WAFA BANK

IFI Loan Case Study

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I. General Economic Environment

The economy of Morocco is based mainly on certain industries such as agriculture, fishing, minerals, and tourism which are particularly favored by the country's geographical position, climate and natural resources.

In 1985, GDP increased 14 percent over 1984 to total 36,880 million dirhams (dhs) ($4.3 billion). Of this total, agriculture livestock, and fishing comprised 12 percent, mining, energy, and manufacturing 26 percent, and commerce, transport, and other services 42 percent. Morocco's public sector accounts for the remaining 20 percent of GDP.

Inflation has remained moderate over the past three years, increasing from 6.2 percent in 1983, to 12.4 percent in 1984, and then falling back to 7.7 percent in 1985. Morocco's population growth is 2.5 percent, totaling 20.8 million in 1983, when the last census was conducted.

Morocco possesses nearly three-quarters of the world's estimated reserves of phosphates. This mineral has been mined since 1921 and accounts for over half of the country's exports. Other minerals of lesser importance are iron ore, lead, zinc, copper, and coal. No significant quantities of hydrocarbons have been found, but exploration is still in progress.

Morocco's principal agricultural exports are fruit, vegetables, and wine. The sea off the Moroccan coast is rich in fish, and fishing constitutes an important sector of the economy. Much of the production, centered in Agadir and Safi, is exported in the form of tinned sardines and fishmeal.

Small and Medium Size Enterprises (SMSEs) are an important component of the Moroccan business sector. Over 25 percent of manufacturing firms in Morocco have less than 10 employees and 70 percent have less than 50 employees. About one-third of all modern manufacturing firms have annual sales of less than 500,000 dirhams ($58,754). A few large enterprises with 500 or more employees or with an annual turnover of 10 million dhs. or more account for a substantial portion of production and value added. These enterprises represent 2 percent of all enterprises and generate about one third of total production and value added. Fifty-five percent of products manufactured for export is accounted for by enterprises with 500 or more employees; 83 percent by enterprises with an annual sales of 10 million dhs. or more.

Small and medium size firms (less than 50 employees) are prominent in food industries, clothing and textiles, leather and footwear, paper and printing, plastics and electrical, metalurgical, and mechanical industries.

Following several years of conservative economic policy, Morocco increased public sector spending dramatically in the mid-1970s. This coincided with a sharp increase in world demand for phosphates, Morocco's principal export. With the collapse of phosphate prices in the late 1970s, however, Morocco failed to decrease its public sector spending accordingly.

The subsequent decline in public sector revenues resulted in a greater share of government investment being financed through budget deficits. In 1975, budget deficits amounted to 5 percent of GDP, 18 percent in 1976, and 12.3 percent in 1982. These deficits were financed principally through external borrowing, which doubled between 1978 to 1984 to $13.2 billion.

By 1983, the Government of Morocco (GOM) began to experience severe foreign exchange shortages. The GOM imposed measures which halted imports, and began negotiating with the IMF for a SDR 300 million stand-by arrangement. An agreement was reached that year subject to IMF imposed conditionalities, calling for reduced subsidies, lower annual budget deficits, devaluation of the currency, and elimination of price controls on several commodities. In a separate Industrial Trade Policy Adjustment Loan from the World Bank, the GOM agreed to lower trade barriers for imports and simplify export procedures. These agreements facilitated the renegotiation of Morocco's public debt with its private creditors through the London Club.

Morocco has attained many of the IMF program targets. Budget deficits have declined by over 50 percent from 1978 to 1984, for example. However, the trade deficit has not evidenced similar declines, with the growth of imports increasing at the same rate as exports.

For example, exports have increased only 9 percent to total 21,807 million dhs from 1983 to 1985, while imports have increased 12 percent to total 38,321 million dhs during the same period. This is due in part to the soft demand for phosphate derivatives, but also to a liberalization of import taxes and requirements.

II. Banking and Finance

A. Institutional Framework

Banking in Morocco is well organized and sophisticated. The Banking Law of 1967 gives the Ministry of Finance very broad powers with regard to credit policy and the regulation of the banking industry. The Banque du Maroc (the Central Bank) is the bank of the Government of Morocco and is responsible for the control of the currency, which includes most notably the management of the Treasury and of foreign exchange reserves. It is also responsible for the regulation of banks, i.e. setting of reserves, liquidity requirements, and control of credit volume for specific banks and for the economy as a whole. The Central Bank also provides rediscounting facilities and thus serves a refinancing function for the banking sector.

Credit in Morocco is distributed almost exclusively by the 15 commercial banks, the two largest of which are controlled by the Government. There are five other credit institutions, each specialized in a given field:

The "Banque National pour le Developpement Economique" is the Government vehicle for implementing its investment policy in commercial and industrial activities. It has a monopoly on providing rediscountable (outside established credit ceilings) medium and long-term loans.

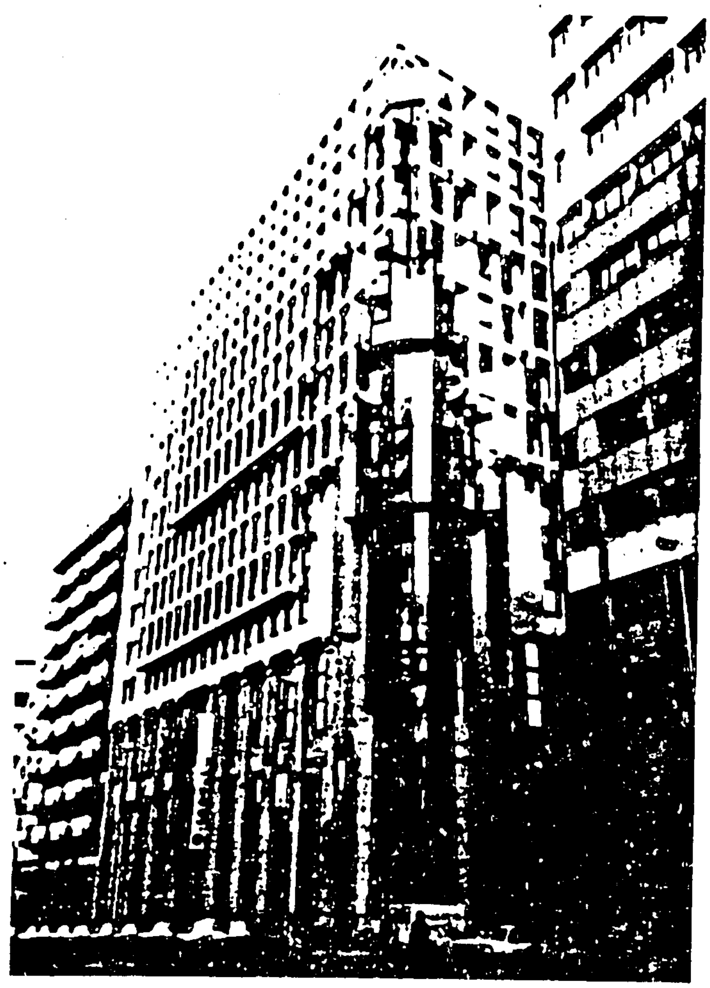
The "Credit Immobilier et Hotelier" is responsible for the financing of residential construction and tourist infrastructure.

The "Caisse Nationale du Credit Agricole" makes short, medium and long-term loans to farmers.

The "Caisse de Depot et de Gestion" manages certain public funds and loans to local cooperatives and municipalities.

The "Caisse Marocaine des Marches" guarantees loans from commercial banks to public entities.

The banking system is highly concentrated in the most developed areas of the country, notably on the Atlantic coast between Rabat and Casablanca, where 75 percent of the system's bank branches are located. It is heavily dependent on deposits as a source of funds, and in 1984 deposits represented 81 percent of total bank resources. Time deposits grew at an annual rate of 28 percent from 1977 to 1984. At the end of 1984, they accounted for almost one-third of total commercial bank deposits.



WAFABANK'S NEW HEADQUARTERS BUILDING IS LOCATED IN THE HEART OF CASABLANCA'S FINANCIAL DISTRICT.

WAFABANK is the second largest privately owned bank in Morocco, with 1986 assets of over $500 million. It employs 1,100 persons and has a network of 60 branches throughout the Kingdom. It is widely regarded as the most innovative of Moroccan banks, having been the first to introduce credit cards, factoring, home banking, and automated teller machines to the Moroccan market.

Most importantly, WAFABANK has taken an active role in promoting export oriented small and medium-scale enterprises. Through their export promotion program, WAFABANK offers its clients seminars on relevant trade issues, export market studies, consultations and client contacts, cash awards to successful small scale exporters, and factoring of foreign currency receivables. This program, begun in 1982, is perceived by the bank as being directly responsible for increasing WAFABANK's share of Moroccan export financing from 4.5 to 10 percent.

B. Credit Availability

By setting limits reserve requirements, the Central Bank controls the volume of liquidity. The Central Bank also requires the minimum amount of Treasury bonds which each bank must have on reserve. Currently this is 35 percent of sight deposits. Other reserve regulations require that banks hold a minimum of 5.5 percent of their deposit base as medium term rediscountable commercial paper; 3.5 percent of total deposits in Caisse National du Credit Agricole notes; and 6 percent of total deposits for the financing of housing. Finally, all banks must keep in a blocked account with the Central Bank 0.5 percent of their total deposits.

The financial needs of the Moroccan economy are primarily furnished by commercial banks which provided 68 percent of total credit in 1984, with the balance supplied by specialized credit institutions and the

Central Bank. Eighty-eight percent of commercial bank credit is short term (less than one year). This statistic has remained constant since 1974. The shortage of medium and long-term credit by banks cannot be explained by a shortage of term deposits. Time deposits grew from 16 percent of total deposits in 1974 to 34 percent in 1984. But in 1984 while total time deposits in banks amounted to 11.3 billion dhs., while medium and long-term credit totaled only 2.7 billion dhs.

There is a marked difference between commercial banks and specialized financial institutions regarding the duration of credit offered. More than 80 percent of short-term credit comes from the former and almost 80 percent of medium to long-term credit comes from the latter.

Credit distribution in the economy is determined by a selective credit policy imposed by the Central Bank. This policy is based on priority treatment for specific economic sectors and the imposition of a standard credit ceiling for the rest. The Central Bank annually sets the ceiling for the total credit that each bank may lend to its clientele. For 1986, the credit limit was 103 percent of each bank's 1985 ceiling. The economic sectors which are exempt from such ceilings are:

(1) Export pre-financing credit: This is short-term (up to one year) working capital loans to cover the purchase of raw materials and other current production expenses connected with manufacturing for export. Credit is extended on the basis of the financial statements and collateral of the borrower. Such credit is discountable with the Central Bank.

(2) Short-term export credit: Loans are made to exporters based on the trade bills they hold from foreign clients to whom they

have shipped goods. This credit is given by banks for a maximum of 180 days and is discountable with the Central Bank.

(3) Medium-term export credit: Medium-term (up to five years) loans are also available and discountable with the Central Bank to finance overseas sales of equipment made by Moroccan manufacturers.

(4) Import credit for strategic goods such as grain, petroleum, sugar, and fertilizer.

(5) Import credit from a foreign bank: A fifth and novel exception to the credit ceiling rule concerns loans obtained by Moroccan importers from foreign banks to pay for the importation of goods and services. This exemption was successfully used by WAFABANK in connection with the USAID Revolving Fund loan, as will be explained below.

Short-term credit by Moroccan commercial banks covers, for the most part, working capital, export credit, and credits to small and medium sized enterprises.

Working capital may cover cash requirements, which average about 28 to 30 percent of total short term credit, and are usually in the form of an over-draft providing short-term bridge financing of inventory and other supplies. Working capital requirements may also be obtained through commercial paper (draft or invoice) discounting facilities at banks, or through advances on goods such as grain in storage.

Although regulated by the Central Bank, domestic credit has usually been adequate to meet the needs of Morocco's established small business sector. Where access has been limited, it has normally been the result of the stringent collateral and feasibility requirements of the commercial banks and relatively insensitive to changes in these banks' credit ceilings. Access to foreign exchange has been somewhat less dependable, and importers have sometimes been required to make extensive and prolonged use of supplier credits to meet their needs for imported equipment, raw materials and finished goods.

Prior to the IMF Stand-By Arrangement in late 1983, Morocco's foreign exchange situation had reached a particularly desperate state, and foreign commercial banks had essentially cut Morocco off from further hard currency credits. Since that date, foreign banks have reopened credit lines but have maintained strict limits on the borrowing levels of Moroccan banking institutions. For most categories of imports, this rationing manifests itself as lengthy delays on the Central Bank level in receiving the authorization for specific foreign currency transactions.

C. Interest Rates

Interest rates, whether on credit or debit balances, are strictly controlled by the Central Bank. Interest rate policy is directly influenced by conflicting factors. Domestically, due to the low rate of savings which only partially satisfies the country's capital needs, there is a pressure for higher interest rates. At the same time, according to a Central Bank authority, the financing of investments in Moroccan companies, which in general have high indebtedness and limited possibilities for self-financing, has required the Central Bank to moderate interest rates.

Even under existing exchange control, the Moroccan money market is subject to outside influences, because of heavy borrowing abroad in the last few years. This explains the growing differences between nominal interest rates in Morocco and those prevailing in international financial centers, and the resulting necessity to frequently adjust the former.

The following is a summary of Morocco's current interest rate structure as of January, 1987:

1) Short-term credit:	
a) Discountable at Central Bank	
i) Export pre-financing credit	9%
ii) Short-term export credit	9%
iii) Medium-term export credit	9%
iv) All other credit	12%
b) Not discountable at Central Bank	
i) All credits	14%
2) Medium-term credit:	
a) Discountable at Central Bank	14%
b) Not discountable at Central Bank	15%
3) Long-term credit (> 7 years):	
a) All credits	16%

III. Loan Agreement

The WAFABANK/Revolving Fund project in Morocco was developed within the context of the third meeting of the United States-Moroccan Joint Economic Commission in April 1984, on the heels of one of Morocco's most severe exchange crises in history. This Commission concluded that it was necessary for Morocco to develop a strong and diversified economy; that credit availability must be increased to small and medium-size enterprises which, as a group, constituted the backbone of the economy; and that export-oriented enterprises should be emphasized as beneficiaries of such expanded credit facilities. WAFABANK, which specialized in providing export and import credit, was concerned about the potential difficulty it foresaw in meeting its clients foreign exchange needs and was interested in devoting more of its resources to meeting the credit needs of small and medium size enterprises. In addition, WAFABANK's extensive branch network, and an interest in finding additional sources of funding for small scale enterprises, all contributed to its selection as the participating financial institution in PRE's Revolving Fund program.

USAID intended the program to expand Moroccan employment, increase exports from Moroccan small-scale enterprises, increase Morocco's foreign exchange earnings, strengthen private businesses and especially small-scale enterprises in Morocco, and broaden the export experience of WAFABANK.

The essential features of this loan agreement were the following:

1) Establishment of a loan fund by WAFABANK: WAFABANK set up a fund with the equivalent of $5,000,000 in foreign currencies for loans to Moroccan small and medium-size enterprises.

2) Eligible enterprises: Access to the new loan facility was limited to totally private enterprises at least 50 percent owned by Moroccan citizens, whose total equity (capital plus reserves) did not exceed 6,500,000 dhs. and whose net fixed assets (equipment and building) do not exceed 6,500,000 dhs.($763,807 as of January 1987). At least 25 percent of the loans were to be made to smaller small and medium-size enterprises, whose total equity or fixed assets did not exceed 3,000,000 dhs.($352,000).

3) USAID loan to WAFABANK: USAID lent WAFABANK $2,500,000 which was deposited by USAID in a collateral account opened in WAFABANK's name with the New York branch of Credit du Nord, WAFABANK's main correspondent bank in Paris. Those funds were immediately invested in U.S. Government 180-days Treasury Bills. All interest on this account accrues to USAID.

4) Credit du Nord loan to WAFABANK: Credit du Nord extended a loan ($5 million) to WAFABANK for the same term as the USAID loan and at

an interest rate of LIBOR (London InterBank Offered Rate) plus 0.75 percent.

5) Eligible financing: Items eligible for financing under the project included the cost of goods and services purchased by the eligible enterprises which originate from the United States, Morocco or the Free World Countries listed in USAID Geographic Code 935.

6) Interest rate: The rate paid by WAFABANK as the borrower to USAID as the lender was established as equal to the rate paid on 180-day U.S. Treasury Bills, plus a 0.5 percent facility fee on outstanding principal and a 0.5 percent guaranty fee on the amount of the loan, payable in semi-annual installments beginning six months from the initial disbursement date (see Appendix 1).

7) Term: WAFABANK was to repay the principal in eight semi-annual installments, the first due one year after the first interest payment.

8) Grant provisions: USAID made a $50,000 grant to WAFABANK to conduct a marketing study to identify eligible sub-borrowers, and to obtain from U.S. institutions technical expertise in lending to small and medium size enterprises, with an emphasis on exporters. This grant was an effort to develop WAFABANK's capabilities in marketing, credit analysis and loan management by training its staff in these areas.

It is noteworthy that although the language of the loan agreement and its supporting documentation emphasize promotion of Moroccan exports, the terms of the loan agreement include no specific targeting of loan proceeds to exporters. It is similarly noteworthy that WAFABANK found that the USAID size standards of businesses eligible for financing under the program, while consistent with the World Bank's definitions, were in practice much more inclusive than those normally employed for placing clients in the Bank's Small and Medium Size Business Division. Finally, it is important to note that the project was primarily intended to increase capacity utilization and the introduction of new technology for existing businesses rather than to promote new business starts.

Following the signature of the basic loan agreement between USAID and WAFABANK, a three-party agreement was signed by WAFABANK, Credit du Nord, and USAID. The purpose of this three-party agreement was to define the respective roles of each party and to establish procedures for the collateral account, investment of the guarantee, the allowable currencies for borrowing, and responsible parties in the event of default.

After signature of the agreement between WAFABANK, Credit du Nord, and USAID establishing this project, several difficulties were encountered. Since the credit ceiling allotted to WAFABANK by the Central Bank was largely committed, the bank was not able to use the full line of credit provided under the agreement for its clients. The original project also had several disadvantages. The interest rate charged by USAID to WAFABANK, which was at prevailing world market rates. required WAFABANK to charge its customers a rate in excess of the fixed interest rate available domestically at that time for similar loans. Moreover, the arrangement included standard Moroccan Government limitations as to the foreign currency to be used by the sub-borrower for repayment. This entailed less flexibility and potentially higher cost to the importer since under Moroccan foreign exchange regulations a Moroccan importer, must use the same currency to pay for the commercial transaction (the payment of the goods to the foreign supplier) as for the financial transaction (the purchase of the foreign currency through its bank).

In an effort to resolve these difficulties, WAFABANK engineered a solution with the approval of the Central Bank. Under the original arrangement, WAFABANK opened letters of credit for its clients/importers, which were to be confirmed by Credit du Nord, Paris, with the USAID collateral used as security by Credit du Nord.

Under the new arrangement, loans were made directly to the Moroccan clients by Credit du Nord guaranteed by WAFABANK and counter-guaranteed by USAID through its deposit in the collateral account. WAFABANK continued to administer these loans and borrowers continued to regard WAFABANK as the institution responsible for these loans.

Since WAFABANK's role under the new arrangement was technically that of a guarantor and not a lender, a loan to a sub-borrower fell outside of the Moroccan Government's restrictions of WAFABANK's credit ceiling. This arrangement also removed the purchase of foreign currencies from the limitations of the Moroccan foreign exchange regulations.

This alternative configuration included several benefits for sub-borrowers. These benefits are discussed in some detail below. The new alternative did not entail a higher risk for USAID or Credit du Nord since WAFABANK was still 100 percent responsible for all loans made under the project.

The above-described changes required amendments to both the original loan agreement between USAID and WAFABANK and to the three-party agreement between USAID, WAFABANK and Credit du Nord.

The new three-party agreement resulted in fundamental changes in the financial transactions between sub-borrowers and their foreign suppliers. These changes include the actual letter of credit mechanism, the repayment process, and as mentioned above, overall foreign currency credit availability.

Before the program a WAFABANK client who wished to import goods would request, through WAFABANK, the necessary foreign currency to make a purchase from a foreign supplier. The Central Bank would acknowledge the request and advise WAFABANK what date the conversion would take place. The period of time between the application and actual receipt of foreign currency could range from several weeks to months. When the actual conversion took place and was confirmed by the Central Bank, WAFABANK would notify its correspondent bank, in this case Credit du Nord, who would furnish the supplier's bank with a letter of credit to complete the commercial transaction.

When an importer used the USAID facility, however, he notified WAFABANK that a sum of foreign currency was needed to make a purchase from his foreign supplier, and WAFABANK notified Credit du Nord who would immediately issue the letter of credit to the specified foreign supplier. Credit du Nord was lending directly to the Moroccan importer. Four days before the Credit du Nord loan to the Moroccan importer was due (typically loan terms ranged from 1 to 6 months) the borrower, through WAFABANK, would notify the Central Bank of the need to obtain foreign currency to repay the loan to Credit du Nord. Again the borrower's request would wait in line for available foreign currency at the Central Bank. Sixty to 90 days later (at the time of this study the delay was 84 days) the Central Bank would furnish the necessary foreign currency to repay the loan.

Under the USAID facility, the cost of any delay in currency conversion at the Central Bank, which in essence extends the loan period, is borne by the borrower. But the commercial transaction (payment for the goods ordered) takes place at the time that the order for the goods is made by the importer, not when the necessary foreign currency is available through the Central Bank, hence eliminating a delay in raw material acquisition and/or the need for lengthy supplier credits that importers had experienced under the traditional arrangement.

Because the loan is made by Credit du Nord, it falls outside of Moroccan credit ceilings and foreign exchange regulations. As a result, Moroccan importers are able to pay back the loan in any number of negotiable currencies, instead of the currency used in the commercial transaction. Hence if an importer purchased wood in Portugal, but at the end of the loan term realized that it would be more advantageous to repay Credit du Nord in French francs, this would be allowable. Another advantage of this arrangement is that overall credit to Moroccan borrowers has been increased, since the $5 million line falls outside of credit ceilings imposed by the Central Bank.

IV. Organization and Operations

WAFABANK's loan department is divided into six divisions according to the activity of the client-enterprise (see Appendix 2 for WAFABANK Organization Chart). These divisions are: (1) Small and Medium Scale Businesses; (2) Industry, Mechanical and Electronics; (3) Building Materials and Construction; (4) Food Products; (5) Mines, Energy and Chemicals; (6) Textiles and Leather. Each division, located in the Bank's headquarters building in Casablanca, is staffed by a director and 3 assistant directors. With the exception of the Small and Medium Scale Business Section, clients from throughout the Kingdom are managed from the main office in Casablanca.

The Small and Medium Scale Business Division, which oversees 2,600 clients, is decentralized, with the bulk of loan identification, evaluation, and monitoring placed under the control of 60 branch managers located throughout the Kingdom.

Files reviewed by the team revealed that WAFABANK integrates loans made under this program with its routine lending activities and employs procedures identical to those it uses in reviewing and managing the remainder of its loan portfolio. A thorough study of each enterprise and its market is made before credit is granted. A loan application requires 3 years of verified balance sheets, ratio analysis, a record of other existing credit, past bank and credit experience, loan collateral, and a summary of conclusions by the loan officer (see Appendix 3, "Demande d'Autorisation de Credit"). In addition, a written report on the company's financial health and history, focusing on management experience, business location(s), employees, growth and business activities is made. An analysis of the product line and a market forecast are included, as well as an analysis of the competition, projected demand, cash flow and cash needs for the coming year. A written request is then made for the amount and conditions of the loan. Personal computer programs are used in completing analyses and forecasts.

A credit committee meets once per week to consider all loan requests. The committee composition varies depending on the size of the loan requested, from the loan officer and his division director for small loans (less than 2 million dhs.) to the President, Vice-president and Division Head for loans above 3 million dhs. These requirements were consistently applied in the sample of files reviewed by the study team.

WAFABANK's loan oversight process is thorough and rigorous. Several visits per year are made to the enterprise during the entire period of loan effectiveness. These visits are meant to be substantive, emphasizing the importance the bank places on bank-customer relationships. Typically the loan officer will provide technical assistance as requested or deemed necessary during these visits. It was evident while conducting the site visits that a close and congenial relationship existed between the loan officers and their clients.

The $50,000 grant for technical training and market study had not yet been used by WAFABANK. They were in the process of identifying American firms capable of providing the training services in French at the time of the team's visit.

USAID monitors the WAFABANK program with the assistance of a local hire American working for the USAID Mission in Rabat. His role as in-country intermediary between PRE/Washington and WAFABANK has provided a local contact for the bank officials, as well as enhanced local Mission involvement in this project in particular and the Moroccan banking sector in general.

V. Loan Disbursement and Impact on Sub-borrowers

Implementation of the PRE Project began in April 1985 with a 5 month loan to Equipment Industriel of $22,400 to import manufacturing parts. Since then, 177 loans totaling $9.7 million to 54 different businesses have been made, with loan terms ranging from one to six months. In other words, the entire loan fund of $5 million had "revolved" approximately twice over the 20-month period of the program (See Appendix 4).

The original agreement targeted this program to small scale enterprises (SSE's) as defined above. Actual results showed that all loans were made to enterprises fitting this criteria, although one enterprise, Cooperative Marocaine de la Conserve, outgrew the SSE definition but still received loans from the program.

Although some enterprises have fluctuated between the SSE and SSSE classification during the 20 months that the program has been in operation, 96 loans (54 percent) totaling $4,478,338 were made to SSSE's, while 81 loans (46 percent) totaling $5,255,241 were made to SSE's. Seventy two percent of these enterprises were located in Casablanca. This is not surprising when one considers that the program facilitates import financing, and Casablanca port handles over 70 percent of the country's shipping tonnage.

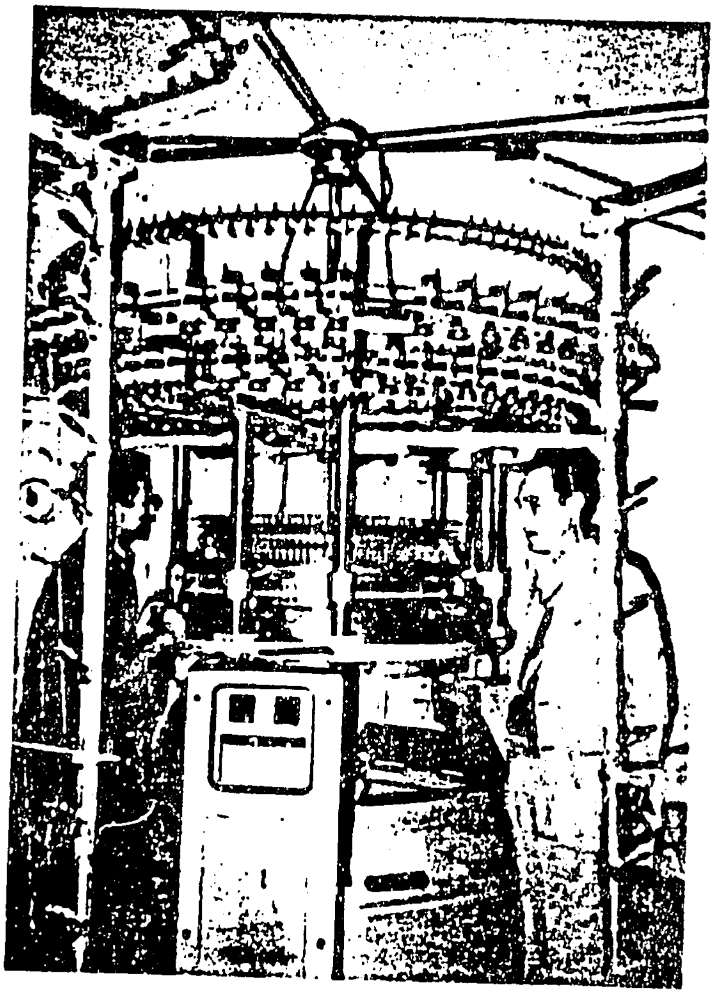
Of the loans made using the USAID facility through December 1986, 56 percent of the enterprises fell under WAFABANK's definition of Small or Medium sized business and were therefore administered by the Bank's Small and Medium Size Business Division. The remaining enterprises were distributed as follows: 21 percent were in the Industry, Mechanical and Electronics Division; 9 percent were in the Construction and Building Materials Division; 6 percent were in the Food Products Division; 6 percent were in the Mines, Energy and Chemical Division; and 2 percent were in the Textiles and Leather Division (see Appendix 5 for a detailed breakdown).

Loans made under this facility usually represented only 5 to 20 percent of the overall line of credit that a given client had been authorized to borrow from the bank. There were no reports of payback delinquencies on the part of borrowers from this facility. No loan term was greater than 6 months. An average of 3 loans averaging $54,800 were made per borrower over the 18 month program. One company used the facility 27 times to borrow $1.8 million, while another used the program only once to borrow $9,600.

In an effort to obtain additional insights about the program and more detailed information on the sub-borrower characteristics, seventeen sub-borrowers were visited by the study team between January 19-27, 1987. This sample represented 32 percent of all borrowers, 40 percent of all loans, and 37 percent of all funds lent under the program. The initial sample selection was stratified according to borrowers' relative size (as many large as small businesses), frequency of borrowing (a mixture of repeat borrowers and those who had only borrowed once from the program), and the type of activity of the enterprise (paralleling the composition of the portfolio).

Bank officers arranged and accompanied team members on all site visits. Exchanges between clients, study team members, and bank personnel (usually the loan officer in charge of the specific account) were frank and informative. One bank officer noted after a client meeting in which foreign exchange risk was discussed, that he had not previously been aware of any client misgivings about the program before that session.

Appendix 6 is a summary of pertinent information gathered during site visits, while Section VII of this document presents client profiles on each of the sub-borrowers visited. Among the noteworthy findings from these visits was the fact that all but two enterprises had been in business and had been well-established WAFABANK customers before the start of the USAID program. The two new customers were start-up subsidiaries of a large corporation that had been banking with WAFABANK (and its predecessors) for more than 20 years. In all cases, the companies had established several lines of credit with WAFABANK and most had imported frequently. In only three instances was the trade financing, supported by USAID, the first undertaken by the company, and two of these cases were start-up companies in which the parent corporation, an import/export company, had been involved in importing for many years.



THE USAID/WAFABANK PROGRAM ALLOWED CETEX TO ARRANGE BRIDGE FINANCING TO IMPORT THIS MODERN TEXTILE MACHINE, TO FURNISH CLOTH FOR MORROCCO'S THRIVING CLOTHING INDUSTRY.

In 10 of the 17 cases, raw or semi-finished materials were imported and transformed into a finished product by the company. Four of the clients were "negociants" who imported materials to be sold to wholesale or retail outlets, without any product transformation. Two cases were bridge loans made by WAFABANK so the client could import capital equipment while medium term financing was being arranged, and in the remaining case the facility was used to pay down trade credits due to a clients' suppliers.

1986 sales and employment figures as presented in Appendix 6, suggest that average annual sales were $5.2 million (high of $17.6 million, low of $0 for start-up firm) and an average employment was 80 (high of 300, low of 5). Site visits revealed that foreign exchange credit availability was critical for the provision of required raw material inputs. Although the USAID supported line of credit represented only 5 to 20 percent of total credit available to the enterprises involved, it represented a substantially higher portion of these firms' foreign exchange credit and occurred at a time when access to foreign exchange was difficult. There is thus good reason to believe that the project's assistance in providing immediate access to foreign exchange and hence more reliable raw material supplies, in all likelihood had a positive impact on both sales and employment.

The program had no stated objective for the employment of women. Nevertheless, it was found that the 17 businesses surveyed employed an average of 15 women each (19 percent of total employment). Many of the recipient businesses were industrial in nature, however, and did not employ women beyond the administrative level.

Given the restrictions on credit availability in Morocco at the onset of the program and to a lesser extent at the time of this study, it is quite clear that the project resulted in a net addition to the commercial credit extended by WAFABANK. Similarly, given the fact that WAFABANK had reached its allowable ceiling with Credit du Nord, it appears that the PRE guarantee resulted in a net increase in the foreign exchange available to WAFABANK and hence to Morocco. Thus while the team found evidence that the 17 firms surveyed, which were among WAFABANK's better small business clients, were able to obtain foreign exchange credits through normal bank facilities, the ready access of foreign currency credit under the USAID program allowed them easier access and thereby helped them to maintain a more consistent level of production. In addition, it is apparent that, as a result of the project, some businesses in Morocco received credit and foreign exchange which would otherwise have been unavailable to them. WAFABANK officials suggested to the team that the businesses most likely to be adversely affected by credit and foreign exchange restrictions -- and hence those most likely to have benefited from the increases made possible by this program -- are small businesses with relatively less established banking and trading histories.

As noted above, one of the most important advantages to the clients of WAFABANK has been the ability to make timely payments to suppliers. There is still a lengthy delay before the client can repay Credit du Nord because of a shortage of hard currency at the Moroccan Central Bank, and the client continues to bear all interest charges during this period. However, the survey revealed that importers felt that the ability to substitute immediate letter of credit payments for supplier credits, thereby ensuring that their suppliers were paid on time, was an important aspect of the program.

Since the amended three party agreement makes Credit du Nord the lender and WAFABANK the guarantor, the foreign exchange transaction is no longer bound by government restrictions. Therefore, the client is allowed the flexibility to repay in any number of currencies instead of only the currency of the commercial transaction. This flexibility enables the borrower to hedge foreign exchange risk by using the most advantageous exchange rate to repay his loan, a characteristic that of the program that was valued by many of the clients surveyed.

The program also affects the interest rate paid by borrowers on their loans. Instead of the Central Bank's fixed rate which an importer must pay to a Moroccan bank under normal circumstances, borrowers under this program pay a floating free market rate based on LIBOR plus 3.25 percent. Since Eurocurrency rates have recently traded between 6 and 10 percent, the present arrangement has in practice, allowed borrowers to take advantage of the lower world market rates instead of the higher fixed rates for domestic loans.

The program has, in fact, been profitable for most of the parties involved. Sub-borrowers have been able to obtain funds at interest rates below those otherwise available in Morocco during the same period. WAFABANK has been able to obtain funds at LIBOR plus 0.75 percent and lend them at LIBOR plus 3.25 percent, thus earning a margin of 2.5 percent on these without incurring significant incremental administrative expense or risk. USAID has received a return equivalent to 180 day Treasury Bills plus 1 percent facility and guaranty fee and incurs relatively minimal risk. Although Credit du Nord was able to cover its costs under the program, they complained of the level of administrative expense that was necessary for their internal monitoring of the program, and indicated they would like to charge higher fees and demand a greater guarantee to participate in any new Revolving Fund programs in the future.

Imports financed by the program originated from several countries, most notably France and Italy, and to a lesser degree Spain and Portugal. These are traditional trading partners with Morocco. Neither the project loan agreement nor its implementation placed particular emphasis on export promotion, and only four of the 17 enterprises interviewed in this study manufactured for export, although several others expressed interest in doing so as a means of increasing sales. Of the enterprises visited, two used a portion of their loan proceeds to import goods from the United States, and one other was considering the U.S. as a source of supplies.

An effort was made to establish whether finished products were import substitutes, as well as if backward and forward linkages existed. In all cases of product transformation it appeared that some import substitution took place. Backward linkages involved using domestic inputs in the company's production process. Forward linkages entailed the use of the finished product in a subsequent domestic production process. Several cases of both types of linkages were found among the enterprises surveyed. For example, Cetex, a textile mill, uses locally made thread to manufacture cloth, which is subsequently sold to garment manufacturers, some who eventually export their products to Europe.

A more subjective assessment involved probing the borrowers' opinions as to the "positive and negative aspects" of the program. A nearly unanimous response concerning a positive aspect was the improvement of supplier relations due to timely payment for purchases. Longer repayment terms, lower costs, and bank advice were all felt to be other positive aspects of the program. Several of the importers, who had never before been responsible for managing foreign exchange arbitrage, cited the difficulty in predicting currency fluctuations, and the subsequent high cost associated with devaluations, as being a major problem with the program. In one case a borrower insisted that he was not informed by the bank that he would be responsible for managing the foreign exchange risk during the loan period, and has not used the line since.

Finally, a preliminary assessment was made as to whether the program was responsible for the introduction of new technology to Morocco. In over 50 percent of the cases, the loan program did facilitate the introduction of new technology, from computer and engineering systems to new fishing techniques and better packaging methods.

VI. Institutional Impact

A. WAFABANK

The first and most obvious potential institutional impact of this project concerns the implementing institution, WAFABANK, and any changes the project might have introduced in their ongoing operations and future plans.

WAFABANK was very active in import financing and in lending to small and medium sized enterprises prior to this project, and there is little indication that WAFABANK has used this facility to extend its activities into a new market segment. One of the reasons for this was the relatively inclusive definition used in the initial agreement for SSE's and SSSE's, which included some relatively large companies, and many of WAFABANK's existing customers. Bank officials did indicate, however, that they were very pleased with the program and were actively lobbying the evaluators to recommend its continuation and expansion.

Citing the reasons for their satisfaction with the program, bank officials indicated that the USAID project provided an opportunity for the bank to increase its lending to good customers on profitable terms and to provide a new service to their clients. In addition, they felt that the program enhanced their already positive reputation with Credit du Nord and with other Moroccan banks.

B. Other Moroccan Banks

Visits to other commercial banks in Morocco indicated an interest on their part in participating with USAID in a project similar to that carried out with WAFABANK. The three commercial banks visited (Banque Marocaine pour le Commerce Exterieur; Societe Marocaine de Credit et de Depot; Banque Marocaine pour le Commerce et l'Industrie) all expressed an interest in participating in a similar program to offer trade financing to small businesses and seemed envious that WAFABANK had scored another "first" in the Moroccan banking industry.

C. Credit du Nord

A visit to the headquarters of Credit du Nord in Paris indicated that they would be happy to see the project continued or expanded, albeit with certain changes in the terms and conditions of the tri-partite agreement. Disappointingly, however, Credit du Nord perhaps indicating their perceived risk of doing business in Morocco, stated that despite the successful loan repayment experience of this project and the full guarantee of WAFABANK, they would be unwilling to continue or expand the project without the maintenance of a guarantee by USAID. They expressed no intention of continuing the program with WAFABANK, or extending it to other Moroccan banks, in the absence of such a guarantee.

D. Central Bank

The Central Bank, which might have been expected to have been critical of a program which circumvented established Central Bank restrictions, expressed general satisfaction with the program and the added flexibility it afforded. They were non-committal on the subject of expansion of a program which currently affects a modest proportion of domestic commercial borrowing or international commercial transactions. However, they did indicate that their experience with the program had led them to re-evaluate their policy on foreign exchange transactions by exporters. Henceforth, those exporters that also have import requirements will be permitted to retain a portion of their export earnings in overseas accounts and use them to finance the importation of needed raw materials, equipment and supplies.

E. USAID

USAID/Morocco staff were apparently actively involved in the initial identification of this project and in subsequent backstopping during loan negotiation and implementation. By the time of this assessment, however, those staff members most involved in the project had left Morocco for other assignments, and Mission participation was largely reduced to one personal services contractor acting as liaison between PRE/Washington and WAFABANK. At the present time, the Mission has no projects or plans which are intended to build directly on the experience acquired by and through this project. Nevertheless, the project appears to have enhanced contact between USAID/Morocco and the local banking community. Several other banks in Morocco have approached USAID to obtain additional information on the WAFABANK program as well as to inquire about other areas of potential involvement by USAID and the banking sector. In addition, the WAFABANK-Revolving Fund program appears to have created an increased interest within the Private Enterprise Section of the Mission in local banking problems and to have suggested several possible areas of future Mission involvement in Morocco's private sector.

VII. Borrower Profiles

While all of the borrowers visited were relatively sophisticated enterprises who used the proceeds of their loans to finance imports, they nevertheless differed significantly from one another in several important dimensions. The following pages present brief profiles of the 17 firms visited in an effort to give the reader a sense of the types of entrepreneur and enterprises involved, and a better understanding of their relationship to WAFABANK and the project. Statistical information on these sub-borrowers is summarized in tabular form in Appendix 6.

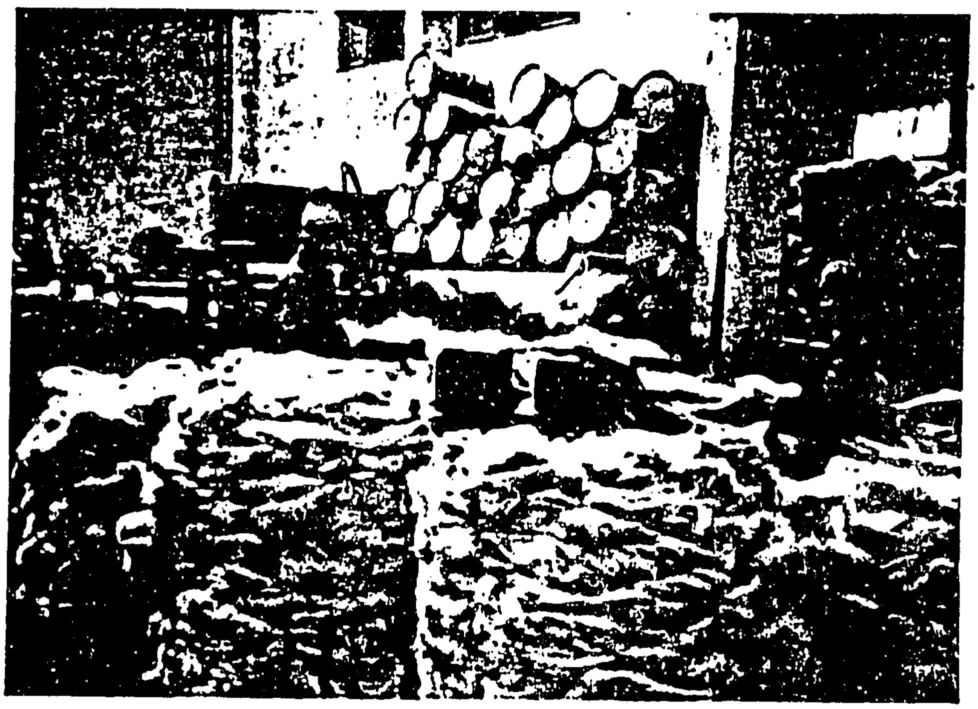
COPAFIC

Total line of USAID Credit: 3 loans totaling $167,600

Purpose: Import sisal

Mr. Mohamed Abkary greeted us warmly on an otherwise cold morning in Casablanca. A pot of Moroccan mint tea helped get our conversation going. He was very happy to meet a representative from USAID, so that he could thank them for the program that has allowed him to import over $165,000 worth of raw sisal from his supplier in Brazil.

Mr. Abkary has been in the rope business since 1942, first as an "artisan" who wove it by hand, and, since 1967, as an owner of mechanized rope factory. The rope is spun in several dimensions, from 1 cm. (used as twine for agricultural baling) to as large as 30 cm. (for



RAW SISEL, IMPORTED FROM BRAZIL, IS PROCESSED INTO ROPE AT COPAFIC IN CASABLANCA. WITH THE HELP OF THE USAID/WAFABANK IMPORT CREDIT PROGRAM, COPAFIC ATTAINED OVER $700,000 IN SALES AND EMPLOYED 60 WORKERS IN 1986 construction). Since his principle raw material is imported - there is too little rain to grow the necessary quantity and quality sisal in Morocco -- he is very dependent on maintaining good relations with his suppliers. "Before the PRE/WAFABANK program, my suppliers waited several weeks for payment. Now they are paid on time, a fact which has improved my standing in their eyes", he says. He also has benefited from the longer terms provided to him by the WAFABANK loan, 6 months versus 2-3 months. He feels the cost of the line of credit differs very little from other lines available locally, but adds, "WAFABANK is a complete bank; they make suggestions as to how I may be able to streamline my costs and improve my management".

All of COPAFIC's output is destined for the local market. In addition to gross sales made directly from his factory, he also has 2 retail outlets. Since he first used the line of credit from USAID, his sales have increased 20 percent to 6 million dhs. ($700,000) per year. COPAFIC is the second largest producer of rope products, with 30 percent of the market share. Last year it produced over 900,000 metric tons of rope products from an automated factory containing 10 spinning machines. Mr. Abkary has 60 employees working full-time at the plant.

"My only concern", he adds "is that the bank says they have lent out all of USAID's credit line. If we go back to the old system, I'm worried that my relationship with my supplier will suffer".

CETEX

Total Line of USAID Credit: One loan totaling $28,300

Purpose: Purchase state of the art textile milling machine

CETEX is located in an industrial zone in Eastern Casablanca. They are one of over 100 small textile mills located in Morocco. The manager, Mr. Berrada, has been director of the limited partnership for 5 years. The company makes both cotton and polyester cloth for the local Moroccan market. At present they produce over 400 kg. per day, using 10 machines.

The PRE/WAFABANK loan was used as a bridge so that CETEX would be able to import a machine from Germany. Without the access to ready foreign currency, they would have been unable to make the order. Once the machine was imported, Mr. Berrada lined up a medium term loan to pay off the letter of credit and stretch out his repayments. "Despite my previous experience in banking, it was WAFABANK who conceived of the bridging arrangement", he concedes.

The new textile mill has increased production from 83 to 114 metric tons per year, which represents an additional 1,690,000 dhs. per year ($200,000). They have also been able to add 4 employees to their staff, which now numbers 17. They would like to enter the export market, but their production isn't great enough to meet local demand. Mr. Berrada would like to buy one more machine, which would give them the capacity to do so. "Since all our inputs are locally produced, this would really help us earn our own foreign currency to expand even further", he explains. Although vague about export markets, he's optimistic, given WAFABANK's export promotion program, that he'll receive the help he needs.

CONFECTION GENERALE

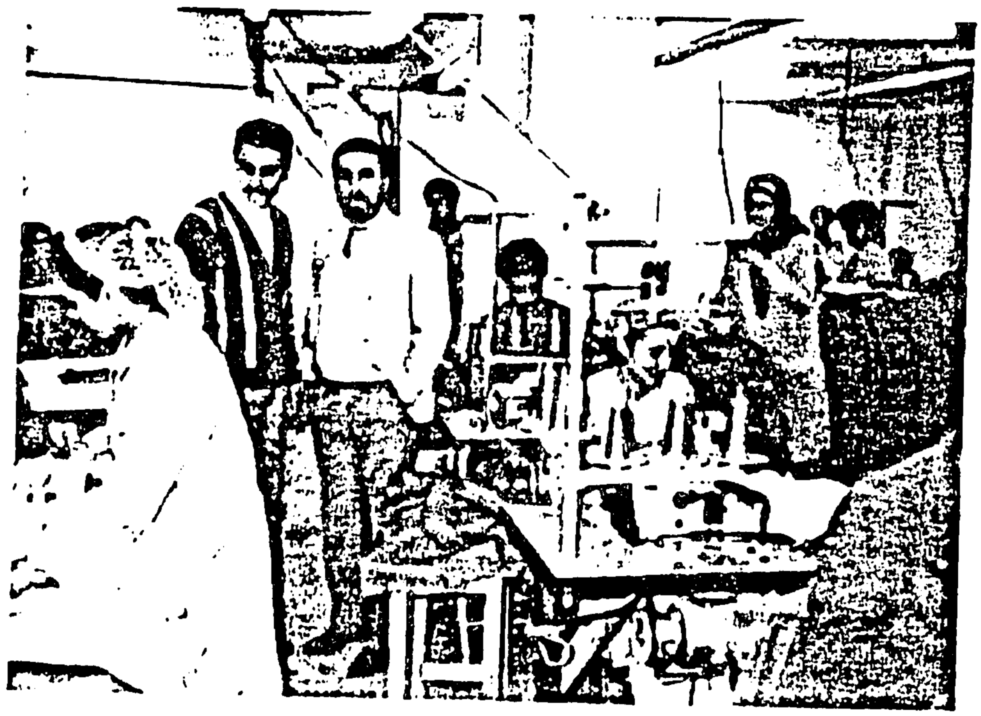
Total Line of AID Credit: 1 loan totaling $45,900

Purpose: Import blue jean material from France

Twenty three year old Mr. Soufien had a large problem. The French Government had just ruled that his supplier in France, Jergen Jeans, could no longer furnish his company with jeans cloth without payment. This arrangement had worked very well for Confection General during the 2 years it had been making jeans and jackets for the French market. Fortunately, Mr. Soufien's banker, Mohamed Biessar, had a letter of credit facility available through the PRE/WAFABANK program. "I required immediate access to hard currency credits or I would have had to close my doors", explains Soufien.

Mr. Soufien, whose father and grandfather had been in the clothing manufacture business for as long as he could remember, was the first in the family to realize the profits to be made in the export market. In two years, the business has grown from 50 employees producing 15-20,000 pieces per month to over 100 producing 30,000 pieces. The demand from Jergen is high enough that in two months he plans to level off his output at 50,000 pieces/month, which will require him to employ 50 more workers. His employees, who earn from $150-$200, per month, are skilled and reliable. His sales total approximately $250,000/month, of which 10 percent is profit. "My profit margin is low, actually. Clothing is a competitive business, and although we offer a reasonably priced product due to the recent devaluations of the dirham, you still must cut your prices to gain a market share", he says. As for materials, he could never use the jean cloth supplied by the local market, since the quality is not anywhere near what is demanded in Europe.

His business is about 1/2 as large as his major competitors. But his product quality is high since it is all destined for the export market. He is currently trying to develop relationships with several German distributors. He has gotten a lot of help from WAFABANK in arranging financing and developing business in this new market. "They are experts in what they do, which leaves me the time to worry about what we do. I couldn't be more pleased with our relationship", says the young entrepreneur.



MR. SOUFIEN AND HIS BANKER, MR. BIESSAR, DICUSS BUSINESS DURING A TOUR OF CONFECTION GENERATE, A CLOTHING MANUFACTURER IN CASABLANCA. THE USAID/WAFABANK FACILITY HAS ENABLED MR. SOUFIEN TO IMPORT NEEDED RAW MATERIALS FOR THE MANUFACTURER OF BLUE JEANS FOR SALE IN THE FRENCH MARKET.

SITEL

Total USAID Line of Credit: 8 Loans totaling $337,092

Purpose: Import parts to build electronic, refrigeration, and hydraulic equipment.

Mr. Idrissi is a 35 year old entrepreneur with a masters degree in electrical engineering. He is currently behind a desk, explaining why Sitel's activities are an essential element for modernizing Moroccan industry. Sitel furnishes the Government of Morocco and several large industries equipment that is essential for training mid-level technicians needed for operating refining, power generation, food processing, and other industrial systems which are being installed in Morocco today. "We have highly trained engineers, we have unskilled workers, but we have no one in between who can run the machines of our industrial revolution", explains Mr. Idrissi. The World Bank, EEC, as well as the Government of Morocco has targeted technical training as a priority and have emphasized the establishment of technical training institutes throughout Morocco to develop its cadre of electricians, computer programmers, hydraulic & mechanical engineers, etc. Sitel builds simulators which are designed to be used in these schools.

Although competing with French and Italian firms, Sitel holds a 60 percent market share, attaining 40,000,000 dhs. ($4.7 million) in sales in 1986. Three quarters of their business is in furnishing state schools, the rest going to private industry. They also offer service contracts for their products, with a full supply of parts, as well as training programs for new users. They feel that the service element, as well as their lower price, gives them a competitive edge.

Their own work force is expanding, increasing by 6 during the past year to total 35. They usually train new employees, since they suffer from the same shortage of experienced workers that is the reason for their success. Although not active at the moment, they plan to enter the export market soon, with the help of the services offered through WAFABANK. "We, and to a greater degree our suppliers of electrical and hydraulic equipment, are grateful for the USAID program. Its given us the opportunity to really build up our business". adds Idrissi.

MOROCCAN SEWING MACHINE INDUSTRY, S.A. (Singer)

Total Line of USAID Credit: 22 loans totaling $442,000

Purpose: Import sewing and knitting machines for household and industry use.

Singer has been a presence in Morocco since 1925. In 1974, after the Moroccanization of foreign held businesses, the Company's name was changed, but its purpose remained the same. In addition to importing Singer sewing machines with the help of the PRE/WAFABANK program, MSMI builds wooden cabinets for sewing machines and televisions, and markets locally assembled Radiola (Phillips) televisions, refrigerators, and ovens. These items are marketed in 9 stores and through 500 dealers throughout Morocco.

Mr. Belguendouz, who has worked for the enterprise over 30 years, is currently their financial manager. "Approximately 25 percent of our projected 102 million dhs. sales for 1986 is from our sewing machine line", he explained. "Our sales have been steadily increasing from 72.2 million in 1983; I could attribute some of this to the USAID program, but that would be presumptuous". He readily acknowledges that the program has reduced the costs of their imports, and improved their standing with their suppliers. "I'm not as concerned with the price of imports as I am with our supplier relations" he assured me. Most of their suppliers are in the U.S., Japan, and Taiwan, and they are not particularly interested in local foreign currency problems and delays. The WAFABANK credit guarantee eliminates any delay in payment. Explains Mr. Belguendouze, "This represents a quarter of our business, and is why the company was started so many years ago. It's very important that we have ready access to our supplies". As for their competition, there are several Asian sewing machine brands that are cheaper, but a competent service staff and a higher quality product assures MSMI a firm foothold in the domestic market.

MACHINE BUSINESS SERVICES

Total Line of Credit: 7 loans totaling $375,200

Purpose: Import office equipment

"There is only one reason why this program is so helpful, and that is price", asserts Rachid Bencherki, the young owner of M.B.S. Morocco. "Before the PRE/WAFABANK credit line, I would have to pay interest to my suppliers from the moment my order left their factory. It was sometimes 90 days before my product cleared customs here in Casablanca, for an order totaling a half million dirhams ($50,000) at 15 percent, you can see my concern", he explains. "Now I have 90 days credit with them, and they are paid on time. Since my business is 100 percent import dependent, you can see how important that is", continues Mr. Bencherki.

Of MBS's 15,000,000 dhs. ($1.8 million) annual sales, 60 percent is to the Government of Morocco. They specialize in Triumph Adler typewriters, as well as adding machines and photocopiers. They also offer service contracts on all of their product line. Their sales and workforce have remained relatively stable over the period of time that they have participated in the program.

He feels very fortunate to have survived the period 1983-1984, when the government was forced to stop all imports. "It was a difficult period for us all, but also a very good one. It taught Moroccan businessmen that their management was as important to their success as are all other aspects of the business. Before that period, it was too easy", he reflects.

CABLERIE DU MAROC

Total Line of USAID Credit: 3 loans totaling $705,000

Purpose: Import copper wire

What started in 1961 as a small foundry is, in 1987, the principle producer of low, medium, and high tension electric cable, with 1986 sales of 82,000,000 dhs. ($10,000,000), 50 percent of the local market (they do not export), and an employer of 155 factory workers.

They have used the PRE/WAFABANK letter of credit facility 3 times, for a total of $705,000, to import their principle raw material, copper, from Europe. They used the facility last in late 1985, abandoning it because of the high cost. It was felt that they lost several million dirhams because of foreign exchange fluctuations during that period. With the current depressed state of world copper prices, Cableries du Maroc has been able to receive liberal credits from their clients, who are offering concessional prices and trade credits in order to sell this commodity.

SINFA

Total Line of USAID Credit: 9 loans totaling $193,000

Purpose: Import tin & paper for automobile filters.

Societe Industrielle de Fournitures Automobiles (SINFA) is the end result of an idea and an opportunity. The idea of Moamah Ali was to do something more than simply import and sell auto parts. The opportunity, in 1980, was a new Moroccan law which offered credits and incentive to auto assemblers in Morocco (at the time consisting of Fiat, Peugeot, and Renault) to buy their parts locally. With their idea and Fiat's assistance, they were able to begin production of oil, air, and fuel filters for automobiles.

In 1986 total sales have increased 20 percent to 26,000,000 dhs. ($3,095,000), with approximately 30 percent of their output destined for export to Europe. Demand has required that they add a second shift, increasing employment by 50 people to 160 over 1985 employment figures (30 percent are women). Eighty percent of the raw materials used by SINFA are imported, mainly in the form of tin for filter casings and paper for filter material. Since June 1985, SINFA has used the PRE/WAFABANK credit facility to pay for their imports. Mr. Ali, Director General of the family-run organization, complains that he now has to watch the foreign currency markets as closely as his assembly line. "With the current devaluation of the dirham against most major currencies, I can really lose my shirt", he explains, adding", I think I'll concentrate on more American suppliers, given the current drop in the dollar". Indeed the dollar had fallen against the dirham just the day before. He is happy with the relationship and advice given to him by WAFABANK, who keep him up to date on currency forecasts. With 2 representatives scouring European and North African markets, SINFA, in 6 short years, is turning into a company with truly international aspirations.

SINFA, ORIGINALLY A RETAIL AUTO PARTS DISTRIBUTOR, BEGAN MANUFACTURING AUTO AIR AND OIL FILTERS FOR THE DOMESTIC AND EXPORT MARKETS. THE USAID/WAFABANK IMPORT CREDIT LINE IS USED TO IMPORT FILTER PAPER AND TIN, TWO KEY COMPONENTS OF THIS PROCESS.

CAISSERIE COMMERCIALE

Total Line of USAID Credit: 3 loans totaling $89,000

Purpose: Import wood for packing cartons

Two points shared with me by Mr. Bellali Ahmed, President of Caisserie Commerciale:

"To export fruits, which represented the third largest export commodity for Morocco in 1986, you must have cartons. Since we have very little wood, and what we do have is closely guarded to stop the encroachment of deserts in Morocco, all the wood and paper must be imported, only to be exported, costing valuable foreign exchange. "I have developed the first shipping crate in Morocco made partly with wood, partly with a cardboard-like fiber produced locally out of palm trees, hence saving enormously on the necessity for importing wood".

"When I get a call from a wood supplier, he frequently has a boat and an order of wood ready to go, and he's willing to negotiate a very good price if I can arrange immediate payment. With the PRE/WAFABANK trade credit, I just call Mr. Mesfioui at the bank and its arranged. With this facility I'm saving 5-10 percent on my orders, which is a savings on Morocco's foreign trade deficit and a savings to my customers. This program is invaluable, in my eyes".

One point demonstrates the entrepreneurial resourcefulness of a Moroccan businessman, the other, the necessity for a reliable line of foreign exchange.

COMARBOIS

Total Line of USAID Credit: 5 lines totaling $255,000

Purpose: Import metal building materials

The essence of Comarbois is to import for immediate resale on th local market. No transformation of the product takes place on th premises. They handle both wood (90 percent of total sales) an tin/metal products (10 percent of total sales). Imports account for 9(percent of their 1986 sales of 150,000,000 dhs. ($17.6 million). The PRE/WAFABANK line of credit has enabled Comarbois to speed up its payment to its suppliers in Spain, France, Belgium, and West Germany. They import all of their wood from Eastern block countries, and therefore cannot utilize the line to finance these purchases. Comarbois is very pleased with the terms of the loan, which offer interest rates which are 2-3 percent below what was formerly available to them.

CARPENTERS SAW WOOD PLANKS TO BE USED FOR HOUSE CONSTRUCTION IN CASABLANCA. DUE TO DROUGHT AND DESERTIFICATION, MORROCCO MUST IMPORT ALL WOOD BUILDING PRODUCTS, A TASK SIMPLIFIED BY THE USAID/WAFABANK IMPORT CREDIT PROGRAM.

MATEL

Total Line of USAID Credit: 1 loan totaling $80,000

Purpose: Import computer equipment for resale

Intensely involved in computer and telecommunications systems sales since 1982, Matel has the air of a Silicon Valley operation in the heart of Casablanca. Thanks to an $80,000 PRE/WAFABANK loan, Matel made its largest computer installation a reality and began what has turned into a fruitful relationship with its principle suppliers, Alto and Epson computers. "We are now able to self-finance most of our equipment needs", explains Badreddine Bentita, the 35 year old co-founder of Matel. Noureddine Anacleto, his equally young partner adds, "Our after sales service and training is our most valuable product, and it requires no foreign exchange whatsoever".

Indeed, 1986 sales of 8 million dhs. ($950,000) is double that of 1985, and the growth shows no sign of abating. Most computer companies are represented in Casablanca, a city which is currently undergoing an information systems revolution similar to that seen in the States. Matel is deeply involved in system design and system training as part of its overall marketing strategy. Training, as well as maintenance contracts (they have 2 fully-trained technicians for computer and telecommunications system servicing) accounted for 60 percent of their 1986 sales. Both men concede that, despite its value, they would prefer not to use the PRE/WAFABANK facility again, "unless a multi-million dirham contract from the government comes our way", Mr. Bentita adds with a wink.

ETS. MOUMILE

Total Line of USAID Credit: 3 loans totaling $95,000

Purpose: Purchase building materials

"I am a negotiant", states Mr. Moumile flatly. "I buy raw materials which are unavailable in Morocco. Eighty percent of my sales are of imported products". Ets. Moumille is the leading Moroccan merchant of tin roofing materials, angle iron, cement roofing materials, and plastic piping. Moumile has been in the business his entire life (55 years), as was his father before him. They have developed the largest distribution network in Morocco, with 103 dealers. Usual stock turnover is about 1-1/2 months. Total 1986 sales were approximately 125 million dhs. ($14.9 million).

To date he is happy with the WAFABANK facility. He purchases from trading companies in Europe, who are also happy with the lack of payment delay with this program. He feels that this has improved his standing in his suppliers' eyes, especially when one considers the recent problems encountered because of slow foreign currency repayment by Morocco's Central Bank. The repayment terms, at least on paper, appear a few percentage points below other loans available. But he cautions me that this does not include foreign exchange fluctuation which could "I'm new to the program, the jury is still out as to whether it is indeed a cheaper means of trade financing", he explains.

CONQUETE-RABAT

Total line of USAID credit: 5 loans totaling $161,800

Purpose: Import heating, plumbing, and bathroom fixtures

"We needed to extend the term of our loan on slower moving, high cost bathroom and kitchen fixtures", said Mr. Souad, the owner of Conquete, while explaining the usefulness of the WAFABANK import line of credit program, "We were able to turn a 60-90 day trade credit into a 9 month facility, which allowed us enough time to market our merchandise to the public". Conquete-Rabat is the principle distributor of up-scale porcelain and heating fixtures for homes and apartments in the Rabat area. It's new showroom reflects Mr. Souad's commitment to target the up-scale market segment, which offers him the greatest profit margins. He also has sales outlets targeted to wholesalers and to contractors, but is adamant that these three outlets must remain separate entities to be effective.

Sixty five percent of Conquete's product line is imported. He was the first business in the Rabat area to use the credit facility, and has financed about 20 percent of last year's imports with it. "My only complaint is that there are not enough funds in the program to use it more often", he complains. The line of credit has attained its maximum level, with all funds lent out, which has limited its availability. The better terms and improved supplier relations make this program very important to Conquete's business strategy.

COLLINGAM

Total line of USAID credit: 1 loan totaling $66,800

Purpose: Import new design commercial fishing boat

Collingam, and its 50 percent Canadian partner Roseborough Boats Limited, have invested in a modern, lightweight commercial fishing boat to capture high quality white fish for the domestic and export markets. WAFABANK financing, although short-term in nature, allowed Collingam to import and test this new boat in the waters off of Morocco. If all goes as planned, Collingam will import another 19 boats, and by the end of 1987 will have attained 34,000,000 dhs. in sales ($4,000,000). Sales, half of which will be exported to Europe, will level off at 45,000,000 dhs. in two years, if their forecasts hold true. Cash flows will enable the company to pay off their Canadian partners 50 percent stake in two years.

Although still searching for other willing investors to help finance their fleet, they are grateful for the WAFABANK/USAID letter of credit, which allowed them the means to import the lightweight, mechanized boat, which uses sonar and hooks to find and catch high quality fish. Their forecast, as well as 4 months of actual experience with the first boat, may turn out to be conservative. Mr. Zerouali, President of Conquete's holding company, feels that this success will facilitate their search for an international investor.

Borrowing and Repayment Schedules

Appendix 1

$1,000,000 = 3/22/85		$500,000 = 6/19/85		$500,000 = 8/15/85		$500,000 = 12/8/85	
18 MONTH GRACE PERIOD FROM 9/22/85 TO 9/22/86	125,000	18 MONTH GRACE PERIOD FROM 6/18/85 TO 12/19/86	62,500	18 MONTH GRACE PERIOD FROM 8/15/85 TO 2/15/87	62,500	18 MONTH GRACE PERIOD FROM 12/8/86 TO 6/8/88	62,500
3/22/87	125,000	6/19/87	62,500	8/15/87	62,500	12/8/88	62,500
9/22/87	125,000	12/19/87	62,500	2/15/88	62,500	6/8/89	62,500
3/22/88	125,000	6/19/88	62,500	8/15/88	62,500	12/8/89	62,500
9/22/88	125,000	12/19/88	62,500	2/15/89	62,500	6/8/90	62,500
3/22/89	125,000	6/19/89	62,500	8/15/89	62,500	12/8/90	62,500
9/22/89	125,000	12/19/89	62,500	2/15/90	62,500	6/8/91	62,500
3/22/90	125,000	6/19/90	62,500	8/15/90	62,500	12/8/91	62,500

DIRECTION GENERALE

DIVISION INSPECTION ET CONTROI

- -Dépt. Inspection
- -Dépt. Contrôle Informatique e Comptable
- -Dépt. Contrôle Engagements

DIRECTION DE L'ADMINISTRATION

ision Organisation Informatique

- Dépt.Systèmes Siège
- Dépt.Systèmes Agences
- Dépt.Systèmes Administratif & Comptable
- Dépt.Centre Informatique

vision Opérations

- Dépt.Etranger
- Dépt.Titres
- Dépt.Portefeuille Gestion
- Dépt.Portefeuille Engagements

vision juridique, mptable et Fiscale

- Dépt.Juridique
- Dépt.Comptable et Fiscal

vision Logistique

- Dépt.Sécurité
- Dépt.Immeubles/Matériel
- Dépt.Economat
- Dépt.Transmissions.

DIRECTION DU MARCHE DES ENTREPRISES

Division Bâtiment et T.P.

Division Produits Alimentaires.

Division Industries Mécaniques et Electriques

Division Mines, Energie et Chimie

Division Textiles et Cuirs

Division P.M.E.

Division Etablissements Financiers et Entreprises de Service.

- . Dépt.Entrep.de Service
- . Dépt.Etablis.Financiers et Trésorerie

Division Internationale

Division Secrétariat

- . Dépt.Exploitation
- . Dépt.Garanties
- . Dépt.Recouvrement et Contentieux

DIRECTION DU MARCHE DES PARTICULIERS

Division Animation Commerciale

Division Ré[illegible] Extérieur

Division Produits

- .Dépt.Systèmes de Paiement et de Prévoyance
- .Dépt.Systèmes de Transfert
- .Dépt.Systèmes d'Epargne et de Crédit

DIRECTION DES RESSOURCES HUMAINES

- .Dépt.Développement du Personnel
- .Dépt.Gestion du Personnel

DIRECTION DU DEVELOPPEMEN

- .Dépt.Communication
- .Dépt.Contrôle de Ge
- .Dépt.Stratégie et Planification
- .Dépt.Etudes Economi et Documentati

Organization Appendix 2

Borrowing Application Form Appendix 3

WAFABANK

DEMANDE D'AUTORISATION DE CREDIT

CENTRE ______		PA n° ______	CLIENT N° ______	DATE ______
Indice B.D.M ______	Comptes	N° ______	N° ______	N° ______

NOM DU CLIENT ADRESSE			DATE ENTREE RELATION
NATURE JURIDIQUE		CAPITAL NOMINAL	Libéré à ______ %
ACTIONNARIAT			
DIRIGEANTS			
AUTRES AFFAIRES DU GROUPE			
ACTIVITE - PART DU MARCHE			CREDIT CLIENT en % C.A.
CLIENTELE			CREDIT FOURNI en % ACH

CREDIT CLIENT en % C.A.			
30 j	60 j	90j	120 j

CREDIT FOURNI en % ACH			

	BILANS (en milliers de dirhams)	19___	19___	19___
CHIFFRES SIGNIFICATIFS	TOTAL IMMOBILISE (1)			
	CAPITAUX PROPRES			
	C/C ASSOCIES BLOQUES			
	CAPITAUX PERMANENTS			
	FONDS DE ROULEMENT			
	STOCKS			
	REALISABLE & DISPONIBLE (dont Disponible en Banque & C C P)	( )	( )	( )
	EXIGIBLE A COURT TERME (dont «Banques»)	( )	( )	( )
	TOTAL ENDETTEMENT			
	TOTAL BILAN			
	BENEFICE NET			
	CASH FLOW			
	CHIFFRE D'AFFAIRES H.T.			
RATIOS	CAPITAUX PROPRES/ENDETTEM. TOTAL %			
	REALISABLE + DISPON./ EXIGIBLE à GT %			
	CASH FLOW / C.A. HT			
	ROTATION DES STOCKS (Nbre de fois)			
	FRAIS FINANCIERS/ C.A. HT			
(1) DONT «PARTICIPATIONS»				
– AMORTISSEMENTS DIFFERES				

2

Borrowing Application Form

CONSORTIUM BANCAIRE

Appendix 3

BANQUES	WAFABANK								
%									

CREDIT (en milliers de dirhams)

FORME	ANCIENS			ENGAGEM. AU	NOUVEAUX		
	MONTANT	CONDITIONS	ECHEANCE		MONTANT	CONDITIONS	ECHEANCE
TOTAL DES CREDITS							
(DONT EN BLANC)							

ETUDE DES GARANTIES

ENUMERATION	APPRECIATION	A	N	M
	INSUFFISANCE DE BLOCAGE C/C ASS : BH ______			

WAFABANK USAID LOAN RECORD

COMPANY	LOCATION	SIZE	LOANS	AMT. LOANED	TERMS
1)Equipement Industriel -mftr industrial materials	Casablanca	SSSE	3	$87,200	5 & 6 months
2)Cableries du Maroc -mftr electric cables	Casablanca	SSE	3	$705,298	4 & 6 months
3)CIMAGEC -whsl implements, parts	Casablanca	SSE	3	$478,500	6 months
4)CETEX -mftr cloth	Casablanca	SSSE	1	$28,300	6 months
5)Conquete -whsl/rtl plumbing, heating materials	Rabat	SSSE	5	$161,800	6 months
6)Cooperative Marocaine de la Conserve -canning fish	Casablanca	SSE	27	$1,821,028	2-6 months
7)Ets. Adrouach -whsl construction materials	Casablanca	SSSE	2	$70,900	6 months
8)COPAFIC -mftr rope	Casablanca	SSSE	3	$167,600	6 months
9)COMARBOIS -whsl bldg materials	Casablanca	SSE	5	$255,314	3 & 4 months
10)B.D.F. -mftr soap, cosmetics	Casablanca	SSE	3	$114,800	6 months
11)TOLBOIS -whsl bldg materials	Casablanca	SSSE	5	$620,900	1-4 months

WAFABANK/USAID Loan Record Appendix 4

COMPANY	LOCATION	SIZE	LOANS	AMT. LOANED	TERMS
12)Machine Business Systems -whsl office equipment	Casablanca	SSSE	7	$375,200	6 months
13)SOFATISSE -mftr cloth	Casablanca	SSSE	2	$57,000	6 months
14)Bombino Confort -mftr foam for furniture	Fez	SSSE	1	$60,300	2 months
15)SINFA -mftr auto filters	Casablanca	SSE	9	$193,802	6 months
16)Moroccan Sewing Machine -whsl/rtl sewing machines	Casablanca	SSE	12	$480,284	6 months
17)Union Plastique -mftr plastic irrigation pipe	Casablanca	SSSE	4	$183,875	3 months
18)Standard Chem. -whsl sythetics for textiles	Casablanca	SSSE	4	$115,437	6 months
19)Entreprise Hicham Soufani -construction company	Marrakech	SSSE	2	$79,856	3 months
20)Filor -mftr cloth	Casablanca	SSE	1	$91,560	6 months
21)Cuisinor -whsl household appliances	Casablanca	SSSE	7	$79,100	6 months
22)Precision du Maroc -mftr household goods	Casablanca	SSE	2	$109,463	3 months
23)SOMAGAZ -mftr ovens, heaters	Fes	SSE	1	$115,500	3 months

WAFABANK/USAID Loan Record Appendix 4

COMPANY	LOCATION	SIZE	LOANS	AMT. LOANED	TERMS
24)Atlas Pieces Autos -whsl auto parts	Casablanca	SSSE	9	$190,679	6 months
25)Maclisa -mftr heaters & a/c	Rabat	SSSE	1	$88,300	6 months
26)Matel -mkts computer & telecom equip	Casablanca	SSSE	1	$80,200	1 month
27)SOMALAR -mftr hair products	Casablanca	SSSE	1	$37,800	6 months
28)COGEDIR -whsl photo equipment	Casablanca	SSE	2	$185,000	3 & 4 months
29)Chimique du Nord -mftr fertilizer, chemicals	Tangiers	SSSE	1	$30,900	6 months
30)SITEL -mftr engineer training equip	Casablanca	SSE	8	$337,092	6 months
31)I.C.A. -whsl office equipment	Rabat	SSSE	1	$82,500	6 months
32)Caissiere Commerciale -mftr packaging crates	Casablanca	SSSE	3	$88,800	2 & 3 months
33)EMIE -install elec. equipment	Marrakech	SSSE	3	$110,327	6 months
34)ECOGEMA -mftr tables, chairs	Bouznika	SSSE	2	$229,844	3 & 6 months
35)SIMACOTEX -mftr shirts, jeans	Casablanca	SSSE	4	$105,800	6 months

WAFABANK/USAID Loan Record Appendix 4

COMPANY	LOCATION	SIZE	LOANS	AMT. LOANED	TERMS
36)Entrepots Frigorifique -food preserving	Taourirt	SSSE	1	$276,000	3 months
37)GALAPLAST -mftr plastic pkg materials	Ain Harrouda	SSSE	2	$105,000	3 & 6 months
38)Technical Equipment -whsl irrigation equipment	Casablanca	SSE	1	$226,000	3 months
39)Confection Generale -mftr jeans	Casablanca	SSSE	4	$158,000	1-3 months
40)Oubaha & Fils -mftr margerine cooking oil	Mohammedia	SSSE	1	$94,800	6 months
41)Collingam -deep sea fishing	Rabat	SSSE	1	$66,800	6 months
42)Ets Bourchanin -whsl wines, syrups	Casablanca	SSSE	2	$61,000	6 months
43)SADAUTO -whsl auto parts	Casablanca	SSSE	1	$38,400	4 months
44)Cafe Sahara -whsl coffee	Casablanca	SSE	1	$46,600	2 months
45)Afrique Electronique -whsl household appliances	Casablanca	SSSE	2	$22,200	6 months
46)TELECMA -whsl medical equipment	Casablanca	SSSE	1	$31,400	6 months
47)Afrique Roulement -whsl machine parts	Casablanca	SSSE	1	$9,600	4 months

WAFABANK/USAID Loan Record Appendix 4

COMPANY	LOCATION	SIZE	LOANS	AMT. LOANED	TERMS
48)Agro Maroc -whsl fertilizers	Marrakech	SSSE	1	$88,000	3 months
49)Ameublement Lombardo -mftr wood furniture	Casablanca	SSSE	1	$176,900	5 months
50)Marrakech Tapis -mftr rugs	Marrakech	SSSE	1	$26,000	6 months
51)M.C.M.	Casablanca	SSSE	1	$46,000	6 months
52)DEGOR's -mftr clothing	Casablanca	SSSE	1	$22,000	6 months
53)Jaoui Said	Casablanca	SSSE	3	$114,000	3 months
54)H.A. Moumille -whsl building materials	Casablanca	SSE	3	$95,000	2 months

TOTAL as of 12/30/86

177 Loans
$9,733,579.00 Loaned

PETIT ET MOYEN ENTREPRISE - SMALL AND MEDIUM-SCALE ENTERPRISES

1) Equipement Industriel
2) CETEX
3) Conquete-Rabat
4) Bombino Confort
5) Uni-Plastique
6) Standard Chemical
7) COPAFIC
8) MATEL
9) Maclisa-Rabat
10) SOMILAR
11) Chimique du Nord
12) I.C.A.-Rabat
13) EMIE
14) COGEMA
29) AgroMaroc
15) Confection Generale
16) Collingam
17) SADATO
18) Cafe Sahara
19) TELECMA
20) SOFATOSSE
21) Ameublement Lombardo
22) Jaoui Said
23) AfricElectronique
24) Marakech Tapis
25) M.C.M.
26) Degor's
27) Afrique Roulement
28) SIMACOTEX
30) Oubaha & Fils

INDUSTRIE, MECHANIQUE ET ELECTRONIQUE - INDUSTRIAL, MECHANICAL AND ELECTRONICS

1) PRECIMA
2) MSMI (Singer)
3) SITEL
4) Cogedir
5) Cuisinor
6) SINFA
7) Cableries du Maroc
8) CIMAGEC
9) SOMAGAZ
10) Atlas Pieces Auto
11) Technical Equipment
12) Machine Business System

TEXTILE & CUIR - TEXTILE & LEATHER

1) Filor

ENERGIE ET CHEMIQUE - ENERGY AND CHEMICALS

1) B.D.F.-Maroc
2) Galaplast
3) Caisserie Commerciale

BATIMENT ET TRAVAUX PRACTIQUE - CONSTRUCTION AND BUILDING SUPPORTS

1) Ets. Adrouach
2) COMARBOIS
3) TOLBOIS
4) Entreprise Hicham Soufani
5) Ets. Moumille

ALIMENTAIRE - FOOD SERVICES

1) M.C.M.
2) Entrepots Frigorifique
3) Ets. Bourchanin

Borrower Name/ Type of Business	Years in Business	Years WAFABANK Customer	First Trade Financing	Purpose of Loan	Number of Loans	Average Borrowed
1) COPAFIC -rope mftg	45	5	no	import sisel	3	$55,900
2) CETEX -textile mill	5	2	yes	purchase machine*	1	$28,300
3) Confection Gle -clothing mftg	20	10	no	import cloth	4	$39,500
4) Cablerie du Maroc -Mftr electric cable	26	15	no	import copper	3	$235,100
5) CIMAGEC -market farm implements	61	61	no	reduce trade credit with supplier	3	$159,500
6) SINFA -mftr auto filters	6	6	no	import tin, filter paper	9	$21,500
7) SITEL -mftr engineering training workstations	10	6	no	import electronic components	8	$42,140
8) MSMI -whsle retail sewing machines, appliances	66	13	no	import sewing machines	11	$40,180
9) MBS-Maroc -retail office machines	15	13	no	import office equip	7	$53,600
10) Caisse Commerciale -mftr packaging crates	45	36	no	import wood	4	$25,200
11) COMARBOIS -whsle building materials	20	12	no	import building materials	5	$51,100

*Bridge Loan

Borrower Name/ Type of Business	Years in Business	Years WAFABANK Customer	First Trade Financing	Purpose of Loan	Number of Loans	Average Borrowed
) MATEL -markets computer/ telecom systems	4	4	no	import computer equipment	1	$80,200
) Ets. Moumille -whsle building materials	40	20	no	import building materials	3	$31,700
) Filor - textile mftr	4	4	no	import synthetic fibers	1	$91,600
) Conquete-Rabat -import plumbing, heating, bathroom fixtures	7	7	no	import bathroom fixtures	5	$161,800
) Collingam -deep sea fishing	.5	.5***	yes***	import fishing boat*	1	$66,800
) Maclisa -mftr heating and a/c units	1	1***	yes***	import heating & a/c elements	1	$88,300

*bridge loan
*new affiliate of corporation with several years Wafabank experience/trade financing experience

Site Visit Summary Appendix 6

Site Visit Summary Appendix 6

	Employees (women)	1986 Sales	% Raw Materials Imported/ Country of Import	% Finished Product Exported/Country	Import Substitution	Backward Linkages	Forward Linkages
1)	60(2)	$705,900	100%-Brazil	Domestic	yes	no	yes
2)	17(2)	$645,900	Domestic	Domestic	yes	yes	yes
3)	100(90)	$2,117,600	100%-France	100%-France	no	no	no
4)	155(2)	$9,647,000	100%-England, Belgium France	Domestic	yes	no	yes
5)	26(0)	$1,764,700	100%-France	Domestic	yes	no	yes
6)	160(48)	$3,058,800	80%-France, Italy, Portugal	23%-Italy	yes	no	yes
7)	35(5)	$4,706,000	70%-France, Italy, USA, Germany	Domestic	yes	no	yes
8)	167(27)	$12,000,000	25%-Taiwan, Japan, USA	Domestic	yes	yes	yes
9)	35(5)	$1,764,700	100%-Germany	Domestic	no	no	no
10)	300(0)	$4,941,200	70%-Portugal, Spain Ivory Coast	84%-Europe	no	yes	yes
11)	100(6)	$17,647,000	100%-Eastern Europe, Spain, Portugal**	Domestic	no	no	no

**Wafabank-USAID line used only for 10% imported from Port/Spain

Site Visit Summary Appendix 6

	Employees (women)	1986 Sales	% Raw Materials Imported/ Country of Import	% Finished Product Exported/Country	Import Substitution	Backward Linkages	Forward Linkages
12)	13(1)	$940,000	40%-France, USA	Domestic	yes	no	yes
13)	45(4)	$14,705,900	80%-Europe	Domestic	no	no	yes
14)	70(56)	$12,000,000	40%-Europe	Domestic	yes	yes	yes
15)	60(6)	$2,352,900	65%-France, Italy	Domestic	no	no	no
16)	5(0)	0@	100%-Canada	50%-Europe	no	no	yes
17)	15(1)	0#	50%-Italy	Domestic	yes	yes	yes

@1987 projected 35,000,000 dh

#1987 projected 17,000,000 dh

Benefits of Program	Problems with Program	New Technology
1) longer payback terms	none	none
2) improved supplier relations	none	textile machine
3) reliable import supply	none	none
4) none	high foreign echange costs, program poorly explained by bank	none
5) reduce trade credit debt	none	mechanized agriculture
6) longer repayment terms	foreign exchange risk	assembly line
7) access to new suppliers, bank services /advice	none	engineering processes
8) better supplier relations, lower prices	high cost of loan	none
9) better repayment terms, lower cost	none	none
10) more flexibility in purchasing decisions	none	new packaging methods
11) good supplier relations, better interest rates	none	none

Benefits of Program	Problems with Program	New Technology
12) Ability to make large purchases, longer term than trade credits	none	computer/telecom systems
13) speed up supplier pymt	none	none
14) better supplier relations	none	modern textile mill equipment
15) longer terms, better supplier relations	facility does not meet all credit needs	none
16) easier financing, good rates	none	new deep sea fishing technology
17) good supplier relations, longer terms	none	modern heating & a/c systems