PN-ABB-405

PRIVATIZATION

AND THE ROLE OF THE STOCK EXCHANGES

MOROCCO

REPORT BY

Charles Moizeau

CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue NW - Washington, D.C.

Project No. 81 October 1988

Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

This report was prepared under
USAID Contract No. DPE-0008-C-00-5850-00
between the U.S. Agency for International Development
and Analysis Group, Inc.

CENTER FOR PRIVATIZATION

The Center for Privatization was established in 1985 to provide expert advisory services to developing countries and their indigenous private sectors in planning and implementing programs to divest and privatize their state-owned or controlled enterprises and activities. The Center is fully funded under a major contract between Analysis Group, Inc. and the Agency for International Development. Participating subcontractor companies include:

Arthur Young & Co.
Equity Expansion International
Ferris & Company, Inc.
International Phoenix Corporation
Public Administration Service

The Center draws upon its consortium of six companies, and others when appropriate, to provide a wide range of qualified specialists in fields from agriculture, industry, financial and other services, transportation and utilities with experience in areas related to privatization, such as:

Corporate Restructuring
Employee Stock Ownership
Equity Placement
Financial Analysis and Valuation
Labor Relations
Legal and Regulatory Studies
Macro/Micro Economic Analyses
Marketing and Market Research
Project Design and Evaluation
Strategic Planning
Taxation

2000 PENNSYLVANIA AVENUE, N.W. ••••••• WASHINGTON, D.C. 20006

PRIVATIZATION

AND THE ROLE OF THE STOCK EXCHANGES

MOROCCO

REPORT BY

Charles Moizeau

CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue NW - Washington, D.C.

Project No. 81

October 1988

Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Table of Contents

I. Introduction

Following a request made by USAID/Rabat and AID/PRE Washington to the Center for Privatization (CFP), the undersigned participated in a seminar held in Casablanca, Morocco, from September 6-8, 1988. This colloquium was sponsored by the Union of Arab Stock Exchanges (UASE), and its theme was "Privatization and the Role of Stock Exchanges". However, during the three days, the 11 speeches given and the ensuing questions and discussions focused overwhelmingly on various aspects of privatization, and there was rather less said about stock exchanges.

A considerable amount of documentation, all of it in Arabic, was made available to participants at the start of the colloquium. Four sets of this material were left with USAID/Rabat, and it is hoped that the USAID Missions in Amman, Cairo and Tunis will each receive one set. Nine of the 11 presentations were in Arabic and two in French. Copies of each paper in Arabic were distributed in advance. Simultaneous translation between Arabic and French and vice-versa occurred. The quality of translation was uneven, especially in the case of non-Maghrebin Arabic speakers.

The Union of Arab Stock Exchanges was founded in 1982 and is headquartered in Amman, Jordan. Its first colloquium was held in Casablanca in 1986, followed by one in Cairo in 1987, with a return to Casablanca this year. Present were delegates from Algeria, the Arab League, Bahrain, Egypt, Jordan, Kuwait, Morocco, Saudi Arabia and Tunisia. Turkey was represented by an observer (Dr. Zafer Basak). Attendance peaked at close to 150 for the opening session, largely because many Moroccans wished to hear (and be seen in attendance for) the opening speech by the Moroccan Minister of Finance, Dr. Mohamed Berreda. Unfortunately, His Excellency did not appear, and his address was instead delivered by the Directeur du Tresor, Mr. Mohamed Dayli. Thereafter attendance varied between about 85 and 120 person, and became a bit irregular on the third day as interest flagged. Question were entertained after each presentation, and these invariably prefaced mini-speeches that offered the deliverer's own opinions.

II. Highlights of the Conference

The opening address, delivered in the name of the Moroccan Minister of Finance made mention of the following points:

1. Privatization is very much a part of Morocco's next phase of economic and social development, which seeks to (a) increase the role of the private sector, (b) further integrate Morocco into a global economy, and (c) rethink and restructure the public sector.

2. Although creating large state-owned companies, the State has also promoted the development of the private sector by virtue of the various investment codes enacted.

3. The large state-owned enterprises have encountered management problems and the government authorities have conceived of a program to streamline and restructure the public sector, and privatization is one of the factors essential to this process.

4. Reference was made to King Hassan II's important speech of April 8, 1988, and the objectives of privatization noted therein can be classified into two groups: (a) Making the Moroccan economy more dynamic and increasing its role in international trade; (b) Creating a new class of entrepreneurs and consolidating the policy of regional development.

5. An appropriate legal framework covering privatization will be instituted.

6. The stock exchange will be reformed.

7. There will be fiscal incentives to expand share ownership.

8. Shareholders will enjoy the protection of (a) standardized accounting procedures, and (b) a code of conduct governing the accounting profession.

9. The Moroccan stock exchange can itself be revitalized and thereby stimulate the savings-and-investment process.

10. The arrival of a large number of companies whose shares are publicly traded will require appropriate regulation of the stock exchange in order to safeguard the rights of minority shareholders and assure a maximum disclosure of financial information.

11. Competition bespeaks market efficiency, and there must be enough depth and competition in the stock market to ensure that it can function as an accurate evaluator of worth.

12. The various Arab stock exchanges have an important role to play in stimulating the movement of capital between Arab countries.

13. The responsibility for controlling the national economy rests with the State.

In describing the Kuwaiti experience, the speaker stressed the requirement that any act of privatization must reflect national circumstances, for it must not be institutionalization of measures imported from abroad. He also wondered why there was little praise for the role of the public sectors in Japan and Korea.

One of the finest presentations was delivered by a Tunisian academic, who offered a surprisingly vigorous endorsement of the benefits of privatization. He stated that Tunisia seeks to become an international financial center for the region (this in an idea which dates back to the eclipse of Beirut in 1975, but various features of the Tunisian economy make implementation unlikely --C.M.)

A Kuwaiti academic stated that privatization must not be an exercise in transferring government deficits to the private sector. Cost-benefit analysis is not a necessary consideration in the satisfaction of vital social welfare needs. Services are more appropriate for privatization than industries. The privatization of the petroleum industry is unthinkable. Telecommunication and transport, however, need to be kept in the domain of the state.

During the following "question" period, one worthy comment was that liberalism is not just the liberalization of the economy, but the giving of liberty to the individual.

The speaker form Saudi Arabia gave a lucid explanation of the mathematics of valuation techniques. He also spoke in favor of gradual privatization, e.g. an initial cession to the private sector of only 30% of a wholly-owned state enterprise.

Discussing the Moroccan privatization experience, a jurist, Mr. Bella Larbi, who is also an advisor to the Moroccan Ministry of Finance, noted:

1. There is no single unified legislation which covers the ensemble of state-owned enterprises; rather the governing laws are quite fragmented. What privatization has occurred over the past 20 years has been a series of one-off transactions, unlinked to one another by a coherent and systematic process.

2. Privatization must be gradual and selective, not overall and wide sweeping.

3. The fact that state-owned enterprises interconnect with so many aspects of the national economy bespeaks the need for a gradual privatization process.

4. 628 enterprises, employing 240,000 persons, of which 41 are 100% owned by the State, generate 20% of Morocco's GNP.

5. A single ministry, the Ministry of Finance, was made responsible for all state-owned enterprises in 1978 (this may be true in theory, but the ministry responsible for an enterprise's particular vocation probably exercises greater control in reality --C.M.)

6. The decision in favor of privatization has been taken, but the procedures have yet to be decided upon.

7. The law enlarging the role of the Moroccan stock exchange will seek to increase the number of shareholders, and will establish an independent audit commission

In discussing the Jordanian experience, the speaker noted the susceptibility to privatization of radio and television services. Employees of state-owned enterprises can share in the ownership thereof by means of shares in a single holding company.

Towards the end of the program, privatization experiences in England were described by a Tunisian academic. The French experience was expertly detailed by the chairman of France's largest privately owned commercial bank (before the nationalization of 1981 and the subsequent privatization of the Societe Generale), Credit Commercial de France. The American experience was shifted in its emphasis as the following title and text suggest.

III. The Role of the United States in Assisting Privatization in Other Countries.

(English translation of a presentation delivered in French on September 8, 1988)

Mr. Chairman As-Sabbagh, let me first thank the Union of Arab Stock Exchanges and its Chairman, Mr. Abderrezak Laraki, for the invitation extended to the Center for Privatization, an institution located in Washington which is affiliated with the U.S. Agency for International Development (USAID). As a purely personal observation, it is always a pleasure to return to Morocco, a country which I have had the occasion to visit a great many times since 1964.

The United States' experience with regard to privatization dates from a long time ago, but since 1980, the most significant feature is the changes in American laws which concern commerce, industry and the financial sector. The American word used to describe this evolution is "deregulation", but in view of effects which have not always turned out to be beneficial, perhaps the word "derailment" would sometimes be more appropriate, at least in some instances involving air transportation and certain financial institutions such as savings and loans, saving banks and even certain commercial banks.

One conclusion which has been mentioned in this room yesterday and the day before yesterday is obvious: One must have a healthy and experienced management functioning with competence and prudence in order for an enterprise to face the greater risks of an economic environment which is being rapidly liberalized. At thirty miles an hour, almost all drivers perform competently -- this is not the case when the speed limit is raised to seventy miles per hour.

Over 30 years ago, the chairman of the largest American company, General Motors, a Mr. Wilson, was named Secretary of Defense by President Eisenhower. Someone asked him what were the policies which he intended to follow in his new job after having had such a long career in the automobile industry. He replied "what is good for General Motors is good for the United States". Naturally, this very frank response was judged a bit indiscreet by many people.

This anecdote shows that in the American context, privatization is essentially a political process with economic consequences; the reverse is not the case.

I am now at the principal theme of this presentation: the role which the United States plays to encourage privatization in other countries. First of all, it must be stressed that privatization cannot be imposed from outside. It must be desired from inside, and the cadence and techniques of its adaptation must correspond to the traditions and particularities of each national environment. Etatism was a desired reaction which followed decolonialization in many countries. Privatization is itself a reaction which follows etatism and which must be desired by each country which is susceptible to its adoption.

There already exists a generalized spirit in favor of rivatization, whichprevails in many countries, as well as in institutions such as the World Bank and in several of the United Nations' specialized agencies. In the Agency for International Development there is an important department which is known as the Bureau for Private Enterprise (PRE). In 1985, this Bureau requested a number of private establishments to form a Center for Privatization (CFP), and this is how the CFP (and here we are not talking about an oil company) was created. The Center was formed by six organizations, among which are included two engineering firms specialized in agriculture, construction, energy and transport; an investment bank; a company specialized in the marketing of agricultural products, another company which is concerned with the restructuring of state-owned enterprises, and finally the well-known accounting firm, Arthur Young.

Since its creation almost three years ago, CFP has treated about 50 operations concerned with privatization in 30 countries. In addition to this modest number, I should also mention that the USAID Missions in many other countries have acted in a similar fashion. I would especially like to mention the names of Egypt, Jordan, Tunisia and Turkey. Other countries are the Philippines where an important food distributing company was privatized. Let me also add banana plantations in Belize, the electric company in the Dominican Republic, a hotel and a cement plant in Ecuador, numerous industries in Honduras, a fish facility in Somalia, and many more.

In all of these operations, the USAID Missions established in each country, with the support of the Bureau for Private Enterprise, together with the collaboration of the Center for Privatization, which are both located in Washington, provided technical assistance which was financed by the American Government. This assistance can take a variety of forms, and the choice depends on the particular situation in each country which shows an interest in privatization. There are instances where a dialogue leads to a jointly developed strategy for generalized privatization. In other cases, a country will have already determined for itself its own strategy, and the only assistance sought relates to a single well-defined situation, or involves a specific company.

One point which is fundamental -- if the country in question has not yet adopted a policy favoring privatization, there is no role to be played by USAID. However, if such a policy is already in evidence, it is far better for there to be a law covering privatization to already exist.

Instead of making a long list and examining each privatization experience in detail, I prefer to share with you some of the lessons which we have learned in the course of these various experiences in the realm of privatization. I wish also to apologize in advance if certain of the conclusions reached surprise you.

I am going to discuss four aspects of privatization and these are:

1. Evaluation, in financial terms, and the criteria necessary to establish a selling price.

2. Gradual privatization.

3. Partial privatization.

4. Opposition to privatization.

Evaluation

To begin, evaluation, in financial terms, and the establishment of a selling price. There are four methods to determine the value of an enterprise:

1. A price which reflects historical cost, that is to say the amount of the original investment.

2. A price which reflects the replacement cost.

3. A price which could be realized upon liquidation.

4. A price determined by the present value of the future revenues, which Dr. Al-Maydani very clearly explained to us yesterday.

The first two methods do not satisfy our requirements. If liquidation is involved, then one must apply the liquidation price. If the enterprise is to be maintained in operation, then you calculate the present value of the estimated future revenues, and in case of difficulty, kindly telephone to Dr. Al-Maydani!

Once you have determined the real value of the enterprise, you may ask yourself, what is the relationship between this value and the selling price which you are going to ask? In one word, the answer to this question is: None!

Here is why: the determination of the value of an enterprise is important for two reasons. First, in order to decide if it is worth the effort to privatize; secondly, it is important in order to be able to evaluate the performance of the future owners; you take the amount of revenues or the profits and divide each by the value of the assets.

The choice of a selling price is a political decision rather than a financial one. The goal is to achieve the privatization of the enterprise. Therefore, it does not make sense for a government to endorse a policy of privatization and at the same time to attempt to secure for itself the greatest possible financial advantage at the moment of sale. The objective in ceding the ownership of a publicly-owned enterprise should be to give a maximum amount of joy to a very large number of shareholders. What is important at the moment of sale is not the amount which will be cashed in a short term, but the degree of satisfaction accorded at long-term to the new shareholders.

If the initial price is considered to be too low, here's what happens;

1. The success of the privatization is assured and the new owners are delighted.

2. The government is criticized for having caused the disappearances of a part of the national patrimony -- who cares, governments are criticized every single day.

3. With a secondary market, the buyers are able to resell their shares and realize a profit. And at this point, the government receives revenues which derive from the tax on capital gains.

On the other hand, if the initial price is considered to be too high, here is what happens:

1. The sale of the enterprise risks being a failure; however, if it does manage to succeed, the government receives lots of money.

2. The new owners risk an eventual loss at the moment when they sell their shares on the secondary market.

3. And this point is a bit complex, if the price is too high, the potential buyers are going to be hesitant, and in such a situation the government will be tempted to offer them some advantageous concessions. These often take the form of tax concessions, subsidies, protectionist measures, etc. A sale which is accompanied by such concessions is valid, for distortions are introduced, the cost of which is impossible to calculate. The logic of privatization disappears because at the same time that the state is privatizing through a sale operation it "governmentalizes" buyers. After one operation of this sort has been concluded, it will be very difficult for the government to change its stance when it seeks to conclude a second operation.

Gradual Privatization

Gradual privatization becomes necessary when all of the necessary structural elements are not present at the moment a government opts for a program of privatization. The World Bank, commercial and investment bankers, lawyers, consultants, professors, all of them will say that in order to achieve a successful privatization program, it is first necessary to restructure the stock exchange, teach accounting, create investment banks and investment companies, train brokers, and etc. But this does not mean that one must wait 15 years before beginning to privatize. Even in the absence of a stock exchange, it is perfectly possible to sell to the employees of a publicly-owned enterprise a minority shareholding of its capital.

At this point, I would like to digress. An employee who becomes a shareholder changes his role because he assumes not only the right to share in the profits of the enterprise, but he also becomes in part responsible for the failures in performance of his enterprise. It seems to be important for the success of an enterprise in which there are employees/shareholders to add a third element in moving the employee/shareholder toward an involvement in the management of the enterprise. It would seem fair to allow an employee who has just accepted partial responsibility for the performance of this enterprise the chance to participate, even to a very small degree, in the management of that enterprise. At the outset, this can be achieved by following the methods practiced in many Japanese industrial companies where there exist an intra-consultative management. The implications of having created a class of employee/shareholders/managers are numerous, but let me cite only two: (1) Such a person will have occasion to participate more often at his place of work in making decisions; (2) this experience, when repeated many times, endows that individual with acquired talent, which he cannot help but practice at home and to communicate this skill to his children.

Partial Privatization

This enables one to handle the problems of privatization which are encountered in the cases of strategic industries and services and monopolies. A part, either geographically or functionally determined, of an enterprise can be ceded to private interest while reserving the remainder for the state. In the same manner, one can avoid a major problem when a private monopoly risks taking over a public monopoly. Moreover, one must mention the case where management of an enterprise is privatized by means of a management contract, but the ownership remains unchanged. Another technique is to lease out the enterprise for, say, a period of five years, while awaiting conditions which are more suitable for a genuine privatization.

A partial privatization can be a solution to the problem faced when trying to privatize an enterprise which is in a poor financial condition. The state can privatize the assets and liquidate, while realizing a loss, of course, the liabilities. A public enterprise which is in good financial condition is salable. An enterprise which is not in good shape must be tidied up before it can be put up for sale. It is obvious that privatizations must begin with the sale of healthy enterprises.

Opposition to Privatization

The first type is doctrinaire opposition. Consider the case of the person who maintains that at the time when he was studying at the University of Moscow he learned that privatization was a bad thing. I am sure that today Mr. Gorbachev must reflect from time to time on certain aspects of privatization.

Secondly, there is the situation of the employee of a public enterprise who fears the loss of his job. There are, of course, methods of compensating this employee -- severance payments, retraining courses, etc. And one must not forget that there are public sector employees who simultaneously are involved in private business ventures to which they would be pleased to be able to devote more time.

Thirdly, and this will surprise you, the private sector itself can be opposed to privatization. It is often the case that the princes of capitalism vigorously espouse the blessings of liberalism -- up to a certain point -- which? -- the point where they will be called upon to accept competition in their relatively exclusive marketplace. The solution to this problem is simple: a private enterprise which does not want to, or cannot, suffer competition will eventually become reduced in size, and perhaps eliminated by market forces.

Having treated the subjects of valuation and selling price, gradual privatization, partial privatization, and opposition to privatization, I want to cite certain conclusions which USAID and CFP have been able to draw from their collaborative efforts in connection with privatization in many countries.

First of all, the message of privatization is communicated through an understanding of its objectives and consequences, and not by a series of disconnected and separate transactions. Among its beneficial consequences are:

1. Privatization replaces jobs of marginal productivity with productive jobs.

2. It reduces government expenditure and increases aggregate national revenues.

3. With a greater number of productive enterprises, the rate of growth of the country increases.

4. Private enterprises and privatized enterprises are more sensitive to the requirements of their clienteles.

5. Privatization can transform the character of an employee who works in an enterprise where he is a shareholder and where he participates in the management.

6. Privatization imposes on a greater proportion of the populations the responsibility for the efficient conduct of the national economy, but at the same time it permits those who accept this responsibility to share in the benefits. Quite simply, this means that political stability is increased.

Finally, it should be noted that every government is responsible for the safeguard of the national economy. However, responsibility for protection does not imply the right of possession. In other words, a state must not keep for itself the national economy, for that belongs to the people.

Gentlemen, let me thank you for your kind attention.

IV. Privatization in Morocco -- Some Brief Notes Concerning Its Status and Outlook

On August 30, 1988, the undersigned had three visits at the World Bank to learn a bit about their views of Moroccan privatization, and also had a chance to review what contacts have taken place between Center for Privatization and various Moroccan visitors. Some material relating to a colloquium held in Casablanca from March 31 to April 4, 1988, on the subject of Moroccan privatization was also reviewed.

On September 7 and 9 visits were made to the Moroccan Exchange Control Office and the newly opened IFC Regional Representative Office in Casablanca. Both visits were made in the company of Mission personnel. The first was made on the suggestion of one of the World Bank economists we had met earlier; the second was essentially a courtesy call to reciprocate a visit made to the Center for Privatization in March 1988.

The Private Sector Officer at AID/Rabat had attempted to secure an appointment for a joint call on the senior person at the Ministry of Finance who is responsible for the control of state-owned enterprises and state-affiliated companies (DEPP). It was made quite clear by his deputy, who attended the Casablanca conference, that this would not have been an appropriate time to discuss matters relating to privatization, since there will be no decisions taken regarding implementation techniques until after the law on privatization has been definitely drafted and sent to Parliament for its approval. Although some have spoken of this as occurring by December, the Ministry of Finance is still very much preoccupied with the preparation of the 1988 budget. Consequently, it is not unlikely that the privatization will not be presented to Parliament until well into the first quarter of 1989. It may also be that the Finance Ministry will wish to slow up the privatization legislation while awaiting the findings of the Canadian consultants who are now reviewing Moroccan state-owned enterprises in connection with the World Bank's $200 million Public Enterprise Restructuring Loan.

In 1965 etatism in Morocco received a strong boost with the creation of the Office de Commercialisation et d'Exportations (OCE), which was only denationalized in 1987 (with a good deal of encouragement from the World Bank). Moroccanization came into vogue during the 1970's; the memory of this still conditions foreign investor sentiment. Besides OCE, privatization of the Casablanca bus system has recently occurred. It is expected that the super highway between Casablanca and Rabat and Kentira will be turned over to a private concessionaire who will become responsible for its upkeep, and the roadway will be self financing by means of tolls. It has been accepted as a principle that the users of this service should be those who pay for it. It is also worth noting that the Minister of Public Works, said to be one of the strongly positive thinkers about privatization, is active in the decision to privatize this roadway.

For the present, privatization in Morocco is a sporadic and disconnected process. After the King's April 8, 1988 speech, certain general beliefs seem to be taking hold. One is decentralization, usually referred to as regional development. Another is the favoring of small businesses (perhaps at the expense of the existing bourgeoisie). Thirdly is the recognition that international competition is the best incentive to raise internal productivity so as to better compete in an international marketplace. And the economic integration of Europe scheduled for 1992 is viewed by Morocco as an even greater challenge. Fourthly, it is likely that privatization will proceed by "nibbling around the edges" of etatism. There is no likelihood of going straight for the jugular vein, i.e., privatizing the Office of Cherififien des Phosphates (OCP). Still, it might at some later stage be decided that certain peripheral functions of OCP can be divested or privately managed on a concessionary basis.

There are two points regarding the privatization process of primordial importance. The first of these is that the process is going to be decided wholly within the Moroccan context. At an earlier moment an outside observer had suggested that "an overall action plan for the whole process" of privatization be submitted to the Moroccan authorities through diplomatic channels. Any initiative of this sort will be rejected. The memorandum of understanding concluded in Tunisia would be viewed as an affront to national sovereignty in Morocco. The message is clearly to reserve the formulation of a privatization policy to key Moroccan players. Implementation techniques will be an area which will be open to counsel from abroad. There was an earlier suggestion to form a joint public sector and private sector commission on privatization reporting directly to the King. The writer is unaware of any precedent in this regard, and believes that private sector interest groups and public sector interest groups will continue to have their separate audiences; the principle of "divide and rule" has a degree of applicability in the Moroccan case.

The second major point is that the privatization process must take place in the presence of essentially two governments ruling simultaneously in Morocco: the civil government and the palace government. While the former controls most of the secular affairs of state, the King is the spiritual leader and enjoys a dynastic heritage of much greater tenure than that of any prime minister. Frequent rotations within the Cabinet, and between the Cabinet and the para-public and private sectors are longstanding features of the Moroccan political scene which have tended to harmonize the aims of government and business.

During the writer's recent brief stay in Morocco, it was announced that Omnium Nord Africain (ONA), described as the largest private company on the African continent (it would seem necessary to exclude the Republic of South Africa, for this to be true -- C.M.), has taken a 25% holding in the largest privately-owned Moroccan commercial bank (acquired from a French shareholder which nevertheless still holds slightly more than 10%). ONA is an investment vehicle for the palace. It has a broad range of holdings, even to the point of controlling 73% of the national sugar industry. To what extent privatization will result in the transfer of state capitalism to palace capitalism is difficult to guess. This might, however, be a more desirable approach than having ONA enlarge its holdings at the expense of the existing private sector. ONA's activities, because of their origin, imply an element of unfair competition. As such, in the eyes of AID and the World Bank, ONA should not be a significant beneficiary of Moroccan privatization. Nevertheless, it is worth pointing out that hesitant foreign investors will be attracted by the prospect of an association with ONA in a given venture.

Although AID/PRE and the Center for Privatization are interested in the forthcoming evolution of privatization in Morocco, any tangible involvement in the process will have to be delicately undertaken. Advancement of a broad privatization strategy is out of the question. Locating a particular niche, once the privatization law has been enacted, would seem to be the only way to achieve a direct involvement from the U.S. side. In order to be able to identify such a niche, a lot of familiarity must be developed over the next several months with the Moroccan para-public, private and academic sectors. For the reason noted above, it is not appropriate now to address privatization matters at the Ministry of Finance.

Specific recommendations are:

1. Dialogue with past and present thinkers on privatization, e.g.. Abdelatif Jouari. Chairman of the BMCE, and ex-Minister of Finance, who previously did considerable research on state-owned companies. Omar Alaoui, Secretary General at the Exchange Control Office, who worked under Jouari. Bella Larbi and Zaki Laidi. two intellectual exponents of privatization. Many other names will turn up during the research process.

2. Dissect the OCE and Casablanca bus transport privatization cases.

3. Attend the forthcoming (October 12-13) international conference in Mohamedia whose theme is the role of banks in promoting investment. This will assist in developing privatization contacts in the financial community.

4. Develop an in-depth knowledge of the World Bank's PERL operation, its objectives, accomplishments, benefits and failings.

5. Work closely with the IFC which has a 25-year association with Morocco, and is a shareholder in and important lender to two large para-public development institutions (which are possible privatization candidates).

6. After formulation of AID/PRE and CFP's aims with regard to Moroccan privatization, these must be clearly communicated to the Rabat Mission. (This process could conceivably begin in Washington during the current home leave of the Mission Director.) Discovery of a suitable niche can only occur if the learning process is shared to the point where AID/Rabat will recognize and seize upon appropriate opportunities.

Privatization in Morocco will accelerate. It will be conducted in the Moroccan way. Only an acceptance of this fact and an understanding of the Moroccan way can lead to any outside involvement in the process.

. . . . .

N.B.

Several of the foregoing views were presented on September 9 at a briefing at USAID/Rabat attended by the Deputy Mission Director, the Embassy's DCM and Economic Officer, and several of the Mission staff.