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FEASIBILITY CONDITIONS FOR THE CREATION OF A MUNICIPAL DEVELOPMENT BANK

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OFFICE OF HOUSING
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Feasibility Conditions for the Creation of a Municipal Development Bank

Kingdom of Morocco

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TRANSLATION OF ORIGINAL REPORT IN FRENCH

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INTRODUCTION AND CONCLUSIONS

The implementation of a comprehensive economic and social development program, coupled with an affirmative decentralization policy, have led the Highest Authorities in Morocco to investigate the ways and means of accelerating the formulation and implementation of infrastructure projects of Local Governments in Morocco.

The current financial structure and the logistical support having been found inappropriate, it was determined that a new specialized financial institution would meet the requirement of meeting the financial and technical assistance needs of the Local Governments in Morocco. At the request of the Ministry of Interior and Information, through its Local Governments' Directorate ("Direction des Collectivites Locales"), USAID Morocco was asked to assist in the task of preparing a detailed Report analyzing the viability of the concept of creating a new Bank in the current and prospective Moroccan context, describing its specific character and objectives, defining its financial and other requirements to satisfy the stated objectives, and determining a legal form and structure ensuring its independence and efficiency.

In the body of this Report, the term "Banque Des Collectivites Locales", or "BDCL", has been used, without prejudicing its founders' future decision as to its official name.

The Report addresses all the points of the Terms of Reference established by the Ministry of Interior and Information's Directorate of Local Governments, which are included in Annex I. The fact that the several points are not necessarily covered in the order of the TOR's does not detract from the coverage of their content, logical sequence and conclusions. However, in deference to simplicity and to avoid a repeat analysis, information contained in an informative recent study by the World Bank has been used for the purpose of assessing the financial markets in Morocco.

The experience gathered by the existing Municipal Development Fund ("Fonds d'Equipement Communal" or "FEC") has been significant, and will be used to establish the BDCL's efficiency from the outset, and to implement in the best conditions the objectives that the supervising Authorities will assign to the new institution.

The Report substantiates the rationale for the BDCL and determines the parameters of its viability in economic, financial and operating terms. A specific market has been proposed, and its development analyzed over the next five years. The uses of the BDCL's resources have been defined, and the corresponding resources have been investigated and prioritized. A precise analysis of the financial and operating costs has been made and has been compared to the anticipated revenues. It has led to recommendations as to special waivers to be granted the new Bank in the current bank regulatory environment, and to pre-set allocations of stable financial resources for the maintenance of a sound balance sheet and positive income statements in the future.

On the basis of all financial data and assumptions, financial forecasts have been developed for the BDCL taken in isolation and also when merged with the FEC. The results demonstrate the institution's viability under normal operating conditions. The legal context has been reviewed and all direct and potential constraints have been highlighted in order to prepare for the necessary changes to legal texts.

Finally, an agenda of actions to be taken has been suggested in order to enable the BDCL to be operational within a reasonable time without delaying the Local Governments' programs.

The BDCL will be constituted in the form of a joint stock corporation subject to the Banking Law of April 27th, 1967; it will have a share capital of DH 500 millions and its shareholders will include public and private entities : with this structure, it will be the most appropriate vehicle to finance required capital expenditures pursuant to the policy of growth prescribed by His Majesty the King.

The BDCL's capability to mobilize financial resources and to redeploy them according to its mission will be made possible by the combination of its structure; its status as a bank; its progressive decentralized operations throughout the Regions; the specific missions and objectives which will be assigned to it; the independence and professionalism of its management, and the credibility which it will rapidly develop vis-a-vis the Moroccan financial markets and international organizations.

The present Report has been established under the aegis and with the active collaboration of USAID, Mr. Harry Birnholz, Division Chief of the Housing and Urban programs of USAID Morocco; and by *Trans-Atlantic Consulting Services, Inc.*, based in Washington, D.C. whose team was composed as follows :

- Stephen B. Strauss, banking expert and financial markets' specialist and Managing Director of the Consulting firm;

- Philippe P. Seigneur, Financial expert and specialist in the development of projects ;

-Abdel Latif Benani, banker and General Manager of CICC S.A. in Geneva; Chairman of Citibank (Maghreb);

- Michel Van Vlasselaer, Expert in local government matters; General Inspector of the Regional Development Company of Brussels; and delegate to the Board of the *Credit Communal de Belgique S.A.;*

- Samir Kanoun, financial and institutional specialist with

USAID/RHUDO Near East/North Africa.

The team of experts wishes to express herein its appreciation and thanks for the precious help, the recommendations and the support received from :

- The Directorate of Local Governments of the Ministry of Interior and Information;

- The Ministry of Finance, in particular:

- The Directory General of the Treasury and of External Financial Affairs:

- The Treasury of the Kingdom;

- The Directorate of the Budget;

- The General Management and the Financial Management of the *Caisse de Depot et de Gestion* ;

- The Management of the *Fonds d'Equipement Communal;*

- The *Bank Al Maghrib;*

- The Management of the *Banque Centrale Populaire;*

- The Management of the *Credit Immobilier et Hotelier;*

as well as from numerous representatives of the Moroccan Government, who have greatly facilitated the conduct of the study.

Conclusions

1. The feasibility study has determined that the financing needs of the Local Governments in Morocco, as projected by the Authorities, are considerable over the next five years, and will further increase as the current decentralization policy and the planned creation of new municipalities takes place. The financing needs greatly exceed the financial resources (including borrowings) generated by, or on behalf of, the Local Governments.

2. The projects of the Local Governments eligible for financing could not be pursued without the allocation of substantial financial resources by the State, who alone cannot provide them.

3. There is a need for the intermediation, by a viable institution, of a maximum of new non-budgetary resources to finance the Local Governments' projects.

4. Such intermediation can only be performed by an institution

sufficiently capitalized to raise its own financial resources and to mobilize funds, either directly or by co-financing, on behalf of the Local Governments.

5. In order to perform this intermediation, the new bank will have to meet the following standards simultaneously :

- Have an initially high capitalization (DH 500 million) to access local and international financing, as well as to achieve positive profitability from the start of its operations;

- Be managerially autonomous, in order to seek the least-cost sources of funds, independently of the liquidity and cost risks and uncertainties linked to traditional funding sources, and in order to finance projects offering the prospect of financial and/or economic benefits allowing for investment cost recovery and the servicing of loans, without resorting to external subsidies.

- Be professionnally specialized and decentralized, in order to better understand the needs of the Local Governments and, as needed, to co-ordinate them, and evaluate them in a long term perspective appropriate to the long economic life of most of the projects;

- Be the mobilization agent of new financial resources on behalf of the Local Governments, by the use, or the creation of, new financial instruments made available to Local Governments (such as real estate and equipment leasing, guaranteed buyer and suppliers' credits, co-financing mechanisms, issuance of bonds, generation of savings tied to specific purposes, users' fees, etc.)

- Be viable, that is be in a position to maintain a balanced financial structure, be solvent and profitable enough to pay an adequate level of dividends to its shareholders.

6. To meet these standards, the new institution should :

a) be a bank, in the form of a joint stock corporation ("Societe Anonyme") but subject to the privileges and controls of the Banking Law, though with certain exemptions conducive to an adequate level of profitability;

b) absorb the *Fonds d'Equipement Communal (FEC)* , its assets and liablities, its mission and activities, and the employees of the FEC who wish to join the new bank under an operating structure to be defined by the General Management of the new institution;

c) have an initial ratio of equity to fixed assets of a maximum of 1 to 4 during the first five years of operations, in order to build confidence in the eyes of external lenders and in order to reduce its average cost of funds (which will initially be high, in part due to its absorption of the assets and liabilities of the FEC), and to be able to cover its fixed and variable costs while generating a profit as of its first year of operations.

d) be legally empowered to receive and solicit deposits from its customers (the Local Governments) and the supplier companies contracting with them, as well as from private individuals (private savings), and to offer appropriate banking services;

e) operate within an adequate legal framework, which implies certain changes in the texts governing Municipal finance and organizational matters, and the modification of certain statutory texts governing the FEC by reason of its absorption by the BDCL.

The overall analysis contained in this Report confirms the need for, and the feasibility of, the creation of the BCDL. Furthermore, it confirms the necessity to set up the new institution at the earliest possible moment. The analysis and the conclusions are based upon the assumption, in practical terms as well as in terms of the financial forecasts, that the BDCL will be created soon, before the end of calendar year 1988; that the required legal steps be taken during 1988; and that the BDCL will be in a position to start its operations on January 1st, 1989 at the latest, which will also be the date of the effective absorption of the FEC and its activities by the new bank.

7. Despite the similarities between the FEC and the BDCL in the shared objectives of financing the capital needs of Local Governments, the BDCL will have characteristics of its own which will differentiate it from the FEC in several respects. As a bank and as a corporation, the BDCL will have to manage its financial and personnel resources independently, a task that the FEC did not have to perform because of it being managed by the *Caisse de Depot et de Gestion*. In addition, the ambition of the BDCL will have to include the mobilization of additional resources to fund the Local Governments' needs beyond the BDCL' resources and existing channels. The BDCL will thus need to have from the outset its own structure and procedures, albeit based on the FEC's experience whenever appropriate.

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SECTION I

THE LOCAL GOVERNMENTS AND THEIR FINANCING NEEDS. (1)

1. The customer base and its financial resources.

The key condition to justify the creation of the BDCL is the existence of unsatisfied capital expenditure needs, present and future, i.e. a "market demand" consisting from financially solvent "customers" requiring financing.

In order to define this demand, one has first to define the particular Local Government customer base. From this definition, one can identify their development needs and their existing financial resources. This Section seeks to answer those questions.

a) The clientele of the BDCL

For the purpose of this Report it was not deemed necessary to systematically review all the organizational aspects of the territorial subdivisions of the Kingdom of Morocco, nor of all the institutions that affect their activities. Recent and complete descriptions have been made, including a 1987 World Bank study.

The present Report, however, contains, as and when needed, operational and organizational data that are necessary to understand the analyses and recommendations made therein.

The future market of the BDCL is, first, the one of the Local Governments ("Collecticvites Locales") specified in the Five-Year Plan 1988-1992 and, second, the institutions referred to in various documents established by the Ministry of Interior, who is the Tutelar Authority ("Tutelle") of the Local Governments according to the Dahir carrying Law No. 1-76-583 of the 5 Chaoual 1396 (September 30 1976) on Municipal Organization. These documents are :

(i) The Instruction concerning the Preparation of the Orientation Plan for the Development of the Local Governments.

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(1) The expression "Local Governments" used throughout this Report refers to the following : Moroccan territorial subdivisions and entities : Provinces, "Prefectures", Municipalities, and groupings thereof; "Regies" (utility companies established by Municipalities) and other companies under special regimes ("mixed-economy and "concessionary" companies). The nature of each of those entities is described in this Section.

(ii) The Project concerning the creation of a National Fund for the Local Governments (*"Caisse Nationale des Collectivites Locales"*).

(iii) The projects' data bank established by the Ministry of Interior in 1985.

These Ministry of Interior' documents all demonstrate that the Local Governments will have to borrow funds to carry out their development programs. Besides the Local Governments listed in those documents (the Provinces, the Municipalities, the Autonomous Centres), there is a "legal" definition of the types of Local Governments which could borrow from the BDCL, contained in the Dahir mentioned above as well as in another Dahir of same date (No. 1-76-584) concerning the financial organization of the Local Governments and their Syndicates.

The Dahir No 1-76-583 defines the following types (statistical data are added to better understand the nature of Local Governments in Morocco) :

- the Municipalities ("Communes"), which are public law entities having legal existence and financial autonomy, which are broken down as follows:

a) Urban Municipalities (consisting of 45 Municipalities and 40 Autonomous Centres, - the latter being large entities, but not having a large enough population to qualify as Municipalities.

b) Rural Municipalities, which are the largest number of Local Governments (761), and include the sub-category of 165 "Delimited Centers", which are urban clusters within rural Municipalities;

c) Syndicates of Municipalities, which are groups of Municipalities having an independent legal existence of their own and established to pursue common purposes of the member Municipalities.

Article 30 of the Dahir No. 1-76-583 authorizes the Municipalities' Councils to organize municipal services in the form of Direct utility services or Autonomous utility services ("Regies directes" and "Regies Autonomes"). Paragraph 7 of the same Article authorizes the Municipalities' Councils to make financial investments in mixed economy enterprises dealing in municipal or multi-municipal affairs.

Article 2 para.2 of the Dahir No.1-76-584 concerning the financial organization of Local Governments submits the following entities to its prescriptions : the "Prefectures", the "Provinces", the "Urban Municipalities" and the "Rural Municipalities".

The same Dahir also refers to "groups" of Local Governments such as Syndicates of Municipalities (alreay mentioned above), Syndicates of Provinces or of Prefectures as well as the Urban Municipality of Casablanca.

Finally, the Royal Decree No. 929-66 of 20 Kaada (March 2, 1967) amending the Dahir creating the FEC is adding in its paragraph 2 the Prefectures and the Provinces to the list of Local Governments which are authorized to borrow from the FEC for their capital expenditure needs, while the Dahir NO. 1-59-074 creating a *Caisse de Depot et de Gestion* ("CDG" hereafter) authorizes the CDG, in its Article 21, para.2, to lend funds to Companies benefiting from concessions from Local Governments.

Therefore, besides the Municipalities and similar-rank public entities, there appears to be three additional entities concerned with legal texts applying to Local Governments:

- The "Regies", which are of two types :

- The "Regies directes", which have no legal independence from the Municipalities establishing them, and which are simply municipal services operationally detached from the administration of the Municipality; there appears to be no such Regies in Morocco as yet;

- The "Regies Autonomes", which have a legal existence distinct from the Municipality(ies) establishing them, but have no private sector participation in their capital, and which typically (though not exclusively) perform utility services (electricity and water production and distribution, as well as municipal public transportation and sewerage treatment - e.g. Casablanca).

- The mixed-economy companies dealing in municipal or pluri-municipal affairs, and the companies benefiting from Municipal concessions ;

- The Provinces, Prefectures and their syndicates.

The "Regies Autonomes" are in principle eligible for finnancial assistance as they emanate exclusively from Municipalities and perform some of their essential functions. The Regies are therefore considered Local Governments for the purpose of this Report. In fact, the FEC has been lending extensively to several Regies Autonomes, which account for about 1/3 of its oustanding portfolio of loans. The "Regies Directes" are, by definition, legally part of the Municipalities which establish them. Finally, the "Mixed-economy companies dealing in municipal and pluri-municipal affairs" are not necessarily created at the initiative of the Municipalities, but the latter can participate financially into them, besides private sector investors (Article 30, para. 7 of the Dahir No.1-76-583 mentioned above). There is *prima facie* no reason to exclude them from the customer base of the future BDCL, who will decide, on a case by case basis, of the opportunity to provide them with long-term funds to carry out projects entrusted to them by the Municipalities.

However, the projects' data bank of the Ministry of Interior does not contain projects formulated by syndicates of Provinces, of Prefectures or of Mixed-economy companies or companies benefiting from municipal concessions. Those entities have therefore not been retained as part of the potential BDCL's clientele within the framework of this Report, for the purpose of allocating BDCL's financial resources to them in the financial forecasts (See Section III, The Investments of the BDCL).

One can observe that the market base of the BDCL defined above is broader than the one served by the FEC from its creation in 1959 to this date. The FEC is authorized to finance capital expenditure needs of Urban and Rural Municipalities, their Syndicates, the "Regies" having a separate legal existence and financial autonomy, the "Prefectures" and "Provinces" (Royal Decree No. 929-66 of 20 Kaada 1386 (March 2, 1967) amending the Dahir No. 1-59-169 of 6 Hija 1378 (June 13 1959) creating the FEC). In principle, it should not be incompatible with the proposed structure of the BDCL to include projects emanating from other territorial forms of Local Governments and entities assimilated to them, into the stream of lending activities of the future BDCL.

b) <u>The Statutory financial resources of Local Governments</u>.

a) The statutory financial resources of Local Governments are :

- local taxes
- allocated taxes (1)
- Value Added Tax (VAT)' share reserved by law to the Local Governments.
- financing of Special Programs
- subsidies
- borrowings.

Other occasional financial resources (gifts, bequeaths, proceeds from sale of patrimonial assets) are not taken into consideration here because of their unpredictable occurrence.

The six types of statutory financial resources are respectively examined hereafter.

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(1) Taxes collected by the local tax collectors, who depend from the Kingdom's Treasury, and which are credited back to the Local Governments for that portion allocated to them by the fiscal laws.

(i) Local taxes.

This resource, although it grew by 300 % in nominal terms between 1976 and 1986, and although it is due to increase by reason of the current reform of local taxes, represents and will continue to represent a relatively small part of the total of financial resources of the Local Governments, especially in the case of the Rural Municipalities (1). The reason is the narrow assessment base of most local taxes (mainly pertaining to real estate assets) in the small Urban and Rural Municipalities.

The reform of local taxes will be carried out in two phases. Phase 1 is the only one precisely programmed so far and should generate additional fiscal resources to the Local Governments of between DH 0.7 and 1 billion annually from 1989 onwards, according to informations obtained from the Ministry of Interior (May 1988). An important part of this amount will come from a change in the "allocated taxes", as explained below.

(ii) The allocated taxes.

The current tax reform will not bring substantial changes to the "taxe d'edilite" (a tax based on real estate), while tax receipts from the "patente" (a tax assessed on real estate properties and businesses) will rise from the fixed annual amount of DH 5 million at present (nation-wide) to about DH 495 million in 1988 and thereafter in favor of the Local Governments. This results from a reallocation of the proceeds of this tax in favor of the Local Governments. Other modifications will affect the "Urban tax", but their impact on tax receipts of the Local Governments has not yet been calculated.

(iii) The Value Added Tax (VAT).

The Law of November 28, 1985, incorporated in the Dahir of December 20, 1985, stipulates that at least 30% of the nation-wide VAT receipts will henceforth be reserved for the Local

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(1) In Annex 2, a synoptic table summarizes the Finances of the Local Governments from 1984 to 1987. It was established at the request of the authors of the Report by the Directorate of Local Governments of the Ministry of the Interior. The column "Local taxation" shows that, not taking into account the "allocated taxes", local taxes represented 23% of the total of financial resources of the Local Governments (including subsidies and borrowings from the FEC) in 1986 and 21% in 1987. With the "allocated taxes" included, the percentages were respectively of 37% and 33% in those two years.

Governments' budget needs. This Law was supposed to be in full force and effect by April 1st 1986. However, its full application was deferred because decisions remain to be taken as to the ultimate use by, and the allocations rules to, the Local Governments. The first allocation of VAT was made in 1987 to the credit of a collective "pooled" account of all the Local Governments held with the Treasury (Account No. 3553).

The evolution of the nation-wide VAT receipts has been as follows:

(in DH million)

	1986	1987	1988*	1989 & beyond** (Annually)
Total	4,462.5	6,475	6,496	
30% of total =	1,338.7	1,942.5	1,948.8	3.660

* : forecast of the Kingdom's Budget.
** : forecast of the Ministry of Interior' Instruction concerning the Preparation of the 1988-1992 Orientation Plan for the Development of the Local Governments.

For the moment, the definitive basis for allocating those VAT receipts to Local Governments has not yet been decided upon, and the system remains in a transitional phase.

However, it seems to be the case that the priority use of these financial resources will be to replace State subsidies which thus far have been used to balance the Local Governments' <u>operational budgets</u> (the so-called "Budget-First Part"); the balance of these resources would then be used to replace State subsidies which have been used to balance the <u>capital expenditure budgets.</u>

However, before any such substitution can be made, the following amounts will have to be deducted out of the 30% of VAT proceeds:

- 5% to cover "common expenditures and expenses" of the Local Governments;

- DH 5 billion over 5 years (hence on average DH 1 billion annually) to fund the start-up expenditures associated with the planned creation of new Municipalities and to fund adjustments to the budgets of the existing Local Governments.

Therefore, the amount of VAT proceeds reserved to Local Governments for their operational and capital expenditure budgets during the Plan period 1988-1992 will be about DH 12.5 billion (i.e. DH 18.3 billion less 5% and less DH 5 billion).

The role of the share of VAT proceeds reserved for Local Governments as a substitute for the State subsidies made to Local Governments' budgets is clear if one extrapolates the total State subsidies made in 1987 (DH 2,275 million) over the next five years : the cumulative amount of subsidies, at constant levels, would be of DH 11,375 million for the period 1988-1992, or a figure nearly equivalent to the net share of VAT proceeds reserved for use by the Local Governments over the same period.

(iv) <u>The Special programs.</u>

Besides the capital expenditure programs of the Local Governments themselves, the State makes contributions to so-called "Special Programs", set up in co-operation with various national and international institutions, such as a national program for rural electrification (PNER), a program for rural potable water (PNPER), the National Operation for Employment (ONPE), programs of national public works, etc. These programs do not appear in the budgets of the Local Governments and therefore are outside the scope of this Report. However, if these programs were to be substantially expanded, they might absorb certain projects currently planned by certain Local Governments which are currently part of the projects' data base established by the Ministry of Interior. It is assumed, however in this Report, that such an absorption will not materially affect the pool of capital expenditure needs inventoried in the Ministry of Interior's projects data bank.

(v) <u>Subsidies.</u>

a) The principle of State subsidies made to the Local Governments to cover deficiencies in funding their approved budgets is established by Law (Article 8 of the Dahir NO. 1-76-584 concerning the financial organization of the Local Governments). Paragraph 4 of this Article prescribes that subsidies be made to cover the deficits of the operational budgets (Budget-First Part). This provision normally applies when the sum of local taxes and the VAT allocation for operational needs is not sufficient to cover expenses. Paragraph 6 of the same article establishes a similar principle for the capital expenditure budget of the Local Governments.

These two paragraphs of Article 8 have served as the legal basis for subsidies since the law was promulgated in 1976.

Article 8, paragraph 4 also establishes a link, albeit an indirect one, between the operating budgets of the Local Governments and their borrowing obligations. Indeed, Article 21 of the same Law includes in the operating expenses to be listed in the operating budgets (Budgets-first part) the "repayment of loan maturities", while Article 21, paragraph 10 includes in the mandatory expenses of the Municipalities the repayment of maturing debts and of loan arrears.

b) Consequences for the BDCL.

From the facts and legal provisions described above, one may conclude that the structure of Local Governments' financial resources is rapidly changing. Major reforms have been decided upon in order to strengthen the Local Governments' financial situation. On the other hand, the full implementation of these reforms requires further decisions. Hence the effects of those reforms on each individual Local Government remain uncertain. Furthermore, another reform has been initiated : the redefinition of municipal boundaries, and the consequent increase in the number of Municipalities. As noted above, DH 5 billion from the reserved share of VAT will be spent on this program. An additional DH 4 billion will be needed to cover the operating budgets of the new Municipalities so created.

These various elements (increases in financial resources - coupled with the substitution of VAT new financial resources for former subsidies- ; increases in expenses due to the increase in the number of Municipalities cannot at this time be measured with precision to forecast the future net deficit of the Local Governments, and above all the net deficit in the capital expenditure budgets. It is therefore reasonable to believe that the relationship between local taxation revenues (including allocated taxes) and financing needs will not substantially differ from the present situation.

In that context, the creation of the BDCL would be a positive step in more than one way : the BDCL would broaden the scope of available financing, notably in the Rural communities, where the increase in the number of Municipalities will be most felt (1282 units compared to 761 at present); the BDCL would also be in a position to serve as a "safety-net" in the event that sufficient financial resources from the State are not available. One can even envisage a situation where the BDCL could directly contribute to a de-budgetisation of certain capital expenditures of Local Governments, and alleviate the burden to the Kingdom's Treasury. This concept of de-budgetisation of expenditures, drawn from successful experience of other countries, is further developed in Annex 6.

1.2. The categories of capital expenditure needs.

a) The extent of unfunded needs.

The projects' data bank established in 1985 identifies projects totalling DH 31 billion requiring capital expenditures by the Local Governments. According to the Mi9nistry of Interior's

Directorate of Local Governments this figure should today be about DH 34 billion (in current DHs), according to the Ministry of Interior's Directorate of Local Governments. On the other hand, the Instruction for the Preparation of the Orientation Plan for the Development of the Local Governments 1988-1992, already mentioned above, identifies for the same period DH 16.3 billion's worth of capital expenditure projects (of which DH 3.7 billion for common projects and for geographic adjustment expenditures) , of which DH 5 billion would be financed by new borrowings, i.e. an average of DH 1 billion annually.

Therefore, regardless of which basis of capital expenditures is examined (DH 31, 34 or 16.3 billion), the size of the pool of unfunded projects is many times larger than the share assigned to borrowings.

This being the case, a review of the nature of the capital expenditure needs is necessary in order to assess the extent to which the projects that the BDCL will have to address during the period of the Plan are "bankable".

b) The projects of the Local Governments.

The projects' data bank referred to above includes over 12,000 projects totalling expenditures of DH 31 billion. These projects are broken down as follows:

- 9,695 projects in the rural areas.
- 2,603 projects in the urban areas.

Total: 12,298 projects.

If one excludes from this total those projects which would obviously not be eligible for financing by the BDCL (such as administrative buidings and certain capital expenditures for strictly social projects (1)), one can retain about 8,900 projects for a total cost of DH 25.6 billion. This group of "eligible" projects represents those projects that the new bank could potentially finance by extending loans. This group of projects is referred to in Annex 3 and is summarized in the table below. However, the projects in that group are at various stages of development : some are at the stage of preliminary studies (44%); others have been the object of pre-appraisal studies (24%); finally, others have been the object of implementation studies and are qualified, within the projects' data bank, as being ready for immediate implementation (32%).

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(1) The excluded investments are capital expenditures not producing revenues, or the economic benefit of which cannot be demonstrated or calculated. The BDCL will decide according to its own criteria.

The latter category of projects is used in this analysis as the one likely to be considered for financing by the BDCL, since they represent mature projects which are most likely to be implemented. (See Section III below, The Projects to be Financed by the BDCL).

The table below breaks down, by type, the projects that can potentially be financed by the BDCL.

Projects potentially financeable by the BDCL
(Amounts in DH million)

	Rural Municipalities			Urban Municipalit.			Kingdom		
	Amount	Number of proj.	%	Amount	Number of proj.	%	Amnt.	Numb.	%
Social infrastruct.	410.8	514	1.81	240.2	100	2.19	651	614	2.5
Potable water distribution	1547.2	2079	10.58	467.6	117	4.27	2014.8	2196	8.0
Electricity	2126.7	757	14.54	172.2	73	1.57	2298.9	830	9.0
Liquid effluent treatment	875.5	369	5.99	2365.8	150	21.59	3241.3	519	13
Solid waste treatment	87.2	184	0.60	479.5	215	4.38	566.7	399	2.2
Transportation	28.2	77	0.19	189.6	51	1.81	226.8	128	0.9
Specialized equipment	1026.7	710	7.02	1078.3	253	9.84	2105	963	8.0
Secondary roads & related works	5999.9	1131	41.03	860.5	92	7,85	6860.4	1223	27
Municipal development and civil works	2520.9	1265	17.24	5094.6	728	46.50	7615.5	1993	30
TOTAL	14623	7086	100	10957	1779	100	25580	8865	100

The above categories of projects include rural and urban sub-categories which are examined below. The projects planned by the "Regies" are also examined below : those projects are not included in the above table in the eligible urban projects. The Regies operate only in urban areas, and develop their own projects which are described below.

The projects of the rural Municipalities.

The rural roads appear to be the top priority of the rural Municipalities (41 % of the total volume of investments). The financing and the execution of such works have so far been primarily the responsibility of the Ministry of Equipment for the national highways and, secondarily the responsibility of the Local Governments. Such projects have been ineligible for financing from the FEC. However, provided that a policy of cost recovery from users is possible and applied, secondary roads and related works should be included in projects eligible for BDCL financing.

The other rural priorities are municipal development and upgrading works (17% of volume), electricity (15%), potable water distribution (11%), specialized infrastructure (7%), and liquid effluent treatment (5%).

In the sub-sector of Municipal development and upgrading, 40% of projects are for roads, civil engineering works and sidewalks; 20% for the development of serviced plots and neighborhood upgrading programs; 20% for the creation of reservoirs; 5% for the creation of commercial space and the balance for various civil works.

In the electrification sector, 80% of project value is for distribution networks.

In the sub-sector of waterworks, 50% of the projects are for water transport and distribution networks, while 30% of the projects are for the development of water wells.

In the sub-sector of "specialized infrastructure", 50% of the projects are for wholesale markets and "souks" (open markets), while the creation of industrial zones accounts for 15%.

The average unit size of financeable projects in rural Municipalities is only DH 1.4 million.

<u>The projects of urban Municipalities</u>

The priorities are for projects of Municipal civil works (46%), the specialized infrastrucure (10%), and liquid and solid waste treatment (25 %). On the other hand, projects in electrification and water networks are few, since urban Municipalities rely on their "Regies" to carry out such projects.

Among Municipal civil works 50% consists of the opening of new roads, the surfacing or resurfacing of existing roads, the building of curbs and sidewalks. Although such projects are in principle eligible for financing by the BDCL, they should be considered eligible to the extent that their economic or financial benefits can be demonstrated. The other 50% of Municipal civil works include real estate developments (housing plots) and slum reduction or prevention programs (10% of the projects) as well as the creation of parks and public lighting (10% of the projects each).

The Specialized infrastructure projects include the creation of slaughterhouses and refrigerated warehouses and the creation of wholesale and public markets (50% of the projects). Roadside truck-stops acccount for 15% and the creation of industrial zones for 24%.

For solid waste treatment and disposal, 60% of the projects' value is to acquire various machinery and vehicles, while 40% is for the acquisition of waste treatment plants. As for liquid effluents, 45% of the value of projects goes into the acquisition of treatment plants, 40% goes into sewerage systems and 15% goes into secondary networks.
The average unit size of a project in urban Municipalities is DH 4.3 million.

<u>The projects of the utility companies ("Regies")</u>

The Regies for electricity and water distribution concentrate their investments in the purchase of equipment, the civil works associated with the distribution network, and infrastructure for housing plots. The Regies for transportation concentrate their investments in the acquisition of buses (85%) and maintanance shops (15%). During the period 1981-1985 the investments of the Regies were distributed as follows :

Sector	Electricity	Water
Infrastructure	26.8%	40%
Distribution	27.7%	33%
Equipment	4 %	4 %
Plots development	41.5%	23%

During the period 1981-1987, investments by the Regies have reached a total of DH 3,756.2 million, broken down as follows :

Sector	1981-1985	1986-1987	TOTAL
Electricity	1,153	623.2	1,776.2
Water	960	570	1,530
Solid & liquid waste treatment		84.4	84.4
Transport	207.6	158	365.6
TOTAL	2,320.6	1,435.6	3,756.2

During the last two years, investments ran at the annual pace of DH 700 million, a notable increase compared to prior years.

These investments have been financed by internal cash generation, by borrowings, by subsidies and by users' contributions (in the form of a direct contribution to the investment cost and through the payment of user fees over time), as follows :

(DH million)

Sector % of Total	Cash gener. Amt.	%	Loans (FEC) Amt.	%	Loans (IBRD) Amt	%	Subsidies Amt.	%	Users' contrib. Amt.	%	Total Amt
Electr.	845.2	48	66.7	3.7	40.9	2.3	22.3	1.3	802.5	42.2	1,777
Water	881.1	58	120.4	7.9	130.8	8.5	32.4	2.1	365.5	23.9	1,530
Transp.	122.1	33	174.3	47.6	N/A		69.5	19.0	N/A		366

The Regies operating in the electricity and water sectors finance over half of their investments from internal cash generation. A substantial part of the investments are financed by users' contribution (installation fees) : 45% for electricity and 24% for water. Borrowings and subsidies are marginal (6% for electricity and 16.4% for water).

By way of contrast, the Regies operating in the transport sector finance about half of their investments by loans, with subsidies coming second with 19%. The transport Regies have had some financial difficulties, and several are in arrears on their loans from the FEC. This doubtless explains why the FEC currently seeks Municipalities' guarantees for loans extended to the Regies created under those Municipalities' auspices. The FEC's procedures in this regard appear to be a good precedent for the BDCL in lending to the Regies in the future.

The investment program of the Regies for the period 1988-1992 amounts to a total of DH 6.4 billion, of which 1.8 billion for electrification, 2.47 billion for water, 81.5 million for refrigerated warehouses, 804.8 million for transport and 125.8 million for solid and liquid waste treatment. Their financing program consolidates as follows:

	Amounts (Mio.DH)	Cash Gener. (%)	Borrow. (%)	Subsidies (%)	Users' contrib. (%)	Borrowing amounts (Mio.DH)
Electricity	1.800	41.4	15.5	-	43.1	278.2
Water	2.470	40	36	1	23	889.2
Solid/liq. waste treatm.	1.258	40	39.5	N/A	N/A	496.9
Transport	804.8	35	65	-	-	523.1
Refriger.w/h	81.5	56	33.1	11	-	27
TOTAL	6.414.3					2.214.4

Total borrowing needs are forecasted to be DH 2,214 million of which the equivalent of about DH 470 million (US$ 59 million) are already lined up with the World Bank for solid and liquid waste treatment works - the Municipality of Casablanca accounting alone for US$ 49.5 million, the balance of the World Bank loan being allocated to Regies in Agadir, Fes, Marrakech, Meknes, Nador, Rabat, Settat and Tangiers).

The DH 278.2 million for electricity includes DH 224.8 million from foreign borrowings and DH 53.4 million from local borrowings.

The DH 889.2 million for water are not allocated between foreign and local borrowing sources. However, past experience indicates that those works are usually up to 50% financed from local sources.

The following table outlines the financing needs of the Regies through borrowings in their sectors of operations :

Sector	Local borrow.	External borrow.	Total	Financial needs (estimate)
		(in millions of DH's)		
Potable water	444.6	444.6	889.2	889.2
Electricity	53.4	224.8	278.2	278.2
Transport	523.1	523.1	523.1	523.1
Refriger.ware-houses.	27	27	27	270
Solid/liquid waste treat.	-	496.9*	496.9*	285
Total	527	1,689.4	2,214.4	2,002.5

* : external financing arranged for up to DH 470 million.

The total needs in local borrowings are not easily defined. Foreign borrowings have been mobilized or are in the process of being negotiated. The table above assumes - except for the solid/liquid waste treatment - that the investments will be financed from local sources. This assumption derives from the fact that revenues from the financed projects will not be denominated in foreign currencies, and cannot be used as such to service foreign debt. On the other hand, the Regies must, by law, have balanced accounts - and if they do not, the Municipal sponsors of the Regies must automatically provide the funds from their own budget to cover any deficit. The foreign lenders are positively receptive to this situation, and could be mobilized for financing part of the needs of the Regies. One should not overlook, either, that a substantial part of the investments of the Regies are made from imported equipment, payable in foreign currencies, and that foreign borrowings allow for a temporary deferral of the use of national foreign currency reserves.

For all these reasons, one may estimate that about 1/3 of the financing needs - excluding cash generation and users' fees - of DH 2,214.4 million will be financed from foreign sources, the balance of DH 1,461.5 million being from local sources, borrowings and/or subsidies.

Conclusions

The financing needs of the Local Governments far exceed the financial resources available to them. The cumulative needs over 5 years are expected to be :

(in millions of DH's)

	Local Governments	Regies
Highest assumption	37,400	2,002
Lowest assumption	16,000	1,461

To measure the extent of the financing gap, those numbers have to be compared with the share reserved for local borrowings in the Five-year Plan (DH 5 billion), on the one hand, and on the other hand with the anticipated resources for lending of the BDCL (DH 3.5 billion over the same period - See below, Section IV, The Financial Resources of the BDCL).

SECTION II

JUSTIFICATION FOR THE CREATION OF A MUNICIPAL DEVELOPMENT BANK

(Banque de Developpement Des Collectivites Locales - "BDCL")

The unsatisfied capital expenditures needs of the Local Governments, as seen in the previous Section, are considerable. The DH 31 or 34 billion total cost of their projects have been expressed in current needs. The deferral of the satisfaction of those needs over a number of years would thus represent a constraint to the normal development of the Local Governments.

The major constraint for all parties concerned is the restricted availability of financial resources and of instruments to mobilize them and employ them efficiently. Besides the contributions by the State, the setting up of the BDCL, with its own financial resources and its capability to mobilize capital for the benefit of Local Governments, will contribute to the progressive implementation of decentralized management of Local Governments' finances. It is therefore useful to examine here this concept of decentralization.

2.1. Decentralization.

a) The present situation.

To this date, both in form and in its resource mobilization aspects, the satisfaction of capital expenditures needs of the Local Governments and of their ability to provide services to the local communities they represent have essentially been the responsibilitiesy of the Central Administration, assisted by centralized institutions - such as the FEC and the CDG - with limited autonomy in their decision-making and not directly represented at the regional and local levels.

The large number of eligible projects formulated by the Local Governments, combined with their diverse nature, calls for specialization, a greater proximity to the projects' sites and a continuing dialogue with individual Local Governments. It also requires a banking approach to the projects, in order to ensure an optimum use of scarce financial resources.

b) The decision to decentralize

The present study of the feasibility conditions of an autonomous, new banking institution whose purpose would be to better satisfy the growing Local Governments' needs in Morocco, stems from an announcement by His Majesty the King of Morocco, made at the opening of the IIIrd National Colloquium of the Local Governments held in Meknes in June 1986. The announcement was about the future creation of a *Fund for Rural Development.*

Consistent with this announcement, an *Instruction for the Preparation of an Orientation-Plan for the Development of the Local Governments* has been published in June 1987 by the Ministry of Interior, and conforms to the Royal Instructions given to the Moroccan Governmental, Regional, Provincial and Local Authorities to prepare a draft Orientation-Plan for the Economic and Social Development of the Kingdom for the period 1988-1992.

This document lists, among the fundamental orientations of the Plan, the "consolidation of the decentralization terms", which includes, notably, the "decentralization of economic activities and the promotion of the role of the Local Governments". It is useful to note here that this decentralization is based, legally, on the broad attributions recognized to the Local Governments' Councils by Article 30 of the Dahir organizing the Local Governments. (Annex 8 contains the full text of this Article).

The same document, under a sub-heading entitled "The National Fund for the Development of Local Governments" specifies that such an institution will have to be established soon, and should make it possible to "prompt the dynamic role of borrowings, make them accessible to all Local Governments, and assist them in rationalizing their budgetary choices and the realization of local projects. The regional presence of such a new institution should increase its efficiency in achieving those three objectives". The BDCL would meet those standards, as it would have, from the start, 7 regional offices (one in each "Economic Region") in addition to its central Office.

2.2 The potential for the development of loan financing

a) The historically marginal role of lending in financing the Local Governments.

Statistical data collected by the Ministry of Interior clearly show that the credit (loan) function, within the total financing of Local Governments' projects over the last 10 years, has been marginal despite an increase in nominal amounts of loans by more than 300 % between 1976 (DH 102 million) and 1986 (DH 310 million).

Evidence of this is the share of loans in total financing, which has remained weak at less han 10 % of total financial resources of the Local Governments and at less than 17 % of financial resources employed in capital expenditures. In 1987, the volume of loans has been only 8.25 % of the total financial resources of Local Governments, i.e. DH 356 million out of a total of DH 4,321 million. One can even notice a percentage reduction of the share of loans in the total financial resources of Local Govenments between 1976 and 1986, as shown in the following table :

<u>Origin of financial resources</u>

(in constant DH million)

Financial resources	1976		1986		1987	
	Amounts	%	Amounts	%	Amounts	%
Local Gov. fiscal resources :	410.5	57.7	1,248.4	37.9	1,280	N/A
Subsidies	198.6	27.9	1,660	50.5	2,275	56
- operating	103.3		654		N/A	
- capital expenditures	95.3		1,006		N/A	
Surpluses					410	
Loans	102.2	14.4	310	9	356	8.25
<u>Total Financial Resources</u>	711.2	100	3,291	100	4,321	

The reduction of the share of loans relative to total financial resources has been offset mainly by the rapid increase of the amount of subsidies. Indeed, the increase of the Local Governments' own fiscal resources over the period 1976-1986 has been only 312.8 % in nominal terms, or a rate of increase roughly equivalent to the increase of loans. Therefore, subsidies made up for the increase in capital expenditures : the transfer volume of financial resources from the General Budget to the Local Governments, which was DH 200 million in 1976, has reached the level of DH 2,275 million in 1987, i.e. almost 11 times the initial 1976 reference amount. Within this increase of subsidies, capital expenditures subsidies have increased faster than have operating subsidies, as the numbers show : capital expenditures' subsidies were DH 95 million in 1976 and 1,006 million in 1986, i.e. an eleven-fold increase.

This development shows that, for various reasons and despite the existence of specialized institutions such as the FEC and the CDG, the Moroccan State has been drawn into a spiral of financing Local Governments' expenditures which have burdened the State Budget in an increasing proportion of total expenditures : the eleven-fold increase of State subsidies to Local Governments during the period 1976-1986 may be compared to the increase of only 213.8 % of the State's total financial resources during the same period (DH 16,604 million in 1976 and DH 35,497 million in 1986).

b) <u>The potential growth of loans</u>

In view of the fact that, in principle, any given capital expenditure subsidy can be replaced by a loan which will be amortized over the life of the investment, the potential growth of loans is obviously very large if this form of capital expenditures' financing is encouraged in the future. In theory, therefore, based on the amounts in the above table (Origin of Financial Resources), the amount of loans would increase by more than 250 % if they were to replace subsidies entirely. This approach, albeit theoretical, puts the potential growth of loans in perspective. In practice, however, the loan-growth goal will clearly have to be more modest and be based on the target amount of the 1988-1992 Economic and Social Orientation-Plan. which is DH 5 billions of new loans to the Local Governments during this period. This amount significantly exceeds what has been determined to be the capacity of the BDCL to grant new loans over the same period, namely DH 3.5 billion of new loans granted over the period 1988-1993. This limit to the loan-creating capacity of the future BDCL derives from the limits on the availability of long-term financial resources in Morocco (See below, Section IV) and from the requirement that BDCL function as a financially viable institution - See below, Section V). The gap between the Plan's objective (new loans of DH 5 billions) and the BDCL's capacity to grant new loans (DH 3.5 billions) is thus significant (DH 1.5 billion). This gap will need to be bridged by the BDCL playing an important role in mobilizing additional funds beyond its own financial resources. Several actions which the BDCL could take in this direction are:

- assist the Regies in mobilizing local and foreign financing in large amounts (DH 2,002 million over 5 years) for which no financing has yet been arranged;

- assist the Local Governments in raising long-term local financing outside the BDCL itself (i.e.Local Governments' own bond issues; consortium credits; suppliers/buyers' credits; leasing, etc.);

- organize co-financing arrangements between the BDCL

and other local credit institutions, to finance certain Local Governments' projects;

- Establish co-operative arrangements with the Kingdom's Treasury to start a progressive de-budgetization of the capital expenditures subsidies granted by the State to Local Governments and the partial replacement of those subsidies by BDCL loans, within the limits of the capabilities of the bank (See Annex 6 for a description of a mechanism called here "Loans-State's share" that could be put in place).

These various forms of assistance by the BDCL, beyond its own lending activity, are set forth in more detail in Section IV of this Report, (The Financial Resources of the BDCL.)

The potential growth of loans has also to be measured in terms of the capacity of Local Governments to service loans. Section I above has shown that there are limits to this capacity if only the Local Governments' fiscal resources are considered. However, Local Governments' loan-servicing capacity is not limited to their own fiscal resources, since all of their scheduled loan repayments must automatically be reflected in their annual operating budgets (Budget-first part). Since any deficit in Local Governments' operating budget is covered by law by State's subsidies, there is no *legal* limitation to the Local Governments' borrowing and debt-servicing capacity. The ultimate limit is a function of the budgetary resources of the State and of the State's power to approve or to veto any Local Governments' project requiring to be financed by borrowing or from any other source.

c) <u>The inadequacy of current credit mechanisms.</u>

There are presently two credit institutions financing Local Government project development : the FEC (*Fonds d'Equipement Communal*) and the CDG (*Caisse de Depot et de Gestion*). The FEC was created in 1959 by the Dahir No. 1-59-169 of 6 Hija 1378 (June 13 1959) as a public establishment with financial autonomy. Its purpose (modified by the Royal Decree No. 929-66 of 20 Kaada 1386 (March 2, 1967) is to grant loans and advances to the Prefectures, Provinces, Municipalities, Municipalities' syndicates and to the Regies, in order to finance their capital expenditures. Responsibility for the management of the FEC was granted to the CDG. The CDG's Managing Director has sole authority to approve the extension of any new loan by the FEC, after prior consultation with a Technical Committee consisiting of representatives of the Ministries of Finance and of Interior. The financial resources available to the FEC are specified as consisting solely of : 1)the FEC's own borrowings authorized by the State and eligible for the State's guarantee; 2) advances from the CDG; 3) subsidies from the State's Budget; 4) interest payments received on its loans and reimbursements therefrom; 5) gifts and bequeaths or any other resource that can be bestowed to it.

On the other hand, the Dahir No. 1-59-074 of 1st Chaabane 1378 (February 10, 1959) creating the CDG confirms (Article 19) that the CDG is to manage the FEC and stipulates (in Article 21) that the CDG is "empowered to extend, from the financial resources of the FEC and from its own general financial resources, loans to Local Governments to enable them to carry out their capital expenditure projects. The CDG is also empowered to extend loans to companies benefiting from concessions".

The two institutions have close financial ties, with the CDG providing the FEC with the financial resources needed for the FEC's activities, in three forms: first, the CDG underwrites, or subscribes to, the FEC's bond issues; second, the CDG makes advances to the FEC, secured by the pledge of notes issued by the Local Governments and representing their future loan repayments to the FEC, and third, the CDG discounts those same notes directly.

Therefore, the FEC is financially supported by an institution (the CDG) having access to large financial resources, but the FEC itself has only a limited choice in sources to fund its activities. Furthermore, since it is managed by the CDG, the FEC cannot take initiatives that do not fit into the CDG's strategic objectives. Under Article 21 mentioned above the CDG itself is *empowered* (Article 21 mentioned above) but not *mandated*, to provide financial resources to Local Governments, either directly or through the FEC.

Taken together, these laws and procedures limit the sources of finance available to the Local Governments to centralized funding pools. By contrast, the BDCL, as a bank, would be in a position to mobilize other funding sources for Local Governments, both by funding itself directly and by mobilizing funds on behalf of the Local Governments.

Another observation about the FEC relates to loans to Rural Municipalities. Of the total FEC loans granted in 1987 (DH 356 million), the Rural Municipalities only received about 5 % compared to 56% granted to other Municipalities and about 33% to the Regies and Autonomous Centers. This distribution results from several factors that can be technically understandable under past circumstances. Nevertheless it would appear that, in practice, the Rural Municipalities have benefited little from existing credit mechanisms, and the priority status assigned to them in the Economic and Social Orientation-Plan for

1988-1992 will require a substantial change in the distribution of loans to Rural Municipalities as a percent of total loans to Local Governments.

Finally, the average length of the loans granted so far by the FEC (9.5 years before final maturity) appears somewhat short when compared to the life cycle of the underlying projects - except for certain machinery and plant equipment projects. The FEC applies a policy of granting loans for a maximum of 10 to 12 years, which does not correspond to the economic life of some long life-cycle projects such as water, electricity, transport and distribution networks, construction, certain roadworks, etc., such projects having a life-cycle of between 15 and 30 years.

The successful remedy for such a situation, would appear to be the creation of a new institution, - a bank - with autonomy in management and resource mobilization, with the Local Governments included among its shareholders, and operating in a decentralized manner.

SECTION III

THE PROJECTS TO BE FINANCED BY THE BDCL

1. Projects to be retained for consideration by the Bank

The BDCL will be the foremost instrument of Local Governments for distributing financial resources throughout the country.

It will fund infrastructure and basic equipment projects, as well as projects to provide services to the Municipalities' populations, especially in rural areas.

The activities of the BDCL and its loans will need to conform to the plans, the programs and the national priorities established by the State, with the active participation of the Local Governments and the Regional Authorities.

The projects eligible for financing by the bank will be those of the entities mentioned in Section I, 1.1. above, who constitute its potential clientele. These entities are collectively referred to herein as "Local Governments".

The fact that the BDCL loans can clearly not satisfy all of the capital expenditure needs of the Local Governments makes it highly desirable to limit its contribution to those projects which are the most financially or economically viable.

This same criterion has been used in defining and quantifying the Local Governments' needs eligible for BDCL financing, the based on the projects in the data bank established by the Ministry of Interior (See Section I, 2.b. above).

Projects considered as potentially eligible for BDCL financing fall into following categories :

- Projects of an industrial or commercial nature which can directly generate revenue; for example, open markets ("souks"); refrigeration warehouses; street shops ("kiosques"); slaughterhouses; water and electricity distribution networks.

- Projects whose costs can be recovered directly from users, or through installation taxes - for example, housing development projects and new access roads could fall in this category.

- Projects whose economic benefits can be quantified but whose cost can only be recovered indirectly, or partially, through user's fees or Municipal taxes to be assessed at a later time, resulting from new economic activities which the projects financed will make possible.

Such projects typically would be community-type investments which only Municipalities or Regies would undertake. Examples of such projects are : electrification and water distribution projects in rural communities, new access roads sidewalks, public transport facilities, and the like. All projects to be financed by the BDCL must be chosen only from those which have been examined by the concerned Local Government's administrative authority, and approved by the Ministry of Interior, which is the responsible authority for the Local Governments.

Among the projects potentially eligible for financing by the BDCL, a pre-selection has been made that should enable the BDCL to grant loans rapidly for those projects and to reach a level of new loan commitments of about DH 600 million during its first year of operations (1989).

This pre-selection gives priority to those projects for which an implementation study has been completed.

The table below breaks down these pre-selected projects which in principle are ready to be considered for financing by the BDCL :

	Rural areas			Urban areas			Kingdom		
	Amount.	Numb.	%	Amnt.	Numb.	%	Amnt.	Numb.	%
Water distribution	531.5	871	12.4	164.8	43	4.4	696.3	914	8.6
Electricity distrib.	221.1	97	5.2	68.0	36	1.8	289.1	133	3.6
Liquid waste treatm.	256.4	87	6.0	334.5	46	8.8	590.9	133	7.3
Solid waste treatm.	62.9	137	1.5	274.6	185	7.3	337.5	322	4.2
Urban transport	15.4	57	0.4	60.3	27	1.6	75.7	84	0.9
Special equipments	631.8	708	14.7	523.5	177	13.8	1,155.3	855	14.3
Secondary roads	1,828.0	360	42.7	288.8	42	7.6	2,116.9	402	26.2
Development,civil works	738.9	649	17.2	2,066	326	54.6	2,804.6	975	34.8
TOTAL	4,286.1	2,966	100	3,780	8822	100	8,066	3,818	100.0

The above table calls for the following comments :

a) The average unit size of projects is DH 2.1 million.

b) The table highlights the fact that rural Municipalities have introduced projects with an implementation study that aim to build Municipal roads and secondary roads for about 43% of their project portfolio. Next are projects for Municipal civil works

(17% of the total), specialized equipment (15% of the total), and water distribution projects (12% of the total).

Local roads are not, in principle, financed by the FEC at the present time, for they are the responsibility of the State's Budget (Ministry of Equipment). However, this kind of project obviously requires important investments. Since the new bank's primary purpose is to direct major financial resources to the rural areas, and given the importance to the latter of building Municipal and secondary roads (not including national highways) for the development of rural activities, it is suggested that local roadways be made eligible for financing by the BDCL.

A breakdown of rural projects, by average size and life-cycle, is as follows:

	Average size of projects	Average life-cycle of projects
Local roads, paths...	DH 5 Million	5+ years
Municipal civil works	DH 1.2 Million	15+ years
Specialized equipment	DH 0.9 Million	10+ years
Water distribution	DH 0.6 Million	10+ years
Electricity distribution	DH 2.3 Million	10+ years
Waste treatment	DH 1.4 Million	10+ years

Because the bulk of rural projects would be concentrated on local road projects, which have a short life-cycle due to unpaved or lean paving standards, the average life of the rural projects would be only 9.5 years, and the average size of the rural projects would be DH 1.45 Million.

c) As far as the urban Municipalities are concerned, the largest category of projects that have been developed through implementation studies are Municipal civil works (54%). Next are the projects involving specialized equipment (14%), followed by secondary roads and solid waste treatment plants and disposal (10% each). Except for waste treatment projects (which are in a stage of transition between Municipal and Regies' responsibility, for example eight Regies have programmed to undertake waste water treatment projects in the future)), the urban municipalities do not present projects that fall within the Regies' responsibilities.

The projects of Urban Municipalities can therefore be summarized as follows :

Average size	Average life-cycle (in DH million)	of the projects
Municipal civil works	6.3	15+ years
Specialized equipments	3.0	10 years
Waste water treatment	7.27	5-15 years
Solid waste treatment	1.48	10 years
Secondary roads	6.88	15 years
Other	3.0	5 years

From those data, one can determine an average loan maturity of 12.75 years, and an average project unit cost of projects of DH 4.3 Million.

d) The Regies

Electrification projects are essentially financed by internal cash generation and user's fees. Outside financing needs appear marginal.

Water distribution projects, by contrast, require a much larger recourse to outside financing.

The Regies involved in transport activities, as mentioned above, have had financial difficulties.

The Regies' projects requiring financing can be summarized as follows:

Average size	Average life-cycle (in DH million)	
Water distribution	10	10
Electricity	5	15 to 20
Transport	5	7

2. Forecast of new The BDCL loan commitments.

a) Constraints on the BDCL

Section I above concludes that the Local Governments' financing needs exceed the amounts allocated to borrowings in the Five-year Plan. Sections IV and V of this Report determine that there are limitations to the new bank's capacity to mobilize financial resources. Therefore, commitment forecasts have been developed taking into account these factors. In addition, there is an operational constraint to handling a number of projects larger than the FEC handles each year, in the context of a growing number of projects eligible for financing.

Therefore, annual new loan commitments are forecast as follows :

(in current DH million)

1989	1990	1991	1992	1993
600	650	700	750	800

b) Loan commitment forecasts by type of Local Government

Assuming that priority is to be given to rural Municipalities, according to the 1988-1992 Orientation-Plan, the distribution of new loans should evolve in the following manner :

Rural Municipalities	:	40% of total commitments, from 1991 onwards (24% in 1989 and 32% in 1990)
Urban Municipalities	:	40% of total commitments, from 1991 onwards (56% in 1989 and 48% in 1990)
Regies	:	20% of total commitments over the period.

From 1991 onwards, the new loans committed by the BDCL to each category of Local Government would thus be :

Rural Municipalities	:	40 %
Urban Municipalities	:	40 %
Regies	:	20 %

c) The portfolio of projects of the BDCL.

The forecast mix of projects in the BDCL portfolio reflects no value judgment (except for the distribution of by category of Local Government described above, and the exclusion from the portfolio of certain project categories per Section I, 2.b. above). The projects, by type, are allocated to each type of Local Government in proportion to the number of such projects identified as eligible for financing by the BDCL.

The pool of projects developed up to the stage of implementation studies is laid out in Annex 4, and is the basis from which the anticipated portfolio of the BDCL is constructed in the forecast.(1)

As a result, the weighted average duration of project life-cycle in the preceding table is 13.1 years, taking into account the specific life- cycles of each type of project, as detailed in Annex 3.

Given the assumed length of BDCL loans (which should, in principle, approximate the economic life of the underlying projects), and given the assumed growth of the bank's portfolio and the average project size, the following forecast of BDCL new loan commitments from 1991 onwards has been constructed:

(in DH million)

	Local Governments			
Type of project	Rural Municip.	Urban Municip.	Regies	Total
Social investments *				
Potable water distrib.	35	12	54	101
Electricity	15	5	39	59
Waste treatment	21	45	28	94
Refrigeration install.	-	-	-	-
Transport	1	5	18	24
Specialized equipment	41	39	-	80
Secondary roads	119	21	-	140
Municipal civil works	48	153	-	201
Total commitments	280	280	140	700

(Base : total 1991 forecast of new commitments of DH 700 million)

* : not eligible in principle.

(1) The nature of each individual project in Annex 4 has not been translated into english, as it is to be of primary use to the future management of the bank only.

P.S. : 1) The new loan commitments in 1989 (DH 600 million) and in 1990 (DH 650 million) would be distributed in a similar way, but the share of urban Municipalities would exceed the share of the rural Municipalities during those first two years of the BDCL's operations. (See above, para. 2.b.).

2) The distribution of projects of the Regies is consistent with their program for the period 1988-1992 (See above, Section II.b.).

From this pro-forma portfolio, and assuming loans would match the life-cycle of the eligible projects, the average maturity of loans granted by the BDCL would be 14.4 years.

By dividing the total dirham amount of projects for each category of Local Government by the average unit amount for each type of project, one can determine the number of projects that the BDCL will have to evaluate each year, as follows :

Forecast of commitments, number of projects and their distribution

(Volumes in DH million)

Years:	1989			1990			1991			1992			1993		
Borrowers	%	Vol.	Numb. Proj.	%	Vol.	Numb Proj	%	Vol.	Numb Proj	%	Vol.	Numb Proj	%	Vol.	Numb. Proj.
Rural Municipalities	24	144	93	32	208	135	40	280	182	40	280	182	40	280	182
Urban Municipalities	56	336	76	48	312	71	40	280	64	40	280	64	40	280	64
Regies	20	120	9	20	130	10	20	140	11	20	140	11	20	140	11
Number of annual loan approvals (no inflation factor)			178			216			257			257			257
Number of annual loan approvals (assumed inflation of 8% p.a.)			164			183			217			200			184
Total commitments (Volume)		600			650			700			750			800	

d) Applicable interest rates

The interest rates on loans to the Local Governments made by the FEC have beeen stipulated in a Letter from the Ministry of Finance to the General Manager of the CDG, dated April 7, 1987, and are as follows, for each borrower and project category:

A.	Municipalities	Annual interest rate
1.	Urban areas	
	a) Infrastructure	12 %
	b) Buildings/civil works	13 %
	c) Vehicles	10.5 %
2.	Rural areas	
	All projects	10 %
B.	Regies	
	a) Water and electricity	13
	b) Urban transport	11.5 %
C.	Other borrowers/projects	12 %

This interest rate structure is still applied by the FEC at this time. Since no rate changes are now foreseen, these rates have been used for the financial forecasts of the BDCL, however in the absence of a detailed breakdown of the use of funds for projects in the anticipated portfolio, a simplified rate structure has been used in the forecast, namely:

- Urban Municipalities 12 %
- Rural Municipalities 10 %
- Regies 13 %

(N.B. See below, Section VI, for the detailed discussion of the BDCL financial forecasts.)

3. Project selection criteria

An important role of the BDCL in its relationship with the Local Governments, especially with the Municipalities, will be to provide professional techniques of identification, appraisal and selection of projects. The BDCL will need to be staffed adequately for this task. Its appraisal and selection of projects should go beyond an internal decision-making process, and should include a thorough review of projects proposed, together with the borrower, to make the projects more viable. For example, as part of the BDCL evaluation process, it should communicate to the borrower its observations and recommendations on cost recovery issues (tariffs, taxes, users' fees) and on the optimal dimension of projects (marginal cost analysis), in order to improve the project's chances for loan eligibility and in order to improve the project's economic, financial and social impact on the populations involved. Later on, once the Municipalities have developed their own project preparation capabilities, the process of identification, appraisal and selection of projects can be handled at the Municipal level to a greater extent, and the role of the BDCL would become more of deciding whether or not to finance a proposed project.

The project selection criteria presently used by the FEC can be advantageously adopted by the BDCL. These criteria have been developed for each type of project based on criteria discussed by the FEC with the World Bank when the latter granted a loan to the FEC in 1983.

The standards for project selection that have been adopted by the FEC focus on the following criteria:

- technical norms, and standards used in project preparation;
- adherence to marginal unit cost analysis;
- prospective recovery of investment costs;
- financial viability of the project;
- its economic viability;
- the impact of a given project on the borrower's financial situation.

The standards are further refined according to the type of borrower and the size of the project considered.

In the context of decentralized operations by the BDCL, it would be appropriate for the new bank to develop procedural manuals to be used by the Local Governments in their initiation and appraisal of new projects. The standards laid out in the manuals should emphasize the economic, financial and other functional aspects in the choice of priority projects by the Local Governments. The standards should also help reduce the current imbalance in the project selection and approval process between different types of Local Governments.

The project selection criteria proposed to the FEC by its foreign lenders also introduced a debt-servicing concept, expressed in the form of a borrowing ceiling for Local Governments, taken individually, and which was defined as being the lesser of two measurements :

- total debt service <= to 20% of the operating budget (Budget First-Part) of the borrowing entity;

- total debt service <= to 30 % of own financial resources);

These rules have not been strictly applied by the FEC, with good reasons : if they had been strictly applied, assuming an average maturity of loans of 10 years and a average interest rate on loans of 10 % for Rural Municipalities and of 12 % for urban Municipalities, the borrowing ceilings for the year 1987 would have been the following :

(in DH million)

Borrowers	Limit 20% Op.Budget	Limit of 30% of own financial resources
Municipalities	1,294.7	1,595.6
Autonomous Centres	144.5	137.6
Rural Municipalities	555.5	484.4
Less : actual loans of the FEC	750.5	750.5
Total (rounded up)	1,244.2	1,467.1

From the table above, it can be concluded that strict observance of the proposed debt servicing capacity standards would limit new Local Government debt to about DH 1.5 billion in addition to current outstandings.Rural Municipalities would be allocated only about 25 % of this limited amount, while they have anticipated needs well above the limit that would have been calculated according to this formula.

With the exception of the Regies and mixed-economy companies, whose commercial financial structure permits an orthodox judgment as to their debt-servicing capacity, it is this Report's recommendation that the BDCL not apply an arbitrary formula to its allocation of new loans. If the economic and financial viability conditions of projects are met, the BDCL should be free not to pay undue attention to Local Government borrowers' ceilings to service debt : by definition, the debt servicing capacity exists, indirectly or directly.

Furthermore, the new fiscal resources allocated to the Local Governments should substantially increase their debt-servicing capacity, making borrowing ceilings formulas irrelevant. The shortfall, if any, in the borrowers' operating budgets (Budget-First Part) which incorporate debt-servicing charges, would still be covered by State's subsidies according to current law. Finally, as a wise safeguard contained in the laws, the Local Governments' Councils' decisions about undertaking a project are made only subject to the approval - including the right to defer, or rescind - by the tutelar Authorities (Ministry of Interior, Directorate of Local Governments). In this connection, reference is made to the Article 31 of the Dahir organizing the Municipalities, in Annex 8, p. 2.

SECTION IV

THE FINANCIAL RESOURCES OF THE BDCL

An assessment of the conditions ensuring the feasibility of the BDCL must include an analysis of the financial resources available, in principle and in reality, to the BDCL, both domestically in Morocco and abroad, as well as new financial resources which can be mobilized by the BDCL. This analysis is necessary to understand Section V below, where the parameters of *viability* of the BDCL are discussed. This Section reviews the gamut of financial resources available in Morocco, including new financial instruments to generate new financial resources, such as national savings. The method consists of reviewing systematically all the possible financial resources of stable funding, in the amounts sought and at a cost which would allow the BDCL to operate at a profit.

4.1 The Financial structure of the BDCL

The goal in setting up the BDCL is to financially assist the Local Governments in their development and therefore to mobilize and channel long and medium-term funds to carry out their eligible projects. The BDCL 's interventions will materialize in the form of long-term assets on its books, which will constitute the bulk of its assets. To fund such assets, the BDCL will have to give priority to seek long term and *stable* funds. To achieve this goal. several issues will have to be resolved :

1) The limited availability, in relative and in absolute terms, of long term financial resources for the BDCL, could be a limiting factor in the case of overly-rapid loan growth during the five year forecast period (1989-1993).

2) The very thin spread between the average cost of funds and the interest chargeable on the loans to the Local Governments would lead to losses if all the long-term assets were financed by financial resources of equivalent long-term maturities borrowed on the local financial market.

The solve these issues, the BDCL will need to:

1) identify *new financial resources*, or new ways to mobilize existing financial resources, for itself and for the Local Governments.

2) build an appropriate mix of stable financial resources of various maturities and costs.

The problems and hese solutions will be a major issue confronting top management of the BDCL. Therefore, the BDCL will need to create a Treasury Division, which will play a key role as it does in any bank, to ensure the institution's viability.

4.2 The BDCL's Position in the Moroccan Financial Market

Almost all the financial resources which are at the disposal of the FEC at present are from the financial market, in the form of long-term (15 years) bond issues and some 5-year notes issued on the same market. In 1987 and 1988, the FEC has been an important issuer on that market. It is anticipated that the BDCL will also be active on that market to finance a substantial part of its funding needs.

However, the Moroccan financial market has its own characteristics which will induce the BDCL to have a lesser recourse to it than did the FEC. Those characteristics are:

- limited access to this market by a single given borrower:

- the high cost of interest to be paid on bonds, compared to the interest rates cap on loans to the Local Governments:

The financial market's size depends on the available financial resources of lenders in that market. The active lenders in the market are institutions that play a central role in the collection of national savings ; they are :

- The CDG, placing on the market its own financial financial resources and the financial resources of several services that, by law, it manages (such as the FEC);

- The Moroccan Insurance companies;

- The *Banque Centrale populaire* (in 1988).

In the last few years, the total available financial financial resources of the financial market have been about DH 5 billion each year. The Moroccan Treasury has borrowed about DH 3 billion annually out of this total. The balance available to other borrowers (public establishments and companies, including specialized banks) was DH 1,774 million in 1986; 2,210 million in 1987 and probably about DH 2,000 million in 1988.

The table on the next page summarizes the past activity of the Moroccan financioal market; more detals are provided in Annex 5.

Bond issues on the financial market in Morocco
(In DH million)

(Source: CDG)	1986	1987	1988 (est.)
Total financial market	5,653	5,354	5,000
of which: public entities and companies	1,774	2,210	2,000
(issues of the FEC)		(800)	(300)
of which: subscribed by the CDG	638	1,538	1,300

N.B.: The issues of the FEC were a consolidation of advances made by the CDG to the FEC (DH 800 million in 1987) and a consolidation of DH 200 million is anticipated in 1988.

The evolution evidenced by the figures in Annex 5 shows a marked increase between 1984 and 1986, followed by a stabilization in the size of the market from 1986 onwards. Predictions for the future do not indicate a return to the growth observed in 1984-1986. Indeed, the most active providers of funds to the market (the CDG and the insurance companies) show a current tendency of no further significant growth of their financial resources, and another institution, the *Caisse d'Epargne Nationale* (which feeds the CDG with its savings resources) is experiencing a moderate shrinkage of liquidity available for lending to the financial market (See a recent document released by the CDG: "Activity Report for the fiscal year 1988"). One may therefore conclude that the financial resources of the financial market should increase only marginally or not at all in the foreseeable future.

As to the demand for long-term funds on the financial market, several institutions who have traditionnally borrowed actively (such as the CNCA, the CIH, the BNDE) will probably make less active use of the market in the future, due to their recently acquired right to solicit deposits from the public, which they are exercizing aggressively.

The net result for the BDCL is that it seems likely that it will be able to borrow from that market in amounts sufficient for its requirements (DH 200 to 300 million each year, as explained in Section V and VI below), but no more, in view of the market's size constraint. However, the BDCL will need the support of the Monetary Authorities to achieve its borrowing goals, notably by planning with them the bond issues which will be necessary in the next five years. For its part, the CDG has expressed its willingness to assist the new institution in this market by subscribing, within its possibilities, to the bonds to be issued by the BDCL.

A regular pace of bond issues from 1990 onwards has therefore been assumed. In 1989, the BDCL will not have to issue bonds, as its share capital will be sufficient to meet its needs in its first year of operations. The bond issues will be DH 200 million in 1990, and DH 300 million in each year thereafter.

After the absorption of the FEC and its current balance sheet structure, the bond issues of the BDCL will cumulate with those of the FEC, which will reach, at the end of 1988, DH 1,000 million.

The financial analysis of the future BDCL's balance sheet and income statements leads to the conclusion that the interest costs of bonds will oblige the BDCL to diversify its sources of stable funds outside the financial market, in order to ensure its financial viability and a reasonable level of profitability (See below, Section V, Conditions for the Viability of the BDCL).

4.3. <u>The BDCL's use of available financial Resources in Morocco.</u>

The BDCL will make the appropriate use of funding opportunities in the Moroccan and foreign financial markets, within the limits of its capacities, and with the goal of reaching an optimal combination of financial costs and maturities of the funds borrowed, as determined by its General Manager and the BDCL's Treasury Division. The financial forecasts of the BDCL (See below, Section VI) are based on such an optimal combination.

a) The use of the Moroccan financial markets by issuing bonds of 15 years' maturity will be limited for reason of high costs;

<u>Source</u> : The institutional financial market in Morocco. The BDCL should have ready access to it, for amounts of DH 200 million in 1990 and DH 300 million each year thereafter. The Ministry of Finance, though it cannot formally commit itself for the BDCL to secure such amounts, has expressed its willingness, and that of the Monetary Authorities, to assist the BDCL in the launching of bond issues for subscription by institutions.

<u>Costs</u> : At present, such bonds bear a coupon of 11 %, but the effective cost approaches 12 % p.a. when issuance and servicing fees are taken into account.

b) Foreign borrowing at "normal" rates.

Source : For example, the World Bank, USAID (Housing Guarantee program), etc. Amounts that can be raised are important, but negotiations are a lengthy process. Therefore, the newly-appointed Management of the BDCL should start, before the end of 1988, identify such borrowings so that negotiations for them can be concluded in a timely fashion.. Besides existing loans of the IBRD and the IDB to the FEC, new foreign borrowings negotiated by the BDCL would presumably become available in 1990.

c) Foreign borrowings at concessional rates.

It could be envisaged that concessional conditions could be obtained for certain foreign borrowings. Such financial resources are normally mobilized by the State, but conceivably could be passed on by the State to the BDCL, denominated in Dirhams, at interest rates equal to the concessional foreign currency interest rate plus a foreign exchange risk premium (for example, 1 %, plus a share of the margin obtained by the BDCL on its loans funded by such borrowings).

Source : The Moroccan State has, in principle, access to various sources of concessional funds, in the Middle-East, in Europe and in the USA.

Cost : For the BDCL, such borrowings should help reduce its average cost of funds. For example, a foreign loan carrying an interest rate of 3 % (increased by a margin as suggested above) would cost the BDCL about 8 % per annum.

d) The initial capital of the BDCL, which will ensure its initial liquidity, a sound balance sheet structure and a profitability from the first year onwards, and which should be for an amount of DH 500 million, subscribed and paid-in on January 1, 1989

Source : The Local Governments (including the Regies) would subscribe to 50 % of the total initial share capital, i.e. DH 250 million. The funding source of this share subscription would come from the existing pool of the credit balance in the account held with the Moroccan Treasury in the name of the Local Governments. The representation of the Local Governments on the Board of the bank will need to be defined by the founding authorities of the BDCL.

Cost : The return on capital (whether earnings are reinvested in the BDCL or are distributed) should be at least equal to inflation, which is at present much lower than the cost of long-term borrowings in Morocco.

e) Use of medium-term financial resources from the financial market (3 to 5 years), in order to finance loans to the Regies (for 5 to 7 year loans) or the medium-term maturities of other loans.

Source : The institutional financial market; a prior allocation of borrowing capability for the BDCL should be agreed upon between the Ministry of Finance, the CDG and the BDCL.
Cost : At present, 9 % p.a. for 5-year notes, without annual amortization of the principal.

f) Discount by the BDCL of short-term bills subscribed by the Local Governments, to cover liquidity needs and in order to pre-finance bond issues.

Source : As is the practice of the FEC, the BDCL would have the Local Governments sign short term bills as drawee, renewed in maturities to cover the final maturity of loans granted to them, and discount those bills for cash as needed. Because those bills represent obligations of public entities, they cannot be discounted with commercial banks, but can, and are, discounted with the CDG (up to a ceiling of DH 200 million in the case of the FEC). A discount line of at least the same amount should be opened in favor of the BDCL, initially. The measures to be taken in order to make this possible are outlined in Section VIII below (Legal and Regulatory Issues).

Cost : The discount rate, to be agreed with the CDG, would be 8.5 % at present.

g) The use of the Moroccan money market by the BDCL is to be considered, to cover immediate liquidity needs as they arise, or to place temporary excess liquidity - as will be the case immediately after the paying-in of share capital.

Source : Commercial banks are active on the money market, and they can be expected to open inter-bank facilities in favor of the BDCL.

Cost : The cost varies according to the borrowing/placement terms, but is normally much lower than medium- or long-term borrowings. The Treasury Division of the BDCL will have to measure the extent to which it is prudent, and cost-effective, to have recourse to the money market to fund the bank's portfolio, and will develop "gapping" ratios to set limits on the use of short-term financial liabilities to fund long-term loan assets.

4.4. Financial Instruments to be Developed by the BDCL

The need to diversify the BDCL's financial resources outside the financial market has other causes than the search for a lower average cost of funds : it also is justified by the need to identify financial resources that can be mobilized directly on behalf of the Local Governments, making it possible to finance their capital expenditures beyond the limited financial resources of the BDCL. This concept, labeled here as the "multiplier effect of the BDCL", is further developed below (Para. 4.4. II.).

A review of other potential financial resources is made hereafter. Some of these financial resources could be mobilized within a short time, while others could only be mobilized at a later time in significant amounts, depending on the evolution of the financial markets and on the development of the necessary professional expertise by the BDCL. It is nonetheless desirable to identify the various possibilities at this time, leaving it to the discretion of the future BDCL management to developı them as it sees fit.

The new financial resources to be developed are of two types: 1) those which will be developed by the BDCL for itself, and 2) those which will be developed for the account of Local Governments.

I. <u>Development of new, stable financial resources for the BDCL.</u>

The goal is to reduce the average cost of funds and to channel a portion of national savings into the BDCL to enable it to funnel them in the form of loans to the Local Governments. The following possibilities should be explored :

a. new forms of bond issues to be subscribed by the public at large, and not only by institutional lenders;

b. direct deposits by the Local Governments of some of their liquid financial resources, from two sources :

- a pooled, collective current account of the Municipalities representing a portion of excess cash held at present with the Moroccan's Treasury in an account in the name of the Municipalities.

- individual current accounts of Local Governments (at least the most important ones) opened with the BDCL.

c. current accounts opened by commercial companies and individuals;

d. Private savings from the public at large, in the form of passbooks or time deposits.

(2) The mechanisms for the mobilization of financial resources on behalf of the Local Governments would be :

a. the issuance by the BDCL on the financial market of bonds on behalf of groupings of Local Governments, or on behalf of large Municipalities;

b. co-financing arrangements, with other financial institutions, of loans to the Local Governments, organized on their behalf by the BDCL;

c. identification of possibilities of lending by, and negotiations with, international or foreign lenders on behalf of Local Governments in order to finance part of their capital expenditure needs.

I. <u>BDCL's own financial resources</u>

a). <u>New forms of bond issues to be subscribed by the public at large.</u>

Issuance of bonds to be subscribed by the Moroccan public at large, with final maturities of 5, 10 and 15 years, would be undertaken by the BDCL with the assistance of the CDG, which will also guarantee the ultimate placement of the bonds and the liquidity of the bonds for the individual subscribers;

<u>Source:</u> Bond issues open to the general public for subscription are not used at present in Morocco with firm subscription periods, in part because there remains an uncertainty as to their full subscription and a lack of appropriate financial instruments. The mission of the BDCL, its shareownership, the efficient assistance that the CDG can provide, and the liquidity it would ensure for the issued bonds - besides the liquidity that would be provided by the banking system - would provide the successful ingredients for this form of long-term funds' mobilization.

<u>Cost:</u> The cost of such issues to the BDCL would be equivalent to the cost of institutional bond issues; however, this new type of instrument could lead to additional deposits with the BDCL, thereby reducing its average cost of funds from such issues.

The primary advantage of this form of borrowing is not just the reduction of financial costs, but also the broadening of the base of resource mobilization. This type of financing could fill-in BDCL's needs in bond issues which would exceed the DH 200 to 300 million that it will borrow annually from 1990 onwards from the institutional financial market, for example by amounts of DH 100 million from 1992 onwards.

b). Deposits by the Local Governments.

The excess cash at the disposal of the Local Governments, as compared to their disbursement needs, should be deposited in part with the BDCL.

As demonstrated in Section V below (Conditions for the viability of the BDCL) such deposits will be an indispensable factor for the viability of the new institution from the beginning of its operations, for they will immediately reduce the average cost of funds of the BDCL.

These deposit could take the form, first, of a collective current account of the Local Governments, representing a portion of the funds credited in their name in an account with the Treasury. The Kingdom's Treasury General would fund an account opened by the BDCL with it, by a certain agreed amount on behalf of the Local Governments.

The BDCL would, in parallel, open a collective account on its books, under the label "Local Governments and their groupings' deposits". At the end of 1987, the Kingdom's Treasury Directorate had prepared a text enabling, in the future, the Local Governments to open collective accounts (Internal note of November 27, 1987).

Second, deposits by the Local Governments could also be opened individually with the BDCL. Foreign countries, such as Belgium, with the *Credit Communal de Belgique, S.A.*, have experienced this system successfully over many years. The control procedures on the handling of such individual accounts by the Tutelar Authorities of the Local Governments and by the *ordonnateurs* (payment initiating agents of the Municipalities) and the *receveurs* (collecting agents of the Municipalities) - both functions being consolidated in the same person, who is an agent of the Kingdom's Treasury) could be maintained without impairing the usefulness and use of those accounts for both the BDCL and the Municipalities themselves. For instance, the BDCL could be authorized to automatically debit an account - as is practiced in Belgium - to cover an annuity in interest or principal. As it happens, this procedure would be a significant simplification, as compared with the current procedure applied by the FEC for the servicing of its borrowers' debt.

Source : The pooled current account would be fed by an amount of excess cash (credit account balance) of the pooled account held on behalf of the Local Governments by the Moroccan Treasury at present. In June 1988, the pooled credit balance was about DH 1 billion. The amount so deposited with the BDCL would have to be stable at a given level (about DH 200 million), within the limits of the collective cash needs of the pooled depositors. The amount should be readjusted upwards, from time to time, consistent with the average balance with the Treasury and inflation. Adjustments should be considered at least once a year. The account with the Treasury being regularly fed with funds allocated or reallocated to the Local Governments (including their share in VAT receipts and re-allocated taxes) and being used for meeting capital and operating expenditures, would have by nature a certain stability at a given level, which is difficult to forecast.

Similarly, the average level of individual current accounts of the Local Governments would be relatively stable, and increasing progressively as a funding source (liability) on the balance sheet of the BDCL.

Cost : The credit interest payable on these accounts would have to be determined by specific decrees, but the interest served on current balances should be below, or at a maximum equal to, the current level of interest payable by the Treasury on the pooled credit balances held with it.

The interest revenue would be distributed to the Local Governments on the basis of their individual contribution (or share in) the pooled funds and their individual current accounts, as monitored by those agents handling the central accounting records of the Local Governments; the revenues would be credited to their respective budgetary receipts.

The existence of such stable, low-cost deposits is an essential element for the viability of the BDCL. It will thus be necessary to take all measures necessary to make such deposits with the BDCL possible and attractive for the Local Governments.

c) Deposits from companies and individuals

The solicitation of current account deposits from a broad client base of commercial entities and individuals is, as is well known in the banking industry, an excellent way to develop low-cost, stable sources of funds, provided that the infrastructure costs of collecting such deposits is not prohibitive. From banking experience, such deposits are generally stable, taken collectively, but even in the case of sudden withdrawals, a bank such as the BDCL, with its shareownership and the alternative sources of financing at its disposal, would not suffer harm if such withdrawals occurred.

Source : Commercial entities having a contractual relationship with the Local Governments (suppliers of goods and services, as well as the Regies), would be the natural source of such deposits, avoiding the need for the BDCL to incur large infrastructure and account servicing costs.

Cost : No interest would be payable on the current account credit balances so generated. Interest-bearing time deposits should not be encouraged as long as the interest rates payable on such deposits remain at their present high level. Infrastructure investments and operating costs will be at a minimum, since the BDCL would provide only routine receiving and paying functions for these accounts.

d) Savings from the public at large

The creation of the BDCL will be an opportunity to institute a wider system of private savings, similar, for example, in its principle and widespread use as the "Livret A" system in France, which holds savings from over 45 million people, and in Belgium, where in 1987, 56 % of the *Credit Communal de Belgique S.A.* ' financial resources were in the form of private savings. Such savings are, by definition, stable, and, when benefiting from income tax privileges to the holders, attractive, as is the case in France and Belgium. Furthermore, their cost is generally less than to institutional borrowing. Ideally, the BDCL should build a network of collection points thoughout the country; however, the development of such a network cannot be considered until much later in the BDCL's life, once the institution's profitability will have been securely demonstrated to support the costs of a savings collection system.

II. Financial resources to be mobilized on behalf of the Local Governments.

a) Loans to be raised by the BDCL on behalf of the Local Governments (including the Regies)

Once the BDCL has developed its expertise in issuing long term bonds for its own account, the bank, assisted by the CDG, could offer to Local Governments to group their financing as collective bond issues, and place them directly on the institutional financial market, or with the public at large, notably by targeting subscribers from the Local Governments' own communities.

Source : The financial market and/or the public, according to the circumstances.

Cost : There would be no cost to the BDCL, financially speaking; on the contrary, the BDCL would earn commissions from the ultimate borrowers for the service rendered in placing the issues. Furthermore, the BDCL could extend its guarantee to some of these bond issues, receiving a guarantee fee. The final cost to the borrowers should not, in any event, be higher than the cost of loans from the BDCL to them.

The benefit to the BDCL would not only be the commissions earned, but above all the fundamental role of the BDCL intermediating funds for the benefit of the Local Governments beyond its own financial resources - the "multiplier effect" of the BDCL.

b) <u>Co-financing of loans, with other institutions</u>

Another "multiplier effect" could be achieved by the BDCL organizing co-financing deals with other financial institutions (including commercial banks) for the funding of specific projects. Such co-financing could take several forms:

a. The assumption of a certain financing need within a project by other institutions than the BDCL (e.g. leasing of equipment, or real estate);

b. The direct participation of Moroccan commercial banks in a financing package put together by the BDCL, the commercial banks financing shorter maturities (up to 5 years, for example) and the BDCL financing the maturities beyond 5 years:

There would be several positive side-effects to such scenarios, for the BDCL, for the Local Governments and for the commercial banks themselves:

- the total financial resources made available to the Local Governments would be augmented;

- the BDCL could enlarge its role, at a profit, beyond its own lending activity;

- the commercial banks could use some of their financial resources in a profitable way, and, because of the nature of the borrowers (public entities), such loans could perhaps be exempted from the banks' credit ceiling restrictions;

- the BDCL and the other institutions would learn to exchange their mutual professional experience in the process of arranging such deals together.

SECTION V

CONDITIONS FOR THE VIABILITY OF THE BDCL

I. The context

There are four parameters to be kept in mind to determine the conditions for the viability of the BDCL:

1) The structure of interest rates, which at present leaves only a thin margin between borrowing rates and lending rates for the new institution. The forecasted average loan interest rate of the BDCL is 11.35 %, while the rate on the coupons of bond issues is of 11 %. If all the loans were to be financed on the financial market, the gross margin would thus be only 0.35 %, before bonds' issuing costs.

The improvement of that margin through a reduction of borrowing costs on the Financial Market is not anticipated.

2) The FEC's balance sheet, which the BDCL is expected to absorb, has a structure in which bond issues at high cost are the bulk of financial resources, leading to a thin operating margin (in fact, a negative margin in 1988 and perhaps in 1989 as well, taking the FEC's portfolio in isolation). There will thus be a negative impact on the average cost of funds of the bank as a result of the absorption of the FEC. This negative impact will have to be compensated by an appropriate funding structure, including a search for lower-cost funding sources.

3) A return on capital of 7 % must be generated from the BDCL's operations. This rate of return will have to be at least equal to the inflation rate, plus a premium to provide a positive net return to the shareholders. Return on capital is not to be confused with the payment of dividends (the policy of which will have to be determined by future BDCL's Board decisions); the return is also achieved by the accumulation of retained earnings (profits) which add to the bank's equity.

4) Foreign currency exchange risks associated with foreign borrowings that the BDCL may decide to seek. This risk must be contained within acceptable limits.

II. The bank's viability

Using the above parameters and the available financial resources identified for the bank, the conditions for its viability are as follows:

1) Share capital

a) The need for a high initial level of capital

It is necessary for the BDCL to obtain a level of initial capital sufficient for the first five years of its life. An amount of DH 500 million will need to be paid-in at the creation of the BDCL as a corporation, to reduce financial costs and offset the negative impact of the first two factors described above (thin operating margin, and high cost of funds, of the FEC).

Provided that the subscribed capital be fully paid-in at the beginning of 1989, the BDCL will be in a position to maintain, during the 5-year period through 1993, a sound balance sheet structure and reasonable profitability. Analysis has shown that with lower initial capital levels, or a slower paying-in thereof, the BDCL would have to anticipate borrowings on the Financial Market, which would cause poor operating results or even an operating loss from the beginning.

It is assumed that the ratio of loan assets to share capital should not exceed the level of 4 to 1 during the first five years of operations. That level will be lower during the first two years, and will be met therafter until 1993.

The other reasons to have a high level of initial capital are:

- The credibility and credit standing of the BDCL vis-a-vis the international lenders who may be approached by the BDCL for its own financing needs;

- The advantages of having, from the beginning, a level of capital adequate for the BDCL's first 5 years, and even beyond.

- At the beginning of its life, the BDCL will not have, by definition, a positive track record to be in the best position on the Financial Markets in Morocco and abroad : an established financial institution, with a steady positive track record, can maintain a much higher ratio of loan assets/capital than a new institution like the BDCL. After the first 5 years of operations, and assuming acceptable profitability throughout the period, the BDCL will be able to live with a ratio of 10 to 1 and still have a good credit standing.

The circumstances which could lead the BDCL to need more than DH 500 million of capital would be the following:

- A much more rapid growth in loan assets, coupled with a lower profitability than anticipated;

- An unexpected lack of long-term borrowed financial resources from the domestic and foreign markets - or financial costs higher than expected, causing negative operating margins;

- A lack of a sufficiemt low-cost deposit base.

b) The sources of the share capital

The potential subscribers of equity capital of the BDCL would appear as follows: as follows:

- Local Governments (Regies included), for 50 %, or DH 250 million;

- The Moroccan Treasury (DH 75 to 100 million);

- The CDG (DH 75 to 100 million);

- The Banque Centrale Populaire, and other specialized banks;

- Private commercial banks that mobilize savings from the general public.

2) The Protection against foreign exchange risks

The viability of the BDCL can be seriously compromised by foreign exchange fluctuations on its portfolio of foreign currency loans, both those inherited from the FEC and the new ones that it may wish to obtain. Admittedly, the fluctuations can be positive for the borrower (foreign exchange gains, in the case of an upward valuation of the Dirham against foreign currencies), but the downward risk could compromise the very existence of the bank, especially when foreign currency loans are for such a long duration (15 years and more) as those that the BDCL would look for (e.g. IBRD loans).

If the BDCL were authorized to borrow foreign currencies, it would not be prudent for the bank to assume the full extent of the foreign exchange risks. By the nature of its activity, the BDCL would not finance projects that can generate foreign currencies, and hence it would not be reasonable to put the exchange risk burden on the Local Governments. It would be reasonable, however, for the BDCL to set aside some reserves against exchange losses on its books, at is reasonable to set aside reserves against loan losses. It is thus recommended (and the financial forecast in Section VII below reflects this) that the BDCL set aside, each year, 1.5 % of the outstanding of foreign borrowings and of the interest payable thereon each year. These provisions would be charged in the income statement and would cumulate as reserves on the balance sheet.

However, if during the life of a given foreign currencies' borrowing, the Dirham would devalue against the foreign currencies in excess of the reserve set aside annually by the BDCL, it would be important in order to secure the viability of the BDCL to have the excess exchange loss covered by the Moroccan State, or by any other mechanism that the State may set up to cover the exchange risks of Moroccan borrowers in foreign currencies.

If the BDCL were not to be covered for the exchange risk in excess of its own reserves for exchange losses, it is recommended that it not borrow in foreign currencies at all - except if the foreign loans are at concessional interest rates, in which case the increased margin on loans can constitute an acceptable foreign exchange risk coverage.

3) <u>The build-up of a deposit base</u>

As seen above, (Section IV, I. b.), the BDCL should actively seek deposits from the Local Governments, contractors thereof, and the public at large (private savings). All the measures necessary to make this possible will have to be taken, which implies changes in the law and appropriate by-laws for the BDCL. For example :

- deposits by the Municipalities with the BDCL will require changes in the Decree of September 30, 1976 (Article 91) on the accounting procedures for the Municipalities.

- by being a bank, the BDCL would in principle be entitled to receive and solicit deposits, and be subject to the banking Law and the supervision of the Monetary Authorities. These deposits should be exempted from the monetary reserve (mandatory frozen deposits, carrying no interest, with the Central Bank), for the first five years of operations, until the bank has fully established its viability.

4) <u>Commissions for services rendered</u>

Commissions to be earned on services rendered by the BDCL to the Local Governments will contribute to the financial viability of the bank, because it is necessary to find ways to improve on the thin margins on its loans.

There are in principle many service activities that can generate commissions. The main categories are as follows :

a). Commitment fees on the unused loan commitments. The customary fee is 1 % p.a. on the undrawn balance.

b) Fees collected for technical assistance to potential borrowers who would ask the BDCL to assist them in identifying and preparing projects. This activity would be separate from the appraisal of projects that the BDCL would do for determining their eligibility for lending: the latter activity is part of the normal operations of the bank, and will not be remunerated but rather will be absorbed into the normal operating cost base.

Technical assistance to the Local Governments would be very useful to those which lack expertise, and should be offered without any explicit or implicit commitment to eventually make a loan for the project which is the object of the assistance. It will be necessary to stipulate in technical assistance agreements that the fees due by the beneficiaries of the assistance could be financed by capitalizing them together with the principal of a loan for the project, if any, or by advances in current account. (On this latter mechanism, see Annex 8).

The issue as to whether the BDCL should set up an affiliate to provide those services has been examined. The conclusion is that such services would be better provided by the staff of the BDCL itseld, and that the problems arising from the existence of a separate affiliate would outweigh the advantages (for example, a separate company would need charge billing revenues sufficient to cover all its staff and other costs).

c). Fees charged for the activity of mobilizing financial resources.

As seen above (Section IV), the BDCL should help the Local Governments in raising financial resources in their own name. The expertise to be provided by the bank, for a fee, would be applied to :

- (i) The negotiation, for account of the Regies, of international borrowings such as those foreseen in the Five-year Plan, in order to meet the Regies' large capital expenditure needs. The BDCL's assistance would aim at making the Regies' loan applications bankable with foreign institutions. The BDCL will thus need to develop a financial engineering expertise to that effect. In certain instances, the BDCL will be able to borrow directly abroad, and then pass on the proceeds of a given loan to a Regie. The BDCL would charge customary financial engineering fees and would collect, whenever called to provide its guarantee to a foreign borrowing, a guarantee fee.

- (ii) The arrangement of co-financing packages with other Moroccan financial institutions, in favor of the Local

Governments would give rise to fees (for example, 0.5 % of the consortial loan amounts) in favor of the BDCL. This type of activity should start shortly after the creation of the BDCL, in order to provide the "multiplier effect" necessary to meet the Local Governments' needs.

- (iii) The organization and the placement of bond issues on behalf of the Local Governments, and the service thereof (payment of coupons, etc.), could generate fees equivalent to those generated by those activities on the Financial Market by other institutional bond underwriters (the CDG and the BMCE for example).

5) The discount of bills

As explained in Section IV, 4.4., f. above, the discount of bills would be an essential instrument to fund the BDCL with stable and cheaper funds than those available on the Financial market.

The only asset available to the BDCL for discount are those bills issued by the borrowing Local Governments, payable at sight and having a maturity of 3 months, issued in successive 3-months periods, the sum of which equals the final maturity of a long-term loan. Those bills would be held by the BDCL, as they are by the FEC at present, and be presented for discount to the only institution currently capable at present of making advances against them, i.e. the CDG. By Law, the CDG is supposed to assist the Local Governments in financing their projects: it is thus assumed here that the CDG will keep a "discount window" open to the BDCL, of at least DH 200 million - which is the present ceiling for the FEC. The cost of such discounts - which are renewable every three months when a bill matures - would be 8.5 % p.a.

It is not excluded that another institution might be willing to discount bills : the *Banque Centrale Populaire* seems to be willing to discount bills issued by the Regies, because such bills have a "commercial" character by reason of the corporate form of the Regies.

CONCLUSION : CONDITIONS FOR BDCL VIABILITY

Due to the BDCL's :

- expected thin margins on loans;

- expected high cost of funds, from the structure to be inherited from the FEC and from new bond to be issued by the BDCL;

- requirements to generate operating profits and to make a positive return on capital,

The BDCL must:

- have adequate initial capital (DH 500 million) in order to maintain a ratio of loan assets/capital of at least 4 to 1 during the initial (5 years) period;

- receive and maintain current account deposits from its customers (initially from Local Governments, but also from other sources such as supplier corporations and the general public);

- benefit from certain exemptions (no monetary reserve deposits for the first five years; no obligation to subscribe to Treasury Bills;no obligation to make minimum investments in medium-term or long term "investment" loans nor in housing transactions; no credit ceiling restrictions for loans to Local Governments);

- engage in activities that are compatible with its mission and which would generate commissions;

- benefit from "discount windows" for its portfolio of bills issued by the Local Governments in order to obtain short-term funding, up to a minimum of DH 200 million;

- be protected against any foreign exchange risks in excess of its own foreign exchange risk reserves, and if such protection is not possible, to refrain from borrowing from foreign currency sources.

SECTION VI

FINANCIAL FORECASTS

The financial forecasts of the BDCL have been projected over 5 years, starting in January 1989. This is the period covered by the Terms of Reference of this Report (see Annex 1).

The financial statements are shown in the tables hereafter. They comprise three groups of tables, as follows :

I. Operational forecasts of the BDCL (FEC's operationa included) :

A. Balance sheets - Table 1;

B. Income statements - Table 1bis.

These two tables appear hereafter, in the body of the Report.

II. Analytical forecasts : the new activities of the BDCL taken in isolation (without inclusion of the FEC's operations):

A. Balance sheets - Table 2

B. Income statements - Table 2bis.

These two tables appear in Annex 7, p. 1 and 2.

III. Analytic forecasts : they describe the operations and financial status of the FEC through 1/1/1988, date on which they should be integrated with the BDCL, and in subsequent years, were the FEC continue to exist independently - These latter forecasts were prepared by the FEC.

A. Balance sheets - Table 3.

B. Income statements - Table 3bis.

These tables appear in Annex 7, p. 3 and 4.

The methodology was to first examine the financial situation and forecasts of the FEC. These forecasts include the continued normal development of the activity of the FEC through 12/31/1988, which is then presumed to cease (no new FEC's commitments) after that date.

The next step was to construct an opening balance sheet (as of 12/31/1988) for the BDCL, and then to project the BDCL activities over the next five years beginning in 1989 through 1993, including only the activities of the BDCL (i.e. without including the financial impact of the FEC). In those forecast, the assumptions mentioned in Sections I, III, IV and V above have been utilized, which respectively bear on the Local Governments' needs, the projects to be financed, the financial structure and the financial resources of the BDCL, and the conditions necessary for its viability.

Finally, in order to produce the forecast balance sheets (assets/liabilities) and income statements of the BDCL as it will exist (i.e. having absorbed the FEC), the two sets of numbers were combined (forecast based on FEC activity through the end of 1988, and new BDCL activity from 1989 onwards).

Following the financial forecast Tables (Table 1 - balance sheet, and Table 1bis - income statements), the text explains these tables in detail, and describes the assumptions and methods used to establish these financial forecasts.

The explanatory comments to the financial forecasts are made as follows:

1. <u>The BDCL after absorption of the FEC (Table 1 and 1bis hereafter).</u>

Reference is made to Tables 1 and 1bis on the following page, which represent the consolidation within the BDCL of the activities of the FEC and its own new activities. This consolidated information consists of forecast balance sheets and income statements beginning in 1989, and "historical" financial statements for 1987 and 1988. Since the merger of the FEC with the new BDCL is assumed to occur on January 1, 1989, the activities of the FEC are reflected through that date. Therefore, beginning with 1989, the financial consequences of previous FEC loan commitments are included in the financial statements of the BDCL.

1.1. The BDCL's balance sheet after absorption of the FEC.

For an exmination of the balance sheet on Table 1, it is useful also to examine the analytical Tables on which Table 1 is based, namely Annex 7, pages 1 and 3. To explain Table 1, it is necessary to give a line-by-line description of the assumptions used.

<u>ASSETS</u>

- Line 137 (cumulative amounts) : the total of new loans granted by the BDCL between 1989 and 1993 is of DH 3.5 billion.

TABLE 1 - BDCL + FEC - Basic scenario
Balance sheets
20/7/88

B.D.C.L. (F.E.C. included) : BALANCE SHEET FORECASTS

(In millions of current DH's)

	(FEC) 1987	(FEC) 1988	(1) 1989	(2) 1990	(3) 1991	(4) 1992	(5) 1993
ASSETS							
New commitments	522	550	600	650	700	750	800
Fixed assets							
Start-up expenses	17	22	19	15	13	10	8
Fixed assets - net	8	37	39	39	37	35	33
Long term loans - gross amountsts	1139	1499	1800	2219	2654	3134	3674
Long term loans - current portion	998	1320	1586	1960	2343	2782	3290
Current assets							
Current potion of long term loans	141	179	214	259	310	351	384
Liquid current assets	1	1	18	5	6	7	7
Assets' accruals	60	83	89	89	77	65	54
Legal minimum investments in Treasury bonds	0	0	79	84	95	103	112
Minimum reserve with Central Bank	0	0	14	14	16	18	19
Total current assets	202	263	413	451	504	544	576
NET PROFIT (LOSS): To retained earnings.							
	1224	1641	2039	2460	2891	3365	3900
Liquid excess current assets	0	0	15	0	0	0	0
TOTAL ASSETS	1224	1641	2053	2460	2891	3365	3900
LIABILITIES							
Equity							
Share capital of the BDCL	0	0	500	500	500	500	500
Net equity of the FEC	103	132	0	0	0	0	0
Shareholders' advances	0	37	0	0	0	0	0
Subordinated loan (in-kind contribution of the FEC)	0	0	132	132	132	132	132
Loans' and foreign exchange risks' provisions	0	0	11	24	40	61	86
Retained earnings	30	8	30	52	54	56	58
TOTAL EQUITY	133	177	673	708	726	749	777
Medium- and long term borrowings							
Bonds issued at over 1 year	803	743	683	810	1017	1203	1396
External borrowings at over 1 year	46	113	102	132	161	266	448
Five year notes	0	300	300	300	300	300	300
Current portion of long term borrowings							
Current portion of bonds issued	60	60	60	73	93	113	133
Current portion of external borrowings	4	10	10	10	10	10	10
Short-term borrowings							
Bills discounted	178	348	234	580	878	1177	1561
Current accounts and time deposits							
- Local Governments, Treasury share	0	0	200	200	200	200	200
- Local Governments, own deposits						0	0
	25	25	30	35	40		
- Suppliers' deposits	0	0	0	5	20	30	40
- Private savings	0	0	0	10	20	30	40
Total deposits	0	0	225	240	270	295	320
Less: unavailable monetary reserve (6%)	0	0	14	14	16	18	19
Less: Investments in Treasury ~~bonds~~ (35%)	0	0	79	84	95	103	[illegible]
Total of "free" deposits	0	0	133	142	159	174	189
Net profit : to retained earnings.							
	<CIRC>	<CIRC>	<CIRC>	<CIRC>	<CIRC>	<CIRC>	<CIRC>
Bills discounted	178	348	234	580	878	1177	1561
TOTAL LIABILITIES	1224	1751	2287	2853	3455	4113	4845

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Table 1 Bis - Basic scenario
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BDCL + FEC, combined income statements

20/7/88

BDCL (FEC INCLUDED)- COMBINED INCOME STATEMENTS FORECASTS

(in millions OF CURRENT dh'S)

	(Est.) 1987	(Est.) 1988	(1) 1989	(2) 1990	(3) 1991	(4) 1992	(5) 1993
REVENUES							
Interest on loans	98	139	189	253	311	368	430
Commitment fees on loans granted	0	0	5	6	0	7	8
Interest earned on investments	0	0	41	25	3	0	0
Fees on services provided	0	0	0	1	2	2	3
Interest on Treasury bonds held	0	0	3	4	4	4	5
TOTAL OF REVENUES	98	139	237	289	320	381	446
EXPENSES							
G & A expenses							
- Labor	3	4	9	12	15	16	17
- Other expenses	1	1	5	7	11	12	13
Financial charges							
- Coupons paid on bonds issued	41	96	89	104	130	152	172
- Interest paid on Five year Notes	0	11	27	27	27	27	18
- Interest paid on external loans	6	13	16	14	17	24	38
- Interest paid on discouted bills	15	30	20	49	75	100	133
- Interest paid on deposits of the L.G.	0	0	14	14	14	14	14
- Interest paid on time deposits	0	0	0	0	1	1	2
- Interest paid on private savings	0	0	0	1	2	2	3
Commitment fees on external borrowings	0	0	0	3	2	2	0
Commission paid on redemption of issued bonds	0	2	2	2	1	1	1
Commisions paid on payment of coupons	1	1	1	2	2	2	3
Depreciation:							
- Of bonds' issuance fees	0	0	0	0	0	0	0
- of constructions and equipment	1	2	4	4	4	3	3
- of other start-up costs	0	1	1	1	1	1	0
Loans' provisions	0	0	9	11	13	16	18
Foreign exchange risks' provisions	0	0	2	2	3	4	[illegible]
TOTAL EXPENSES	68	162	199	253	317	378	442
OPERATING PROFIT BEFORE TAXES	30	-23	38	36	3	4	3
INCOME TAXES	0	0	15	14	1	1	1
NET PROFIT	30	-23	23	22	2	2	2
NET PROFIT AS A % OF EQUITY:	0.227	-0.129	0.034	0.030	0.003	0.003	0.003
NET PROFIT AS A % OF CAPITAL	0.204	-0.134	0.040	0.043	0.004	[illegible]	[illegible]

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and new loan commitments grow by about 8 % annually over the period, in constant DH's, based upon presumed new commitments of DH 600 million in 1989.

One will note that cumulative new commitments are almost equivalent to loan outstandings at the end of the period (Line 143): this is the result of the continuation of draw-downs by the borrowers of loans committed by the FEC prior to 1989.

- Line 142: the net fixed assets are the sum of the following initial capital expenditures : beyond the net fixed assets inherited from the FEC (DH 8 million in 1987), there is an initial investment by the BDCL of DH 25 million to acquire its headquarter building. There are are also office equipment expenditures of DH 3 million and capitalized start-up expenses of DH 2 million incurred in 1988 by the Start-up Unit referred to in Section IX below (Action Steps required for the implementation of the BDCL). The gross fixed assets acquired by the BDCL are depreciated over an average period of 15 years.

- Line 143: the loan outstandings at the end of the five-year period are DH 3,674 million, of which DH 2,713 million derive from the new activities of the BDCL, and DH 961 million are outstanding loans from past activities of the FEC.

The amounts of disbursed loans, for each fiscal year, are those portions of commited loans drawn down by the borrowers, according to the following pattern :

- 25 % of committed loans are drawn down during the year when the commitments are made;

- 50 % of the loans are drawn down during the next fiscal year;

- 25 %, or the balance of committed loans, are drawn down during the third year after the year during which the commitments were made.

On the other hand, the loans - as was the case with the FEC - do not benefit from a grace period and are consequently, from the commitment year onwards, shown with a "loan maturities at less than one year" portion (Line 147) - representing the repayments due within 12 months - and with a "Loan maturing over one year" portion (Line 144) for the balance of the loans.

The average pace of disbursements on the loans approximately equals that of the loans made by the FEC for similar type of loans. The new loan commitments (Line 143) will have an average duration of 14 years, i.e. 5.5 years more than the average duration of loans made by the FEC. This average loan life corresponds closely to the life-cycle of the projects financed.

In Table 1, the share of loans by category of Local Government is not specified, this breakdown being not available at this time from the FEC's data. However, in the balance sheet of the BDCL taken in isolation, (Annex 7, Table 2), there is a distribution of new loans by type of borrower : one should note that the rural Municipalities will take 40 % of the loans as from 1991, as will the urban Municipalities, the Regies taking the balance, or 20 %. The distribution structure of the FEC is likely to be quite different: at the end of 1987, 33 % of its loans had been granted to the Regies and the bulk of the balance to Municipalities, the rural Municipalities representing only 5 % of the total portfolio.

- Line 168: the liquid current assets are the cash balances of the BDCL. These balances, which are very thin, will nevertheless be managed by the Treasury Division of the BDCL: if feasible, money market placements will be made, at a rate of about 8.5 % at present. The excess liquidity appearing in 1989 corresponds to the paying-in of the share capital. One should note however that, due to the build-up in loan activities, almost all of the paid-in capital amount is employed during the first year of operations.

LIABILITIES

a) Equity is composed of share capital, of a subordinated loan representing the value of the contribution to the BDCL of the net assets of the FEC by the Morrocan Treasury, of a shareholders' temporary advance at the end of 1988 to fund the start-up expenses described in Section IX below, and of reserves (retained earnings and reserves for risks).

- Line 161: Share capital. The amount of DH 500 million is assumed to be immediately paid-in, as recommended in Section V above.

- Line 163: Shareholders' advance. The amount of DH 37 million represents the fixed assets investments and other start-up expenses that the Start-up Unit of the BDCL - including its appointed future General Management - will incur in 1988 to create the BDCL. This advance will be consolidated into the share capital when subscribed and paid-in, and therefore disappears in fiscal year 1989. This shareholders' advance should not bear interest; it is proposed that it be made by the Moroccan Treasury or by the CDG, to be credited against their share subscription.

- Line 164: The subordinated loan. The amount corresponds to the net assets' value of the FEC, estimated as of the end of fiscal year 1988. This amount may need to be slightly modified as a result of the audit of the FEC's accounts that will need to be made prior to the absorption of the FEC by the BDCL. This subordinated loan would remain on the books of the BDCL until it could be converted into a capital subscription payment on the occasion of a future capital increase required for the BDCL as a result of the growth, over the years, of its lending activities. The subordinated loan would carry an interest of 8 % p.a., about 0.5 % below the present rate payable on the money market, to reflect the privilege of conversion into capital inherent to that loan.

- Line 165: Reserves. The reserves established to cover risks on the loan portfolio are built up year-to-year by 0.5 % of the loan outstandings until they reach 3 % of the total loan portfolio. This level is deemed reasonable and necessary by some foreign lenders. Reserves for exchange losses are built up to represent 1.5 % of foreign loans outstanding and of interest payable thereon.

- Line 151: Net profits (shown in Table 1bis), after payment of the corporate income tax, are not assumed to be distributed as dividends during the period 1988-1993; they are credited to retained earnings, as part of the equity accounts.

One should note that net profits represent 3.4 % of capital in the year it is paid-in. At the end of the five-year period, the net profit of the fiscal year 1993 represents 10.8 % of share capital, and 6.7 % of total equity. The cumulative net profits up to that year will amount to 33 % of the share capital, or 6.7% p.a, in nominal terms, over the total period. The goal of a minimum of a 7 % return on initial capital would thus be not met by a thin margin, while the total return on equity at the end of the same period would be only 4.7 % , which is only barely satisfactory.

b) <u>The borrowings (liabilities)</u> are divided into four categories: bond issues on the Financial Market (including a 5-year note issue); foreign borrowings with 17 years maturity and a grace period of 5 years (of which two foreign loans from the FEC and one new loan from the IBRD); renewable discount of bills and deposits.

-Line 170 and Line 175: New bond issues by the BDCL will be four: two tranches of DH 200 million each, in 1990 and 1991, will be followed by two tranches of DH 300 million each in 1992 and 1993. Bond issues have no grace period; therefore, a portion of bonds' "maturities in less than one year" (Line 175) representing the repayment due within 12 months, is created the year the bonds are issued. The bond issues are assumed to have an interest cost equal to present financial market's rate conditions (11 % p.a.).

The previous bond issues of the FEC are the sum of two bond issues totalling DH 803 million issued in 1987 for 15 years at an interest rate of 11.5 %.

Total BDCL bond issues will by 1993 represent 70 % of its total funding maturing beyond one year by 1993, i.e. DH 1.529 million.

This results from the high cost of such bonds and availability constraints on the Financial Markets. The cost problem is illustrated by the fact that the margin between the 11 % interest cost and the average return on loans will be only of 0.74 %. This forces the BDCL to seek cheaper and shorter-term financial resources, which - unless they are stable - do not match the life-cycles of the financed projects.

- Line 172: the FEC's Five-year note issue of DH 300 million will be completed sometime before the end of 1988, and will replace and consolidate discounts of bills by the FEC with the CDG. The note issue will bear an interest rate of 9 % p.a.

- Line 171: This line represents the sum of prior FEC's foreign borrowings and a foreign currency borrowing by the BDCL of DH 400 million equivalent, which will presumably be negotiated with the World Bank in 1989 and be available and used in 1990. Its duration will be the same (17 years) as the foreign borrowing by the FEC from the World Bank, contracted in 1983 for the equivalent of US dollars 16 million. The grace period will be the same (5 years), while the interest rate has been assumed at 10 % p.a. The effective rate is likely to be higher, due to the 0.75 % commitment fee on the undrawn balance of the loan, and because of the reserves to be made against the future exchange risk on the loan. The two latter elements figure separately in the income statements in Table 1bis.

The foreign loans contracted by the FEC (included in the amounts of Line 171) have been the World Bank loan mentioned above and a loan of Dinars 6.9 million from the Islamic Development Bank. Both borrowings have been fully committed to loans to Local Governments. The last disbursements will occur in 1988. The loans' amortization will start in 1989.

- Line 179: As explained in Sections IV and V above, the discount of bills should be a stable and relatively cheap resource. The stability results from the renewable character of the discount of short-term bills, while the advantageous rate of discount (8.5 %) results from the short-term nature of each bill discounted (3 months' maturity). The amount of discounted bills on the balance sheets of the BDCL varies from year to year. This is because the discount of bills has been deemed to be a form of residual financing, in view of the flexibility of interrupting and re-starting discounts at any time, within the limits of the discount ceiling to be negotiated with the CDG - and, possibly, with the Banque Centrale Populaire for discount of bills of a commercial nature issued by the Regies. In the balance sheets, the line "Discount of Bills" has thus be used as a balancing factor to finance variations in loan assets not funded by long-term financial resources.

- Lines 180 to 184: Deposits with the BDCL represent a vital financial resource for the viability of the bank, as demonstrated in Section V above. They are divided in four categories:

1. Line 181: The collective deposits from the Local Governments. They are a portion (DH 200 million) of the pooled account of the Local Governments with the Treasury. Those deposits will earn interest, at a rate not to exceed the rate paid by the Treasury on the pooled account. These funds represent temporary balances awaiting withdrawal for the Local Governments' operating and capital expenditure needs; such deposits will be replenished by a portion of the 30 % VAT share and the State contributions and subsidies, and are therefore a stable resource.

2. Line 182: The individual deposit accounts of the Local Governments are included on this line. They correspond to the balances resulting from receipts and payment movements, on a continuing basis, for the current operations of the Local Governments. They would include amounts of loan disbursed by the BDCL, pending their use to pay for capital expenditures.

3. Line 183: Deposits of contracting suppliers to the Local Governments, usually within the context of a given project. Certain suppliers could find it advantageous to open such accounts, to accelerate payment and settlement flows with the Local Governments.

4. Line 184: Savings deposits, the development of which is assumed to be gradual (DH 10 million in 1990 and DH 40 million in 1993) are those deposits that the BDCL will seek to attract from the communities of the Local Governments by using new types of savings instruments. One could think of attractive forms of pass-books, offering a high degree of safety and liquidity, and perhaps a tax-exmpt status, such as the "Livret "A" in France or its equivalent. The interest rate paid on savings accounts is assumed to be 6 % p.a.

Together, these four categories of deposits would constitute a stable and relatively cheap source of funds for the BDCL, and they should continue to grow well beyond the first five years' forecast period.

1.2. The forecast income statements of the BDCL (FEC included)

Net income of the BDCL (FEC included) is positive from the first year onward, which is consistent with one major objective of the BDCL, which is not to erode equity and to reach a return on capital of at least 7 % p.a. This initial profit is lower than it would have been without the absorption of the FEC. as shown by comparing the results in Table 1 bis above and in Table 2 bis (for the latter see Annex 7). This is due to the low profitability of the FEC's portfolio. The income statements of the BDCL demonstrate that relatively cheaper funding sources, in the form of deposits and discount lines, are essential conditions for the viability to the BDCL, as stated in Section V above.

2.1 The forecast balance sheet of the BDCL (Table 2)

The balance sheets of the new BDCL alonem (i.e. without the FEC) are in Annex 7, Table 2.

The comments above on the balance sheet of the BDCL (FEC included) are sufficient to understand this separate, theoretical balance sheet, except for the following points :

ASSETS

a) Line 68: "New commitments" are loans granted by the BDCL to Local Governments from 1989 onwards. They amount to a total of DH 3.5 billion. This level is a reasonable increase over the level of loans granted by the FEC in 1987 and 1988 (respectively DH 522 and DH 550 million).

b) Line 70: Start-up expenses : they represent the expenses incurred for the creation of the BDCL as a corporation and a bank, and include, in later years, commissions payable on the issues of bonds on the Financial Market.

c) Lines 77 to 79: a distribution is made of loans between the rural and urban Municipalities, and the Regies. The proportions correspond to the data analysis in Section III (The Projects to be Financed by the BDCL).

LIABILITIES

The comments above regarding Table 1 are sufficient to understand the structure of the liabilities of the BDCL, taken in isolation.

2.2 The analytical balance sheets of the FEC (Table 3)

The FEC balance sheets are in the Table 3 of Annex 7, and are based on information provided by the FEC. They reflect situations and commitments from the past, which can essentially not be altered. The FEC assets and liabilities are a " given" from 1989 onwards.

The balance sheets of the FEC are well balanced in terms of duration of investments and of long term financial resources (Line 17 compared to Lines 37 to 42, and 44). The long-term financial resources (bond issues, foreign loans and the Five-year Notes) cover the long-life loan assets by about 85 % at the end of 1988. However, the price paid for this is the extremely low margin on loans.

Finally, one can point out on the asset side of the balance sheets, on Lines 19 and 20, that the FEC's outstanding loans to Municipalities have represented 2/3 of its loans, the Regies taking the balance for 1/3. The rural Municipalities represented only 5 % of total loan outstandings.

On the liability side of the balance sheets, the bond issues (Line 37 and 41) as well as Line 44, which shows the Five-year Notes issue of 1988 for DH 300 million, reduced to DH 200 million in 1993 at its renewal date), correspond, together to the replacement and consolidation of short-term outstandings from previous discounts of bills with the CDG.

3.1 The income statements of the FEC (Table 3bis)

As shown on Table 3 bis in Annex 7, zero net income is recorded in 1988 and a loss is forecast for 1989, for the FEC taken in isolation. The situation, which contrasts with previous years, is the result of the issuance of bonds in 1987 for DH 803 million at the very high interest rate of 11.5 %.

3.2 The income statements of the BDCL (Table 2bis)

Table 2 bis in Annex 7 contains the income statements of the BDCL taken in isolation. The comments above on the income statements of the BDCL (FEC included) are applicable here as well.

SECTION VII

OPERATIONAL STRUCTURE OF THE BDCL

In order to perform its mission of lender and provider of financial technical assistance to the Local Governments, and in order to supervise the implementation of their projects financed, the BDCL will need to be organized on a decentralized basis. This functional necessity fits with the decentralization goals of the Moroccan Authorities (See Section II above). Besides having its Headquarters either in Rabat or in Casablanca, it will have to install seven regional offices in the seven Economic Regions. At a later stages of its development, it could open additional branch offices notably in connection with the collection of savings.

The distribution of activities between the Headquarters and regional offices could be along the following lines:

- Headquarters responsibilities

- The Headquarters will have final responsibility for processing loan applications, which will be transmitted to it by the regional offices for presentation to the Credit Committee

- It will apply the rules and policies determined by the Board and the General Management.

- It will prepare annual budgets for the BDCL's Board consideration and will set lending objectives by Region and by categories of Local Governments.

- It will ensure the mobilization and management of the funding resources necessary to the proper funcioning of the bank.

- It will create and develop a permanent financial engineering department, which will provide services to borrowers who apply for assistance, on a fee payment basis.

- It will set up an accounting and management control department.

- It will be responsible for personnel recruitment, training and administration.

- It will install the system of regional offices and define the mission and priorities for each such office; it will supervise these offices' activities and evaluate their performance.

- <u>Regional Offices' responsibilities</u>

The Rergional Offices will be responsible for the operational, day-to-day relationships with the Local Governments relating to projects, financing, and current account relationships between the BDCL and ocal Governments in their Regions.
In particular :

- At the projects' pre-application stage, they will assist the potential borrowers in the identification, planning and project financing application, in order to present such projects for financing in accordance with the procedures established by the Headquarters.

- When a project is submitted for financing, they will evaluate the technical, economic, financial, administrative and legal aspects of the projects submitted.

- When such evaluation leads to a favorable conclusion at the Regional Office level, they will submit a memorandum to Headquarters with their recommendations highlighting key issues.

- They will develop and maintain documentation files on the Local Governments in the Regions, notably with respect to their fiscal situation, the financial condition of the Regies, the regional orientation plans for civil works, electrification, water works, etc. and will constitute a Regional pipeline of projects at different stages of development.

- They will maintain records of Local Governments' deposit accounts, and provide services with respect to disbursements and receipts to the Local Governments.

Each Regional Office will have a travelling representative (a staff member) whose function will be to develop contacts with the Local Governments and gather information on the genesis of projects and on their financial problems. The travelling representative will be responsible for the primary relationship with the Local Governments. They will also mobilize the appropriate human resources within the BDCL's staff at each stage of development of the projects that they follow. At a later stage, they will develop the relationships which would lead to the opening of deposit accounts.

Each Regional Office will have a supervision responsibility for projects financed by the bank, and will monitor the proper use of disbursed funds. The regional supervision responsibility will report to the Central Supervision service at Headquarters.

The activities of Headquarters could be distributed and organized as set forth in the following chart:

```
                      Board of Directors -------
                           :                   :
                           :                   :
       ------------General Manager        Credit Committee
       :                   :
       :                   :
------------------------------------------------------------------
:Regional :Treasury :Accounting:Loan :Financial   :Personnel &   :
:Offices  :(Funding):and control Dept.:engineering:Administration:
:Directors:         :Dept.     :     :Services    :              :
------------------------------------------------------------------
                                 :
                                 :
                     Economic and Financial
                          Studies Dept.
```

The Regional Offices would be organized as follows:

```
                    General Manager (Headquarters)
                                 :
                                 :
------------------------------------------------------------------
:Studies,          : Regional Office :                            :
:Documentation     :    Manager      :  Travelling Representative :
:& Statistics      :                 :(economist/financial expert):
:                  :                 :                            :
------------------------------------------------------------------
                             :
                :------------:------------------------:
                :            :                        :
------------------------------------------------------------------
:Technical Department    : Supervision     :     Operations      :
:(Architect + engineer)  : Department      :     Department      :
:                        :                 :                     :
:                        :                 :      (Accounts)     :
------------------------------------------------------------------
```

Operating expenses forecast 1)
(In DH Million)

	1989	1990	1991	1992	1993
Number of appraised projects	164	183	217	200	200
Number of supervised projects	164	347	564	547	547
Project appraisal staff	23	27	31	31	31
Project supervision staff (3)	8	17	28	28	28
Management staff	10	10	12	12	12
Total operational staff :	41	53	71	71	71
Other personnel (4)	16	21	28	28	28
Total personnel:	57	74	99	99	99
Annual cost (DH Million) (Base: 1988)	6	8	11	11	11
Other administrative expenses (DH Million) (Base: 1988)	4	5	7	7	7
Total direct expenses (5)	10	13	18	18	18
In current Dirhams:	10	15	23	25	27
Loans outstanding (year-end) (in DH Million)	150	613	1,244	1,867	2,462
Direct expense in % of loans outstanding :	0.7	2.4	1,85	1.34	1.1

(1) Assumptions of loan investments as per Section III.
(2) 7 project appraisals/person/year. This is the number of appraisals leading to a loan transaction.
(3) 20 project supervisions/person/year.
(4) 40 % of operational staff.
(5) N.B. : The FEC in 1988 : 50 staff members; DH 5 Million of direct expenses.

SECTION VIII

LEGAL AND REGULATORY ISSUES

The creation of the BDCL as a bank in the form of a joint stock corporation, does not, by itself, present a problem. However, to enable the new bank to operate as described in this Report, there are essential issues of a legal and regulatory nature which must be resolved *before* the creation of the new institution. These issues are described below.

On the other hand, there are other legal and regulatory issues which should be resolved to facilitate the BDCL's operations, but which do not need to be resolved prior to its start-up. Those issues are dealt with separately in Annex 9.

A. Legal issues to be resolved prior to start-up

Since it takes some time to change laws and regulations, it is recommended that the following issues be given immediate attention, so that their resolution will be completed on 1/1/1989 at the latest, the presumed start-up of the BDCL's operations.

1. The banking Law as it relates to the BDCL

As a credit and deposit-gathering institution, it is assumed that the BDCL will be a bank in the form of a joint stock corporation, fully subject to the Banking Law of April 21, 1967. This will also subject the bank to all controls, supervision and directives from the Central Bank (*Bank Al Maghrib*) and the Ministry of Finance, and to the authority of the Credit and of the Financial Market Committee (*"Comite de Credit et du Marche Financier"*).

While the BDCL is to be submitted to all regulations applicable to banks, it is nevertheless recommended that certain waivers and exemptions - not without precedent - be granted to the BDCL due to its special mission and the financial constraints placed upon it, especially in its initial years. Such waivers and exemptions have already been granted in the past to other specialized financial institutions subject to the Banking Law, under Article 3 of such Banking Law, which designates specifically those financial institutions that can benefit from certain exemptions by specific decision of the relevant Authorities. The recommended exemptions for the BDCL are as follows:

a) Non-application of credit ceiling constraints to the loan portfolio of the BDCL, as well as to consortial loans made by other banking institutions in favor of the Local Governments, together with the BDCL.

Because of its activity, the BDCL should not be submitted to the *"coefficient de retenue "* (witholding coefficient, which creates the obligation for the banks to invest 5.5 % of their liabilities to third parties' (deposits and borrowings) in medium term loans financing investments), nor to the *"Coefficient de remploi"* (specific uses of funds' coefficient, which obliges the banks to invest 6 % of their liabilities to third parties in housing loans).

b) Exemption of the BDCL from the *"plancher de souscription obligatoire aux effets publics"* which is the obligation for banks to invest 35 % of their sight deposits in Treasury Bills or their equivalent.

c) Exemption of the BDCL from the mandatory deposit to be made, interest-free, with the Central Bank, which is equal to 6 % of the banks' sight deposits. This exemption should be permanent for the deposits from the Local Governments and the Regies, and should be for the first five years for deposits received from the private and commercial sectors. It is thus recommended that Article 3 of the Banking Law be amended to add the BDCL to the list of banks that can benefit from exemptions, and to make the necessary decisions immediately thereafter.

A calculation has been made to assess the impact that the absence of exemptions from the mandatory monetary reserve deposits, and from the mandatory subscription in Treasury Bills, would have on the BDCL's operations. In such a case, the BDCL would have to increase its discount of bills by DH 100 million in 1990, increasing to DH 144 million in 1993. The impact on the return on capital would be significant : the return would drop from 5.6 % and 7 % in 1991 to 1993, to 4.5 % and 6 % in those same years. The BDCL would not reach the goal of a return of 7 % on capital, which is assumed to be the minimum acceptable level.

2. Deposit accounts from the Local Governments

To enable the BDCL to open accounts in the name of Local Governments (specifically, the Municipalities), Article 91 of the Decree No. 1-76-576 of September 30, 1976 on the organization of the accounting of the Local Governments, would need to be modified : this Article states that the Local Governments' liquid resources have to de deposited exclusively with the Moroccan Treasury. The recommended change could, for exemple, designate the BDCL as an entity that could receive deposits from Local Governments (1), whether for account of the Treasury (pooled account) or not. The General Treasury of the Kingdom has already proposed in late 1987 that changes be made to that Article, which could incorporate the recommended changes made here.

3. Include the BDCL by name in the organic texts governing the CDG.

Article 21 of the Dahir No. 1-59-074 establishing the *Caisse de Depot et de Gestion* (CDG) authorizes that institution to make loans to the Local Governments, by using the resources of the FEC or its own resources.

This Article will need to be modified to substitute the BDCL for the FEC, to make it possible for the BDCL to discount bills issued by the Local Governments in representation of loans made by the BDCL to them. As demonstrated above, such a discount "window" will be essential for the viability of the bank and its efficient cash management.

B. Implementation steps

It has been agreed in principle that after receiving this Report, the Minister of Interior and the Minister of Finance will send a note to the General Secretariat of the Moroccan Government informing the latter of their decision to create the BDCL, and requesting a legal opinion as to the legal and regulatory issues mentioned above and the proposed solutions therefor.

C. Participation of the Local Governments as shareholders of the BDCL

It has been confirmed that the Local Governments have the legal right to subscribe to the capital of the BDCL. The participation could be made on a group basis, the composition of which will need to be determined by the competent Authorities.

D. Legal and regulatory issues than can be resolved at a later date

These issues, which are further explored in Annex 9, are as follows:

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(1) The BDCL could perhaps be designated as *"assignataire authorise"* (authorized delegated depositary) or *"comptable de fait"* (*de facto* accountant) as per Art.8,9 and 10 of the Decree

- The possibility for the BDCL to make short-term advances in current account to the Local Governments;

- The possibility to domicile certain tax or other receipts of the Local Governments in accounts they would open with the BDCL, for the purpose of meeting the Local Governments' debt service obligations to the BDCL;

- The de-budgetisation mechanism ("loans-State's share" described in Annex 6) and its legal and budgetary implications.

SECTION IX

ACTION STEPS REQUIRED FOR THE INPLEMENTATION OF THE BDCL

A. Decisions to be taken prior to the creation of the BDCL

The establishment of the BDCL should occur as soon as a certain number of decisions have been taken:

1. Formal decision to create the BDCL; the legal form for its establishment; and the legal modalities for the merger of the FEC into the new BDCL.

N.B. All the other formalities and action steps depend on this first step. The forecast assumption are based upon the creation of the BDCL in the form of a joint stock corporation subject to the Banking Law. The formal legal creation could be made prior to the legal and regulatory changes recommended in Section VIII.

2. Identification of the founding shareholders' subscriptions to initial capital up to the total amount of DH 500 million. The founfing shareholders are assumed to include: the Local Governments (50 %); the Moroccan Treasury; the CDG; the Banque Centrale Populaire; other banks and private financial institutions.

3. Legal formalities to create the BDCL. Official request to be made to the Minister of Finance to obtain the agreement of the *Commission restreinte du Comite du Credit et du Marche Financier* for the granting of a banking licence to the BDCL, authorizing it to operate within the scope of the Banking Law.

4. Establishing target dates for:

   (i) The completion of all legal formalities necessary to create the BDCL;

   (ii) The effective start-up of the bank;

   (iii) The transfer of the activities and the financial accounts of the FEC to the BDCL.

   N.B.: The Report's financial forecasts and the conditions of viability are premised on the date of 1/1/1989 for the points (ii) and (iii) above.

5. General shareholders' meeting to approve the by-laws and appoint a Board of Directors; election of a Management Committee drawn from the Board.
6. Determine the specific measures to be taken by the Monetary Authorities in order to guarantee to the BDCL access to certain funding sources (Financial Market; discount "window") and to grant it certain exemptions (monetary and others) that are deemed appropriate.

7. Opening, by the Monetary Authorities responsible for the Financial Market, of a "window" of access to issue bonds with 15 years maturity, up to DH 200 million annually starting in 1990 and to DH 300 million from 1992 onward. This could take the form of a letter of intent from the Ministry of Finance to the BDCL, authorizing such bond issues. Simultaneously, it would be necessary to obtain a formal confirmation from the CDG that it is willing to participate in the subscription to, and the placement of, the BDCL's bonds.

8. Joint letter from the Ministers of Interior and of Finance to the General Secretary of the Government to inform him of the changes in legal and regulatory texts which will need to be made prior to the creation of the BDCL.

B. Implementation steps

As soon as the founding measures cited above have been taken, the following implementation steps must be taken prior the effective start-up of the BDCL:

1. Appointment by the Board of a *President-Directeur General* (Chief Executive Officer) of the BDCL. The chosen individual will, together with the appointed Executive Committee members, have the responsibility for carrying out decisions relating to the establishment of the BDCL.

2. Appointment by the *President-Directeur General* of a team of experts, be recruited at his discretion, which team will have the following specific tasks:

a) Preparation of the establishment of the organizational framework and legal texts which will govern the activities of the BDCL; internal Divisions, and of its basic rules of operations:

b) Plan for the effective absorption of the FEC into the BDCL, from a financial standpoint (including an independent audit of the FEC's assets and liabilities in order to determine its net asset value at the time of absorption:

c) Recruitment by the *President-Directeur General* of the members of the future senior management team of the BDCL, who will head the various key departments of the BDCL:

d) Effective assumption, jointly with the FEC, of the ongoing activity of evaluating projects and granting loans to Local Governments. To achieve this, a team of analysts will be named with the concurrence of the *President-Directeur General* and working under his direct supervision.

3. Preparation of the future project identification and evaluation standards to be used by the BDCL: of the BDCL's new loan approval procedures: and of the timetable according to which the Regional Offices will be opened and staffed, and their designated objectives.

4. Development of the BDCL's organization chart.

5. Absorption of the totality of the FEC's personnel, the position and responsibilities of each of whom will be determined according to the needs of the BDCL as determined by its *President-Directeur General* and its Executive Committee.

N.B. : Although all the present staff of the FEC will be integrated into the BDCL at compensation levels at least equal to their current levels with the CDG, such integration will be carried out consistent with the bank's needs, and will not reflect the present organization and procedures of the FEC. The FEC's personnel will thus be integrated into a BDCL organizational structure, and set of procedures, which will already have been determined by the BDCL.

All the steps described above will need to be carried out before the start-up of the new bank, assumed to take place on 1/1/1989. The completion of each step prior to start-up is an essential condition for the BDCL to be able to fulfill its objectives and reach rapidly its proper level of activity. In the event of delays in the implementation of any of these steps, the BDCL would begin life burdened by unfortunate handicaps and difficulties in accomplishing its mission, and the financial forecasts set forth in this Report would no longer apply.

TERMS OF REFERENCE

FEASIBILITY STUDY - CNCL - MOROCCO

1. MARKET STUDY - Local Government Organizations (as potential borrowers)

   1.1 Institutional Framework: Status and legal responsibilities at each level of administrative authority (wilayas, provinces and préfectures; urban and rural communes; small towns and municipalities).

   Type, number and feature of self-financing public corporations (water and power distribution, transportation and other).
   Present and proposed investment programs.

   1.2 Financial Framework: Local Government organizations' financial resources, by sort (national tax system, local tax system, loans).

   1.3 Financial Status of Local Government organizations and public corporations. Funding needs and debt affordability.

2. THE FINANCIAL SECTOR (as potential supplier of funds)

2.1 Banking regulations, monetary policy, credit policy, savings policy. A review of constraints that apply to all Moroccan financial institution: minimum-capital requirement, ratios (indebtedness, liquidity, etc.), specific tax position, outstanding-debt consolidation if any, etc.

2.2 Structure of the national financial sector. Specialization of intermediaries, current trend, overall economic situation, banks' cash position, etc.

2.3 Mobilization and re-investment of national savings:

- Nature, cost and duration of savings collected
- Savings management; measuring its transformation
- Analysis of its optimum re-investment (long-term savings/long-term investment).

3. PROJECT JUSTIFICATION AND STRUCTURE (Optimum type of institution)

3.1 Advantages and disadvantages of an institution specializing in loans to local Government organizations, as compared to a uniform system (all-purpose banks).

3.2 Definition of the institution's financial and non-financial functions; Analysis of needed technical assistance, in relation to the

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strengthening of Local Government organizations;

Forms and procedures for assistance in the technical and financial preparation of their investment operations.

3.3 Proposed Institution's Optimum Organizational Structure:

- Equity – Amount – Structure
- make-up of partners (private, Government, institutional investors, local elected officials, etc.)
- Advantages and disadvantages of the various possible scenarios
- Comments on the mechanism for representation of locally-elected officials
- Definition of management structures – authority
- Summary organization chart
- Impact of institution's specific responsabilities (particularly technical assistance) on organization.

4. INSTITUTION'S RESOURCES (Assumptions and Forecasts)

4.1 – On the basis of the financial market analysis (Chapter 2), an estimate of the volume of national savings available for the Local Government sector.

- Cost, mobilization and recycling procedures (C.D.G., inter-bank market, specific products, etc.);
- Respective analysis of potential resources and possibilities for the new institution to increase its intake: private savings,

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Government savings, institutional investors' savings;

- Analysis of household savings flow depending on the level of cash availability and re-investment duration; comments and suggestions on the financial conversion of Moroccan savings.

4.2 <u>Specific Analysis of the Structure of Resources</u>:

- Share-capital/loan resources
- Long-term/short-term resources
- Domestic offshore resources
- Monetary resources
- Committed-savings resources/resources obtained on the financial market;
- etc.

4.3 Analysis of a specific assumption: opening cheking accounts for public corporations and Local Government organizations.
Legal pre-requisities, with respect to regulations applying to Government funds - necessary accompanying steps.
(Summary) Impact on the Treasury network's available-cash position.

4.4 Estimate of the volume of mobilization resources, by categories.
Advantages and disadvantages of various scenarios.

5. <u>RE-INVESTMENT BY THE INSTITUTION: Activities - Assumptions and Forecasts</u>

5.1 Determination of financeable types of investment, and criteria for their evaluation (see standards, as set by FEC).
breakdown of loan types by nature of operations and borrowers.
Definition of target-markets.

5.2 Interest Rate Policy
Analysis of Cross-subsidy possibilities
Guarantee-taking policy, adapted to each category of borrowers (particularly public corporations)
Reserve-establishing policy

5.3 Loan terms

6. OPERATION FORECAST

6.1 Necessary initial investment for institution start-up: Initial outlay, fixed assets, ordinary equipment and computer hardware, etc.

6.2 Operating cost forecast (for 5 years)

6.3 Estimate of recruitment/training program and if necessary, technical assistance.

6.4 Expected gross margin (forecast)

6.5 Financial forecasts

- Estimate of on-going commitments of resources and re-investment
- Estimated resources cost and loan yields
- Estimated products, expenses and results
- Forecast operation accounts (5 years)
- Forecast results (5 years)
- Funding plans (5 years)

7. REQUIREMENTS FOR VIABILITY - Risks and Recommendations

- Required initial resources
- Required permanent and stable resources
- Expected cost-effectiveness following several scenarios
- Safety provisions: guarantee procedures, establishment of reserves, adaptation of financial instruments to the environment, loaning and recovery procedures, etc.
- Identification of potential risks
- Significant management ratios
- Technical recommendations

8. IMPLEMENTATION STAGES

- Schedule of tasks to be accomplished, by functions

- **Description of stages: administrative, legal, financial processes, personnel recruitment/training, equipment ordering, etc.**

Annex .2.

****
Financial statistics
of the L.G's.(1986)
****

	Budget (Operat.)	Operat. subsidies	Allocated taxes	Local taxes
Prov./Pref.:	222.543.400	222.543.400	-	-
Urban municip.:	1.075.391.590	223.527.208	402.149.750	449.714.672
Autonomous Centers:	113.379.174	40.818.870	20.084.160	52.476.144
Rural municip.:	419.617.773	131.818.870	13.325.207	274.473.676
Common expenses: :	-	55.244.069	-	-
Total L.G's: ************	1.830.931.937	673.952.417	435.559.117	721.420.403

Equipment subsidies
****

	Prov.Préf.	G.Casa	Dép.Comm.	O.N.P.E	Total
Year 1986 :	457.576.000	238.836.000	190.090.000	117.404.000	1.005.968.000

F.E.C.
""""""""

	Prov-Préf	Municip.	C.Auton.	C.Rural.	Total
Year 1986 :	36.150.000	217.020.000	21.680.000	34.840.000	309.690.000

****
Financial statistics
of the L.G's. (1987)
****

	Budget (Operat.)	Operat. subsidies	Allocated taxes	Local taxes
Prov./Pref.:	233.027.657	233.027.657	-	
Urban municip.:	1.145.718.220	204.365.085	446.636.750	494.716.385
Autonomous Centers:	127.870.357	46.644.190	18.143.290	63.002.877
Rural municip.:	451.970.026	152.607.070	13.591.711	285.771.245
Common expenses: :	-	38.347.699	-	-
Total L.G's: *************	1.958.586.260	674.991.701	478.371.751	805.222.808

Equipment subsidies
****

	Prov.Préf.	G.Casa	Dép.Comm.	O.N.P.E	Total
Year 1987 :	882.184.942	201.200.000	285.869.840	230.745.218	1.600.000.000

F.E.C.
""""""""

	Prov-Préf	Municip.	C.Auton.	C.Rural.	Total
Year 1987 :	0	291.530.000	37.795.000	26.975.000	356.300.000

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****
Financial statistics
of the L.G's. (1984)
****

	Budget (Operat.)	Operat. subsidies
Prov./Pref.:	167.616.720	167.616.720
Urban municip.:	1.082.620.030	173.961:693
Autonomous Centers:	93.622.695	31.185.594
Rural municip.:	298.912.655	106.492.665
Common expenses:	0	20.657.265
Total L.G's::	1.642.772.100	499.913.937

****

Equipment subsidies
****

	Prov.Préf.	G.Casa	Dép.Comm.	O.N.P.E	Total
Année 1984 :	85.102.758	8.800.000	360.361.950	423.204.600	877.469.308

F.E.C.
""""""""

	Municip.	C.Auton.	C.Rural.	Total
Année 1984 :	39.675.000	22.150.000	9.570.000	71.395.000

****
Financial statistics
of the L.G's (1985)
****

	Budget (Operat.)	Operat. subsidies
Prov./Pref.:	192.738.400	192.738.400
Urban municip.:	1.103.840.066	222.877.589
Autonomous Centers:	101.955.254	40.135.311
Rural municip.:	354.297.074	123.975.210
Common expenses:	0	33.609.535
Total L.G's:	1.752.830.794	613.336.045

****

Equipment subsidies
****

	Prov.Préf.	G.Casa	Dép.Comm.	O.N.P.E	Total
Année 1985 :	180.778.026	332.481.974	23.200.000	141.040.000	677.500.000

F.E.C.
""""""""

	Prov-Préf	Municip.	C.Auton.	C.Rural.	Total
Année 1984 :	49.000.000	20.130.000	0	27.352.000	96.482.000

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KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
DIRECTORATE
OF LOCAL GOVERNMENTS

DISTRIBUTION OF VAT PROJECTS BY SECTOR
AND BY AREAS IN THOUSANDS OF DIRHAMS

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
CT.STADE OU TERRAIN	10 ANS	315447	386	128802	59	444249	445
AMENAGEMENT DE PARCS	10 ANS	1950	7	65880	19	67830	26
CONSTRUCTION DE CAMP	10 ANS	66231	56	43779	20	110011	76
CONSTRUCTION DE FOUR	15 ANS	6570	15	800	1	7370	16
CT.DE BAIN MAURE COM	15 ANS	20604	50	900	1	21504	51
TOTAL SECTEURS		410802	514	240161	100	650963	614
CONSTRUCTION DE CHAT	20 ANS	27545	49	26700	4	54245	53
CT.RESERVOIRS DESTOC	20 ANS	51433	61	101860	20	153293	81
CT.DE CITERNES ENTER	15 ANS	16644	55	10000	1	26644	56
ACHAT MATERIEL TECHN	5 ANS	16272	50	3700	3	19972	53
CT.STATIONS DE POMPA	10 ANS	24244	47	4800	4	29044	51
CT.STATION TRAITEMEN	10 ANS	2700	5	2000	1	4700	6
AMENAGEMENT SOURCE &	10 ANS	77715	262	14500	6	92215	268
CT.D'ADDUCTIONS D'A.	20 ANS	658133	477	134732	29	792865	506
CT.RESEAU DE DISTRIB	10 ANS	188013	175	149459	24	337471	199
CT.BATIMENTS TECH.&	20 ANS	7450	2	1950	2	[illegible]	4
CREATION DE BORNES F	10 ANS	714	9	450	1	[illegible]	10
FONCAGE ET CUVELAGE	10 ANS	192157	315	11560	10	203717	325
CT.DE SEGUIAS ET KHE	10 ANS	283365	569	5933	12	289298	581
POSE D'EOLIENNE	5 ANS	70	1	0	0	70	1
POSE DE POMPES SOLAI	5 ANS	779	2	0	0	779	2
TOTAL SECTEURS		1547232	2079	467644	117	2014876	2196
TRAV.BRANCH.ET POSE	10 ANS	55813	12	600	1	56413	13
CT.POSTES DE LIVRAIS	20 ANS	56164	53	15310	8	71474	61
POSE DE FEEDERS & LI	20 ANS	109420	43	32113	11	221533	54
REALIS.RESEAU DISTRI	15 ANS	1717090	590	114936	49	1832026	639
CT.CENTRALES ELECTRI	10 ANS	57539	54	600	1	58139	55
CT.BATIMENTS TECH. &	15 ANS	50552	3	6000	1	[illegible]	4
ACHAT MATERIEL TECHN	5 ANS	130	2	2700	2	2830	4
TOTAL SECTEURS		2126707	757	172259	73	2298966	830
CT.COLLECTEURS & OUV	20 ANS	503126	167	940914	53	1444040	220
CT.EGOUTS SECONDAIRE	20 ANS	322604	149	344301	50	666905	199
CT.STATION REFOULEME	10 ANS	800	3	9080	4	[illegible]	7
CT.STATIONS TRAITEME	10 ANS	38830	27	1040670	26	1079500	53
ACHAT MATERIEL CURAG	50 ANS	6597	10	26374	11	32971	21
CONSTRUCTION DE LATE	5 ANS	1011	4	430	3	1441	7

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KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
DIRECTORATE
OF LOCAL GOVERNMENTS

DISTRIBUTION OF VAT PROJECTS BY SECTOR
AND BY AREAS IN THOUSANDS OF DIRHAMS

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
SCHEMA DIRECTEUR D'A	15 ANS	2460	9	4100	3	6560	12
TOTAL SECTEURS		875508	369	2365870	150	3241378	519
CONSTRUCTION D'U.T.O	15 ANS	600	1	190020	11	190620	12
ACHAT DE CAMION BENN	5 ANS	7560	14	75611	32	83171	46
ACHAT DE CAMIONS BEN	5 ANS	38276	99	71837	47	110113	146
ACHAT DE CAMIONS POR	5 ANS	11000	24	22160	25	33160	49
ACHAT DE BACS A ORDU	10 ANS	2190	8	3810	12	6000	20
ACHAT DE COMPACTEURS	5 ANS	1350	3	16300	11	17650	14
ACHAT ENGINS POUR DE	5 ANS	14955	17	53246	36	68201	53
ACHAT DE MATERIEL ET	5 ANS	1780	4	23401	24	25181	28
ASSAINISSEMENT DE DE	5 ANS	8905	10	18927	14	27832	24
AMENAG.DE DECHARGES	15 ANS	575	4	4200	3	4775	7
TOTAL SECTEURS		87191	184	479512	215	566703	399
CT.BATIMENTS TECH.D'	15 ANS	6000	2	6840	4	12840	6
CONSTRUCTION DE DEPO	15 ANS	6356	41	22098	6	28454	47
ACHAT MATERIEL TECH.	5 ANS	250	1	3900	5	4150	6
ACHAT VEHICULES TRAN	5 ANS	13873	25	164007	30	177880	55
CT.ABRIS POINTS D'AR	15 ANS	1715	8	1750	6	3465	14
TOTAL SECTEURS		28194	77	198595	51	226789	128
CONSTRUCTION D'ABATT	15 ANS	53872	93	160830	26	214703	119
CT.OU AMENAGEMENT MA	15 ANS	19380	9	154380	25	173760	34
CT.OU ACQUISITION FR	15 ANS	44010	10	16100	6	60110	16
CT.MARCHES DE QUARTI	15 ANS	80686	79	243891	60	324577	139
CT. ET AMENAGEMENT D	15 ANS	495287	343	94322	29	589608	372
AMENAGEMENT D'AIRES	15 ANS	16948	31	20528	6	37476	37
CONSTRUCTION DE MORG	15 ANS	2700	7	9725	14	12425	21
CT.GARES ROUTIERES V	20 ANS	63671	40	143820	33	207491	73
PROTECTION EAUX DE C	20 ANS	67595	54	38615	15	106210	69
CONSTRUCTION DE FOUR	15 ANS	20839	13	3345	5	24184	18
CONSTRUCTION DE B.M.	15 ANS	1700	1	8800	3	10500	4
CT.DEPOTS DE STOCKAG	15 ANS	1625	6	4350	4	5975	10
AMENAGEMENT ZONE IND	15 ANS	156000	4	162570	9	318570	13
ACQU.ENGINS & MATER.	5 ANS	610	2	16998	18	17608	20
BAIN PARAZITICIDE	10 ANS	1820	18	0	0	1820	18
TOTAL SECTEURS		1026744	710	1078273	253	2105017	963

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KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
DIRECTORATE
OF LOCAL GOVERNMENTS

DISTRIBUTION OF VAT PROJECTS BY SECTOR AND BY AREAS IN THOUSANDS OD DIRHAMS

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
CT.& REVET.CHEMIN TE	10 ANS	2574265	321	406612	22	2980878	343
AMENAG.CHEMINS TERT.	5 ANS	112783	39	54000	6	166783	45
ELARG.PLATEFORME CHE	10 ANS	455444	53	32980	4	488424	57
REVET.CHEMINS TERT.C	5 ANS	636406	52	93414	12	729820	64
ACHAT ENGINS VEHICUL	5 ANS	48718	56	84228	22	132946	78
AM.CHEMINS DESSERTE	5 ANS	383905	216	10400	2	394305	218
CT.CHEMINS DESSERTE	5 ANS	578240	153	5580	6	583820	159
CT,REVET.CHEMINS DES	5 ANS	1157046	229	133600	14	1290646	243
AMENAG.VOIES SECONDA	5 ANS	53075	12	39720	4	92795	16
TOTAL SECTEURS		5999882	1131	860534	92	6860416	1223
OUVERTURE DE VOIES U	20 ANS	378244	114	1682737	130	2060981	244
REVET.DE VOIRIES EXI	15 ANS	304014	119	652563	94	956576	213
CT.PONT ET D'OUVRAGE	20 ANS	267798	108	227110	28	494908	136
POSE DE BORDURES DE	20 ANS	52028	62	33380	22	85408	84
REVETEMENT DE TROTTO	15 ANS	69978	32	134935	37	204913	69
CONSTRUCTION MURS DE	20 ANS	14349	89	14170	18	28519	107
RESORPTION DE BIDONV	15 ANS	197316	27	396393	22	593709	49
AMENAGEMENT DE PLACE	15 ANS	19985	39	165574	29	185559	68
AMENAGEMENT DE PARCS	10 ANS	51447	102	440722	76	492169	178
AMENAGEMENT DE PEPIN	10 ANS	593	3	16059	21	16651	24
AMENAGEMENT DE PROME	10 ANS	2850	5	73673	13	76523	18
CONSTRUCTION DE BOUT	15 ANS	135917	210	121765	25	257682	235
REBOISEMENT RURAL &	5 ANS	29792	64	7088	10	36880	74
REBOISEMENT DE VOIRI	5 ANS	561	14	1579	6	2140	20
AMENAGEMENT DE KIOSQ	15 ANS	90	2	115	2	205	4
REALISATION D'ECLAIR	10 ANS	85284	80	377568	94	462852	174
REALISATION DE PARKI	20 ANS	11664	26	66123	14	77787	40
REALIS.LOTISSEMENTS	15 ANS	202189	71	86965	18	289154	89
AMENAG.SITES TOURIST	15 ANS	91027	43	143430	32	234457	75
AMENAGEMENT DE SOLS	10 ANS	107450	5	121500	1	228950	6
AMENAGEMENT RESERVES	10 ANS	10858	6	4217	3	15075	9
INSTALLATION PIVOTS	10 ANS	37700	6	0	0	37700	6
AMENAGEMENT DE LACS	20 ANS	443495	34	180570	2	624065	36
AMENAGEMENT DE CIMET	15 ANS	4500	2	26031	16	30531	18
SIGNALISATION ET JAL	5 ANS	0	0	21605	4	21605	4
ACQU.MATERIEL ET ENG	5 ANS	1800	2	24745	8	26545	10
AMENAGEMENT D'OUEDS	5 ANS	0	0	74000	3	74000	3
TOTAL SECTEURS		2520929	1265	5094614	728	7615544	1993
TOTAL ROYAUME		14623189	7086	10957463	1779	25580652	8865

KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
DIRECTORATE
OF LOCAL GOVERNMENTS

DISTRIBUTION OF VAT PROJECTS BY SECTOR
AND BY AREAS IN THOUSANDS OF DIRHAMS
(Projects - Execution stage)

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
CT.STADE OU TERRAIN SPORT	10 ANS	97337	170	52750	21	150087	191
AMENAGEMENT DE PARCS DE JEUX	10 ANS	1000	4	60181	9	61181	13
CONSTRUCTION DE CAMPINGS	10 ANS	9633	11	7950	2	17583	13
CONSTRUCTION DE FOUR COMMUNAL	15 ANS	2000	4	0	0	2000	4
CT.DE BAIN MAURE COMMUNAL	15 ANS	15081	39	900	1	15981	40
TOTAL SECTEURS		125052	228	121780	33	246832	261
CONSTRUCTION DE CHATEAU D'EAU	20 ANS	7845	20	1200	1	9045	21
CT.RESERVOIRS DESTOCKAGE EAU	20 ANS	7200	20	41100	10	48300	30
CT.DE CITERNES ENTEREES	15 ANS	11825	45	10000	1	21825	46
ACHAT MATERIEL TECHNIQUE EXPL.	5 ANS	6732	24	3700	3	10432	27
CT.STATIONS DE POMPAGE	10 ANS	3750	15	2800	3	6550	18
CT.STATION TRAITEMENT EAU POT.	10 ANS	2500	3	0	0	2500	3
AMENAGEMENT SOURCE & POINT EAU	10 ANS	30424	153	500	1	30924	154
CT.D'ADDUCTIONS D'A.E.P	20 ANS	220763	168	18670	5	239433	173
CT.RESEAU DE DISTRIBUTION	10 ANS	80205	58	74089	6	154293	64
CT.BATIMENTS TECH.& EXPLOITAT.	20 ANS	0	0	1250	1	1250	1
CREATION DE BORNES FONTAINES	10 ANS	194	3	450	1	644	4
FONCAGE ET CUVELAGE DES PUITS	10 ANS	66679	166	10360	9	77039	175
CT.DE SEGUIAS ET KHETTARAS	10 ANS	90888	189	650	2	91538	191
POSE D'EOLIENNE	5 ANS	70	1	0	0	70	1
POSE DE POMPES SOLAIRES	5 ANS	700	1	0	0	700	1
TOTAL SECTEURS		529775	866	164769	43	694543	909
TRAV.BRANCH.ET POSE COMPTEURS	10 ANS	300	1	600	1	900	2
CT.POSTES DE LIVRAISON ELECT.	20 ANS	4500	5	6770	4	11270	9
POSE DE FEEDERS & LIGNES ELECT	20 ANS	14777	4	14326	4	29103	8
REALIS.RESEAU DISTRIBUTION	15 ANS	199436	79	43027	24	242463	103
CT.CENTRALES ELECTRIQUES	10 ANS	1980	6	600	1	2580	7
CT.BATIMENTS TECH. & EXPLOIT.	15 ANS	0	0	0	0	0	0
ACHAT MATERIEL TECHNIQUE & EXP	5 ANS	130	2	2700	2	2830	4
TOTAL SECTEURS		221123	97	68023	36	289146	133
CT.COLLECTEURS & OUVRAGES ART	20 ANS	157166	44	173923	15	331090	59
CT.EGOUTS SECONDAIRES ET TERT.	20 ANS	89139	32	85118	20	174257	52
CT.STATION REFOULEMENT & RELEV	10 ANS	80	1	3080	2	3160	3
CT.STATIONS TRAITEMENT & EPUR.	10 ANS	5850	4	59180	3	65030	7
ACHAT MATERIEL CURAGE EGOUTS	50 ANS	3300	5	18374	6	21674	11
CONSTRUCTION DE LATERINES	5 ANS	850	1	400	2	1250	3

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KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
DIRECTORATE
OF LOCAL GOVERNMENTS

DISTRIBUTION OF VAT PROJECTS BY SECTOR
AND BY AREAS IN THOUSANDS OD DIRHAMS
(projects - implementation stage)

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
SCHEMA DIRECTEUR D'ASSAINISSEM	15 ANS	0	0	0	0	0	0
TOTAL SECTEURS		256385	87	340076	48	596461	135
CONSTRUCTION D'U.T.O.M	15 ANS	0	0	17500	1	17500	1
ACHAT DE CAMION BENNE-TASSEUSE	5 ANS	5050	9	73061	31	78111	40
ACHAT DE CAMIONS BENNES	5 ANS	29958	80	59052	42	89010	122
ACHAT DE CAMIONS PORTE-BACS	5 ANS	7000	15	17498	22	24498	37
ACHAT DE BACS A ORDURES & CONT	10 ANS	2050	6	3420	10	5470	16
ACHAT DE COMPACTEURS	5 ANS	1100	2	16300	11	17400	13
ACHAT ENGINS POUR DECHARGE PUB	5 ANS	14595	16	45546	33	60141	49
ACHAT DE MATERIEL ET OUTILLAGE	5 ANS	100	1	23101	23	23201	24
ASSAINISSEMENT DE DEPOTOIRS	5 ANS	2775	6	12407	8	15182	14
AMENAG.DE DECHARGES PUBLIQUES	15 ANS	425	3	1200	2	1625	5
TOTAL SECTEURS		63053	138	269085	183	332138	321
CT.BATIMENTS TECH.D'EXPLOITATI	15 ANS	2000	1	4500	1	6500	2
CONSTRUCTION DE DEPOTS	15 ANS	3742	32	2150	2	5892	34
ACHAT MATERIEL TECH.ATELIER	5 ANS	250	1	2300	3	2550	4
ACHAT VEHICULES TRANSPORT	5 ANS	7165	15	50666	18	57831	33
CT.ABRIS POINTS D'ARRET CARS	15 ANS	1370	5	750	3	2120	8
TOTAL SECTEURS		14527	54	60366	27	74893	81
CONSTRUCTION D'ABATTOIRS	15 ANS	15959	46	30392	6	46351	52
CT.OU AMENAGEMENT MARCHES GROS	15 ANS	3500	3	24885	8	28385	11
CT.OU ACQUISITION FRIGORIFIQUE	15 ANS	4050	2	0	0	4050	2
CT.MARCHES DE QUARTIERS	15 ANS	28606	36	76980	19	105586	55
CT. ET AMENAGEMENT DE SOUK	15 ANS	326175	199	10120	5	336295	204
AMENAGEMENT D'AIRES A GRAINS	15 ANS	10824	13	5720	3	16544	16
CONSTRUCTION DE MORGUES	15 ANS	950	3	7050	7	8000	10
CT.GARES ROUTIERES VOYAGEURS	20 ANS	9636	10	26500	9	36136	19
PROTECTION EAUX DE CRUES	20 ANS	10720	15	20025	5	30745	20
CONSTRUCTION DE FOURRIERES	15 ANS	840	7	2845	4	3685	11
CONSTRUCTION DE B.M.H	15 ANS	1700	1	0	0	1700	1
CT.DEPOTS DE STOCKAGE	15 ANS	1297	3	0	0	1297	3
AMENAGEMENT ZONE INDUSTRIELLE	15 ANS	40000	1	10500	1	50500	2
ACQU.ENGINS & MATER.D'HYGIENE	5 ANS	610	2	16990	17	17600	19
BAIN PARAZITICIDE	10 ANS	1260	14	0	0	1260	14
TOTAL SECTEURS		456127	355	232007	84	688135	439

KINGDOM OF MOROCCO
MINISTRY OF INTERIOR
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DISTRIBUTION OF VAT PROJECTS BY SECTOR
AND BY AREAS IN THOUSANDS OF DIRHAMS
(projects - implementation stage)

SECTORS	LIFE CYCLE OF PROJECTS	RURAL AREAS Amt.	RURAL AREAS Number of proj.	URBAN AREAS Amt.	URBAN AREAS Number of proj.	TOTAL Amt.	TOTAL Number of proj.
CT.& REVET.CHEMIN TERT.CLASSE	10 ANS	944151	103	134432	10	1078583	113
AMENAG.CHEMINS TERT.CLASSES	5 ANS	21055	6	14000	5	35055	11
ELARG.PLATEFORME CHEMIN TERT.C	10 ANS	190004	16	18500	2	208504	18
REVET.CHEMINS TERT.CLASSES	5 ANS	29594	19	66064	2	95658	21
ACHAT ENGINS VEHICULES & OUTIL	5 ANS	42428	44	45790	16	88218	60
AM.CHEMINS DESSERTE N.CLASSES	5 ANS	72519	76	0	0	72519	76
CT.CHEMINS DESSERTE NON CLASSE	5 ANS	114606	34	4760	4	119366	38
CT,REVET.CHEMINS DESSERTEN.CL	5 ANS	386471	58	3500	1	389971	59
AMENAG.VOIES SECONDAIRES	5 ANS	27315	4	1720	2	29035	6
TOTAL SECTEURS		1828141	360	288766	42	2116908	402
OUVERTURE DE VOIES URBAINES	20 ANS	204018	38	399056	49	603074	87
REVET.DE VOIRIES EXISTANTES	15 ANS	78699	42	341931	50	420631	92
CT.PONT ET D'OUVRAGE D'ART	20 ANS	24132	38	96000	9	120132	47
POSE DE BORDURES DE TROTTOIRS	20 ANS	30841	36	20751	13	51592	49
REVETEMENT DE TROTTOIRS	15 ANS	54770	16	78000	23	132770	39
CONSTRUCTION MURS DE CLOTURE	20 ANS	10218	66	12210	14	22428	80
RESORPTION DE BIDONVILLES	15 ANS	68556	9	121723	10	190279	19
AMENAGEMENT DE PLACES PUBLIQUE	15 ANS	8800	23	77450	8	86250	31
AMENAGEMENT DE PARCS , JARDINS	10 ANS	29562	64	240354	39	269916	103
AMENAGEMENT DE PEPINIERES	10 ANS	448	1	8049	10	8496	11
AMENAGEMENT DE PROMENADES	10 ANS	0	0	6706	2	6706	2
CONSTRUCTION DE BOUTIQUES	15 ANS	104852	146	48450	9	153302	155
REBOISEMENT RURAL & PLANTATION	5 ANS	13106	53	2088	8	15193	61
REBOISEMENT DE VOIRIES	5 ANS	515	11	1300	4	1815	15
AMENAGEMENT DE KIOSQUES	15 ANS	60	1	15	1	75	2
REALISATION D'ECLAIRAGE PUBLIC	10 ANS	14861	25	160041	35	174902	60
REALISATION DE PARKING	20 ANS	5555	9	11733	7	17288	16
REALIS.LOTISSEMENTS COMMUNAUX	15 ANS	75993	19	13500	2	89493	21
AMENAG.SITES TOURIST.& BALNEAI	15 ANS	18506	6	48650	10	67156	16
AMENAGEMENT DE SOLS	10 ANS	3600	1	121500	1	125100	2
AMENAGEMENT RESERVES DE CHASSE	10 ANS	10198	4	0	0	10198	4
INSTALLATION PIVOTS D'IRRIG	10 ANS	12000	2	0	0	12000	2
AMENAGEMENT DE LACS COLLINAIRE	20 ANS	10000	2	180000	1	190000	3
AMENAGEMENT DE CIMETIERES	15 ANS	3000	1	2250	2	5250	3
SIGNALISATION ET JALONNEMENT	5 ANS	0	0	15605	3	15605	3
ACQU.MATERIEL ET ENGINS	5 ANS	0	0	24745	8	24745	8
AMENAGEMENT D'OUEDS ET ABORDS	5 ANS	0	0	24000	2	24000	2
TOTAL SECTEURS		782289	613	2056*3	320	2838395	933
TOTAL ROYAUME		4276473	2798	3600*3	816	7877451	3614

G.A.

EVOLUTION OF THE FINANCIAL MARKET IN MOROCCO

(BOND ISSUES)
(In DH million)

	1982			1983			1984		
	Issues	Subscribers CDG	Subscribers Others	Issues	Subscribers CDG	Subscribers Others	Issues	Subscribers CDG	Subscribers Others
1. Public entities and semi-public entities									
A. 10 to 15 years bonds	870	413	457	870	482	388	883	544	339
B. 5-year notes	314	-	314	604	-	604	257	-	257
2. Moroccan State									
A. 10 to 15 year bonds	503	132	371	841	280	561	905	264	641
B. 5-year Treasury bonds	-	-	-	735	250	485	-	-	-
Total Financial Market	1,687	545	1,142	3,050	1,012	2,038	2,045	808	1,237

(Source : CDG)

EVOLUTION OF THE FINANCIAL MARKET IN MOROCCO

(BOND ISSUES)
(In DH million)

	1985			1986			1987		
	Issues	Subscribers CDG	Others	Issues	Subscribers CDG	Others	Issues	Subscribers CDG	Others
1. Public entities and semi-public entities									
A. 10 to 15 years bonds	1,070	796	274	1,004	618	386	1,660*	1,538*	122
B. 5-year notes	378	-	378	770	20	750	550	-	550
2. Moroccan State									
A. 10 to 15 year bonds	983	453	530	1.017	287	730	1,256	125	1.131
B. 5-year Treasury bonds	2.022	-	2.022	2.905	-	2,905	1,888	-	1.888
Total Financial Market	4.453	1,249	3.204	5.693	925	4.771	5.354	1.663	3.691

(Source : CDG)

* : FEC's borrowings : DH 800 million.

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STRUCTURE OF THE BOND ISSUES' FINANCIAL MARKET

SOURCES OF FUNDS	MARKET MAKERS FOR OTHER INSTITUTIONS	BORROWERS
I.CDG	I. BANK AL MAGHRIB	I. STATE
1. Resources of its own (27.6 % in 1987)		for: Treasury
2. Managed services (27.4 % in 1987)		
II. Insurance Companies	II. CDG, for :	II. PUBLIC ENTITIES AND SEMI-PUBLIC ENTITIES
(23 companies)		A. Issues placed by: the CDG: FEC ONE CNCA ERAC RYAD SUNABEL SOPHAL CGI OCP SNEP SCI
	III. BMCE, for :	B. Issues placed by the BMCE: BMCE RAM ICOZ CIOR
		C. Issues placed by: by issuer: CIH BNDE CELLULOSE

CONCEPT OF "LOANS-STATE'S SHARE" OF THE BDCL AND THE DE-BUDGETISATION EFFECT ON THE TREASURY AND ANNUAL BUDGETS

In order to increase the volume of loans to the Local Governments which cannot collect enough fiscal resources to cover their annual Capital expenditure Budgets, it is recommended to seriously consider a technique that has been successfully promoted and extensively applied in Belgium for over 30 years, by the *Credit Communal de Belgique S.A.*, which is that nation's bank for the Local Governments. This technique has the effect of removing from the State's annual capital expenditure budgets a substantial portion of the subsidies that would otherwise need to be provided to meet the Local Governments' capital expenditure needs. It is recommended that the BDCL develop a similar procedure during its first five years of operations.

a) Principles

By law or by other regulatory means, a system would be put in place by which the Moroccan State could grant the equivalent of (or less than) a part of its current capital expenditures' subsidies to the Local Governments by irrevocably committing to fund future maturities in future State budgets, covering part of the amortization of loans that would be granted by the BDCL for 100 % financing of given projects. The BDCL would, according to its normal procedures, grant loans to Local Governments, but the Moroccan State would authorize the Local Governments to borrow from the BDCL 100 % of the capital expenditure needs while promising to cover part of the debt service which would otherwise be the borrower's responsibility : it would thus be a normal borrowing transaction, reflected in the budget of the borrower for the full amount of the loan, instead of being fully incorporated as a capital expenditure item in the State's budget. There would be, in effect, a substantial de-budgetisation effect of the State's capital expenditure budget, offset by annual maturities deferred into the future.

The service of such debt (principal plus interest) would thus be made by the State, for a portion of the loan, by the State, according to the maturities of the loans. The State would thus normally include the maturities to its own operating budget ("Budget- First Part"). The payment of the maturity would be made to the Local Government borrowing under this scheme, which would reimburse the BDCL with the maturity thus received, together with the Local Government's own funds for the part of the loan not covered by the State's repayment.

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The Belgian experience with this system, according to the expert opinions gathered for this Report, has been very positive both from the Local Governments' and from the State's viewpoints. The projects eligible for such shared financing have been listed in Belgium by a Royal Decree, and for each category of project, a maximum "loans- State's share" has been defined, so that there is an automatic access to the system, within limits, by the Local Governments.

b) Modalities

The only requirement for granting such shared loans would be for the BDCL to obtain an irrevocable commitment from the State to pay maturities in future years corresponding to the share of debt service assumed by the State, which means that in each fiscal year, the amounts so committed would be part of the State's approved budget.

c) Application in Morocco

Article 8 of the Dahir organizing the finances of the Local Governments already provides for automatic subsidies covering the Local Governments' operating budget deficits (Budget - First Part), which include the Local Governments' debt service of principal and interest. Thus, from the State's standpoint, there is already a certain degree of "annualization" of the indebtedness of the Local Governments. However, this is not the case for the Local Governments' capital expenditure budgets : the total deficit of a given Local Government's capital expenditure budget (caused, for example, by the local approval of a project without financing) requires the State to make a full subsidy in a single fiscal year, for the total amount of the Local Government's deficit. The "loans- State's share" procedure would ideally apply to such situations, by converting immediate capital expenditures into deferred budget appropriations, because the BDCL would immediately finance the project through a loan.

It goes without saying that the BDCL's limited financial resources would impose a brake on the uncontrolled development of this procedure. The BDCL would program such shared loans within its normal financial resource allocation process.

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59 TABLE 2 -BDCL - Basic scenario

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B.D.C.L. :BALANCE SHEET FORECASTS
(New activities only)

(in millions of current DH's)

Row	Item	1987	1988	(1) 1989	(2) 1990	(3) 1991	(4) 1992	(5) 1993
66	ASSETS							
68	New commitments	0	0	600	650	700	750	800
70	Start-up expenses	0	7	6	4	3	1	0
71	Issuance premiums on bonds issued		0	0	0	0	0	0
72	Placement commission on issuance of bonds		0	0	0	1	1	1
73	Fixed assets							
74	Construction & equipment - net	0	30	34	34	33	31	29
75	Loans at more than 1 year - gross amounts	0	0	150	613	1263	1963	2713
76	Loans at more than 1 year - net amounts	0	0	139	569	1172	1822	2519
77	To urban Municipalities - gross	0	0	84	294	505	785	1085
78	To rural Municipalities - gross	0	0	36	196	505	785	1085
79	To Municipal utilities ("Regies") - gross	0	0	30	123	253	393	543
80	Current assets							
81	Current portion of loans	0	0	11	44	90	140	194
82	Liquid current assets	0	0	536	333	45	0	0
83	NET PROFIT (LOSS)	0	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>
85		0	37	190	651	1300	1996	2743
87	Liquid current assets	0	0	536	333	45	0	0
88	TOTAL ASSETS	0	37	726	984	1345	1996	2743
90	LIABILITIES							
92	Share capital	0	0	500	500	500	500	500
93	Shareholders' advances	0	37	0	0	0	0	0
94	Loans' provisions	0	0	1	3	6	10	14
95	Foreigne exchange risks' provisions	0	0	0	1	1	3	6
96	Retained earnings before distribution	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>
97	TOTAL EQUITY	0	37	501	504	508	513	520
98	Bonds issued - maturing over 1 year - No.1	0	0	0	187	174	160	147
99	Bonds issued - maturing over 1 year - No.2	0	0	0		280	260	240
100	Bonds issued - maturing over 1 year - No.3	0	0	0			280	260
101	Bonds issued - maturing over 1 year - No.4	0	0	0				280
102	Sub-total - Bonds issued						0	0
	0 187 454 700 927							
103	External borrowings - maturing over 1 year	0	0	0	40	80	195	387
104	Bonds issued - current portion	0	0	0	13	33	53	73
105	External borrowings - current portion	0	0	0	0	0	0	0
106	Bills discounted.	0	0	0	0	0	240	516
2107	Other creditors							
108	Deposits - current accounts and time deposits							
109	- Local Governments - Treasury sharer	0	0	200	200	200	200	200
110	- Local Governments - own deposits	0	0	25	25	30	35	40
111	- Suppliers of L.G's.	0	0	0	5	20	30	40
112	- Private savings	0	0	0	10	20	30	40
13	NET PROFIT (LOSS) BEFORE TAXES	0	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>	<N/A>
115		0	37	726	984	1345	1757	2227
116	Bills discounted	0	0	0	0	0	240	516
117	TOTAL LIABILITIES	0	37	726	984	1345	1996	2743

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Table 2 Bis - Basic scenario - BDCL
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20/7/88

BDCL - INCOME STATEMENTS FORECASTS
(New activities only)
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(In millions of current DH's)

	1987	1988	(1) 1989	(2) 1990	(3) 1991	(4) 1992	(5) 1993
REVENUES							
Interest on loans to urban Municipalities	0	0	10	35	61	94	130
Interest on loans to rural Municipalities	0	0	4	20	51	79	109
Interest on loans to "Regies"	0	0	4	16	33	51	71
TOTAL INTEREST ON LOANS	0	0	18	71	144	224	309
Commitment fees	0	0	5	6	<N/A>	7	8
Interest earned on deposited funds	0	0	41	25	3	0	0
Interest earned on Treasury bonds	0	0	3	4	4	4	5
Revenues from provided services	0	0	0	1	2	2	3
TOTAL REVENUES	0	0	66	107	153	237	325
EXPENSES							
G & A expenses							
- Labor	0	0	6	9	13	14	15
- Other expenses	0	0	4	6	10	11	12
Financial charges							
- Interest paid on bonds issued	0	0	0	22	54	83	110
- Interest paid on external borrowings	0	0	0	2	6	14	29
- Interest paid on discounted bills	0	0	0	0	0	20	44
- Interest paid on time deposits			0	0	1	1	2
- Interest paid on private savings			0	1	2	2	3
- Interest paid on L.G.'s deposits	0	0	14	14	14	14	14
Commissions on the placement of issued bonds	0	0	0	0	1	1	1
Commitment fees on external borrowings	0	0	0	3	2	2	0
Commissions on redemption of issued bonds.	0	0	0	0	0	0	0
Commissions on payment of coupons	0	0	0	0	1	1	2
Depreciation allowances							
- of bonds' issuance costs	0	0	0	0	0	0	0
- on fixed assets	0	0	2	2	2	2	2
- on start-up expenses	0	1	1	1	1	1	0
Provisions on loans	0	0	1	3	6	10	14
Provisions pour risques de change	0	0	0	1	1	3	6
Total provisions	0	0	1	4	8	13	20
TOTAL EXPENSES	0	1	28	64	114	180	254
OPERATING PROFIT BEFORE TAXES	0	-1	39	43	39	57	71

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TABLE 3- FEC - Base Scenario
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20/7/88

F.E.C. : BALANCE SHEET FORECASTS
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In millions of current DH

Source: numbers provided by the FEC on 11/05/1988

	1987	(Est.) 1988	(1) 1989	(2) 1990	(3) 1991	(4) 1992	(5) 1993
New loan commitments	522	550	0	0	0	0	0
Start-up expenses	17	15	13	11	10	9	8
Fixed assets							
Constructions & equipment	8	7	5	5	4	4	4
Loans of more than 1 year	998	1320	1447	1391	1171	960	771
To Local Governments	669						
To Municipal utilities ("Regies")	329						
Current assets							
Current portion of long term debt	141	179	203	215	220	211	190
Other current assets	37	4	8	28	2	0	18
Assets' accruals	60	83	89	89	77	65	54
Net profit (loss): to retained earnings.							
TOTAL ASSETS	1261	1608	1765	1739	1484	1249	1045
LIABILITIES							
Share capital	103	132	132	126	137	160	186
Provisions	8	8	8	8	8	8	8
Retained earnings	0	29	0	-6	11	23	26
Bonds issued - maturing beyond 1 year	803	743	683	623	563	503	469
External borrowings, maturing beyond 1 year	46	113	102	92	81	71	61
Bonds issued - current portion	60	60	60	60	60	60	60
External borrowings - current portion	4	10	10	10	10	10	10
Bills discounted and other creditors	193	165	422	481	272	74	0
Notes at 5 years at 9% p.a.	0	300	300	300	300	300	200
Liabilities' accruals	44	48	48	45	42	40	24
						0	0
Profit (loss): to retained earnings							
TOTAL LIABILITIES	1261	1608	1765	1739	1484	1249	1045

TABLE 3Bis - Basic scenario - FEC

20/7/88

F.E.C. : INCOME STATEMENTS FORECASTS

(In millions of current DH's)

		(Est.)	(1)	(2)	(3)	(4)	(5)
	1987	1988	1989	1990	1991	1992	1993
REVENUES							
Interest on loans to the L.G. and Regies	98	139	171	182	167	144	121
Commitment fees on loans							
TOTAL REVENUES	98	139	171	182	167	144	121
EXPENSES							
G & A expenses :							
- Labor	3	4	3	3	2	2	2
- Other expenses	1	1	1	1	0.5	0.5	0.5
Financial charges:							
- Interest on bonds issued	41	96	89	82	76	69	62
- Interest on Five year notes	0	11	27	27	27	27	18
- Interest on external borrowings	6	13	16	12	11	10	9
- Interest on discounted billss	16	8	36	41	23	6	0
- Commissions d'amort. emprunts oblig.	0	2	2	2	1	1	1
- Commissions on paid bonds' coupons	1	1	1	1	1	1	1
Depreciation :	1	2	2	2	2	1	1
TOTAL EXPENSES	69	139	177	171	144	118	94
Interest on discounted bills	16	8	36	41	23	6	0
OPERATING PROFIT	29	0	-6	11	23	26	27

DAHIR CARRYING LAW No. 1-76-583 OF CHAOUAL 5, 1396 (SEPTEMBER 30, 1976) CONCERNING THE MUNICIPAL ORGANIZATION

CHAPTER 4. SCOPE OF AUTHORITY OF MUNICIPAL COUNCILS

Article 30.

The [Municipal] Council manages, through its sessions, Municipal Affairs and to that effect, decides upon the measures to be taken to ensure the full economic, social and cultural development of the local community. The Council benefits from the support of the State and of other public entities to carry out its mission.

The Council holds, among others, the following scope of authority:

1. It votes the budget of the Municipality, reviews and approves the accounts of the preceding fiscal year, in the forms and conditions set by the applicable laws.

2. It establishes the economic and social development plan of the Municipality in conformity with the orientations and goals contained in the National Plan and, to this effect:

a) It defines the infrastructure program of the Municipality, within the limits of its own resources as well as of resources put at its disposal.

b) It proposes to the [Central] Administration the actions to be undertaken to promote the community's development whenever such actions exceed the Municipal scope of authority or exceed the resources of the Municipality and those put at its disposal.

3. It determines the conditions for implementation of the development steps that will be carried out by the Municipality with the approval of the competent public Administration [departments] and public entities.

4. It decides upon the creation and the organization of Municipal public services and their management structure, either by way of "Regie directe" or by "Regie autonome", or by concession arrangements.

5. It reviews the projects for Municipal re-zoning and civil works, as well as for the Municipal development.

6. It determines, within the limit of its legal scope of authority, the conditions of preserving, exploiting and

reforestation of forest resources.

7. It approves the financial participation of the Municipality in mixed-economy companies involved in affairs of interest to one or more Municipalities.

8. It will be informed in advance of any project that will be implemented by the State or any other public entity on the Municipality's territory.

9. It expresses an opinion whenever such opinion is required by the laws and regulations, or when requested to do so by the [Central] Administration.

10. The Council also deliberates in session the matters of its scope of auyhority which are provided for by Art. 44 of the Dahir No. 1012-68 of 11 Chaoual 1388 (Dec. 31, 1968) including the [country's] Finance Law for the 1969 fiscal year.

11. The Council may express its wishes on any Municipal affair. However, it will not express wishes of a political character, or on matters foreign to local interests. The proposals or wishes, if any, are transmitted to the Authorities competent for the matters dealt with.

Article 31.

The Council's deliberations on the following matters are not considered valid for implementive purposes unless they have been approved by the higher administrative Authority :

1.- the Municipal Budget;

2.- borrowing contracts to be signed; guarantees to be provided;

3.- the opening of accounts outside the list of Budget items;

4.- the opening of new credits, or the increase of credits [listed in the Budget];

5.- the transfer of budget items from one line to another;

6.- the determination, within the framework of existing laws, of the assessable basis, the user fee levels and the collection rules of various taxes, fees and various other withholdings for the benefit of the Municipality.

7.- the general bodies of rules governing local roads, the construction industry and hygiene matters, within the framework of existing laws and regulations;

8.- the concession, franchise and other methods of managing public municipal services, participations in mixed-economy companies, and any matter pertaining to the above;

- the acquisition, sale, transactions or swaps of buildings belonging to the private domain [of the Municipality] and the management of the public domain;

- leases exceeding 10 years;

- changes in the use of municipal buildings assigned to public services;

- the names of roads and public squares whenever the existing names are honorific or a reminder of historic events;

- the acceptance or refusal of gifts and bequeaths that entail charges [to the Municipality] or have a specific destination;

-the establishment, suppression or change of the space and time allocation for public fairs and markets.

Certified copies of all and any such deliberations as mentioned above will be transmitted within 15 days by the competent local Authority to the Minister of Interior.

LEGAL AND REGULATORY ISSUES

Legal and regulatory issues to be resolved during the Five-Year Plan period for the benefit of the Local Governments and of the BDCL.

It is not the intent here to cite all the legal issues that the BDCL may need to deal with in developing its activities. The following comments involve the services that the BDCL can usefully provide to the Local Governments, and the legal or regulatory obstacles to the development of such services over the five-year period under review in this Report.

1. Short-Term Advances to the Local Governments.

It often happens, within a fiscal year, that budgeted receipts ("Budget - First Part") of the Local Governments are not collected on time to cover operating outlays. This situation can be harmful to a Local Government, for example in the case of late payments to suppliers that trigger financial penalties.

In order to alleviate this problem, the BDCL could be empowered to make temporary advances to Local Governments, to be reimbursed by the expected receipts when they are collected. One could imagine a system whereby about 80 % of the amount of expected receipts could be advanced, leaving a 20% safety margin aside. However, Article 18 of the Dahir No. 1-76-584 concerning Municipal Finances does not authorize advances to the Local Governments in excess of 10 % of anticipated fiscal receipts.

The fundamental prerequisite for such a system to function safely for the BDCL would be that the advances be made in a current account open with it by the Local Government requesting the advance. The current account would be debited by the amount of the advance, and credited with receipts due to the Local Government.

a) Amount of the advances.

The amount would be determined by a calculation as follows :

- Uncollected operating receipts of the current fiscal year against which the advance is requested by the Local Government:

- the amounts to be automatically debited to the Local Government's current account during the fiscal year (e.g. debt service);

- the legal limit per the Law of September 30, 1976 (the change of which to 80 % of anticipated receipts is hereby recommended).

- finally, the limitation of financial resources available to the BDCL itself: the BDCL would have the final word in accepting or refusing an advance in the case the total of such advances would exceed its capacity to borrow on the short-term money market to fund such advances, or would bring an unacceptable imbalance to its financial structure.

b) Interest rate and commissions

The interest charged on the outstanding advances would be calculated on the daily balance in the account, paid quarterly and their interest rate level would be in line with the money market rates obtained by the BDCL on its borrowings plus a small spread. There would be no commission for this service.

The system, therefore, would give indirect access by the Local Governments to the Money market financial sources and rates, much like commercial banks and other borrowers on that market. It would guarantee funding at the lowest cost obtainable at a given time.

2. Assignment of fiscal receipts to cover debt service

The opening of current accounts by Local Governments with the BDCL would facilitate a number of transactions, notably the servicing of the debt contracted by the Local Governments with the BDCL. The exemple of the system practiced for many years at the *Credit Communal de Belgique* could be of inspiration here. All Provinces and Municipalities of that Kingdom maintain current accounts with the *CCB* ; those current accounts are a key management tool of Municipal finances and a key security element for the *CCB* for the loans it grants to the Local Governments. The accounts are set up so that the *CCB* is authorized to automatically debit the accounts by the amounts of maturing loans in principal and interest.

Such a system could be set up in Morocco on the condition that changes be made to the responsibilities assigned at present to the local receiving agents (*"receveurs"* and *"regisseurs"*) who are agents of the Moroccan Treasury. The receiving agents are also the paying agents of the Local

Governments; therefore the system of payment approvals and payment receipts would need to be adapted if the BDCL were to become the central agency for receipts and payments.

3. <u>The mechanism "Loans- State's share"</u>

The mechanism described in Annex 6 would require changes in the procedure for determining the capital expenditure budgets of the Local Governments, in order to reflect a receivable account corresponding to the maturities which the State has committed to pay for a portion of the loans. Such maturing payments would also need to be credited to a special account "Loans - State's share" opened with the BDCL in the name of the borrower, to enable the BDCL to be reimbursed for the annuities falling due.