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|---|---|---|
| PAAD | PROGRAM ASSISTANCE APPROVAL DOCUMENT | 2. COUNTRY<br>MOROCCO |
| | | 3. CATEGORY<br>CASH TRANSFER |
| | | 4. DATE<br>JUNE 30, 1992 |

| | |
|---|---|
| 5. TO:<br>DENNIS M. CHANDLER, MISSION DIRECTOR | 6. OYB CHANGE CODE<br>N/A |
| 7. FROM<br>USAID/MOROCCO/PDPE: RICHARD P. BURNS/ RP | 8. OYB INCREASE<br>N/A<br>TO BE TAKEN FROM |

| | |
|---|---|
| 9. APPROVAL REQUESTED FOR COMMITMENT<br>$ 4,000,000.00 | 10. APPROPRIATION (BPC) |

| | | | |
|---|---|---|---|
| 11. TYPE FUNDING<br>☐ LOAN X GRANT | 12. LOCAL CURRENCY ARRANGEMENT<br>☐ INFORMAL X FORMAL ☐ NONE | 13. ESTIMATED DELIVERY PERIOD<br>FY 1992 TO FY 1996 | 14. TRA[illegible]<br>DA[illegible]<br>7/10/92 |

15. COMMODITIES FINANCED
N/A

| | |
|---|---|
| 16. PERMITTED SOURCE<br>U.S. only: | 17. ESTIMATED SOURCE<br>U.S.: $ 4,000,000 |
| Limited F. W.: | Industrialized Countries: |
| Free World: | Local: |
| Cash: $ 4,000,000 | Other: |

18. SUMMARY DESCRIPTION: This PAAD authorizes $4. 0 million for the first tranche of the Privatization Sector Assistance Program. Subject to the availability of funds and to the mutual agreement of AID and the Government of Morocco to proceed, subsequent tranches of up to $16 million may be authorized.

The goal of the program is to expand the role of the private sector in Morocco. The purpose of the program is to support and accelerate implementation of Morocco's Privatization Program. This will be achieved by providing incentive cash disbursements to support stages achieved in the privatization program. Local currency generations will finance selected costs of implementation of the privatization program.

Technical assistance and training for the privatization effort will also be provided as described in the attached PAAD document.

| 19. CLEARANCES | | DATE |
|---|---|---|
| PROG | EAmundsen | 7/11/92 |
| OFM | RDeschambault (draft) | 7/10/92 |
| RCO | MReynolds (draft) | 7/10/92 |
| ANR/ENV | ELoken (draft) | 7/10/92 |
| RLA | BBarrington (draft) | 7/2/92 |

20. ACTION

X APPROVED ☐ DISAPPROVED

Dennis M Chandler

AUTHORIZED SIGNATURE

MISSION DIRECTOR

TITLE

CLASSIFICATION

TABLE OF CONTENTS

ANNEXES

# PRIVATIZATION SECTOR ASSISTANCE

## I. SUMMARY AND RECOMMENDATION

### A. SUMMARY

Morocco's state-owned enterprise sector comprises some 700 firms whose production contributes about 17% of GDP. These state enterprises first originated during the French Protectorate but their number greatly proliferated during the 1970's following the Moroccanization of foreign owned firms, and the government's drive to insure that certain import substitution industries were established. Some portfolio divestitures, liquidations, and demonopolizations (for example of municipal bus monopolies) were carried out during the 1980's. However, privatization was not conceived as a central part of Morocco's structural adjustment effort.

In 1988, frustrated by the lack of a formal privatization policy and seeing privatization as an essential component for empowering the private sector, the King dedicated his opening speech to Parliament to privatization. A formal Privatization Law was passed in late 1989, specifying 112 state-owned holdings to privatized and setting forth the procedures to be followed f privatization. In brief the Privatization Law and implementi decrees establish the Ministry of Economic Affairs a Privatization (MEAP) as the implementing agency, empower Evaluation Authority to set the minimum price for which a sta holding may be sold, and authorize divestiture to take place via request for bids, sale through financial markets, a combination of both, or, in prescribed circumstances, by direct sale. The 112 enterprises to be privatized account for about 6% of GDP, have an estimated net worth of $1.7 billion, and employ some 36,000 persons. They include Morocco's largest commercial banks and other financial institutions, major firms in the cement, pulp, automobile assembly, and textile industries, parastatals engaged in agricultural input distribution and produce marketing, seven sugar mills, and 37 hotel properties.

Implementation of the Government's privatization program is estimated to cost between $90 and $120 million, including some $20 million in enterprise restructuring costs. The array of likely benefits far outdistance these implementation costs. First, from a simple financial viewpoint, sale of the state-owned enterprise portfolio will increase Government revenues. The net worth of this portfolio stood at DH 14 billion or some $1.6 billion in 1989, and given the good condition of much of the portfolio, privatization should result in substantial revenues.

((0))

Further, privatization will have positive effects in reducing state transfers to state-owned enteprises; such transfers were estimated at DH 4.1 billion per annum in the early 1980's. These are macroeconomic benefits as they will reduce the Government's borrowing requirement, thus freeing resources for more productive private sector investment.

From an efficiency viewpoint, the benefits from the privatization program will be very substantial. With privatization of holding companies among the 112 state-owned enterprises and subsidiaries and cross-holdings, as many as 300 SOEs may be privatized when the program is completed. Privatization of these firms will eliminate mandatory sourcing requirements from state-owned firms, built-in inefficiencies due to state management, discriminatory favorable financing and other distortions from market practice, and will thus create substantial positive efficiency benefits throughout the economy. Such gains from privatization will likely be most significant in the financial, hotel, and sugar industries, but given the large size and diversity of holdings in the manufacturing industry, substantial benefits from improved operations are likely to accrue across the industrial sector. Overall labor displacements from privatization are expected to total some 4-7% of the workforce of the 112 firms. A more dynamic financial sector as a result of privatization and financial market reform will produce, in the medium term, a possible doubling or tripling of employment in that sector. Privatization of hotels will stimulate desperately needed new foreign investment in the sector and will thus augment tourism earnings, currently accounting for 6% of GDP. In the sugar and agricultural input supply sectors, privatization will bring far higher competitivity to the sectors, reducing current market distortions.

The role of the Ministry of Economic Affairs and Privatization (MEAP) will essentially be to monitor and manage the process of privatization. It will contract out for accounting, audit, investment banking, and promotional work needed to complete the actual privatization transactions. For larger and more complex privatizations, recourse will need to be made to foreign expertise for audits and investment banking services. The foreign and local currency cost for completing the Government's privatization program is estimated between $90 and $110 million, including some $20 million in enterprise restructuring. While other donors are actively supporting the privatization effort, their current commitments total only $5.1 million, far short of what is needed.

Privatization Sector Assistance will be the largest donor program in support of the Government's privatization efforts. It will motivate the Government to move expeditiously on implementing its privatization program and will furnish local currency and technical assistance resources required to do so. The sector assistance will comprise:

> $20 million in non-project assistance to be disbursed in three tranches: a first tranche of $4 million, a second tranche of $6 million, and a third tranche of $10 million.

$5 million in dollar funding to provide a long-term advisor, short-term transactions related assistance, other short-term technical assistance and training, and evaluation and audit services.

It is expected that the first tranche of $4 million will be disbursed soon after signing the Program Grant Agreement and will provide essential seed funds for accelerating implementation and initiating promotional activities. This tranche will be conditioned on completion of audits for 8 enterprises, completion of evaluations for 4 enterprises, and initiating the sale process for 2 enterprises. In addition to these transaction related requirements, first tranche release will be conditioned upon submitting (i) a plan for a promotional and educational campaign on share ownership and (ii) a plan identifying possible measures to promote broader public share ownership and showing a schedule for their study and review. Disbursement of the first tranche also gives recognition to Morocco's very substantial achievements in establishing the privatization program and putting into place the necessary institutional structure to carry it out.

The second tranche of $6.0 million will be disbursed after a cumulative total of 24 enterprises have had audits completed, a cumulative total of 16 firms have had evaluations completed, a cumulative total of 10 enterprises have had sales processes initiated, and a cumulative total of 6 enterprises have been transferred. No more than two of the completed privatizations may be small enterprises or hotels and two completed transactions shall be for large enterprises. Moreover, a minimum of two transfers will have been completed via the stock exchange or a public stock offering.

In addition to these transactions-related requirements, the promotional and educational campaign on share ownership will have begun, the studies identified as necessary for broader share ownership will have been completed, USAID and the MEAP will have agreed on a number of measures in this area to be initiated prior to second tranche release and a study reviewing the means by which privatization efforts will be continued after the present program will have been completed. Other conditions will require the GOM to maintain a competitive market environment for industries affected by privatization, to abstain from actions to increase the level of protection afforded to industries in which firms will be privatized, to avoid actions impeding market entry for new producers and industries affected by privatization, to take necessary actions such that implementation of the privatization program leads to an increase in share ownership and to maintain the budget allocation to the MEAP for privatization at least its current level.

The third tranche of $10 million will be disbursed after a cumulative total of 44 enterprises have had audits completed, a cumulative total of 38 firms have had evaluations completed, a cumulative total of 34 enterprises have had sales processes initiated, and a cumulative total of 28 privatizations has been achieved. Of these completed divestitures, no more than six shall represent small enterprises or hotels and six completed transactions shall be large enterprises. In addition, a minimum of eight enterprises shall have been transferred via the stock exchange or a public stock offering.

In addition to these transactions-related conditions, other measures will be required to have been put into place to promote broader public share ownership. Discussions will be held after the disbursement of the second tranche as to what measures in this area will be required for disbursement of the third tranche. The MEAP will also be required to furnish a plan and schedule to demonstrate how privatization will be completed for the remaining enterprises. The second tranche conditions on maintaining a market environment, share ownership and privatization budget levels will also apply to the third tranche.

Prior to the second and third disbursements there will be audits of the dollar and local currency programs and a MEAP/AID review of the implementation of the program and progress toward meeting its objectives.

At the time of third tranche release, the GOM will have completed at least 28 actual privatizations and started the privatization process for at least 16 others. Hence, by the time of third tranche disbursement, the privatization process will have begun for 40% of the eligible 112 firms.

The cash transfer dollars from each tranche will be deposited into a Separate Account in Morocco's Central Bank and will be used to reimburse the Central Bank for foreign exchange provided to settle letters of credit opened by Moroccan private sector and certain public sector firms for import of U.S. source and origin merchandise.

Concurrently with the deposit of dollars in the Separate Account, the Government will be required to deposit counterpart dirhams in a Special Local Currency Account. This counterpart will be used for off-budget local currency expenses related to privatization, such as payment to Moroccan firms for audits and evaluations of firms to be privatized, retraining programs for workers displaced by privatization, restructurings, prospectus preparation, publicity campaigns on share ownership.

U.S. technical assistance and support will be essential to help the MEAP carry out the overall privatization program, implement specific transactions and deal with particular issues. A long-term advisor, short-term transactions assistance, other short-term technical assistance, policy studies, environmental assistance, limited commodities and training will be provided to the MEAP. Most of this assistance will be procured via a buy-in and an institutional contract with firms working in privatization assistance. IQCs/buy-ins for policy studies and the PRIDE project for environmental assistance will also be utilized.

## B. RECOMMENDATION

The Project Committee recommends:

1) Mission approval of this $25 million Privatization Sector Assistance PAAD;

2) FY 1992 authorization of grant funds of $4 million for the first tranche of the sector assistance grant; and

3) FY 1992 authorization of $5 million in grant funds for the technical assistance component of the program.

A further $16 million in grant funds for the second and third tranches of the sector assistance may be subsequently authorized if warranted.

## II. ECONOMIC FRAMEWORK

### A. MOROCCO'S STATE-OWNED ENTERPRISE SECTOR [1]

Morocco's public enterprise portfolio grew out of colonial policies during the French Protectorate (1912-1956). These policies aimed at controlling important sectors of the economy including natural resources and part of trade. Thus, the Cherifian Phosphate Office (OCP) and the Mining Research and Holding Board (BRPM), two of the largest and most important public firms, were created in 1920 and 1928, respectively.

Before independence in 1956, only one or two new state-owned firms were created each year. After independence the rate of public enterprise creation accelerated, and it particularly intensified in the 1970s, led by a state-led and inward economic strategy adopted by the Government. Public involvement in the financing of large capital-intensive industries -- such as steel, fertilizer, heavy engineering, basic chemicals and petrochemicals -- increased as they were considered to be the core of industrialization. This period witnessed notably the creation of the Office pour le Développment Industriel (ODI)(1973), which developed into a holding group with investments in over 80 wholly or partly state-owned enterprises, as well as industrial concerns in chemical products (Maroc Chimie, 1973; Maroc Phosphore, 1973) and steel (Société Nationale de Sidérurgie, 1973). At the same time the "<u>Moroccanization</u>" of foreign enterprises initiated by a 1973 law sought to reverse the build-up of foreign capital interests considered to be incompatible with the prevailing strategy.

The growth in absolute numbers of public enterprises in the 1970's also reflected a tendency by existing public enterprises to spin off subsidiaries, often to escape the heavy financial

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[1] The paragraphs below are based largely on:

a. Kingdom of Morocco, Ministry of Economic Affairs and Privatization, "<u>Morocco's Privatization Strategy</u>", Rabat, 1990.

b. International Money Fund, "<u>Morocco - Recent Economic Developments</u>", March, 1991.

controls exercised over their operations by central Government authorities. From 1973 to 1977, 92% of newly created public enterprises were subsidiaries of existing ones. Still more growth came from Government investment banks or finance companies that took minority shares in private ventures with the intention of redeeming the shares, once the companies had shown the capacity to survive, and reinvesting the proceeds in new ventures. Such "rolling privatization" of Government shares lagged far behind expectations, with the result that the public sector portfolio continued to grow.

In total, the number of enterprises in which the state participated either directly or indirectly grew by approximately 75% percent over the 1970s, and reached a total of some 700 at end-1985. Economically, these enterprises currently account for:

- 17% of Gross Domestic Product (GDP);
- 25% of Gross Fixed Capital Formation (GFCF);
- 17% of national employment; and
- 27% of wages and salaries.

The public enterprise contribution to different sectors of the economy varies widely. In some sectors, such as mining and energy, they account for more than 90% of sectoral value added. In other sectors, such as trade and agriculture, they play a minimal role, accounting for less than 4% of sectoral value added.

## B. OVERVIEW OF MOROCCO'S STRUCTURAL ADJUSTMENT PROGRAM

Since 1983, the year which marks the commencement of Morocco's structural adjustment program, Morocco has entered into five Stand-by Agreements with the IMF (of which one was canceled) and seven structural adjustment loan agreements with the World Bank. Morocco's debt to Governments has been rescheduled by the Paris Club five times, and its commercial debt three times. Through the financial support furnished by these agreements, Morocco has undertaken a major program of reform designed to open and make the economy more competitive, increase economic efficiency by removing factor and product pricing distortions, boost exports, reduce the Government deficit and improve financial market intermediation. In broad outline, the most important actions under this reform program have been in the following areas:

-- <u>Trade, Foreign Exchange and Investment Liberalization</u>. In 1983 quantitative restrictions covered over 60% of the value of imports; now only 10% of import value is subject to import licensing. Further, applications for import licenses are processed much more quickly. As a result of a major tariff reform, the average tariff level has dropped from 58% in 1983 to 36% in 1988, and the dispersion of rates among tariff items has been reduced. By joining GATT, Morocco has also committed to freeze a number of these tariffs at their current reduced level. Imports under these bound items accounted for 30% of the value of Moroccan imports in 1987. Payments controls on transfers for business, medical, and student travel have been relaxed; Moroccans working overseas may now open convertible dirham accounts with no minimum deposit. Repatriation of earnings and capital from foreign investment in Morocco has been guaranteed, and exchange control procedures for such transfers relaxed. In order to further attract foreign investment, Morocco recently abrogated the 1973 Moroccanization law which had limited foreign investors to a 49% share of ownership in enterprises in designated sectors.

-- Increasing Economic Efficiency by Removing Product and Factor Pricing Market Distortions. Price controls on a wide variety of products have been lifted. Prior subsidies on petroleum, butter and milk, and cement have been eliminated. Furthermore, prices of subsidized inputs to agriculture such as fertilizer and irrigation water have been progressively raised. Cost recovery levels for the regional irrigation agencies rose to 66% in 1988 vs. 47% in 1983. In a move to promote more labor rather than capital intensive investment and stem revenue losses, investment incentives for non-export industries have been reduced. Tax holiday periods are now limited to five rather than ten years and the corporate income tax exemption now applies to 50% rather than 100% of profits. The decline in inflation from levels of roughly 10% in the middle 1980's to the current 3% plus slight upward interest rate adjustments have resulted in strongly positive real rates of interest, ending what had been a period of negative real interest rates and capital subsidization. In combination with trade liberalization, these measures have forced Moroccan agriculture and industry to be more competitive and have insured that price signals received by investors and producers more closely reflect economic costs and benefits.

-- Export Promotion. Between 1983 and 1990, the Moroccan dirham has been devalued by some 24% in real effective terms. The most recent devaluation of 9.25% was taken in May 1990. In addition, reduced levels of import protection have eliminated a previous bias towards import substitution. Export taxes and licensing requirements have, with four exceptions, been eliminated. Indirect as well as direct exporters have been made eligible for duty-free entry of inputs. Finally, preferential terms have been extended for export credit with the Central Bank ready to refinance such credits on generous terms.

-- Reform of Public Finances. On the revenue side, a major structural change has been instituted, with Government now less dependent on trade taxes as a result of trade liberalization and the overall reduction in tariff levels. Moreover, a value-added tax has been introduced replacing a former sales tax. The corporate income tax rate has been reduced from 48% to 40%, and the threshold for personal income tax raised from DH 8,400 to DH 12,000 with the maximum tax rate reduced from 60% to 52%. The general income tax is to cover not only wage and salary income but dividend, real estate, and other categories of income beginning in 1991, and filing requirements have been tightened.

On the expenditure side, subsidies have been sharply reduced. A ceiling on the amount of "national flour" to be subsidized is set at 1.0 million tons as against 1.6 million tons in the mid-1980's. Budget transfers to autonomous public enterprises, in particular the regional agricultural development entities and the national water, railway, and electricity authorities, have been reduced by more than 25% from some DH 2.9 billion in 1982 to a current level of roughly DH 2.1 billion. As a result of annual tariff increases, the authorities' degree of self-financing is increasing. These authorities are targeted to provide a designated portion of programmed investment needs from their own sources. Budgetary procedures have been reformed, and payment arrearage substantially reduced. In addition, to insure adequate investment levels in education, housing, and health, a Targeted Investment Program has been agreed to as part of the World Bank's Structural Adjustment Loan.

-- <u>Financial Market Development</u>. Until very recently, the Moroccan financial system was highly segmented and largely geared to securing financing for the Government deficit at less than market rates. With ceilings placed on private sector credit growth on a bank by bank basis, competition among banks for deposits and for new clients was limited. Starting in 1990, Morocco has undertaken a number of important financial market reforms. Interest rate controls have been substantially liberalized; the ceilings on credit growth have been eliminated; prudential requirements have been strengthened; and mandatory investments in special, low paying treasury bills have been reduced for commercial banks from 35% to 32% of sight deposit liabilities, and will be further reduced to 25%. Recourse by the treasury to special direct or indirect borrowing from the central bank has been curtailed, forcing the treasury to compete on a market basis for funding. Companion measures to promote the development of Morocco's capital market include an overhaul of the legal structure affecting the organization and operation of the stock exchange and securities issuance. Draft laws modernizing accounting standards and certification requirements for accountants are also under active consideration.

C. RECENT ECONOMIC PERFORMANCE

During the past nine-year period of adjustment, Morocco has struggled through drought years, war in the Sahara, a locust plague and stagnant world trade. Morocco has nonetheless improved its basic economic structure and laid the basis for further economic growth. As a result of its economic reform measures and debt relief, Morocco's external position improved considerably between 1983 and 1992. Contrasted to balance of payments current account deficits averaging $1.5 billion in the late 1970's and early 1980's and peaking at the equivalent of 13% of GDP in 1982, Morocco has brought its current account deficit to manageable levels, even registering surpluses in 1987 and 1988.

Foreign exchange reserves have built up from a low of only $62 million at the end of 1984 to $503 at the end of 1989, climbing dramatically to $3,100 million at the end of 1992. Key factors in the current account improvement have been the rapid expansion of exports, up from $2.1 billion in 1983 to $4.3 billion in 1991, representing an average annual increase of 9%, and travel and tourism receipts, up from $0.5 billion in 1983 to $1.2 billion in 1990, an average annual increase of 14%. Inflation levels were reduced from double digit levels in the early 1980, to 3% in 1988 and 1989, although in 1990 and 1991, the rate of inflation accelerated to some 7% on average. From 12% of GDP in 1982 and 1983, the budget deficit has been sharply reduced to 3% of GDP.

D. PRIVATIZATION AND MOROCCO'S STRUCTURAL ADJUSTMENT PROGRAM

Morocco's privatization program will be taking place after certain key policy changes have been made which should help to insure success for the program. Firstly, all Moroccan industry now faces far steeper competition from imports due to the lowering of tariff and non-tariff barriers. Secondly, barriers to market entry have been reduced, and restrictions on foreign investment eliminated. Thus, new domestic and foreign business may more easily enter into competition with existing firms. As a consequence, the industries to be privatized will be forced to compete in a more open market place. Because of the freer entry of imports in particular, there is very little chance that privatization will result in giving privatized enterprise a monopoly position in the supply of goods and services to the economy.

The implementation of the privatization program is timed to accompany a major push to reform and develop Morocco's financial sector. Privatization offers a great opportunity to develop Morocco's capital market, since one of the major impediments to further development of the Casablanca stock exchange has been the absence of sufficient publicly offered shares.

In addition, the privatization program comes at a time in

Morocco's development when there is broad consensus that the private sector must take the lead in generating economic growth. The privatization program constitutes an important empowerment of the private sector. By transferring a significant number of state-owned enterprises to the private sector and requiring formal, prior authorization for the creation of further state-owned enterprises, the program effectively removes the threat that the state will directly compete with the private sector in producing goods and services. The program thus opens new opportunities for private sector investment in areas that previously were perceived to remain closed to private sector investment, because of the existing or potential threat of direct competition from the state.

Among the firms to be privatized are a number of parastatals that have been heavily involved in the distribution of agricultural inputs and outputs. Privatization of these entities will thus advance the Government's structural adjustment program to reduce Government intervention in input distribution and agricultural produce marketing.

The privatization program is also intended to signal to foreign investors that Morocco welcomes foreign investment. Morocco expects to return to international creditworthiness in 1993, ending a decade of periodic debt reschedulings. Even though Morocco will return to international capital markets for finance, medium or long-term debt financing will be scarce and attraction of foreign direct and portfolio investment will be increasingly important. The privatization program offers to potential foreign investors interesting opportunities for direct and, possibly, portfolio investment.

The privatization program will also provide significant budget resources to the Government. The FY 1992 Budget projects that Government receipts from privatisation will total DH 1,000 million, equivalent to two percent of total revenues. This new revenue source should ease the strain of meeting Government budget deficit reduction targets. Rather than constituting an actual or potential drain on the Government budget, the state-owned enterprises converted to private management and ownership will likely improve their profit and contribute to a widening in the Government's tax base. Tighter fiscal discipline is an essential component of Morocco's structural adjustment program, for a widening deficit would only serve to crowd out private sector borrowing, with consequent adverse effects on private sector investment and employment.

Lastly, by transferring to the private sector ownership and control of a major portion of the state-owned enterprises, significant efficiency gains will be achieved throughout the economy, and overall competition will be enhanced.

## III. PRIVATIZATION IN MOROCCO

## A. ORIGIN OF MOROCCO'S PRIVATIZATION PROGRAM[2]

In Morocco, privatization evolved from a dialogue on the optimal mix between public and private sectors to bring about national development that has been going on for at least 10 years. Early contributions to the policy dialogue stem from work done in 1979 and 1980 under the Minister-Delegate in the service of the Prime Minister, Mr. Abdellatif Jouahri, who, according to a circular issued by the Prime Minister, was to "rethink the role of public enterprises as a privileged instrument of the economic and financial policy of the Government to contribute to the realization of development objectives." He inventoried the portfolio, examined its actual and desired place in the economy, and proposed many changes to state-public enterprise relations.

The results of the study concentrated on revitalizing the public enterprises by reducing direct central Government controls over many of their actions. Privatization that transferred property from the public to the private sector was not recommended by the Jouahri report. However, it urged privatization of the management environment for a limited number of firms which had no a priori justification for being in the public portfolio.

One Jouahri report recommendation was put into effect with the creation of the Vigilance Committee in 1983. The Committee, made up of the Ministers of Finance, Economic Affairs, and Public Works, was to help restructure the relations between Government and public enterprises by cleaning up payments arrears. The committee's task helped prepare the way for the privatization debate by bringing about a sorely needed financial overhaul of the portfolio.

The official thinking on privatization was also influenced by the Public Enterprise Restructuring Loan (PERL). The World Bank loaned $240 million to Morocco in 1987 to support restructuring of public enterprises. One of PERLS's objectives, improving portfolio efficiency, was to be reached by developing a strategy leading to a medium-term program to divest the state of those activities more effectively handled in the private sector. Funds from the PERL were used to undertake a massive evaluation of the Government portfolio with the intention of defining possible privatization candidates and the core of non-privatizable firms.

During the 1980s, while debate and study commenced on the merits of privatization, a number of actual privatizations were carried out. Demonopolization of legal monopolies was employed with some success as in the case of the large export service firm, Marketing and Export Office (Office de Commercialisation et d'Exportation - OCE), ranked third nationally in sales in 1982. After OCE's monopoly on exports of canned food was removed in 1984 and that on citrus and fresh vegetables in 1985, producers, cooperatives, and new private firms made up of former OCE staff

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2 The material for this section is based on: Saulniers, Alfred H., "Privatization: Morocco", 1990.

captured most of the agency's business – at a lower cost to exporters. Exports did not suffer; instead they continued to expand. Now, OCE operations are scaled back and many of its agro-processing subsidiaries are slated for privatization.

Demonopolization of urban transport systems took place in Morocco's major urban areas, beginning with Casablanca (1985) and Rabat-Salé (1986). Opening the previously closed markets to the private sector provided a sorely needed relief to urban transport bottlenecks and eliminated long waits and overcrowding by dramatically increasing the number of busses in circulation.

Starting in 1982, management contracts and leasing have been implemented in almost all Government-owned hotels. However, by far the most important privatizations in Morocco took the form of portfolio restructuring or divestment either of assets or of subsidiaries of the major holding companies. These operations were seen mainly as standard portfolio management practice, not as privatizations. The state-owned investment company -- Société Nationale d'Investissement (SNI) -- has led in portfolio restructuring. From 1980 to 1989, it sold shares in over thirty-five firms largely through private placements validated through the Casablanca Stock Exchange. Similarly, the Industrial Development Office, ODI, from 1980 to 1988, totally or partially ceded six firms to the private sector and, through capital dilution, opened four firms to greater private participation. Also, BNDE, the national industrial development bank, from 1984 to 1986, sold its participation in six firms, three of which were privatized (EUCAPAN, LUKUS, SCRM), traded three others to another public firm, and liquidated one other. The Fund for Savings and Management (Caisse de Dépot et de Gestion - CDG), reduced its share in seven companies in 1985 alone. The National Fishing Office, ONP, sold two subsidiaries in 1984. Also in 1984, the Treasury sold off all or part of its shares in two sugar companies, the Compagnie Sucrière Marocaine et de Raffinage (COSUMAR) and the Sucrerie de Doukkala, and a sewer-pipe manufacturer, the Société Nouvelle des Conduites d'Eau (SNCE), to the private sector, while a mining subsidiary of BRPM, the Société de Pyrotine de Kettara (SEPYK), had been closed awaiting liquidation. In 1989, Liwa International, a company from the United Arab Emirates, purchased three hotels from two different Moroccan public enterprises, Hotel de Fès in Fez, El Badii in Marrakech, and Atlas in Agadir, the last from SOTORAM, a Royal Air Maroc subsidiary.

Even though quiet privatizations were occurring and debate engaged on the merits of privatization, reformers, including the King, were frustrated by the lack of a coherent, formal privatization policy and program. Faced with this unresolved shortcoming, the King, for the first time since the adoption of the current Moroccan constitution in 1972, opened the 1988 spring Parliamentary session by dedicating his entire speech (and the session) to privatization. In a further break from tradition, the King spoke from a written text so as not to leave any doubt about the meaning of his words. He stressed that his speech was meant to guide discussions and that it was not a set of royal instructions. He indicated that privatization could: modernize the economy, help regional development, increase the well-being of citizens, unleash an entrepreneurial spirit heretofore barred by public enterprises, and foster Morocco's position in and openness to the international economy. He emphasized that privatization in no way resulted from decisions to reduce the budget deficit or to abandon the state's role as promoter of national development, attributing, in passing, much of the recent "excessive and unjustified" growth of the public sector to the proliferation of "unnecessary" and "useless" subsidiaries and to public sector participation in a wide range of projects. He pointed out that mismanagement arose, in part, from the confusion between the state's management and control roles. He faced the issue of foreign participation in privatization and indicated the need to attract foreign investment to Morocco. Social issues were addressed when the King proposed alternative solutions to unemployment possibly resulting from privatization: 1) spreading out sales to avoid creating a massive unemployment problem; or 2) imposing employee retention on the new buyers. He also stressed that privatization should not increase the existing concentration of wealth, but that it should give a chance to "new men".

On 20 October 1988 at the beginning of the fall session, a short eight-article draft law was presented to Parliament. The draft sought a blanket authorization to privatize, subject to Parliamentary ratification. The text listed six firms exempted from privatization for strategic reasons. The six exceptions were: the phosphate holding (OCP); the water (ONEP) and electricity (ONE) utilities; the telephone company (ONPT); the railway (ONCF); and the airline (RAM). The draft set three basic objectives: to permit access by new social classes to share ownership while combatting increased concentration of wealth; to develop regional economies; and to safeguard employment. It set no time limit for privatization but gave the Government six months to fix its operating procedures and an additional year for Parliament to ratify them.

The political opposition felt that the law impinged on Parliament's constitutional prerogatives: "all transfer of goods from the public to the private sector must be authorized previously by the legislature". Opposition to legislation that would put the power to privatize into the hands of the administration and merely leave ratification of those decisions to Parliament was inevitable. The opposition adopted the tactic of refusing to even discuss the text in committee and halted the debate on privatization during the fall session 1988 and the spring session 1989.

After repeated claims that the draft law was illegal had still not swayed opinions in parliament, the opposition parties changed tactics and called for a royal arbitration on the draft's constitutionality. No such arbitration was made public, but the draft was amended to impose a 6-year limit on privatization. In addition, the Government proposed to delete the list of exclusions making, in effect, all firms privatizable; but, in the face of heated opposition, it later provided a list of 75 enterprises plus 37 hotels slated for privatization before 31 December 1995. On 11 December 1989, Parliament approved the law by a vote of 78 to 45 with 3 abstentions.

In Morocco, a fragile consensus has now emerged about the role of the state in general and of public enterprises in particular. The thinking holds that the role of the public enterprises had been to get the economy going, in the years following independence, while waiting for the private sector to develop its capabilities and mature. Now, more than 30 years later, it is time for the private sector to take on more responsibility for Morocco's economic development.

## B. MOROCCO'S PRIVATIZATION LAW AND PROGRAM

The Privatization Law, much of which emerged unchanged from the parliamentary debate, provides the framework for the current privatization program. It will be implemented by the Minister of Economic Affairs and Privatization, assisted by a five-member Transfer Commission made up of officials from the principal ministries concerned, who are named by the King on the basis of their competence in economic, social, and financial matters. The law fixes four methods to be employed in the privatization program: financial market mechanisms; tenders; the combination of financial market mechanisms and tenders; and direct negotiations. It also provides for an independent Evaluation Authority to oversee the propriety of the evaluation process. To meet the law's social objectives, priority may be given for certain potential shareholders and special advantages are provided for the workers in firms being privatized. To control portfolio growth during the six years, the Minister has to approve any creation of all new public firms or subsidiaries except for those subject to other legal provisions.

The law specifically names the 75 enterprises and 37 state hotel properties in which the state ownership stake is to be sold. The 112 enterprises to be privatized include firms in agriculture (3), agribusiness (14), textile and leather (12), other industries (18) banking and finance (9), tourism (38) and other services (18). They account for an estimated 6% of GDP.

The financial sector figures prominently among the firms to be privatized. The nine financial institutions on the list account for 13% of sector value added with more than 6,000 employees. Among them are the two largest commercial banks in Morocco, the Banque Centrale Populaire (BCP) and the Banque Marocaine du Commerce Exterieur (BMCE). Two other parastatal banks are also on the privatization list, the Banque Nationale pour le Développement Economique (BNDE), which is the state industrial development bank, and the Credit Immobilier et Hotelier (CIH) which is a Government bank specializing in finance for housing, hotels, and other real estate development. Their privatization will even the playing field among commercial banks and these specialized financial institutions, putting an end to the privileged position these parastatal organizations had enjoyed in competing with commercial banks for deposits and lending to clients. Two insurance companies, two consumer finance companies, and the national investment holding company comprise the remaining financial institutions to be privatized.

The 41 industrial firms to be privatized contribute 5% of sector value added and employ more than 36,000 persons, 7,000 in the textile and clothing industry and 5,000 in the sugar sub-sector. In addition to the ten sugar mills, important Government holdings in industry that are on the privatization list include a vehicle assembly plant (Société Marocaine de Construction Automobile-SOMACA), Morocco's only steel mill (Société Nationale de Sidérurgie), tire manufacturing (partial ownership of General Tire and Rubber Company), a major cement plant accounting for roughly a fifth of national cement production capacity (Cimentière de l'Oriental-CIOR), Morocco's most important computer manufacturer (Société Internationale d'Appareillage Electromecaniques -S3i), the country's only pulp plant (Cellulose du Maroc), and a variety of holdings in machine and equipment manufacturing and in the textile and garment sub-sectors.

In addition, eight parastatals engaged in petroleum product distribution and storage, principally representing the prior holdings of Shell, Mobil Oil, Total, and other private oil companies, are to be privatized. The Government's national bus line, Compagnie de Transport du Maroc-Lignes Nationales (CTM-LN) is also on the privatization list. The thirty-seven hotel properties to be privatized include a number of four and five star hotels.

Parastatals important in agricultural input and produce marketing are included on the privatization list. Among these number Fertima, the Government owned fertilizer storage and distribution company, SONACOS, the Government cereal seed multiplication and distribution company, and COMAPRA, a parastatal heavily engaged in buying domestic oilseed production. Privatization of these entities as well as the sugar mills will substantially advance Morocco's adjustment program in agriculture.

The enterprises to be privatized have themselves interests in other firms; consequently, privatization of the 112 enterprises will lead to the disengagement of the state from about 300 additional enterprises, which is equivalent to more than half of the total number of enterprises with a state ownership stake. A complete list of the entities to be privatized, the Government ownership stake in them, net capital, and employment levels is found in Annex B.

A set of decrees to implement the basic Privatization Law was approved by the Cabinet on 15 September 1990 and by the Council of Ministers on 16 October 1990. The decrees fix the powers of the Minister of Economic Affairs and Privatization and the Transfer Commission, detail the methods of transfer and evaluation, and indicate special treatment for the workers in privatizable firms. Other favored groups in the privatization process include local buyers for selected firms that are designated for regional priority (these buyers include Moroccan workers abroad whose origin is in the region) and farmers who wish to purchase shares in the agro-industrial concerns that buy their products.

Based on these decrees, the process for privatization will include the following steps:

i. Ministry of Economic Affairs and Privatization develops from the 112 enterprises to be privatized the list of firms to be sold first and the timing of the program.

ii. The Ministry completes audits and evaluations of the firms, through consulting firms and independent experts. These audits and evaluations examine the firm's asset values, goodwill and possible market value of assets, profit position, value of traded shares, existing subsidiaries and future market prospects.

iii. The preliminary evaluation report is submitted by the Minister to a newly created Evaluation Authority which is responsible for setting the minimum price for which the Government ownership stake in an enterprise can be sold. This decision must be made within two months of submission of the evaluation report.

iv. After receiving the Evaluation Authority's determination, the Minister, in consultation with the Transfer Commission, selects how the enterprise is to be privatized. Four methods of divestiture are authorized: sale through financial markets, sale by request for bids, a combination of these, and direct sale.

a. <u>Sale through financial markets</u>: after consulting the Transfer Commission, shares are sold either through the stock exchange at an initial price equivalent to the minimum sales price set by the Evaluation Authority, or at a fixed price sale (which cannot be under the minimum sales price), through bank branches and post offices, or a combination of the two.

b. <u>Request for bids</u>: after consulting the Transfer Commission, the Minister of Economic Affairs and Privatization issues a request for bids either to the general public, or to a more restricted audience if priority is to be given to regional residents to purchase an enterprise deemed regionally important or if priority is to be given to farmers in cooperatives supplying raw materials to agroprocessing enterprises to be privatized. The Transfer Commission is given full responsibility for bid evaluation and selection. The award is subsequently made legal with a decree issued by the Prime Minister.

c. A combination of those above

d. Private sale: this special method of privatization is to be used in the event that certain objectives are served, notably protecting employment, developing and reinforcing regional economies and insuring broader enterprise ownership among all social classes. The Minister of Economic Affairs and Privatization requests the concurrence of the Transfer Commission prior to any direct sale to the benefit of a person or corporation, and the Minister furnishes the Transfer Commission a report describing proposals received and the grounds for the selection of one of them. Once Commission concurrence is obtained, the Minister issues a decree, including the text of the concurring opinion and a sales contract is signed with the purchasing entity. In case the purchaser fails to meet the contract conditions, the Transfer Commission assesses penalties to be applied.

As mentioned above, the appraisal of enterprises to be privatized is reviewed by the independent Evaluation Authority composed of seven members appointed by the King. On the basis of a preliminary evaluation submitted by the Minister, this Authority will fix the minimum sales price of enterprises or public shares in enterprises. All divestitures must be effected at prices above the minimum price fixed by this body. The Authority is authorized to engage its own experts to help it complete appraisal reviews.

The Minister of Economic Affairs and Privatization has been awarded extended powers to carry out the privatization program as well as to control any future extension of the public sector in Morocco. The Minister chairs the Transfer Commission, hires experts to perform audits and evaluations (with authority to waive regular rules for procurement), has a major role in deciding what means will be used for each privatization, determines the ceiling, if any, on sales of shares to particular individuals, corporations or foreign investors, selects banks authorized to sell fixed price shares, and approves the creation of any new public enterprise, new public enterprise subsidiary or acquisition by a public enterprise of a private firm, in whole or in part.

The Minister is assisted by the interdepartmental Transfer Commission composed of five members appointed by the King. In addition to providing advice to the Minister, it has the power to approve direct private sales, to select the winning proposal in response to requests for bids and to advise on priorities and advantages to be granted to particular participants in order to insure wider access to share ownership, to fight against monopolies, to develop and strengthen regional economies, and to safeguard employment.

The subject decrees taken together display an intent to make the privatization process transparent and to insure it does not give preference to special interests. The objective of assuring transparency is reflected in the clear procedures for privatization and the requirements for publication of key decisions. For example, the Government must publish in decrees the opinions of the Transfer Commission concurring to privatizations by direct private sale. Also, the identity of winning bidders and the Government authorization for each sale must be published in decrees. To avoid possible distortions against open competition, the process separates the decision making powers for setting the minimum sales price from those related to selecting winning bidders. To guard against excessive concentration of ownership, the minister has the authority to limit sales to particular individuals or companies or to set a ceiling on share purchases.

Possible delays in the evaluation process are also avoided by authorizing the Minister to waive the regular rules for competitive procurement for the preliminary appraisals.

## C. PRIVATIZATION AND CAPITAL MARKET DEVELOPMENT

As mentioned above, the privatization program offers a significant opportunity to develop Morocco's capital market. Currently the vast proportion of companies whose securities are listed on the Casablanca Stock Exchange are owned in blocks by Government organizations and some twenty financial institutions. Less than 3% of the shares of listed companies are broadly distributed among the general public. Further, institutional appetite for shares is largely unmet, and such block trading as occurs mostly takes place off-floor. As a result privatization which results in a substantial and broad public distribution of securities will be a critical element to raising stock market volumes and strengthening the exchange's capacity for future primary distributions.

Only 71 listed companies are actively quoted on the Casablanca Stock Exchange, and the Exchange's capitalization represents less than three percent of GDP, far below potential as compared to levels of stock market capitalization in other middle income countries. New share issues have averaged only one or two a year over the past several years. With such an underdeveloped equity market, companies are dependent on self-finance and bank credit to meet their needs for investment and working capital. This lack of articulation in Morocco's financial sector also means that banks face little competition from other potential means of financing, such as stock or bond offerings.

While the lack of supply of stocks is a major cause for the low state of development of Morocco's stock market, other factors are equally important. These include:

-- the absence of a modern securities law, specifying, for example, minimum disclosure requirements and shareholder rights,

-- accounting practices which result in financial statements which do not accurately reflect financial positions and performance,

-- a weak securities industry, with banks dominating brokering and a complete absence of securities analysts,

-- poor public knowledge of stocks as an instrument for placement of savings and a lack of a generalized opportunity to invest in stocks, such as mutual funds,

-- the ready availability of high yielding, tax-free, secure Government bonds paying up to 13% per annum, offering stiff competition to stocks,

-- high stock exchange commissions coupled with broker commissions which are too low to promote this essential part of the industry.

To take full advantage of the opportunities presented by privatization, the weaknesses in Morocco's capital market will need to be addressed.

## D. CONSTRAINTS TO PRIVATIZATION IMPLEMENTATION

World-wide experience in privatization to date clearly demonstrates that privatization programs are much more difficult and take a much longer time than is usually anticipated. State-owned enterprises still dominate the productive and financial sectors of a great many developing countries, and despite the launching of privatization programs in many of these countries, the actual number of privatizations has been modest. Large programs of divestiture have only been achieved in Bangladesh, Chile, and Mexico, and, among former Soviet Bloc countries, in East Germany. Large industrialized developing countries such as Argentina, Brazil, Pakistan, and Turkey have all experimented with privatizing their huge state-owned enterprise sectors, but formal privatization programs in these countries have been limited, and the number of privatizations completed has been minimal. Other countries at similar or higher levels of development as Morocco, such as the Philippines, Malaysia, Indonesia, and Sri Lanka, have established formal privatization programs with relatively ambitious targets. The Philippines has targeted some 120 state enterprises for privatization and completed transfer on about a quarter of these. Malaysia announced an ambitious program to privatize 246 of the estimated 900 Malaysian state-owned enterprises. As of 1990, only [illegible] divestitures had been completed. Stiff opposition has impeded implementation of Indonesia's privatization program which encompasses 215 enterprises accounting for some 80% of the country's economic activity. In Sri Lanka less than 15% of the 146 state-owned enterprises were slated for privatization, and while action has been taken on a significant number of these, most were only partial privatizations, with the state retaining major ownership positions. In sum, despite stated intentions, developing countries have by and large found implementation of privatization to be a slow and difficult process, encountering substantial opposition.

Morocco has thus far succeeded in establishing the legal and institutional framework for a very major privatization program for 112 state-owned enterprises. In establishing this program, considerable opposition had to be overcome, and, in implementation, opponents will continue to try to delay, block, and render unsuccessful the privatization program. The strength of the parties arrayed against privatization was made apparent during Parliament's consideration of the Privatization Law. The law was originally proposed by the King in an address to Parliament, but, despite his support, Parliament overrode the proposal for a very broad privatization program encompassing all state-owned enterprises save a short negative list of six national enterprises, including the phosphate company, and the national airline, electricity authority, railway, water authority, and telephone company. Instead, Parliament, after extensive and often acrimonious debate, agreed to a reduced list of 112 state-owned enterprises to be privatized. The Independence Party, the Socialist Union of Popular Forces, and the Party of Progress and Socialism all took positions favoring retention of a strong state-owned enterprise sector and against privatization. With nearly forty percent of Parliament's seats, these parties wielded considerable influence over the design of the Privatization Law and will continue to do so during implementation.

In addition to opposition by formal political parties, implementation of the privatization program will face obstacles from a number of other sources, including the Government bureaucracy, unions, and enterprises to be privatized. A large number of the 112 entities to be privatized are wholly or partly owned by particular Government holding or investment organizations such as the Caisse de Depôt et Gestion, the Office du Dévélopement Industriel, the Societé Nationale de l'Investissement, and the Cherifian Phosphate Company. For these Government holding organizations, divestiture will reduce the total investment capital they control, since the proceeds of privatization are to flow to the Government's general investment budget and not to be dedicated for re-use by the selling organization. These holding organizations will subsequently have smaller investment portfolios and a much reduced need for staff. These organizations will thus be likely to resist expeditious implementation of privatizations affecting their investment holdings.

The other enterprises to be privatized are supervised by the Government ministries which created them or which view them as part of their apparatus for controlling and developing a particular economic sector. For example, this is the case with many of the parastatals controlled by the Ministry of Agriculture and Agrarian Reform. SONACOS is perceived as the implementing organ of the state for assuring reproduction and distribution of improved cereal seed; COMAPRA as the implementing arm for Government policy to encourage production of sunflowers and reduce dependence of vegetable oil imports. Lending for hotel investment has been largely confined to the CIH, and the Government takes particular pride in the role it has played in the development of Morocco's tourism sector. The two largest commercial banks, the Banque Centrale Populaire and the Banque Marocaine du Commerce Extérieur, are partly Government owned and can be relied upon by the Ministry of Finance to buy more Government debt or to provide special financing facilities for the Treasury, if needed. As a consequence, the Finance Ministry, while favoring financial market liberalization, also has a substantial self-interest at stake in maintaining the status quo so that Treasury financing difficulties are not compounded. In sum, sponsoring ministries are naturally reluctant to surrender control over their affiliates and thus diminish their direct means of influencing development within a sector.

Ministry civil servants and representatives of owning Government organizations also personally stand to lose considerably by privatization as they frequently serve on boards of directors of state-owned enterprises, for which they receive special additional compensation. In addition, some Ministry employees have been seconded to the state-owned enterprises, and face the risk that they may lose their jobs with privatization. They thus have a very entrenched vested interest in delaying privatization of the affiliates.

These types of bureaucratic interests were much in evidence during the drafting of implementing decrees for the Privatization Law. The Law stipulated that implementing decrees would be issued within one year of this Law's passage. Discussion within the Government on the content and scope of these decrees was so extensive and protracted that the Government barely met this mandatory deadline, publishing the decrees on the exact date one year later. Backfighting has and will continue as priorities are set for the privatization program and as Ministries and Government holding organizations plead their case for delaying to the end the privatization of their affiliates.

The workforce in most large formal sector industrial enterprises is unionized, and this tends to be even more the case among the state-owned industrial enterprises. Fearing lay-offs, requirements for higher productivity, and curtailments in the rate of increase in wages, unions in state-owned enterprises have been strongly opposed to privatization. Unions will likely call for strikes and demonstrations by workers in firms to be privatized in order to defer or postpone indefinitely plans for privatizing particular state-owned enterprises.

Lastly, the management of the entities to be privatized will in many cases also raise barriers to divestiture. For many, privatization will bring major changes in the conditions under which they operate, and management would prefer the known status quo. Government parastatals in agricultural input distribution such as SONACOS and COMAPRA will, for example, be forced to put responsibility to shareholders to generate a profit above other objectives that had been dictated by the Ministry of Agriculture and Agrarian Reform. When privatized, Government-owned commercial banks such as the BMCE and BCP will no longer be able to count on the automatic business of other state-owned enterprises such as the phosphate company but will have to compete for their deposits and lending business with other aggressive private banks. Relationships with ministries upon whom state-owned enterprises may have depended for high levels of protection against imports or competing firms will be less close, and the firms to be privatized will no longer be able to count on favorable treatment by virtue of their affiliation with such ministries.

The manner in which the privatization program is undertaken will also greatly affect the pace and success of implementation. It is widely believed by the general public that privatization will result in deals with already established large business groups, thereby adding to concentration of ownership in the private sector. According to this view, such large business groups will gain the inside track on bids for state-owned enterprises to be sold. Advantage will not be taken of opportunities to use privatization to foster widespread public ownership of shares. If these fears are realized and privatization transactions do indeed reflect insider dealing and/or benefit existing large business groups, popular opposition to the privatization program will mount significantly and further implementation will likely be slowed.

Implementation of the privatization program is a new responsibility for the Ministry of Economic Affairs and Privatization. Its staff is thin, comprising only ten professionals and lacking the expertise required to carry out the actual transactions required for privatization. Audit, evaluation, investment banking, and related transactions services will therefore have to be contracted out. While Morocco has numerous accountants and a well-established banking system, adherence to international accounting standards is limited, and investment banking services are not fully developed. Privatization offers the opportunity to use and develop Morocco's accounting and investment banking sectors, and for many transactions Moroccan accounting and consulting firms will be employed either solely or in joint ventures with international partners. For the larger and more complex, however, recourse will need to be made to external international expertise.

While Morocco has made substantial progress in Government budget reduction, greater curtailment in expenditure growth will be required over the next few years to place Morocco on a path to self-sustaining growth. The level of resources needed to implement the privatization program may thus not be made available. Implementation of Morocco's structural adjuntment program since 1983 has required strict control over expenditure growth. The overall Government budget deficit has been reduced from a high 14.5% of GDP in 1981 to a range of 4-6% of GDP between 1986 and 1989. Since 1989, the Government has been under significant pressure to reduce the budget deficit even further. In 1990 and 1991 the budget deficit fell to some 3% of GDP. Under the current IMF Stand-by the budget deficit is programmed at 0.8% in 1992 and the budget to be balanced in 1993. While tax reform has introduced greater elasticity to Government revenues, the great brunt of deficit reduction has resulted from curtailment in the growth of Government expenditures. From a peak of 37.8% of GDP in 1981, Government expenditures were reduced to a level equivalent to 27% of GDP in 1987. Expenditure control then relaxed somewhat, and Government expenditures rose to 29% of GDP in 1989 and 28% in 1990. Achievement of the deficit reduction targets in the current IMF Stand-by implies further curtailment in expenditures to a level of 26% in 1992 and 25% in 1993.

In the next several years, budget requests will be even more closely scrutinized, quarterly allotments strictly controlled and doled out sparingly. Moreover, for many years Morocco has reduced the need for higher levels of public borrowing by purposefully deferring payment to outside contractors, giving priority to meeting Government payrolls. The budget of the

Ministry of Economic Affairs and Privatization for privatization is new and requires budget authority for services only rarely allowed by the Government of Morocco, viz., consulting, financial accounting, appraisal, evaluation, promotional and publicity services. Given the current budgetary stringencies, the Ministry of Economic Affairs and Privatization may find itself blocked by lack of budgetary resources and controls over the volume of commitments and payments it can make. Particularly damaging is the practice of much delayed payment for external services. Top quality Moroccan consulting, accounting, publicity, printing, and other firms will be reluctant to take on privatization business for the Ministry for fear that they will not be paid in a reasonable time frame. Difficulty in securing the best qualified Moroccan talent available may in turn mean the Ministry will have to rely on second-rate firms, with possible adverse results for beginning and implementing the privatization rapidly and well.

## IV. RATIONALE FOR PRIVATIZATION SUPPORT

### A. USAID/MOROCCO STRATEGY AND PRIVATIZATION

One of the four strategic objectives in the recently prepared FY 1992-95 Action Plan is increased competitiveness of Moroccan firms, especially in selected export markets. Support for privatization is an essential element in meeting this strategic objective because divestiture of state-owned enterprises will increase their efficiency and induce greater competition among suppliers and buyers of the goods and services to and from the enterprises that are privatized. Many of the state-owned enterprises are producers of intermediate goods, and the efficiency gains from privatization will thus rebound quickly to other producers, including exporters. Implementation of the privatization program will substantially improve the climate for private sector investment, which in turn will help to increase employment -- a USAID/Morocco program sub-goal. Privatization removes the threat that the state will pre-empt for itself certain areas of the economy; opens new areas for private investment; and, by increasing the number of shares available and distributed broadly, promotes development of the stock market and hence equity finance. Related measures to create a better-functioning equity market will serve to improve access to and provide alternative means of financing for new business creation and expansion. Lastly, through privatization, actual and potential transfers to state-owned enterprises will be reduced, thereby lowering Government deficit financing needs which significantly crowd out credit to the private sector.

### B. RATIONALE AND NEED FOR SECTOR ASSISTANCE

USAID Morocco assistance to privatization to date has focused on technical assistance and training. While these will continue under the Technical Assistance Component Grant, at this point program rather than project assistance is primarily needed to help the GOM to move privatization forward. Privatization Sector Assistance will provide greater encouragement, incentives and resources to accelerate privatization than could be accomplished with project assistance. Privatization Sector Assistance will provide resources to help overcome some of the causes of the opposition to implementation of the Government's privatization program. It will also insure that the implementing Ministry has sufficient budget to procure the necessary level and quality of services needed to make implementation successful.

The basic objective of Privatization Sector Assistance is to encourage the GOM to accelerate privatization and to facilitate its implementation of the program. The assistance will support sector level reform, the actual implementation of the Government's privatization policy, as well as parallel actions required for privatization to result in broader public share ownership with consequent beneficial impact on the development of a capital market. This is a program objective and AID resources will be provided in a generalized manner under the Program Assistance Grant to help the GOM attain the objective rather than to support specific project inputs. We are seeking overall progress in privatization rather than the financing of any particular activity. Disbursement of the dollars will be linked to the achievement of specified policy implementation actions by the GOM and local currency generations will be utilized to provide general support for the implementation costs of privatization.

The sector assistance will not directly help to dampen political opposition to privatization. However, by helping to insure that privatization is completed and done well, it can alleviate some of the concerns that lead to that opposition. Further, the additional resources and the backing and prestige of a major bilateral donor, through what will be recognized as a major endeavor for USAID, will provide encouragement and incentives for the GOM to move more quickly on privatization and ammunition for the MEAP to use to press for faster action vis-a-vis the rest of the GOM and against various interests opposed to privatization. It will be a means to help accelerate a process the GOM is committed to and which is well underway but which faces constraints and is not moving as fast as it could. The publicity given to references to privatization during the King's recent visit to the U.S. and the use to which these were put by the MEAP in promoting privatization demonstrate that this kind of external encouragement can be useful.

While other donors are providing specific technical inputs to privatization, nobody else is providing this kind of generalized assistance or attempting this kind of encouragement and facilitation. Specifically, unlike financial sector reform, neither the World Bank nor the IMF have made privatization a performance target for structural adjustment loans or IMF financing.

Transparency in privatization operations will be key to persuading the public that privatization is not benefitting special groups. Adherence to procedures for open competition, publication of major decisions and their rationale, wide diffusion of clearly prepared requests for bid, prospectuses, and public share offerings, and announcement of winning bids make for such transparency. Special efforts to interest the general public in investing in public share offerings of privatizing firms will also be important to insuring wide distribution of ownership of the privatized firms. Measures to promote wide public ownership of shares of privatized firms can be supported by sector assistance local currency generations as can the other actions to promote transparency, such as costs of preparing clear prospectuses and share offerings and diffusing information on them. In addition, the very presence of an external donor, such as USAID, engaged in a program of major support for privatization will serve to reinforce the need for transparency.

The local currency counterpart will also provide means to soften bureaucratic opposition to implementation of the privatization program. Placement, retraining and severance pay programs could be financed from the local currency for ministerial and other personnel affected by any lay-offs in privatized firms. Moreover, by virtue of the additional budgetary resources it will receive based on progress in privatization, the Ministry of Economic Affairs and Privatization will be motivated to complete transactions and to overcome bureaucratic obstacles posed by other ministries and holding organizations.

Union and employee opposition can be partly countered by showing the results of privatization on firm and sector efficiency, investment, and employment. In addition, mitigating measures for those threatened by lay-offs will be eligible for financing from sector assistance local currency generations. Placement, retraining, area redevelopment, and severance pay programs could, for example, be instituted as necessary.

The local currency generations from sector assistance will be used to support a program of evaluation of the effects of privatization on firm and sector level efficiency, investment, employment, national savings mobilization, industry ownership patterns and other factors. Results of such evaluations will provide the factual basis for countering political arguments about the worth of the privatization program and lay the base for a program of further privatizations.

Lastly, Privatization Sector Assistance will provide an enhanced level of resources to the Ministry of Economic Affairs and Privatization to allow it to engage the level and quality of local and external services needed to mount and complete a successful privatization program. The GOM does not intend to segregate the proceeds of privatizations from other revenues and has in fact programmed estimated revenues from privatizations in its budgets. The MEAP competes for and receives budget allocations as does any other ministry. Given the budget stringencies required under the adjustment program and competing demands from other public sector programs, the MEAP may not have sufficient resources aside from the Sector Assistance Grant to implement privatization in the optimal fashion, to fully carry out required evaluations, audits and restructuring and to undertake certain other important activities, such as publicity and measures to promote share ownership, which would improve the overall process and results of privatization. Other donor assistance has largely focussed on the foreign exchange costs of audits and evaluations and has not generally addressed these problems.

The local currency resources provided by the sector assistance will defray some of the costs of privatization and permit the MEAP to undertake activities which would otherwise be impossible, and will provide flexibility to move faster and in a more opportune way. The MEAP has a core of staff and systems largely in place to oversee the ambitious program. The local currency will help ensure that lack of sufficient dirham resources do not hold the program back. While for more complex transactions foreign expertise will be necessary, Moroccan accounting firms, appraisers, and financial analysts have the capacity to complete many of the 112 privatizations. Providing dirham funding will allow the Government to maximize use of local available expertise and assure that privatization helps to develop the Moroccan accounting, audit, and consulting professions as well as financial institutions. Since the MEAP is capable of carrying out the program and other donors are providing technical assistance, project assistance beyond the limited technical assistance and training included in the program is not needed.

Use of sector assistance is also consistent with the Mission's intent, in line with AID/W guidance, to focus the Morocco program and implement it in a less staff intensive manner. While monitoring Privatization Sector Assistance will still require a significant amount of staff time, it will be less than an equivalent level of projectized assistance. The program can therefore be a model for new forms of Mission assistance appropriate to the 1990's which are less staff intensive and which reflect a mature AID relationship in areas where the GOM is competent but still lacks sufficient resources.

C. SECTOR ASSISTANCE VS. CIP

While a commodity import program (CIP) mechanism was considered during preparation of the PAIP and PAAD, the cash disbursement mechanism described in Section V. D is much more efficient and is consistent with the level of development of Morocco's financial system. It also fully meets Agency "Buy America" objectives.

Privatization Sector Assistance is designed to motivate the Government of Morocco to move more expeditiously and systematically on its privatization program. Sector assistance rather than a CIP was chosen as the means because it would allow for almost immediate initial generation of local currency counterpart needed to assist in defraying the substantial local currency transaction, restructuring, re-employment and other costs of privatization. A CIP would not lead to immediate generation of local currency counterpart and thus would defeat the incentive effect of tranche release for the Ministry of

Economic Affairs and Privatization which needs the local currency for privatization expenses. Private sector CIPs provide term import lending; local currency is not generated until goods are received in-country and participating local banks receive payments of interest and principal, which could be spread over five years if medium term financing for capital equipment were provided. Deposit of local currency under public sector CIPs typically happens upon arrival of goods in-county, but that occurs only after a lengthy open, competitive bidding process.

A CIP would also involve staff intensive procedures and management requirements that are inconsistent with the intent to use program assistance to reduce the staff burden of project implementation in Morocco. Relative to the amounts contemplated, i.e. $4 million in the first tranche, heavy administrative and start-up costs would be incurred. Furthermore, a CIP would require that USAID/Morocco engage a commodity procurement specialist to manage the program. A CIP would be much more inflexible and difficult to manage than the proposed cash disbursement. In addition, there are no sector specific imports required for privatization which could be the focus of a CIP; the main requirement for foreign exchange is international technical assistance, which a CIP would not provide. Morocco is not a new market for U.S. goods; competitive U.S. suppliers are already well represented in Morocco; and the small potential total size of a CIP, to wit $20 million, would not provide an incentive for establishment of new distributorships or agencies of U.S. suppliers.

There is no need for a more directed form of sector intervention on the dollar side. The Moroccan foreign exchange market is basically free and importers have ready access to foreign exchange needed for legitimate purposes. The market determines what imports are bought and CIP type mechanisms would be a step backward in liberalization of the foreign exchange allocation and financial systems. The dollars provided under a cash disbursement can be utilized for U.S. imports without the bureaucratic controls or procedures required by a CIP. There are no capital flight issues to contend with. The cash disbursement mechanism will fully ensure that the dollars are used solely to reimburse banks for foreign exchange sold for specific imports from the U.S. The GOM, and particularly the Central Bank, is fully capable of administering such a program, ensuring that the dollars are utilized for agreed purposes and maintaining adequate records.

## V. PROGRAM DESCRIPTION

### A. GOAL AND PURPOSE

The sector goal of the program is to expand the role of the private sector in Morocco. The goal will be achieved through the transfer of enterprises from public to private ownership, a diminution of the State role in the economy, the further development of financial and capital markets and wider ownership of shares of private firms.

The purpose of the program is to support and accelerate implementation of Morocco's privatization program. This purpose will be achieved through incentives from performance based cash disbursements, financing of selected local currency costs of privatization, strengthening the Ministry of Economic Affairs and Privatization's capacity to implement the privatization program and technical assistance in carrying out actual privatization transactions.

## B. HOW PRIVATIZATION SECTOR ASSISTANCE WILL WORK

Privatization Sector Assistance is intended to help the Government of Morocco move more expeditiously and systematically on its privatization program. It will motivate the Government to move rapidly on implementation of privatization and will furnish local currency and technical assistance resources to enable the Government to do so more efficiently and effectively and help ensure that the benefits of privatization are widespread. The program will comprise:

- $20 million in non-project assistance to be disbursed in three tranches: a first tranche of $4 million, a second tranche of $6.0 million and a third tranche of $10.0 million

- $5 million in projectized assistance to provide a long-term advisor, short-term transactions-related assistance, other short-term technical assistance, limited commodities, training, and evaluation and audit services.

Since the objective of the program is to support and accelerate implementation of privatization, the three cash disbursements will largely be conditioned on achievement of actual progress in implementation. This progress will be measured by completion of specified numbers of actions related to preparation of firms for privatization and specified numbers of actual transfers. To assure that sector assistance results in important privatizations with large economic benefit, a minimum number of completed large privatizations will be required and only a maximum number of small privatizations will count toward meeting conditionality. To achieve the objective of strengthening capital markets, a minimum number of transfers via the stock market will also be required. Other conditionality relates to helping ensure that certain objectives of privatization, such as widespread share ownership, are achieved.

It is expected that the first tranche of $4 million will be disbursed soon after signing the Program and Project Grant Agreement and will provide essential seed funds for accelerating implementation and initiating promotional activities. This tranche will be conditioned on completion of audits for 8 enterprises, completion of evaluations for 4 enterprises, and initiating the sale process for 2 enterprises. In addition to these transaction related requirements, first tranche release will be conditioned upon submitting (i) a plan for a promotional and educational campaign on share ownership and (ii) a plan identifying possible measures to promote broader public share ownership and showing a schedule for their study and review. Disbursement of the first tranche also gives recognition to Morocco's very substantial achievements in establishing the privatization program and putting into place the necessary institutional structure to carry it out.

The second tranche of $6.0 million will be disbursed after a cumulative total of 24 enterprises have had audits completed, 16 firms have had evaluations completed, a cumulative total of 10 enterprises have had sales processes initiated, and a cumulative total of 6 enterprises have been transferred. No more than two of the completed privatizations may be small enterprises or hotels and two completed transactions shall be for large enterprises. Moreover, a minimum of two transfers will have been completed via the stock exchange or a public stock offering.

In addition to these transactions-related requirements, the promotional and educational campaign on share ownership will have begun, the studies identified as necessary for share ownership will have been completed, USAID and the MEAP will have agreed on a number of measures in this area to be initiated prior to second tranche release and a study reviewing the means by which privatization efforts will be continued after the present program will have been completed. Other conditions will require the GOM to maintain a competitive, liberalized market environment and to maintain GOM resources for privatization implementation at their current level.

The third tranche of $10 million will be disbursed after a cumulative total of 44 enterprises have had audits completed, 38 firms evaluations completed, a cumulative total of 34 enterprises have had sales processes initiated, and a cumulative total of 28 privatizations has been achieved. Of these completed divestitures, no more than six shall represent small enterprises or hotels and six completed transactions shall be large enterprises. In addition, a minimum of eight enterprises shall have been transferred via the stock exchange or a public stock offering.

In addition to these transactions-related conditions, other measures will be required to have been put into place to promote broader public share ownership. Discussions will be held after the disbursement of the second tranche as to what measures in this area will be required for disbursement of the third tranche. The MEAP will also be required to furnish a plan and schedule to demonstrate how privatization will be completed for the remaining enterprises and to demonstrate that a competitive, liberalized market environment has been maintained and that GOM resources allocated for privatization implementation have not declined.

At the time of third tranche release, the GOM will have completed at least 28 actual privatizations and started the privatization process for at least 16 others. Hence, by the time of third tranche disbursement, the privatization process will have begun for 40 % of the eligible 112 firms.

The cash transfer dollars from each tranche disbursement will be deposited into a Separate Account in Morocco's Central Bank and will be used to reimburse the Central Bank for foreign exchange provided to settle letters of credit opened by Moroccan private sector and certain public sector firms for import of U.S. source and origin merchandise.

Concurrently with the release of dollars from the Separate Account, the Central Bank will deposit the equivalent amount in dirhams in a Special Local Currency Account in the Ministry of Finance. This counterpart will be used for off-budget privatization expenditures, largely by the MEAP. Utilization for each tranche will be jointly programmed with the MEAP. Availability of the local currency will enable the MEAP to accelerate privatization implementation and finance certain critical activities which might otherwise be impossible to undertake. Priority uses of the counterpart will include local currency costs of audits and evaluations of firms to be privatized, measures to expand share ownership, retraining programs for workers displaced by privatization, publicity campaigns on share ownership, restructuring of firms, prospectus preparation, printing and distribution, assessment and correction of pollution problems of privatizable firms, and costs of improving capital markets.

Audits will be conducted of the local currency and dollar programs prior to the disbursement of the second and third tranches to verify that deposits have been made correctly and funds used according to the terms of the Agreements. The disbursements will not be made unless the results of the audits and of the MEAP/AID review demonstrate that implementation of the program is proceeding well.

U.S. Technical assistance and support will be essential to help the MEAP carry out the overall privatization program, implement specific transactions and deal with particular issues. A long-term advisor, short-term transactions assistance, other short-term technical assistance, policy studies, environmental assistance, limited commodities and training will be provided to the MEAP. Most of this assistance will be procured via a buy-in and an institutional contract with firms working in privatization assistance. IQCs/buy-ins for policy studies and the PRIDE project for environmental assistance will also be utilized.

The conditions and procedures of the sector assistance will be detailed in a Program Grant Agreement to be signed with the MEAP. The technical assistance component will be obligated via a separate Project Agreement with the MEAP. The Program PACD will be September 30, 1996. If the conditions for release of funds are not met in this time frame, any remaining funds will be de-obligated and re-programmed for other projects and additional funds will not be obligated.

## C. CONDITIONALITY

The Privatization Law stipulates that the privatization of the named 112 entities be completed by December 1995 or, now, within four years. This is a very ambitious program compared to results achieved in other developing countries that have attempted privatization. To provide an incentive to the Government to move expeditiously and systematically on implementing the privatization program, conditionality has been tied, in large measure, to completing actions necessary to complete privatization transactions.

The non-project assistance will be released in three tranches, with disbursement tied to several indicators of progress in implementing the privatization program, taking actions to broaden share ownership among the general public, insuring the proper flow of information to the public to assure transparency in the process, and taking certain steps toward setting the stage for completion and extension of the current privatization program. The Program Grant Agreement will also include covenants committing the Government to maintain open and competitive markets in the industries in which privatizations will occur, to prevent further industrial concentration via the privatization program, and to maintain the current level of budget support to the privatization program.

The major thrust of conditionality is directly tied to demonstrating significant advancement in the implementation of the Government's entire privatization program. The privatization process embodied in the regulations implementing Morocco's Privatization Law requires completion of several stages to ready the enterprises for sale. Some privatizations will be less complex, other divestitures will be far more difficult, requiring restructuring of the firm or considerable preparation to prepare a market for the enterprise. Development of a pool of enterprises for which successive levels of actions have been completed will be essential to maintain momentum for implementing the Government's privatization program. For this reason, conditionality is not tied solely to completion of a certain number of privatizations but also to achieving some of the important milestones toward privatization for a far larger group of enterprises. These milestones comprise the following:

- Completion of Audits: Audits are a first stage in the process of appraising the value of a firm to be privatized; an audit develops a complete financial set of statements for the firm, establishes what real property belongs to the firm, including levels of inventory, and worth of stock and bond holdings. For simpler privatizations, audits and the estimation of book value may be sufficient to help establish a minimum sales price for the firm to be privatized. Financial statements are essential information to be included in requests for bids and prospectuses when the sale process is initiated.

- Completion of Evaluations: Evaluations look beyond the book value of a company as expressed in its financial statements in order to estimate the market worth of the firm. Evaluations examine the significance of the firm in terms of the market share it holds and future prospects, management, and need for restructuring and new investment. Evaluations also investigate the likely market for purchase of the enterprise to be privatized; who are likely buyers, what might they be willing to pay for the firm, what advantages would accrue to them by purchasing the firm, would the possible purchase price be affected by a need to shoulder large existing debts, by a need to sink new money in the firm to make it more profitable. Evaluation studies assess whether restructurings would be worthwhile and what method of privatization would be most effective. Audits and evaluations thus establish the worth of the firm both in terms of book value and likely realizable market value.

Accounting firms must be selected to perform the audits, and such firms and investment banks are used for evaluations. Scopes of work for these audits and evaluations must be prepared and these will differ considerably from case to case. This is especially true for evaluations, since in some instances the evaluation may need to look at likely realizable values if the firm is restructured into different entities, or subsidiaries sold separately, or, in the case of hotels, whether a better price might be achieved by grouping hotels together. Reports furnished need to be reviewed by the Ministry of Economic Affairs and Privatization to assure conformity with quality standards and the terms of reference. The Ministry of Economic Affairs and Privatization then needs to prepare its own analysis of the audit and evaluation findings and draft its recommendations to the Evaluation Authority for review. In the event that a restructuring is decided upon, such restructuring would most likely occur before submission of the audit and evaluation to the Evaluation Authority for the setting of a minimum sales price.

The Evaluation Authority is responsible for setting minimum sales prices for firms to be privatized. It has a maximum of two months to reach its decision after submission to it of an evaluation report from the Ministry of Economic Affairs and Privatization. The setting of a minimum sales price is important in order to have a reference point from which to evaluate offers for a company to be privatized by request for bids or direct sale or to set the per share price in an initial public share offering.

- <u>Sale Process Initiated</u>: With the decision by the Evaluation Authority on a minimum sales price, the Government can proceed with deciding how and when the entity should be sold. Any needed restructuring would need to be completed by the time this decision is made to assure that the evaluation reflects the actual condition of the enterprise or hotel to be privatized. Such restructurings may at time be complex, hence adding to the difficulty for firms or hotels to reach this stage. Initiation of the sale process entails reaching agreement with the Transfer Commission on the method of sale (request for bids, sale on financial markets, a combination of both, or direct sale). Further, attainment of this stage requires that all preparatory documentation be ready: that the terms of a request for bids and bid documents have been prepared, prospectuses and share offering documents drafted and approved. Further, in sales via financial markets, arrangements have been made with banks and/or the stock exchange to handle the offering. Also if sale is to take place via financial markets, a decree must be issued by the Ministry of Economic Affairs and Privatization specifying the offer price, place and timing of sale and other conditions. Of prime importance, the promotional campaign to advertize the request for bids or public offering must have been designed and ready to be implemented. Indication that this stage has been achieved for a given enterprise is evidenced by the public announcement of the request for bids or of a public offering of shares. Once this stage is achieved, it is very difficult to turn back, and ultimate divestiture is a near certainty. In rare instances, it may be, however, that the market responses will show that the minimum sales price was set too high by the Evaluation Authority. In this case, the Evaluation Authority will be asked to re-examine the minimum sales price in the light of the market response received.

- Privatization: This last stage is achieved when, in the case of request for bids, the Transfer Commission has received and evaluated all bids and accepted the tender with the highest offer. The divestiture is then formalized by issue of a decree by the Ministry of Economic Affairs and Privatization. In the case of sale through financial markets, privatization is completed when the public offering is terminated and all shares offered are distributed and registered. Consistent with the Privatization Law, completed sales will be counted as a privatization if the entirety of interests owned by the Government is transferred, i.e. ownership interests held directly by the State (Public Domain, Central Bank, Treasury), public establishments, companies in which the State holds all capital, or by companies holding public concessions.

Some of the 112 entities to be privatized will be far easier to privatize than others, and the economic impact from some privatizations will be less than others. To assure that Privatization Sector Assistance results in important privatizations with large economic benefit, only a maximum number of these smaller privatizations will count toward meeting conditionality. These lesser privatizations have been defined to include all 37 hotels and 22 enterprises having in 1989 a public sector share of net worth less than DH 40 million and total sales of less than DH 80 million and which are not holding or investment companies which would require splitting the undertakings into various parts for sale. On the other hand, privatization of the very large Government-owned banks, insurance and investment companies, and the very large industrial establishments will have very significant impacts on economic efficiency and will be difficult to achieve. The largest enterprises are defined to comprise 19 firms, each having a public sector share of net worth exceeding DH 150 million and have substantial sales volume and employment. To meet conditionality, a minimum number of these important entities must be privatized.

As mentioned earlier, privatization can have significant impacts on development of Morocco's equity market. For this reason, the conditionality specifies that a certain minimum number of firms must be privatized via financial markets and that these must be additional to those privatizable companies now quoted on the Casablanca stock exchange. In addition, tranche releases will require implementation of a number of policy actions aimed at promoting broader ownership of shares among the general public.

Successful implementation of privatization will hinge importantly on the proper flow of information to potential investors. Transparency in operations will help to guard against malfeasance or the perception by the public of malfeasance in the transfer process. The growth of such a perception would lead to opposition to continuance of the privatization program. Hence, Privatization Sector Assistance imposes certain conditions related to the flow of information, notably submission of a plan for development of a promotional and educational campaign and implementation of the actions identified in this plan.

1. First Tranche

A first tranche of $4.0 million will be released after audits and evaluations have been completed for 8 firms, evaluations completed for 4 firms, and the process of sale initiated for 2 privatizable entities. In addition, to these transaction-related requirements, first tranche release will be conditioned upon submitting (i) a plan for a promotional and educational campaign on the benefits (and risks) of share ownership and (ii) a plan identifying possible measures to promote broader public share ownership and showing a schedule for their study and review.

An information and educational campaign will be essential to create a market for privatizations that are to take place via sale on the Casablanca stock exchange or by offer at a fixed price to the general public at banks and other public places of sale. The plan will assess the target market for share ownership, analyze the best means for reaching this target audience, develop the content of the messages to be transmitted, identify the roles to be played by the Ministry, the stock exchange, and others in implementing this promotional campaign, and estimate costs and methods of financing the campaign. Under the technical assistance component, short-term experts may be furnished to help develop this plan.

The second required plan/schedule will identify possible measures to promote share ownership, determine what studies, technical assistance, or training needs to be completed to determine their feasibility and begin implementation, and outline a schedule for completing any necessary reviews and decisions to put these measures into place. Possible measures that may be included in the plan include:

- changes in tax policy, including harmonization of tax treatment between debt and equity instruments and between public and private sector issuances,
- creation of mutual funds and assessment of what legislation may be necessary to enable or encourage their development,
- creation of employee stock ownership plans,
- enabling insurance companies and pension funds to invest a larger portion of funds in shares,
- measures to promote convertible bonds,
- financing and risk hedging incentives for share purchase, and
- programs to provide credit or guarantees for stock purchase and ownership.

Conditions for first tranche release have been designed to require a minimum demonstration of concrete progress in implementation of the Government's privatization program and of commitment toward carrying forward a large promotional and educational campaign and other measures to promote widespread share ownership, maximum response of interested investors, and maximum transparency in the privatization program. Counterpart dirham funds generated by the first tranche will provide essential seed money for defraying costs incurred for undertaking further more numerous actions related to additional transactions and to carrying out the promotional and educational campaign and study and review of possible measures to promote broader share ownership among the general public. Because this first tranche will provide necessary resources needed to further advance the privatization program, it is essential that the tranche be quickly disbursed. The first tranche conditionality gives recognition to Morocco's very substantial achievement to date in establishing the privatization program and putting into place the necessary institutional structure to carry it out, notably official appointment of the Evaluation Authority and Transfer Commission, and review and ratification by Parliament of the official implementing decrees for the Privatization Law.

## 2. Second Tranche

The second tranche will total \$6.0 million. It will be released when a cumulative total of 24 privatizable entities have had their audits completed, a total of 16 firms have had evaluations completed, 10 firms have had the sale process initiated, and, for 6 firms, privatization has been achieved. No more than 2 of these completed privatizations may be smaller enterprises or hotels, and a minimum of two transfers shall have been completed via the stock exchange or a public stock offering. Moreover, at least two of the completed privatizations must constitute large enterprises.

In addition to these transactions-related requirements, implementation of the promotional and educational campaign on share ownership will have begun as evidenced, for example, by appearance in the media of public information on benefits and risks of share ownership, publication of promotional material, including educational material on how to read prospectuses and financial statements, and widespread diffusion of requests for bids and prospectuses to possible investors. Work will also have advanced on measures to promote widespread share ownership. The studies identified as necessary as a condition of first tranche release will have been completed. Based on the studies, USAID/Morocco and the Ministry of Economic Affairs and Privatization will agree on a number of measures related to broadening share ownership as additional conditionality for second tranche release.

Given that the Privatization Sector Assistance is intended to motivate the completion of the Government's entire privatization program, a further condition of second tranche release will be completion of a study reviewing the means by which privatization efforts will be continued after the present program. This will include review of the feasibility of establishing a privatization revolving fund. Such a fund could be initially financed by either a portion of the local currency counterpart or the proceeds of privatizations. Subsequent funding would derive from a share of revenue gained from additional privatizations. Existence of such a fund would testify to the Government's willingness to proceed on implementing privatization, but the desirability and feasibility of such a fund is a complex issue requiring study.

Privatization will lead to a more competitive economy provided that progress is maintained in lowering barriers to trade so that the privatized firms face a reasonable degree of international market competition. Moreover, privatization should lead to a greater deconcentration of ownership by removing the state from productive sectors and widely diffusing ownership. Disbursement of the second and third tranches will therefore also require that the following conditions be fulfilled during the period following disbursement of the previous tranche. These will be included as conditions rather than covenants because the cooperating Ministries cannot legally commit the GOM to these policies, even though they are fully consistent with the policy of the

Government. As conditions precedent, however, the GOM will be required to demonstrate continued adherence to these policies as a formal condition of second and third tranche disbursement.

(a) maintenance of a competitive market environment for industries affected by privatization;

(b) abstention from increasing tariff and non-tariff barriers affecting imports competing with the output of privatized entities;

(c) avoidance of actions which would result in more difficult market entry for new producers or suppliers of goods and services produced by sectors affected by privatization; and

(d) taking necessary actions such that implementation of the privatization program leads to an increase in share ownership.

In order to ensure that the local currency counterpart is truly additional to the resources now available for privatization implementation, the second and third tranches will also contain conditions requiring allocation of the budget of the Ministry of Economic Affairs and Privatization for privatization at or above its current level.

Prior to disbursement of the second tranche, there will be audits of the dollar and local currency programs and a MEAP/AID review of the program which will assess progress attained in implementation, progress toward meeting program objectives and compliance with the terms of the Agreements.

### 3. Third Tranche

The third tranche will be for the largest amount: $10 million. It will be released when 44 enterprises have had audits or evaluations completed, 38 firms have had evaluations prepared, the sales process has been initiated for 34 firms, and a cumulative total of 28 privatizations have been achieved. Of these completed divestitures, no more than six shall represent smaller operations or hotels and at least six shall comprise very important enterprises. Further, a minimum of six enterprises shall have been transferred via the Casablanca stock exchange or a public stock offering.

In addition to these transactions-related conditions, other measures will be required to have been put into place to promote broad public share ownership. Discussions between USAID/Morocco and the Ministry of Economic Affairs and Privatization will be held after the release of the second tranche as to what measures will need to be implemented for the third tranche and included in the conditionality. For this tranche, the Ministry of Economic Affairs and Privatization will also be required to furnish a plan and schedule to demonstrate how privatization will be completed for the remaining firms. Finally, third tranche conditionality will also include the conditions precedent to the second disbursement related to maintaining a competitive market environment for industries affected by privatization, abstaining from actions to increase the level of protection afforded to industries in which firms will be privatized, avoiding actions impeding market entry for new producers and industries affected by privatization, requiring the Government to take the necessary steps to insure that privatization leads to an increase in share ownership and requiring the GOM to maintain the budget allocation to the MEAP for privatization at least at its current level.

Prior to disbursement of the third tranche, there will be audits of the dollar and local currency programs and a MEAP/AID review of the program which will assess progress attained in implementation, progress toward meeting program objectives and compliance with the terms of the Agreements.

At the time of third tranche release, the Government of Morocco will have commenced the privatization process for at least forty percent of the 112 firms. Because of the many subsidiaries of state-owned enterprise and cross-holdings, the number of secondary privatizations will likely be much larger.

## D. DOLLAR USES

The dollars provided by each tranche of the Program Grant will be deposited into a Separate Account at the Bank Al-Maghreb(BAM), Morocco's Central Bank. They will be utilized to reimburse the BAM for imports from the United States.

### 1. Separate Account

In conformity with AID requirements, the BAM will establish a separate, non-commingled account for the dollars provided by the Sector Assistance. Establishment of the account and notification to USAID Morocco of the account name and number is a condition precedent to first disbursement of the Sector Assistance.

The Mission is confident that the BAM is fully capable of managing the Separate Account. The BAM is a highly respected institution which plays a key role in Moroccan banking and finance. The BAM has managed several similar programs for other donors. For example, the BAM will be pulling together for the World Bank the documentation and requesting reimbursement for financing of $275 million of imports authorized under the Second Structural Adjustment Loan.

### 2. Disbursement Procedures

Upon fulfillment of the conditions precedent for each tranche, the GOM will request disbursement of the tranche. After receipt and approval of the request, the Mission will authorize the disbursement of the dollars through an electronic funds cash transfer or issuance of a check. Any interest earned on these funds in the Special Account will be programmed as if it were principal; however, it appears that Moroccan law and policy do not permit payment of interest on such accounts..

3. Releases from Separate Account

Dollars from the Separate Account will be released to the BAM general foreign exchange reserves to reimburse for use of foreign exchange provided to settle letters of credit opened by certain Moroccan importers in favor of U.S. suppliers shipping U.S. source and origin merchandise for which payment has been made according to the normal conversion procedures utilized in Morocco. Upon presentation and review of documentation by the BAM demonstrating that letters of credit for eligible imports have been opened and the related foreign exchange transactions completed, dollars in an amount equivalent to the eligible letters of credit shall be released from the Separate Account. Only letters of credit opened after the signature of the Program Grant will be eligible for reimbursement. It is anticipated that the BAM will insure that documentation for sufficient eligible transactions is assembled so that dollars may be released soon after their deposit in the Separate Account.

The BAM will be required to take the necessary measures to ensure that dollars are released from the Separate Account as expeditiously as possible and, at a minimum, prior to subsequent tranche disbursements.

4. Eligible Goods

Financing of imports having their source and origin in the United States by the private sector, by industrial and commercial public organizations or by other organizations which the Parties may later agree upon are eligible for reimbursement from the Separate Account, with the following exceptions:

- Military Equipment;
- Surveillance Equipment;
- Abortion Equipment;
- Unsafe or ineffective products;
- Luxury goods;
- Goods in support of police or other law enforcement activities;
- Weather modification equipment; and
- Rubber compounding chemicals and plasticizers.

In addition, the following utilizations will not eligible for reimbursement from the Separate Account:

- Payment of debt owed by the GOM;
- Other uses contrary to AID policy or regulations, which will be notified separately to the BAM.

Preference will be given to imports by the Moroccan private sector but the present profile of Morccan imports from the U.S. is such that it is unlikely that the dollars could be utilized in a timely manner if imports are restricted to the true private sector. The major Morrocan importers of U.S. non-food goods tend to be large public companies such as Royal Air Maroc or the phosphate company. These companies represent the best current opportunities for U.S. exports to Morocco and will continue to be important for market development in Morocco. From a "buy America" perspective, it would therefore not make sense to exclude them from eligibility for this program.

5. Reporting

The BAM will provide a bank statement for the Separate Account on a monthly basis as long as there are funds remaining in the Account. The statements will provide information on deposits to the account, interest earned and disbursements from the account. The BAM will also provide quarterly reports, or more often as needed, on the imports financed by the account. The reports will provide the nature of the import, the importer and the amount of the transaction.

6. Audit

The BAM will retain supporting documentation for a period of three years after the date of final disbursement of the Grant, which will be available to AID or its representatives for periodic audit. Funds are made available in the technical assistance agreement for contracting with a local auditing firm to audit the BAM records and supporting documentation to ensure compliance with the conditions of the Grant. The records will be audited well before the second and third disbursements of the Grant, as well as at the end of project.

## E. LOCAL CURRENCY GENERATIONS AND USES

1. Special Account

As required by AID regulations, the GOM will establish a Special Account for local currency generations in the Ministry of Finance. The Ministry of Finance will provide A.I.D. with evidence of the establishment of this account and its name and number as a condition precedent to the first disbursement of the Program Grant. Local currency will be deposited into the Special Account by the BAM concurrently with releases from the Separate Dollar Account for reimbursement of imports from the U.S.

The Special Account will be a "Special Allocation Account" (Compte d'Affectation Speciale). This kind of account is consistent with normal GOM practice and meets AID requirements for Local Currency Special Accounts, specifically in that:

- The Special Account be a separate, identifiable account which only includes the counterpart funds generated from the Grant.

- The funds in the Special Account be utilized only for purposes previously mutually agreed to by AID and the Government of Morocco.

- The Government of Morocco be able to clearly track all funds deposited into and disbursed from the account, and to demonstrate that the funds were used for the intended purposes.

- The Government of Morocco periodically provide an account statement to AID on deposits, withdrawals and uses of funds in the account.

- AID reserve the right to verify the reports on the Special Account and audit Account records as needed.

Normally a special account is created by the Budget Law. However, in exceptional cases, such account can be established by decree of the Minister of Finance during the course of the fiscal year. This will be done in the case of the Privatization Special Account. The account will be opened in the name of Ministry of Economic Affairs and Privatization.

Treasury special accounts are always established for special purposes. Although a few have been established for indefinite durations and continually provided with revenue, they are usually created for a limited period and a fixed amount. Consequently, these special accounts, similar to any bank account, track inflows and outflows and generate monthly statements and notification of deposits and payments. Because of the extensive experience of the Ministry of Finance with special accounts, the Mission has concluded that the GOM is capable of managing the Special Account and meeting all AID accountability requirements.

2. Uses of Local Currency Generations

The major use of the local currency counterpart will be to finance selected costs of the MEAP for implementation of the privatization program. With a greater amount of resources available, the MEAP will be able to move more quickly and efficiently on audits, evaluations and other actions required for privatizations to undertake privatizations and to implement other activities required for the privatization process to be implemented efficiently and fairly. It is intended that the local currency counterpart be used to supplement resources made available for privatization through the Government of Morocco's normal budget process. Thus, expenses covered by the Special Account will be off-budget or be for activities which could not have been funded or would have been delayed without this program. This is consistent with GOM special account rule, as such accounts are supposed to be used for off-budget costs and never for operational budget items. The Program Grant Agreement will include conditions requiring the GOM to maintain budget allocations to the MEAP for privatization at least at its current level.

The following are illustrative eligible uses of the local currency counterpart; additional uses may be jointly approved by the GOM and USAID Morocco:

- local costs of financial audits and evaluations of firms to be privatized,

- restructurings of firms to be privatized, including legal, industrial or engineering consultations,

- local currency costs incurred in preparing, printing, and distributing requests for bids, prospectuses, public announcements and like materials,

- local currency costs of surveys, media consultants, designers, printing, TV and radio advertizing, and other costs associated with designing and implementing promotional campaigns on the benefits of share ownership in general and for particular offerings,

- costs of retraining programs and severance payments for workers in excess of work requirements,

- works related to reducing pollution loads of firms to be privatized and to meeting Moroccan environmental standards,

- studies and consultancies to examine measures related to promoting broad public share ownership,

- implementation of agreed upon measures and pilot activities to broaden share ownership, including employee stock ownership plans and other financing mechanisms to promote share acquisition,

- other special studies to be conducted by Moroccan experts,

- local currency costs incurred in improving and modernizing the stock exchange,

- costs of auditing the Local Currency Special Account and the Separate Dollar Account,

- other uses as may be mutually determined by AID and the MEAP.

The following uses of local currency will require special prior concurrence of AID:

- Restructuring of enterprises to be privatized, including financial restructuring and investment in plant and equipment, if the amount of local currency utilized exceeds DH 1,000,000 for a given privatization,

- Severance pay for personnel discharged due to restructuring. In any event, local currency may be used for severance pay only for non-management personnel up to the amounts specified in the Moroccan Labor Law,

- Payment of any debt owned by a firm to be privatized,
- Financing of share acquisitions.

3. Programming and Disbursement of Local Currency

Uses of funds in the Special Local Currency Account will be jointly programmed by the MEAP and USAID Morocco. A local currency budget will be included in the Program Grant Agreement Amendments for each tranche. If this not possible at the time of the Grant signings, the budget will be subsequently approved by PIL. An illustrative initial budget for the first tranche, and an illustrative budget for the full Grant, are provided below. The budgets may be amended through exchange of PILs between the MEAP and USAID Morocco. Where it is not feasible to program all local currency generations at the time of a Program Grant Agreement Amendment, the budget will include a line item reserving these funds for future programming. These funds may not be disbursed until programmed by exchange of letters between the MEAP and AID.

The documentation creating the Special Local Currency Account will contain a list of the eligible uses of the local currency without any amounts specified. This list and the budgets prepared for each tranche will serve as the basis for the MEAP to present its requests for disbursements to the Ministry of Finance. The MEAP will have the authority to make disbursements which follow the agreed budgets. Funds deposited in the account need not be expended in the same fiscal year as deposited, but are available for expenditure as long as the account is open.

The Ministry of Finance will make payments from the Special Account in accordance with normal GOM fiscal procedures. The documentation requirements are the same as for regular expenses, but when an external source is providing funding, a special stamp can be added on the payment order to insure that disbursements will not be delayed in case of overall restrictions on Government expenditures. Disbursements for items not included in the budget or for amounts greater than the line item may not be made prior to amendment of the budget as discussed above.

4. Reporting and Audit

In order to monitor the Special Account, the Program Grant Agreement will require that a quarterly report of expenditures be submitted to AID by the MEAP. The Ministry of Finance will also provide AID with a monthly account statement, detailing receipts to and disbursements from the account. The Ministry of Finance, upon request of AID, will make available to AID all account statements and supporting documentation relating to expenditures under the Local Currency Special Account. AID may also audit activities financed from funds disbursed from the Local Currency Special Account. These documents and records and the activities financed by the local currency will be periodically audited by an internationally recognized auditing firm represented in Morocco to demonstrate full compliance with the terms of the Agreement. Funding for the audit will come from the technical assistance agreement. The Account will be audited at least before the second and third disbursements of the Grant, as well as at the end of the project.

### 5. Local Currency Budget

If possible, the budget for the first tranche of $4 million in dirhams equivalent will be included in the Program Grant Agreement; budgets for the second and third tranches will be included in the Grant Agreement amendments obligating those tranches. If budgets cannot be included in the Agreements, they will be subsequently approved by PIL. The budget will be organized according to the following rubrics, or consolidations thereof ($000):

| ITEM | FIRST TRANCHE | TOTAL |
|---|---|---|
| - Audits and evaluations | 428 | 2,569 |
| - Restructurings of firms | 486 | 2,914 |
| - Prospectuses, public announcements and like materials | 843 | 4,215 |
| - Promotional campaigns | 862 | 3,915 |
| - Retraining programs and severance payments | 289 | 1,447 |
| - Reducing pollution loads of firms | 55 | 222 |
| - Studies on promoting broad public share ownership | 165 | 823 |
| - Implementation of agreed upon measures and pilot activities on share ownership | 190 | 948 |
| - Other special studies | 37 | 185 |
| - Improving and modernizing the stock exchange | 536 | 2,145 |
| - Reserved for future programming | 110 | 619 |
| TOTAL | 4,000 | 20,000 |

## F. TECHNICAL ASSISTANCE

External technical assistance is essential for the success of the privatization program. Privatization is a complex process, involving difficult problems and sophisticated financial analysis and there are many issues for which expatriate technical expertise and the experience of other countries will be needed. As discussed in Section IX, other donors are providing various kinds of technical assistance but not in an adequate amount to meet the full range of needs. The requirements for USAID-funded outside expertise fall into five categories: long-term, short-term transactions-related, other short-term, policy studies, and environmental. Training and limited commodities related to managing the program are also needed.

With help from USAID, the IFC and other donors, there has been much discussion and refinement of technical assistance needs since the MEAP presented its first request for assistance in the summer of 1990. However, since privatization is new in Morocco, implementation is just beginning and the GOM is still feeling its way, there is some debate on the extent and nature of external TA needs. In particular, Moroccan banks and accounting firms have expressed the belief that they have considerable ability to undertake transactions, particularly in the key area of audits and evaluations of firms to be privatized. The Evaluation Authority, charged with ultimately determining selling prices, may also tend to want to rely on local expertise. Other officials in the MEAP and in the donor community are less sanguine about local capabilities in this area and believe that a great deal of external assistance will be required for the process to be correctly implemented. While the Moroccan capability in audit and financial analysis will be greatly strengthened through the experience of the privatization process, USAID Morocco also believes that significant expatriate assistance to privatization is essential.

The feasibility of USAID's ability to provide TA and training services in privatizations is now being tested through the buy-in with the International Privatization Group (IPG). Given the particular conditions in Morocco, including the importance of French language capability and the preponderance of French systems in the financial and accounting fields, it is clear that U.S. experts will not always be the best qualified to carry out certain tasks. For this reason, the MEAP is mobilizing several sources of outside as well as internal expertise which will provide flexibility in the choice and origin of specific TA teams. The proposed level of USAID assistance, which would cover implementation of 10-14 significant transactions fits this approach while providing sufficient direct involvement to achieve the target level of privatizations and preparations for privatizations.

The current buy-in with the IPG will continue to provide technical assistance and training needs until it terminates on September 30, 1992. After that time, a new IPG buy-in will provide the long-term technical assistance, some of the short-term transactions-related assistance, other short-term assistance and training until September 30, 1994. Separate contracts for particular transactions will also be executed during that period. After September 30, 1994, a competed contract will provide these kinds of assistance for the remainder of the project. Policy studies will be undertaken by appropriate IQCs or buy-ins. Environmental TA will be provided through a buy-in to the PRIDE project.

Following are descriptions of the specific technical assistance components:

- Long-Term Advisor

The presence of a resident long-term advisor provides an in-house source of expertise which complements the skills and knowledge of the Moroccan professional staff assigned to the privatization program. As evidenced over the past two years in the case of the USAID-funded advisor (provided initially under a buy-in to a centrally funded contract with the Harvard Institute for International Development and currently under a buy-in to A.I.D.'s worldwide contract with the International Privatization Group), the sustained long-term advice and assistance provided by a well-qualified expert proved to be instrumental in putting together the legal and administrative framework for the privatization program. In the same manner, the continuation of this form of support will be at least as important as the program moves from strategy development and program preparation to actual implementation. In addition, with the need to provide substantial and diverse amounts of short-term technical assistance for specific transactions and other tasks, the long-term advisor has also become the locally-based coordinator of the USAID-funded contractor, responsible for helping to coordinate other inputs.

USAID will provide one resident long-term advisor through the TA contractor during the two year period of the project following expiration of the current IPG buy-in on September 30, 1992. At an estimated cost of $300,000 per year, the total cost for the long-term advisor will be approximately $600 thousand.

- Short-Term TA Associated Directly With Transactions

The bottom line of Privatization Sector Assistance is the completion of specific privatization transactions, i.e., the transfer of control and ownership of state-owned enterprises to the private sector. The conditionality for the release of the second and third tranches is directly linked to this achievement, and the first tranche also requires substantial progress in preparations for sale. "Transaction-related" costs refers to all costs specifically linked to the preparation for sale and actual sale of a given enterprise. These could include financial and operational appraisal of enterprises, enterprise valuation, enterprise- specific legal issues and assistance in restructuring and preparation for sale. These costs are distinguished from other technical assistance costs which, while important to the overall program, are more general in nature and relevant to more than one transaction. The dividing line between the two categories is not always crystal clear but the distinction itself is important in order to assure that a substantial portion of available short-term TA is dedicated to actual transactions. It is hoped that USAID funds can particularly provide assistance in public sale of shares through financial markets.

While the cost of individual transactions varies greatly according to the nature, size and situation of the firm to be privatized, using the cost assumptions detailed in the Institutional Analysis, $200,000 - 300,000 is a reasonable estimate of the average amount of USAID-funded TA which will be required for direct transaction-related costs per transaction supported. Based on the requirements for actual privatizations and preparations for privatizations as the condition for release of the tranches, and an assumption that USAID will be requested to play the lead role in assisting 10-14 of the exercises, the TA costs would be about $2.7 million.

- <u>Other Short-Term TA</u>

Non-transactions-related-short-term technical assistance in a variety of areas will also be provided. This may include such topics as general privatization promotion campaigns, strengthening financial markets, design of other financial mechanisms to effect share transfers, employee stock option programming, alternative financing techniques, strategic planning, industry specific regulatory adjustment and improvements in the internal management, monitoring and evaluation capacities of the MEAP privatization unit and the Transfer Authority and Evaluation Commission. Some of these subject areas, e.g., financial market improvements, relate directly to conditionalities for the tranche releases. About 6 PMs/year, for a total of 24 PMs, is estimated to be sufficient to meet high priority requirements in these areas.

- <u>Training</u>

Short-term overseas as well as in-country training for MEAP staff and other individuals associated with the privatization process will be provided over the course of the project. Training will include short-term courses in various aspects of privatization given in the U.S. and, when necessary, third countries, and attendance at appropriate conferences and seminars and workshops in Morocco. A limited amount of $25,000/year is estimated for training, at a cost of $100,000.

- <u>Policy Studies</u>

A number of the privatizable enterprises operate in sectors characterized by considerable direct Government interventions in pricing and marketing. These include sugar, oil seed marketing and various agricultural input supply sectors. Successful privatization of enterprises in those sectors will require policy and administrative changes by various parts of the GOM, including MEAP, the Ministry of Agriculture, Ministry of Commerce and Industry, and Ministry of Finance. The sugar mills, for example, are high cost, inefficient producers which can continue to function only because of very high controlled sugar prices and import restrictions. In addition to restructuring the mills to increase their efficiency, the sugar market in Morocco must be made more competitive and prices must be more in line with world prices. To assist the GOM in better understanding the problems and in creating a more competitive, market environment for these sectors, short term technical assistance on pricing, import and other relevant policies will be provided to MEAP and other appropriate GOM ministries. About 12 PMs of assistance will be required.

- Environment

The environmental aspects and implications of the Sector Assistance Program are discussed in Section VIII and Annex C, Environmental Analysis. While privatization per se should not itself have any significant environmental impacts, many of the enterprises to be privatized have or could have adverse effects on the environment. There are potential environmental liabilities associated with certain of the enterprises to be privatized. In addition, the privatization process can offer the opportunity to imbue private and public sector decision makers with a heightened awareness of and appreciation for sound environmental management policies, practices and procedures, while addressing a variety of potentially significant sources of environmental degradation in Morocco. Short term environmental assistance services will therefore be provided to work with other technical assistance on enterprises which USAID assists which are of priority environmental concern. Key environmental inputs into the enterprise appraisal process would include addressing the potential environmental liabilities of a given enterprise and recommending appropriate interventions for mitigating these liabilities, e.g., operational/energy efficiency improvements, pollution prevention measures, "good housekeeping" techniques, etc. With this information, prospective buyers would be made more aware of the potential environmental costs and benefits associated with a given enterprise. The GOM would also be better able to deal with environmental issues in any restructuring which is undertaken prior to sale.

Environmental technical assistance, to study specific environmentally-related issues of particular privatization transactions, will be provided through the PRIDE project. For firms with potential environment issues, short term environmental assistance services from this source will be offered. $100,000, in two increments, is budgeted for this component.

- Commodities

The privatization program has greatly increased the workload and responsibilities of the MEAP. The MEAP requires additional office equipment to help it produce the many reports, notices and other written material which the program requires as well as accumulate and analyze a great deal of data on the privatizable firms. The project will provide a limited amount of commodities (about $200,000) for use in the MEAP's management and data analysis operations related to privatization. Commodities will primarily consist of computers, software and reproduction equipment. They will be of U.S. source and origin.

## VII. PROGRAM MANAGEMENT AND EVALUATION

### A. USAID MOROCCO PROGRAM MANAGEMENT

Privatization Sector Assistance involves performance-based cash disbursements, technical assistance and local currency generations. The complexity of the activity will require careful Mission management. Overall project management responsibility will be assigned to the Program Economist in the Program Office, who will be assisted by an FSN economist. In addition, the Program Economist will specifically monitor progress in meeting the conditionality and manage the policy studies component, commodity procurement and local currency counterpart programming. Procurement and management of other technical assistance, including the IPG buy-in, other transactions assistance and the competed technical assistance contract, will be assigned to a private sector officer in the Office of Project Development and Private Enterprise (PDPE). PDPE will also oversee the operation of the local currency counterpart component and the uses of the grant dollars, arrange for evaluations and audits, and manage the PRIDE buy-in.

This management division is similar to the arrangement currently being utilized for the IPG buy-in and in the development of the PAAD. It requires careful coordination between Program and PDPE but has worked very well in the initial implementation and design of Mission privatization activities.

The project committee will meet regularly to monitor program progress, deal with particular problems and will specifically meet to recommend the second and third tranche releases.

### B. MONITORING

Monitoring of the progress made in the early stages of privatization transactions, preparation of firms for privatization and actual completion of privatizations will be necessary for determining whether conditionality for tranche releases has been met. Similarly USAID will have to track required non-transactions-related actions required by the conditionality such as developing and implementing a promotional and educational campaign on the benefits and risks of share ownership and assessing and considering tax, mutual fund, and other measures to promote broad public share ownership. Use of sector assistance local currency counterpart must also be monitored as well as the activities of the technical assistance contractor.

As part of the sector assistance, AID will track the status of implementation of the privatization program and use of local currency counterpart. This will include the number of evaluations and audits completed, the status of decisions reached by the Evaluation Authority regarding minimum sales price, the number of sales processes initiated, and status of privatization transactions. A separate periodic monitoring report will be required of the technical assistance contractor to cover accomplishments against agreed work plan objectives.

The Ministry of Economic Affairs and Privatization will demonstrate that conditionality elements relating to preparation and implementation of promotional and educational campaigns on share ownership and examination and consideration of measures to promote broad public share distribution have been completed.

In addition to monitoring reporting requirements, project officers will meet at least monthly with the technical assistance contractor and Ministry of Economic Affairs and Privatization counterparts to review progress to date and plans for future technical assistance activities and use of counterpart funds, and identify and solve problems. There will also be a full scale review of the program with the MEAP prior to the signing of Program Agreement Amendments for the second and third tranches of the Program Grant.

## C. EVALUATION

A key task of the long-term resident privatization advisor funded by USAID Morocco has been the establishment of a data base to be used both in preparing for privatization and in evaluating the impact of privatizations. This data base has been developed and covers all the 112 entities to be privatized and includes information on financial performance and position, employment, and state ownership stake in the enterprise itself as well as in others. A separate data base is being created on stock market activity and share holdings. The technical assistance to be provided under Privatization Sector Assistance will continue to develop the evaluation data base and methodology for evaluation. There will be two evaluations of the Program. The first will be a mid-term evaluation conducted in the Fall of 1993, prior to issuance of the RFP for the second technical assistance contract. This evaluation will assess the effectiveness of technical assistance provided to the MEAP since 1990, the effectiveness of the sector assistance in facilitating faster implementation of the privatization program and the uses and effectiveness of local generations. Lessons learned from this evaluation will be applied to the conditionality and local currency uses for the final tranche and the scope of the competed technical assistance contract. The evaluation will particularly focus on the effectiveness of the Sector and Technical Assistance in promoting widespread share ownership.

The second evaluation, to be conducted in the Spring of 1995 will be an impact evaluation of the effectiveness of Privatization Sector Assistance on the privatization process and the overall impact of privatization in Morocco. Such evaluation is especially important to lay the grounds for continuing the privatization program and to respond to privatization critics. Key questions to be answered in evaluation of the privatization program concern impact, most especially the following:

- What has been the employment impact of privatizations? On full-time, part-time employees, white collar and blue collar employees?

- How has privatization affected firm level efficiency, with respect to product prices, profits, payment of taxes, exports, levels and quality of output?

- What has been the impact by sector of the privatizations, on sectoral level performance, efficiency, competition?

- By how much has the Government portfolio of ownership in enterprises been reduced by the privatizations?

- What has been the impact of the privatizations on the Government budget?

- What has been the impact of the privatizations on competition, on reducing oligopoly in production, in ownership?

- What has been the impact of privatizations on economy-wide efficiency as demonstrated by payment of taxes, price performance of products produced by privatized industries, tax payments, exports, production?

- What role have the privatizations played in financial market development?

- Has public share ownership been widened by the privatizations; to what effect?

- To what extent have the privatizations spurred regional development or had adverse regional impacts?

- What have been the overall environmental effects of the privatization program?

- What has been the impact of the privatization program on women in development?

- How has the privatization program advanced democratic pluralism initiatives?

Making use of the data bases developed with the assistance of the technical assistance contractor, an evaluation will be conducted in year four on the impact of Privatization Sector Assistance. The impact evaluation questions to be answered will include those identified above.

D. AUDIT

The documentation for both the dollar and local currency counterpart accounts will be audited by a qualified Moroccan accounting firm. The costs of the audits will be covered by the Technical Assistance Grant; use of the Local Currency Special Account would require that the GOM itself manage and contract for audits. Both accounts will be audited well before the second and third disbursements of the Grant, as well as at the end of project. The exact timing of the audits will depend on how quickly conditionality is met but the audits are illustratively scheduled for March 1993, March 1994 and August 1996. Copies of audit reports will be furnished to the Ministry of Economic Affairs and Privatization, the Ministry of Finance, and USAID. The audits will demonstrate compliance with the agreed procedures for both accounts and that the local currency funds have been correctly utilized for the intended purposes.

## VII. PROCUREMENT, IMPLEMENTATION AND FINANCIAL PLANS

### A. PROCUREMENT PLAN

- International Privatization Group Buy-in

The current buy-in with the International Privatization Group (IPG) terminates on September 30, 1992. This buy-in, totalling $894,165 and signed in May 1991, is providing the services of the long-term advisor, transactions assistance and limited other short-term TA and training. The current LT advisor has been in Morocco, at the MEAP, for over five years, first working in price deregulation and then in privatization. He has played a key role in developing the legal and administrative framework for privatization implementation. During this period, he has also developed extremely close relationships with ministry staff and benefits from a very high level of confidence and trust at all levels of the Ministry. These relationships have made him unusually productive and effective in his role as privatization advisor. It would be very difficult, and would take a very long time, for anyone else to develop this kind of relationship with the ministry and to be nearly as effective. The Mission therefore considers it to be extremely important to maintain this advisor in place for another two years to complete his work in initiating the privatization process and in actually launching the first privatizations. Another buy-in with the IPG for two years is therefore planned. In addition to the long-term advisor, the buy-in will provide the short term technical assistance, training and a portion of the transactions technical assistance, for the period October 1, 1992 to September 30, 1994.

- Other Transactions Assistance

There may be instances during the period of the IPG buy-in where the IPG does not appear to be the best potential provider of short term technical assistance for a specific transaction or where it would be desirable to diversify the sources of such assistance. In these cases, AID will execute separate contracts with investment banks or other appropriate organizations for a transaction or group of transactions. The Mission will publicize its interest in obtaining privatization assistance and request interested organizations to provide qualifications statements. When appropriate opportunities for specific transactions arise, the qualified organizations will be asked to submit proposals. The Mission will choose among these proposals and execute a contract utilizing its authority to execute contracts for less than full and open competition for overseas contracts of less than $250,000. It is estimated that there will be three such contracts.

- Competed Institutional Contract

For the period October 1, 1994 to the end of the project, September 30, 1996, all technical assistance training and commodities needs will be met by an institutional contractor to be selected by open competition. A Request for Proposals will be prepared and issued during the Fall of 1993.

- Policy Studies

Assistance for policy studies will be procured as needed through appropriate AID Indefinite Quantity Contracts (IQCs) and buy-ins to AID worldwide projects.

- Environment

Assistance in carrying out environmental liability studies, environmental audits and other environmental studies will be provided through a buy-in to the PRIDE Project. The initial commitment will be $50,000, to be followed by an additional $50,000 in 1994 if demand warrants. The buy-in will be made in conjunction with several other Mission projects (New Enterprise Development, Morocco Agribusiness Promotion and AIM) which will utilize the PRIDE Project for the same kind of services. The buy-in will be initiated in the summer of 1992.

- Commodities

Commodities during the period October 1, 1992 to September 30, 1994 will be procured by AID. After that date, commodities will be procured by the institutional contractor.

- Audit and Evaluation

A mid-term evaluation of the program will be carried out in the Fall of 1993 and an impact evaluation is planned for the Spring of 1995. Both evaluation teams will be procured via IQCs.

In addition, the Sector Assistance and the technical assistance contracts will be subject to audit. Timing of the audits will depend upon how quickly the GOM meets second and third tranche conditionality but it is estimated that there will be audits in the Spring of 1993 and 1994 and the summer of 1996. The audits will be contracted through the Mission contract with an approved local auditing firm.

- Source, Origin and Nationality

It is anticipated that all procurements, other than local auditing services, will have their source, origin and nationality in AID Geographic Code 000. No waivers will therefore be required.

## Methods of Implementation and Financing
($000)

| Item | Method of Implementation | Method of Financing | Amount |
|---|---|---|---|
| Sector Assistance | Cash Transfer | Direct Payment | 20,000 |
| TA and Training | Buy-in (10/1/92-9/30/94) | Direct Payment | 1,640 |
| Transactions TA | AID Direct Contracts (10/1/92-9/30/94) | Direct Payment | 600 |
| Commodities | AID Direct Contract (10/1/92-9/30/94) | Direct Payment | 130 |
| TA, Training and Commodities | AID Direct Contract (10/1/94-9/30/96) | Direct Payment | 1,710 |
| Policy Studies | IQCs and/or Buy-ins | Direct Payment | 250 |
| Environment | Buy-in | Direct Payment | 100 |
| Evaluation | IQC | Direct Payment | 140 |
| Audit | Local IQC | Direct Payment | 100 |
| Contingency | | | 330 |
| Total | | | 25,000 |

## B. IMPLEMENTATION PLAN

### Schedule for Major Policy and Procurement Actions

| Date | Program Month | Action |
|---|---|---|
| 06/92 | 1 | Sign Program and Project Agreements |
| 06/92 | 1 | Transmit PIO/T for IPG buy-in |
| 07/92 | 2 | Establish local currency and dollar accounts |
| 07/92 | 2 | Meet CPs to first disbursement |
| 08/92 | 3 | First disbursement ($4 million) |
| 08/92 | 3 | First local currency deposit into Special Account |
| 09/92 | 4 | Complete delivery order for IPG buy-in |
| 10/92 | 5 | First buy-in to PRIDE Project |
| 12/92 | 7 | PIO/T for first policy study IQC |
| 03/93 | 10 | Audit of dollar and local currency accounts |
| 04/93 | 11 | Agreement on CPs for second tranche |
| 04/93 | 11 | Review of local currency usage |
| 05/93 | 12 | Program Agreement Amendment for second tranche |
| 07/93 | 14 | Meet CPs to second disbursement |
| 08/93 | 15 | Disbursement of second tranche ($6 million) |
| 10/93 | 17 | First evaluation |
| 12/93 | 19 | RFP for TA contract issued |
| 03/94 | 22 | ProAg Amendment for TA incremental funding |
| 05/94 | 24 | Program Agreement Amendment for third tranche |
| 06/94 | 25 | Second PRIDE buy-in |
| 07/94 | 26 | TA contract award |
| 07/94 | 26 | Meet CPs to third disbursement |
| 08/94 | 27 | Disbursement of third tranche ($10 million) |
| 09/96 | 52 | PACD |

C. FINANCIAL PLAN

Total program cost is estimated to be $25 million over four years, with $20 million to be provided through three cash transfer increments and $5 million for technical assistance, training and commodities.

- **Cost Factors**

The following cost factors were utilized in preparation of the budget:

| Budget Item | Unit Cost ($s) |
|---|---|
| LT Technical Assistance | 300,000 per year |
| ST Transactions Assistance | 225,000 average per transaction |
| ST Technical Assistance | 20,000 per PM |
| Evaluation | 20,000 per PM |
| Audit | 30,000-35,000 per audit |

PRIVATIZATION SECTOR ASSISTANCE
EXPENDITURES BY BUDGET COMPONENT
($000)

| CATEGORY | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | LOP TOTAL |
|---|---|---|---|---|---|---|
| TECHNICAL ASSISTANCE | | | | | | |
| LT Technical Assist. | | 300 | 300 | | | 600 |
| Transactions Assist. | | 675 | 675 | 675 | 675 | 2,700 |
| ST Technical Assist. | | 120 | 120 | 120 | 120 | 480 |
| Training | | 25 | 25 | 25 | 25 | 100 |
| Commodities | | 100 | 30 | 45 | 25 | 200 |
| Policy Studies | | 100 | 80 | 70 | | 250 |
| Environment Assist. | | 50 | 50 | | | 100 |
| Evaluation | | | 60 | 80 | | 140 |
| Audit | | 30 | 30 | | 40 | 100 |
| Contingency | | 75 | 100 | 115 | 40 | 330 |
| SUB-TOTAL TA | | 1,475 | 1,470 | 1,130 | 925 | 5,000 |
| SECTOR ASSISTANCE | | | | | | |
| Cash Grant | 4,000 | 6,000 | 10,000 | | | 20,000 |
| **TOTAL PROGRAM** | **4,000** | **7,475** | **11,470** | **1,130** | **925** | **25,000** |

OBLIGATION SCHEDULE
($000)

| CATEGORY | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | LOP TOTAL |
|---|---|---|---|---|---|---|
| Technical Assistance | 3,000 | | 2,000 | | | 5,000 |
| Sector Assistance | 4,000 | 6,000 | 10,000 | | | 20,000 |
| TOTAL PROGRAM | 7,000 | 6,000 | 12,000 | | | 25,000 |

Morocco will contribute to the financing of the technical assistance component of the program. Contributions will be in kind. Part of the Moroccan contribution will be appropriate budget elements of the Privatization Unit at the Ministry of Economic Affairs and Privatization. These will include the salaries of personnel involved in the privatization process, as well office support and supplies. The Ministry budget will also include an amount which will be used to finance various studies on privatization, which will be complementary to this program. In addition, both the GOM and Moroccan private sector will furnish airline tickets and other maintenance to Moroccan trainees attending courses on privatization-related subjects will be financed by the project.

A summary financial plan of the Moroccan contribution is included below.

MOROCCAN CONTRIBUTION
($000s)

| Category | Life of Project |
|---|---|
| Project Personnel | 1,351 |
| Office Equipment | 256 |
| Studies | 2,524 |
| Supplies and Expendable Property | 793 |
| Total | 4,924 |

## VIII ANALYSES

### A. INSTITUTIONAL ANALYSIS

#### 1. Ministry of Economic Affairs and Privatization

The Ministry of Economic Affairs and Privatization is a ministry that is attached to the Prime Minister's office, a placement that emphasizes its key role in coordinating Government policy and programs dealing with economic policy and the economy. The Ministry became officially responsible for implementing the Government's privatization program upon the publication of the Privatization Law's implementing decrees in October 1990.

The Ministry began to staff up for privatization in 1989, when Parliamentary debate on the Privatization Law intensified. Three members of the Ministry staff were then assigned to follow privatization matters. The staff has since increased and currently numbers ten professionals in the following disciplines:

| Profession | Number |
|---|---|
| Engineering | 3 |
| Law | 2 |
| Economics | 2 |
| Business Management | 1 |
| Finance | 1 |
| Privatization Advisor | 1 |

USAID has financed the long-term privatization advisor who played an important role in developing the implementing decrees for the privatization program. Through a buy-in to the International Privatization Group at Price Waterhouse which expires on September 30, 1992, USAID is providing the services of the long-term advisor, short-term transactions based technical assistance, and training.

The Ministry's budget for 1992 allows for the recruitment of three additional professionals in 1992; these will all likely be at the entry level.

In addition to the USAID financed privatization advisor, the United Nations Development Program will furnish three experts to assist in implementation of the privatization program in the areas of finance, law, and computer applications. The UNDP $2 million program, budgeted for two and a half years, will also supply three computers, a photocopier, a telefax machine, two vehicles, and the services of two industry consultants.

The Transfer Commission comprises five individuals chosen from the principal Government ministries involved in privatization. The Commission members have been formally appointed. Commission expenses are expected to be minimal, as members will be receiving the salaries they receive from their current Government positions. The Ministry of Economic Affairs and Privatization will serve as a secretariat for the Commission, and no external support will be required for the Commission to perform its coordinative and other functions.

The Evaluation Authority is authorized to engage its own experts to help it reach its decisions on the minimum sales prices for which enterprises are to be sold. A separate budget line item for the Authority is included in the 1992 budget. The Authority has been given offices for its seven members and a meeting room in the Central Bank building. As the Authority has its own budget to engage outside experts and since its members are experienced very senior managers, it is expected that the Authority will carry out its independent decision-making function without recourse to external assistance.

Counting the USAID and UNDP long-term advisors and the planned 1992 additions by the Ministry, the Ministry staff to implement the privatization program will comprise sixteen professionals. As the program gains momentum, it is expected that the staff will be organized into three sectoral divisions: (1) industry, mining and energy, (2) financial and other service sectors, and (3) hotels and other real estate. A central support division will be responsible for furnishing legal services, financial and economic analyses, and data processing. The sectoral divisions will follow each privatization, carrying out any preliminary analyses, developing scopes of work for external audits and evaluations, selecting, monitoring, and following through on audits and evaluations carried out by outside experts, and evaluating results of privatizations within the sector.

The Ministry privatization unit will oversee the privatization process; it will only in rare instances undertake the technical work needed to launch and complete actual privatization transactions, notably restructuring studies, market analyses, audits, and evaluations. Given their complexity and need for specific expertise, the Ministry will contract out for these audits, evaluations, policy studies, publicity and promotional work, market research, etc. The Ministry has received a budget line item for such work, totalling DH 22.0 million in 1990, DH 16.0 million in 1991, and a projected DH 17.5 million in 1992 and DH 22.0 million in 1993. In November 1990, the Ministry issued a public request for qualifications for accounting and related services for privatization. Submitted qualifications were then reviewed and ranked.

While the MEAP staff is relatively new and inexperienced in the area of privatization and while the start-up of the program is likely to experience difficulties, a number of elements have been built into this sector assistance to insure that implementation proceeds with minimum risk. The sector assistance is programmed in stages with each tranche being for a larger amount. Thus resources made available to MEAP for privatization are scheduled on the basis of MEAP's likely rise in the learning curve as Ministry staff become more experienced in implementation and capable of handling successfully a greater volume of transactions. The long-term AID-financed resident advisor, working with experienced UNDP provided technical assistance, will help to insure that the Moroccan privatization program benefits from international experience in the field. In addition short-term technical assistance on specific subject areas of privatization, such as employee stock ownership plans, designing restructuring programs, etc. will be available to MEAP. Audits of local currency deposit and usage and required pre-disbursement reviews of the program and progress toward achieving objectives will further insure that implementation is kept on track. In sum given the expected role of the Ministry of Economic Affairs and Privatization, its organization and staffing, supplemented by the expertise to be supplied by the UNDP and by the AID, should be sufficient to carry out the privatization program.

2. Moroccan Private Sector Business Services for Privatization

Implementation of the privatization program will require the use of a wide variety of Moroccan business services. Moroccan accounting firms are expected to complete many of the audits and evaluations of privatizable firms. Investment banking services will be required to help in completing evaluations, in identifying potential buyers, in assembling financing packages for purchase of privatized firms, and in underwriting and/or distributing shares of companies to be privatized. The securities industry will need to market shares of privatizable companies and advise potential clients on investments.

Moroccan capabilities in accounting, investment banking, and the securities industry are weak. Privatization, by creating an important market for such business services, will be a major force in their development. Capabilities within the Moroccan accounting profession vary considerably. A few Casablanca firms, primarily those linked to international accounting firms, such as Price Waterhouse and Arthur Andersen, are able to develop financial statements that meet international accounting standards and to undertake a complete financial appraisal of a large, complex enterprise. A new set of accounting standards are under review by the Government as are legal changes to strengthen accounting certification requirements. Parliamentary passage of the new accounting law and its enforcement will likely not occur until the privatization program is well underway. Furthermore, it will be several years before there are substantial numbers of accountants trained in these standards and certified under the new system. To improve the quality of accounting used for preparing audits and evaluations of privatizable firms, the Ministry of Economic Affairs and Privatization has encouraged Moroccan accounting firms to create links with international accounting firms. Such joint ventures will be used for the more complex audits and evaluations. These audits and evaluations will be subjected to critical review by both the Ministry of Economic Affairs and Privatization, the Evaluation Authority, and the investing public, which will see the financial statements in requests for bids and prospectuses. The market created by privatization for accounting services for completing audits and evaluations, the links Moroccan firms will establish with international accounting firms, and the exposure of these completed reports to critical review will all help to develop a Moroccan accounting industry which increasingly will be able to perform to international standards.

Currently, the stock market plays only a very minor role in financing industry. As a consequence, Morocco's banking sector has not developed investment banking skills. In addition, the stock exchange and brokerage community have done little to educate and motivate the general public about the benefits and risks of share ownership. As is the case with the accounting industry, implementation of the privatization program will generate considerable demand for investment banking and securities industry services and will thus serve to develop these sectors. Moroccan commercial banks will likely seek external help from their foreign partners to provide needed investment banking services and will thus acquire necessary investment banking know-how.

Sector assistance by furnishing the resources to engage Moroccan business service firms will help to create the demand for these services. The conditionality requiring promotion campaigns and other measures to broaden share ownership will enlarge demand by the investing public for shares and other securities. This increased demand will perforce accelerate development of the securities industry. Lastly, foreign experts furnished under the Technical Assistance component will, at times, be working with Moroccan business service and financial sector firms, thereby imparting directly new skills and know-how.

### 3. State-Owned Enterprises: Major Restructuring Problems

By and large the 112 entities in the Government's privatization program will not require major restructuring prior to sale. Moreover, only in a few cases will there be a need to examine closely the policy environment surrounding an industrial sub-sector to be privatized to insure that market functions are enhanced and that efficiency will improve with privatization.

The sugar industry is a special case. As part of the World Bank's Second Structural Adjustment Loan (SAL II), the Government of Morocco has agreed to a reference price system to adjust the domestic price of sugar to international price trends. As part of the policy reform for the sugar sector, the Office Nationale du The et Sucre will surrender its monopoly on the importation of refined sugar and sugar mills will be permitted to import raw sugar. The Government will cease to set the producer price to farmers for sugar cane and sugar beet. Farm prices will be set by the interaction of supply and demand, with mills offering contracts to farmers and imports of raw and refined sugar, priced by the reference price system, regulating the domestic market. In many mills, the existing cost structure will not be able to be supported under this reformed pricing and marketing system. Accordingly, financial restructuring of two of the privatizable sugar mills, employment reduction in two other privatizable mills, and closing of one public sector mill will be required.

## B. FINANCIAL ANALYSIS

Three differing kinds of costs will be incurred in completing the privatization program:

-- personnel and other operating costs of the Ministry of Economic Affairs and Privatization, the Evaluation Authority, and the Transfer Commission,

-- costs incurred for services contracted for by MEAP related to transactions such as accounting, investment banking, legal, and other business services, policy analyses, and design and implementation of publicity and promotional campaigns, and

-- costs associated with enterprise restructurings and re-employment/training programs for excess workers.

A variety of estimates have been made as to the cost of privatizing Morocco's state-owned enterprise portfolio, with the most recent being an appraisal conducted by the World Bank as part of the Public Enterprise Restructuring Loan (PERL). This study indicated that privatizing all 112 entities referred to in the Privatization Law would cost between $90-110 million, including some $20 million in enterprise restructuring costs.

The Ministry's personnel and related operating costs for implementing the privatization program are expected to be financed directly by the Government budget. The Ministry has actively solicited external assistance for financing needed international expertise in such areas as restructuring, evaluation, audit, investment banking, financial market operations, and promotional campaigns on share ownership. Response has been limited. Japan, as part of its co-financing for the World Bank's Second Public Enterprise Rationalization Loan (PERL II) has granted 81 million Yen ($0.6 million) to the Ministry of Economic Affairs and Privatization to finance studies on restructuring and other analyses needed to complete privatizations. The European Economic Community (EEC) has offered a 1.8 million ECU ($2.0) grant to finance privatization experts; an agreement has not yet been signed because the EEC is proposing to detail Government officials who have worked on privatization, while the Ministry wants private sector consultants and investment banking services. During the Moroccan-German Joint Commission meeting in June 1991, the German delegation verbally indicated that DM 0.9 million ($0.5 million) could be made available to finance needed consultant services. No definitive proposal has yet been received for this assistance.

Provision has not been made for financing any needed enterprise restructurings or redevelopment or retraining programs for areas and employees that may be adversely affected by privatization. In developing the list of 112 entities to be privatized, state-owned enterprises were reviewed to select those which enjoyed a solid financial position, had a good profit record, were well-managed, faced competition from domestic producers and/or imports, and lacked overemployment problems. Outside of the sugar sector, major restructurings or employee dismissals are thus not expected in the process of privatization. Nonetheless, as firms are prepared for privatization and are more closely examined, needs for legal and financial restructuring and staff re-organization and trimming will undoubtedly be identified.

Restructurings may vary from providing a separate legal form to a major enterprise to be split up into more sellable portions, e.g. the national bus line which owns major urban properties, to restoring some financial health to a public enterprise by undertaking major cost reduction measures and investing in more efficient plant and equipment, as will likely be the case in some of the sugar mills to be privatized.

The local currency counterpart of privatization sector assistance will provide dirham resources to the Ministry of Economic Affairs and Privatization to supplement its inadequate budget. These local currency generations will not be used to fund the personnel and related operating costs of the Ministry of Economic Affairs and Privatization. They will be used to finance the second and third categories of costs, that is costs for transactions and other contracted services and restructurings and re-employment programs. It is in these areas that financing needs are greatest.

## C. ECONOMIC ANALYSIS

### 1. Macroeconomic Impact of Privatization

The Government of Morocco's privatization program is an integral component of its efforts to fundamentally re-balance its public and private sectors. Whereas prior to independence the Government rarely intervened in the economy, after 1956 the state-owned sector increased dramatically, until by 1989 there were over 670 state-owned entities. So extensive has the network of state-owned and parastatal enterprises become that the Government has been unable to calculate precisely the size of the public sector nor the dollar value of subsidies granted state-owned entities. This trend accelerated in the 1970s following adoption of a policy of "Moroccanization" wherein foreign-owned firms were transferred to Moroccan ownership and strict limits were placed on foreign ownership of economic resources. Later, existing SOEs created subsidiaries, and it is this "subsidiarization" phenomenon that lead to explosive and, ultimately, unsustainable growth in the state sector. In the five-year period from 1973 to 1977, 92 percent of newly created public enterprises were subsidiaries of existing ones, with 52 new SOEs created in 1974 alone.

According to the Ministry of Economic Affairs and Privatization, Morocco's state-owned enterprises received in excess of DH 11.1 billion in direct subsidies during the period 1981 to 1985. After subtracting payments to the Treasury from certain public enterprises (mainly OCP, the national phosphate producer), net transfers to public enterprises from the central Government amounted to DH 5.7 billion for this period, or roughly 23.9% of the Government's public sector borrowing requirement. The situation becomes even more convoluted as a result of SOEs enjoying preferential credit terms and concessionary financing. While no thorough or recent study has been conducted to determine the net macroeconomic effects of such practices, several studies have estimated these indirect subsidies to equal the amount of the annual Treasury subvention, for a total effective subsidy of DH 4.1 billion per annum. While the amount of such transfers has been reduced in the intervening years, clearly implementation of the Government's privatization program will have an important effect in further reducing such transfers and diminishing the Government's domestic credit requirement. This in turn will free resources for productive investment elsewhere in the economy.

The legacy of statist economic policies has manifested itself in the neglect of sound management practices with SOEs viewed as serving an important social function in and of themselves, namely employment generation. The state-owned sector now accounts for almost 30% of the national wagebill, and 25% of Gross Fixed Capital Formation. This trend has been associated with the creation of an extensive array of ministries, agencies, directorates and state-owned holding companies responsible for managing and directing investment in SOEs. Inexorably, this has resulted in a diminution of market forces in the economy and profound structural imbalances, with the unabated growth in Government consumption (expenditures) increasingly financed by deficit on the current account.

As in the case of most countries pursuing highly interventionist economic policies, the proliferation of the state sector has been accompanied by increasingly unfavorable conditions for private enterprise, and the promulgation of credit and economic policies inimical to private sector growth and development. State-owned entities have been able to borrow and trade on highly favorable terms, and preference continues to be shown state sector firms in the award of contracts. While this has resulted in substantial investment incentives in state-owned industry, it has not been successful in increasing productivity or improving international competitiveness nor has it resulted in efficient upstream import substitution. Implementation of the privatization program will complement other reforms in creating favorable conditions for private enterprise.

One of the most direct effects of privatization will be augmented Treasury receipts from the sale of SOE assets. While it is impossible to forecast the amount of these proceeds without evaluating the individual entities, the good condition of Morocco's state-owned enterprise portfolio suggests that they will be substantial. Indeed, as of December 31, 1989, the net worth of privatizable SOEs stood at DH 14 billion, with 1989 profits (after tax) of DH 950 million. As Morocco's agreements with the World Bank and IMF require the Government to reduce Government spending by 2 percent of GDP in the forthcoming budgetary cycle, and as the Privatization Act stipulates that all proceeds from asset sales will accrue to the Treasury, the sale of state-owned enterprises will directly translate into reduced borrowing and debt service requirements, with positive short and long-term macroeconomic effects.

### 2. Secondary and Tertiary Effects of Privatization

The initial list of 112 state-owned entities to be privatized spans the entire range of the Government's economic activities, affecting over 35,000 employees in all regions of the country. The distribution of employment in state-owned enterprises to be privatized reflects the highly concentrated nature of Morocco's state-owned sector: roughly 60% is in the manufactured goods sector, and 22% is in the banking and financial sector. Privatization will have its smallest impact on the country's agricultural sector, where only three entities are scheduled for privatization, employing just over 400 individuals and contributing less than one-tenth of one percent of value added in the sector.

Of the 112 SOEs to be privatized, 37 are hotels. Of the remaining 75, 53 (or 71%) posted operating profits in the year ending December 31, 1989, with 22 (or 29%) posting losses. On a sectoral basis, the banking and financial sector has consistently out-performed every other sector of the economy, with the industrial sector being the weakest. This pattern is reflected in the country's national accounts, with the financial sector being a net contributor to the Treasury, and the industrial sector a net beneficiary of Treasury subsidies.

On an aggregate basis, value-added by firms to be privatized exceeds 6% of Gross Domestic Product (GDP), with equity capital in excess of US $ 1.8 billion. In the case of financial institutions, privatizable state-owned enterprises account for 50% of total value-added in the state-owned sector, and the privatization of the designated state-owned banks and financial institutions will reduce the state sector in these industries by almost two-thirds.

Reductions of the state owned sector of almost similar magnitude are anticipated in the hotel and commercial sectors of the economy. Even in those sectors where the aggregate numbers are not as impressive and where privatization will not result in a major reduction in the number of state owned enterprises (mining, transport and communications), its effects will nonetheless be marked as the enterprises to be privatized often dominate the sector or are central to it.

Privatization of state owned enterprises will produce a variety of direct and in-direct costs and benefits to the economy. Privatization will all but remove the state from banking, commerce and tourism, with the remaining state sector playing a markedly diminished role in the economy. While the direct impact of privatization on agriculture, transport and communications and mining will be less dramatic, this is somewhat misleading since the privatization of Government holding companies will lead to major "secondary" privatizations. Six of the country's eleven largest holding companies are included in the list of SOEs scheduled for immediate privatization. Together, these holding companies own or operate over 100 downstream SOEs and parastatals, including over 50% of the equity of all state-owned enterprises. With privatization of these holding companies and privatizations of subsidiaries and cross-holdings in other state-owned firms, as many as 300 SOE-subsidiaries may be privatized as a result of the privatization of the parent company. Privatization of these entities will thus have a major effect on the Moroccan economy, affecting almost half of the Government's state-owned enterprise portfolio.

While it is difficult to distinguish between the employment effects of privatization and those attributable to other factors, a number of studies by the World Bank, ILO and Ministry of Economic Affairs and Privatization suggest that direct and in-direct labor displacement should be nominal in both the short-and long-term. The privatization of all 112 privatizable SOEs is expected to result in initial labor displacement of between 4-7 percent, with structural (i.e. long-term) displacement only expected in the sugar-processing industry. In large part this is because almost two-thirds of the enterprises to be privatized are in the manufactures sector, where value added is high, the rate of return on investment is healthy and state-owned enterprises are in generally good condition, with positive cash-flows and positive net worth. Over-employment in the sector is also negligible, as it is in the financial sector, the other sector of the economy most directly affected by privatization. The following is a brief summary of identifiable secondary and tertiary impacts by sector:

a. Industrial/Sugar-Processing Sector

Of all the sectors affected by privatization, the industrial sector, with its dominant sugar-processing subsector, will experience the largest dislocations. Moreover, in contrast to every other sector, these dislocations will be of a structural nature, and permanent job losses in excess of 5 percent are anticipated. Substantial restructuring prior to privatization will also be required, with mergers or liquidations (or both) in order. Nonetheless, the sugar subsector as a whole is viable and is expected to show a profit after restructuring. As a net beneficiary of Treasury subsidies, privatization of the sugar-processing sector will have a marked impact on the country's national accounts and eliminate one of the least efficient and productive components of the Government's public enterprise portfolio.

### b. Financial and Banking Sector

Privatization of the 10 SOEs contained in the financial and banking sector, coupled with reform of Morocco's financial and capital markets, is expected to result in significant medium-and long-term employment generation. Expansion of the Casablanca Stock Exchange is expected to result in a 5-fold increase in volume and 100-200 percent growth in employment in investment banking, placements and retail marketing operations. Indeed, the major challenge facing the Government and the banking industry will be responding to the increased demand for trained banking and financial services professionals. As state-owned enterprises are privatized, their successor entities will want to realize a higher return on capital than at present. This will require that Moroccan financial institutions be able to provide the necessary investor guidance. Increased demand for credit, and the absence of Government loan guarantees, will require that banks substantial increase their credit appraisal operations and augment their loan evaluation staff.

In the short-term, the privatization process itself will severely tax the expertise and capacity of Moroccan financial institutions. Divesting hundreds of state-owned enterprises will be a monumental task, with just the enterprise valuation process expected to require thousands of person-hours. As a consequence, a major focus of the privatization program must be the training of skilled professionals. Ironically, privatization and growth in the industry may result in some temporary dislocations as banks shed unproductive workers or those lacking the requisite skills. This may be particularly true in the case of the Banque Nationale pour le Développement Economique, BNDE. With its emphasis on development banking, it is not immediately apparent how this institution will fit into the country's banking system. As the BNDE seeks to become competitive, it may seek to eliminate its development banking operations (and related personnel) and restructure. These effects will net-out in the longer term as the Bank expands its credit operations and staff.

### c. Manufacturing Sector

In the manufacturing sector, privatization is also expected to produce negligible labor displacement while leading to increased profits in the sector, primarily due to abolition of sole-source limitations and the ending of mandated prices. At present, state-owned enterprises are frequently required to buy solely from other state-owned enterprises, in the classic statist economic configuration.

Medium- and long-term prospects for the manufacturing sector are excellent. Wage rates are internationally competitive and Morocco's geographical location make transshipping and distribution easy. The sector has also been a net contributor to the Treasury for a number of years, with Casablanca ranging among Africa's most powerful industrial centers. The sector is also predominantly privately-owned, which explains the relatively muted impact privatization will have. On the other hand, privatization in other sectors of the economy will lead to growth in the manufacturing sector and expansion and liberalization of Morocco's financial and credit markets will do much to alleviate a serious shortage of investment capital and investment financing.

d. Agricultural Sector

In the case of the agricultural products market, state-owned enterprises are forced to sell to the Government at controlled prices, often far below the market rates. These anti-competitive practices have been identified by the World Bank and IMF as seriously compromising the financial integrity of state-owned enterprises and militating against their economic efficiency, and have directly resulted in the underdevelopment of what should be highly competitive sectors of the economy.

e. Hotel and Tourism Sector

In the case of the tourism and hotels industry, the secondary and tertiary effects of privatization will predominate, and no immediate macroeconomic and sector effects are anticipated. The sector does not receive any subsidies from the Government, and Government involvement in the sector is at a minimum. Consequently, the effects of privatization will take time to materialize but are nonetheless significant.

This is particularly true as concerns private investment in the sector. Despite the fact that the majority of international-quality hotels have been placed under management contracts, thereby becoming quasi-private entities, over-staffing and a lack of foreign investment continue to plague the sector. Furthermore, the fact that the Government has remained reluctant until recently to sell outright its interest in hotels, preferring to lease them to foreign or Moroccan investors, has retarded investment growth and resulted in comparably few high quality hotels for a county the size of Morocco and of such proximity to Europe.

This phenomena is evidenced by the preponderance of medium-grade hotels in the Government portfolio. While to some extent this represents a conscious attempt to diversify the hotel stock base, it is more indicative of a dearth of investment in the hotel industry. This can be directly related to the fact that management contracts are subject to review and renewal of the Government and that in the past contracts have been canceled or not renewed for non-performance related reasons. Faced with uncertainty, investors have been understandably reluctant to undertake major capital improvements. Privatizing the hotel stock will eliminate this problem and reassure foreign and domestic investors. This consideration is made all the more relevant and urgent given Morocco's heavy dependence on tourism and the fact that tourism receipts from North Americans and Europeans have fallen precipitously in recent years.

f. Energy Sector

Privatization in the energy sector will most likely take the form of the denationalization of the various petroleum-distilling companies, and is not expected to result in any notable changes in employment or backward- and forward-linkage effects. Indirectly, however, denationalization may result in increased investor confidence and renewed interest on the part of international investors and multinational companies in oil exploration. Any such developments, however, will be conditional on a number of other factors, most notably settlement of the Western Sahara's political status and would only accrue in the long-term.

3. Impact on Future Privatizations

USAID support at this time is vital if opposition to economic reform is to be overcome and if the Government's other adjustment policies are to succeed. The Government has been unequivocal that this is just the first phase of privatization. Other state-owned enterprises not on the first list of 112 are currently being re-structured as a prelude to privatization, and others are being merged or liquidated. However, the Government has also been clear in stating that whether future privatizations will occur depends to a large extent on the results of the current privatization program, and on the availability of foreign technical and financial assistance.

Though unquantifiable, these demonstration effects are of key importance. In the face of considerable opposition the Government has publicly embraced the sale of state-owned enterprises and economic liberalization and made private sector development the cornerstone of its economic and social policy. USAID is intimately associated with these policies, and the Mission and US Government are well-known throughout the country as major proponents of the Privatization Law and privatization process. If the privatization program succeeds, and it can with adequate support, economic reforms will continue and further privatizations will occur. If it doesn't, or if USAID support for privatization is seen as lacking or hesitant, the credibility of the Government and USAID will be severely damaged. As the largest privatization project in Morocco, the Privatization Sector Assistance Program is uniquely well placed to assist the Government in its efforts and to demonstrate not only the importance of privatization but the fact that it can work and make a major difference.

D. BENEFICIARY ANALYSIS

Privatization Sector Assistance will accelerate and insure implementation of the Government's privatization program. Expected impacts from implementation of the privatization program and of benefits and beneficiaries are described in fuller detail in the economic analysis. In summary, the beneficiaries of the privatization program include the following:

--the private sector as a whole which will have greater resources made available to it as a result of a lessened Government borrowing requirement because of privatization;

--individual investors which will have new opportunities to place savings as a result of share offerings and development of the capital market;

--accounting firms and banks which will have new business related to completing privatization transactions;

--consumers which will benefit from lower prices, improved quality and greater diversification in availability of goods and services because of increased competition throughout the economy as a result of privatization;

--labor which will find new opportunities in the financial sector as privatization opens the way for further development of financial services; the employment generating effects in the financial sector and in other areas because of increased efficiency should more than offset labor displacement caused by privatization.

Possible unemployment effects of privatization programs typically generate great concern. The 112 entities to be privatized provided employment in 1989 for 36,000 workers. Firms with major overemployment problems and restructuring needs were not included on the list of state-owned enterprises to be privatized, with the exception of the sugar mills where employment totals 6,000. The privatization of all privatizable entities is expected to result in initial displacement of between 4-7%, with structural, i.e. long-term displacement only expected in the sugar industry.

Even for those firms outside the sugar industry, privatization and resulting change of ownership and management will likely result in some personnel shake-ups, shedding of less efficient operations, and thus some dismissals. Given that blue collar workers outnumber management and professionals employed in state-owned enterprises to be privatized, any unemployment will likely affect production workers in greater numbers. Local currency counterpart will be available to develop retraining and other programs for new skill development and employment creation in cases where privatization restructurings result in substantial unemployment. Thus, the overall levels of unemployment from implementation of the privatization program are expected to be small.

Any short-term unemployment effects will in the long-term be outweighed by the employment creation resulting from an improved investment climate and overall efficiency gains. Privatization will better the investment climate by removing the threat that the state will pre-empt for itself certain areas of the economy. It will open new areas for private investment which were previously thought closed because of the dominance of state owned-enterprises. It will signal that Morocco does endorse a private sector development policy and will thereby help to attract needed foreign investment. Such improvements in the investment climate will indirectly result in higher levels of investment, both domestic and foreign, with accompanying increases in employment.

By increasing the volume of stock shares available for purchase and sale by the general public, privatization will promote the development of the stock market and equity finance. In turn, this additional means of financing for corporations will serve to introduce greater competition into financial markets and lower the cost of financial intermediation with a resulting favorable impact on levels of investment and job creation.

Lastly, improved management from private sector ownership will serve to increase competition within the economy, as previously state-owned enterprises become more competitive suppliers to and more demanding purchasers of inputs from other sectors of the economy. Such increased efficiency will free resources for other uses to the benefit of consumers and the productivity of the economy as a whole.

## E. ENVIRONMENTAL ANALYSIS

As a result of the potentially serious environmental liabilities associated with certain of the enterprises slated by the GOM for privatization under this program and, yet, in recognition of the only indirect effects of this A.I.D. program assistance on the subsequent environmental performance of these firms, the PAIP for this activity received a negative environmental threshold decision from the Near East Bureau Environmental Coordinator pursuant to Section 216.3(a)(2) of the Agency's Environmental Regulations (see PAIP Initial Environmental Examination and Tarrant/Loken memo of 1/17/92 for further information on this decision). This ruling means, in effect, that despite real environmental concerns regarding this activity, this A.I.D.

program assistance intervention does not warrant the completion of a formal Environmental Assessment, largely as result of the nature and focus of this proposed privatization assistance program.

Despite this negative threshold decision, the Mission is well aware of the environmental concerns associated with certain of the firms that will be selected for privatization assistance under this activity. For these reasons, this activity will provide sufficient funds to secure appropriate short-term environmental assistance services, to work with the other activity advisory personnel on those enterprises selected for USAID assistance which are considered to be of priority environmental concern, to recommend environmentally sound practices and procedures for the improved future private management and operation of said enterprises.

Key environmental inputs into the enterprise appraisal process will include assessing the potential environmental liabilities of a given enterprise, e.g., environmental audits, and recommending appropriate interventions for mitigating those liabilities, e.g., operational/energy efficiency improvements, pollution prevention measures, "good housekeeping" techniques, etc. These short-term environmental services will be obtained through a Mission "buy-in" to the Near East Regional Project in Development and the Environment (PRIDE Project), which will also be providing similar short-term environmental services to several other private sector-oriented Mission portfolio activities over the same period.

With this information, prospective private sector buyers will be made aware of the potential environmental costs and benefits associated with a given enterprise for consideration in their greater enterprise financing, restructuring and management deliberations. In addition, this USAID assistance program will also be able to provide local currency financing for suitable company-specific environmental equipment and/or additional services for those improvements and mitigative measures which are recommended by these environmental experts and agreed upon by the new owners.

In this manner, the Mission will ensure that this activity is conducted in an environmentally sound manner, consistent with all salient Agency, Bureau and Mission policies and procedures.

## IX. COORDINATION WITH OTHER DONORS

In the past, the World Bank took the lead in improving the management and operations of the public enterprise sector through the Public Enterprise Rationalization Loans (PERL). Contract management programs were developed for the national electricity, potable water, irrigation, and railroad authorities under which the authorities were provided increased autonomy for their own management, performance targets set for self-financing, and transfers from the state operating and investment budget limited.

Inventory and analysis of the entire state enterprise portfolio was also completed thanks to World Bank assistance. The World Bank is not, however, involved in the Government's privatization program, save for conditionality elements in the Second Structural Adjustment Loan on sugar reference pricing and companion commitments to liberalize the domestic market for sugar.

The World Bank affiliate, the International Finance Corporation (IFC) has assisted the Ministry of Economic Affairs and Privatization prepare a first assessment of staffing and financial needs to implement the privatization program. This document was forwarded to all donors with a request for assistance. Donor assistance thus far committed is in response to the needs and framework provided by this report. The IFC is also proposing to serve as an investment banker for certain privatizations, but this would be on a fee and commission basis. The International Monetary Fund has a substantial interest in the progress of the privatization program, since revenue thereby generated for the Government budget would reduce public sector borrowing requirements.

The United Nations Development Program, the European Economic Community, and two other bilateral donors -- Germany and Japan are putting into place technical assistance to help the Ministry of Economic Affairs and Privatization implement the privatization program. The kinds and levels of assistance offered are described under Section VIII Institutional Analysis.

The USAID/Morocco Privatization Sector Assistance will be the largest single donor program for privatization. While the UNDP will be taking the lead in insuring that staff capabilities are adequate within the MEAP for implementing the privatization program, USAID will be the lead, if not the only, donor in providing incentives for implementation and resources to cover local currency costs of implementation.

# ANNEXES

# ANNEX A

# PRIVATIZATION LAW

Annex A

# LAW NO. 39-89
# AUTHORIZING THE TRANSFER OF PUBLIC ENTERPRISES TO THE PRIVATE SECTOR

**Adopted by the Chamber of Representatives 11 December 1989**
Promulgated on 11 April 1990 by *Dahir* no. 1-90-01
**Published in the *Official Bulletin* 18 April 1990**

11

# authorizing the transfer of public enterprises to the private sector

*Preamble*

***Speech delivered by His Majesty King Hassan II on the occasion of the opening of the spring session of the Chamber of Representatives on 8 April 1988.***

"Praise be to God, may the prayer and the blessing be on the Prophet, His Family, and His Companions.

Mister President of the Chamber of Representatives, honorable deputies.

As We promised during the month of October, today we meet for the opening of the spring session of your honorable assembly. In addition to My constitutional duties, We would have you know, sirs, that Our presence among you is also explained by the feelings of fondness and esteem that We hold for all those who represent Our people, who are so dear to all of us.

The speech that We will address to you today is, like previous ones, an advisory speech, consequently, it should not be regarded as a Royal message to Parliament as provided in the Constitution. The latter, as you know, is not subject to debate. The present speech is rather a set of views–guidelines and options–that We propose to you in the hope that they may be a real motivation for your imagination and your patriotism to undertake the necessary effort so that we may, together, build our economy and our society on bases obtaining everyone's support, bases consistent with logic and with reality.

We have already, in many of Our speeches and Directives, talked about the role assigned to the public and the private sectors in the development and the expansion of the nation's economy and the need for the State to renounce, in favor of the private sector, some enterprises for which nothing justifies keeping their state character. We wish to return to this question to talk to you fully about the reasons which have dictated the policy choice that We have decided to carry out in this field, about their expected results, and the means that We expect to use to apply Our policy, in accordance with the objectives that We have laid out.

The decision to transfer to the private sector an important part of the industrial and commercial activities now assumed by the State or by its public enterprises, does not stem from shortsightedness nor from an alignment on widely-held ideas. It is born from a conception concerned with long-term objectives, taking past, present, and future data about the Moroccan economy into account.

This decision does not aim at–as we will see further–a reduction in general budgetary expenditures or the State's renunciation of its role in service of the country's development. On the contrary, it tends to reinvigorate the Moroccan economy, to better the citizens' standard of living, to promote the nation's economy in giving all possible chances to new generations of citizens, opening for them access to entrepreneurial responsibilities, and to allow Morocco to participate much more widely in international trade.

To delimit the motivations for the policy that we wish to carry out in this domain, it is advisable to recall the circumstances which prevailed at the creation, in our country, of the public sector.

After recovering its independence and its full and entire sovereignty, Morocco devoted itself to restoring to the people the foreign firms with which colonialism had filled the Kingdom. Weakened under the colonial grip, the nation's private sector barely had the possibility to develop and to prosper and, therefore, found itself unable to take over. Thus, the State was obliged to take things under control, which it did by using different procedures, in particular, the creation of public enterprises destined to succeed the foreign enterprises, on the one hand and conceived to take care of other sectors, on the other hand, it being essential, at that time, to satisfy the needs of the citizens and to promote exports.

No one can denigrate the policy followed by the State at that period of our history. National interest required it. Rather, it is our duty to honor all the artisans of this reconquest by Morocco of its economic sovereignty.

But, it is in the very measure that this policy has borne fruit that we are today able to pass to another stage in searching for new means of development from all available systems–means that are better adapted to the modern world–mobilizing to these ends, not only the public power and its servants, but all the strengths of initiative and invention which are immense resources of the Moroccan people.

In reviewing grounds which have led to the privatization of firms once held by the State, primarily we note financial reasons which are so evident that they are the first to be noticed. In this case, it is a matter of easing the strain on the state budget of supporting public enterprises; certainly not all public enterprises show a deficit, many of them are in a state of equilibrium or profit.

But, nothing less than almost ten percent of the public operating or investment expenses are [illegible] subsidies of the public sector. No one can question that applying this budgeted levy to other purposes would be more beneficial for the citizens and for the nation.

that, is not particular to Morocco even though it is widespread here. It is a question of the proliferation of subsidiaries of public enterprises, many of which are not necessary or even useful and of the concern of these firms of participating more or less in many projects, which has led to an excessive and unjustified expansion of the public sector.

To these [grounds] must be added the public sector's management errors and structural defects, where responsibilities are not always clearly defined. One may note confusion between management tasks and those of control; accounting rules are badly adapted and imperfectly applied.

Therefore, we are bound to use all our efforts to redress the situation and to restructure the public enterprises, whether those that will remain in the hands of the State or those that will be privatized.

The enterprises that will be handed over to the private sector are not less subject to this restructuring because their attraction for private entrepreneurs will be even greater once they are in better shape.

It is advisable to stress here that public enterprises are considered to be a reliable tool in an economy that is not very complex and that is not very open to the outside. Among other tasks, they should ease the measures and procedures for the transition to an economy that is less simple and less inward looking. That was their role in Morocco in many sectors of the economy.

In a modern-type economy linked to international trade, we need—in all sectors where the needs of public service do not require state intervention—private enterprises operating under the rules of the market, flexibly managed, and constantly adapting, under the responsibility of men committed to the benefits of success and the risks of failure.

Thanks be to God, Morocco is blessed with considerable assets to allow itself such an economic policy. In effect, Moroccans have an aptitude for saving. In proof of that, our compatriots, working abroad, constantly look to their country and contribute regularly to the nation's wealth, for the same reason as their fellow citizens remaining on their native soil.

Moroccans are enterprising and very often aspire to become entrepreneurs on their own scale. Therefore, we have the duty to encourage such aspirations: potential entrepreneurs must not feel themselves locked into an economy to which their access is barred either by private concentrations of capital or by public enterprises.

We will only attain the hoped-for objective by mobilizing every means to be able to guarantee success: better training for young people, an appropriate

sectors returned to the private economy.

We are convinced that the operations of privatization can be a unique opportunity for a fabric of small- and medium sized firms to multiply in the spaces between the private concentrations and the public enterprises, which firms, as proven by the experience of other countries, are indispensable for the strength of the economy and for social equilibrium.

In addition to these national objectives about which we have talked to you in detail, we must not lose sight that the takeover by the private sector of some public enterprises aims at two other objectives: the consolidation of regionalization and the concern to give the Moroccan economy the chance for a greater opening on the world economy.

No one can be unaware of the interest that we have for the regionalization policy being pursued in all domains. We will benefit from the State's giving up some public enterprises to steadfastly follow this policy. In this respect, we may decide that for some privatized enterprises, priority will be reserved for persons or groups belonging to the regions where the company seat or its subsidiaries are located. In this way, the regional economy will become invigorated and the region's inhabitants will, by means of employment and by access to goods and services produced by the firm, tie the links of regional solidarity more strongly. Thus, the region, in addition to its administrative existence, will increase its requisite economic [illegible]. Concerning foreign trade, we all know that the era of purely national economics is past, economic prosperity in all countries of the world is linked to the trade flows that tie them to the world economy. Experience shows that in developing exports, firms play a role of initiative and conquest.

For its part, Morocco has exerted some praiseworthy efforts, justly known and appreciated by all, to develop its economy. These efforts bode well for a prosperous future attracting investors from different parts of the world.

Of course, it is not a question of risking foreign meddling in economic affairs. But, at the moment that even autarchic economies are seeking foreign capital, there is no question of Morocco's neglecting the chances offered it by the international market.

"Independent but open", should be our motto, in this phase of our economic evolution. We should, on this point, stress that our privatization policy must not be left to theoretical logic or to the [illegible] stances, it must fit into a global vision that takes into account social factors that no one can think of omitting. I would like to mention here two particularly important ones: the first concerns employment which is, for Morocco as for other countries, a major concern.

reinvigorating the Moroccan economy. Thus, its natural effect should be to favor the creation of new jobs, but these effects cannot be immediate, well to the contrary. It may happen that for one sector or another, in one region or another, at one time or another, the operation of privatization may, if left alone, temporarily generate redundancies which would not be immediately compensated by the offer of new jobs.

That is a given which must be taken into account either by postponing privatizations or by setting, as a condition for the firm's buyers, the commitment to keep the current personnel.

The second social factor which must be considered concerns the need to avoid that the operations of ceding public enterprises to the private sector could be a cause of intensifying the concentration of wealth and an opportunity for new monopolizations by the powerful and the very wealthy.

The goal sought through the planned operation is to give chances to some new men: to open for them the doors of responsibility, chances, and risks [and] to bring together conditions favorable for workers, savers, and entrepreneurs to benefit from their shares in the economic development of which they are the artisans.

We will only reach our objectives if we adapt [privatization's] legal framework to the policy that we have adopted, to assure it full success and to go beyond the status of a project into something more concrete. The Constitution confers on the legislature legal competence concerning the transfers from the public sector to the private sector and the definition of rules and procedures to be implemented so that the operation can be carried out in accordance with the general interest. The Legislature should, beforehand, take a census of public enterprises which may not be ceded to the private sector either because they provide essential public services in non-competitive sectors or because they are vital for the nation's economy and that the general interest postulates their retention in the hands of the public power.

The law should also fix the procedure for evaluating the public enterprises to be privatized, so that the State may receive a correct price. The evaluation must be confided to a competent and independent organization able to implement standard evaluation methods for the sale of firms. If there is competition among potential buyers, the choice among them must show no favoritism, but should take account of factors which we have previously stressed, namely consolidation of regionalization, employment safeguards, and opposition to the monopolization of economic projects.

One of the law's most important provisions must be to interdict the extension of the public sector by the creation of new public enterprises or of subsidiaries of existing ones [and] to interdict the extension of public ings, except for necessities stemming from unforeseen circumstances. In such exceptional cases, the decision must be taken at the highest level of the State.

To these legislative dispositions should be added ancillary measures to enable the success of the new policy for which we intend to lay the foundations. In particular, this refers to restructuring public enterprises, those that will remain in state hands as well as those that will be privatized; creating an organization of accountants and auditors called to contribute to the improvement of management of economic enterprises; introducing reforms in the Stock Exchange system, in the laws governing firms, in the system of taxes on shares; and examining the problem of the welcome to give to foreign capital in the double concern of preserving the country's independence and of opening onto the world economy as a means of building a modern national economy.

The task program, for which We have outlined the salient aspects and which the legislature, the government, and the administration, each for its own part, should shortly put into practice, may appear ambitious. Indeed, it is, since it truly constitutes the reflection of the aspirations of our people in different domains. We are certain that its achievement requires tremendous efforts, calls for measures in different fields and rigorous work methods—in some respects revolutionary to attain the desired objective and to overcome obstacles.

We would like, in this regard, to call attention to an obstacle which could stand in our way and hinder us from succeeding. This refers to the dispersion of elements which compose our program which must remain compact throughout its execution. The dispersion could occur through either premature or tardy measures—thus, irrespective of the calendar they should fit into—or when a government department takes some measure within its prerogatives without worrying either about its coherence with respect to measures taken by others or about the overall program design.

To avoid such errors, it is important to create a special organization, composed of highly qualified experts, which will have the task of piloting the privatization program from beginning to end. It will have to assure, with all due authority, the coherence and, thus, the success of the entire program.

It may be that this requirement disturbs habits and arouses susceptibilities, but it corresponds to a priority need in the general interest which we place above any other consideration.

In closing, we mention a vital sector for the nation, namely the agricultural sector. We have in mind, at this time, that the State cede part of [illegible] to the private sector. The takeover by the State, for some time, of the recovered lands, constituted a necessary phase for Moroccanizing, maintaining, and carrying on the exploitation of those lands. At present, new consi-

... consider the human element the Moroccan citizen, who is lucid, clairvoyant, ready to assume his responsibilities, and to safeguard his interests. Thus, it is now possible to transfer certain state agricultural lands to the private sector, under conditions and commitments which We will later announce, so that the *fellahs*, beneficiaries of the state lands may work towards boosting the economy alongside those responsible for the privatized firms.

These are, honorable deputies, the salient aspects of the policy which We have resolved to undertake. We have sufficiently set out the motives, the goals to attain, the means to carry out, and the needed measures to overcome the obstacles.

We pray God to grant Us His support and to help us to achieve the grandeur and the glory of the Fatherland and the well-being of the citizens. To the prayer of his servants, the All-Mighty responds generously."

* * *

**Article 1.** In application of Article 45 of the Constitution the following will be transferred from the public sector to the private sector during a period not to exceed 31 December 1995:

1° The ownership of interests in the companies, shown in Table I annexed to the present law, held by the State, by public establishments, by companies in which the State holds all the capital, or by companies holding public concessions;

2° The ownership of hotel establishments, shown in Table II annexed to the present law, belonging entirely to the State or to public establishments.

**Article 2.** The execution of these transfers and of the operations which are complementary or a necessary accompaniment will be assured by a minister assisted by an interministerial commission which he presides, called "Transfer Commission."

This commission will be made up of five members nominated by *Dahir* and chosen on the basis of their competence in economic, financial, and social matters.

On a temporary or a permanent basis, it may call on, as expert consultants, any person or organization whose help appears useful to it.

The powers of the Minister charged with executing the transfers and the operating conditions of the Transfer Commission are laid down by decree.

**Article 3.** The operations taken to carry out the transfers intended in Article 1 above are decided by decree made on the proposition of the Minister charged with executing the transfers.

... the transfers intended in Article 1 above are carried out either by following the procedures of the financial market or by issuing tenders, or by combining the two methods.

Nevertheless, to reach the objectives intended in Article 5-2 below, the Minister charged with executing the transfers, after a concurring opinion of the Transfer Commission, may proceed to the private sale to one to several purchasers chosen on the basis of these objectives, if necessary allowing them to benefit from priorities or advantages intended in said Article 5-2.

**Article 5.** Within a period of six months from the date of publication of the present law in the *Official Bulletin*, the government is enabled, in the conditions foreseen in Article 44 of the Constitution:

1) To fix for the transfers:

- the rules for evaluating the patrimony transferred and for determining the sale price;
- the composition and the powers of the organization charged with the evaluation, whose competence and independence must be assured;
- the legal and financial modes of transfer for all their forms and the payment conditions;
- exceptional arrangements that may possibly be applied to the transfer of minority shareholding in the case that the transfer may present some specific difficulties;
- the tax scheme applicable to the transfers.

2) To define the means according to which, after opinion of the organization charged with the evaluation, a priority or an advantageous treatment may be assured to certain possible purchasers in consideration of one or several of the following objectives:

- access of new social categories to the ownership of firms and the fight against monopolies;
- development and reinforcement of regional economies;
- protection of employment.

The decrees taken in carrying out the present article will be submitted to the ratification of the Chamber of Representatives within a period of [illegible] following the publication of the last of them in the *Official Bulletin*.

**Article 6.** On the occasion of the transfers in carrying out Article 1 of the present law, the Minister charged with executing the transfers may decide that no shares that may be acquired by foreign individuals or legal entities or by those under foreign control, in order to, if necessary, protect national interests as well as the rules designed, in order to meet the same goals, to avoid subsequent transfers to foreign hands.

**Article 7.** On the occasion of the transfers intended in Article 1 above, an interest may be proposed to the exception of those whose creation is a matter for the law, no creation of a subsidiary or a second-degree subsidiary of a public enterprise, and no taking of shares by a public enterprise in a private enterprise, may take place, under penalty of nullity, without the authorization given by decree taken on the proposition of the Minister charged with executing the transfers and preceded by a preamble.

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**TABLE I: Holdings of the State and of public enterprises**

*I - Diverse holdings of the State and of public enterprises*

| Company name | Activity |
|---|---|
| Ranch Adarouch | Livestock raising |
| Société nationale pour le développement de l'élevage (SNDE) | Livestock raising |
| Compagnie marocaine de commercialisation des produits agricoles (COMAPRA) | Cotton marketing |
| Société nationale de commercialisation des semences (SO.NA.CO.S.) | Seed marketing |
| Compagnie marocaine de gestion des exploitations agricoles (COMAGRI) | Livestock raising |
| Banque marocaine du commerce extérieur (B.M.C.E.) | Bank |
| Banque nationale pour le développement économique (B.N.D.E.) | Bank |
| Crédit immobilier et hôtelier (C.I.H.) | Bank |
| Société nationale d'investissement (S.N.I.) | Investment promotion |
| Banque centrale populaire (B.C.P.) | Bank |
| Complexe textile de Fès (COTEF) | Textile industry |
| The general tire and rubber Cie. (General Tire) | Tire industry |
| Société des industries mécaniques et électriques de Fès (SIMEF) | Motor manufacturing |
| Société marocaine de construction automobile (SOMACA) | Vehicle assembly |
| Société nationale de farine alimentaire de poisson (SONAFAP) | Fishmeal manufacturing |
| Société nationale de sidérurgie (SONASID) | Steel manufacturing |
| Sucrerie de Béni-Mellal (SUBM) | Sugar industry |
| Sucrerie raffinerie de l'oriental (SUCRAFOR) | Manufacturing and refining sugar |
| Sucrerie raffinerie de canne de Loukkos (SUCRAL) | Manufacturing and refining sugar |
| Sucrerie nationale de Beht (SUNAB) | Manufacturing and refining sugar |
| Sucrerie nationale de betterave de Loukkos (SUNABEL) | Manufacturing and refining sugar |
| Sucrerie nationale de canne de Sebou (SUNACAS) | Manufacturing and refining sugar |
| Sucrerie nationale du Gharb (SUNAG) | Manufacturing and refining sugar |
| Sucrerie nationale du Tadla (SUNAT) | Manufacturing and refining sugar |
| Sucrerie raffinerie de canne du Gharb (SURAC) | Manufacturing and refining sugar |
| Sucrerie raffinerie du Tadla (SUTA) | Manufacturing and refining sugar |
| Compagnie de transports du Maroc-lignes nationales (CTM-LN) | Road transport |
| Compagnie immobilière et foncière marocaine (CIFM) | Property promotion and management |
| Société chérifienne de distribution et de presse (SOCHEPRESS) | Newspaper distribution |
| Société nationale des télécommunications (SNT) | Telecommunications |

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| | | |
|---|---|---|
| Industriel | Cimenterie de l'Oriental (CIOR) | Cement manufacturing (Oujda) |
| | Estampage, matriçage et forgeage (ESMAFOR) | Industrial foundry (Salé) |
| | Industrie bonneterie de la vallée (IBOVAL) | Clothing industry (Salé) |
| | Industrie cotonnière de Oued Zem (ICOZ) | Cotton weaving |
| | Jadida vêtements (JADIVET) | Clothing industry |
| | Manufacture arabe des produits en cuir (MAPROC) | Shoe manufacturing (Casablanca) |
| | Société industrielle d'appareillages électromécaniques (MODULEC) | Equipment manufacturing |
| | Société internationale d'industrie et d'ingénierie (S3I) | Computer manufacturing (Rabat) |
| | Salamco vêtements confectionnés (SALAMCO) | Clothing industry |
| | Settat filature (SETAFIL) | Cotton weaving |
| | Société industrielle de confection du centre (SICOCENTRE) | Clothing industry (Rabat) |
| | Société industrielle de confection de Fès (SICOFES) | Clothing industry (Fez) |
| | Société industrielle de confection de Meknès (SICOMB) | Clothing industry (Meknes) |
| | Société industrielle des conserves de l'Oriental (SICOR) | Canned foods (Berkane) |
| | Société nationale d'électrolyse et de pétrochimie (SNEP) | Chemical industry (Mohammedia) |
| | Société des dérivés du sucre (SODERS) | Yeast manufacturing (Fez) |
| | Société de transformation de mélasse du Gharb (SOTRAMEG) | Alcohol manufacturing (Sidi Allal Tazi) |
| | Vêtements du Nord (VETNORD) | Clothing industry (Tétuan) |
| 2- Caisse de dépôt et de gestion | Cellulose du Maroc | Paper pulp manufacturing (Sidi Yahya du Gharb) |
| | Compagnie générale immobilière (CGI) | Property promotion (Rabat) |
| | Compagnie Nord Africaine et intercontinentale d'assurances (CNIA) | Insurance (Casablanca) |
| | Maroc-tourist | Tourism and hotel promotion |
| | Société centrale de réassurances (SCR) | Insurance (Casablanca) |
| | Société de financement des achats à crédit (SOFAC-CREDIT) | Consumer finance (Casablanca) |
| | Société d'équipement domestique et ménager (EQDOM) | Consumer finance (Casablanca) |
| 3- Bureau de recherches et de participations minières | Compagnie de Tifnout et Tighanimine (CTT) | Mining (Tafraout) |
| | Société métallurgique d'Imiter (SMI) | Mining (Imiter) |
| | Société anonyme chérifienne d'études minières (SACEM) | Research consultancy (Rabat) |
| | Société anonyme d'entreprises minières (SAMINE) | Mining |
| | Société commerciale de charbon et bois (SOCOCHARBO) | Coal mining and distribution (Rabat) |
| | Société minière de Bougaffer | Mining |
| 4- Société nationale des produits pétroliers | Compagnie marocaine des hydrocarbures | Distribution of petroleum products |
| | Société Shell-Maroc | Distribution of petroleum products |
| | Société Mobil Oil-Maroc (MOBIL) | Distribution of petroleum products |
| | Société Total-Maroc (TOTAL) | Distribution of petroleum products |
| | Société pétroles du Maghreb (PETROM) | Distribution of petroleum products |
| | Société Pétrom-Gaz | Distribution of petroleum products |
| | Société Dragon-Gaz | Distribution of petroleum products |
| | Société marocaine de stockage (SOMAS) | Storage of petroleum products |
| 5- Diverse enterprises | Société des fonderies de plomb de Zellidja (FPZ) | Lead processing |
| | Société chérifienne de matériel industriel et ferroviaire (SCIF) | Rolling stock manufacturing |
| | Société de financement et participation commerciale (SOFICOM) | Holding company |
| 6- Office chérifien des phosphates | Société marocaine des fertilisants (FERTIMA) | Fertilizer packing and distribution |

**TABLE II : Hotels entirely owned by the State or by public enterprises**

| Name of the hotel | City | Name of the hotel | City |
|---|---|---|---|
| Hôtel Malabata | Tanger | Hôtel Sidi Lahcen Lyoussi | Sefrou |
| Hôtel Casablanca | Casablanca | Hôtel les Amandiers | Tafraout |
| Hôtel les Mérinides | Fès | Hôtel Royal | Tan Tan |
| Hôtel Riad | Larache | Hôtel Transatlantique | Casablanca |
| Hôtel de la Tour Hassan | Rabat | Hôtel Transatlantique | Meknès |
| Hôtel Saghro | Tinerhir | Hôtel Terminus | Oujda |
| Hôtel Tinsouline | Zagora | Hôtel des Iles | Essaouira |
| Hôtel les Almoravides | Marrakech | Hôtel Volubilis | Fès |
| Hôtel Asmaa | Chefchaouen | Hôtel Toubkal | Marrakech |
| Hôtel la Rose du Dadès | El-Kelâa M'Gouna | Hôtel Rissani | Errachidia |
| Hôtel Zalagh | Fès | Hôtel Ouzoud | Béni-Mellal |
| Hôtel Friouato | Taza | Hôtel le Zat | Ouarzazate |
| Hôtel Al Massira | Oujda | Hôtel les Dunes d'Or | Agadir |
| Hôtel Az-Zayani | Khénifra | Hôtel N'Fis | Marrakech |
| Hôtel Doukkala | El Jadida | Hôtel Sidi Harazem | Fès (Sidi Harazem) |
| Hôtel Azghor | Ouarzazate | Hôtel Basma | Casablanca |
| Hôtel Madayeq | Boulmane du Dadès | Hôtel Oukaïmeden | Oukaïmeden |
| Hôtel Ibn Toumert | Taliouine | Hôtel Splendid | Sidi Slimane |
| Hôtel Tarik | Tanger | | |

# ANNEX B

# LIST OF PRIVATIZABLE FIRMS AND HOTELS

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# LIST OF PRIVATIZABLE ENTREPRISES
# ACCORDING TO THEIR SIZE

## A. LARGE ENTREPRISES: 19

BCP
BMCE
BNDE
CELUMA
CIH
CIOR
CMH
CNIA
COTEF
FERTIMA
ICOZ
SCR
SHELL-TEXACO
SNEP
SNI
SOMIFER
SONASID
SUNABEL
SUNAG

## B. REGULAR ENTREPRISES: 33

CGI
CIFM
COMAGRI
COMAPRA
CTM-LN
EQDOM
FPZELLIDJA
GENERAL TIRE
MAROTOUR
MOBIL
PETROM-GAZ
SAMINE
SCIF
SICOME
SIMEF
SMI
SNDE
SOCHEPRESS
SOCOCHARBO
SOFAC-CREDIT
SOFICOM
SOMACA
SOMAS
SONACOS
SUBM
SUCRAFOR
SUCRAL
SUNAB
SUNACAS
SUNAT
SURAC
SUTA
TOTAL-MAROC

## C. SMALL ENTREPRISES: 22

C3M
CHELCO
CTT
DRAGON
ESMAFOR
IBOVAL
JADIVET
MAPROC
MODULEC
RANCH ADAROUCH
S3I
SACEM
SALAMCO
SETAFIL
SICOCENT
SICOFES
SICOR
SNTELECOM
SODERS
SONAFAP
SOTRAMEG
VETNORD

MINISTRY OF ECONOMIC AFFAIRS
AND PRIVATIZATION

# BASIC FACT SHEETS:
# MOROCCO'S PRIVATIZABLE FIRMS
# MOROCCO'S PRIVATIZABLE HOTELS

1989 Data

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| COMPANY NAME | YEAR OF CREATION | CITY | PUBLIC SECTOR SHARE | NET WORTH | TURN-OVER | NET PROFIT | LABOR FORCE |
|---|---|---|---|---|---|---|---|
| Banque centrale populaire | 1961 | Casablanca | 87.58 | 2304.3 | 2270.6 | 153.7 | 4370 |
| Banque marocaine du commerce extérieur | 1959 | Casablanca | 54.34 | 931.6 | 1312.5 | 114.8 | 2504 |
| Banque nationale pour le développement économique | 1959 | Rabat | 49.85 | 618.3 | 518.4 | 23.9 | 197 |
| Cellulose du Maroc | 1932 | Rabat | 37.34 | 407.0 | 610.0 | 106.3 | 580 |
| Cimenterie de l'Oriental | 1976 | Oujda | 86.22 | 205.3 | 630.5 | -3.6 | 609 |
| Compagnie arabe des machines outils à métaux | 1982 | Fez | 52.54 | 15.3 | 10.8 | -3.6 | 62 |
| Compagnie de Tifnout et Tighanimine | 1930 | Casablanca | 40.97 | 83.7 | 42.9 | 7.1 | 45 |
| Compagnie de transports du Maroc-lignes nationales | 1919 | Casablanca | 96.06 | 95.7 | 157.7 | 7.8 | 820 |
| Compagnie générale immobilière | 1960 | Rabat | 100.00 | 49.7 | 179.4 | 6.5 | 97 |
| Compagnie immobilière et foncière marocaine | 1950 | Casablanca | 99.82 | 45.3 | 33.2 | 3.1 | 495 |
| Compagnie marocaine de commercialisation des produits agricoles | 1962 | Rabat | 99.94 | 99.7 | 770.0 | 20.3 | 1344 |
| Compagnie marocaine de gestion des exploitations agricoles | 1963 | Rabat | 100.00 | 7.7 | 29.8 | -2.3 | 269 |
| Compagnie marocaine des hydrocarbures | 1976 | Casablanca | 50.00 | 287.1 | 1328.5 | 12.7 | 186 |
| Compagnie Nord Africaine et intercontinentale d'assurances | 1949 | Casablanca | 59.99 | 1158.0 | 192.4 | -30.4 | 367 |
| Complexe textile de Fès | 1967 | Fez | 97.22 | 179.7 | 241.4 | 9.0 | 1489 |
| Crédit immobilier et hôtelier | 1919 | Casablanca | 59.58 | 997.1 | 1275.0 | 73.8 | 547 |
| Estampage, matriçage et forgeage | 1987 | Salé | 41.92 | 14.6 | 0.0 | -2.0 | 13 |
| General tire and rubber Cie. | 1958 | Casablanca | 32.58 | 67.7 | 384.1 | 17.4 | 528 |
| Industrie bonneterie de la vallée | 1983 | Salé | 35.00 | 4.7 | 12.6 | -0.1 | 290 |
| Industrie cotonnière de Oued Zem | 1974 | Oued Zem | 98.06 | 182.9 | 333.4 | 16.1 | 979 |
| Jadida vêtements | 1985 | El Jadida | 66.62 | 2.5 | 3.0 | -4.4 | 300 |
| Manufacture arabe des produits en cuir | 1983 | Casablanca | 64.27 | 2.5 | 23.5 | -28.5 | 310 |
| Maroc-tourist | 1961 | Rabat | 100.00 | 12.7 | 99.3 | 7.7 | 654 |
| Ranch Adarouch | 1982 | Rabat | 50.00 | 17.9 | 8.2 | 1.6 | 130 |
| Salamco vêtements confectionnés | 1985 | Settat | 51.00 | 0.3 | 7.3 | -3.3 | 330 |
| Settat filature | 1987 | Settat | 35.00 | 75.0 | 32.4 | -14.4 | 214 |
| Société anonyme chérifienne d'études minières | 1929 | Casablanca | 43.01 | 73.7 | 73.0 | 3.4 | 330 |
| Société anonyme d'entreprises minières | 1961 | Rabat | 56.66 | 48.4 | 121.3 | 5.2 | 390 |
| Société centrale de réassurances | 1960 | Casablanca | 94.00 | 1586.6 | 359.3 | 4.9 | 195 |
| Société Chellah confections | 1981 | Rabat | 32.00 | 13.5 | 20.7 | 3.7 | 680 |
| Société chérifienne de distribution et de presse | 1949 | Casablanca | 35.00 | 19.2 | 127.7 | 2.6 | 284 |
| Société chérifienne de matériel industriel et ferroviaire | 1946 | Casablanca | 43.61 | 36.6 | 83.2 | 1.9 | 619 |
| Société commerciale de charbon et bois | 1945 | Rabat | 98.20 | 45.5 | 644.5 | 14.0 | 202 |
| Société de financement des achats à crédit | 1963 | Casablanca | 58.14 | 196.4 | 99.3 | 20.7 | 132 |
| Société de financement et participation commerciale | 1972 | Casablanca | [illegible] | [illegible] | 2.8 | [illegible] | 8 |
| Société de transformation de mélasse du Gharb | 1975 | Sidi Allal Tazi | 73.70 | 6.7 | 24.7 | 1.3 | 67 |
| Société des dérivés du sucre | 1977 | Fez | 35.60 | 30.5 | 68.6 | 2.7 | 137 |
| Société des fonderies de plomb de Zellidja | 1945 | Oujda | 39.69 | 101.8 | 416.8 | 41.6 | 383 |
| Société des industries mécaniques et électriques de Fès | 1974 | Fez | 99.98 | 41.4 | 82.1 | -0.1 | 485 |
| Société Dragon-Gaz | 1949 | Casablanca | 30.00 | 4.5 | 51.8 | -0.1 | 7 |
| Société d'équipement domestique et ménager | 1974 | Casablanca | 41.16 | 253.2 | 81.0 | 18.5 | 122 |
| Société industrielle de confection de Fès | 1974 | Fez | 38.32 | 15.1 | 13.3 | -9.2 | 806 |
| Société industrielle de confection de Meknès | 1974 | Meknès | 11.50 | 55.2 | 149.5 | -22.0 | 935 |
| Société industrielle de confection du centre | 1982 | Salé | 30.00 | 1.9 | 8.0 | -1.3 | 414 |
| Société industrielle des conserves de l'Oriental | 1974 | Berkane | 46.05 | -9.1 | 12.1 | -12.1 | 320 |
| Société industrielle d'appareillages électromécaniques | 1980 | Salé | 47.09 | -12.6 | 8.4 | -1.0 | 40 |
| Société internationale d'industrie et d'ingénièrie | 1981 | Rabat | 33.99 | 4.4 | 18.7 | 0.1 | 46 |
| Société marocaine de construction automobile | 1959 | Casablanca | 42.31 | 91.0 | 198.6 | 9.5 | 928 |
| Société marocaine de stockage | 1974 | Casablanca | 84.45 | 65.8 | 30.6 | 1.8 | 32 |
| Société marocaine des fertilisants | 1972 | Casablanca | 100.00 | 212.2 | 842.1 | 14.2 | 930 |
| Société métallurgique d'Imiter | 1961 | Rabat | 69.60 | 198.3 | 165.8 | 3.9 | 459 |
| Société minière de Bougaffer | 1955 | Casablanca | 55.23 | 214.4 | 215.6 | 17.5 | 319 |
| Société Mobil Oil-Maroc | 1923 | Casablanca | 50.00 | 120.7 | 2184.8 | 23.4 | 198 |
| Société nationale de commercialisation des semences | 1975 | Rabat | 99.99 | 72.7 | 374.5 | 5.0 | 146 |
| Société nationale de farine alimentaire de poisson | 1963 | Agadir | 96.28 | 5.4 | 24.7 | -5.0 | 70 |
| Société nationale de sidérurgie | 1972 | Rabat | 100.00 | 910.7 | 1507.1 | 95.3 | 588 |
| Société nationale des télécommunications | 1964 | Rabat | 100.00 | 10.8 | 52.7 | 0.8 | 300 |
| Société nationale d'électrolyse et de pétrochimie | 1973 | Mohammedia | 95.15 | 222.1 | [illegible] | 38.8 | 474 |
| Société nationale d'investissement | 1966 | Casablanca | 53.89 | 337.7 | 52.5 | 47.1 | 23 |
| Société nationale pour le développement de l'élevage | 1973 | Rabat | 99.99 | 15.9 | 2.6 | -0.2 | 24 |
| Société pétroles du Maghreb + Pétrom-Gaz | 1945 | Casablanca | 62.36 | 84.2 | 1306.1 | 17.6 | 170 |
| Société Shell-Maroc + Texas Oil Company | 1922 | Casablanca | 50.00 | 562.8 | 4597.3 | 45.7 | 674 |
| Société Total-Maroc | 1926 | Casablanca | 50.00 | 181.5 | 2738.6 | 32.0 | 358 |
| Sucrerie de Béni-Mellal | 1968 | Béni Mellal | 96.83 | 63.2 | 158.3 | 2.4 | 272 |
| Sucrerie nationale de Beht | [illegible] | Sidi Slimane | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sucrerie nationale de betterave de Loukkos | 1975 | Rabat | 100.00 | 178.4 | 203.7 | 15.5 | 390 |
| Sucrerie nationale de canne de Sebou | 1973 | Belksiri | 100.00 | 69.0 | 94.1 | 5.5 | 411 |
| Sucrerie nationale du Gharb | 1967 | Rabat | 100.00 | 122.2 | 263.0 | 11.5 | 1023 |
| Sucrerie nationale du Tadla | 1970 | Béni Mellal | 100.00 | 83.0 | 194.4 | [illegible] | 528 |
| Sucrerie raffinerie de canne de Loukkos | 1982 | Larache | 91.67 | 154.6 | 100.7 | 2.5 | 520 |
| Sucrerie raffinerie de canne du Gharb | 1979 | Rabat | 99.99 | 165.1 | 113.2 | 8.8 | 531 |
| Sucrerie raffinerie de l'oriental | 1971 | Zaio | 94.67 | 88.9 | 106.9 | 12.1 | 349 |
| Sucrerie raffinerie du Tadla | 1964 | Béni Mellal | 100.00 | 62.0 | 229.4 | -0.6 | 1027 |
| Vêtements du Nord | 1981 | Tétouan | 69.39 | 8.7 | 20.4 | 2.3 | 600 |

Exchange rate on 31 December 1989 = 13.040 DH/£ and 8.122 DH/$

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## BASIC FACT SHEET ON MOROCCO'S PRIVATIZABLE HOTELS (1989 Data)

| NAME | CITY | OWNER | CATEGORY (Stars) | CURRENT MANAGER | CAPACITY (Rooms+Suites) |
|---|---|---|---|---|---|
| Hotel Al Massira | Oujda | ONMT | 4B | Société New Salam | 115 |
| Hotel Asmaa | Chefchaouen | ONMT | 3B | Kasbah Tours Hotels | 94 |
| Hotel Azghor | Ouarzazate | ONMT | 4A | Dounia Hotels PLM | 106 |
| Hotel Basma | Casablanca | CDG | 4T | Maroc Tourist | 117 |
| Hotel Casablanca | Casablanca | State property under private domain | 5L | Interedec | 231 |
| Hotel de la Tour Hassan | Rabat | State property under private domain | 5 | Kasbah Tours Hotels | 156 |
| Hotel des Iles | Essaouira | ONCF | 4A | Chaîne Hôtelière Transatlantique | 86 |
| Hotel Doukkala | El Jadida | ONMT | 4B | Société New Salam | 81 |
| Hotel Friouato | Taza | ONMT | 3A | Société New Salam | 58 |
| Hotel Ibn Toumert | Taliouine | ONMT | 4B | Dounia Hotels PLM | 100 |
| Hotel la Rose du Dadès | El-Kelâa M'Gouna | ONMT | 4B | Kasbah Tours Hotels | 102 |
| Hotel le Zat | Ouarzazate | Fès Motel SA | 4B | Dounia Hotels PLM | 60 |
| Hotel les Almoravides | Marrakech | ONMT | 4A | Kasbah Tours Hotels | 100 |
| Hotel les Amandiers | Tafraout | ONMT | 4B | Société La Floride | 68 |
| Hotel les Dunes d'Or | Agadir | CDG | Vacation Village | Dounia Hotels PLM | 450 |
| Hotel les Mérinides | Fez | ONMT | 5 | Kasbah Tours Hotels | 90 |
| Hotel Madayeq | Boulmane du Dadès | ONMT | 4B | Dounia Hotels PLM | 100 |
| Hotel Malabata | Tangiers | State property under private domain | 5 | Groupe CMKD | 297 |
| Hotel Moha ou Hamou Zayani | Khénifra | ONMT | 4B | Société New Salam | 61 |
| Hotel N'Fis | Marrakech | CDG | 4B | Dounia Hotels PLM | 290 |
| Hotel Oukaïmeden | Oukaïmeden | ONMT | – | ONMT | 115 |
| Hotel Ouzoud | Béni-Mellal | Béni Mellal Motel SA | 4B | Dounia Hotels PLM | 60 |
| Hotel Riad | Larache | ONMT | 2B | Kasbah Tours Hotels | 25 |
| Hotel Rissani | Errachidia | Ksar Es Souk Motel SA | 4B | Dounia Hotels PLM | 60 |
| Hotel Royal | Tan Tan | ONMT | – | FAR | 36 |
| Hotel Saghro | Tinerhir | State property under private domain | 4B | Kasbah Tours Hotels | 62 |
| Hotel Sidi Harazem | Fez (Sidi Harazem) | Société Hotelière de Sidi Harazem SA | 4B | Dounia Hotels PLM | 64 |
| Hotel Sidi Lahcen Lyoussi | Sefrou | ONMT | 2A | Société Reda | 23 |
| Hotel Splendid | Sidi Slimane | State property under private domain | A | Ben Amar & Lamaâni | 17 beds |
| Hotel Tarik | Tangiers | ONMT | 3A | United Moroccan Hotels (UMH) | 154 |
| Hotel Terminus | Oujda | ONCF | 4A | Chaîne Hôtelière Transatlantique | 106 |
| Hotel Tinsouline | Zagora | ONMT | 4B | Kasbah Tours Hotels | 88 |
| Hotel Toubkal | Marrakech | Marrakech Motel SA | 4A | Dounia Hotels PLM | 123 |
| Hotel Transatlantique | Casablanca | ONCF (Public domain) | 4B | Chaîne Hôtelière Transatlantique | 61 |
| Hotel Transatlantique | Meknès | ONCF (Public domain) | 5 | Chaîne Hôtelière Transatlantique | 121 |
| Hotel Volubilis | Fez | Fès Motel SA | 4A | Dounia Hotels PLM | 126 |
| Hotel Zalagh | Fez | ONMT | 4B | Société New Salam | 68 |

ONMT - Office National Marocain de Tourisme (a public enterprise for tourist development)
ONCF - Office National des Chemins de Fer (a public enterprise national railroad)
CDG - Caisse de Dépot et de Gestion (a public enterprise finance corporation)
FAR - Forces Armées Royales (Moroccan Armed Forces)

# ANNEX C

# ENVIRONMENTAL ANALYSIS

ANNEX C

# INITIAL ENVIRONMENTAL EXAMINATION (I.E.E.)

| | | |
|---|---|---|
| A. | COUNTRY: | Morocco |
| B. | ACTIVITY: | Privatization Sector Assistance |
| C. | TOTAL A.I.D. FUNDING: | $25 million |
| D. | LIFE OF PROGRAM ASSISTANCE: | FY 1991 - 1994 (4 years) |
| E. | I.E.E. PREPARED BY: | Eric R. Loken ERL: 12/10/91<br>Environmental Officer,<br>USAID/Morocco/ANR |
| F. | ENVIRONMENTAL ACTION RECOMMENDED: | Positive Threshold Decision under 22 CFR 216.3(a)(2)(iii) |
| G. | USAID DIRECTOR'S DECISION: | Approved: ________________<br>Disapproved: ________________<br>Dennis M. Chandler, Director, USAID/Morocco<br>Date: ________________ |
| H. | BUREAU ENVIRONMENTAL COORDINATOR'S DECISION: | Approved: ________________<br>Disapproved: ________________ |

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## INITIAL ENVIRONMENTAL EXAMINATION (I.E.E.)

## MOROCCO PRIVATIZATION SECTOR ASSISTANCE
## PROGRAM ASSISTANCE IDENTIFICATION PAPER (PAIP)

### A. Activity Description

The Morocco Privatization Sector Assistance activity will support the Government of Morocco's (GOM) first major privatization program through the provision of program assistance funds, and technical assistance and training.

The program assistance funds, totalling $20 million, will be used to motivate the GOM to move expeditiously in implementing its privatization program. These funds will be provided in three tranches. The planned conditionality for the release of these funding tranches calls for, among other requirements, the completion of a minimum of 24 actual enterprise privatizations and preparation of at least 36 enterprises for privatization during the activity life. When released, these U.S. dollar funds will be deposited into a special account in Morocco's central bank and will be used to reimburse the central bank for foreign exchange provided to settle letters of credit opened by Moroccan private sector firms for import of U.S.-made merchandise.

Concurrently with the deposit of dollars in this special foreign exchange account, the GOM will be required to deposit an equivalent amount of counterpart dirhams in a separate account. The bulk of these funds will be jointly programmed with the GOM's Ministry of Economic Affairs and Privatization, the key GOM counterpart agency, to support various local currency expenses related to privatization, e.g., payments to Moroccan firms for audits and evaluations of firms to be privatized, retraining programs for workers displaced by privatization, restructuring, prospectus preparation and publicity campaigns. Other uses of these funds may include local currency support USAID projects and programs in Morocco. In addition, ten percent of these counterpart funds will be used to establish a USAID local currency operating expense trust fund.

An estimated additional $5 million of activity funds will be provided for a long-term advisor, and short-term technical assistance and training to provide external support to the GOM's privatization efforts, and to meet activity evaluation and audit requirements.

### B. Discussion

In December 1989, following extended debate, the Moroccan Parliament approved the country's first privatization law. This law provides the framework for the current GOM privatization program. Among other stipulations, this law specifically names 112 enterprises in which the state ownership stake is to be sold before 31 December 1995. This initial list of enterprises to be privatized includes firms in agriculture (3), agribusiness (14),



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textile and leather (12), other industries (18), banking and finance (9), tourism (38) and other services (18).

The financial sector figures prominently among the firms to be privatized. The nine financial institutions on the list account for 13% of sectoral value added with more than 6,000 employees. Among them are the two largest commercial banks in Morocco, the Banque Centrale Populaire (BCP) and the Banque Marocaine du Commerce Exterieur (BMCE). Two other parastatal banks are also on the privatization list, the Banque Nationale pour le Developpement Economique (BNDE), which is the state industrial development bank, and the Credit Immobilier et Hotelier (CIH) which is a government bank specializing in finance for housing, hotels, and other real estate development. Their privatization will even the playing field among commercial banks and these specialized financial institutions, putting an end to the privileged position these parastatal organizations had enjoyed in competing with commercial banks for deposits and lending to clients. Two insurance companies, two consumer finance companies, and the national investment holding company comprise the remaining financial institutions to be privatized.

The 41 industrial firms to be privatized contribute 5% of sector value added and employ more than 14,000 persons, 5,000 of whom are concentrated in the sugar sub-sector. In addition to the ten sugar mills, important government holdings in industry that are on the privatization list include a vehicle assembly plant (Societe Moracaine de Construction Automobile-SOMACA), Morocco's only steel mill (Societe Nationale de Siderugie), tire manufacturing (partial ownership of General Tire and Rubber Company), a major cement plant accounting for roughly a fifth of national cement production capacity (Cimentiere de l'Oriental-CIOR), Morocco's most important computer manufacturer (Societe Internationale d'Appareillage Electromecaniques -S3i), the country's only pulp plant (Cellulose du Maroc), and a variety of holdings in machine and equipment manufacturing, and in the textile and garment sub-sectors.

In addition, eight parastatals engaged in petroleum product distribution and storage, principally representing the prior holdings of Shell, Mobil Oil, Total, and other private oil companies, are to be privatized. The Government's national bus line, Compagnie de Transport au Maroc-Lignes Nationales (CTM-LN) is also on the privatization list. The thirty-seven hotel properties to be privatized include a number of four and five star hotels.

Parastatals important in agricultural input and produce marketing are included on the privatization list. Among these number Fertima, the government-owned fertilizer storage and distribution company, SONACOS, the government cereal seed multiplication and distribution company, and COMAPRA, a parastatal heavily engaged in buying domestic oilseed production. Privatization of these entities as well as the sugar mills will substantially advance Morocco's adjustment program in agriculture.



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The enterprises to be privatized themselves have interests in other firms; consequently, privatization will lead to the disengagement of the state from about 270 enterprises, which is equivalent to about 40% of the total number of enterprises with a state ownership stake. A complete list of the entities to be privatized, the government ownership stake in them, net capital, and employment levels is to be found in Annex B.

This initial listing of planned GOM privatizations is indeed impressive. Together, these enterprises account for an estimated 6% of Morocco's current GDP. Accordingly, if it is successful, this program should have significant beneficial effects on the Moroccan economy. However, it is also evident that many of these enterprises possess the potential to cause significant adverse impacts on the nation's environment and natural resources.

This latter statement should not be interpreted to mean that the Moroccan private sector is necessarily less responsive to environmental concerns than the public sector, or that this public-to-private sector shift in ownership will result in increased environmental damage. Indeed, anticipated efficiency gains realized through the transfer of ownership of these enterprises should also result in positive environmental effects. However, there is no guarantee that this will, in fact, be the case for all of the various enterprises and sectors under consideration for privatization.

The fundamental reasons for this environmental concern stem both from the size and nature of the enterprises to be privatized and certain specifics arising primarily from the Moroccan context. With regards to the enterprises to be privatized, it is not difficult to appreciate that certain of these businesses possess the potential to cause significant environmental damage, e.g., sugar refining, steel, automobile, tire, and machine and equipment manufacturing; cement production; wood pulp production and processing; petroleum product refining, storage and distribution; bus transportation; fertilizer storage and distribution; etc. A general discussion of the types of potential environmental impacts associated with most of these activities, along with preliminary recommendations for appropriate techniques for mitigating those impacts, is available in the World Bank publication, Environmental Guidelines (World Bank, September 1988). This information becomes even more significant when one considers that many of these enterprises represent the sole or major source of their respective product(s) or services in Morocco and, therefore, are relatively large-scale operations.

The foremost country-specific concern in this area is the fact that Morocco currently possesses little or no legal, regulatory or other environmental institutional framework to provide adequate oversight and guidance to prospective private owners and managers. This shortcoming is exacerbated when one considers that some of the enterprises to be privatized have long enjoyed a virtual monopoly in Morocco within their respective spheres of business operations; and, as a result, some prospective private sector owners and managers may be at least initially at somewhat of a disadvantage in properly managing all of the technical aspects of their new business acquisitions. This latter point seems only reasonable in view of the complex technical and structural nature of many of the enterprises in question, especially with regards to environmental concerns.

The proposed USAID activity consists largely of program funding assistance, technical services and training. Thus, an argument could perhaps be attempted for an exemption of this activity from Agency environmental review procedures. However, the Mission prefers to view this activity as an important opportunity to imbue major private and public sector decision-makers in Morocco with a heightened awareness of and appreciation for sound environmental management policies, practices and procedures, while addressing a variety of potentially significant sources of environmental degradation throughout Morocco. These are the reasons for the Mission's recommendation for a positive environmental threshold decision for this activity.

**C. Recommendations**

1. That the Morocco Privatization Sector Assistance activity receive a positive environmental threshold decision pursuant to Section 216.3(a)(2)(iii) of the Agency's Environmental Procedures (22 CFR 216).

2. That a formal Environmental Assessment (EA) not be required for this activity due to the program assistance nature of this activity, the widely diverse group of enterprises and sectors encompassed within this privatization program, and the fact that at the time of completion of the Program Assistance Approval Document (PAAD) for this activity insufficient information will be available as to which enterprises will be the subject of A.I.D. activity assistance. This latter point results from the fact that USAID assistance will only be provided to some of enterprises on the GOM's current privatization list. Under such circumstances, any attempt to complete a formal EA at the activity outset would prove to be a meaningless effort.

3. That, in lieu of a formal, up-front EA, the activity design provide for sufficient funds to secure appropriate short-term environmental assistance services to work closely with other long-term and short-term financial, legal and technical advisors as an integral part of the enterprise appraisal and privatization process for those enterprises selected for USAID assistance which are considered to be of priority environmental concern. Key environmental inputs into the enterprise appraisal process would include assessing the potential environmental liabilities of a given enterprise and recommending appropriate interventions for mitigating those liabilities, e.g., operational/energy efficiency improvements, pollution prevention measures, "good housekeeping" techniques, etc.

With this information, prospective private sector buyers would be made aware of the potential environmental costs and benfits associated with a given enterprise for consideration in their enterprise financing, restructuring and management deliberations. And, in this manner, recommended activity environmental inputs would be used to maximum effect. The decision regarding which enterprises would require such environmental assistance would be made by the Mission Environmental Officer, in consultation with cognizant Near East Bureau staff as deemed necessary.

**D. Summary and Conclusions**

The Morocco Privatization Sector Assistance activity will support the GOM's first major privatization program. Current program plans call for the privatization of some 112 enterprises over the next four years. If not managed properly, certain of these enterprises possess the potential to cause significant harm to Morocco's physical and natural environment. Examples include: sugar refineries; steel, automotive and tire manufacturing; wood pulp processing; petroleum products refining, storage and distribution; cement production; bus transportation; and fertilizer storage and distribution. In addition, Morocco presently demonstrates an inadequate capability to provide appropriate environmental institutional oversight and guidance to prospective private sector owners and mangers of these enterprises, who may be relatively inexperienced in the proper management of all of the technical aspects of these often complex and long-standing public sector properties. For these reasons, the Mission recommends that this activity receive a positive environmental threshold decision pursuant to Section 216.3(a)(2)(iii) of 22 CFR 216.

As it will not be possible to identify which enterprises will be selected for USAID assistance at the activity outset, a formal up-front Environmental Assessment is not appropriate for this activity. Rather, the Mission recommends that the necessary Agency environmental assessment requirements be fulfilled during the course of activity implementation, as an integral part of the overall enterprise appraisal and privatization process, for those enterprises selected for USAID assistance which are judged to be of priority environmental concern. In support of this recommendation, the final activity design will provide sufficient funds to secure appropriate short-term environmental assistance services to properly complete these environmental assessment requirements.

If implemented as recommended above, this activity will proceed in an environmentally sound manner, consistent with all salient Agency policies and regulations.

# ANNEX D

# GUIDANCE CABLE

# AND

# MISSION RESPONSE

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E.O. 12356: N/A
TAGS:
SUBJECT: MOROCCO PRIVATIZATION SECTOR ASSISTANCE PAIP REVIEW

REF: STATE 019107

1. SUMMARY: THE NEAR EAST DEVELOPMENT ADVISORY COMMITTEE (NEDAC), CHAIRED BY DAA/NE CHARLES F. WEDEN DISCUSSED THE APPROPRIATENESS OF NON-PROJECT ASSISTANCE IN THE CONTEXT OF THE HOST COUNTRY PRIVATIZATION PROGRAM AND THE OBJECTIVE BASIS FOR EVALUATING SECTOR ASSISTANCE IMPACT. THE MISSION REPS PRESENTED THEIR VIEWS ON THE LIKELY PACE OF PRIVATIZATION IN MOROCCO AND THE INCENTIVE EFFECTS OF THE PROPOSED POLICY-BASED DISBURSEMENTS. THERE WAS CONSENSUS ON THE IMPORTANCE AND DESIRABILITY OF SUPPORTING GOM PRIVATIZATION EFFORTS. ACCORDINGLY, THE MISSION IS AUTHORIZED TO PROCEED WITH PAAD DESIGN AND INSTRUCTED TO REPORT TO AID/W ON RESOLUTION OF TECHNICAL AND PROGRAMMATIC ISSUES IDENTIFIED DURING THE REVIEW. DELEGATION OF AUTHORITY TO SIGN THE PAAD WILL BE PROVIDED UPON SATISFACTORY RESOLUTION OF ISSUES CITED BELOW: END SUMMARY.

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2. THE MOROCCO PRIVATIZATION SECTOR ASSISTANCE PAIP WAS REVIEWED ON JANUARY 30, 1992 BY THE NEAR EAST DEVELOPMENT ADVISORYXCOMMITTEE, CHAIRED BY DAA/NE CHARLES F. WEDEN. PRESENT FOR TH REVIEW WAS MISSION DIRECTOR DENNIS CHANDLER ALONG WITH SEVERAL MISSION STAFF. MISSION REPS GAVE A COMPREHENSIVE PRESENTATION ON THE STATUS OF PRIVATIZATION EFFORTS IN MOROCCO AND THEIR ASSESSMENT OF THE NEED FOR SECTOR ASSISTANCE AT THIS TIME. MISSION ALSO GAVE A VERY INFORMATIVE PRESENTATION ON THE POSITIVE

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ECONOMIC IMPLICATIONS OF PRIVATIZATION, AS WELL AS THE POWERFUL SYNERGIES BETWEEN PRIVATIZATION AND THE MISSION'S SUPPORT FOR DEVELOPMENT OF MOROCCO'S FINANCIAL MARKETS. THE NEDAC FULLY CONCURRE' IN THE DESIRABILITY OF SUPPORTING PRIVATIZATIO? IN MOROCCO BUT NOTED A NUMBER OF TECHNICAL AND PROGRAMMA' C ISSUES WHICH NEED TO BE RESOLVED IN ORDER TO MAXIMIZE THE EFFECTIVE?E3S OF THE PROPOSED ASSISTANCE. THE ISSUES AND RECOMMENDATIONS ARE AS FOLLOWS.

3. SECTOR ASSISTANCE RATIONALE: THE KE???IS THE ABILITY TO LEVERAGE POLICY REFORM. GIVEN THAT THE MOROCCANS ARE COMMITTED TO THE PRIVATIZATION OF 112 FIRMS AND THE INITIAL FRAMEWORK ?HAS BEEN SET IT WAS NOT CLEAR HOW THE PROPOSED ASSISTANCE WOULD SIGNIFICANTLY ENHANCE AND/OR ACCELERATE THE PROCESS. THE MISSION REPS PROVIDED INSIGHTFUL BACKGROUND ON THE POLITICAL AND ADMINISTRATIVE HURDLES THAT REMAIN; NEVERTHELESS THE CRITICAL CONSTRAINTS NEED TO BE MORE ADEQUATELY SPECIFIED IN THE PAAD. THIS APPEARS TO BE TRUE IN TERMS OF THE DOLLAR DISBURSEMENTS AS WELL AS THE PROPOSED USES OF GENERATED LOCAL ?U?RENCY. IN THE CASE OF THE LATTER, THE PROPOSED USES WERE VAGUELY DESCRIBED AND THERE WAS NO ESTIMATION OF THE AMOUNT OF LOCAL CURRENCY ACTUALLY NEEDED TO ADDRESS THESE NEEDS. THE PAIP REFERS TO AN ACCELERATION OF THE PRIVATIZATION PROCESS BUT THERE IS NO BASELINE PRIVATIZATION SCENARIO. HENCE, IT WOULD B? DIFFICULT TO EVALUATE PROGRAM IMPACT, I.E. WITH AND WITHOUT THE PROPOSED ASSISTANCE. ASSUMING THAT ADDITIONAL PRIVATI??TIONS COULD BE DEMONSTRATED, THERE IS SOME QUESTION AS TO THE IMPACT ON THE REST OF THE ECONOMY. FOR EXAMPLE, HOW SIGNIFICANT IS THE IMPACT ON THE ECONOMY TO PRIVATIZE 24 HOTELS? WILL PRIVATIZATION OF BUSINESSES IN THE FINANCE SECTOR HAVE A RELATIVELY GREATER OR LESSER IMPACT THAN MANUFACTURING OR OTHER TYPES OF BUSINESSES? THESE AND RELATED QUESTIONS SHOULD BE EXAMINED DURING PAAD DEVELOPMENT. THE PAAD SHOULD CLEARLY ARTICULATE THE ECONOMIC RATIONALE FOR THE PROPOSED SECTOR ASSISTANCE AND IDENTIFY OBJECTIVE INDICATORS OF PROGRAM IMPACT.

4. POLICY MATRIX: NORMALLY, SECTOR ASSISTANCE REQUIRES A POLICY MATRIX WHICH CLEARLY DEFINES THE BENCHMARKS THAT SERVE AS POSSIBLE TRIGGER PCINTS FOR POLICY-BASED DISBURSEMENTS. ALTHOUGH THE PAIP IS A PRELIMINARY DOCUMENT, IT IS CLEAR FROM THE PROPOSED TRANCHING OF DOLLAR DISBURSEMENTS THAT THE POLICY LEVERAGING STRATEGY IS NOT FULLY DEVELOPED. DISBURSEMENTS FOR ACTIONS ALREADY COMPLETED OR PRIVATIZATICNS ACCOMPLISHED BY THE TIME THE PAAD IS APPROVED AND FUNDS ARE OBLIGATED MAY NOT HAVE SUFFICIENT INCENTIVE IMPA?? TO JUSTIFY FHE PROGRAM. THEREFORE, WE STRONGLY URGE THE MISSION TO DEVELOP A POLICY STRATEGY WHICH DEFINES MEANINGFUL BENCHMARKS AND MAXIMIZES THE INCENTIVE IMPACT OF AID RESOURCES.

5. PRIVATIZATION FOCUS: THE IMPACT OF THE PROPOSED ASSISTANCE MIGHT BE ENHANCED BY FOCUSING ON THE MORE IMPORTANT AND/OR DIFFICULT PRIVATIZATIONS. IT MAY BE POSSIBLE TO INFLUENCE THE SCHEDULING OF FIRMS TO BE PRIVATIZED AND ACCELERATE PRIVATIZATION OF THOSE FIRMS WHICH WILL HAVE THE MOST SIGNIFICANT IM?ACT ON THE



AIDAC
E.O. 12356: N/A
TAGS:
SUBJECT: MOROCCO PRIVATIZATION SECTOR ASSISTANCE PAIP REVIEW

ECONOMY. SINCE ONE THIRD OF THE PROPOSED 112 FIRMS ARE HOTELS AND ONE HALF ARE RELATIVELY SMALL ENTERPRISES, THE MISSION MIGHT WISH TO TARGET RESOURCES MORE CAREFULLY. MOREOVER, THE FIRST LIST OF EIGHT FIRMS IS PROBABLY THE EASIEST TO PRIVATIZE AND PROGRAM RESOURCES MIGHT BE STAGED?? TO PROVIDE MORE ASSISTANCE WHEN IT?IS MOST NEEDED. THEREFORE, DISBURSEMENT TRANCHING MIGHT BE IN ASCENDING AMOUNTS, SAY 4-6-10 MILLION DOLLARS, CORRESPONDING TO SEQUENTIAL LISTS OF FIRMS TO BE PRIVATIZED. THE RATIONALE FOR EACH TRANCHE SHOULD BE CLEARLY PRESENTED WITH SOME INDICATION OF BENEFITS AND COSTS. IN ADDITION, THE MISSION ECONOMIST SHOULD ATTEMPT TO EVALUATE AND QUANTIFY TO THE EXTENT POSSIBLE, THE SECONDARY AND TERTIARY IMPACTS OF PRIVATIZATIONS THROUGHOUT THE REST OF THE MOROCCAN ECONOMY.

6. LOCAL CURRENCY: THE INTENTION OF THE MISSION IS TO GENERATE LOCAL CURRENCY AND PROGRAM THESE RESOURCES TO SUPPORT PRINCIPALLY THE MINISTRY OF ECONOMIC AFFAIRS AND PRIVATIZATION. LOCAL CURRENCY USE THEREFORE WILL NEED TO BE CAREFULLY TRACKED BY THE MISSION. IN DEVELOPING THEIR LOCAL CURRENCY MANAGEMENT PLAN, WE RECOMMEND CAREFUL CONSIDERATION BE GIVEN TO MINIMIZING THE MISSION STAFF INTENSITY YET ENSURING THAT THESE RESOURCES REPRESENT TIMELY ADDITIONALITY TO THE MINISTRY CONCERNED. ALSO, THE FINANCIAL SUSTAINABILITY OF?THE PRIVATIZATION PROGRAM SHOULD BE AN IMPORTANT CONSIDERATION. WE SUGGEST THE
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MISSION ENTER INTO SERIOUS DIALOGUE WITH THE GOM ON THE POSSIBILITY OF CAPITALIZING, POSSIBLY WITH PROGRAM LOCAL

CURRENCY RESOURCES, A PRIVATIZATION REVOLVING FUND TO COVER FRONT-END TRANSACTION COSTS IN A TIMELY AND EFFECTIVE MANNER. ANOTHER ALTERNATIVE IS CONDITIONS PRECEDENT TO DISBURSEMENT FROM THE LOCAL CURRENCY FUND LINKED DIRECTLY TO BUDGET LINE ITEM FUNDING IN THE NORMAL GOM BUDGETARY PROCESS. OBVIOUSLY, THE LATTER WOULD REQUIRE DEMONSTRATED ADDITIONALITY OF RESOURCES.

7. DOLLAR USES: THE MISSION PROPOSES TO USE U.S. IMPORTS AND CORRESPONDING LETTERS OF CREDIT AND BILLS OF LADING FOR PURPOSES OF TRACKING DOLLAR USES. HOWEVER, ADDITIONAL DOCUMENTATION MAY BECOME NECESSARY TO DEMONSTRATE U.S. ORIGIN AS WELL A?%SOGRCE. POLICY IS STILL EVOLVING IN THIS AREA. THEREFORE WE RECOMMEND THAT THE RLA AND MISSION CONTROLLER BE ACTIVELY INVOLVED IN THE DESIGN OF THE MONITORING SYSTEM. WE WILL ADVISE THE MISSION OF ANY ADDITIONAL DOCUMENTATION REQUIREMENTS CONCERNING ORIGIN TRACKING. IN THE MEANTIME, FOR PURPOSES OF DESIGNING THE PAAD THE RELEVANT GUIDANCE ON?SECTOR SSISTAN?E DOLLAR TRACKING REQUIREMENTS IS CONTAINED IN REFTEL.

8. COVENANTS: IT WAS AGREED THAT THE MISSION WOULD SEEK AND OBTAIN COVENANTS CONCERNING (1) ANY REVERSAL OF PRIVATIZATION POLICY, I.E. NO MORE PARASTATALS ESTABLISHED AND (2) ACTIVELY PROMOTE COMPETITIVE MARKET STRUCTURES, INCLUDING AVOIDANCE OF ANY INCREASES IN TARIFF PROTECTION.

9. TECHNICAL ASSISTANCE: THE MISSION IS URGED TO CONSIDER ALTERNATIVE AND PERHAPS MORE COST EFFECTIVE MEANS OF PROVIDING LONG TERM TECHNICAL ASSISTANCE TO THE MINISTRY OF ECONOMIC AFFAIRS AND PRIVATIZATION. THE BUREAU CONTRACTING OFFICER WILL ASSIST THE MISSION IN EXPLORING VARIOUS OPTIONS.

10. TRUST FUND: IN LINE WITH CURRENT AGENCY AND BUREAU GUIDANCE, THE PROPOSED CREATION OF A LOCAL CURRENCY OPERATIONALEXPENSE TRUST FUND WILL NOT BE PART OF THIS PROGRAM ASSISTANCE.

11. REPORTING: THE MISSION IS AUTHORIZED TO PROCEED WITH DEVELOPMENT OF THE PAAD FULLY ADDRESSING THE TECHNICAL AND PROGRAMMATIC ISSUES AND CONCERNS DISCUSSED DURING THE PAIP REVIEW. MOREOVER, THE MISSION IS REQUESTED TO RESPOND TO THE ABOVE ISSUES IN A REPORTING CABLE AFTER THE FIRST COMPLETE DRAFT OF THE PAAD HAS BEEN PREPARED. THE REPORTING CABLE SHOULD INCLUDE (1) A POLICY MATRIX WHICH INDICATES SEQUENTIAL IMPLEMENTATION STEPS IN THE PRIVATIZATION PROCESS AND SPECIFIC BENCHMARKS WHICH WILL TRIGGER CASH DISBURSEMENTS; (2) CLEAR ARTICULATION OF THE

VALUE-ADDED OF AID ASSISTANCE IN TERMS OF THE OVERALL PRIVATIZATION PROCESS; (3) THE REASONING BEHIND THE CONDITIONALITY AND COVENANTS TO BE NEGOTIATED WITH THE GOM; (4) THE ECONOMIC IMPACT OF PRIVATIZATIONS ASSOCIATED WITH OUR ASSISTANCE; AND (5) HOW THE PROCESS WILL BE INSTITUTIONALIZED ?N TERMS OF HUMAN AND FINANCIAL RESOURCES.

12. FOLLOWING CABLE RECEIPT AND APPROPRIATE CONSULTATIONS WITH AID/W, THE MISSION WILL BE FORMALLY DELEGATED

AUTHORITY TO SIGN THE PAAD. WE CAUTION THAT IN ANY CASE THE PAAD, AS AN AUTHORIZING DOCUMENT, MAY NOT BE SIGNED UNTIL CONFIRMATION OF FUNDING AVAILABILITY FROM A. KANTER
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ACTION: AID-1
INFO: CNTRL-0 ECON-0 DCM-0

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AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: MOROCCO - PRIVATIZATION SECTOR ASSISTANCE

1. SUMMARY: THE PROJECT REVIEW COMMITTEE (PRC) MET ON WEDNESDAY, MAY 20, 1992 TO REVIEW MISSION RESPONSE TO ISSUES RAISED AT THE JANUARY 30, 1992 PAIP REVIEW, CHAIRED BY DAA WEDEN. THERE WAS CONSENSUS THAT ISSUES WERE ADEQUATELY ADDRESSED, HOWEVER THE COMMITTEE DID MAKE SOME RECOMMENDATIONS WHICH ARE CITED BELOW. ACCORDINGLY, AID/W DELEGATES AUTHORITY TO THE MISSION TO SIGN AND APPROVE THE PAAD UPON NOTIFICATION OF AVAILABILITY OF FUNDS FROM FA [illegible]

2. ECONOMIC ANALYSIS: THE ECONOMIC IMPACT ANALYSIS DID NOT PROVIDE A COST/BENEFIT ANALYSIS OR A WITH OR WITHOUT SCENARIO. THEREFORE, THE REVIEW COMMITTEE RECOMMENDS THAT THE TRACKING UNIT MONITOR COSTS AND BENEFITS ASSOCIATED WITH SPECIFIC PRIVATIZATIONS TO PERMIT EX POST EVALUATION OF THE PROGRAM. THE MISSION SHOULD ALSO MONITOR THE FINANCIAL IMPACT OF PRIVATIZATION ON THE GOM BUDGET AND ENSURE THAT TRANSACTION COSTS ARE ADEQUATELY BUDGETED OVER THE IMPLEMENTATION PERIOD.

3. COVENANTS: THE REVIEW COMMITTEE CONCURRED WITH THE PROPOSED COVENANTS AND RECOMMENDED THAT THEY BE REVIEWED AS PART OF THE MONITORING PROCESS PRIOR TO TRANCHE RELEASE.

4. TECHNICAL ASSISTANCE/CONTRACTING ISSUE: AN ISSUE WAS RAISED BY BUREAU CONTRACTING OFFICER, FA/OP/B AS TO THE APPROPRIATENESS OF A MISSION BUY-IN FOR LONG-TERM TA. IT WAS DECIDED IN THE REVIEW THAT THE CONTRACTING OFFICER

WILL TAKE THE LEAD WITH THE MISSION ON THIS ISSUE AND WILL PROVIDE GUIDANCE IN A SEPTEL.

5. RESTRUCTURING OF FIRMS: AGAIN, THE PRC CAUTIONS THE MISSION ABOUT THE COST-EFFECTIVENESS OF THE PROGRAM TO FUND RESTRUCTURING OF FIRMS PRIOR TO THEIR SALE. THE NEW PRIVATE OWNERS ARE VERY LIKELY TO RESTRUCTURE THE FIRM ANYWAY UPON TAKING CONTROL BASED UPON THEIR PERCEPTION OF MARKET OPPORTUNITIES. THEREFORE, GOM RESTRUCTURING SHOULD BE LIMITED TO PACKAGING ASSETS FOR SALE RATHER THAN ATTEMPTING TO REORGANIZE THE MANAGEMENT OR OPERATIONS OF THE FIRM. BAKER

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ORIGIN: AID-1
INFO: CNTRL-0 ECON-0 DCM-0

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UNCLAS SECTION 01 OF 12 RABAT 004737

AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

REF: STATE 48554

1. SUMMARY. ON JANUARY 30, 1992, THE NEAR EAST DEVELOPMENT ADVISORY COMMITTEE CHAIRED BY DAA WEDEN MET TO REVIEW THE MOROCCO PRIVATIZATION SECTOR ASSISTANCE PAIP. AS RECORDED IN REFTEL, THE NEAC APPROVED THE PAIP AND AUTHORIZED FURTHER DESIGN, BUT REQUESTED USAID/MOROCCO TO CABLE ADDITIONAL INFORMATION RESPONDING TO ISSUES RAISED, ONCE A PAAD HAD BEEN PREPARED. DURING THE THREE MONTHS WHICH HAVE ELAPSED SINCE THE NEAC REVIEW, USAID/MOROCCO DOCUMENTED MORE COMPLETELY THE CONSTRAINTS IMPEDING IMPLEMENTATION OF THE GOM'S PRIVATIZATION PROGRAM, UNDERTOOK SUBSTANTIVE DISCUSSIONS WITH GOM ON STRENGTHENING CONDITIONALITY, AND ENGAGED A SENIOR MACROECONOMIST CONSULTANT TO FURTHER EXAMINE THE ECONOMIC IMPACTS OF PRIVATIZATION. THIS CABLE SUMMARIZES THE USAID RESPONSE TO ISSUES RAISED REGARDING THE RATIONALE FOR SECTOR ASSISTANCE, DELINEATION OF A POLICY MATRIX, AND EVALUATION OF ECONOMIC IMPACTS OF THE GOM'S PRIVATIZATION PROGRAM. THE CONCLUSIONS OF THIS SUPPLEMENTARY ANALYSIS CONVINCINGLY SUPPORT MISSION VIEW THAT CONDITIONALITY AND LOCAL CURRENCY GENERATED BY SECTOR ASSISTANCE WILL BE ESSENTIAL TO COMPLETING THE PRIVATIZATION PROGRAM BY PROVIDING INCENTIVES AND RESOURCES TO OVERCOME ENTRENCHED BUREAUCRATIC OPPOSITION AND TO GUARANTEE



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TRANSPARENCY AND WIDESPREAD PUBLIC SHARE OWNERSHIP. PRIVATIZATION WILL HAVE SIGNIFICANT MACROECONOMIC IMPACT, BY INCREASING EFFICIENCY AND DIMINISHING PUBLIC SECTOR BORROWING, THEREBY REDUCING CROWDING OUT OF PRIVATE SECTOR INVESTMENT. THE ADDITIONAL ANALYSIS REQUESTED BY THE BUREAU HAS, WE BELIEVE, STRENGTHENED THE ARGUMENTS FOR THIS PROJECT. FURTHERMORE, IT IS CLEAR THAT, FOR MAXIMUM IMPACT, LEVERAGE, AND VISIBILITY MISSION SHOULD PROVIDE IMMEDIATELY THE ASSISTANCE REQUESTED BY THE GOM AND URGENTLY REITERATED THREE WEEKS AGO BY MINISTER ZAHIDI TO POL, KATHRYN MORGAN. MISSION WOULD LIKE AID ADMINISTRATOR ROSKENS TO PARTICIPATE IN INAUGURATION OF PROGRAM EARLY JULY WHEN HE IS IN MOROCCO FOR TIDEWATER CONFERENCE. ON BASIS OF INFORMATION PROVIDED IN THIS CABLE, MISSION REQUESTS DELEGATION OF AUTHORITY TO APPROVE PAAD AND INITIAL ALLOTMENT OF FUNDS. END SUMMARY.

2. SUMMARY OF RESPONSES TO NEAC ISSUES

A. IMPLEMENTATION OF MOROCCO'S PRIVATIZATION PROGRAM IS CONSTRAINED BY CONTINUED OPPOSITION FROM POLITICAL PARTIES, UNIONS, MINISTRIES, CIVIL SERVANTS LOSING THEIR POSITIONS OF AUTHORITY OVER THESE STATE OWNED ENTERPRISES, MANAGERS OF PRIVATIZABLE ENTERPRISES, AND GENERAL BUREAUCRATIC INERTIA. IN ADDITION, MEETING IMF BUDGETARY TARGETS WILL REQUIRE STRINGENT EXPENDITURE CONTROLS WHICH WILL ADVERSELY AFFECT THE PRIVATIZATION IMPLEMENTING MINISTRY FROM SECURING ADEQUATE FUNDING TO CARRY OUT THE PROGRAM, ESPECIALLY FOR SUCH SERVICES AS QUALITY LOCAL ACCOUNTING, INVESTMENT BANKING, AND PUBLICITY SERVICES. WITHOUT SECTOR ASSISTANCE, IMPLEMENTATION WOULD ONLY LIMP FORWARD WITH NO ASSURANCE THAT THE ENTIRE PROGRAM WOULD BE IMPLEMENTED; THERE WOULD BE SUBSTANTIAL JEOPARDY OF LESS THAN TRANSPARENT TRANSACTIONS CAUSING A SEVERE ADVERSE REACTION TO CONTINUING PRIVATIZATION; AND OPPORTUNITIES TO PROMOTE BROAD PUBLIC OWNERSHIP OF COMPANIES WOULD LIKELY BE FOREGONE. DURING RECENT VISIT BY DIRECTOR OF POLICY KATHERINE MORGAN TO MOROCCO, PRIVATIZATION MINISTER ZAHIDI OUTLINED FOR MS. MORGAN THE IMPORTANCE OF THE PRIVATIZATION PROGRAM IN CARRYING FORWARD MOROCCO'S OVERALL ECONOMIC LIBERALIZATION AND STRONGLY URGED AID TO SUPPORT THE IMPLEMENTATION OF MOROCCO'S PRIVATIZATION PROGRAM.

B. THE VALUE ADDED FROM SECTOR ASSISTANCE WILL INCLUDE (A) AN ACCELERATED AND SUSTAINABLE PRIVATIZATION PROGRAM, WHICH OVERCOMES BUREAUCRA
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AND OTHER OBSTACLES BY VIRTUE OF THE INCENTIVES AND PROGRAM, (B) IMPROVED TRANSPARENCY IN TRANSACTIONS,



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RESULTING FROM THE SUPPORT OF A MAJOR EXTERNAL DONOR AND THE BUDGETARY RESOURCES MADE AVAILABLE FOR PUBLICITY AND EDUCATION CAMPAIGNS, (C) MORE WIDESPREAD SHARE OWNERSHIP WITH RELATED BENEFITS FOR STOCK MARKET DEVELOPMENT, AND (D) INSTITUTIONALIZATION OF THE PRIVATIZATION PROCESS WITHIN THE GOM AND PRIVATE SECTOR WITH COMPLETION OF THE CURRENT PROGRAM AND PROPOSITION OF A NEW PRIVATIZATION PROGRAM.

C. DISCUSSIONS WITH THE PRIVATIZATION MINISTRY SINCE AID/W APPROVAL OF THE PAIP HAVE RESULTED IN AGREEMENT TO TOUGHER CONDITIONALITY TIED TO IMPLEMENTATION OF
UNCLAS SECTION 02 OF 12 RABAT 004737

AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

THE ENTIRE PROGRAM AND EMPHASIZING THOSE PRIVATIZATIONS WHICH WILL HAVE GREATEST ECONOMIC IMPACT. A FULL POLICY MATRIX HAS BEEN DEVELOPED SETTING A SERIES OF VERIFIABLE BENCHMARKS FOR RELEASE OF SECTOR ASSISTANCE TRANCHES. CONDITIONALITY HAS BEEN LINKED TO A DEMONSTRATION THAT THE PRIVATIZATION PROGRAM IS WELL UNDERWAY AND WILL CONTINUE, REQUIRING BY THE THIRD TRANCHE DISBURSEMENT THAT THE PROCESS HAS BEGUN FOR FORTY PERCENT OF ELIGIBLE FIRMS. OTHER CONDITIONS PRECEDENT RELATE TO DESIGN AND COMPLETION OF MAJOR PROMOTIONAL AND EDUCATIONAL CAMPAIGNS TO INSURE WIDEST POSSIBLE RESPONSE TO PRIVATIZATION OFFERS AND ENACTMENT OF MEASURES TO BROADEN SHARE OWNERSHIP.

D. TO ASSESS THE ECONOMIC IMPACT OF MOROCCO'S PRIVATIZATION PROGRAM, USAID/MOROCCO ENGAGED THE SERVICES OF A SENIOR MACROECONOMIST ( PRICE WATERHOUSE'S DAVID DIORIO) WITH EXPERIENCE IN PRIVATIZATION PROGRAMS AROUND THE WORLD. HIS REPORT UNDERLINES THE IMPORTANCE OF MOROCCO'S PRIVATIZATION PROGRAM IN REDRESSING THE BALANCE BETWEEN THE PRIVATE AND PUBLIC SECTOR AND IN REDUCING PUBLIC SECTOR BORROWING REQUIREMENTS AND HENCE RELEASING SAVINGS FOR PRIVATE SECTOR INVESTMENT. THROUGH THE PRIVATIZATION OF GOM HOLDING COMPANIES AND MAJOR FIRMS HAVING INTERESTS IN OTHER STATE OWNED ENTERPRISES, COMPLETION OF THE PRIVATIZATION PROGRAM OF 112 FIRMS IS LIKELY TO RESULT IN AS MANY AS 300 SECONDARY PRIVATIZATIONS. PRIVATIZATION WILL HAVE SIGNIFICANT ECONOMIC IMPACTS IN MOST SECTORS OF THE ECONOMY.

3. EXPANDED RESPONSE TO NEAC ISSUES
PRIVATIZATION SECTOR ASSISTANCE HAS BEEN DESIGNED TO HELP OVERCOME MAJOR CRITICAL CONSTRAINTS TO THE IMPLEMENTATION OF MOROCCO'S PRIVATIZATION PROGRAM. THESE CRITICAL CONSTRAINTS INCLUDE (A) EXPECTED CONTINUED OPPOSITION TO THE PRIVATIZATION PROGRAM DURING IMPLEMENTATION ORIGINATING FROM A NUMBER OF SOURCES AND (B) LACK OF GOVERNMENT BUDGETARY RESOURCES TO CARRY OUT IMPLEMENTATION. WORLD-WIDE EXPERIENCE IN PRIVATIZATION TO DATE CLEARLY DEMONSTRATES THAT PRIVATIZATION PROGRAMS ARE MUCH MORE DIFFICULT AND TAKE A MUCH LONGER TIME THAN IS USUALLY ANTICIPATED. DESPITE THE LAUNCHING OF PRIVATIZATION PROGRAMS IN MANY OF THESE COUNTRIES, THE ACTUAL NUMBER OF PRIVATIZATIONS HAS BEEN MODEST, AND DEVELOPING COUNTRIES HAVE BY AND LARGE FOUND IMPLEMENTATION OF PRIVATIZATION TO BE A SLOW AND DIFFICULT PROCESS, ENCOUNTERING SUBSTANTIAL OPPOSITION. PRIVATIZATION SECTOR ASSISTANCE WILL APPLY SOME OF THE LESSONS LEARNED FROM THESE EXPERIENCES.

A. OPPOSITION TO PRIVATIZATION IMPLEMENTATION

MOROCCO HAS THUS FAR SUCCEEDED IN ESTABLISHING THE LEGAL AND INSTITUTIONAL FRAMEWORK FOR A VERY MAJOR PRIVATIZATION PROGRAM FOR 112 STATE OWNED ENTERPRISES. IN ESTABLISHING THIS PROGRAM, CONSIDERABLE OPPOSITION HAD TO BE OVERCOME, AND, IN IMPLEMENTATION, OPPONENTS WILL TRY TO DELAY AND RENDER UNSUCCESSFUL THE PRIVATIZATION PROGRAM. THE STRENGTH OF THE PARTIES ARRAYED AGAINST PRIVATIZATION WAS MADE APPARENT DURING PARLIAMENT'S CONSIDERATION OF THE PRIVATIZATION LAW. THE LAW WAS ORIGINALLY PROPOSED BY THE KING IN AN ADDRESS TO PARLIAMENT, BUT, DESPITE HIS SUPPORT, PARLIAMENT OVERRODE THE PROPOSAL FOR A VERY BROAD PRIVATIZATION PROGRAM ENCOMPASSING ALL STATE OWNED ENTERPRISES SAVE A SHORT NEGATIVE LIST OF SIX NATIONAL ENTERPRISES. INSTEAD, PARL IAMENT, AFTER EXTENSIVE AND OFTEN ACRIMONIOUS DEBATE, AGREED TO A REDUCED LIST OF 112 STATE OWNED ENTERPRISES TO BE PRIVATIZED. THE INDEPENDENCE PARTY, THE SOCIALIST UNION OF POPULAR FORCES, AND THE PARTY OF PROGRESS AND SOCIALISM ALL TOOK POSITIONS FAVORING RETENTION OF A STRONG STATE OWNED ENTERPRISE SECTOR AND AGAINST PRIVATIZATION. WITH NEARLY FORTY PERCENT OF PARLIAMENT'S SEATS, THESE PARTIES WIELDED CONSIDERABLE INFLUENCE OVER THE DESIGN OF THE PRIVATIZATION LAW AND WILL CONTINUE TO DO SO BEEN ANNOUNCED FOR THIS FALL.

IN ADDITION TO RESISTANCE BY OPPOSITION POLITICAL PARTIES, IMPLEMENTATION OF THE PRIVATIZATION PROGRAM FACES OBSTACLES FROM THE GOVERNMENT BUREAUCRACY,

UNIONS AND ENTERPRISES TO BE PRIVATIZED THEMSELVES. FOR EXAMPLE, A LARGE NUMBER OF THE 112 ENTITIES TO BE PRIVATIZED ARE WHOLLY OR PARTLY OWNED BY SIX GOVERNMENT HOLDING OR INVESTMENT ORGANIZATIONS. FOR THESE GOVERNMENT HOLDING ORGANIZATIONS, DIVESTITURE WILL REDUCE THE TOTAL INVESTMENT CAPITAL THEY CONTROL, SINCE THE PROCEEDS OF PRIVATIZATION ARE TO FLOW TO THE

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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

GOVERNMENT'S GENERAL INVESTMENT BUDGET AND NOT TO BE DEDICATED FOR RE-USE BY THE SELLING ORGANIZATION. THESE HOLDING ORGANIZATIONS WILL SUBSEQUENTLY HAVE SMALLER INVESTMENT PORTFOLIOS AND A MUCH REDUCED NEED FOR STAFF. THEY WILL THUS BE LIKELY TO RESIST EXPEDITIOUS IMPLEMENTATION OF PRIVATIZATIONS AFFECTING THEIR INVESTMENT HOLDINGS.

OTHER ENTERPRISES TO BE PRIVATIZED ARE SUPERVISED BY THE GOVERNMENT MINISTRIES WHICH CREATED THEM OR WHICH VIEW THEM AS PART OF THEIR APPARATUS FOR CONTROLLING AND DEVELOPING A PARTICULAR ECONOMIC SECTOR. TO ILLUSTRATE, SONACOS IS PERCEIVED AS THE IMPLEMENTING ORGAN OF THE MINISTRY OF AGRICULTURE FOR ASSURING REPRODUCTION AND DISTRIBUTION OF IMPROVED CEREAL SEED. THE TWO LARGEST COMMERCIAL BANKS, THE BANQUE CENTRALE POPULAIRE AND THE BANQUE MAROCAINE DU COMMERCE EXTERIEUR, ARE MAJORITY GOVERNMENT OWNED AND CAN BE RELIED UPON BY THE MINISTRY OF FINANCE TO BUY MORE GOVERNMENT DEBT OR TO PROVIDE SPECIAL FINANCING FACILITIES FOR THE TREASURY, IF NEEDED. AS A CONSEQUENCE, THE FINANCE MINISTRY, WHILE FAVORING FINANCIAL MARKET LIBERALIZATION, ALSO HAS A SUBSTANTIAL SELF-INTEREST AT STAKE IN MAINTAINING THE STATUS QUO SO THAT TREASURY FINANCING DIFFICULTIES ARE NOT COMPOUNDED. IN SUM, SPONSORING MINISTRIES ARE NATURALLY RELUCTANT TO SURRENDER CONTROL OVER THEIR AFFILIATES AND THUS DIMINISH THEIR DIRECT MEANS OF INFLUENCING DEVELOPMENT WITHIN A SECTOR.

CIVIL SERVANTS ALSO PERSONALLY STAND TO LOSE CONSIDERABLY BY PRIVATIZATION AS THEY FREQUENTLY SERVE ON BOARDS OF DIRECTORS OF STATE OWNED ENTERPRISES, FOR WHICH THEY RECEIVE SPECIAL ADDITIONAL COMPENSATION. IN ADDITION, SOME MINISTRY EMPLOYEES HAVE BEEN RISK THAT THEY MAY LOSE THEIR JOBS WITH PRIVATIZATION. THEY THUS HAVE A VERY ENTRENCHED VESTED INTEREST IN

DELAYING PRIVATIZA[illegible] NEGOTIATI[illegible]

THE WORKFORCE IN MOST LARGE FORMAL SECTOR INDUSTRIAL ENTERPRISES IS UNIONIZED, AND THIS TENDS TO BE EVEN MORE THE CASE AMONG THE STATE OWNED INDUSTRIAL ENTERPRISES. FEARING LAY-OFFS, REQUIREMENTS FOR HIGHER PRODUCTIVITY, AND CURTAILMENTS IN THE RATE OF INCREASE IN WAGES, UNIONS IN STATE OWNED ENTERPRISES HAVE BEEN STRONGLY OPPOSED TO PRIVATIZATION. UNIONS WILL LIKELY CALL FOR STRIKES AND DEMONSTRATIONS BY WORKERS IN FIRMS TO BE PRIVATIZED IN ORDER TO DEFER OR POSTPONE INDEFINITELY PLANS FOR PRIVATIZING PARTICULAR STATE OWNED ENTERPRISES.

THE MANAGEMENT OF THE ENTITIES TO BE PRIVATIZED WILL IN MANY CASES ALSO RAISE BARRIERS TO DIVESTITURE. FOR MANY, PRIVATIZATION WILL BRING MAJOR CHANGES IN THE CONDITIONS UNDER WHICH THEY OPERATE, AND MANAGEMENT WOULD PREFER THE KNOWN STATUS QUO. TOP MANAGEMENT JOBS ARE PARTICULARLY THREATENED BY PRIVATIZATION AS PRIVATE OWNERS ARE LIKELY TO BRING IN NEW MANAGEMENT TEAMS. WHEN PRIVATIZED, GOVERNMENT OWNED COMMERCIAL BANKS SUCH AS THE BMCE AND BCP WILL NO LONGER BE ABLE TO COUNT ON THE AUTOMATIC BUSINESS OF OTHER ST ATE OWNED ENTERPRISES SUCH AS THE PHOSPHATE COMPANY BUT WILL HAVE TO COMPETE FOR THEIR DEPOSITS AND LENDING BUSINESS WITH OTHER AGGRESSIVE PRIVATE BANKS. RELATIONSHIPS WITH MINISTRIES UPON WHOM STATE OWNED ENTERPRISES MAY HAVE DEPENDED FOR HIGH LEVELS OF PROTECTION AGAINST IMPORTS OR COMPETING FIRMS WILL BE LESS CLOSE, AND THE FIRMS TO BE PRIVATIZED WILL NO LONGER BE ABLE TO COUNT ON FAVORABLE TREATMENT BY VIRTUE OF THEIR AFFILIATION WITH SUCH MINISTRIES.

B. INADEQUATE BUDGETARY RESOURCES

WHILE MOROCCO HAS MADE SUBSTANTIAL PROGRESS IN GOVERNMENT BUDGET REDUCTION, GREATER CURTAILMENT IN EXPENDITURE GROWTH WILL BE REQUIRED OVER THE NEXT FEW YEARS. IN LIGHT OF PROJECTED FURTHER BUDGET TIGHTENING, THE MINISTRY OF ECONOMIC AFFAIRS AND PRIVATIZATION (MEAP) WILL LIKELY NOT RECEIVE THE LEVEL OF RESOURCES NEEDED TO FULLY IMPLEMENT THE PRIVATIZATION PROGRAM. IN 1990 AND 1991 THE BUDGET DEFICIT FELL TO SOME 3 PERCENT OF GDP, BUT, UNDER THE AT 0.8 PERCENT IN 1992 AND THE BUDGET IS TO BE BALANCED IN 1993. WHILE TAX REFORM HAS INTRODUCED GREATER ELASTICITY TO GOVERNMENT REVENUES, THE GREAT BRUNT OF DEFICIT REDUCTION HAS RESULTED FROM CURTAILMENT IN THE GROWTH OF GOVERNMENT EXPENDITURES. OVER A DECADE EXPENDITURES WERE REDUCED FROM 38 PERCENT TO 28 PERCENT OF GDP. ACHIEVEMENT OF THE

DEFICIT REDUCTION TARGETS IN THE CURRENT IMF STAND-BY IMPLIES FURTHER CURTAILMENT IN EXPENDITURES TO A LEVEL
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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

OF 26 PERCENT OF GDP IN 1992 AND 25 PERCENT IN 1993.

AS A RESULT OF THESE IMF TARGETS, BUDGET REQUESTS WILL BE EVEN MORE CLOSELY SCRUTINIZED IN THE NEXT SEVERAL YEARS AND ALLOTMENTS DOLED OUT SPARINGLY. THE MEAP'S BUDGET FOR PRIVATIZATION IS NEW AND REQUIRES BUDGET AUTHORITY FOR SERVICES ONLY RARELY ALLOWED BY THE GOVERNMENT OF MOROCCO, VIZ. CONSULTING, FINANCIAL ACCOUNTING, APPRAISAL, EVALUATION, PROMOTIONAL AND PUBLICITY SERVICES, AND WHICH WILL THUS UNDERGO CLOSE QUESTIONING. THE GOM, AT THE HIGHEST LEVEL, HAS DECIDED NOT TO SEGREGATE THE PROCEEDS OF PRIVATIZATIONS FROM OTHER REVENUES AND HAS IN FACT PROGRAMMED ESTIMATED REVENUES FROM PRIVATIZATIONS IN ITS INVESTMENT BUDGETS. THE MEAP COMPETES FOR AND RECEIVES BUDGET ALLOCATIONS AS DOES ANY OTHER MINISTRY. GIVEN THE BUDGET STRINGENCIES REQUIRED UNDER THE ADJUSTMENT PROGRAM AND COMPETING DEMANDS FROM OTHER PUBLIC SECTOR PROGRAMS, THE MEAP MAY NOT HAVE SUFFICIENT RESOURCES TO IMPLEMENT PRIVATIZATION IN THE OPTIMAL FASHION, TO [illegible] EVALUATIONS, AUDITS AND RESTRUCTURING AND TO UNDERTAKE CERTAIN OTHER IMPORTANT ACTIVITIES, SUCH AS PUBLICITY AND MEASURES TO PROMOTE SHARE OWNERSHIP, WHICH WOULD IMPROVE THE OVERALL PROCESS AND RESULTS OF PRIVATIZATION. OTHER DONOR ASSISTANCE HAS LARGELY FOCUSSED ON THE FOREIGN EXCHANGE COSTS OF AUDITS AND EVALUATIONS AND HAS NOT GENERALLY ADDRESSED THESE PROBLEMS.

ALSO DAMAGING IS THE FREQUENT PRACTICE OF MUCH DELAYED PAYMENT FOR EXTERNAL SERVICES. QUALITY MOROCCAN CONSULTING, ACCOUNTING, PUBLICITY, PRINTING, AND OTHER FIRMS WILL BE RELUCTANT TO TAKE ON PRIVATIZATION BUSINESS FOR THE MINISTRY FOR FEAR THAT THEY WILL NOT BE PAID IN A REASONABLE TIME FRAME. DIFFICULTY IN SECURING THE BEST QUALIFIED MOROCCAN TALENT AVAILABLE MAY IN TURN MEAN THE MINISTRY WILL HAVE TO RELY ON BEGINNING AND IMPLEMENTING THE PRIVATIZATION RAPIDLY AND WELL.

C. SECTOR ASSISTANCE VALUE ADDED



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WITHOUT SECTOR ASSISTANCE, IMPLEMENTATION WOULD ONLY LIMP FORWARD WITH NO ASSURANCE THAT THE ENTIRE PROGRAM WOULD BE IMPLEMENTED; THERE WOULD BE SUBSTANTIAL JEOPARDY OF LESS THAN TRANSPARENT TRANSACTIONS CAUSING A SEVERE ADVERSE REACTION TO CONTINUING PRIVATIZATION; AND OPPORTUNITIES TO PROMOTE BROAD PUBLIC OWNERSHIP OF COMPANIES WOULD LIKELY BE FOREGONE. USAID SECTOR ASSISTANCE WILL SUSTAIN THE COMMENCEMENT OF THE PRIVATIZATION PROGRAM BY ALLEVIATING THE EXPECTED LACK OF BUDGETARY RESOURCES, BY ASSURING TRANSPARENCY, AND BY PROVIDING TANGIBLE EVIDENCE OF SUBSTANTIAL EXTERNAL INTEREST IN SEEING PRI
VATIZATION SUCCEED. THE
PUBLICITY GIVEN TO PRESIDENT BUSH'S REFERENCES TO PRIVATIZATION DURING THE KING'S RECENT VISIT TO THE U.S. AND THE USE TO WHICH THESE WERE PUT BY THE MEAP IN PROMOTING PRIVATIZATION DEMONSTRATE THAT THIS KIND OF EXTERNAL ENCOURAGEMENT IS EXTREMELY HELPFUL. FURTHER, AS A LONG-TIME RECIPIENT OF WORLD BANK STRUCTURAL ADJUSTMENT LENDING, MOROCCAN MINISTRIES ARE ACCUSTOMED TO CONDITIONALITY AND MAKING EFFECTIVE USE OF COMMITMENTS TO EXTERNAL DONORS TO ACHIEVE NEEDED PROGRESS IN POLICY REFORM.

THE GOVERNMENT HAS BEEN UNEQUIVOCAL THAT THIS IS JUST THE FIRST PHASE OF PRIVATIZATION. OTHER STATE-OWNED ENTERPRISES NOT ON THE FIRST LIST OF 112 ARE CURRENTLY BEING RE-STRUCTURED AS A PRELUDE TO PRIVATIZATION, AND OTHERS ARE BEING MERGED OR LIQUIDATED. HOWEVER, THE GOVERNMENT HAS ALSO BEEN CLEAR IN STATING THAT WHETHER FUTURE PRIVATIZATIONS WILL OCCUR DEPENDS TO A LARGE EXTENT ON THE RESULTS OF THE CURRENT PRIVATIZATION PROGRAM.

IN THE FACE OF CONSIDERABLE OPPOSITION THE GOVERNMENT HAS PUBLICLY EMBRACED THE SALE OF STATE-OWNED ENTERPRISES AND ECONOMIC LIBERALIZATION AND MADE PRIVATE SECTOR DEVELOPMENT THE CORNERSTONE OF ITS ECONOMIC AND SOCIAL POLICY. USAID IS INTIMATELY ASSOCIATED WITH THESE POLICIES, AND THE MISSION AND US GOVERNMENT ARE WELL-KNOWN THROUGHOUT THE COUNTRY AS MAJOR PROPONENTS OF THE PRIVATIZATION LAW AND PRIVATIZATION PROCESS. IF THE PRIVATIZATION PROGRAM REFORMS WILL CONTINUE AND FURTHER PRIVATIZATIONS WILL OCCUR. IF IT DOESN'T, OR IF USAID SUPPORT FOR PRIVATIZATION IS SEEN AS LACKING OR HESITANT, THE CREDIBILITY OF THE GOVERNMENT AND USAID WILL BE SEVERELY DAMAGED.

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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

D. LOCAL CURRENCY KEY TO OVERCOMING OPPOSITION

CURRENCY COUNTERPART OF SECTOR ASSISTANCE WILL
E A VERY IMPORTANT MEANS TO ALLEVIATE THE
S OF BUREAUCRATIC OPPOSITION TO IMPLEMENTATION
PRIVATIZATION PROGRAM. PLACEMENT, RETRAINING
VERANCE PAY PROGRAMS WILL BE ELIGIBLE FOR
ING FROM THE LOCAL CURRENCY FOR MINISTERIAL AND
PERSONNEL AFFECTED BY ANY LAY-OFFS IN PRIVATIZED
MOREOVER, BY VIRTUE OF THE ADDITIONAL
ARY RESOURCES IT WILL RECEIVE BASED ON PROGRESS
VATIZATION, THE MEAP WILL BE MOTIVATED TO
TE TRANSACTIONS AND TO OVERCOME BUREAUCRATIC
OBSTACLES POSED BY OTHER MINISTRIES AND HOLDING
ORGANIZATIONS.

UNION AND EMPLOYEE OPPOSITION WILL BE PARTLY COUNTERED BY SHOWING THE RESULTS OF PRIVATIZATION ON FIRM AND SECTOR EFFICIENCY, INVESTMENT, AND EMPLOYMENT. IN ADDITION, MITIGATING MEASURES FOR THOSE THREATENED BY LAY-OFFS WILL BE ELIGIBLE FOR FINANCING BY THE SECTOR ASSISTANCE LOCAL CURRENCY GENERATIONS. PLACEMENT, RETRAINING, AREA REDEVELOPMENT, AND SEVERANCE PAY PROGRAMS WILL, FOR EXAMPLE, BE SUPPORTED AS NECESSARY.

LOCAL CURRENCY GENERATIONS WILL BE USED TO SUPPORT A PROGRAM OF EVALUATION OF THE EFFECTS OF PRIVATIZATION ON FIRM AND SECTOR LEVEL EFFICIENCY, INVESTMENT, EMPLOYMENT, NATIONAL SAVINGS MOBILIZATION, INDUSTRY OWNERSHIP PATTERNS AND OTHER FACTORS. RESULTS OF SUCH EVALUATIONS WILL PROVIDE THE FACTUAL BASIS FOR COUNTERING POLITICAL ARGUMENTS ABOUT THE WORTH OF THE PRIVATIZATION PROGRAM AND LAY THE BASE FOR A PROGRAM OF FURTHER PRIVATIZATIONS.

THE MANNER IN WHICH THE PRIVATIZATION PROGRAM IS UNDERTAKEN WILL ALSO GREATLY AFFECT THE PACE AND SUCCESS OF IMPLEMENTATION. IT IS WIDELY BELIEVED BY THE GENERAL PUBLIC THAT PRIVATIZATION MAY RESULT IN BARGAIN BASEMENT DEALS WITH ALREADY ESTABLISHED LARGE BUSINESS GROUPS, THEREBY ADDING TO CONCENTRATION OF VIEW, SUCH LARGE BUSINESS GROUPS WILL GAIN THE INSIDE TRACK ON BIDS FOR STATE OWNED ENTERPRISES TO BE SOLD. ADVANTAGE WILL NOT BE TAKEN OF OPPORTUNITIES TO USE PRIVATIZATION TO FOSTER WIDESPREAD PUBLIC OWNERSHIP OF SHARES. IF THESE FEARS ARE REALIZED AND PRIVATIZATION TRANSACTIONS DO INDEED REFLECT INSIDER DEALING AND/OR

BENEFIT EXISTING LARGE BUSINESS GROUPS, POPULAR OPPOSITION TO THE PRIVATIZATION PROGRAM WILL MOUNT SIGNIFICANTLY AN
D FURTHER IMPLEMENTATION WILL LIKELY BE SLOWED.

IVATIZATION OPERATIONS WILL BE KEY
PUBLIC THAT PRIVATIZATION IS NOT
L GROUPS. ADHERENCE TO PROCEDURES
ON, PUBLICATION OF MAJOR DECISIONS
E, WIDE DIFFUSION OF CLEARLY
FOR BID, PROSPECTUSES, AND PUBLIC
ND ANNOUNCEMENT OF WINNING BIDS MAKE
NCY. SPECIAL EFFORTS TO INTEREST
IN INVESTING IN PUBLIC SHARE
ATIZING FIRMS WILL ALSO BE IMPORTANT
ISTRIBUTION OF OWNERSHIP OF THE
MEASURES TO PROMOTE TRANSPARENCY,
CATION CAMPAIGNS, PUBLICITY ON
OF PREPARING CLEAR PROSPECTUSES AND
D DIFFUSING INFORMATION ON THEM ARE
F SECTOR ASSISTANCE CONDITIONALITY
LL BE SUPPORTED BY SECTOR ASSISTANCE
ERATIONS. FURTHER, SECTOR
ONALITY WILL REQUIRE EFFORTS TO
C OWNERSHIP OF SHARES OF PRIVATIZED
ATION OF ACCOMPANYING MEASURES WILL
TOR ASSISTANCE LOCAL CURRENCY
DITION, THE VERY PRESENCE OF AN
H AS USAID, ENGAGED IN A BROAD-
JOR SUPPORT FOR PRIVATIZATION WILL
TRANSPARENC

A NUMBER OF RECENT STUDIES BY THE WORLD BANK, THE INTERNATIONAL FINANCE CORPORATION, AND THE MEAP SUGGEST THAT PRIVATIZING ALL 112 STATE OWNED ENTERPRISES REFERRED TO IN THE PRIVATISATION LAW WILL COST BETWEEN DOLS 70 AND 90 MILLION. THIS ESTIMATE INCLUDES THE COST OF APPRAISING AND EVALUATING THE 112 SOES, RETAINING THE NECESSARY TECHNICAL ASSISTANCE AND A MINIMAL AMOUNT OF ENTERPRISE RESTRUCTURING.
INCLUDING MAJOR RESTRUCTURINGS AS PART OF THE COSTS. PRIVATIZATION SECTOR ASSISTANCE OF DOLS 25 MILLION, INCLUDING DOLS 5 MILLION IN EXTERNAL TECHNICAL ASSISTANCE, WILL THUS FINANCE A VERY
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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

SIGNIFICANT PORTION OF THESE COSTS AND ALLOW THE MEAP TO BOTH ENGAGE THE LEVEL AND QUALITY OF LOCAL AND EXTERNAL SERVICES NEEDED TO MOUNT AND COMPLETE A SUCCESSFUL PRIVATIZATION PROGRAM.

--IILE FOR MORE COMPLEX TRANSACTIONS FOREIGN EXPERTISE LL BE NECESSARY, MOROCCAN ACCOUNTING FIRMS, PRAISERS, AND FINANCIAL ANALYSTS WILL BE CALLED UPON COMPLETE MANY OF THE 112 PRIVATIZATIONS. LOCAL RRENCY WILL ALLOW THE GOVERNMENT TO MAXIMIZE USE OF CAL AVAILABLE EXPERTISE AND ASSURE THAT IVATIZATION HELPS TO DEVELOP THE MOROCCAN COUNTING, AUDIT, AND CONSULTING PROFESSIONS AS WELL FINANCIAL INSTITUTIONS.

YMENT FOR SERVICES FROM THE LOCAL CURRENCY SPECIAL COUNT WILL NOT BE SUBJECT TO GOVERNMENT WIDE BUDGET PAYMENT RESTRICTIONS IMPOSED TO REDUCE EXPENDITURE TES AND THUS WILL AVOID EFFECTS OF DELAYED PAYMENT. NCE THE MEAP IS CAPABLE OF CARRYING OUT THE PROGRAM D OTHER DONORS ARE PROVIDING TECHNICAL ASSISTANCE, OJECT ASSISTANCE BEYOND THE LIMITED TECHNICAL SISTANCE AND TRAINING INCLUDED IN THE PROGRAM IS NOT STRONGLY NEEDED.

## II. POLICY MATRIX

### A. OVERVIEW OF CONDITIONALITY

TO PROVIDE AN INCENTIVE TO THE GOVERNMENT TO MOVE EXPEDITIOUSLY AND SYSTEMATICA[illegible] PRIVATIZATION PROGRAM, CONDITIONALITY HAS BEEN TIED, IN LARGE MEASURE, TO COMPLETING ACTIONS NECESSARY TO COMPLETE PRIVATIZATION TRANSACTIONS. SINCE PREPARATION OF THE PAIP, USAID/MOROCCO HAS PRESSED FOR AND GAINED ACCEPTANCE OF TIGHTER CONDITIONALITY TIED MORE DIRECTLY TO COMPLETING THE MORE IMPORTANT PRIVATIZATIONS AND INSTITUTIONALIZING THE PRIVATIZATION PROGRAM. SUCH NEW CONDITIONS PRECEDENT INCLUDE COMPLETION OF A GREATER NUMBER OF PRIVATIZATION TRANSACTIONS, GREATER EMPHASIS ON UNDERTAKING THE PRIVATIZATIONS WITH GREATER IMPACT BY MINIMIZING THE NUMBER OF SMALL PRIVATIZATIONS THAT WILL COUNT FOR CONDITIONALITY AND MAXIMIZING THE LARGE PRIVATIZATION, AND PREPARATION OF A FUTURE PROGRAM FOR PRIVATIZATION

THE NO
N-PROJECT ASSISTANCE WILL BE RELEASED IN THREE TRANCHES, WITH DISBURSEMENT TIED TO SEVERAL INDICATORS OF PROGRESS IN IMPLEMENTING THE PRIVATIZATION PROGRAM, TAKING ACTIONS TO BROADEN SHARE OWNERSHIP AMONG THE



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GENERAL PUBLIC, INSURING THE PROPER FLOW OF INFORMATION TO THE PUBLIC TO ASSURE TRANSPARENCY IN THE PROCESS, AND TAKING CERTAIN STEPS TOWARD SETTING THE STAGE FOR COMPLETION AND EXTENSION OF THE CURRENT PRIVATIZATION PROGRAM. THE GRANT AGREEMENT WILL ALSO INCLUDE COVENANTS COMMITTING THE GOVERNMENT TO ABSTAIN FROM CREATION OF ADDITIONAL STATE OWNED ENTERPRISES OR PARASTATALS, TO MAINTAIN OPEN AND COMPETITIVE MARKETS IN THE INDUSTRIES IN WHICH PRIVATIZATIONS WILL OCCUR, TO PREVENT FURTHER INDUSTRIAL CONCENTRATION VIA THE PRIVATIZATION PROGRAM, AND TO MAINTAIN THE CURRENT LEVEL OF BUDGET SUPPORT TO THE PRIVATIZATION PROGRAM.

THE MAJOR THRUST OF CONDITIONALITY IS DIRECTLY TIED TO DEMONSTRATING SIGNIFICANT ADVANCEMENT IN THE IMPLEMENTATION OF THE GOVERNMENT'S ENTIRE PRIVATIZATION PROGRAM. THE PRIVATIZATION PROCESS EMBODIED IN THE REGULATIONS IMPLEMENTING THE PRIVATIZATION LAW REQUIRES COMPLETION OF SEVERAL STAGES TO READY THE ENTERPRISES FOR SALE. SOME PRIVATIZATIONS WILL BE LESS COMPLEX, OTHER DIVESTITURES WILL BE FAR MORE DIFFICULT REQUIRING RESTRUCTURING OF THE FIRM OR CONSIDERABLE PREPARATION TO PREPARE A MARKET FOR THE ENTERPRISE. DEVELOPMENT OF A POOL OF ENTERPRISES FOR WHICH SUCCESSIVE LEVELS OF ACTIONS HAVE BEEN COMPLETED WILL BE ESSENTIAL TO MAINTAIN MOMENTUM FOR IMPLEMENTING THE PRIVATIZATION PROGRAM. FOR THIS REASON, CONDITIONALITY IS NOT TIED SOLELY TO COMPLETION OF A CERTAIN NUMBER OF PRIVATIZATIONS BUT ALSO TO ACHIEVING SOME OF THE IMPORTANT MILESTONES TOWARD PRIVATIZATION FOR A FAR LARGER GROUP OF ENTERPRISES. THESE MILESTONES COMPRISE THE FOLLOWING:

-- COMPLETION OF AUDITS: AUDITS ARE A FIRST STAGE IN THE PROCESS OF APPRAISING THE VALUE OF A FIRM TO BE PRIVATIZED; AN AUDIT DEVELOPS A COMPLETE FINANCIAL SET OF STATEMENTS FOR THE FIRM, ESTABLISHES WHAT REAL PROPERTY BELONGS TO THE FIRM, INCLUDING LEVELS OF INVENTORY, AND WORTH OF STOCK AND BOND HOLDINGS. FOR
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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

BOOK VALUE, MAY BE SUFFICIENT TO HELP ESTABLISH A MINIMUM SALES PRICE FOR THE FIRM TO BE PRIVATIZED. THE FINANCIAL STATEMENTS ARE LATER ESSENTIAL INFORMATION TO BE INCLUDED IN REQUESTS FOR BIDS AND

PROSPECTUSES WHEN THE SALE PROCESS IS INITIATED.

-- COMPLETION OF EVALUATIONS: EVALUATIONS LOOK BEYOND THE BOOK VALUE OF A COMPANY AS EXPRESSED IN ITS FINANCIAL STATEMENTS IN ORDER TO ESTIMATE THE MARKET WORTH OF THE FIRM. EVALUATIONS EXAMINE THE SIGNIFICANCE OF THE FIRM IN TERMS OF THE MARKET SHARE IT HOLDS AND FUTURE PROSPECTS, MANAGEMENT, AND NEED FOR RESTRUCTURING AND NEW INVESTMENT. EVALUATIONS ALSO INVESTIGATE THE LIKELY MARKET FOR PURCHASE OF THE ENTERPRISE TO BE PRIVATIZED; WHO ARE LIKELY BUYERS, WHAT MIGHT THEY BE WILLING TO PAY FOR THE FIRM. EVALUATION STUDIES ASSESS WHETHER RESTRUCTURINGS WOULD BE WORTHWHILE AND WHAT METHOD OF PRIVATIZATION WOULD BE MOST EFFECTIVE. AUDITS AND EVALUATIONS THUS ESTABLISH THE WORTH OF THE FIRM BOTH IN TERMS OF BOOK VALUE AND LIKELY REALIZABLE MARKET VALUE. ONCE EXTERNALLY PREPARED AUDITS AND EVALUATIONS ARE COMPLETED, THE MEAP PREPARES ITS OWN ANALYSIS OF THE AUDIT AND EVALUATION FINDINGS AND DRAFTS IT RECOMMENDATIONS TO THE EVALUATION AUTHORITY FOR REVIEW.

THE EVALUATION AUTHORITY IS RESPONSIBLE FOR SETTING MINIMUM SALES PRICES FOR FIRMS TO BE PRIVATIZED. IT HAS A MAXIMUM OF TWO MONTHS TO REACH ITS DECISION AFTER SUBMISSION TO IT OF AN EVALUATION REPORT FROM THE MEAP. THE SETTING OF A MINIMUM SALES PRICE IS IMPORTANT IN ORDER TO HAVE A REFERENCE POINT FROM WHICH TO EVALUATE OFFERS FOR A COMPANY TO BE PRIVATIZED BY REQUEST FOR BIDS OR DIRECT SALE OR TO SET THE PER SHARE [redacted] OFFERING.

-- SALE PROCESS INITIATED: INITIATION OF THE SALE PROCESS ENTAILS REACHING AGREEMENT WITH THE TRANSFER COMMISSION [redacted] ON THE METHOD OF SALE (REQUEST FOR BIDS, SALE ON FINANCIAL MARKETS, A COMBINATION OF BOTH, OR DIRECT SALE). FURTHER, ATTAINMENT OF THIS STAGE REQUIRES THAT ALL PREPARATORY DOCUMENTATION BE READY: THAT THE TERMS OF A REQUEST FOR BIDS, AND BID DOCUMENTS HAVE BEEN PREPARED, PROSPECTUSES AND SHARE OFFERING DOCUMENTS DRAFTED AND APPROVED. FURTHER, IN MADE WITH BANKS AND/OR THE STOCK EXCHANGE TO HANDLE THE OFFERING. OF PRIME IMPORTANCE, THE PROMOTIONAL CAMPAIGN TO ADVERTIZE THE REQUEST FOR BIDS OR PUBLIC OFFERING MUST HAVE BEEN DESIGNED AND READY TO BE IMPLEMENTED. INDICATION THAT THIS STAGE HAS BEEN ACHIEVED FOR A GIVEN ENTERPRISE IS EVIDENCED BY THE PUBLIC ANNOUNCEMENT OF THE REQUEST FOR BIDS OR OF A PUBLIC OFFERING OF SHARES. ONCE THIS STAGE IS ACHIEVED, IT WOULD BE VERY DIFFICULT TO TURN BACK.



[redacted]

SUCCESSFUL IMPLEMENTATION OF PRIVATIZATION WILL HINGE IMPORTANTLY ON THE PROPER FLOW OF INFORMATION TO POTENTIAL INVESTORS. TRANSPARENCY IN OPERATIONS WILL HELP TO GUARD AGAINST MALFEASANCE OR THE PERCEPTION BY THE PUBLIC OF MALFEASANCE IN THE TRANSFER PROCESS. THE GROWTH OF SUCH A PERCEPTION WOULD LEAD TO OPPOSITION TO CONTINUANCE OF THE PRIVATIZATION PROGRAM. HENCE, PRIVATIZATION SECTOR ASSISTANCE IMPOSES CERTAIN CONDITIONS RELATED TO THE FLOW OF INFORMATION, NOTABLY SUBMISSION OF A PLAN FOR DEVELOPMENT OF A PROMOTIONAL AND EDUCATIONAL CAMPAIGN AND IMPLEMENTATION OF THE ACTIONS IDENTIFIED IN THIS PLAN.

B. FIRST TRANCHE

A FIRST TRANCHE OF DOLS 4.0 MILLION WILL BE RELEASED AFTER AUDITS HAVE BEEN COMPLETED FOR 8 FIRMS, EVALUATIONS COMPLETED FOR 4 FIRMS, AND THE PROCESS OF SALE INITIATED FOR 2 PRIVATIZABLE ENTITIES. IN ADDITION, TO THESE TRANSACTION RELATED REQUIREMENTS, FIRST TRANCHE RELEASE WILL BE CONDITIONED UPON SUBMITTING (I) A PLAN FOR A PROMOTIONAL AND EDUCATIONAL CAMPAIGN ON THE BENEFITS (AND RISKS) OF SHARE OWNERSHIP AND (II) A PLAN/SCHEDULE FOR THE STUDY AND REVIEW OF POSSIBLE MEASURES TO PROMOTE BROADER PUBLIC SHARE OWNERSHIP. THE PROMOTION P
LAN WILL
ANALYZE THE BEST MEANS FOR REACHING TARGET AUDIENCES FOR SHARE OWNERSHIP, DEVELOP THE CONTENT OF THE MESSAGES TO BE TRANSMITTED, IDENTIFY THE ROLES TO BE PLAYED BY THE MINISTRY, THE [illegible] EXCHANGE, AND OTHERS IN IMPLEMENTING THIS PROMOTIONAL CAMPAIGN, AND ESTIMATE COSTS AND METHODS OF FINANCING THE CAMPAIGN. THE SECOND REQUIRED PLAN/SCHEDULE WILL IDENTIFY POSSIBLE MEASURES TO PROMOTE SHARE OWNERSHIP, DETERMINE WHAT STUDIES, TECHNICAL ASSISTANCE, OR TRAINING NEEDS TO BE COMPLETED TO DETERMINE THEIR FEASIBILITY AND BEGIN IMPLEMENTATION, AND OUTLINE A SCHEDULE FOR COMPLETING ANY NECESSARY REVIEWS AND DECISIONS TO PUT THESE MEASURES INTO PLACE.

LOCAL CURRENCY COUNTERPART GENERATED BY THE FIRST TRANCHE WILL PROVIDE ESSENTIAL SEED MONEY FOR NUMEROUS ACTIONS RELATED TO ADDITIONAL TRANSACTIONS AND TO CARRYING OUT THE PROMOTIONAL AND EDUCATIONAL CAMPAIGN AND STUDY AND REVIEW OF POSSIBLE MEASURES TO PROMOTE BROADER SHARE OWNERSHIP AMONG THE GENERAL PUBLIC. BECAUSE THIS FIRST TRANCHE WILL PROVIDE NECESSARY RESOURCES NEEDED TO FURTHER ADVANCE THE PRIVATIZATION PROGRAM, IT IS ESSENTIAL THAT THE TRANCHE BE QUICKLY DISBURSED. THE FIRST TRANCHE CONDITIONALITY GIVES RECOGNITION TO MOROCCO'S VERY

SUBSTANTIAL ACHIEVEMENT TO DATE IN ESTABLISHING THE PRIVATIZATION PROGRAM AND PUTTING INTO PLACE THE NECESSARY INSTITUTIONAL STRUCTURE TO CARRY IT OUT, NOTABLY ESTABLISHMENT OF THE EVALUATION AUTHORITY AND TRANSFER COMMISSION, AND REVIEW AND RATIFICATION BY PARLIAMENT OF THE OFFICIAL IMPLEMENTING DECREES FOR THE PRIVATIZATION LAW.

C. SECOND TRANCHE

SECOND TRANCHE OF DOLS 6.0 MILLION WILL BE EASED WHEN A CUMULATIVE TOTAL OF 24 PRIVATIZABLE ITIES HAVE HAD THEIR AUDITS COMPLETED, A TOTAL OF FIRMS HAVE HAD EVALUATIONS COMPLETED, 10 FIRMS HAVE THE SALE PROCESS INITIATED, AND, FOR 6 FIRMS, /ATIZATION HAS BEEN ACHIEVED. NO MORE THAN 2 OF 3E COMPLETED PRIVATIZATIONS MAY BE SMALLER ERPRISES OR HOTELS, AND A MINIMUM OF THESE TWO ISFERS SHALL HAVE BEEN COMPLETED VIA THE STOCK EXCHANGE OR A PUBLIC STOCK OFFERING. IN ADDITION, AT LEAST TWO OF THE COMPLETED PRIVATIZATIONS MUST CONSTITUTE LARGE ENTERPRISES.

ITION TO THESE TRANSACTIONS RELATED EMENTS, IMPLEMENTATION OF THE PROMOTIONAL AND IONAL CAMPAIGN ON SHARE OWNERSHIP WILL HAVE WORK WILL ALSO HAVE ADVANCED ON MEASURES TO E WIDESPREAD SHARE OWNERSHIP AND THE STUDIES FIED AS NECESSARY AS A CONDITION OF FIRST E RELEASE WILL HAVE BEEN COMPLETED. BASED ON SECTION 09 OF 12 RABAT 004737

AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

THE STUDIES, USAID/MOROCCO AND THE MEAP WILL AGREE ON A NUMBER OF MEASURES RELATED TO BROADENING SHARE OWNERSHIP AS ADDITIONAL CONDITIONALITY FOR SECOND TRANCHE RELEASE.

I THAT THE PRIVATIZATION SECTOR ASSISTANCE IS IDED TO MOTIVATE THE COMPLETION OF THE RNMENT'S ENTIRE PRIVATIZATION PROGRAM, A FURTHER IE FEASIBILITY OF ESTABLISHING A PRIVATIZATION LVING FUND. SUCH A FUND COULD BE INITIALLY ICED BY EITHER A PORTION OF THE LOCAL CURRENCY TERPART OR THE PROCEEDS OF PRIVATIZATIONS. EQUENT FUNDING WOULD DERIVE FROM A SHARE OF IUE GAINED FROM ADDITIONAL PRIVATIZATIONS.

D. THIRD TRANCHE

THE THIRD TRANCHE OF DOLS 10 MILLION WILL BE RELEASED WHEN 44 ENTERPRISES HAVE HAD AUDITS COMPLETED, 38 FIRMS HAVE HAD EVALUATIONS PREPARED, THE SALES PROCESS HAS BEEN INITIATED FOR 34 FIRMS, AND A CUMULATIVE TOTAL OF 28 PRIVATIZATIONS HAVE BEEN ACHIEVED. OF THESE COMPLETED DIVESTITURES, NO MORE THAT SIX SHALL REPRESENT SMALL OPERATIONS AND AT LEAST SIX SHALL COMPRISE VERY IMPORTANT ENTERPRISES. FURTHER, A MINIMUM OF SIX ENTERPRISES SHALL HAVE BEEN TRANSFERRED VIA THE CASABLANCA STOCK EXCHANGE OR A PUBLIC STOCK OFFERING.

IN ADDITION TO THESE TRANSACTIONS RELATED CONDITIONS, OTHER MEASURES WILL BE REQUIRED TO HAVE BEEN PUT INTO PLACE TO PROMOTE BROAD PUBLIC SHARE OWNERSHIP. DISCUSSIONS BETWEEN USAID/MOROCCO AND THE MEAP WILL BE HELD AFTER THE RELEASE OF THE SECOND TRANCHE AS TO

WHAT MEASURES WILL NEED TO BE IMPLEMENTED FOR THE THIRD TRANCHE AND INCLUDED IN THE CONDITIONALITY. FOR THIS TRANCHE, THE MEAP WILL ALSO BE REQUIRED TO FURNISH A PLAN AND SCHEDULE TO DEMONSTRATE HOW PRIVATIZATION WILL BE COMPLETED FOR THE REMAINING FIRMS. LASTLY THE MINISTRY WILL DEVELOP A PROPOSAL FOR A NEW PROGRAM OF PRIVATIZATIONS. THIS PROGRAM WILL PROPOSE OTHER ENTITIES THAT WOULD BE ELIGIBLE FOR PRIVATIZATION AS WELL AS THE INSTITUTIONAL STRUCTURE AND TIMEFRAME FOR SUCH A NEW AND ADDITIONAL PROGRAM OF PRIVATIZATIONS.

AT THE TIME OF THIRD TRANCHE RELEASE, THE GOVERNMENT OF MOROCCO WILL HAVE COMMENCED THE PRIVATIZATION PROCESS FOR AT LEAST FORTY PERCENT OF THE 112 FIRMS. BECAUSE OF THE MANY SUBSIDIARIES OF STATE OWNED ENTERPRISES AND CROSS-HOLDINGS, THE NUMBER OF SECONDARY PRIVATIZATIONS WILL LIKELY BE EVEN LARGER.

III. INSTITUTIONALIZATION OF PRIVATIZATION IMPLEMENTATION OF MOROCCO'S PRIVATIZATION PROGRAM. THE OBJECTIVE IS TO GET THE PROCESS GOING, TO OVERCOME THE INITIAL OBSTACLES TO PRIVATIZATION AND TO HELP ENSURE THAT PRIVATIZATION IS CARRIED OUT EFFECTIVELY AND EQUITABLY. IF PSA CONDITIONALITY IS ACHIEVED, A HIGH LEVEL OF MOMENTUM IN PRIVATIZATION WILL HAVE BEEN ATTAINED AND CONTINUATION OF THE PROGRAM TO THE FULL 112 ENTERPRISES AND BEYOND WILL BE VERY LIKELY. BY PACD THE PRIVATIZATION PROCESS SHOULD BE WELL FUNCTIONING AND INSTITUTIONALIZED AND MOROCCO SHOULD BE MUCH HIGHER ON THE LEARNING CURVE. AT THAT TIME, THE NEED FOR ASSISTANCE WILL BE GREATLY DIMINISHED.

ALTHOUGH EXTERNAL TA FOR COMPLEX AUDITS AND EVALUATIONS WILL STILL PROBABLY BE NECESSARY.

ON THE IMPLEMENTATION SIDE, THE MEAP SHOULD HAVE AN EXPERIENCED STAFF, FAMILIAR WITH PRIVATIZATION AND CAPABLE OF CARRYING IT OUT COMPETENTLY AND PROFESSIONALLY. THE CAPACITY OF LOCAL ACCOUNTANTS AND BANKS WILL HAVE INCREASED, THE CAPITAL MARKET WILL BE MORE EFFECTIVE AND THE MARKET FOR PRIVATIZABLE FIRMS WILL BE ESTABLISHED.

OPPOSITION TO PRIVATIZATION WILL HAVE DIMINISHED, AS THE GOM WILL HAVE SHOWN IT CAN ACTUALLY PRIVATIZE IN AN EFFICIENT AND EQUITABLE MANNER. THE PUBLIC PERCEPTION OF PRIVATIZATION WILL BE DIFFERENT; THE PROGRAM WILL HAVE BEEN PUBLICIZED AND THE OPPORTUNITIES AND BENEFITS MORE WIDELY DIFFUSED. WITH FEARS OF THE AFFECTS OF PRIVATIZATION NOT REALIZED AND THE BENEFITS BETTER UNDERSTOOD, MANY OF THE GROUPS OPPOSING PRIVATIZATION WILL HAVE LESSENED THEIR OPPOSITION. GENERAL PUBLIC SUPPORT WILL BE GREATER AND A CONSTITUENCY STRONGLY SUPPORTING FURTHERANCE OF THE PROGRAM WILL HAVE EMERGED.

THIRD TRANCHE CONDITIONALITY REQUIRES PREPARATION OF A

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AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A

SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

PLAN AND CALENDAR FOR THE REMAINING PRIVATIZATION AND A PROPOSAL FOR A NEW PROGRAM OF PRIVATIZATION. EXPANSION OF PRIVATIZATION BEYOND THE 112 IN THE PRIVATIZATION LAW IS ALSO VERY PROBABLE IF THE CURRENT PROGRAM IS SUCCESSFUL. THE SUPPORT AND ASSISTANCE WHICH PSA WILL PROVIDE NOW SHOULD THUS LEAD TO A NEW PRIVATIZATION PROGRAM IN THE FUTURE AND WILL INVOLVE SOME LARGE AND CONTROVERSIAL PUBLIC ENTERPRISES.

SINCE THE FINAL TRANCHE IS THE LARGEST OF THE THREE, SUPPORT TO THE PROGRAM WELL BEYOND THE FINAL DISBURSEMENT DATE. THE PROJECT WILL PROVIDE THE GOM TIME TO GET PRIVATIZATION GOING, SEE HOW IT WORKS AND THEN TO FULLY WORK OUT HOW ADDITIONAL PRIVATIZATION WILL BE FUNDED. THE CONDITIONALITY REQUIRES A STUDY OF THE POSSIBILITY OF A REVOLVING FUND WHICH WOULD RESERVE A PORTION OF PRIVATIZATION RECEIPTS TO THE MEAP. THIS IS A COMPLEX ISSUE WITH PROS AND CONS WHICH WILL REQUIRE STUDY. EFFICIENCIES FROM BEING

HIGHER UP THE LEARNING CURVE MAY REDUCE THE COST OF PRIVATIZATION BY THAT TIME.

IV. PRIVATIZATION IMPACT

USAID/MOROCCO CONTRACTED FOR AN APPRAISAL OF THE ECONOMIC IMPACTS OF PRIVATIZATION. THE CONSULTANT'S REPORT HAS BEEN MADE AVAILABLE TO THE NE BUREAU AND A DEBRIEFING ON IT ARRANGED. IN SUM, THE MACROECONOMIST CONFIRMED THAT THE GOVERNMENT OF MOROCCO'S PRIVATIZATION PROGRAM IS AN INTEGRAL COMPONENT OF ITS EFF
ORTS TO FUNDAMENTALLY RE-BALANCE ITS PUBLIC AND PRIVATE SECTORS. WHILE THERE HAS BEEN NO RECENT OR THOROUGH STUDY OF SUBSIDIES TO THE STATE OWNED ENTERPRISE SECTOR, IN THE EARLY 1980'S NET TRANSFERS, INCLUDING CONCESSIONARY FINANCING, WERE ESTIMATED AT SOME DOLS 500 MILLION YEARLY. WHILE THE AMOUNT OF SUCH TRANSFERS HAS BEEN REDUCED IN THE INTERVENING YEARS, CLEARLY IMPLEMENTATION OF THE GOVERNMENT'S PRIVATIZATION PROGRAM WILL HAVE AN IMPORTANT EFFECT IN FURTHER REDUCING SUCH TRANSFERS AND IN TURN DIMINISHING THE GOVERNMENT'S DOMESTIC CREDIT REQUIREMENT, FREEING RESOURCES FOR PRODUCTIVE INVESTMENT ELSEWHERE IN THE ECONOMY.

N THE CASE OF MOST COUNTRIES PURSUING HIGHLY RVENTIONIST ECONOMIC POLICIES, THE PROLIFERATION HE STATE SECTOR HAS BEEN ACCOMPANIED BY EASINGLY UNFAVORABLE CONDITIONS FOR PRIVATE RPRISE, AND THE PROMULGATION OF CREDIT AND OMIC POLICIES INIMICAL TO PRIVATE SECTOR GROWTH DEVELOPMENT. STATE-OWNED ENTITIES HAVE BEEN ABLE ORROW AND TRADE ON HIGHLY FAVORABLE TERMS, AND ERENCE CONTINUES TO BE SHOWN STATE SECTOR FIRMS IN AWARD OF CONTRACTS. WHILE THIS HAS RESULTED IN TANTIAL INVESTMENT INCENTIVES TO STATE-OWNED STRY, IT HAS NOT BEEN SUCCESSFUL IN INCREASING UCTIVITY OR IMPROVING INTERNATIONAL REAM IMPORT SUBSTITUTION. IMPLEMENTATION OF THE ATIZATION PROGRAM WILL COMPLEMENT OTHER REFORMS IN TING FAVORABLE CONDITIONS FOR PRIVATE ENTERPRISE.

ONE OF THE MOST DIRECT EFFECTS OF PRIVATIZATION WILL BE AUGMENTED TREASURY RECEIPTS FROM THE SALE OF SOE ASSETS. WHILE IT IS IMPOSSIBLE TO FORECAST THE AMOUNT OF THESE PROCEEDS WITHOUT EVALUATING THE INDIVIDUAL ENTITIES, THE GOOD CONDITION OF MOROCCO'S STATE-OWNED ENTERPRISE PORTFOLIO SUGGESTS THAT THEY WILL BE SUBSTANTIAL. INDEED, AS OF DECEMBER 31, 1989, THE NET WORTH OF PRIVATIZABLE SOES STOOD AT DHS 14 BILLION, WITH 1989 PROFITS (AFTER TAX) OF DHS 950 MILLION. AS MOROCCO'S AGREEMENTS WITH THE WORLD BANK AND IMF

-- PRIVATIZATION: THIS LAST STAGE IS ACHIEVED WHEN, IN THE CASE OF REQUEST FOR BIDS, THE TRANSFER COMMISSION HAS RECEIVED AND EVALUATED ALL BIDS AND ACCEPTED THE TENDER WITH THE HIGHEST OFFER. THE DIVESTITURE IS THEN FORMALIZED BY ISSUE OF A DECREE BY THE MEAP. IN THE CASE OF SALE THROUGH FINANCIAL MARKETS, PRIVATIZATION IS COMPLETED WHEN THE PUBLIC OFFERING IS TERMINATED AND ALL SHARES OFFERED ARE DISTRIBUTED AND REGISTERED. CONSISTENT WITH THE PRIVATIZATION LAW, COMPLETED SALES WILL BE COUNTED AS A PRIVATIZATION IF THE ENTIRETY OF INTERESTS OWNED BY THE GOVERNMENT IS TRANSFERRED.

SOME OF THE 112 ENTITIES TO BE PRIVATIZED WILL BE FAR EASIER TO PRIVATIZE BECAUSE THEY ARE VERY SMALL AND THEIR PRIVATIZATION WILL HAVE LESS SIGNIFICANT IMPACT BECAUSE THEY ACCOUNT FOR ONLY A SMALL SHARE OF SECTOR PRODUCTION. TO ASSURE THAT PRIVATIZATION SECTOR ASSISTANCE RESULTS IN IMPORTANT PRIVATIZATIONS WITH LARGE ECONOMIC BENEFIT, ONLY A MAXIMUM NUMBER OF THESE
PLEX PRIVATIZATIONS WILL COUNT TOWARD MEETING
NALITY. THESE LESSER PRIVATIZATIONS HAVE BEEN
TO INCLUDE ALL 37 HOTELS AND 22 ENTERPRISES.
THER HAND, PRIVATIZATION OF THE VERY LARGE
NT OWNED BANKS, INSURANCE AND INVESTMENT
S AND THE VERY LARGE INDUSTRIAL ESTABLISHMENTS
E VERY SIGNIFICANT IMPACTS ON ECONOMIC
CY AND WILL BE DIFFICULT TO ACHIEVE. TO MEET
NALITY, A MINIMUM NUMBER OF THESE IMPORTANT
MUST BE PRIVATIZED.

ON CAN HAVE SIGNIFICANT IMPACTS ON
OF MOROCCO'S EQUITY MARKET. FOR THIS
CONDITIONALITY SPECIFIES THAT A CERTAIN
ION 08 OF 12 RABAT 004737

AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

MINIMUM NUMBER OF FIRMS MUST BE PRIVATIZED VIA FINANCIAL MARKETS AND THAT THESE MUST BE ADDITIONAL TO THOSE PRIVATIZABLE COMPANIES NOW QUOTED ON THE

RELEASES WILL REQUIRE IMPLEMENTATION OF A NUMBER OF POLICY ACTIONS AIMED AT PROMOTING BROADER OWNERSHIP OF SHARES AMONG THE GENERAL PUBLIC.



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REQUIRE THE GOVERNMENT TO REDUCE GOVERNMENT SPENDING BY 2 PERCENT OF GDP IN THE FORTHCOMING BUDGETARY CYCLE, AND AS THE PRIVATIZATION ACT STIPULATES THAT ALL PROCEEDS FROM ASSET SALES WILL ACCRUE TO THE TREASURY, THE SALE OF STATE-OWNED ENTERPRISES WILL DIRECTLY TRANSLATE INTO REDUCED BORROWING AND DEBT SERVICE REQUIREMENTS, WITH POSITIVE SHORT-AND LONG-TERM MACROECONOMIC EFFECTS.

ON AN AGGREGATE BASIS, VALUE-ADDED BY FIRMS TO BE PRIVATIZED EXCEEDS 6 PERCENT OF GROSS DOMESTIC PRODUCT (GDP), WITH EQUITY CAPITAL IN EXCESS OF US DOLS 1.8
N. PRIVATIZATION OF THESE STATE-OWNED
RISES WILL PRODUCE A VARIETY OF DIRECT AND IN-
CT BENEFITS AND COSTS TO THE ECONOMY.
IZATION WILL ALL BUT REMOVE THE STATE FROM
G, COMMERCE AND TOURISM, WITH THE REMAINING
SECTOR PLAYING A MARKEDLY DIMINISHED ROLE IN THE
Y. WHILE THE DIRECT IMPACT OF PRIVATIZATION ON
LTURE, TRANSPORT AND COMMUNICATIONS AND MINING
SECTION 11 OF 12 RABAT 004737

AIDAC

FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

WILL BE LESS DRAMATIC, THIS IS SOMEWHAT MISLEADING SINCE THE PRIVATIZATION OF GOVERNMENT HOLDING COMPANIES WILL LEAD TO MAJOR SECONDARY PRIVATIZATIONS, WITH AS MANY AS 300 SOE-SUBSIDIARIES BEING PRIVATIZED AS A RESULT OF THE PRIVATIZATION OF THE PARENT COMPANY. SIX OF THE COUNTRY'S ELEVEN LARGEST HOLDING COMPANIES ARE INCLUDED IN THE LIST OF SOES SCHEDULED FOR IMMEDIATE PRIVATIZATION. TOGETHER, THESE HOLDING COMPANIES OWN OR OPERATE OVER 100 DOWNSTREAM SOES AND PARASTATALS, INCLUDING OVER 50 PERCENT OF THE EQUITY OF ALL STATE-OWNED ENTERPRISES. IN SUM, PRIVATIZATION OF THE 112 ENTITIES IDENTIFIED BY THE PRIVATIZATION LAW WILL HAVE A MAJOR EFFECT ON GOVERNMENT'S STATE-OWNED ENTERPRISE PORTFOLIO.

THE FOLLOWING IS A VERY BRIEF SUMMARY OF MAJOR IDENTIFIABLE SECTORAL IMPACTS:

-- FINANCIAL AND BANKING SECTOR

IN THE CASE OF FINANCIAL INSTITUTIONS, PRIVATIZABLE STATE-OWNED ENTERPRISES ACCOUNT FOR 50 PERCENT OF TOTAL VALUE-ADDED IN THE STATE-OWNED SECTOR, AND THE PRIVATIZATION OF THE DESIGNATED STA

TE-OWNED BANKS AND FINANCIAL INSTITUTIONS WILL REDUCE THE STATE SECTOR IN THESE INDUSTRIES BY ALMOST TWO-THIRDS.

PRIVATIZATION OF THE 10 SOES CONTAINED IN THE FINANCIAL AND BANKING SECTOR, COUPLED WITH REFORM OF MOROCCO'S FINANCIAL AND CAPITAL MARKETS, IS EXPECTED TO RESULT IN SIGNIFICANT MEDIUM-AND LONG-TERM EMPLOYMENT GENERATION. EXPANSION OF THE CASABLANCA STOCK EXCHANGE IS EXPECTED TO RESULT IN A 5-FOLD INCREASE IN VOLUME AND 100-200 PERCENT GROWTH IN EMPLOYMENT IN INVESTMENT BANKING, PLACEMENTS AND RETAIL MARKETING OPERATIONS. INDEED, THE MAJOR CHALLENGE FACING THE GOVERNMENT AND THE BANKING INDUSTRY WILL BE RESPONDING TO THE INCREASED DEMAND FOR TRAINED BANKING AND FINANCIAL SERVICES PROFESSIONALS. AS STATE-OWNED ENTERPRISES ARE PRIVATIZED, THEIR SUCCESSOR ENTITIES WILL WANT TO REALIZE A HIGHER RETURN ON CAPITAL THAN AT PRESENT. THIS WILL REQUIRE THAT MOROCCAN FINANCIAL INSTITUTIONS BE ABLE TO PROVIDE THE NECESSARY INVESTOR GUIDANCE. INCREASED DEMAND FOR CREDIT, AND THE ABSENCE OF IMPLIED GOVERNMENT LOAN GUARANTEES, WILL REQUIRE THAT BANKS SUBSTANTIAL INCREASE THEIR CREDIT APPRAISAL OPERATIONS AND AUGMENT THEIR LOAN EVALUATION STAFF.

-- SUGAR-PROCESSING SECTOR

OF ALL THE SECTORS AFFECTED BY PRIVATIZATION, THE SUGAR-PROCESSING SUBSECTOR, WILL EXPERIENCE THE LARGEST DISLOCATIONS. MOREOVER, IN CONTRAST TO EVERY OTHER SECTOR, THESE DISLOCATIONS WILL [illegible] STRUCTURAL NATURE, AND PERMANENT JOB LOSSES IN EXCESS OF 5 PERCENT ARE ANTICIPATED. SUBSTANTIAL RESTRUCTURING PRIOR TO PRIVATIZATION WILL ALSO BE REQUIRED, WITH MERGERS OR LIQUIDATIONS (OR BOTH) IN ORDER. NONETHELESS, THE SUGAR SUBSECTOR AS A WHOLE IS RESTRUCTURING. AS A NET BENEFICIARY OF TREASURY SUBSIDIES, PRIVATIZATION OF THE SUGAR-PROCESSING SECTOR WILL HAVE A MARKED IMPACT ON THE COUNTRY'S NATIONAL ACCOUNTS AND ELIMINATE ONE OF THE LEAST EFFICIENT AND PRODUCTIVE COMPONENTS OF THE GOVERNMENT'S PUBLIC ENTERPRISE PORTFOLIO.

-- MANUFACTURING SECTOR

IN THE MANUFACTURING SECTOR, PRIVATIZATION IS EXPECTED TO PRODUCE NEGLIGIBLE LABOR DISPLACEMENT WHILE LEADING TO INCREASED PROFITS IN THE SECTOR, PRIMARILY DUE TO ABOLITION OF SOLE-SOURCE LIMITATIONS AND THE ENDING OF MANDATED PRICES. AT PRESENT, STATE-OWNED ENTERPRISES ARE FREQUENTLY REQUIRED TO BUY SOLELY FROM GOVERNMENT CONTRACTORS OR OTHER STATE-OWNED ENTERPRISES, IN THE

CLASSIC STATIST ECONOMIC CONFIGURATION.

-- AGRICULTURAL SECTOR

PRIVATIZATION WILL IMPROVE THE EFFICIENT FUNCTIONING OF AGRICULTURAL INPUT AND PRODUCTS MARKETS. IN THE CASE OF THE AGRICULTURAL PRODUCTS MARKET, STATE-OWNED ENTERPRISES ARE FORCED TO SELL TO THE GOVERNMENT AT CONTROLLED PRICES, OFTEN FAR BELOW THE MARKET RATES. THESE ANTI-COMPETITIVE PRACTICES HAVE BEEN IDENTIFIED BY THE WORLD BANK AND IMF AS SERIOUSLY COMPROMISING THE FINANCIAL INTEGRITY OF STATE-OWNED ENTERPRISES AND MILITATING AGAINST THEIR ECONOMIC EFFICIENCY, AND HAVE DIRECTLY RESULTED IN THE UNDERDEVELOPMENT OF WHAT SHOULD BE HIGHLY COMPETITIVE SECTORS OF THE ECONOMY.


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FOR AA/NE, NE/PD, NE/MENA, NE/DP, POL

E.O. 12356: N/A
SUBJECT: PRIVATIZATION SECTOR ASSISTANCE

-- HOTEL AND TOURISM SECTOR

PRIVATIZATION WILL HAVE AN IMPORTANT STIMULUS TO INVESTMENT IN THE HOTEL AND TOURISM SECTOR. DESPITE THE FACT THAT THE MAJORITY OF INTERNATIONAL-QUALITY HOTELS HAVE BEEN PLACED UNDER MANAGEMENT CONTRACTS, THEREBY BECOMING QUASI-PRIVATE ENTITIES, OVER-STAFFING AND A LACK OF FOREIGN INVESTMENT CONTINUE TO PLAGUE THE SECTOR. FURTHERMORE, THE FACT THAT THE GOVERNMENT HAS REMAINED RETICENT UNTIL RECENTLY TO SELL OUTRIGHT IS INTEREST IN HOTELS, PREFERRING TO LEASE THEM TO FOREIGN OF MOROCCAN INVESTORS, HAS RETARDED INVESTMENT GROWTH AND RESULTED IN COMPARABLY FEW HIGH QUALITY HOTELS FOR A COUNTY THE SIZE OF MOROCCO AND OF SUCH PROXIMITY TO EUROPE.
THIS PHENOMENA IS EVIDENCED BY THE PREPONDERANCE OF MEDIUM-GRADE HOTELS IN THE GOVERNMENT PORTFOLIO. WHILE TO SOME EXTENT THIS REPRESENTS A CONSCIOUS ATTEMPT TO DIVERSIFY THE HOTEL STOCK BASE, IT IS MORE INDICATIVE OF A DEARTH OF INVESTMENT IN THE HOTEL

INDUSTRY. THIS CAN BE DIRECTLY RELATED TO THE FACT THAT MANAGEMENT CONTRACTS ARE SUBJECT TO REVIEW AND RENEWAL OF THE GOVERNMENT AND THAT IN THE PAST CONTRACTS HAVE BEEN CANCELED OR NOT RENEWED FOR NON-PERFORMANCE RELATED REASONS. FACED WITH UNCERTAINTY, INVESTORS HAVE BEEN UNDERSTANDABLY RELUCTANT TO UNDERTAKE MAJOR CAPITAL IMPROVEMENTS. PRIVATIZING THE

HOTEL STOCK WILL ELIMINATE THIS PROBLEM AND REASSURE FOREIGN AND DOMESTIC INVESTORS. THIS CONSIDERATION IS MADE ALL THE MORE RELEVANT AND URGENT GIVEN MOROCCO'S HEAVY DEPENDENCE ON TOURISM AND THE FACT THAT TOURISM RECEIPTS FROM NORTH AMERICANS AND EUROPEANS HAVE FALLEN PRECIPITOUSLY IN RECENT YEARS.

-- ENERGY SECTOR

PRIVATIZATION IN THE ENERGY SECTOR WILL MOST LIKELY TAKE THE FORM OF THE DENATIONALIZATION OF THE VARIOUS PETROLEUM DISTRIBUTION COMPANIES, AND IS NOT EXPECTED TO RESULT IN ANY NOTABLE CHANGES IN EMPLOYMENT OR BACKWARD- AND FORWARD-LINKAGE EFFECTS. INDIRECTLY, HOWEVER, DENATIONALIZATION MAY RESULT IN INCREASED INVESTOR CONFIDENCE AND RENEWED INTEREST ON THE PART OF INTERNATIONAL INVESTORS AND MULTINATIONAL COMPANIES IN OIL EXPLORATION. ANY SUCH DEVELOPMENTS HOWEVER WILL BE CONDITIONAL ON A NUMBER OF OTHER FACTORS, MOST NOTABLY SETTLEMENT OF THE WESTERN SAHARA'S POLITICAL STATUS AND WOULD ONLY ACCRUE IN THE LONG-TERM.

VI. ACTION REQUESTED

MISSION BELIEVES THAT IT HAS REPLIED TO ALL ISSUES RAISED IN NEAC REPORTING CABLE. ON THE BASIS OF MATERIAL PRESENTED, MISSION REQUESTS EXPEDITIOUS AID/W DELEGATION OF AUTHORITY TO MISSION TO APPROVE PAAD. USAID ALSO REQUESTS ALLOTMENT OF DOLS SEVEN MILLION ESF IN TIME FOR MID-JUNE PROAG SIGNING AND SUBMISSION OF PIO/T FOR TECHNICAL ASSISTANCE BUY-IN PRIOR TO JUNE 30. WE WOULD LIKE AID ADMINISTRAT[illegible] PARTICIPATE IN INAUGURATION OF PROGRAM WHEN HE IS HERE IN EARLY JULY. CN FOLLOWS IN SEPTEL.
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# ANNEX E

# SPECIAL ACCOUNTS

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## ANNEX B
## SPECIAL ACCOUNTS

The Government of Morocco Budget (Loi de Finances) is divided in three parts:

- The regular budget (Budget Général de l'Etat), which include receipts, operating Expenses and investment expenditures;

- Autonomous budgets (Budgets Annexes), which are specific to particular autonomous government entities (radio and TV broadcasting, official printer, ports and land agency); and

- Treasury special accounts (Comptes Spéciaux du Trésor), which include special allocation accounts, military procurement accounts, accounts for payment of membership in international organizations, monetary operation accounts, investment accounts and so forth.

Treasury special accounts are always established for special purposes. Although a few have been established for indefinite durations and continually provided with revenue, they are usually created for a limited period and a fixed amount. Consequently, these special accounts, similar to any bank account, track inflows and outflows, generate monthly statements, notification of [illegible] and payments, and can be audited.

Normally a special account is created by the Budget Law. However, in exceptional cases, they can be established [illegible] Minister of Finance during the course of the fiscal year. Funds deposited in these accounts need not be expended in the same fiscal year as deposited, but are transferable from one year to another. The creating document specifies eligible uses, without necessarily earmarking specific amounts for each use.

To utilize the funds made available under a special account, the disbursing authority (ordonnateur), normally the Ministry in the name of which the account is established, submits to the Ministry of Finance an earmarking document (Programme d'Emploi), in conformance with the eligible uses and the amount available. Once this earmarking document is cleared, expenditures are subject to the same accounting procedures as regular operating or investment expenditures.

These procedures include competition for procurement (marchés), issuance of a payment order (ordre de paiement), clearance by the Ministry of Finance representative [illegible] controlling department of the Ministry of Finance (CED, service du contrôle des engagements de dépenses) [illegible]
The documenting requirements are the same as for regular expenses,

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but when an external source is providing funding, a special stamp can be added on the payment order to insure that disbursements will not be delayed in case of overall restrictions in government expenditures.

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# ANNEX F

# CONDITIONS AND COVENANTS

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ANNEX F

CONDITIONS AND COVENANTS

The following conditions precedent will be indluded in the Program Grant Agreement:

Conditions Precedent to First Disbursement

Prior to the disbursement of the first tranche of the Grant or the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) a statement of the name of the person holding or acting in the office of the Grantee specified in Section 6.6, and of any additional representatives, together with a specimen signature of each person specified in such statement.

(b) Evidence that the Grantee has established both the Separate Dollar Account referenced in Section 2.1 of this Agreement, and the Local Currency Special Account, referenced in Section 4.1 of this Agreement.

(c) Evidence that external audits have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for at least eight of the privatizable entities, that external evaluations have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for at least four of the privatizable entities and that the process of sale has been initiated for at least two of the privatizable entities.

(d) Evidence of completion of a plan for a promotional and educational campaign on the benefits (and risks) of share ownership.

(e) Evidence of completion of a schedule and plan for completing studies and reviews of possible measures to promote broader public share ownership.

Conditions Precedent to Second Disbursement

Prior to the disbursement of the second tranche of the grant, or the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish [illegible] and substance satisfactory to A.I.D., evidence that:

(a) External audits have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for a cumulative total of at least 24 of the privatizable entities, external evaluations have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for at a

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cumulative total of at least 16 of the privatizable entities, the process of sale has been initiated for a cumulative total of at least 10 of the privatizable entities and the transfer of ownership has been completed for at least six of the privatizable entities. No more than two of these six completed privatizations shall constitute hotels or "small enterprise" privatizations, and at least two shall constitute "large enterprise" privatizations, as defined in Annex A of the Agreement. A minimum of two of the privatizations shall have been completed via the stock exchange or a public stock offering.

(b) The plan for a promotional and educational campaign on share ownership described in Section 5.1(d) has been or is being implemented.

(c) The studies and reviews described in Section 5.1(e) have been completed.

(d) A study examining the methods by which privatization efforts will be sustained and financed have been completed.

(e) Certain measures, to be mutually agreed to by the Parties prior to the disbursement of the second tranche of the Grant, have been implemented. These measures will concern the broadening of share ownership and will result from the studies and reviews described in Section 5.1(e).

(f) Since the last disbursement

(i) a competitive market environment has been maintained for industries affected by privatization;

(ii) tariff and non-tariff barriers affecting imports competing with the output of privatized entities have not been increased;

(iii) no actions resulting in more difficult market entry for new producers or suppliers of goods and services produced by sectors affected by privatization have been taken;

(iv) necessary actions have been taken such that the implementation of the privatization program has increased share ownership in Morocco.

(v) budget allocations to the Ministry of Economic Affairs and Privatization for privatization have remained at or above their current level.

Conditions Precedent to Third Disbursement

Prior to the disbursement of the third tranche [illegible] the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence that:

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(a) External audits have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for a cumulative total of at least 44 of the privatizable entities, external evaluations have been completed to the satisfaction of the Ministry of Economic Affairs and Privatization for at a cumulative total of at least 38 of the privatizable entities, the process of sale has been initiated for a cumulative total of at least 34 of the privatizable entities and the transfer of ownership has been completed for at least 28 of the privatizable entities. No more than six of these completed privatizations shall constitute hotels or "small enterprise" privatizations, and at least six shall constitute "large enterprise" privatiza-tions, as defined in Annex A of the Agreement. A minimum of six of the privatizations shall have been completed via the stock exchange or a public stock offering.

(b) Certain additional measures, to be mutually agreed to by the Parties prior to the disbursement of the third tranche of the Grant, have been implemented. These additional measures will concern the broadening of share ownership and will result from the studies and reviews described in Section 5.1(e).

(c) A plan and schedule demonstrating how privatization will be completed for the remaining firms designated for privatization has been prepared,

(d) Since the last disbusement:

(i) a competitive market environment has been maintained for industries affected by privatization;

(ii) tariff and non-tariff barriers affecting imports competing with the output of privatized entities have not been increased;

(iii) no actions resulting in more difficult market entry for new producers or suppliers of goods and services produced by sectors affected by privatization have been taken;

(iv) necessary actions have been taken such that the implementation of the privatization program has increased share ownership in Morocco.

(v) budget allocations to the Ministry of Economic Affairs and Privatization for privatization have remained at or above their current level.

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# ANNEX G

# STATUTORY CHECKLIST

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## 5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? YES

### A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

a) yes, the project will purchase US commodities both directly from US and through local representatives;
b) yes, program will support transfer of assets from public to private sector
c) no
d) yes, by increasing competition by increasing number of firms in private sector
e) yes, through privatization

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will purchase U.S. commodities both directly from the U.S. and locally thus stimulating commercial exchanges. U.S. technical assistance is also being used.

3. **Congressional Notification**

a. **General requirement** (FY 1992 Continuing Resolution; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Congressional Notification transmitted to Congress and expired without objection.

b. **Notice of new account obligation** (FY 1992 Continuing Resolution): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

| | |
|---|---|
| c. **Cash transfers and nonproject sector assistance (FY 1992 Continuing Resolution):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted? | Yes, funds will be used to support GOM privatization program, finance purchase of U.S. commodities and support economic liberalization. |
| 4. **Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? | a) Yes<br>b) Yes |
| 5. **Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? | N/A, legislation already enacted. |
| 6. **Water Resources (FAA Sec. 611(b); FY 1992 Continuing Resolution):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) | N/A |
| 7. **Cash Transfer and Sector Assistance (FY 1992 Continuing Resolution):** Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? | Yes |
| 8. **Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? | N/A |



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9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

a) Yes, by facilitating financing of import
b) yes, by privatizing government owned firms
c) no
d) yes, by increasing number of firms in private sector
e) Yes, through privatization process
f) no

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will purchase U.S. commodities both directly from the U.S. and locally thus stimulating commercial exchanges. U.S. technical assistance is also being used.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GOM will pay salaries of MEAP personnel and provide other appropriate in kind contributions.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. **Separate Account** (FY 1992 Continuing Resolution). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

a) Yes
b) Yes
c) Yes



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(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1992 Continuing Resolution): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. **Textiles (Lautenberg Amendment)** (FY 1992 Continuing Resolution): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No

13. **Tropical Forests** (FY 1992 Continuing Resolution): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? a) No b) No



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14. PVO **Assistance**

a. **Auditing and registration** (FY 1992 Continuing Resolution): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding sources** (FY 1992 Continuing Resolution, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Case-Zablocki Act will be complied with.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

17. **Women in Development** (FY 1992 Continuing Resolution, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes, Privatization will increase opportunities for women to work outside the home and become share owners.



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18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. there no regional development program in privatization.

19. **Abortions** (FY 1992 Continuing Resolution, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby for abortion?

No

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1992 Continuing Resolution): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

U.S. does not own any foreign currency in Morocco.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

22. Procurement

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes

b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes



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c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

Morocco does not discriminate against any marine insurance companies.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes, use of other Federal Agencies is not contemplated.

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes



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i. **Termination for convenience of U.S. Government** (FY 1992 Continuing Resolution): If the U.S. Governm... is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

j. **Consulting services** (FY 1992 Continuing Resolution): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — Yes / Yes / Yes

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A



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c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? 1) Yes 2) Yes

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes



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30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

31. **Military Personnel** (FY 1992 Continuing Resolution): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

32. **Payment of U.N. Assessments** (FY 1992 Continuing Resolution): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

33. **Multilateral Organization Lending** (FY 1992 Continuing Resolution): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

34. **Export of Nuclear Resources** (FY 1992 Continuing Resolution): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

35. **Repression of Population** (FY 1992 Continuing Resolution): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

36. **Publicity or Propaganda** (FY 1992 Continuing Resolution): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No

37. **Marine Insurance** (FY 1992 Continuing Resolution): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes



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38. **Exchange for Prohibited Act** (FY 1992 Continuing Resolution): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes, by supporting economic liberalization and economic growth.

Yes.

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

No

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1992, this provision is superseded by the separate account requirements of FY 1992 Continuing Resolution, see Sec. 575(a)(5).)

N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1992, this provision is superseded by the separate account requirements of FY 1992 Continuing Resolution Sec. 575(a), see Sec. 575(a)(5).)

Yes

Yes

5. **Cash Transfer Requirements** (FY 1992 Continuing Resolution, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

Yes



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b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

Yes

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes.

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes

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# ANNEX H

# PROGRAM

# LOGICAL FRAMEWORK

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# LOGICAL FRAMEWORK

Life of Project: FY 92 - FY 96
Total U.S. Funding: $25 million
Date Prepared: June 15, 1992

Project Title & Number: PRIVATIZATION SECTOR ASSISTANCE (608-0215)

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|---|
| GOAL: **To expand the role of the private sector in Morocco.** | . Ownership of major economic prduction facilities increasingly in private sector.<br><br>. GOM role in directing economy much reduced.<br><br>. Capital markets larger and more open and efficient. | . Evaluations of extent of public sector holdings in productuve sector.<br><br>. Casablanca Stock Exchange statistics on stock turnover, new issues and holdings.<br><br>. Reports and statistics published by other donors, such as World Bank and IMF. | . GOM commitment to economic liberalization continues.<br><br>. Moroccan private sector remains vibrant and viable.<br><br>. Government borrowing diminishes to free resources for private sector investment. |

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|---|---|---|---|
| **PURPOSE: To support and accelerate implementation of Morocco's privatization program.** | EOPS:<br><br>. High level of momentum in privatization attained such that program is institutionalized and sustainable.<br><br>. Ministry of Economic Affairs and Privatization staff well trained and capable of continuing to carry out competently the GOM privatization program.<br><br>. Local capacity to provide services to privatization program increased (banks and accountants) and market for privatizing firms established.<br><br>. Constituency supporting privatization established and program enjoys widespread public support.<br><br>. Share ownership of privatized companies broader and more widespread. | . Statistics on status of privatization program and Ministry plans for future privatization program.<br><br>. Evidence of decreasing need for technical assistance documented in program reports and evaluations.<br><br>. Evaluation reports and statistics on use of Moroccan accounting firms and banks to complete transactions. operations.<br><br>. Survey of press articles on privatization program.<br>. Nationwide survey data on attitudes to privatization.<br><br>. Review of ownership of companies privatized under the program. | Assumption for achieving purpose:<br>. GOM commitment to privatization continues.<br>. Political pressure to curtail program is ineffective.<br><br>. No major social problems are directly attributable to lay-offs caused by restructuring of privatizing firms.<br><br>. Moroccan financial and capital markets are encouraged to develop and become involved in financing privatization.<br><br>. GOM makes available appropriate personnel to the Ministry of Economic Affairs and Privatization to administer program. |

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| Outputs: | Magnitude of Outputs: | Means of Verification | Assumption for achieving outputs: |
|---|---|---|---|
| 1. Audits resulting in complete financial statements of entity, inventories of real property, equipment and product and valuation of any stocks and bonds held by firm. | . At least 44 audits completed. | . Ministry of Economic Affairs and Privatization periodic reporting on program status.<br><br>. Spring 1994 evaluation of program. | . Initial audits and evaluations are successful and encourage further evaluations.<br><br>. Sales of initial privatizable enterprises are successful and acceptable. |
| 2. Evaluations establishing likely realizable market worth of and minimum sales price for the privatizing entity. | . At least 38 evaluations completed. | . Program audits scheduled for March 1993, March 1994 and August 1996. | . Privatizations do not cause large increases in unemployment and are accepted as necessary by the general public. Public support for program limits political opposition. |
| 3. Sales processes initiated in accordance with results of audits and evaluations. | . At least 34 Sales Processes initiated. | . Reports of studies funded by project.<br><br>. Published plan for future implementation. | |
| 4. State owned Enterprises transferred to private sector. | . At least 28 privatizations completed of which:<br>-Minimum 6 large enterprises;<br>-Maximum 6 small enterprises;<br>-Minimum 6 enterprises listed in Stock Market. | | . Privatization program encourages transparency of process and process not seen as serving small moneyed section of society. |
| 5. Studies of mechanisms to increase share ownership completed and future privatization plans prepared. | . 2 studies completed.<br>. Plan for privatization of remaining firms covered in privatization law and proposal for new privatization program completed. | | |

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| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|---|
| Inputs: ($000) | Magnitude of Inputs ($000s) | Means of Verification | Assumptions for providing inputs: |
| Program Assistance: | $20,000 | Quarterly financial and status reports from Ministry of Economic Affairs and Privatization and Bank Al Maghreb showing utilization of Fund and progress of privatizations. | 1. AID funds will be available in timley manner. |
| Short Term Technical Assistance: | $3,860 | | |
| Long-Term Technical Assistance: | $600 | | 2. Audits and Evaluations are timely and useful. |
| Evaluation/Audit: | $240 | | |
| Training/Commodities: | $300 | Periodic reports from Long-term Technical Advisor. | 3. GOM, Bank al Maghreb and the Ministry of Economic Affairs and Privatization are able to meet conditionality requirements of all tranche disbursements. as verified by audit and review by AID staff. |
| TOTAL: | $25,000 | Audit and Evaluation reports. | |
| | | Controller's records | |