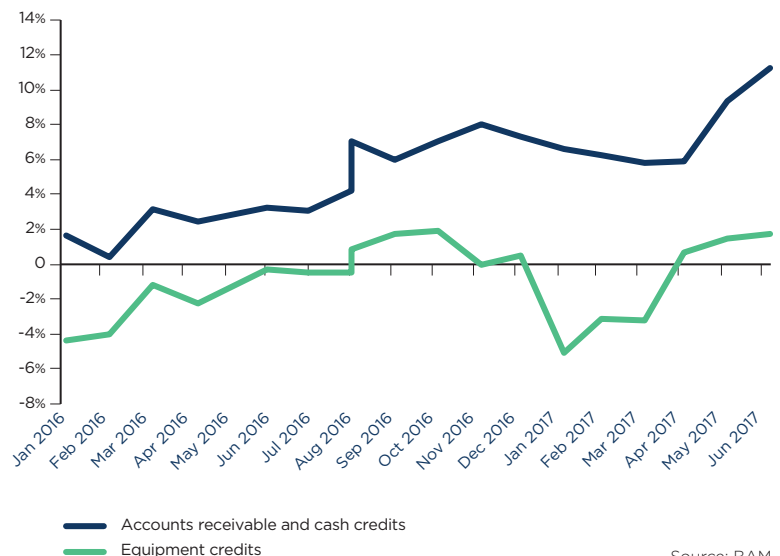
Source: Coface payment Survey

But the economic slowdown does not seem to be the only explanation. Lack of liquidity and access to financing can also lead to longer payment periods (*chart 6*). The number of respondents whose cash position has deteriorated over the past 6 months is up from 2016 (43% versus 37%). Similarly, the share of companies displaying a bad cash situation is increasing. Companies are also more likely to hedge against credit risk, as 43% of them do not use a third party to deal with their credit risk, compared to 57% in 2016.

The observations of our sample are reflected in the credit and loan data for companies published by the Moroccan central bank. In fact, between the last quarter of 2016 and the first quarter of 2017, the latter recorded a fairly steep decline, even though investment loans increased significantly over the same period (*chart 7*).

As in 2016, the increase in payment periods continues to have an impact on companies' investment behaviour. Companies with the longest payment periods tend to invest less than those whose average payment period is less than 60 days. Likewise, when payment periods are short, companies favour all types of investment (replacement as well as productivity investments). The longer the payment periods become, the more companies favour productivity-related investments.

Chart 7
Year-on-year growth in corporate lending



Source: BAM



4 COMPANIES ANTICIPATE A STABILIZATION OF THEIR PAYMENT PERIODS AND AN IMPROVEMENT OF THEIR ECONOMIC ENVIRONMENT

In the 2017 edition, we introduced new questions concerning the companies' expectations related to payment behaviour⁴. The latter shows that despite the longer payment periods over the past 6 months, companies do not expect a further backslide.

In fact, more than 50% of our respondents expect the stabilization of payment behaviour and only a quarter anticipate a deterioration over the same period. Only 23.8% expected improvement in delays and 16% expected to improve payment periods (*chart 15 in the Appendix*). The most optimistic companies, those that anticipate an improvement in payment periods, are those in the chemical and energy sectors. The same can be said for construction and distribution (*chart 16 in the Appendix*).

Even if they were to stabilize, the average payment periods observed in both 2016 and 2017 remain far from the limits that should be applied in the framework of Act 49-15⁵ to establish payment practices and the implementation of which is expected by the end of 2017.

In terms of activity, the results are more encouraging. While 35% observed a rise or a stagnation of their sales over the last six months, almost 47% anticipate an increase in their total sales volume over the next six months. 56% expect their sales prices to stabilize.



Even if they were to stabilize, the average payment periods observed in both 2016 and 2017 remain far from the limits that should be applied in the framework of Act 49-15.



55% do not expect investment to increase for the next six months, 44.5% plan to invest, and more than 40% of investors are considering productivity investment. Regarding the number of employees, more than half of the respondents are considering stagnating their payroll, and despite the longer payment periods, 53% said that their workforce remained constant over the six last months.

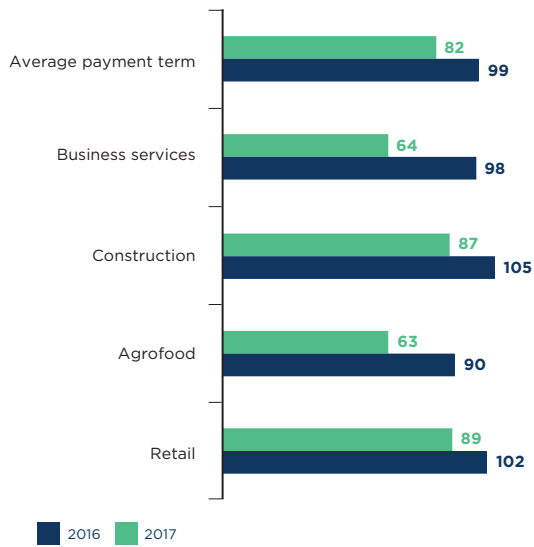
Finally, while they remain pessimistic about the changing business climate, despite the introduction of a new regulatory framework concerning payment practices, they are relatively positive with respect to the economic conditions in the coming months. In fact, 30% expect an improvement in the economic situation and 42% anticipate the situation to remain the same without change.

4/ In addition to those concerning their economic expectations.

5/ It replaces the original 2011 text (Act 32-10) and is expected to finalize the regulatory framework for the settlement of transactions. Articles 78-1 and 78-2 of the Commercial Code clarify the conditions governing the settlement of commercial transactions. When the payment period is not defined by both contracting parties, the statutory period is 60 days.

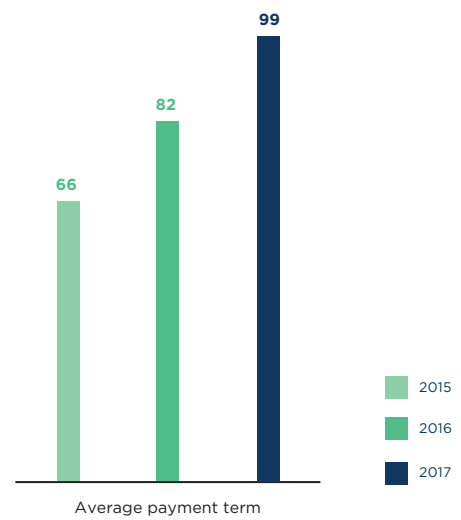
5 APPENDICES

Chart n°8
Change in the average payment term by sector



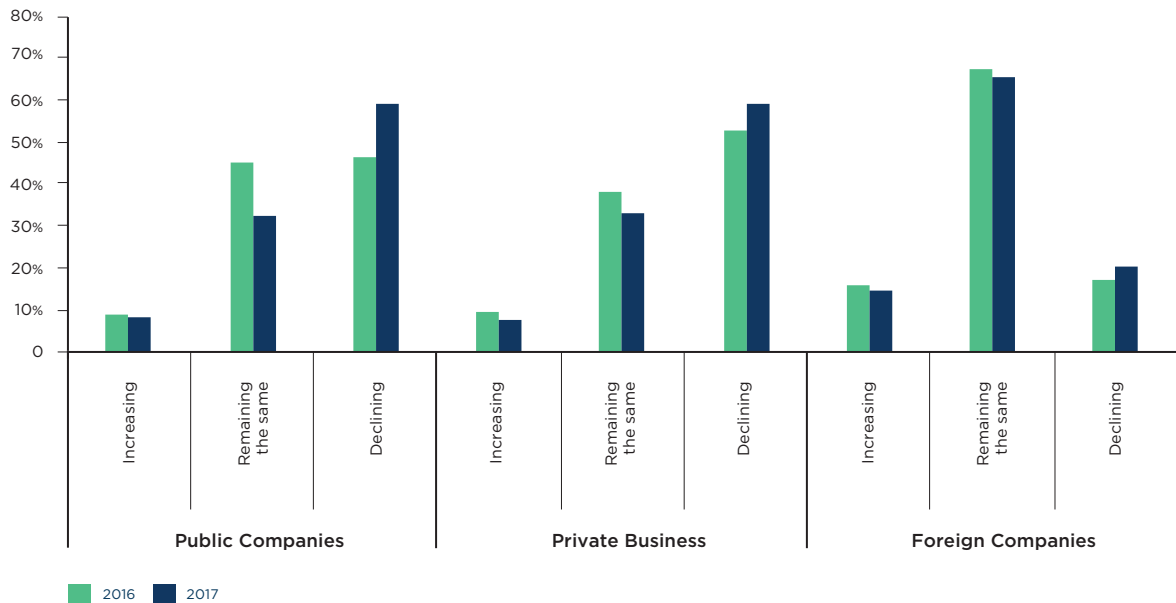
Source: Coface payment Survey

Chart n°9
Changes in the average payment term



Source: Coface payment Survey

Chart n°10
Change in payment terms according to the type of business⁽⁶⁾



Source: Coface payment Survey

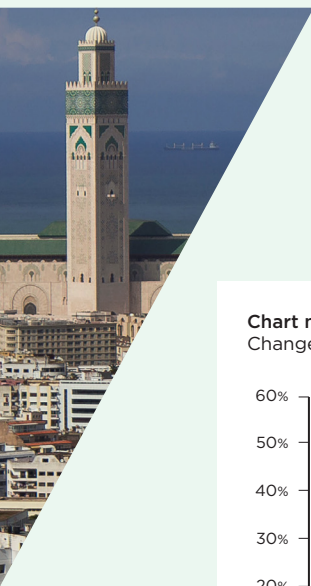


Chart n°11
Change in payment terms according to the size of the business⁷⁾

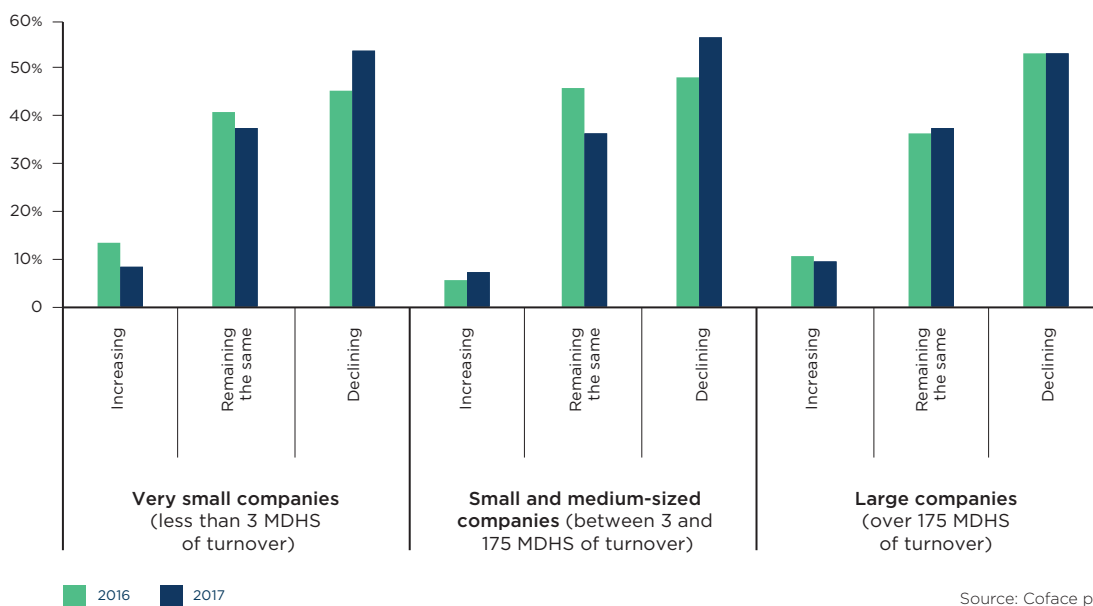
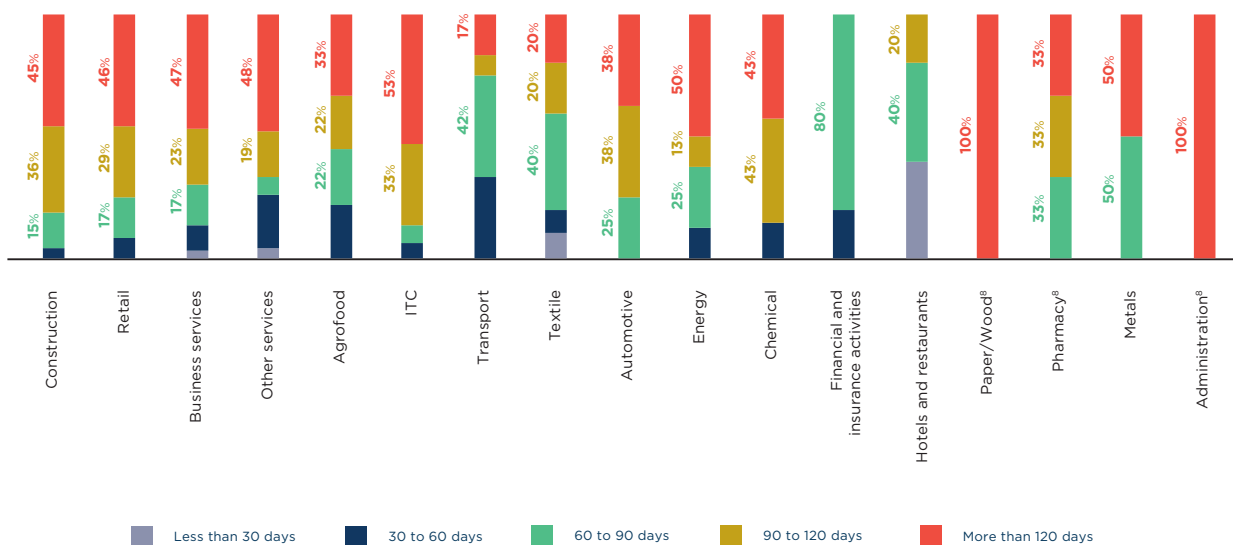


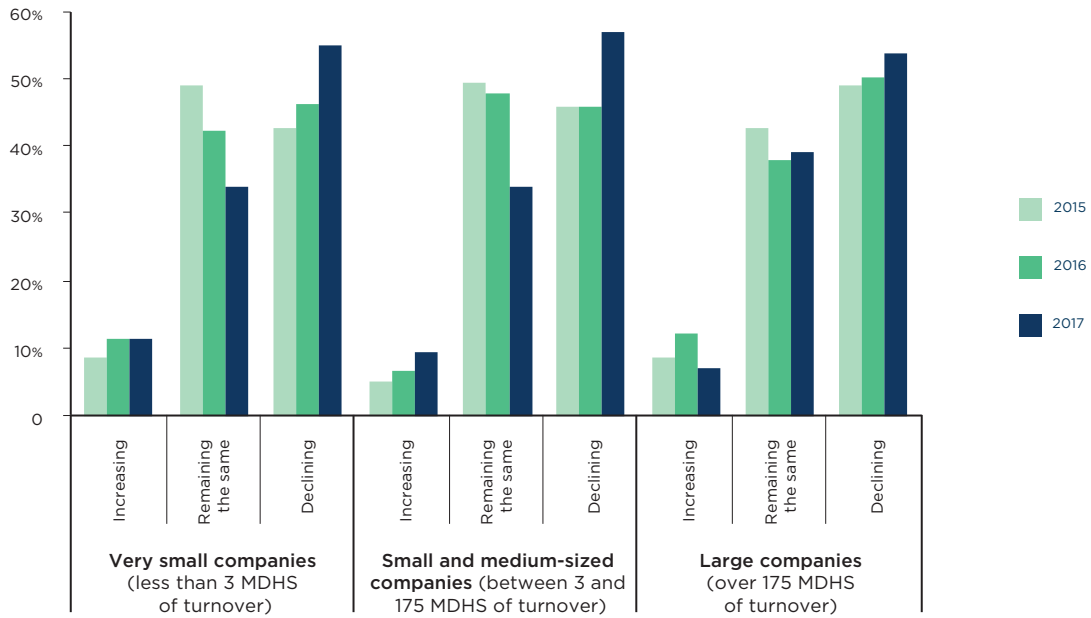
Chart n°12
Payment term by sector in 2017



7/ Since 2016.

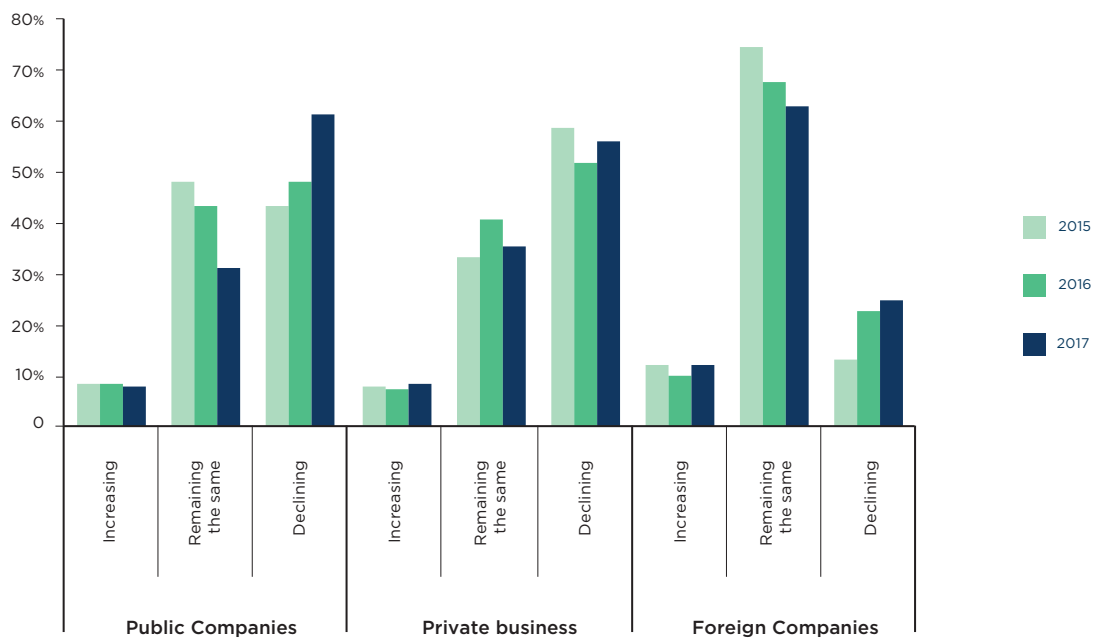
8/ Size of the sample too small to be completely representative.

Chart n°13
Change in payment delay according to the size of the business



Source: Coface payment Survey

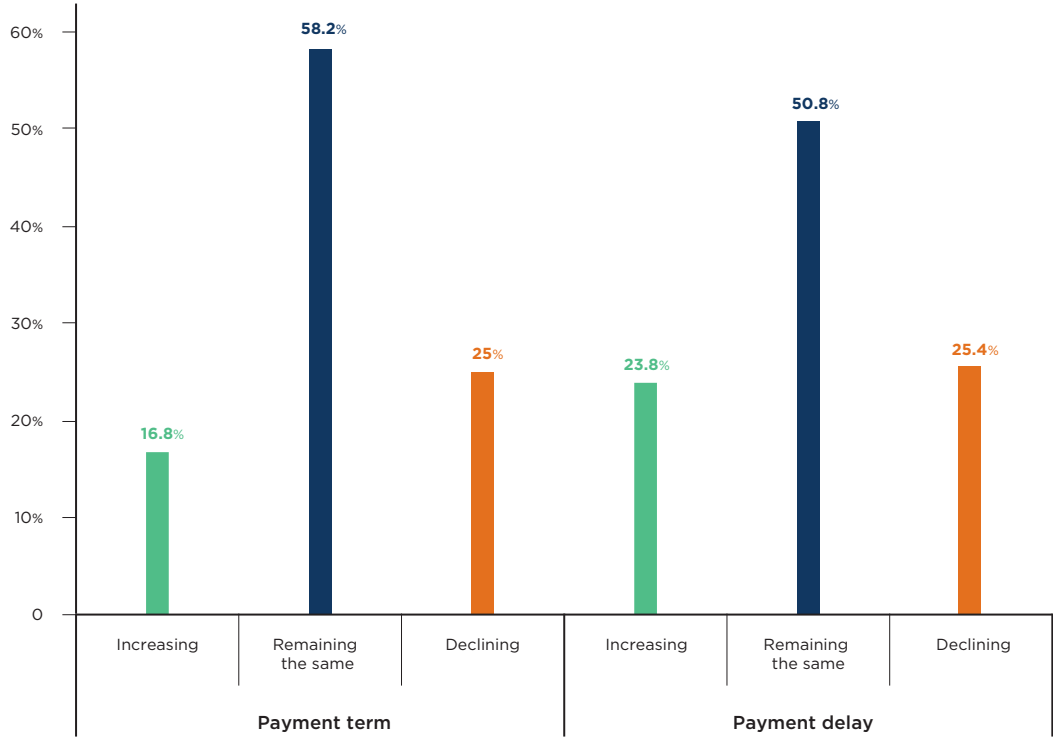
Chart n°14
Change in payment delay according to the type of the business



Source: Coface payment Survey

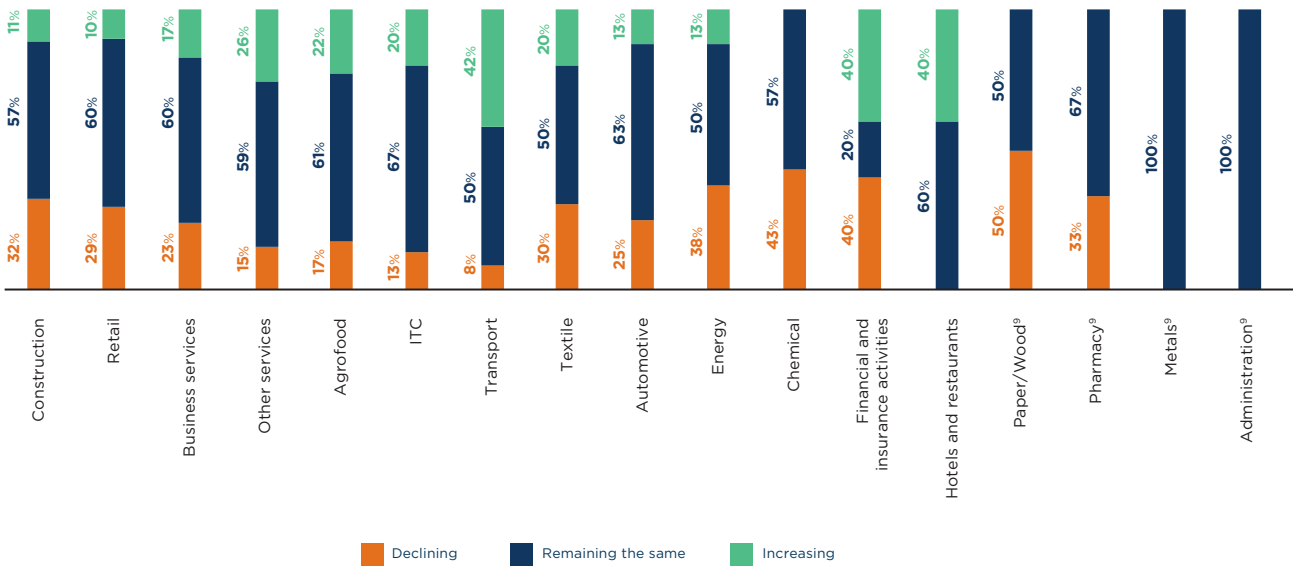


Chart n°15
Expected change in payment term and payment delay for the next 6 months



Source: Coface payment Survey

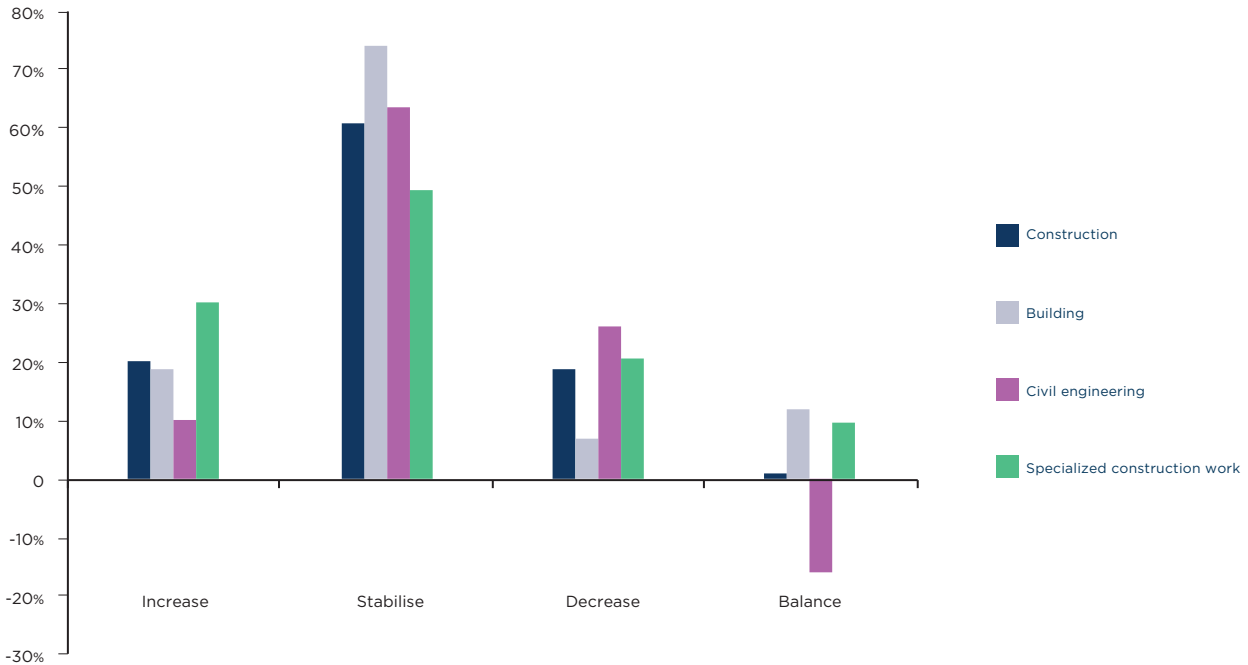
Chart n°16
Expectation of the payment period for the next 6 months



Source: Coface payment Survey

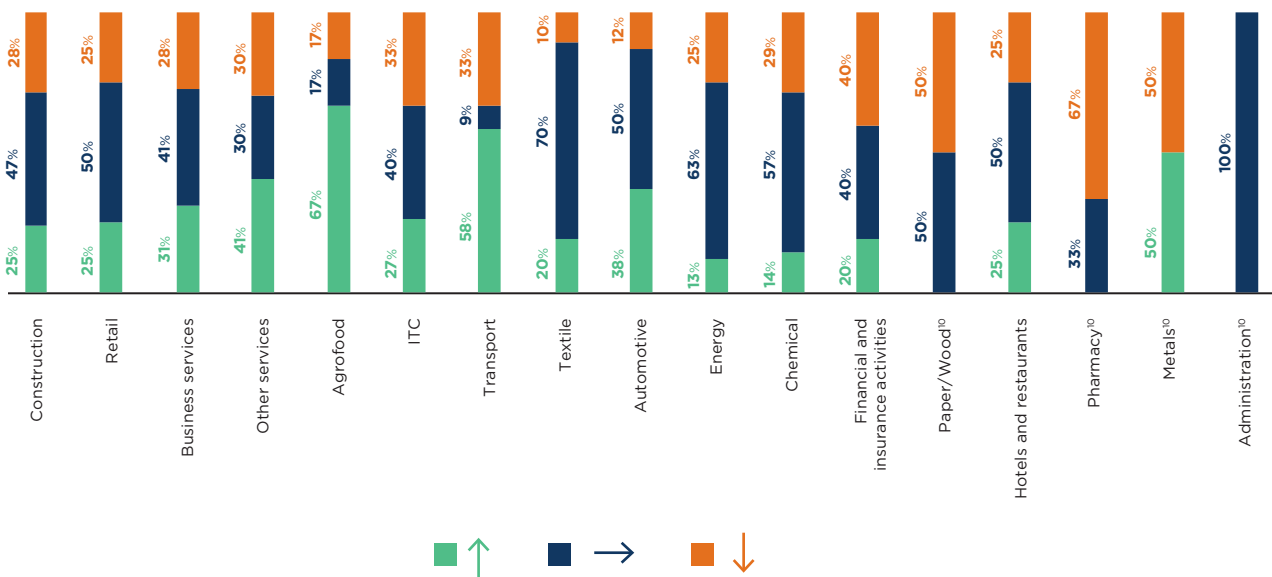
^{9/} Size of the sample too small to be completely representative.

Chart n°17
Companie survey opinion in the construction sector (%)



Source: HCP

Chart n°18
Expected changes in the economic momentum by sector

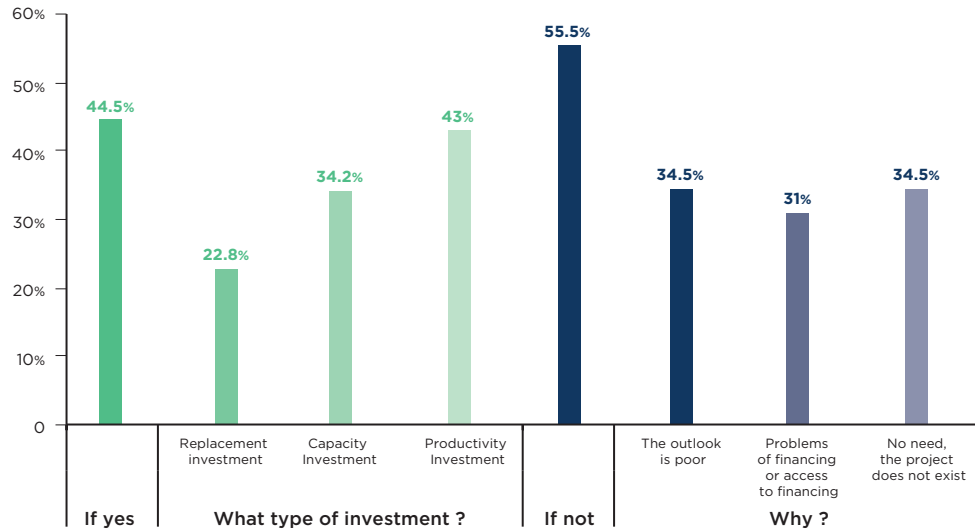


Source: Coface payment Survey

^{10/} Size of the sample too small to be completely representative.

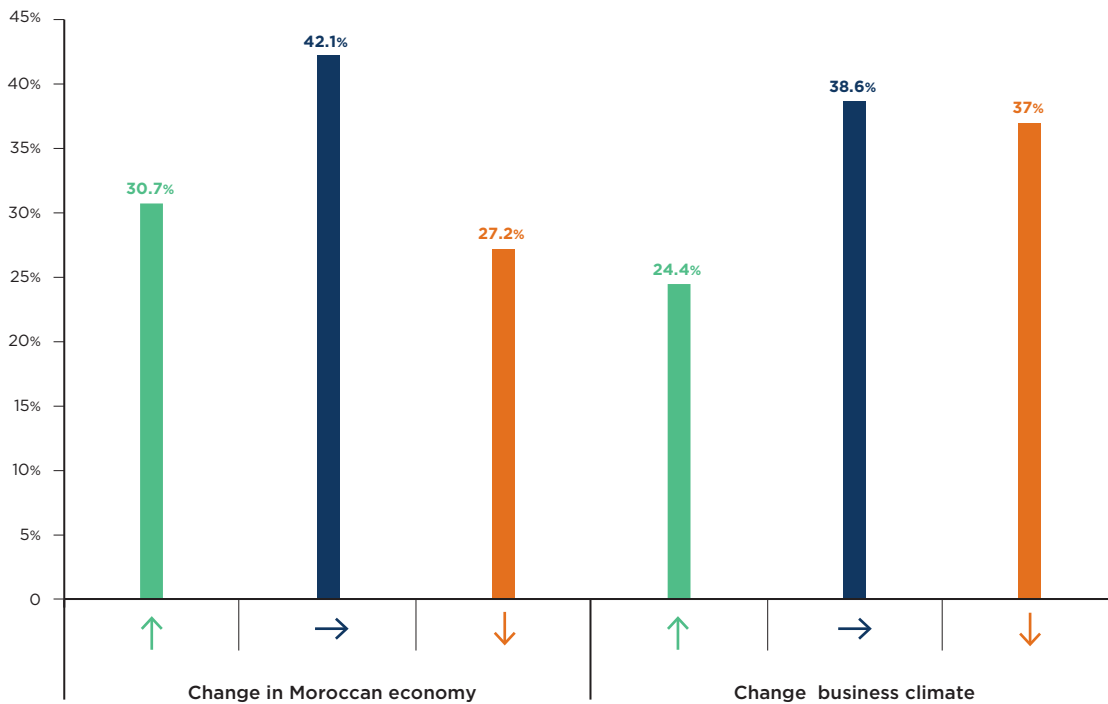


Chart n°19
Are you planning to invest during the next 6 months?



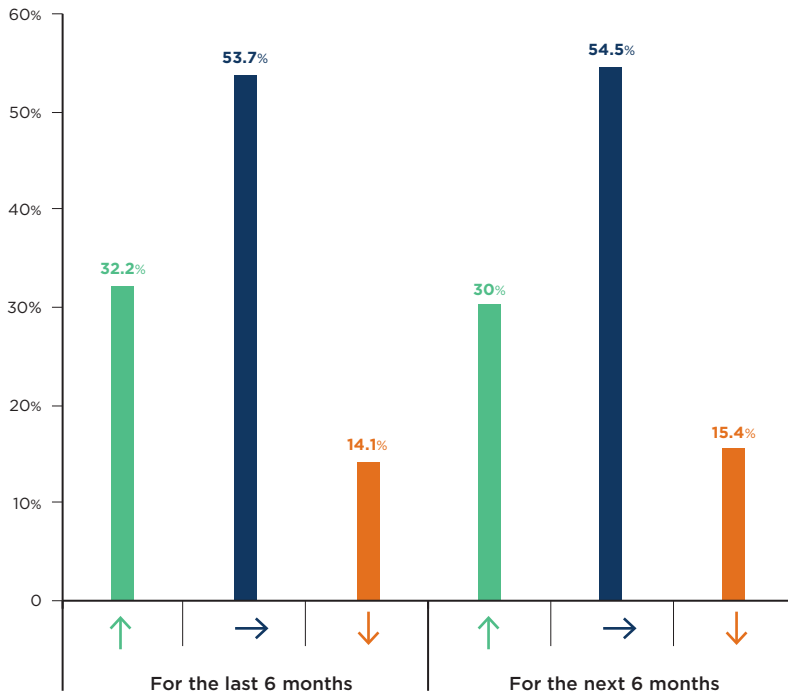
Source: Coface payment Survey

Chart n°20
Over the next 6 months what do you expect about:



Source: Coface payment Survey

Chart n°21
Change in your workforce



Source: Coface payment Survey

RESERVATION

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