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KINGDOM OF MOROCCO
MINISTRY OF COMMERCE, INDUSTRY
AND PRIVATIZATION
PRIVATIZATION DEPARTMENT

CONCEPTION, EXECUTION AND RESULTS OF PRIVATIZATION IN MOROCCO

Paper prepared for the Special Working Group
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INTRODUCTION

Morocco recently launched a major privatization program. The conception, execution and the expected results of that program may provide useful insights into the nature of privatization. The first section comments on the objectives of privatization; the second section briefly reviews macro-economic considerations linked to the program, the third section examines the role of the state in Morocco, the fourth section looks at specific privatization mechanisms, the fifth section looks at social aspects of privatization, and the sixth section examines anticipated results of the program.

I. OBJECTIVES OF PRIVATIZATION IN MOROCCO

Four long-term objectives underpin privatization in Morocco :

- to reinvigorate the Moroccan economy,
- to better the citizens' standard of living,
- to promote the nation's economy in giving all possible chances to new generations of citizens, opening for them access to entrepreneurial responsibilities, and
- to allow Morocco to participate much more widely in international trade.[1]

Despite a major, highly successful structural adjustment program, the Moroccan economy remains fragile and the results of its dynamic growth of the 1980s remain too concentrated. That fragility results from an economy which, while showing remarkable progress in changing orientation, still is not sufficiently outward oriented, does not export enough, and has not sufficiently spread the results of its liberal policy orientation.

The motor needed to reinvigorate to the Moroccan economy and to widely disperse the benefits of that reinvigoration is private investment. Morocco is creating a business climate that favors private investment and that provides the means and opportunities for foreign as well as Moroccan investors to fully develop. Privatization serves as a major element in the reinvigoration policy in demonstrating that the state no longer monopolizes the key sectors of the economy.

Several elements linked to privatization serve to create the favorable business climate :

- *to increase the level of confidence and the business opportunities for the foreign investors*, the Moroccanization provisions of the early 1970s were abrogated ;
- *the access of new social classes to shareholding* through the transfer of profitable firms serves to increase the means of *capturing the potential savings and channelling it to productive uses* and *to assure a wider distribution of the benefits of the liberal development* path chosen by Morocco;
- *the drop in the government deficit*, with privatization shares sold on the Casablanca Stock Exchange in place of government bonds, serves to better channel savings *to finance investment* and not the expenses of government administration.
- *fair pricing and transparency* in the evaluations, organizational structure, and privatization transactions serve *to increase investor confidence in the openness and modernity of the economic program*;
- *job preservation*, by choosing privatizables without major overstaffing problems serves *to build worker confidence* in privatization and to maintain a social climate that *favors investment and growth*;
- *the development and reinforcing of the regional economies* serves to extend the benefits of privatization to bolster the ongoing efforts of regional development.

II. MACROECONOMIC CONSIDERATIONS

Privatization is but one of Morocco's significant structural reforms undertaken since the early 1980s. Others have included:

- liberalizing much of foreign trade,
- lifting most domestic price controls,
- the gradual elimination of subsidies,
- opening to and welcoming of foreign investors,
- reforming the fiscal system, and
- promoting exports.

The gradually implemented liberalization measures laid the groundwork for the privatization program by ensuring that some key policy changes were made prior to the program's start. Other measures linked to privatization's success are underway. These include the adoption of a modern accounting system, the creation of a professional organization for accountants and auditors leading to improving overall enterprise management, and the reform of the stock market. Within this overall, unified, reform-driven context, privatization has grown from a set of varied actions used in the 1980s, such as portfolio restructurings, management contracts, and other methods to a full-fledged, well-oriented, and coordinated program implemented by a Ministry of Privatization.

III. THE ROLE OF THE STATE IN MOROCCO

Origins. Morocco's public enterprise[2] portfolio grew out France's efforts, during the French Protectorate from 1912 to 1956, to accomplish two goals:

- to control natural resources and other key sectors of the protectorate's economy and
- to provide needed social and institutional infrastructure for French settlers.

To control key sectors of the economy, mining, exporting, and transport were among the earliest firms in the government portfolio. For example, the phosphate mine and processor, the *Office Chérifien des Phosphates* [OCP], currently and for many years Morocco's largest firm, was founded in 1920 as a public enterprise; the large mining holding company, the *Bureau de Recherches et de Participations Minières* [BRPM], was similarly formed in 1928. OCP was justified on the basis of a government monopoly on extraction which preempted the possibility of non-French investment in the phosphate mining. As agricultural exports or the need for transport prospered and were developed, they too merited their own public enterprises, such as the Cherifian *Office Chérifien de Contrôle et d'Exportation* [OCCE] or the *Office National des Transports* [ONT], both created in 1937.

To provide needed institutional and social infrastructure for French settlers, two strategies were followed. First, public institutions were created, such as the trademark registry, *Office de la Propriété Industrielle* [OPI], in 1916 or the *Office de la Famille Française* in 1928 . Second, most concessions to provide such infrastructure as water, electricity, and railroads were given to private sector firms, many of them subsidiaries of the French financial group, *Banque de Paris et des Pays-Bas* (PARIBAS). Clear exceptions were those for electricity and water entrusted to *Energie Electrique du Maroc* [EEM], whose shares were held 25% by the Cherifian state and to the *Régie des Exploitations Industrielles du Protectorat* [REIP], created in 1929.

After independence in 1956, the pace of portfolio growth increased. During the 1960s and early 1970s, Morocco created new firms to supply the essential services previously provided by private concessionaires and to direct industrialization. In the absence of a national private sector capable and willing to provide the levels of capital, risk-taking, or technical expertise deemed necessary by government authorities to achieve the desired industrialization, the government invested heavily in large, capital-intensive industries.[3]

In the 1970s, existing public enterprises spun off subsidiaries, often to escape the central government's heavy financial controls, at other times, they bought into hitherto foreign-owned firms, through Moroccanization. Thus, from 1973 to 1977, 92% of newly created public enterprises were subsidiaries of existing ones. Still more growth came as government investment banks or finance companies took minority shares in private ventures with the intention of redeeming the shares, once the companies had shown the capacity to survive, and reinvesting the proceeds in new ventures. Such "rolling privatization" of government shares lagged far behind expectations, with the result that the portfolio continued to grow.

One explanation of the rapid portfolio growth during the mid-1970s was the high phosphate price on world markets. Morocco then was the world's leading exporter and price setter. The windfall phosphate earnings which accrued to the state via taxes and transfers from the public enterprise production monopoly were recycled through a major increase in lending by the largely government-owned financial institutions.

A small part of those earnings was spent in linkage-related investments, such as the phosphoric acid plant, Maroc Phosphore, in 1973. The revenues also provided the catalyst to shift from a program of gradual Moroccanization of capital and labor to a program imposed by law. State holdings bought into formerly foreign-owned firms, while totally new firms were created to replace many firms that closed rather than conforming to the Moroccanization requirements.

The public enterprise creation process slowed in 1978 to internal factors after King Hassan II, in a message announcing the new three-year plan, indicated his strong displeasure at the increasing number of public enterprises.[4] Thereafter, spectacular growth dropped.

The current portfolio consists of the remnants of the creation process going back to the beginning of the century. The portfolio is broad based, with firms found in many sectors.

The aggregate situation. In 1986, the last year for which complete figures are available, the public enterprise portfolio consisted of 682 directly- or indirectly-held firms (first-degree subsidiaries only). Firms with a "small" state share or headquartered outside of Morocco are excluded. In 1989, the portfolio accounted for:

- 17.0% of GDP,[5]
- 13.9% of total savings,
- 21.8% of gross fixed capital formation,
- 11.1% of total foreign indebtedness,
- 6.0% of urban employment[6], and
- 4.6% of GDP paid out in wages and salaries.[7]

Table 1 presents the portfolio by sector. Services comprise 424 firms: 89 in finance, 60 in commerce, and 56 in transport and communications. Industry has 188, led by agroindustry, including sugar processing and refining. A survey of large firms shows they provide 90% of value added in energy, 80% in mining, 70% in finance, 50% in transport and communications, and a minimum in agriculture, building, and commerce. Few public firms exist at the sub-national level, municipal water and electric utilities excepted.

Morocco's Public Enterprises by Sector of Activity: 1986			
Sector of activity	Portfolio (N)	Surveyed firms (N)	Surveyed firms: Share of value added in sector
Agriculture	17	11	2
Mining, extraction	29	19	79
Energy, utilities	24	22	87
Industry	188	76	21
Services	424	127	n.a.
Building & public works	8	1	1
Finance	89	19	69
Commerce	60	15	+
Transports & communications	56	26	47
Other services	211	66	n.a.
TOTAL	682	255	

SOURCE: Portfolio data from Royaume, *Etats statistiques*, p. 2; survey data from Roudies and Daoud, pp. 41-42. + < 0.5% n.a. Not available

Table 1

Holding companies. Morocco has used holding companies to manage its public enterprise portfolio. The Ministry of Finance identified 17 large groups, 11 of which had 20 or more subsidiaries in 1986 [Table 2].[8] The pension depository fund, *Caisse de Dépot et de Gestion* [CDG], has the lead, followed by the three financial/industrial holdings, SNI, BNDE, and ODI. These are followed by sector-specific holdings, BRPM and ZELLIDJA for mining, SOFICOM for marketing of agro-processed items, and CMKD for tourism and hotels, and SOMED, a joint venture with capital from the United Arab Emirates. Because of widespread fragmented inter-

Principal Holding Companies in Morocco: 1986
(Number of subsidiaries by share of equity)

Share of equity (%)	100	99.99-50	49.99-25	24.99 >	n.a.	Total	Privatizable
CDG	4	14	7	28	0	53	19
SNI	0	2	12	33	0	47	Entire holding
BNDE	0	0	2	15	27	44	Entire holding
ODI	0	11	14	10	1	36	24
BRPM	3	12	7	9	0	31	7
CMKD	0	16	6	7	0	29	6
OCP	13	4	3	7	0	27	3
CIH	3	2	3	19	0	27	3
ZELLIDJA	2	7	4	7	4	24	2
SOMED	0	3	3	16	0	22	6
SOFICOM	5	9	2	4	0	20	Entire holding
TOTAL N	30	80	63	155	32	360	
(%)	8.33	22.22	17.50	43.06	8.89	100.00	

SOURCE: Portfolio data from Royaume, *Etats statistiques*, fascicule 4. n.a. Not available

Table 2

locking holdings, many firms are represented in more that one portfolio and some of them may be owned by up to 6 Moroccan public enterprises.

The privatization program appears to repudiate the holding company strategy. Three of the large holdings are privatizable. Transfer of their assets and the 70 shares in privatizables held by the other large holdings companies will account for half the firms held by the large holdings.

The general structure of public ownership. Table 3 presents the portfolio by degree of government shares. 20% of the portfolio, 134 firms, is wholly owned, either directly or indirectly. These include the public administrative establishments such as hospitals, training institutes, and agricultural extension agencies. Adding to this figure all firms in which the government share exceeds 50%, gives a total of 41%, 278 firms, as majority- or wholly-owned public enterprises. The government share in 445 firms is less than 33.33%, the amount needed under Moroccan law to block major changes at the level of the board of directors.

Structure of Public Ownership: 1986		
State direct or indirect percentage	(N)	(%)
100%	134	19.65
50%-99.99%	144	21.11
33%-49.99%	59	8.65
10%-33.32%	136	19.94
0%-9.99%	209	30.65
SOURCE: Royaume, *Etats statistiques*, p. 1.		

Table 3

Profits of public enterprises. Available data, presented in Table 4, indicate that most of Morocco's public firms show accounting profits. For 255 firms surveyed in 1986, 193 or 76% registered profits. As expected, the share of firms showing a profit drops as government ownership in the firm increases. The finding may be explained as wholly state-owned firms are more subject to central government scrutiny and control, they may be called on to fulfill a social role, or the may operate as heavily regulated monopolies.

Profitability of Public Enterprises: 1986				
	<50%	50%-99.99%	100%	Total
Profitable N	84	72	37	193
%	86%	73%	64%	76%
Loss making N	14	27	21	62
%	14%	27%	36%	24%
TOTAL	98	99	58	255
SOURCE: Roudies and Daoud, p. 40.				

Table 4

Transfers between public enterprises and the Treasury. Morocco lacks a thorough, recent study of all financial flows between public enterprises and the treasury. A recent examination of financial flows between central government and public enterprises reached was limited to the flows between 11 major firms and the Central Government. [See Table 5]. It reveals that between 1985 and 1990, those 11 firms transferred on average, 1% of GDP *to* the central government, net of any capital or operating subsidies. The positive effect of the transfers may be found in that they accounted for between 3.4% and 9.2% of the central government deficit during the years covered.

Net Financial Flows between Central Government and the Principal Public Enterprises: 1985-1990			
Year	Millions of Current DH	% GDP	% CG Deficit
1985	2242	1.7	9.2
1986	1120	0.7	5.4
1987	1714	1.1	5.9
1988	1384	0.8	4.5
1989	1442	0.8	5.9
1990	2367	1.1	3.4
SOURCE: Banque Mondiale, *Royaume*, p. 63.			

Table 6

More research is needed on the magnitude and direction of the financial flows between central government and all public firms in the portfolio.

State of the privatisation program. As of 28 February 1993, only one public firm, a yeast manufacturer, had been transferred to the private sector under the current program. No and no public service had been sold. Tenders had closed on five hotels. One open tender concerned a cement manufacturer. Consequently, it is premature to reflect on the redefinition of the role of the state in the economy. The draftors of the current privatization program were conscious of the need to institute mechanisms that would make it difficult to subvert measures taken to reduce the overall role of the state. Hence, to control future portfolio growth, the Minister must approve the creation of all new public firms or subsidiaries except for those created by Act of Parliament.

IV. TECHNICAL, LEGAL, FINANCIAL AND OTHER PRIVATIZATION MECHANISMS

Legal and institutional mechanisms. Morocco's parliament enabled privatization on 11 December 1989. A broad Parliamentary consensus resulted in the law's passage[9] by a vote of 78 to 45 with 3 abstentions. The consensus evolved from the on-going dialogue on the optimal mix between public and private sectors to foster national development. The law specifies firms and hotels slated for privatization before 31 December 1995. The law was promulgated on 11 April 1990.

The law provides for program implementation by a Minister of Privatization assisted by a five-member interministerial Transfer Commission. An independent Valuation Authority oversees the propriety of the evaluation process. Members of both groups are named by the King for their competence in economic, social, and financial matters.

The law fixes four privatization methods:

- financial market mechanisms;
- tenders;
- the combination of financial market mechanisms and tenders; and
- direct negotiation.

To meet the law's social objectives, priority may be given for certain potential shareholders and special advantages are provided for the workers in firms being privatized.

The law gave priority to three social objectives: to permit new social classes to buy shares while combatting increased concentration of wealth; to develop regional economies; and to safeguard employment. Regulations to the law specify mechanisms to meet those objectives. For employees, the Minister may reserve up to 10% of a company's shares for those with at least one year's seniority. Employees may also benefit from a maximum of 15% discount on the share price, provided shares are held for three years after their purchase. The privatization law makes no employment guarantees, Moroccan jurisprudence providing sufficient safeguards for labor.

The law favors local buyers for those firms (or portions thereof) that are given regional priority. Local buyers include individuals residing, born, or engaged in business where the firm is active, Moroccan workers living abroad who are native to the region, and certain firms or cooperatives based in the region. Only local buyers may bid in a limited tender for two months; thereafter, if undersubscribed, the tender is opened to other bidders. Further, cooperativized

farmers who wish to buy shares in the agroindustrial concerns that buy their produce benefit from a similar limited tender process.

Regulations to the basic privatization law were approved by the Cabinet on 15 September 1990 and by the Council of Ministers on 16 October 1990. They were ratified by Parliament on 26 December 1991[10]. The regulations fix the powers of the Valuation Authority, details the methods of transfer and evaluation, and indicates special treatment for the favored groups in the privatization process. Other decrees fix the powers of the Minister of Privatization and the Transfer Commission and detail special treatment for workers.

Influences on privatization. Morocco's privatization is a strictly local phenomenon. Contrary to the situation often found elsewhere, privatization has not been imposed through agreements with the World Bank or the International Monetary Fund. Morocco has successfully undergone a structural adjustment program, but it had no component linked to privatization.

In the one case linked to the World Bank, the Bank had little impact on official thinking about privatization. Thus, under a Public Enterprise Restructuring Loan [PERL], the Bank lent $240 million to Morocco in 1987 to support restructuring public enterprises. A PERL objective, improving portfolio efficiency, was to be reached by developing a strategy leading to a medium-term program to divest the state of those activities more effectively handled in the private sector. The ensuing report, which was never made public, circulated among top administration decision makers as the privatization issue came to the fore. But, the Bank's marginal impact may be judged in that when the PERL-funded strategy had been defined, the Moroccan Parliament had already passed a privatization law and had already set a list of privatizables. The international agencies are neither a constraint nor a driving force on the content or the nature of Morocco's privatizations. They are merely interested observers to the process.

The strictly Moroccan nature of privatization may also be seen in the policy discourse which has repeatedly, through the speeches of the King or of successive Prime Ministers since the early 1970s, emphasized the transitory nature of state intervention in the productive sectors. The basic motive for state activity was to stand in for a private sector which, weakened under the Protectorate, found itself unable to take over after independence. As proof that the private sector has developed and prospered under the post-independence economic policies, privatization enables the state to reduce its role in an orderly fashion.

Choice of firms to be privatized. The law listed 75 enterprises and 37 hotels for a total of 112 of firms to be privatized. Since the list's publication, two firms completed a merger that was in progress when the law was passed. The list of privatizable firms was the outcome of a political process. In the initial draft law submitted to Parliament in October 1988, a negative list of six firms was to be exempt from privatization for strategic reasons.[11] After long negotiations, the law included a positive list of firms to which privatization would be limited.

The list of firms and hotels resulted from a deliberate effort by the government to choose firms that would be easy to privatize. The pragmatic choice was dictated on the basis of trying to maximize the probability of success of the overall program. Six specific criteria were employed to reach this goal. The mix of large and small privatizable firms would:

- be profitable or potentially profitable;
- have a significant public participation;

- be already subject to competition, a criterion particularly applicable to industrial and commercial firms;
- have a major economic role without having an important public service role;
- have no major overstaffing problems;
- have a regionally diversified basis; and
- have a legal corporate form, *Société anonyme*, making unnecessary any legal reorganization prior to the sale.

The transfers will have varying impact in different sectors of the economy. In 1990, the value added by privatizable firms accounted for 4.0% of GDP and their equity capital totalled US $2.1 billion at year's end. No estimates exist for the hotels.

From data presented in Table 6, agriculture will have slight impact from privatization, whether gauged by firms, value added or employment. In 1990, only 0.1% of sectoral value added and around 400 employees were accounted for by the 3 privatizables. A similar case holds for transport and communications which accounts for 1% of sectoral value added.

Sectoral Distribution of Privatizable Firms: 1990			
Sector	N	Share of sectoral value added (%)	Employ ment
Agriculture	3	0.11	424
Extractive industry	5	5.23	1,735
Manufactures	41	6.59	17,878
Commerce	9	3.81	3,667
Transport & Communications	2	1.10	838
Services	14	9.61	10,758
TOTAL	74		35,300

SOURCE: Royaume, *Privatisation*, p. 7.
Excludes privatizable hotels.

Table 6

In industry (including sugar processing) and services (including finance) the privatizables have prominent positions. The 41 industrial firms have 6.6% of value added and almost 18,000 employees, 3,508 of whom work in the sugar subsector; the 14 service firms weigh in for 9.6% of value added and almost 11,000 employees, 9,519 of whom work in 10 financial institutions.

Sale of the large financial holding companies will extend privatization's impact to their non-privatizable subsidiaries. In effect, selling the holding company purges the subsidiary from the public portfolio. For any privatizables' subsidiaries that remain in the public portfolio because part of their equity is held by other, non-privatizable public firms, the public share of ownership will decline after the transfers. The net result will be a drop in the portfolio's overall importance.

Only 6 privatizables now receive subsidies: a livestock promoter, *Société Nationale pour le Développement de l'Élévage* [SNDE], to cover costs of its extension activities and 5 sugar refiners. A major reorganization is planned to eliminate the need for subsidies in the sugar sector prior to their privatization.

Audits and Evaluations. Audits and evaluations were undertaken on a wide variety of firms and hotels. Most firms chosen to audit or evaluate the privatisables were Moroccan based, but the actual work was often carried out in conjunction with staff detached from their overseas, generally European, affiliates. During 1992, audits and/or evaluations were carried out on approximately 45 firms and hotels. The firms chosen to conduct the audits and evaluations went through a lengthy screening process on the part of the privatization authorities.

Valuation is carried out in accordance with objective methods generally accepted in matters of complete or partial transfer of an enterprise, taking into account, depending on the specifics of each case,the asset value, the substantive value, profits earned, the stock market share value, the existence of subsidiaries, and future prospects.

Actual values are fixed by an independent Valuation Authority composed of seven members who are known for their competence in economic, social, and financial matters. It considers the evaluations carried out under the auspices of the privatization ministry, but is fully autonomous and can call for additional expertise or appraisal.

Stocks transferred through the Casablanca Stock Exchange are initially sold at a price set by the Valuation Authority.

To provide a measure of transparency to the privatization process, during his office and for a period of five years thereafter, no members of the Valuation Authority, their spouses or dependent descendants may acquire any stocks, shares, or assets: 1) of a privatized company, or 2) of a company that buys any stocks, shares or assets in a privatized company, or 3) of the buying company's subsidiary, or 4) of the buying company's parent.

Preparation for privatization. With one exception, Morocco's privatisable firms had no need of extensive preparation for privatization. The firms had initially been chosen on the basis of their already strong performance, which made them likely candidates to do well after privatization.

In that one exception, COMAGRI, privatization was ruled out after major financial and management difficulties were found. COMAGRI had managed government-owned farms to improve the quality of cattle and sheep herds. Those farms reverted to the public domain after the livestock was sold. In October and November 1992, the farms were tendered for thirty-year private sector management leases. After a strong, positive response from the private sector, the new leases will enable Morocco's Treasury gain $3.5 million per year between lease payments and foregone direct and indirect subsidies. COMAGRI is being liquidated.

Promotion of privatization. A two-pronged promotional campaign is planned to support privatizations aimed at the broader public. A general campaign will explain the nature of the privatization process, the benefits of shareholding, and the positive aspects of participating in the process. Company-specific campaigns will target particular audiences having a high likelihood of investing in that company, including the workers, who benefit from special advantages when they elect to buy shares in their own companies.

Friendly relations have been maintained with representatives of the press. Periodic press conferences, dinners, or luncheons have been held by the Minister or other top ministry officials with the press or business groups. Ministry officials have also been present at a series of conferences and workshops on privatization that were organized by universities or other institutions of higher learning.

Buyers of the privatized firms. For the one firm privatized thus far, SODERS (a yeast manufacturer based in Fez), the government had a small minority stake, 35.73%. Sale was in two blocks: 1) 33.34%, sufficient to block actions by the board of directors, was sold by public tender; and 2) 2.39%, the remaining government stake, was reserved for the workers. All other shares are widely diffused. Bids for SODERS were submitted by an international yeast producer (Burns Philp

of Australia), by an institutional investor (Al Najah of Saudi Arabia), as well as by local buyers. The high bid exceeded the minimum fixed for the tender by 25%.

After the government's choice was sent to SODERS shareholders for confirmation, those shareholders decided to exercise their right of first refusal as provided in SODERS' articles of incorporation. A coalition of local and international buyers, already present among SODERS' shareholders bought the large block of shares.

All shares made available to the workers were subscribed by them; 82% of the workers bought shares. Their purchases were financed by SODERS at a below-market rate of interest.

Mobilization of financial resources. No specific institutional measures were taken by the Moroccan government of provide additional financing for the privatization operations. A major indirect boost in available financing stemmed from the elimination of the government budget deficit on current account and the generation of government savings. As a consequence of the government's healthier financial situation, it had less recourse to the stock market to issue bonds, making more local funds available for alternative uses, including privatization.

A major investment fund to support privatization was formed and others are under discussion. That fund, INTERFINA, was a joint venture between three Moroccan banks in conjunction with Crédit Lyonnais, the Banco Exterior de España, and the International Financial Corporation. Neither INTERFINA nor any other special fund has yet taken part in any privatizations.

A revitalization of Casablanca's stock exchange is planned. Exchange volume in 1992 was less than $125 million US, of which $70 million came from the sale of stocks, the rest from government or parastatal bonds.[12] New draft regulations governing exchange behavior were being finalized in early 1993. Regulations should improve the brokerage system, increase the flow of information, and better protect minority stockholders.

International financial institutions and donor agencies. No international financial institution, such as the World Bank or the International Monetary Fund, has participated in Morocco's privatization program. No funds have been loaned by the World Bank to Morocco in support of privatization.

Several bi- and multi-lateral donors have aided Morocco in getting the privatization program underway. UNDP has provided funds that have been destined to provided limited technical assistance, equipment, training, and part of the public relations campaign. USAID has provided a similar package and, in addition, has provided balance-of-payments assistance which has been destined to financing some of the audits and evaluations and to examining the environmental impact of the privatization program. Other privatization-related support was received from the Canadian and German assistance programs.

V. SOCIAL IMPACT

Safeguarding jobs is a particular concern for the privatization authorities. The Privatization Minister has repeatedly stated that no jobs will be lost as a result of the transfers to the private sector. He is on safe ground in saying so, since most privatisables are well managed and without serious overstaffing problems.

For the few firms that do have limited excess staff, solutions to the employment problem will be found before privatization. As the problem has not yet been faced by the Moroccan program, no solution has yet been implemented. In the one case of restructuring the agricultural firm, most workers found new jobs with the new private managers. The government also undertook to cover the lapsed social security payments attendant on the public enterprise's financial problems. Those payments enabled some staff to retire, those whose retirement had been delayed for several years.

VI. RESULTS OF PRIVATIZATION

In the Moroccan context, that of a privatization program that is just getting underway, it is still to early to examine the results of privatization in detail. Nevertheless, it is important to examine what will be the probable results of that program.

First, it is anticipated that over the medium term, enterprises will not alter their behavior following their privatization. Of the 37 hotels, 35 are already managed by the private sector, as are 3 mines. Further, 3 textile firms and 1 tire manufacturer are not only under private sector management, but the public sector share of equity is so low that government-appointed board members may not block decisions by the full board. Currently, those firms and hotels are already operating efficiently and dynamically under private sector management; that behavior is not expected to change after a simple transfer of ownership from public to private.

In the short run, the expectation of privatization has introduced some uncertainty into the management decision-making process for firms on Morocco's list. That uncertainty is entirely understandable and is limited to the short run. After privatization, the transitory effects of uncertainty will have disappeared.

Second, it is anticipated that privatization will have broad portfolio repercussions in reducing the role of the State. The sale of large financial holdings will extend privatization's impact to all their subsidiaries. Because of these holdings, the privatizable list of 74 firms and 37 hotels represents just part of the firms in the State portfolio to be transferred to the private sector. Taking into account portfolio holdings as normal business assets, the privatization program will encompass approximately 300 other firms, in addition to the basic list. These include a minimum of 86 firms held at least 50% by privatizables, and a further 28 in which they own at least a third of shares outstanding. Privatizing the large, healthy financial holdings will have important consequences in terms of paring the portfolio, bringing in revenues, and provisioning the stock market where many of them are already listed. But, for the subsidiaries, apart from the impact on the State portfolio, no change is expected in company behavior because they are now removed from the more direct means of State scrutiny and control and, consequently, are already run as private firms.

Third, no major changes are anticipated in prices of the products made by the privatizables after their transfer to the private sector. One of the starting points in choosing the list of firms to be privatized was that they currently operate in competitive markets. Since they are already price takers, their behavior should not greatly influence prices after transfer. Moreover, under the privatization regulations no sale of a firm to a person or group of persons may be made if the sale thereby results in the creation of a monopoly. The regulations provide another safeguard against price increases that result from privatization.

Fourth, output is expected to rise after privatization. On the one hand, the firms will not be closed or liquidated, again for the simple reason that one of the criteria for selecting the firms to be privatized was their actual or potential profitability. There was no question of Morocco's trying to sell its losers, a mistake often made elsewhere. In 1991, 52 privatizables reported post-tax profits, with an average rate of return on assets of 13.1%. The rest showed small losses, averaging US$850,000, and all have the strong potential to become profitable after a change of ownership. On the other hand, with Morocco's growing domestic market and its increasing export orientation, most privatizables already see major opportunities for expansion. Some of their investment plans have already been slowed to allow the new private owners to decide if they want to undertake the same level of investment as forecast.

Fifth, from the privatizables' cost structures, it is not anticipated that the new owner will undertake major cost restructurings through personnel reduction. On the one hand, firms were only considered privatizable if they had no major overstaffing problems. On the other hand, the privatization program needs "early winners" — successful sales at decent prices to investors willing to bring in new capital and *without major redundancies* — to ensure its continued political viability. A key ingredient of the "winner" strategy is that no major employment losses result from privatization.

Sixth, employees are expected to benefit to the extent that they buy shares in the firms being privatized. To foster such purchases, shares will be reserved for the employees in most firms and workers will benefit from all the discounts that the regulations permit. As a direct consequence of employee participation in shareholding, overall employee compensation is expected to rise as they receive a buyers' share in the returns of the privatized firm.

Seventh, in looking at another group of potential buyers, it is expected that regional shareholding will receive a major boost through privatization. The privatization law makes special provision for fostering a decentralization of shareholding to complement the overall movement to decentralization of decision making in Morocco. To the extent that regional firms operating in regional product and factor markets become more responsive to regional interests as a result of privatization, strong benefits of the program are expected.

CONCLUSIONS

1992 marked an important transition for Morocco's privatization program. Government authorities are confident that the long period of preparation will pay off in straightforward program execution and will assure the program's overall success. The program's prudent approach to privatization should result in a series of positive benefits to the economy without any of the major negative impacts found elsewhere.

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NOTES

1. King Hassan II, speech to Parliament opening the special session on privatisation, reprinted as preamble to: Royaume du Maroc, *Loi n° 39-89 autorisant le transfert d'entreprises publiques au secteur privé*, Adopted by the Chamber of Representatives 11 December 1989, Promulgated 11 April 1990 by *Dahir* n° 1-90-01, Published in the *Bulletin officiel* 18 April 1990.

2. Moroccan jurisprudence does not define the term "public enterprise".

3. See, the justifications for state intervention in industry in Royaume, *Plan*, pp. 373-374.

4. "Discours de S.M. Hassan II à l'occasion d'un Projet de Plan trienal transitoire," *Le matin du Sahara*, 8 June 1978.

5. 1986 data for GDP taken from Royaume, *Etats statistiques*, p. 1.

6. 1986 data.

7. Figures taken from Banque Mondiale, *Royaume*, p. 21.

8. The Ministry of Finance figures do not take account of the broad portfolios of two insurance companies, both privatizable, CNIA with holdings in 62 firms and SCR with 29.

9. Royaume du Maroc, *Loi n° 39-89 autorisant le transfert d'entreprises publiques au secteur privé*, Adopted by the Chamber of Representatives 11 December 1989, Promulgated 11 April 1990 by *Dahir* n° 1-90-01, Published in the *Bulletin officiel* 18 April 1990.

10. Royaume du Maroc, Décrets d'application de la Loi n° 39-89 autorisant le transfert d'entreprises publiques au secteur privé: *Décret n° 2-90-402 du 16 octobre 1990 pris sur le fondement de l'habilitation prévue par l'article 5 de la loi n° 39-89 autorisant le transfert d'entreprises publiques au secteur privé; Décret n° 2-90-403 du 16 octobre 1990 relatif aux pouvoirs du ministre chargé de la mise en oeuvre des transferts des entreprises publiques au secteur privé; Décret n° 2-90-577 du 16 octobre 1990 pris pour l'application de l'article 7 de la loi n°39-89 autorisant le transfert d'entreprises publiques au secteur privé; Décret n° 2-90-578 du 16 octobre 1990 fixant les conditions de fonctionnement de la commission des transferts prévue à l'article 2 de la loi n° 39-89 autorisant le transfert d'entreprises publiques au secteur privé*, Adopted by the Council of Ministers 16 October 1990, Published in the *Bulletin officiel* 17 October 1990.

11. Royaume du Maroc, Le Premier Ministre, "Projet de Loi autorisant le transfert d'entreprises publiques au secteur privé," 1988. Text published in *Al Bayane*, 20 Oct. 1988 and *La vie économique*, 21 Oct. 1988. The six exceptions were: the phosphate holding [OCP]; the water [ONEP] and electricity [ONE] utilities; the telephone company [ONPT]; the railway [ONCF]; and the airline [RAM].

12. Bourse des Valeurs de Casablanca, "Tableau recapitulatif: Année 1992."

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Decree No. 2-90-403, of 25 Rebia I 1411 (16 October 1990) concerned with the powers of the Minister charged with implementing the transfers of public enterprises to the private sector.

THE PRIME MINISTER,

Whereas article 2 of Law No. 39-89 authorizing the transfer of public enterprises to the private sector, promulgated by *Dahir* No. 1-90-41 of 15 Ramadan 1411 (11 April 1990);
Whereas Decree No. 2-90-402 of 25 Rebia I 1411 (16 October 1990), taken upon the grounds enabled by article 5 of the aforementioned Law No. 39-89;
After examination by the Council of Ministers at its meeting of 25 Rebia I 1411 (16 October 1990),

DECREES:

Article 1.- In accordance with the provisions of article 2 of Law No. 39-89, referred to above, the Minister charged with implementing the transfers ensures the implementation of transfers of public enterprises to the private sector and the operations which are its necessary complement or consequence.

To this end, he is charged, among others:

- to preside over and to convene the Transfer Commission and to set its agenda;
- to establish the program of transfers and to schedule their realization,
- to require managers of enterprises and establishments that are subject to transfer to communicate all documents, studies, information, or data as well as all proposals useful in completing the transfer operations;
- with the prior valuation of the interests and establishments subject to transfer by experts whom he chooses directly by special dispensation from the provisions of the regulations in force pertaining to contracting for works, supplies, and services on behalf of the State;
- to decide, on the occasion of the transfer of interests from the public to the private sector, that no individual or corporate body may acquire any stocks or shares beyond a certain percentage;
- to set, by decision, on the occasion of the transfer of interests from the public to the private sector, the maximum amount of stocks or shares that may be acquired by foreign or foreign-controlled individuals or corporate bodies;
- to propose to the Prime Minister, after concurring opinion of the Transfer Commission, the transfers by direct allocation;
- to propose to the Prime Minister, for purposes of decision, the operations whose object is to realize transfers;
- to determine, by decree ordered jointly with the Minister of finance, the list of banking and financial institutions charged with selling the shares to be ceded through a public fixed-price offer;
- to sign the contract intended in article 19 of Decree No. 2-90-402 of 25 Rebia I 1411 (16 October 1990), referred to above;
- to pronounce, by decision, after opinion of the Transfer Commission, the sanctions intended in article 23 of the aforementioned Decree No. 2-90-402 of 25 Rebia I 1411 (16 October 1990);
- to propose, for the Prime Minister's authorization, the creation of public enterprises, with the exception of those whose creation is a matter for the law, the creation of a subsidiary or a second-degree subsidiary of a public enterprise, the taking of shares by a public enterprise in a private enterprise.

Art. 2.- The Minister charged with implementing the transfers of public enterprises to the private sector is entrusted with executing the present decree which shall be published in the *Official Bulletin*.

Done in Rabat on 25 Rebia I 1411 (16 October 1990),
Dr. AZZEDDINE LARAKI

For countersignature:
The Minister charged with implementing the transfers of public enterprises to the private sector,
MOULAY ZINE ZAHIDI