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LOAN COMMITTEE

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February 24, 1986

Minutes of Loan Committee Meeting to consider
MOROCCO-Proposed Public Enterprise Rationalization Loan (PERL)
Held on January 21, 1986 in Room E-1208

A. Present

<u>Committee</u>	<u>Others</u>
Messrs. E. Stern, Chairman (SVPOP)	Messrs. Hasan
J.L. Dherse (EISVP)	Dubey
J. Wood (Act. FPBVP)	Kohli
R. Picciotto (Act. EMNVP)	Clements
H. Scott (Act. LEGVP)	Lysy
V. Rajagopalan (Act. OPSVP)	Nellis
Mrs. A. Krueger (VPERS)	El Serafi
	Goffin
	Shilling
	Asfour
	El Maaroufi
	Coudol
	Brizzi
	Brigish
	Hari Prasad
	Mmes. Hadler
	Donovan
	Fox
	Dewitt
	Lewis
	Mr. Sacerdoti (IMF)

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Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS
Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

Issues

1. The meeting was called to consider the proposals set out in the Initiating Memorandum from Mr. Picciotto, dated January 14, 1986, concerning the proposed Public Enterprise Rationalization Loan (PERL) to Morocco. The discussion largely focussed on the issues raised in the Country Policy Department's memorandum dated January 17, 1986.

Discussions

2. In reviewing the policy reforms recommended for Moroccan Public Enterprises (PE), the Committee expressed a concern that while public finance considerations were appropriately addressed in the program, insufficient emphasis appeared to have been placed on means to ensure the translation of policy changes into actions which would have a direct and measurable impact on enterprise efficiency. The Committee noted that in selecting the enterprises proposed to be restructured under PERL, emphasis had been placed on public utilities rather than on manufacturing enterprises operating in a competitive environment. It was stressed that such a selection should not divert attention from the objectives of limiting the role of the State in the economy through the privatization of Government-owned enterprises and promoting the creation of a more market-oriented economy.

3. The Region agreed that promotion of efficiency was a major objective of PERL, and stated that it would be addressed at a number of levels. Modern management information systems and improved standards for accounting and auditing, supplemented by training, would be introduced across the board (in the medium-term). Within the PEs to be restructured under PERL (to be followed by others), "contrat plans" would, among other things, set objectives for increasing a firm's efficiency over time, and management's performance in meeting agreed targets would be monitored; rationalizing PE investments and pricing policy and generally creating a freer environment would also stimulate improvements in productivity and efficiency. The Region explained that the rationale for selecting the enterprises to be restructured under the reform program was their importance in the economy and the impact that improvements in their operations would have on Moroccan public finance. It was necessary to begin with these large enterprises. At the same time studies of other key sectors where divestiture is conceivable (such as sugar and mining) was necessary to provide the analysis to support the Government's intention to pursue privatization and liquidation of PEs, where appropriate. The Region felt that by strengthening the market environment within which these enterprises operate, establishing performance targets for them, and introducing the other proposed general reforms in the public enterprise sector, incentives would be created for enhanced private sector participation in appropriate PEs. It was also noted that, for the time being, the extent to which privatization can be pursued is constrained by the lack of depth of the Moroccan capital market and limited investment demand in the private sector. One of the members of the Committee felt that many potential private Moroccan investors might be attracted to invest in their own country, and that stronger action on the part of the Bank could lead to a more efficient performance through earlier divestiture of some of the 600 Moroccan PE's. However, the importance of creating an environment favorable to the private sector was acknowledged.

4. The Committee remarked that the policy framework within which the Government was pursuing its medium-term PE reform program was not clear. It was insufficient for the Government merely to state its intention to revise its future role in the sector. To give effect to this objective it was suggested, as an example, that enterprises which do not meet specific performance targets established by the reform program within a reasonable period of time should be totally denied access to government resources. It was also stressed that the reform program should be consistent with the fiscal stabilization program currently underway, specifically vis-a-vis trade and foreign exchange issues. It was generally recognized that in Morocco, though trade is being liberalized, the availability of foreign exchange is very constrained. Hence, Bank support of particular PEs should not be construed as privileged access for them to scarce foreign exchange. The Region responded that the proposed letter on development policies would clearly state how the nature of the Government's interventions in the sector was expected to evolve in the medium-term.

5. With respect to the arrears of Moroccan PEs, it was noted that their accumulation had, until recently, largely escaped control under the IMF programs. To ensure that PE arrears do not accumulate in future and that efforts under the proposed PERL to settle current arrears are not negated, it was agreed that the Government needs to undertake additional measures to control current expenditures, and that discussions with the IMF should continue with a view to finding a formula to monitor movements in arrears. The Region emphasized that the proposed PERL sought to prevent the emergence of future arrears by ensuring that budgetary allocations for the use of goods and services provided by PEs to Government departments are consonant with the latter's requirements for consumption, and by limiting public sector consumption through the issuance of guidelines to govern it. These actions would establish a more systematic framework within which Government obligations are to be met, thus avoiding the build-up of arrears. It was stressed, however, that PERL reforms are not merely meant to rationalize budget allocations to fund Government consumption of PE outputs. The program aims at structural changes in the way that PEs are financed so as to decrease Government financial obligations to the PE sector.

6. The Committee reviewed the impact of the proposed reform package on State/PE relations, specifically with regard to the roles of CIPEP and the DEPP. The Region explained that the revised roles for these Government institutions are being designed to promote enterprise autonomy. In that context, CIPEP would represent the State as shareholder in PEs and would have policy formulation and advisory functions, with control functions reduced significantly through the replacement of à priori financial control by à posteriori monitoring.

7. The representative of the IMF indicated the Fund's support of the proposed PERL. He noted that the reform program is consistent with the Fund's stabilization program in Morocco, but stated that the settlement of public sector arrears should be accomplished within the debt ceilings defined under its program.

Conclusion

8. The Committee approved the recommendation to appraise the proposed PERL, but noted that the appraisal mission should make sure that the following issues receive additional attention. Priorities should be established for investment programs of PEs and levels should be consonant with resource availabilities. An explicit strategy and action program for decreasing Government shares of investment and production in the sector should be formulated. The analysis of the impact of PE reforms on the Moroccan economy should demonstrate their positive effects on commercially-oriented manufacturing PEs. An analysis of employment practices and policies should be undertaken to determine their impact on the efficiency of PE operations. Finally, disbursement of Bank funds should be conditioned on explicit progress in implementing the reforms.

Cleared with: Messrs. Stern, Krueger, Dherse, Wood, Rajagopalan, Picciotto,
Hasan, Goffin, Shilling, Coudol.

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