

Management audit of the Moroccan Company for Tourism Engineering (SMIT¹)

Summary Report

The Moroccan Company for Tourism Engineering (SMIT) is a State-owned company established under Law n° 10-07 of 30 November 2007 in the form of a public limited company, under the technical supervision of the Ministry of Tourism.

SMIT saw the light of day after the National Company for the Development of Agadir Bay (SONABA) acquired the National Company of Tangier Bay (SNABT) and the Directorate of Development and Investment (DAI), affiliated to the Ministry of Tourism. SMIT hence continues to benefit from the privileges of the companies which were behind its creation, particularly the privilege of expropriation, and it performs their obligations and missions.

SMIT's major mission is to conduct and get conducted, on behalf of the State or public legal entities, studies contributing to the development of the tourist product as well as the promotion of tourist investments.

The audit of the Court related mainly to SMIT's core business, namely the implementation of tourism engineering studies and the promotion of investments, highlighting the results achieved by the various activities of the company. The case of Azur Plan was taken as example to assess the contribution of SMIT to the implementation of the "tourist product", the ultimate objective of this public entity. The assessment also related to the activities inherited by SMIT from SONABA and SNABT, relating to the development and enhancement of the bays of Agadir and Tangier as well as the related support activities.

I. Assessment of tourism engineering actions

SMIT's mission is composed of the following major activities:

- Conducting studies of the engineering of tourist product and development;
- Promotion of tourist investments;
- Contribution to the implementation of Vision 2020 of tourism through the implementation of regional program-contracts (RPC).

1.1. Tourism engineering and development studies

Tourism engineering relates to the design and development of tourist products (seaside resorts, hotel projects, amusement parks, etc.). It consists of an approach of support to companies, project initiators and tourist destinations. Its scope of activity relates to all the stages of an investment plan or a territorial development process

¹ Société Marocaine d'Ingénierie Touristique

such as supporting the design, feasibility analysis as well as the support to the composition and interface with operating or financial partners, or marketing diagnosis and the evaluation of economic and social consequences.

Lack of strategies devoted to the development of tourism

According to its statutes, SMIT is tasked with undertaking the studies required for the definition and implementation of the tourism development strategy specified by the public authorities. In this regard, a specific strategy was prepared by SMIT in 2011 for the implementation of Vision 2020 of the tourist sector in Morocco. However, such strategy was regarded by SMIT management as the comprehensive strategy of the company itself.

Hence the strategy studies conducted by SMIT, since its inception, related only to actions concerned with its own reorganization. They do not detail the process of implementing the various components of the public visions as regards tourism.

Inadequacies in the tourist product studies

SMIT states that each year it carries out a considerable number of studies of tourist product engineering, development plans, strategy... etc. However, this should be qualified by the fact that several of these studies were conducted by private firms, whereas others were simple actions of support to other entities. It should also be noted that there is no feasibility analysis, though it is an integral part of any tourism engineering study, in most concept studies.

In addition, the studies called “master plans” or “intelligence” are limited to inventories of trends of enhancement and consumption of tourist products worldwide, rather than specific studies with detailed descriptions of the processes of implementing such tourist products on some sites at the national scale.

SMIT recorded in its action plans, appended to the reports submitted at its board of trustees, a list of studies to conduct for a given year, without mentioning their scope or motivation. Moreover, except for the studies undertaken in order to materialize the objectives of Vision 2020, the other studies were not provided under the triennial action plan of the Company. This led to the scattering of the topics and sites concerned with the studies carried out for the same year.

Moreover, these studies are exploited neither by public entities nor by private investors to initiate or develop any tourist product.

The studies do not constitute an end in themselves. They should meet real needs and lead to concrete plans in view of their direct and indirect costs.

In conclusion, the core business of tourism engineering seems to be still in its embryonic stage within SMIT in terms of the content of the studies conducted and their added-value for tourist investment.

Inadequate performance of tourism engineering in the services known as “ADPO”

SMIT also offers a service known as assistance to delegated project ownership (ADPO) for some investors in order to help them develop their tourist projects. However, this activity appeared hardly profitable in terms financial revenues, because of the limited number of actions carried out in this regard on the one hand, and the modest remunerations obtained, on the other hand. Indeed, since its inception in 2008, SMIT concluded three ADPO contracts, which enabled the Company to generate revenues amounting to approximately 39.7 million MAD for the period 2010 - 2014. During the same period, the total costs of SMIT exceeded 688 MMAD, including approximately 158 MMAD for staff costs only. It was also noted that SMIT's actions within the framework of these contracts related to civil engineering rather than the management of tourist projects.

I.2. Promotion of tourist investment

The promotion of tourist investments is conducted mainly via the participation in specialized international fairs, the organization of Road Show, B to B contacts or mailing.

Hence, SMIT states that it approached a total of 158 prospective customers between 2012 and 2015. However, it should be noted that these new contacts were carried out primarily in the MENA zone, or nearly 60% of the entire actions. The results were inadequate, since only three agreements were concluded. Indeed, agreements, ten over the above-mentioned period, were signed mainly during B to B or Road Show meetings. Conversely, the result of the participations in forums is nil in terms of concluding agreements. It was noted in this regard that SMIT website does not contain any data, even in brief, on the tourist projects made available for investors.

Considering SMIT's achievements, it is possible to conclude that after more than eight years of existence, the Company has not managed to develop a real canvassing activity that would enable it to actively participate in promoting tourist investments.

I.3 Regional program-contracts resulting from Vision 2020

The program-contracts of Vision 2020 provided for the development of regional program-contracts (RPC) of tourist development lying within the scope of orientations set for each territory, by the end of December 2011.

Limited contribution of SMIT in the process of implementing RPC

It should be noted, first of all, that the “territory-oriented approach” in the deployment of tourist infrastructure, recommended under Vision 2020, was abandoned and

replaced by the “region” as an administrative entity likely to contribute to the implementation of tourist developments defined in the program-contracts.

SMIT was explicitly tasked, under such contracts, with actions relating to the identification of real property, the development of preliminary concepts, layout of projects via canvassing investors as well as the selection of developers and the contract-based commitments as regards the enhancement of tourist land plots.

In addition, these RPC especially defined the projects to be carried out in each region within the framework of Vision 2020 by the public or private sectors, through setting their investments, scopes and amounts.

However, it was noted that SMIT, as from the beginning of Vision 2020 until 2015, initiated a series of studies relating to the definition of tourist product and development proposal, without launching a valid momentum of implementing the tourist products themselves as defined under RPC. This indicates the lack of planning in SMIT for the operationalization of the programs outlined in such Vision.

Lack of implementation of regional program-contracts

SMIT states that the achievement rate of RPC amounted to 73% in mid-2015. However, the analysis of the detailed statement of the projects initiated within the framework of RPC made it possible to note that several projects mentioned to justify the amounts committed by region were not even provided under RPC at the beginning, and that the tourist nature of several projects was not proven.

In fact, SMIT does not have a mechanism devoted to the follow-up of the implementation of RPC and tourist investments effectively initiated within this framework. Moreover, another statement provided by the Ministry of Tourism indicates that the completion rate of the projects under RPC amounts to 0.29% at the end of June 2015. By including the projects underway, the rate would not exceed 20%.

In conclusion, the rate of implementation of the RPC resulting from Vision 2020 falls short of expectations, except for rare activities initiated within this framework but which remain very limited in terms of number and invested amounts.

II. Case of Azur Plan

The Royal Speech of 10 January 2001 in Marrakech at the National Forum on Tourism, officially engaged Morocco in a new tourist policy materialized by the signature of a framework-agreement between the Government and the Tourism Federation targeted at placing Morocco among the leading tourist destinations worldwide and accommodating 10 million tourists in 2010.

At the end of Vision 2010, another tourist development strategy called “Vision 2020” was launched, through the 2011-2020 Program-contract of 30 November 2010

concluded between the State and the private sector. This new Vision aims to double the size of the sector by building nearly 200.000-bed hotel facilities to receive 20 million tourists in 2020.

However, for these two strategic visions of tourism, the results obtained in terms of the “tourist product” fall short of ambitions, especially for its major and structuring component, namely Azur Plan.

The entire set of SMIT’s missions contribute to the implementation of the tourist “product” (tourist resorts, hotels, amusement projects...). Azur Plan constitutes a structuring project for both strategic visions of Morocco as regards tourism, to which SMIT was required to lend its assistance.

II.1 Azur Plan - Vision 2010

Within the framework of Vision 2010 for Tourism, the State sought to ensure offensive positioning for seaside tourism so that it accounts for 70% of the supply in 2010. This required an additional accommodation capacity of 65.000 rooms, approximately (130.000 beds), in addition to repositioning the cultural product with an additional accommodation capacity of 30.000 beds. For seaside tourism, the signatory parties to the framework-agreement and its implementation agreement agreed to launch six new resorts in the following sites: Saïdia (Bekane); Khmis Sahel (Larache); El Haouzia (El Jadida); Mogador (Essaouira); Taghazout (Agadir) and Plage Blanche (Guelmim).

At the end of Vision 2010, only Saïdia and Mazagan resorts witnessed the execution of tourist facilities, 4.475 beds and 1.000 beds, respectively, compared to the objective of 16.905 and 3.700 beds. For the other four resorts of Azur Plan, no bedding capacity was recorded until the end of 2010. Thus, the total achievement rate of the Azur project was 7.8% for tourist bedding capacity and 12.6% for residential units.

II.2 Azur Program - Vision 2020

II.2.1 Major developments in Vision 2020

The main developments of Vision 2020 are reflected in the introduction of some basic concepts and principles including a policy of territorial development of the tourist supply. In this respect, eight tourist territories were specified around three positioning lines (seaside, cultural and natural) and six programs, including Azur Program.

Also, several support mechanisms were planned to facilitate the implementation of the tourist strategy under the best conditions. These are the new investment and funding mechanisms, some of which are devoted exclusively to Azur Program.

II.2.2. Significant resources mobilized by the State for Azur resorts

For the implementation of Azur Plan, the State committed significant resources, in this case the mobilization of the land base necessary for the six resorts, generally with very advantageous conditions. For example, with regard to Taghazout resort, SMIT transferred the land plot to the investor for 50 MAD/m², or a variation compared to the market price of 200 MAD/m², which constitutes a financial advantage of 1.3 billion MAD. The contribution of the State to the completion of Azur resorts was also materialized by off-site works (basic infrastructures) estimated at approximately 1.3 billion MAD.

II.4. Total achievements of the seaside tourism component “Azur”

The total assessment of the “Azur” seaside tourism component of Vision 2010 then Vision 2020 is very poor. The completion rate of the tourist capacities is 7.8% and 2.7% respectively for Visions 2010 and 2020, or a cumulative total capacity of approximately 7050 beds for both visions. The Table below reconciles, for the six Azur resorts, the tourist capacities achieved of the objectives set within the framework of each vision.

TOURIST CAPACITY (in number beds)	Vision 2010 (record at the end of 2010)	Vision 2020 (record at the end of June 2015)
Objectives	69 990	58 540
Achievements	5 475	1 576
Completion rate	7.8%	2.7%

III. Resource management

The Court analyzed the real assets of SMIT, its financial position as well as the management of its human capital.

III.1 Management of real property inherited from ex SONABA and ex SNABT

The missions assigned previously to ex SONABA and ex SNABT, taken over as from 2008 by SMIT, can be summarized as follows:

- Development of the planning of bays of Agadir and Tangier;
- Investment and marketing of developed or undeveloped land plots;
- follow up of the enhancement of developed land plots for the achievement of structuring and high-interest projects.

Activity of developing inherited land plots

For Tangier's bay, the land plots owned by ex SNABT, having been the subject of subdivision operations for their sale by plot, were serviced and developed at 100%. They were transferred entirely before 2008, the starting date of SMIT.

With regard to Agadir bay, the only site, owned by ex SONABA, which was serviced and developed by the latter for its sale by plot, is the city of Founty. The latter is located in the maritime front of Agadir over an area of 265.5 ha. Founty was designed to serve as the new downtown area of Agadir with a good quality urban fabric. According to subdivision plans of Founty and its specifications, it was subdivided into 20 sectors, intended to accommodate various uses, including hotel industry, a residential area and sufficient green spaces.

At the end of July 2015, except for the G16 land parcel whose area amounts to 55.600 m² intended to accommodate the "amusement zone", Founty is completely serviced and developed. The development and servicing operations were conducted by phases. The first, called Founty I, is the oldest, followed the phase called Founty II. While the development works of Founty I were accepted, those of Founty II, intended to accommodate a set of residential buildings and high standing offices with high-quality landscape development works, were not accepted until 2014, knowing that the property of the land plots was transferred to SONABA before 1982.

The examination of the development process of these land plots, from the filing of the subdivision draft plans to the acceptance of the projected and authorized infrastructure works, made it possible to note the following:

- **Lack of a clear strategy as regards the development of the entire zones of Founty I and Founty II subdivisions:** This situation mainly explains the considerable delay recorded in the development of the entire above-mentioned city. In fact, some zones were accepted in 1999, whereas others were not delivered until 2014.

- **Recurring changes in the urban design of the subdivisions and lack of coordination with the competent authorities as regards the delivery of authorizations and certificates relating to the infrastructure works of the Founty city:** the examination of the situation of the development of Founty city made it possible to note, for example, that Zone H was the subject of three subdivision authorizations. The last one was in 2013, motivated by the modification of the land use of some plots intended for "buildings" to be used for "hotels".

In terms of administrative procedures, SMIT bears a significant share of responsibility as to the delay noted in the delivery of the authorizations and certificates stipulated by the regulations in force. By way of illustration, zone H and Founty II constitute cases in point. Indeed, in spite of the application for subdivision authorization since 2006, infrastructure works of the related subdivisions were not accepted until in 2011

and 2014 respectively. In addition, it should be noted that at the end of July 2015 the final acceptance of the subdivision Founty I was still not conducted, although the zoning plan was approved in 1976.

Activity of marketing and investment of SMIT's acquired land plots

SMIT conducts the investment and marketing of subdivided/serviced land plots and undeveloped others, located in Tangier and Agadir, through invitations to tender.

The examination of the procedures of investment and marketing of the land plots acquired by SMIT made it possible to note the following:

- Investment of SMIT's land reserve: For the land plots of bay of Tangier, which were the subject of subdivisions operations for their sale by plots, they were sold and invested entirely. Some undeveloped land plots were still in the land reserve of SMIT on 1/4/2015. In fact, these are the land plots called "La Plage" and "Mandar Jamil" whose area amounts to 57.500 m² remaining out of a stock base of 495.201 m² as of 31/12/2007. This leads to a total sale rate of approximately 88.4% for the real property inherited from SNABT.

In Agadir, for the developed land plots belonging to Founty, the examination of the marketing activities for the period 2008 - 2014 made it possible to note that the activities of investment of the parcels intended for "Public facilities", for the administrations concerned, proved to be unsuccessful for the period 2008-2014. This constitutes a handicap to the harmonious urban development of this city, with quality public services, particularly Health and Education. Indeed, none of the ten parcels (of a total area of 38.618 m²) intended for public facilities already in stock of "developed plots for sale" as of 12/31/2007 was sold until the end of July 2015. The only parcel sold was well before the startup of SMIT. This drove SMIT to seek to convert the land use of some plots intended for "Public facilities" into "private facilities of public interest".

While Founty posts a disposal rate of 81%, the share of SMIT in marketing was limited, or 9%.

In addition, the operations of marketing and enhancement of the land plots belonging Founty II city witnessed some inadequacies summarized as follows:

- **Marketing and enhancement of land plots before to the acceptance of development works of the subdivision project in question:** Thus, part of the parcel Founty II was, on 24 July 2013, the object of a subdivision authorization, whereas the provisional acceptance of works of such development took place on 22 August 2014.

However, under the terms of article 33 of the law n°25-90 relating to the subdivisions, the acts related with the sales transactions relating to the pieces of a ground to parcel

out, can be last only after provisional acceptance of work of equipment of the duly authorized subdivision.

With regard to the preceding finding, the Court also noted that some parcels belonging to Founty II subdivision, recently authorized and accepted, on 24 July 2013 and 22 August 2014 respectively, were already built and under exploitation, since they were transferred between 2000 and 2010.

- Achievement of negative margins on the transfer of some commercial land plots: the examination of the margins resulting from the difference between the agreed selling price and the cost price of the transferred land plot makes it possible to note the existence of cases of transfer at loss of land plots that have not been the subject of invitation to tender. For example, in 2014 SMIT transferred land plot n° I25, whose area amounts to 3.239 m² at an unit price of 650 MAD/m², whereas its cost price is 1711,56 MAD/m²; that is to say a negative margin of more than 3.4 MMAD

- The existence of outstanding amounts to be collected related to the sale of land plots: The analysis of outstanding amounts to be collected indicates that some amounts relate to the sale of land plots. It concerns, inter alia, two sale transactions relating to several land plots belonging to Founty II. The two purchasers partially paid the total transfer price, leading to an outstanding amount to be collected by SMIT of 44.2 MMAD dating back to 2007.

Activity of follow-up of the enhancement of transferred land plots

Concerning the land plots owned by ex SNABT in Tangier, which were developed for their sale by parcel, the activity of marketing the plots was carried out at 100%, before 2008. However, as regards enhancement, and except for the parcels intended for the “private facilities of public interest” and from “Public facilities” which were completely developed, the remainder of land use still suffers from rather an average rate of enhancement. This relates to parcels intended for “building” and those intended for “Hotels”, whose enhancement rates as of 31/12/2014 are 54% and 43%, respectively, whereas the expropriation of the land plots dates back to the 1970s.

For the site called “Lac artificiel”, it was the subject of a simple sale contract for the benefit of CDG without any obligations of enhancement. At the end of July 2015, the parcel was still undeveloped.

For Agadir bay, the enhancement rate differs by land plot type. Indeed, for the parcels intended for the hotel industry, most of the projects invested are still not enhanced, or 45% of the transferred area. For the parcels intended for “building” this rate is 94%. As for the transferred parcels intended for “private facilities of public interest” and those intended for “Public facilities”, this rate is respectively 16% and 69% (in terms of area).

On another front, it was noted that SMIT does not exhaust all the measures for appeal, particularly legal ones, to enforce its rights in the event of non-observance of the enhancement conditions.

III.2. SMIT's financial position

The analysis of some accounting and financial indicators of SMIT raises red flags about certain elements of fragility. Indeed, over all the period 2010-2014, the operating income is negative.

Also SMIT does not ensure a regular level of operating revenues, which fluctuate over the period under study. The latter follow the pace of the sales of land plots which it possesses and constitute its independent source of income.

For the revenues generated by SMIT's core business, namely "tourism engineering", they remain poor. The first revenues achieved in this regard were recorded only in 2012 for an amount of 24.72 MMAD. Most of this income was achieved with Qatari Diar for Houara Project in Tangier for 23.05 MMAD. In 2013 and 2014, the revenues resulting from the sale of services provided by SMIT amount to 14.64 MMAD and 11.72 MMAD respectively, entirely achieved with Qatari Diar.

Moreover, SMIT annually receives a subsidy of the Ministry of Tourism amounting to 19.7 MMAD. But the contribution of the State to the financing of this company takes several forms, particularly capital increase or of financing SMIT's contribution to the capital of other companies. Indeed, in 2014 the company received 25 MMAD, in addition to annual subsidy, to finance its stake-holding in the capital of STAVOM (Company for the Development of Wad Martil).

Without taking account of the subsidies of the Ministry of Tourism, the land reserve held by SMIT, estimated at 1.86 BMAD, would enable the company to cover its costs for approximately 12 years. This scenario hinges on the sale by SMIT of the entire set of land plots that it owns, especially those located in distant sites and that are undeveloped. It would also be able to keep its costs at the same level for the entire above-mentioned period.

It emerges from the preceding analysis that **SMIT is a company which survives on the transfer of its property assets** rather than its own production, particularly consulting services and tourism engineering.

III.3 Human resource management

At the end of 2014 SMIT's manpower consisted of 104 staff members made up of 81 executives and engineers, 8 supervisors and 15 employees. These staff members are governed by staff regulations. Besides this manpower, SMIT resorts to the service of temporary employees provided by a work agency which ensures 9 agents to SMIT. SMIT also resorts to service providers under contracts known as "consultancy assistance". In 2014 the number of these service providers was 7.

SMIT's wage bill more than doubled between its inception in 2008 and 2014, since its manpower increased from 94 to 120 staff members (including service providers) over the same period. Also, SMIT recruited, during the same period, 80 employees as against the departure of 48.

Recruitment

With regard to recruitment, it was noted that SMIT started adopting competition to fill vacant positions only as from 2012, after the Circular of the Head of Government on the recruitment management modes in public establishments and companies. The analysis of the documents of the recruitments conducted by SMIT shows that the company does not systematically publish recruitment notices. Indeed, out 80 recruitments, over the period under review, only 30 were the subject of recruitment notices. Also, the results of the recruitment procedure are not always published.

Contractors

For the service providers related to SMIT under consultancy-assistance contracts, the analysis of the related files showed that some of such contracts relate to general rather than specific missions. For some of these missions, SMIT already has in-house entities that could deliver them.

Except for two service providers, SMIT was not able to produce to the Court the elements justifying the exercise by the service providers of activities on behalf of the company, especially since some contracts specify that the service provider should submit a monthly report on the services delivered. It should also be noted that the position of finance director was entrusted to a contractor.

In addition, the investigations showed that some service providers are civil servants working for the Ministry of Tourism. This office plurality constitutes a breach of the general regulations of public service.

Major recommendations

The Court recommends the following to SMIT:

- 1. Review its business model maintained hitherto thanks to the earnings from which it has benefited since its inception, considering its inconsistency with its corporate status. The new model should highlight the principles of productivity and profitability, and generally those of value-creating entities. Specifically, SMIT is required to develop a true core business of tourism engineering and consulting, marketable on the market, as the unique way to allow the company to survive independently of the sale of land and State subsidies, especially with its significant manpower of engineers and executives.**
- 2. Show more effectiveness in its actions of promotion and investment canvassing. In this respect, the company should achieve this mission within**

the framework of a comprehensive and well-defined strategy, broken down into action plans with clear and quantifiable objectives which can provide information about its performance as regards canvassing and specify the required adjustments.

3. Ensure meeting its full commitments in the processes of deployment and implementation of public policies as regards tourism, especially those relating to Vision 2020 and its regional program-contracts.

4. Implement the necessary measures to drive the purchasers of land plots to respect the enhancement conditions provided under the Specifications and proactively act with the local stakeholders as regards town planning.

5. Ensure more transparency in the human resource management, particularly during recruitment and avoid any plurality of office functions or inaccuracy in the tasks to be performed by contractual experts.