

I. Executive Summary

As part of its mandate to provide an economic evaluation of a commercial fiber optic network for the Office National de l'Electricité (ONE), Project Finance Advisors (PFA) has undertaken a Market Study. The Market Study was designed to evaluate demand among key segments of the Moroccan economy for non-voice telecoms services (Data Services), as envisaged under a license soon to be issued by the national telecoms regulatory body (Agence Nationale de Réglementation des Telecommunications or ANRT).

This Task Order represents PFA's findings from empirical data collected by the Market Study. Further refinement of this data will be incorporated into the economic analysis discussed further in Task 4.2 of this deliverable. Specifically, assumptions for each potential segment of the market identified by this Study will be further analyzed and used in a discounted cashflow valuation of the network and ONE's potential participation in such a commercial network.

The Market Study examined five potential market segments for Data Services: Large Enterprises, the Public Sector, Internet, Carrier to Carrier, and Small and Medium Enterprises. Survey research was conducted among the first four segments; in particular, extensive face-to-face interviews were used to gather data systematically from Large Enterprises. As such, the Market Study has been able to quantify, probably for the first time, the role and scale of such telecoms usage among large enterprises.

The Market Study has identified the following major factors:

- Of the five market segments identified by the Market Study, strongest demand over the next five years is expected to come from the first three groups (Large Enterprises, Public Sector and Internet).
- The Large Enterprise and Public Sector segments are both approximately equal in terms of current revenue for Data Services, although the government sector has almost twice as many employees and half as much expenditure per employee.
- The overall size of the market, using conservative assumptions, is moderate to large, reaching \$65 million under a low growth scenario by 2004 and potentially \$92 million under higher growth assumptions.
- Among Large Enterprises, there is substantial dissatisfaction with Maroc Télécom's current Data Service offerings. Dissatisfaction is strongest among firms with 100 to 249 employees; enterprises with foreign participation; and companies based in Casablanca.
- Price sensitivity appears to be low among those customers currently dissatisfied with quality of service being their foremost priority.
- Overall, the Internet is of critical and growing importance. The creation and expansion of Internet backbone networks by Internet Service Providers (ISPs),

- as well as Internet access among Large Enterprises and the Public Sector, will be high growth areas.
- It is evident that, as the cornerstone of their new Data Services, a competitive provider should offer . . . [This information has been deleted due to business confidentiality]
 - A fiber-optic network could be feasibly deployed along ONE's Rights of Way (ROW) that could reach 26 out of 34 "most economically active" cities in Morocco. These 26 cities account for around 96% of all Large Enterprises and 94% of Small and Medium Enterprises. The same network could feasibly reach 14 out of 16 Regional centers and at least 43 out of 65 Provincial/Prefectural centers. Furthermore, the network could readily be extended to many, although not all, of the remaining cities and centers.

In sum, the Market Study supports the thesis (for the first time with empirical data) that the size of the market for Data Services may be large enough to warrant ONE's active participation with a telecoms provider in the upcoming auction for a national business license.