MOROCCO FINANCIAL MARKETS

Bureau for Private Enterprise
U.S. Agency for International Development

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Sponsored by: *Financial Markets Project*
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March 26, 1987

DRAFT MEMORANDUM

TO: J. Smith

FROM: S. Strauss

SUBJECT: Summary of Findings: Section 108 Dirham Lending

This memorandum provides a preliminary summary of conclusions reached during my March 9-23 investigation of practical ways of implementing Section 108 lending.

This report contains the following sections:

I. Summary of conclusion's
II. Concepts
III. The "Standard" Lending Facilities
IV. "Special" lending
V. Depository Bank, and Related Administrative Procedures
VI. Audit Procedures
VII. Loan Agreement Documentation
VIII. Government of Morocco Agreement to Section 108 Lending
IX. Timetable

Attachment I: Meetings held March 9-23
Attachment II: Potentially - eligible I.F.I.'s
Attachment III: Draft USG-IFI loan agreement (AID/w)
Attachment IV: Draft Summary (in French) of Section 108 program for possible G.O.M. use.

During the course of this investigation, I met once or more with all the following entities:

- All major eligible Moroccan Intermediate Financial Institutions (IFI's)

- Senior Moroccan Government officials involved in Section 108 implementation

- Other relevant public and private sector entities

- U.S.G.'s Dirham depository bank (Citibank - Maghreb)

- Members of USG-Rabat In-Country Policy Group (I.P.G.)

(See Attachment I provides a full list of people and institutions met)

I. SUMMARY OF CONCLUSIONS

- The five major eligible Moroccan Bank I.F.I.'s are all interested in borrowing Section 108 funds from the USG, either through their bank or through affiliated non-bank I.F.I.'s (All potential I.F.I. borrowers are affiliated with one of the private banking groups).

- Section 108 funds can be lent to sub-borrowers for some very worthwhile purposes, notably including privatization (i.e., financing by I.F.I.'s of private sector purchase of ownership of state-owned corporations) as well as agriculture and expanding small-to-medium enterprises. It should be noted that most agricultural related lending in Morocco is the province of public sector banks, who lend at subsidized rates; therefore, while agricultural lending is foreseeable, other sub-lending purposes are necessary to ensure productive use of Section 108 funds.

- Moroccan Government officials appear to accept the basic concept of Section 108 lending. Given their budgeting situation, they are not overly pleased with a program that does not place funds with the Moroccan Treasury, however, they recognize the requirements of Section 108 and the concessionary benefits to Morocco of the Title I sales in terms of the country's foreign exchange position. Uses of Section 108 financing which return proceeds to the GOM (notably financing privatization) may be viewed more favorably and could serve to elicit G.O.M. support for privatizing certain minor State shareholdings, such as minority positions in U.S. - affiliated Moroccan companies. Ensuring Finance Ministry and Central Bank support of key features (outside-ceiling bank lending for privatization; Section 108 lending to non-bank I.F.I.'s; leaving choice of sub-borrowers to I.F.I. discretion) will be of major importance to the success of the program.

- Lending procedures are manageable and can involve minimal burden on I.P.G./USAID-Rabat, thanks to administrative services which the USG's Dirham depository bank can provide.

Documentation presents no major problem. The USG-IFI draft loan agreement can be employed with minor enhancements to ensure Moroccan enforceability. No changes are required to the USG-GOM draft Title I agreement.

II. CONCEPTS

In Morocco the most workable and useful Section 108 lending concept is to make some of the funds available in principle to all eligible I.F.I. groups (under "standardized" terms and conditions), but to encourage individual I.F.I.'s to come forward with "special" proposals if they wish to use a sizeable portion of available funds.

Establishing I.F.I. loan amounts and USG-IFI agreements can be done during the 6 month period between signing of the GOM-USG agreement (mid 1981) and receipt of Dirhams by USG (end 1987), so that all IFI loan agreements can be in place to permit prompt loan disbursement in early 1988.

A. Sub-borrower Guidelines:

Although the IFI's will select sub-borrowers at their discretion and risk, the USG will provide certain guidelines for sub-lending by the IFI's, as follows:

1. Sub-borrowers must have 100% private-sector ownership, and majority Moroccan ownership ("Moroccan control" equates to 50% of shares, plus majority of Board and the CEO position). Note: Section 108 guidelines limiting U.S. ownership to 49% should be modified to permit 50% U.S. ownership.

2. Sub-loans shall be for "productive private enterprise investment" at the IFI's discretion but with maximum feasible emphasis on:

   a. Agricultural or agro-industry enterprises.

   b. Small-to-medium enterprises (Net worth maximum DH 50 million: definition should not be overly restrictive).

   c. Financing privatization ("special" lending to IFI's could emphasize this purpose).

3. Sub-loans should be at normal market conditions, and for medium-term periods approximating the period of the USG-IFI loan.

4. Sub-lending to agricultural or agro-industry enterprises which export requires USDA - Rabat approval as to product, to avoid use of Section 108 funds to support agricultural-product competition with US products in the US or third-country markets. (A list of "excluded" products should be made available to simplify this process).

B. Terms of lending:

USG lending terms to IFI's should be along the following lines:

1. Amounts: Limits for the "Standard" facility borrowing should be established at equal levels for all five major bank IFI's (DH 20 million each); and, for any smaller Bank IFI's who may be interested, a limit of DH 5 to 10 million depending on bank size and financial condition. Lending to a non-bank I.F.I., guaranteed by its banking affiliate, would be included under that bank's limit).

The determination of amounts available is based on the financial condition of the various IFI's. As of today, all five major eligible bank IFI's are in reasonably solid financial condition; there is no basis for differentiating among this group. Some smaller banks, on the other hand, are not financially strong; since they may soon be absorbed by other local banks, it was not deemed worthwhile to discuss Section 108 with the smaller banks. The degree of the smaller banks' participation can readily be determined once the program is ready to be implemented.

For a "special" lending situation, (see Section IV), a single IFI (one of the "Big 5") may borrow up to 50% of total available funds (DH 40 to 50 million). The financial strength of any such IFI would need to be assessed in relation to such borrowing.

2. Terms: A "standard" USG-IFI loan term of five years is recommended for reasons of prudence and likely tenor of sub-loans. Maximum two-years' grace period, followed by equal semi-annual installments, is also recommended.

   "Special loans may involve longer tenors, say up to eight years, and different repayment schedule. Such conditions would depend on specific IFI proposals and the IFI's condition and outlook.

3. Interest Rate: Despite the "administered" structure of rates in Morocco, all parties agree that a medium-term rate approximating "market" would today be 10% p.a.

This rate is below the artificially-high one year deposit rate (12% p.a.), and 1 1/2%, above 1-month government paper ("Bon de Tresor") and "informal" 1-month inter-bank lending rates. Most importantly, the 10% rate is 4% below the required (medium-term lending rate of 14% to sub-borrowers). This spread is normal in Morocco and is necessary to provide adequate incentives to IFI's. A lower spread would discourage usage, particularly for sub-loans subject to credit ceilings, which will be the case for all sub-loans except those made by non-bank IFI's and possibly, those made to finance privatization. It should be noted that bank spreads on subsidized-rate "rediscountable" medium-term loans are at least 5 1/2%.

A floating rate option can be offered to the IFI's by the USG. The recommended "market" rate would be 1 1/2% over the 1-month "Bon de Tresor" rate, totalling 10% today. This option, while urusual in Morocco, could be of interest of GOM sub-borrowers and would introduce into Morocco the concept of floating-rate medium-term dirham lending. The same rate structure should be applied to any "special" lending as to the "standard" facility.

III. <u>The "Standard" Lending Facility</u>

A "Standard" lending facility, available to <u>all</u> eligible private banks (or non-bank IFI's under bank guarantee) would ensure a perception of fairness in the use of Section 108 funds. At least 50% of total funds (i.e., DHs 40 to 50 million) would be available for this facility, which can be widely publicized so that the purposes of Section 108 become well known in the Moroccan business and financial communities.

Its key features are:

A. The USG will lend dirhams medium-term to local banks or to non-bank I.F.I.'s under bank guarantee. All eligible banks and affiliated IFI's will be invited to participate. (See attachment II for list of eligible IFI's)

B. USG loans to such IFI's will be under standardized documentation and terms, thereby avoiding USG negotiation over documents and terms with each IFI. Such terms would include tenor and interest conditions as described above.

C. IFI's will sign loan agreement with USG containing all features (including audit rights) stipulated by USG-Washington guidelines, plus clauses ensuring Moroccan enforceability and stipulating drawdown procedures (see section V below).

D. Maximum amount to be borrowed by each bank will be communicated to each bank in advance. Two amounts will be communicated: (1) the maximum amount authorized for each bank (say DH 20 million per major bank); and (2) the (lower) "target" amount representing each bank's "fair" share of the available facility. If some banks meet their targets and others do not do so, the latter's share can then be reallocated to the former at the IPG's discretion.

E. Sub-loans to be made only to eligible borrowers for eligible purposes (as described in Section II above).

F. In publicizing the program, certain desirable purposes of sub-loans would be specified, such as:

- loans to agricultural enterprises;
- loans for new or expanding small-to-medium manufacturing or service businesses; and
- loans to individuals (or companies) to finance their purchase from the State of shares in parastatal companies being privatized.

G. The identity of the sub-borrowers need not be communicated to the USG. IFI's will certify in writing that sub-loans comply with all stipulated requirements; if a future audit, or other source, reveals the contrary, an event of default (as stipulated in the loan agreement) will occur, requiring (unless waived at USG discretion) full reimbursement to the USG by the IFI of all Section 108 loans, plus penalty, and ineligibility for future Section 108 participation.

H. IPG and USAID-Rabat will be relieved of an extensive administrative burden by using the administrative services available at the USG's Treasury-approved dirham depository bank Citibank-Maghreb (See details in Section V below). The IPG will retain control of, end responsibility for, key decisions and judgements, such as the following:

1. Determination of IFI eligibility and borrowing limits (depository bank can supply such information as the IPG may desire on which to base such decisions).

2. Signature of USG of loan agreement with IFI's (if desired, depository bank can help develop the appropriate Moroccan-enforceable loan clauses to add to the USG draft agreement).

3. Authorization of funds disbursement (Depository bank to "package" IFI disbursement requests; verify satisfaction by the IFI of the necessary conditions procedent; and present the request to USAID-Rabat. Disbursement instructions via RAMC-Paris are feasible provided they involve routine procedures and can be executed promptly).

4. Approval (via USDA channels) of any Section 108 sub-loan which may involve promoting exports of agricultural products. Unless a list of excluded products is made available by USDA, it will be necessary to establish a procedure for approving any such sub-loans through USDA-Rabat (alternatively it is possible simply to exclude from the "standard" facility any sub-loans to enterprises involved in exports of any agricultural product).

5. Determination of any action to be taken in event of IFI default on loan terms (Depositor, bank can monitor IFI payments of interest and principal under loan obligations, inform IPG of any problems, and confidentially inform the IPG of the various courses of action which the IPG can take).

6. Determination of appropriate use of Section 108 reflows as interest and principal are repaid under the loans to IFI's.

IV. <u>SPECIAL" LENDING FACILITIES</u>

Certain potentially-eligible IFI's have already identified specific possible uses of Section 108 funds. Such uses would appear to promote and strengthen Morocco's private financial and capital markets, and economic development, in ways consistent with USAID objectives. These uses would involve agreement by the IPG to lend Section 108 funds to such IFI's separate from the "standard" facility described above.

It is therefore recommended that USAID-Rabat encourage those IFI's to present their proposals for such uses for IPC consideration. Such proposals, if presented prior to year-end 1987, could be implemented at the some time, and parallel to, the "standard" program described in section IV above.

It is recommended that the aggregate "special" uses not be permitted to exceed 50% of total dirham funds available under the Section 108 program. This would leave the remaining DH 40 to 50 million to be allocated to the "standard" program.

The "special" facilities would be offered at market interest rates similar to those of the "standard" facility.

To date the following potential "special" uses of Section 108 funds have been identified:

A. Sub-lending by eligible IFI's to ventures such as:

-- Capital market brokerage and trading houses, trading in quoted bonds and shares for the account of investors, and sufficiently well-capitalized to be a "market-maker." This is a greatly-needed activity which would strengthen the private capital markets and help lay the groundwork for successful privatization via distribution of shares to the investing public.

-- Trading houses specializing in export promotion and inward foreign investment.

-- Companies purchasing (or underwriting the purchase of) ownership of parastatals being privatized.

B. Sub-lending by one IFI, or a syndicate of IFI's, to individuals or companies to finance the privatization of a single designated state participation. For example, certain U.S. affiliates have large minority shareholdings by the GOM; the latter could be sold to private investors financed (through IFI's) by Section 108 funds.

3. Creation of new, wholly privately-owned IFI's for the express purpose of engaging in the three activities described in paragraph A. above. Such an IFI would receive equity from its private Moroccan backers (who would likely be the major private shareholders in Moroccan banks), and would receive an equal amount of debt financing from the USG via Section 108 funds.

In sum, these "special" uses of Section 108 funds would be tailored to give maximum USG leverage in favor of certain desirable policy and development goals, which will be carried out not by the USG but by the IFI, who assumes the risks associated with the sub-loan or investment. Regardless of any problems which may arise with the sub-loan or investment, the IFI still has a debt obligation to the USG which it will be expected to repay.

V. DEPOSITORY BANK, AND RELATED ADMINISTRATIVE PROCEDURES

The depository bank function is based on the following three requirements of Section 108 lending:

1. The need for the USG to deposit the dirham funds it receives from the GOM in an interest-bearing bank account.

2. The need to disburse funds to IFI's and to collect interest and principal on loans to IFI's, via a USG dirham account.

3. The need to receive relevant information and deposits in a well-ordered, timely manner.

The selection of Citibank-Maghreb for the depository bank function is based on the following rationale:

-- Citibank-Maghreb is already the USG Treasury - authorized dirham depository bank (Section 108 guidelines specify that Title I dirhams must be placed by the USG in a "bank" account; such a bank should also be private-sector entity and therefore not a GOM entity).

-- No Moroccan bank has the capability to perform the depository bank functions described in this section. Some Moroccan private banks might be capable of performing certain of the procedures, but none of these could provide the type of reporting which will be required, nor would Moroccan banks be placed to deal with another Moroccan bank in this capacity.

-- Citibank Maghreb is not an eligible IFI (due to its effective 75% foreign ownership) and is therefore not a competitor for Section 108 funds. Its business in Morocco is in general not in competition with the local banks. Its performance of the depository and loan administration functions would therefore not be viewed negatively by Moroccan IFI's.

-- The depository bank function is not a controversial one and can be readily divulged to the GOM and the IFI's. It is normal for the USG to place its Dirham funds with a US-owned bank which operates locally and which already handles USG Dirham funds.

The following specific specific functions will be performed by the Depository Bank ("D.B.") on the USG's behalf:

A. Opening a specific new interest-bearing U.S. Disbursing Officer's Account in Domestic Dirhams ("Compte Courant en Dirhams-remunerable"). A Domestic Dirham account is required to permit payments to and receipts from Moroccan resident IFI's. Interest rate paid will reflect market conditions and the compensation required by the D.B. for its overall services. The existing USDO Dirham account of Citibank-Maghreb cannot be used because (1) it is a "convertible", not a "resident" account; and (2) commingling of Section 108 funds with other agencies' funds would cause major administrative problems for all concerned.

The opening of the interest-bearing current account will involve Central Bank agreement; there are precedents for such accounts, namely Moroccan insurance companies, which are authorized to receive up to 5% p.a. on interest-bearing domestic dirham current accounts.

B. Receipt of Dirham cash payment from government of Morocco (equiv. $10. million) 120 days after CCC pays U.S. producers (latest Jan. 31, 1987).

C. Assistance to IPG-Rabat, as may be desired, in preparation of "Standard" loan agreement model (USG-Washington guidelines, plus Moroccan-enforceable clauses).

The "Standard" loan agreement will be signed by all IFI's willing and able to participate in the "standard" facility. As such, it will not be subject to negotiation. The D.B. will function much as a lead bank ("chef de file") does in Moroccan banking practice: answering questions about the document, collecting the signatures (the signatories will of course be the USG - IPG Rabat - and the various IFI's). Any local legal costs in loan agreement preparation should be borne by the IFI borrowers, per standard banking practice.

D. Once loan agreements are in place between the USG a.d an IFI, drawdowns under such agreements will be processed through the D.B. Standard, routine procedures will be established and followed so that the D.B. will "package" the drawdown requests for approval by USAID-Rabat.

The D.B. will inform the IPG-Rabat (USAID) of each drawdown request, confirming that all documentation and compliance certification is in order. USAID-Rabat (on IPG's behalf) will then cause the drawdowns to be authorized and paid to the IFI, via instructions to be provided by RAMC-Paris to the D.B.

E. The loan agreement - and the drawdown requests - will contain wording certifying the IFI's compliance with the requirements of Section 108 sub-loans, i.e., private sector borrower, no support to agricultural exports competing with US products, etc. The burden of verifying compliance is therefore on the IFI (not on the D.B. or on the USG), subject to future verification by independent audit.

F. The "loan administration" function will be provided by the D.B. for each IFI loan extended. Payment of interest and principal will be monitored, as will other conditions contained in the IBG-IFI loan agreement. The D.B. will develop a specific procedure for monitoring each IFI loan, and will periodically (monthly) report to the IPG on the regard to total outstandings to each IFI vs. limits; status of interest and principal payments by each IFI; and all relevant account balance information. The D.B. will place (upon USG instruction) and surplus funds (reflows) in interest-bearing time deposits.

G. The D.B. is also in a position to provide the IPG with certain types of information as it may desire form time to time, such as:

- basic information about Moroccan IFI's (which the D.B. possess routinely since it is itself an interbank lender to most Moroccan IFI's), such as: information on IFI shareholdings; management and Board composition; and summary of financial condition and types of business conducted.

- confidential advice on options which may realistically be pursued in the event that an IFI loan troublesome (such situations can be resolved quietly through contacts with the IFI's management and shareholders, without the unpleasant and generally fruitless recourse to legal action).

The above functions A. through G. relate specifically to the "standard" facility. However, they also apply to the "special" uses of Sec. 108 funds; in such cases the agent can also help prepare loan documentation, monitor drawdowns, perform loan administration and reporting functions.

VI. AUDIT PROCEDURES

The USG-IFI Loan Agreement will provide for the following audit procedures (section 11 in Draft Loan Agreement):

- The IFI's own independent auditors to audit each sub-loan, and forward the results to the lender.

- The USG's "Authorized Representatives" will have the right to audit and inspect the utilization of the loan and sub-loans.

These audit procedures are control to the "self-policing" nature of the "Standard" facility, i.e., the IFI may make sub-loans at its discretion but must certify -- subject to future audit - that all sub-loans comply with all stipulated conditions as to purpose etc.

It is not advisable for the USG to perform an audit on the IFI's premises with its own representatives. Such an audit should be performed by a designated USG "Authorized representative" which would be an independent accounting firm not employed by the I.F.I. (such as Price Waterhouse - Morocco or another local "Big-8" firm affiliate.) This would allow compliance to be monitored without unnecessarily divulging sub-borrower details to the agent.

The contract to the audit firm could be awarded after local competitive bidding. Its compensation could be paid in dirhams from Section 108 loan reflows, as a necessary cost of administering the facility; alternatively the cost could be borne by the I.F.I. Borrower.

VII. LOAN AGREEMENT DOCUMENTATION

The draft loan agreement text (Attachment III) can be incorporated in its entirety in a Moroccan-enforceable loan agreement document to be signed between the USG and the IFI's.

However, there are some areas where language should be added to the basic draft text for clarification purposes. These are as follows:

A. Section 6 (A):

The following phrase should be added to this paragraph: "USG of Sub-loans for a productive, private enterprise investment includes, but is not limited to, the establishment or expansion of agricultural, industrial or service enterprises; and the purchase by private individuals or other private sector entities of ownership shares in Moroccan companies being sold by the Moroccan public sector to the Moroccan private sector."

This clarification is useful in identifying the most feasible and appropriate purposes of sub-loans in the Moroccan context (where lending to agriculture is mainly the province of State-owned banks at subsidized interest rate), and would serve to ease any concerns IFI borrowers might have with section 23 of the Draft Agreement (USG right to require accelerated repayment if stated sub-loan purpose is not complied with.

B. Section 8 (A):

To avoid discriminating against U.S. companies, the 49% U.S. ownership limit should be raised to 50% (a common situation in Morocco is 50% foreign ownership with Moroccan control via a board majority plus CEO position).

C. Section 12 (A):

The final agreement will need to specify exactly where the payments of interest and principal should be deemed made, i.e., "payments will be deposited in U.S.D.O. Dirham Account No. ___________ with CitiBank-Maghreb, Casablanca, and will be deemed made when received in said office."

D. Section 16 (B)(2)

The requirement that I.F.I.'s report to the U.S.G. on "to whom lent" (relating to sub-loans) should be deleted. The I.F.I.'s description of sub-loan purposes and terms -- coupled with the audit rights and IFI certification at time of drawdown that sub-loans comply in all respects -- is sufficient to ensure I.F.I. adherence to all Section 108 requirements.

E. Default and applicable law clauses: while the draft agreement is clear, prudence dictates that Moroccan legal counsel examine the French language text to ensure full local enforceability. Such enforceability will likely require adding some "boiler-plate" language standard in Morocco. Even if legal enforcement is never forseen, it is always desirable that borrowers know that the signed agreement could in principle by enforced in local courts in the event of failure to meet payments or other default occurs.

The proposed Moroccan legal advice on this matter could be handled with the assistance of the depository bank if desired. The legal documentation fees could be paid for by the I.F.I. borrowers (as is customary); by the depository bank (reimbursed through the deposits); or from loan reflows (which will begin 6 months after initial drawdowns).

VIII. GOVERNMENT OF MOROCCO AGREEMENT TO SECTION 108 LENDING

The Government of Morocco will obviously need to agree to the concept of a Section 108 lending facility channeling Dirham funds belonging to the USG to private I.F.I.'s and sub-borrowers. Contacts so far with GOM officials indicate that they can accept - if not enthusiastically support - this activity.

It would also appear that any use of Section 108 sub-loans for purposes which direct funds back to the GOM -- such as (potentially) financing privatization -- could be viewed most favorably by certain G.O.M. officials.

The Agreement of the G.O.M. should be based on the following:

A. Signature of the USG-GOM Title I Agreements should be done at the earliest possible moment. The draft Title I agreement as written adequately covers the Section 108 lending concept - no changes to this draft are proposed.

B. G.O.M. authorities need to accept the concept of leaving all sub-lending decisions to the I.F.I.'s themselves, who will operate under the Section 108 guidelines but will otherwise be free of any government targeting requirements (be it GOM or USG).

C. The G.O.M. -- in particular the Central Bank - needs to be made comfortable with USG funds entering the banking system (plus being available to non-bank I.F.I.'s outside credit ceilings). Sub-loans to finance privatization should be explicitly designated as outside credit ceilings; such exemption makes sense economically, as such authorities as the I.M.F. would no doubt agree, since it involves (in effect) returning to the Moroccan Treasury Dirham funds mobilized from the domestic sales of P.L. 480 Wheat.

D. GOM (Central Bank) approval is also required for a technicality: the opening of an interest-bearing U.S.D.O. current account in domestic Dirhams at the depository bank (Citibank-Maghreb). There are precedents for such accounts: Moroccan insurance companies have been permitted to have such accounts (at Citibank and elsewhere).

The key G.O.M. players will be:

Ministry of Finance:
- The Minister
- Treasury Director (also re privatization)
- Budget Director

Central Bank: - The Governor
- Credit Director

At some point in proceeding toward the USG-GOM Title I agreement, these officials may wish to have a written description of the Section 108 concept. (Attachment IV provides a draft write-up in French of the Section 108 facility for presentation to G.O.M. officials). They will also want to be kept informed of the specifics of USG-IFI agreements; the Tresor will want to concur on the amounts to be made available to each I.F.I.

There are several issues which, while not strictly related to Section 108 lending, are in fact relevant if financing privatization and/or financing capital market broker-dealers as sub-borrowers are to be accomplished, successfully via Section 108 lending. They are:

- Status of rules governing the listing on the Casablanca Bourse of shares of State enterprises being privatized.

- Outlook/opportunities for new secondary market broker-dealers to ensure liquidity for shareholders of privatized entities. Major IFI's are currently considering their possible entry into such businesses.

- GOM (Treasury) statement and targets for privatization. In particular, do they wish to privatize the minority G.O.M. holdings in Moroccan companies which are affiliates of U.S. corporations? Such public-sector holding companies as S.M.I. and O.D.I. we particularly relevant to this issue; they are generally move favorable toward privatization and new capital market activities then are most G.O.M. officials.

- Status of preparation of accounts of parastatals targeted for privatization, and progress of the "plan comptable." Price Waterhouse - Morocco is very close to those matters.

USAID-Rabat may wish to take a closer look at these issues, which are important to the progress of privatization and to the development of an active private capital market in Morocco (as well as being relevant to Section 108 lending).

TIMETABLE

The sequence of events and action steps to implement the Section 108 facility are as follows:

1. Inform GOM officials of Section 108 lending program (March/April 1987)

2. Sign USG-GOM Title I agreement (April/June 1987)

3. IPG establishes depository bank account, and agrees on procedures to be followed, with Citibank Maghreb.

4. USG-Rabat publicly announces "standard" program; simultaneously, major IFI's wishing to propose "special" uses are invited to do so, particularly in the context of financing one or several privatization transactions.

5. IPG-Rabat works with interested IFI's to finalize documentation (both "standard" and "special"); loan agreements are signed by IPG for USG.

6. GOM pays USG dirham equivalent of $10 million into U.S.D.O. account at depository bank 120 days after U.S. producers are paid (earliest Nov. 1987, latest Jan. 1988).

7. IFI's make loan drawdowns under already-executed loan agreements, presenting requests through depository bank for USAID-Rabat approval and disbursement through RAMC-Paris.

Meetings held - March 9-23,1987

March 9:

- USAID - Rabat (Smith, Scofield, Hanafi, Lewis, Laudiyi)
- I.P.G.: Culver (Agriculture); Johnson (Econ.); Smith (USAID)

March 10:

B.C.M. (Mr. Alami, Chairman) w/Smith (USAID)
S.M.D.C. (Mr. Akalay, CEO; Mrs. Kabias) w/Smith (USAID)

WAFABANK (Mr. Bennani, CEO; Mr. El Kouhene; Mr. Hilali) w/Smith (USAID)

March 11:

Citibank-Maghreb (Mr. Riggall, Managing Director) w/Smith (USAID)

March 12:

Citibank-Maghreb (Mr. Matar, Vice President; Mr. Kadiri, Financial Institutions Manager)
S.M.D.C.: (Mr. Akalay, CEO)

March 13-14:

Preparation of Preliminary Report for USAID

March 16:

USAID (Mr. Johnson, Director; others; including Mr. Bell, DAA - ANE and Mr. Culver, USDA) Presentation of preliminary report.

March 17:

USAID (Johnson, Scofield, Smith)
WAFABANK (Mr. El. Kouhene)

March 18:

S.N.I. (Mr. Belkziz, Managing Director)
S.G.M.B. (Mr. Sqalli, Deputy Managing Director)
B.C.M. (Mr. Alami)

March 19:

S.N.I. (Mr. Lahlou, Sec. Gen.; Mr. Elkabbas, Legal/Admin. Head)
B.M.C.I. (Mr. Benkirane, CEO; Also Pres. of Moroccan "Patronat")
S.M.D.C. (Mr. Akalay)

March 20:

USAID (Smith, Lewis)
GOM: Ministry of Finance (Mr. Sahel, Budget Director; Mr. El Masrioul), w/Dolan (Econ), Culver (USDA), Smith (USAID).

March 21: (Report Preparation)

March 23:

GOM: Ministry of Finance (Mr. Tazi, Treasury Director; also Pres. of Moroccan Bourse): w/Dolan (Econ), Smith (USAID)

CitiBank Maghreb (Riggall)

ATTACHMENT II

POTENTIALLY ELIGIBLE I.F.I.'s

Eligibility determination to be based on ownership characteristics at time of program implementation..

A. ELIGIBLE COMMERCIAL BANKS:

The following are considered to be "private sector" banks in the Moroccan context. (nos. 1 through 5 are "major institution's).

1. - BANQUE COMMERCIALE DU MAROC (B.C.M.):

- 55% Moroccan: all private except small (51%) S.N.I. share

- 45% Foreign: B.N.P. (French Bank).

2. - BANQUE MAROCAINE POUR LE COMMERCE ET L'INDUSTRIE (B.M.C.I.)

- 55% Moroccan: private except for small (5%) S.N.I. share

- 45% Foreign: B.N.P. (French Bank).

3. - SOCIETE GENERALE MAROCAINE DE BANQUE (S.G.M.B.):

- 51% Moroccan: private

- 49% Foreign Banks: Societe General (France) 36%
  Credit Suisse (Switz) 39%
  Societe Marseillaise de Credit (France) 10%

4. - WAFABANK:

- 82% Moroccan: private (59% Kettani Group)

- 18% Indosuez (French Bank).

5. - SOCIETE MAROCAINE DE DEPOT ET DE CREDIT (SMDC):

- 51% Moroccan : private

- 49% Foreign Banks (French):
  . Paribas 23%
  . Worms 23%
  . Credit du Nord 3%

6. - SOCIETE DE BANQUE ET DE CREDIT (SBC):

- 76% Moroccan (O.N.A.)
- 24% Foreign : Paribas (France).

7. - ALGEMENE BANK:

- 51% Moroccan (Private ?)
- 49% Algemene Bank (Netherlands).

8. - SMALL BANKS - PRIVATE OWNERSHIP TO BE DETERMINED (may soon be merged with others):

- B.M.A.O.
- UNION MAROCAINE DE BANQUES
- UNIBAN (49% Spanish).

9. - INELIGIBLE BANKS (UNDER PRESENT CONDITIONS):

- B.M.C.E. (Public Sector)
- BANQUE CENTRALE POPULAIRE (B.C.P.) Public Sector)
- B.N.D.E. (Public Sector)
- CAISSE NATIONALE DE CREDIT AGRICOLE (C.N.C.A.) (Public sector)
- CREDIT DU MAROC: B.M.C.E. (Public) 51%; CREDIT LYONNAIS (French) 49%
- ARAB BANK: B.C.P. (Public) 51%; Foreign 49%
- CITIBANK: 50% Foreign Owned (indirectly 75% Foreign-owned)

B - LEASING COMPANIES/FINANCE COMPANIES

1 - SOGELEASE (owned by S.G.M.B.)
2 - WAFABAIL (owned by WAFABANK)
3 - WAFASALAF (owned by WAFABANK)
4 - INTERLEASE (owned by B.M.C.I.)
5 - DIAC (owned by B.C.M.)
6 - DIAC EQUIPMENT (owned by B.C.M.)
7 - ACRED (owned by private insurance cos)
8 - SOFAC (owned by private insurance cos)
9 - PROBABLY INELIGIBLE:
   . MAROC LEASING (owned by B.N.D.E.)
   . MAGHREBAIL (owned by B.M.C.E./B.C.M.)
   . EQDOM (Public Sector).

C - INVESTMENT COMPANIES

1 - COMPAGNIE FINANCIERE D'INVESTISSEMENT (owned by WAFABANK/B.C.M.)

2 - INVESTIMA (owned by S.G.M.B.)
3 - UFIMAR (BMCI)
4 - MAROC INVESTTISSEMENTS
5 - NEW ENTITY TO BE FORMED BY S.M.D.C.
6 - NEW ENTITY TO BE FORMED BY WAFABANK
7 - (HYPOTHETICAL): NEW ENTITY TO BE FORMED BY PRIVATE MOROCCAN GROUPS (MAJOR BANK SHAREHOLDERS) FOR SPECIAL PURPOSE USE OF SEC. 108.