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**A MEMORANDUM ON  
MOROCCO PRIVATIZATION COLLOQUIUM**

REPORT BY  
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MEMORANDUM

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TO: Paul Elicker, Director  
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SUBJECT: Report on Morocco Privatization Colloquium,  
March 31-April 4, 1988

DATE: April 27, 1988

I. INTRODUCTION

Thibaut de Saint Phalle and Jean de la Giroday were asked by the Center for Privatization to participate in a Colloquium which took place in Casablanca, Morocco from March 31, 1988 through April 4, 1988 for the purpose of discussing in detail the relationship between public and private sectors in Morocco. The Colloquium had been called by King Hassan II. It was organized by the Association of Engineers and the Business Federation (Confederation Generale Economique Marocaine) similar to our US Chamber of Commerce. The proposed end result was clear from the title "Public Sector/Private Sector: Towards a Better Equilibrium".

Thibaut de Saint Phalle and Jean de la Giroday were on a panel of speakers to discuss experiences on privatization in other countries. Thibaut de Saint Phalle discussed the why of privatization and how it was done with specific references to developed countries. Jean de la Giroday focused on specific case histories in many countries of Africa. Other foreign speakers

spoke about privatization in England and France. Two other Americans from the academic world spoke on the difficulties of privatization and the necessity to maintain competition. There were, of course, a substantial number of Moroccan speakers from the Ministries, and from both the public and the private sectors.

The Program was essentially divided into four general headings as follows:

1. General considerations.
2. Public Enterprises: the need for a monopoly position in certain services such as transportation, bus services, water, electricity, water purification, waste and how could these state services be improved and were they handled correctly at the present time.
3. Public Sector Enterprises where the public sector was in competition with the private sector. What should be the role of the state in these competitive areas.
4. Other questions including the experience of other countries, methods of privatization, accounting questions, the need to make Morocco competitive in the international marketplace.

Some 200 people attended the discussions. Following each session, morning and afternoon, there were spirited debates by participants who gave their own views as much as asking questions of the panel of speakers.

## II. SOME COMMENTS ON THE DISCUSSION

The program was very well organized with the obvious purpose of giving as many participants as possible a chance to express their views, whether to recommend that the status quo be maintained, to urge rapid privatization or to point out that the public sector

in Morocco be reinforced to accelerate the country's growth. It was clear, however, that all speakers recognized that there would be change towards privatization. The only question really was to what extent, how fast, and what sectors would remain in public hands. Practically no time was spent in the discussion as to the methods of privatization, although TSP in his written presentation to the conference gave some suggestions for alternative means and JG pointed out that in some African countries, privatization had taken many forms.

It was obvious to both of us that this was a preliminary conference to give the country's elite, whether ministers, academics, Chief Executive Officers of the public enterprises, or senior executives from private businesses an opportunity to discuss the question freely and frankly.

Obviously, if there is a go-ahead, there will have to be another Conference to discuss much more specifically the various steps to be taken in the privatization process, including which enterprises should be privatized and what forms the process might take. It is in this later forum that foreign experts, such as ourselves, can make a really useful contribution, based on our experience on what has failed or succeeded in other countries.

Here are some of the highlights of the discussions:

1. There is a general acceptance that the relationship between the public and private sectors would change in favor of a greater role for the private sector. Some deplored this, others applauded but there was a general acceptance.
2. Privatization is not a new event in Morocco. Committees were formed in the past to discuss this question. The trigger for change came from the King's speech which resulted in the organization of this

particular conference.

3. We observed the same patterns as in other countries: academics are against; private sector is obviously for; heads of public enterprises are equally against; the Ministry of Finance is for because most public enterprises show substantial deficits which must be met by the State and worse yet, public enterprises don't pay their bills to each other. The Minister of Planning is understandably reticent because the process reduces his own power to direct the economy. In the case of Morocco, this has resulted in a very substantial deficit position of the country as a whole and necessitated a substantial advance by the World Bank. Therefore, there is pressure by the World Bank to force privatization simply as a means of reducing the country's large deficit position. The World Bank representatives pointed out the difficulties of privatization because for obvious reasons they prefer to deal with government entities with leaders whom over the years they have developed close working relationships. (On his return from this trip, TSP had an opportunity to discuss briefly with the President of the World Bank the role of the Bank in encouraging privatization, given Conable's repeated statements that he wanted the Bank to encourage privatization wherever possible, while many of the Bank's advisers in the developing countries were focusing on the difficulty of accomplishing this rather than stressing how privatization might be accomplished.) The World Bank can, of course, play a very key role in the privatization process. If nothing else, privatization will enable the Bank to focus its efforts on infrastructure development and both the IBRD and the IMF can avoid using scarce capital funds for balance of payments purposes because of the inefficiencies of the public sector's business ventures.
4. There was little argument that many enterprises should remain in public hands - transportation, roads, mines, energy, etc. It seemed, however, generally accepted that where the state competed with private business, the state's role should be severely curtailed. It also seemed generally accepted that in the agricultural sector, private industry would do a better job than the state, as private industry is less bureaucratic and more efficient.

5. Obviously, the private sector would like to see the transfer of those enterprises that are profitable. The private sector will certainly be unwilling to acquire public sector companies which produce deficits. Conversely, the Finance Ministry and Planning Ministry want to keep those enterprises that make money and dispose of those losing money. Little time was spent discussing the necessity of restructuring the public enterprises that lose money and can be privatized only after proposed restructuring follows a detailed financial audit.
6. Discussions with participants, more than in the formal portions of the meeting came to the conclusion that the accounting system used in Morocco was singularly deficient. The private sector is not really audited even though the government depends on tax collections. Audits are particularly deficient in the cities. As far as the public sector is concerned, we had a long discussion with an official at the Ministry of Finance charged with the responsibility for audits of the state enterprises, obviously a dedicated public servant and who does his job as carefully as means allow him to do so. He is hindered by a lack of accounting rules. Obviously, if privatization is to move forward it must pay attention to developing the kind of accounting systems and auditing procedures which have been developed since the end of World War II in the true market economies of US, Western Europe and Japan. Some auditing experts from the Ministry of Finance even made trips to the Soviet Union and China to study accounting methods in non-market economies. Obviously, a great deal can be done here and it is absolutely essential that this be done. European accounting methods have developed from US accounting rules. There are no accounting systems in non-market economies. Therefore, guidance has to come from US, Japan or Western Europe. Accountants in Morocco have been trained in France, rather than the US or elsewhere in Europe.
7. It was clear that the reluctance to privatization came in part from Morocco's historical experience during the period of the French Protectorate. The railroads, public utilities, banks etc. were under the control of the French private sector, largely the Banque de Paris et des Pays - Bas. The private sector, therefore, to Moroccans meant economic imperialism from the outside.

This is one reason why when the country became independent in 1956, all infrastructure enterprises were turned over to the public sector. In effect, it means that the government now wants to avoid creating private monopolies while transferring business activities to small and medium-sized enterprises. TSP in his paper discussed this in some detail. As will be seen later in the King's speech, the focus to a large degree is on the necessity of invigorating the economy through innovation and entrepreneurial styles represented by small and medium-sized enterprises while avoiding the sclerosis of large private monopolies. It is important to keep in mind the historical experience in Morocco because it is bound to affect methods by which the government will transfer certain activities to the private sector. Ideally, the government would like to maintain supervision and control over the price structure. It is necessary to allow private sector enterprises to decide how the business should be managed and to develop freely both domestically and abroad, because they bring efficiency and develop innovation to the country.

8. There was little discussion on the role of foreign enterprises in the development of the private sector in Morocco. In Tunisia, for example, foreign companies are welcomed. However, in individual discussion with ministers and participants, there seems to be no antagonism to foreign enterprises playing a role in the Moroccan economy. Again, one must keep in mind the role played by the French during the period of 1912-1956. In the preparation of the privatization process, particular attention should be paid to what the Moroccan government is willing to turn over to private enterprise and under what conditions. Again, it should be an important discussion in any future conference because it will require a series of corporate law, tax law and other similar changes (notably the adoption of a new investment code) if foreign investors are to be welcomed.
9. In later discussions with several ministers and close advisers to the government, it seemed to us very clear that the Sovereign made the decision to change the relationship between the public and private sectors and move the economy in the direction where the private sector would play a very much enlarged role.

10. Other discussions with participants from the private sector revealed their strong feeling about the necessity to improve the quality of management of private sector enterprises in general. They favor extensive training programs in Morocco financed by international donors.

Those same participants expressed the wish, in order to strengthen further the role of the private sector in the economy, to revive the existing stock exchange and the capital market. This would, in turn, require the confirmation of a new short-term credit facility which the USAID Revolving Fund initiated with a great deal of success in 1986 in Morocco. It proved to be most efficient in financing imports of equipment goods by small and medium-size enterprises.

Similarly, a new medium-size credit mechanism could be put in place making use of local currency funds generated by the sale of American grain under PL 480, Section 108 to finance productive investments. The financing of the acquisition by the private sector of enterprises being privatized could also be achieved through such mechanism. This would entail, in addition, the necessity for a foreign merchant banking institution to help Moroccan banks acquire experience in the issuing, distribution and financing of new stocks of such enterprises. These techniques are still foreign to those banks since the primary market for stocks is as yet very undeveloped. A dynamic secondary market would have to be created as well as an indispensable corollary of the primary market for securities transactions.

### III. OTHER EVENTS

AID-Washington had suggested to the US Embassy in Morocco that we be authorized to stay an additional few days before the King's speech to sound out senior executives of private and public sectors on their views of privatization and the methods which might be taken in Morocco to affect a better balance between the public sector and private sector. The US Embassy advised us that this was premature.

We did, however, have an opportunity to give a debriefing in Rabat on Monday, April 4. Unfortunately, neither the Chief of Mission nor the Economic Counsellor to the Embassy participated in the debriefing discussions. The Deputy Economic Counsellor did participate. We gave a detailed presentation on the Colloquium and our estimate of what the results might be. We also answered a great number of questions regarding the Colloquium and our discussions with participants.

In addition, in Rabat, we transmitted to the Mission Director of AID the recommendations of the President Reagan's Commission on Privatization insofar as they related to an expanded role for AID.

#### IV. FUTURE COURSE OF ACTION

It was clear to us that privatization - by whatever means achieved - is a phenomenon which is coming to Morocco. It was equally clear to us that in a country like Morocco where the power is vested so clearly in the King, the sovereign goes out of his way to create a consensus so that when he makes his decision, everything will fall into place. We were told repeatedly at the Colloquium that this is what would happen. Various members and senior executives of public companies told us the following:

The King gave a speech in the Fall indicating that the development of Morocco had reached a point where the private sector should be ready to take up expanded responsibility and a new equilibrium established between the private and public sectors. Now we have this Colloquium to give the opportunity to everyone to express freely his or her views and also to discuss fully and frankly what activities in the public sector might be transferred to the private sector. The King will then address Parliament in rather clear terms as to what the next steps should be and why the relationship between the public and private sector should be changed.

This is exactly what happened. In his speech to Parliament on April 9, 1988, King Hassan II explained the reason, purpose and means by which he intended to transfer some public enterprises to the private sector. The purposes he stated were:

1. Upgrading of the standard of living,
2. Encouragement of creativity through the free enterprise system; and
3. A better development of Morocco's role in international trade.

He also clearly stated that it was necessary to reduce current subsidies to state enterprises which were unable to show a profit.

The King indicated that the inflow from savings of Moroccan workers working abroad should be directed to new small and medium-sized private enterprises. He also stated that Morocco should both regionalize its economy and develop private export industries. He also stated clearly that agricultural land belonging to the State should be transferred under conditions to be outlined later to young Moroccans willing to develop agriculture in the country. Finally, he spoke of the necessity of organizing schools of management for management seminars to train Moroccan businessmen in new management techniques.

The King pointed out that it was necessary after Morocco became independent in 1956 for the public sector to take the responsibility for the country's development but this has now been accomplished and the emphasis in development now should be on efficiency, innovation, private financing, exports, and adaptation to new technologies. He made it clear that privatization should proceed. The question, as he stated it, was

which public enterprises should be privatized and how this should be accomplished. He properly saw the advantages in small and medium-sized enterprises which could be both flexible and innovative. He understood the necessity of training youth interested in business through business and technical schools.

Evidently, he is anxious to develop backward regions of the country, particularly the interior.

The King cautioned that some enterprises should not be privatized. He wants to create a specific entity (not further defined) which will supervise the privatization process. This means a selection of enterprises, making sure they are earning money, determining how privatization takes place and supervising the process, recognizing that the program would take time that privatization should be pushed ahead.

He pointed out specifically that too many public enterprises made additional investments neither necessary nor useful to its purpose. It made the public sector too large and inefficient. He pointed out bad judgement errors made as there is no clear line drawn between operational functions and state supervision. He also stated what was apparent to us that in Morocco there is no good accounting system to hold enterprises accountable for their results.

The King clearly indicated that in his view, if Morocco would play a role in internationalization of business which occurs everywhere else, it would be necessary to render business much more efficient than it has been in the past.

The King cautioned that privatization must not result in reduced employment. This can be handled by a contract between the state

and any company to be privatized. He also pointed out that it would be necessary to keep private enterprises from becoming bigger and more powerful. He left it up to Parliament which enterprises should be privatized. He stated very clearly that public sector companies must not be expanded.

In discussing methods, the King pointed out the necessity of having a good accounting system and accounting rules, that the stock exchange be reformed, corporate law amended, the tax system be reviewed; and that the terms under which foreign capital comes into the country should be made precise.

All of these various points were outlined in our presentation to the Colloquium.

We believe that the King's speech presents a most interesting opportunity for the Center for Privatization to play a significant role in support of AID mission's of participating in the privatization process in Morocco.

We would assume that the King has clearly answered the question of why privatize and the next step will involve a broad discussion in Morocco of which companies should be privatized and how to privatize them.

We pointed out in our participation in the Colloquium that in our view the focus should be on companies in any sector, whether agricultural or industrial where there is no reason for government to compete with private business. Wherever competition exists between public and private sectors, the competing public companies should be considered for privatization. Generally those companies where competition

exists are the most profitable.

Obviously, public sector companies in this competitive area which are not profitable should be restructured or liquidated so as to be profitable before privatization.

We believe that our participation in the Colloquium should be of assistance in considering the answers to the two questions just posed: which companies should be privatized and how privatization should take place. We did this in the Colloquium approaching the problem in different ways. Thibaut de Saint Phalle spoke of the why, how and which in terms of experiences in other countries, mostly developed countries such as Britain, France and Quebec Province, which had the greatest experience in privatization. Jean de la Giroday spoke of very specific incidents in Africa, outlining what seemed to work and what some of the problems were. In this way, we made a balanced presentation.

It is quite clear that a great deal of work lies ahead if Morocco is to follow the path outlined in the King's speech. We stand ready to participate in the process and to outline what we believe should be steps taken through participation in additional colloquiums and later on in individual projects through scope of work outlines to be submitted to the Government as they become pertinent.

#### V. FUTURE POSSIBLE ROLE FOR THE CENTER FOR PRIVATIZATION

Judging by the Colloquium and by the subsequent speech by the King there is no question, as we have already pointed out in this report, that privatization is on its way in Morocco. The King's

closest advisors, who of course, have had their hand at drafting the speech, are obviously already aware of some of the fundamental tenets of free enterprise and of privatization. This comes out clearly in the speech and it is extremely important because it is evidence of the political will to privatize. Without such a will only lip service would have been paid to privatization.

However, the objectives to be met, the strategies to be used to that effect and the pitfalls to be avoided are rather confused and are indicated without any logical order, somewhat like a shopping list. Moreover, a few key steps in the privatization process are not mentioned at all in the speech. Of course, all of these "gaps" are perfectly understandable, given that the King's speech was not meant to be a technical document and that Morocco is barely beginning to think "privatization" and all its complexities and, therefore, has no previous exposure to it at all.

Nevertheless, because the Moroccans seem to be on the verge of graduating from the stage "whether to privatize" to that of "how to privatize", this timing is ideal to suggest to them the appropriate procedure from the very beginning in order to avoid making mistakes -- often fatal -- made somewhere else. While being very conscious of the importance of taking into account the national context, there are a number of basic principles that have been successfully applied in other developing countries that would be relevant.

The most meaningful contribution which the Center for Privatization could make in the near future would be to suggest to the Moroccans through the proper USAID/U.S. Embassy channels a

preliminary outline of an overall Action Plan for the whole process, including each major step to be taken in a fairly strict chronological order. This would logically be followed at the right time by the Center providing active technical assistance for the actual gradual implementation of the Action Plan.

The outline of such Action Plan could be as follows:

Step I - Establishing the Objectives of Privatization

Even though the King's speech has touched on a number of objectives, they should be set out completely and clearly. For instance:

- 1) Improve the profitability of para-statal enterprises;
- 2) Reduce the extremely heavy financial burden on the Government of subsidies to public and para-statal enterprises that have losses;
- 3) Reduce or eliminate the waste of public sector companies;
- 4) Expand the public's interest in the benefits of efficient private enterprise by giving access to stock-ownership of enterprises being privatized to their employees and to smaller individual investors;
- 5) Eliminate some State monopolies of privatizable companies while avoiding the concentration of ownership in a few private hands and, thus private monopolies;
- 6) Emphasize export activities;
- 7) Redistribute agricultural land and motivate small and medium-size farmers through ownership of the land and other incentives;
- 8) Promote private enterprise in general and give entrepreneurs the freedom to succeed or fail in their own new business venture.
- 9) Create new jobs and/or avoid additional unemployment;

The early establishment of the specific objectives which the Moroccans want to achieve is very important since it will greatly influence every subsequent step.

Step II - Formation of a Special Commission

It is indispensable to form a special privatization commission, composed of prominent Government representatives and of successful businessmen from the private sector, which will report directly to the King. It should have the exclusive responsibility to initiate, co-ordinate and implement every major step in the privatization process. The privatization process is an economic development process. But more importantly, it is a political process.

Step III - Establishing the Criteria for the Classification of All Public and Para-Statal Enterprises

After listing all public and para-statal enterprises, criteria should be set to classify them into three main categories:

- 1) Those companies that are considered of public or strategic interest and, therefore, will remain in the Government's portfolio, while they should be restructured to improve their efficiency and reduce their usual losses;
- 2) Those companies that are in hopeless financial condition and, therefore, must be liquidated;
- 3) Those companies that may be privatized through:
  - (a) sale of assets to the private sector;
  - (b) management by a private management company;
  - (c) allowing private companies to compete openly with a para-statal or public enterprise;
  - (d) partial sale of the State stock-ownership to the private sector; and
  - (e) complete sale of the State stock-ownership to the private sector.

Step IV - Dialogue Between the Government, the Public and Private Sectors

Through seminars and media, hold dialogues to give the opportunity for the Government to explain fully to both the public and the private sectors and to potential private investors what it plans to do and why. This is essential to create the support necessary for successful privatization.

Step V - Terms of Reference for Open Bidding

The Special Commission must appoint an expert to write the terms of reference for the study of enterprises to be privatized in order to prepare open bidding by consulting firms to handle such a study. If the Commission prefers to appoint specific consultants without going through the bidding process, it can, of course, do so. In this case, however, the competence of the experts selected must be unquestionable.

Step VI - Selection of the First Enterprises to be Privatized

The Special Commission, with the help of the consultants chosen, must make this selection. The crucial point here is that each one of those first enterprises must already be profitable (or can be turned around fairly easily with an injection of fresh capital and a competent management). It is far better to select only a few enterprises and privatize them well than to be too ambitious and run the risk of failing with most, if not all, of them. The success of the whole privatization process depends on the success of the first ones.

Step VII - Study of the Enterprises Selected

The first and most important task of the selected consultants will be to make an exhaustive study of each enterprise to be privatized. The purpose of such study is to make a complete

diagnosis of what went wrong and why, of the strong points and also to arrive at a realistic market valuation. The latter will be the basis for negotiations between the Government and prospective private sector buyers. The study must examine all the main facets of the enterprises business (production costs, labor costs, accurate accounting, marketing, legal and commercial aspects and, of course, management).

Step VIII - Changes in the Institutional and Legal Environment

There may be some institutional or legal impediments concerning the management of some para-statal enterprises. The classical ones derive from the fact that various Ministries in charge of specific enterprises interfere unduly in their management. It is often necessary to strengthen the existing corporate law in order to give complete freedom to the Board of Directors and/or the Management.

Step IX - Management Training Program

In close cooperation with the appropriate Moroccan Government authorities, with international or bilateral donors, and with specialists, the selected Consultants must prepare a comprehensive management training program including such disciplines as accounting and auditing, marketing, finance, etc. such a program will be aimed at the existing as well as the new young managers of both enterprises which will remain in the Government's portfolio and those that will undergo privatization.

Step X - Negotiation of the Sale of the Government Stock-Ownership

When a potential buyer from the private sector has expressed a serious interest, the conduct of negotiations by the Special Commission, with the technical assistance of experts, is of

crucial importance.

Step XI - Techniques of Divestiture by the Government of its  
Para-Statal Enterprises

Since this is the most complex, delicate and fluctuating phase of the privatization process as well as its apex, it is naturally the one where the Moroccans would need the most technical assistance. The first task is to decide in the case of each enterprise earmarked for privatization which type of divestiture is the most appropriate, based on the objectives, the criteria and the peculiarities of each case.

- 1) Sale of Assets - If an enterprise is bankrupt but has some valuable asset, the latter is sold to the private sector and then the enterprise is liquidated.
- 2) Management Contract to a Private Company - In some cases where it has been decided not to sell to the private sector, it may be appropriate to manage the enterprise as if it were private. A management contract is then signed with a private specialized company.
- 3) Open Competition - In other cases, privatization may simply take the form of private companies in the same field being allowed to compete openly with a State monopoly. This may produce very good results, including the eventual liquidation of the State company.
- 4) Partial Divestiture - The Government decides to sell only a part of its share-ownership. In this case it is most important to make sure that, using its retained ownership percentage, the Government does not continue to interfere with the free operation of the Board and of the management.
- 5) Complete Divestiture -
  - (a) Sale to a Single Private Investor - Widespread ownership of enterprises to be privatized, the avoidance of creating a private monopoly and the important practical advantage of having a strong owner from the private sector in some cases are so many somewhat conflicting factors that must be weighed and often combined in the light of the nature of the

industry, its markets, and other considerations, on a case by case basis.

(b) Sale of Issue of New Shares - This technique is favorable to the implementation of the principle of widespread ownership. However, it implies first an existing minimum primary market. This is of course, a stock exchange in Morocco, but it has not been very active. It would have to be revived, and techniques of issuing, distributing and financing new issues would have to be taught to the local banks and a secondary market created. Training and supervision of stock-brokers would also be necessary in all aspects of the securities business, including strict accounting and auditing of companies whose securities will be bought and sold.

(c) Sale to Employees of Para-Statal Enterprises - A variety of formulas are available, earmarking anything between 5% and 20% of the share capital for employees. Carefully worked out rules must protect employee purchases against initial wide market swings in the Company's shares.

Step XII - The Financing of the Acquisition by the Private Sector of the Government Share-Ownership

This key aspect, too often overlooked, is all the more important for two reasons: (i) the typical shortage in developing countries of short and medium-term sources of financing and (ii) the fact that privatization, being such a new phenomenon, even those private sector buyers who could self-finance the operation would prefer to have it financed by some other source.

Morocco is in an exceptionally favorable position since so many of its people are earning foreign currencies by working outside the country. They need to be encouraged through the privatization process, to invest in business at home. Furthermore, as already indicated, a short-term credit facility set up by the AID Revolving Fund has been very successful. In

addition, a useful study has been made at the request of the Rabat AID mission on the possibility of setting up a medium-term credit facility using PL 480, Section 108 locally generated funds from the sale of U.S. grain to finance productive investments. Sound investments in enterprises being privatized could certainly qualify. More work would have to be done on this project before it could be implemented, but the basic concept is already considered sensible and realistic.

The foregoing is an illustration of the essential steps which must be taken in order to ensure a methodical and efficient implementation of the privatization process. Given its importance and complexity, it is obvious that the Moroccan Government, its private sector and the Special Commission would all need the technical assistance that a specialized institution like the Center for Privatization is uniquely qualified to provide.