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PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE

Synthesis and Summary

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EXCHANGE RATE

(As of June 1995)

Currency unit	=	Moroccan dirham (DH)
DH 1	=	US dollar 0.118
US dollar 1	=	Dh 8.43

GLOSSARY OF ACRONYMS

ADM	Société des Autoroutes du Maroc
BOO	Build-Own and Operate
BOT	Build-Operate and Transfer (form of concession)
CGEM	Confédération Générale des Entreprises du Maroc
CIPEP	Comité Interministériel Permanent des Entreprises Publiques
COMANAV	Compagnie Marocaine de Navigation
CTM-LN	Compagnie des Transports au Maroc - Lignes Nationales
CU	Communauté Urbaine
DEPP	Direction des Etablissements Publics et des Participations
FEC	Fonds d'Equipement des Communes
OCP	Office Chérifien des Phosphates
ODEP	Office d'Exploitation des Ports
ONCF	Office National des Chemins de Fer
ONDA	Office National des Aéroports
ONE	Office National de l'Electricité
ONEP	Office National de l'Eau Potable
ONT	Office Nationale des Transports
OPV	Offre Publique de Vente (Public Offer of Sale)
RAD	Régie Autonome de Distribution d'Eau et d'Electricité de Casablanca
RAM	Royal Air Maroc
SA	Société Anonyme
SCIF	Société Chérifienne des Industries Ferroviaires
SMD	Société Marocaine de Distribution (ELYO)

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Kingdom of Morocco
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INTRODUCTION

This report on private sector participation in Moroccan infrastructure has been prepared at the request of the Private Sector Development Project Monitoring Committee on the basis of a mission carried out in June 1995. A first version of the report was sent to the Moroccan Government and to the Monitoring Committee in December 1995. In March 1996, it was the subject of a number of presentations and discussions held in Rabat and Casablanca with the Government, the Monitoring Committee, and the General Confederation of Moroccan Enterprises (CGEM). The Moroccan Government submitted written comments on certain chapters of the report in June and July 1996, and these comments were taken into account during preparation of the present and final version. The authors wish to thank all those who have contributed to the finalization of this study.

This report contains only partial references to the data and statistics for 1995 and 1996 and to the important developments that have taken place in Morocco since June 1995, when the Moroccan authorities started to open up major sectors of infrastructure to private participation. A few examples are included to illustrate these recent developments.

Negotiations concerning the electricity production concession at Jorf Lasfar have been concluded with the ABB/CMS consortium. In the municipal services area, elected local officials are expected shortly to approve a contract negotiated with Lyonnaise des Eaux for the transfer under concession to that company of the water and electricity distribution and sanitation services formerly handled by RAD. The private sector has also become involved in solid waste disposal, chiefly in Casablanca, thanks to the award of several concession contracts, while international competitive bidding is under way for the collection and processing of hospital waste in the Casablanca-Rabat region.

In the transport sector, a number of measures are currently under study or at the implementation stage. Among these are elimination of ONT's monopoly and its conversion into a transport company suitable for future privatization; conversion of ONCF into a *société anonyme*, privatization of its subsidiaries, and an increase in private participation in the railways sector in general; opening of the ports sector to competition and launching of an ambitious project to operate a new port, Tanger-Atlantique, under concession; operation under concession of a new toll motorway between Casablanca and El Jadida, etc.

In the telecommunications sector (not covered by the study), an important step was the submission to Parliament of a bill to open up the sector to competition and private sector participation. The principal aspects of this bill are the separation of posts and telecommunications, the creation of an autonomous regulatory agency, elimination of the monopoly, and the possibility of total or partial privatization of the sector. In addition, a GSM cellular license is slated to be awarded in 1997 to a second (private) operator.

Lastly, a general debate on streamlining of the public enterprise sector and acceleration of the privatization process has been initiated by the Government. The debate, in which all the supervisory ministries are involved, is coordinated by the Ministries of Finance, Privatization, and Motivation of the Economy. The general thrust of the proposed reforms to a large extent matches the recommendations

of the present study. They emphasize refocussing the Government's role on the functions of regulator and catalyst of economic activity, which will involve its withdrawal from many aspects of goods and services production and their takeover by the private sector. The reform program stresses the importance of introducing competition into the infrastructure sectors, since it is competition that is the principal driver of productivity and of improved performance.

This partial glimpse of the initiatives and reforms undertaken by the Government since June 1995 illustrates how far the situation has changed since the present study was prepared. The Government is to be congratulated on those initiatives and encouraged to continue the reforms already under way. This will depend on close collaboration among the ministries concerned, as well as on the assistance of experts in sectoral reform and privatization, including economic, financial, and legal consultants.

Washington, D.C.
December, 1996

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Increased private sector participation - a necessity

1. To maintain an annual growth rate of 7-8 percent, Morocco will have to invest DH 20-30 billion in its major infrastructure sectors over the next ten years. The annual amount of public investment in those sectors between 1988 and 1992 was only on the order of DH 13 billion. Any substantial increase in public financing of infrastructure in the near future is impossible given the tightness of the Government's budget at the present time. It is estimated that the amount of public funds available for infrastructure investment will fall short of actual requirements by around DH 15 billion a year. To support its policy for improving and expanding the various infrastructures essential to its economic development, Morocco therefore has no choice but to seek other sources of financing, specifically in the private sector, a conclusion already reached by the Minister of Finance and various other authorities.

2. Budgetary and financial considerations, while extremely important, are not the only issues justifying increased private sector participation. Even more significant is the urgent need to provide Moroccan producers, whether they belong to the primary, secondary, or tertiary sector, with the infrastructure services they need to become or remain competitive at the international level. In the early eighties, the Government attempted to solve this problem through reform of the public enterprises responsible for those services. This remedy proved inadequate, and the desired objectives were not achieved. Moreover, where a large majority of infrastructure services are concerned, this last decade has seen a worldwide revolution in the way in which those services are structured, delivered, and regulated. The model of the monopolistic public enterprise as a tool for tackling economic challenges is no longer suited to Morocco's present situation.

Purpose of the study

3. There is already considerable consensus in Morocco concerning the need to involve the private sector. However, for the moment there is no global strategy for translating this consensus into practice. What are the principal options? What are the obstacles in the way of greater private sector participation in these critical sectors? Which bodies or institutions would be responsible for promoting private initiative in those sectors? What is the legal basis for intervention of this kind? By which economic imperatives should the entire process be driven? Why is it that the various projects about which there has been so much discussion in recent years, concerning opening up of the electricity, gas, and water sectors to private participation, are taking so long to actually be implemented?

4. Those are some of the questions examined in this report, as they relate to two major infrastructure sectors, namely municipal services (water and electricity distribution, sanitation, solid waste disposal, urban transport) and national transport services (railways, shipping lines, airlines, and motorways). The analyses, particularly regarding the intersectoral topics developed in Volume II, to a large extent also apply to infrastructure sectors not covered by this study, such as telecommunications, electricity, gas, and water production and transport, industrial parks, etc. Morocco is in need of a large volume of private investment in the infrastructure sectors, but so far this has not been forthcoming to any great extent. The purpose of this study is to give a global analysis of the situation existing in 1995

and of the prospects where private participation is concerned, to identify the main bottlenecks, and to suggest various discussion topics and courses of action.

Overall strategy

5. New sectoral strategies need to be developed that will reflect a new approach focussing on competition, openness to the private sector, and better quality of service. These sectoral strategies would also have to converge with, and be supported by, the Government's macroeconomic policy (reduction of budgetary deficits and of the public drain on the financial markets, inflation control, etc.) and other complementary policies (financial market development).

6. Promotion of **competition** is a key objective. The discipline imposed on enterprises operating on competitive markets is the most powerful stimulus for improving performance. The introduction of competition also facilitates the task of the regulatory bodies. Where competition cannot be introduced directly, for example in sectors where there is a natural monopoly, it is often possible and desirable to grant licenses or concession contracts through international competitive bidding among firms preselected on the basis of their experience in delivery of the services concerned.

7. The establishment of a new and efficient **regulatory framework**, with clear-cut rules and with regulatory bodies that are truly independent of the enterprises they are supposed to regulate and of all political and administrative influence, is another priority to be developed at the start of the process of opening up those sectors to private investment. Such mechanisms are essential both to provide investors with the guarantees on which their willingness to invest depends and to protect consumers.

8. An increase in domestic and foreign private investment is one of the conditions for sustained economic growth. This demands the improvement in the public infrastructures and services that is essential if such investment is to show a good return, and hence requires contributions of private capital and expertise to develop those infrastructures and services. With the exception perhaps of a few activities that are less capital- and expertise-intensive, such as urban transport and waste collection, the presence of **strategic investors** with specific experience in public service management will be required almost everywhere, if the objective is to improve public services and the competitiveness of the national economy.

9. It is also essential to associate the **national partners** as closely as possible with the implementation of those programs, be they managers or workers in the sectors concerned, Moroccan private entrepreneurs and investors (institutional investors, industrialists, or savers), or consumers and users.

10. To the extent that the majority of the public enterprises concerned are **overstaffed**, reductions in force will often be necessary in the interests of enhanced efficiency. Private operators should likewise have all flexibility to hire and lay off their own staff.

11. It will also be important to review the entire **financial** context in which these services operate, and to develop a consistent policy for the pricing of public services, subsidization (where appropriate), the grant of government guarantees (where appropriate), and the absorption by the public sector of the

payment arrears that are often at the root of the problems facing those sectors today. This is particularly true in the case of municipal services, which it is difficult to entrust to private management without substantial improvement in the solvency of the local authorities.

12. The preparation and implementation of programs for private participation, whether through concessions, privatization, or other methods, demands a level of **expertise** that the Government does not possess. It is essential to bring in qualified and experienced experts to advise the Government on the sectoral reforms that must precede or accompany the entry of the private sector, particularly in such areas as overhaul of the sector's legislative and regulatory framework, establishment of regulatory mechanisms, preparation of bidding documents, and negotiation with the winning bidders. The United Kingdom, Argentina, and the Philippines are among the countries that have adopted this approach.

13. The **institutional framework** presently existing in Morocco is not conducive to the development of a dynamic partnership with the private sector. Not only are there too many supervisory agencies, but these also operate without mutual consultation or coordination, and without any common strategy or objectives. **Municipal services** are a case in point. The water and electricity distribution authorities [*régies*] are subject to dual supervision by the Ministry of the Interior and the Ministry of Finance, as well as belonging to sectors each dominated by a public enterprise, the Office National de l'Eau Potable (ONEP) and the Office National de l'Electricité (ONE), which are their sole providers and sometimes their competitors as well, and which are in turn supervised by the Ministry of Public Works and the Ministry of Energy. Furthermore, the pricing policy is driven by the Ministry of Motivation of the Economy and the Interministerial Standing Committee on Public Enterprises (Comité Interministériel Permanent des Entreprises Publiques - CIPEP). The development of consistent sectoral strategies in such circumstances has proved practically impossible. Where transport is concerned, the existing institutional framework is no better suited to the development of consistent sectoral strategies. The public enterprises in the transport sectors have succeeded in turning business strategies into sectoral strategies, to their own advantage. Monopolies and monopoly rents are quite common. The absence of sound logistical management produces adverse effects on intermodal integration and sector's overall efficiency.

14. The existing institutional framework, both for municipal services and for transport services, encourages maintenance of the status quo and protects certain interests. To break this vicious circle, it is recommended that a **special agency** be given a clear mandate to implement those programs that are intended to open the way to competition and private participation. In effect, this would simply mean continuing and expanding the approach adopted by the country's highest authorities in 1989 to facilitate implementation of the major privatization program established by Law No. 39-89. The ministry created at that time has now acquired the necessary experience, and could be entrusted with handling implementation of the program for private participation in the infrastructure sectors. However, this is simply one option among several.

15. In addition, discussions should be held concerning the best methods and instruments of private participation and removal of the all existing obstacles. Although each of those numerous obstacles is individually surmountable, their overall accumulation makes the implementation of any project for private participation a more lengthy process than it needs to be, and also a more risky one. In many

cases, this can lead to private investors demanding certain government guarantees to cover any risks that might arise.

16. Such a review of the institutional and legislative framework governing private participation in the infrastructure sectors could perhaps lead to global legislation in this area. Pending any overhaul of the legislative and institutional framework, however, priority should be given right away to the implementation of a few pilot projects for private participation in selected infrastructure sectors. This would enable the Government to establish its credibility with potential investors, to try out the different participation mechanisms, to draw from such experiments certain lessons useful for the future, and thereby to contribute to the shaping of this new institutional and regulatory framework.

Specific recommendations - Municipal services

17. Where municipal services are concerned, the priority is to clarify responsibilities and the institutional framework itself. In this context, certain functions could either be transferred to a central body responsible for implementing a private participation program at the municipal level, or be supported by such a body while remaining the responsibility of the local authorities. The issue of the communes' insolvency, and hence of their financing, is also critical.

18. **Water and electricity distribution.** Of the different options for participation put forward in this study, the concession option seems to be the most appropriate, since it would considerably alleviate that sector's burden on the public finances and improve the quality of the public service it provides. Actions are suggested at two levels:

(a) Launching of a pilot operation:

- work with the local officials to select a pilot city for implementation of a concession-type operation for water distribution and sanitation services, and/or electricity distribution;
- set up a team to steer the operation; and
- hire experts to assist with bid preparation, bid appraisal, and contract negotiation with the operator selected.

(b) Reform of the institutional and regulatory framework:

- reform the local authorities' financing systems;
- enact framework laws for water, electricity, and the environment (impact on sanitation and solid waste management);
- examine and propose a new method of supervision and regulation of those services (for example, through a national regulatory agency); and
- propose the necessary reforms for making the transition from pilot program to the stage of at which those sectors are officially opened up to competition and private participation.

19. **Urban transport.** Morocco has acquired useful experience in the area of private urban transport, which should serve to provide it with valuable lessons. The central body suggested above could:

- assess Morocco's experience with bus concessions over the past ten years;
- prepare standard terms and conditions [*cahiers des charges*];
- assist the communes in the negotiation and monitoring of concessions;
- as a result of those interventions, propose reforms with a more global impact.

20. **Solid waste management.** A substantial improvement is needed in the area of solid waste management, both to protect public health and to avoid jeopardizing tourism. There are two essential prerequisites for the accomplishment of any sustainable action, namely reform of the local public finances and enactment of effective environmental legislation. Steps should be taken to establish a service organization designed to promote healthy competition among private operators.

Specific recommendations - Transport

21. **Railways.** The option suggested by this study is to entrust management of the railways sector to a private operator under a concession contract. The Government would, however, remain the owner of the basic infrastructure. A recent project supported by the World Bank is designed to convert Office National des Chemins de Fer (ONCF) into a *société anonyme* and to settle the pension funding issue. Financial reorganization and management autonomy are a prerequisite for increased private sector participation.

22. **Motorways.** The first essential step is to examine the economic viability of the motorways program. If the result is positive and would justify continued expansion of the network, recourse to the private sector would be desirable (possibly through the grant of subsidies when the financial rate of return is not high enough). Bid proceedings could be held for the award under concession of the Casablanca-El Jadida segment, as a test of private sector interest in this type of operation.

23. **Maritime sector.** The study suggests demonopolizing the ports sector. A number of activities currently performed by Office d'Exploitation des Ports (ODEP) are actually competitive commercial services that should be transferred on a non-exclusive basis to private operators. Certain services have more marked monopolistic features: these could be awarded on the basis of terms and conditions clearly specifying the public service obligations incumbent on the private operator concerned. Since Morocco has such a large number of commercial ports, it is also possible to envisage some inter-port competition, which would mean that the ports would have to be owned or at least managed by competing bodies. Where maritime transport is concerned, the study suggests privatizing or liquidating Compagnie Marocaine de Navigation (COMANAV). It also underscores the danger of a return to protectionism.

24. **Air transport.** The situation of Royal Air Maroc (RAM) gave cause for concern in 1995. However, its new management has launched a recovery program. The privatization stage seems inevitable. RAM is in need of an international strategic partner. The longer the decision is postponed, the greater the risk that no buyer will be found. Nearly all profitable airlines today are private. In many

cases they have been privatized over the past ten years. With respect to Office National des Aéroports (ONDA), it has been running a bloated operation that is in need of rigorous streamlining. Here also, recourse to the private sector, specifically in the form of airport concessions, is indicated with a view to developing the airports' commercial revenue. Certain functions, such as handling, should be opened up right away to free competition.

Suggested order of priority for actions to be taken

25. The recommended reforms are quite far-reaching, and care must be taken not to minimize the difficulties involved in implementing them. Can these reforms be carried out simultaneously in all the subsectors covered by the study? A selective approach seems better suited to the existing potential in terms of legal and regulatory capabilities at the national level and to the possibility of mobilizing Morocco's productive forces and private capital, as well as more likely to attract foreign investors, for whom the Moroccan economy still contains many unknowns. Actions should be prioritized in light of the relative importance of the stakes involved in each of the subsector reforms within the context of the country's economic policy objectives. Thus any action likely to expedite growth while strengthening the competitive capacity of the Moroccan economy, relieving the government budget of the burden of infrastructure subsidies and eliminating harmful practices [*nuisances*], should be undertaken without delay. In light of these considerations, the following order of priorities is suggested, to which will naturally have to be added the infrastructure sectors not covered by the present study (telecommunications and energy, in particular):

- (a) ports: as the obligatory points of passage for most of the country's foreign trade flows, their role is essential, and Morocco would reap considerable benefits from greater productivity and fluidity in the area of port transit;
- (b) railways: their contribution to a better balanced distribution of traffic among competing modes and to the development of multimodal transport will depend on commercialization of their management; reforms are also indicated in light of the need to reduce the heavy financial burden that the present conditions of railways management are placing upon the Government;
- (c) water and electricity distribution and sanitation: takeover of these services by the private sector will result in an injection of capital to modernize and develop the systems, and in better coverage of people's needs. This should have a favorable impact on labor productivity and enhance the country's comparative advantages in the eyes of foreign investors;
- (d) solid waste management: in Casablanca in particular, the deficiencies in this area are such that rapid improvement is an urgent priority;
- (e) urban transport: the rampant transport crisis in the major cities also justifies rapid action;

- (f) the other subsectors could also benefit from increased private sector participation, but there is less urgency in those cases. Motorways certainly do not need the level of investment presently envisaged. Maritime transport is to a large extent handled by relatively efficient private shipping lines. Of all the other subsectors, air transport is the most in need of immediate attention, in light of the major financial issues represented by the various options for its restructuring.

I. FIELD OF THE STUDY

1.1 The subject of this study is private participation in Morocco's infrastructure sectors. Volume I contains a brief summary and recommendations, followed by the synthesis and sectoral tables. Volume II is devoted to the major intersectoral topics that are found in any policy for opening up infrastructure services to the private sector, such as the principal obstacles to and constraints upon private participation, institutional framework, regulatory framework, legislative provisions, measures to be taken before these sectors are opened up to private investors, principal methods for assuring private participation, procedures for bidding and the selection of private operators, and financing of the sectors concerned. The eight chapters of Volume III contain a more detailed analysis of the principal municipal services and transport subsectors:¹

- (a) Municipal services:
 - water and electricity distribution and sanitation (Chapter 1)
 - solid waste management (Chapter 2)
 - mass transit (Chapter 3)
- (b) Transport:
 - ports sector (Chapter 4)
 - maritime transport (Chapter 5)
 - civil aviation (Chapter 6)
 - railways (Chapter 7)
 - motorways (Chapter 8)

1.2 The report contains more numerical data and specific proposals for the transport subsectors, each of which is dominated by a major national public enterprise, than for municipal services, which are characterized by a wide diversity of situations and a large number of national, and particularly local, public enterprises.

1.3 The main purpose of the study is to initiate a dialogue, both among the pertinent institutions in Morocco and between the Moroccan authorities and the World Bank, on the advisability of and options for greater private sector participation in infrastructure financing and management. The difficulties encountered and solutions found in one sector can and should serve as an example, caution, or inspiration for others. This is the only way in which progress can be made in an area which, for many, is so far devoid of all experience. The multisectoral approach is therefore the most appropriate.

1.4 However, the objective at this stage is not to propose a definitive action plan or specific reforms that would be applicable to the different subsectors covered. That can come only from a dialogue at the highest level, followed by choices of options and priorities that only the Moroccan authorities are in a position to make. The most important thing is to identify the principal problems and possible key options. A more detailed study will need to be carried out later, on the basis of the priorities set by the Government.

¹ Other infrastructure sectors are not explicitly covered by this study, although reference will occasionally be made to them. Those sectors, which are the subject of other World Bank projects, are principally telecommunications, posts, electricity production and transmission, water production and transport, gas transmission and distribution, trucking, and industrial parks.

II. WHAT IS REALLY AT STAKE

2.1 Good infrastructure is essential to economic development. The World Bank's Private Sector Assessment report for Morocco² identifies infrastructure as an "important and unfortunate exception to the Government's otherwise clear and strong commitment to a private and market-based economy." Pointing to general weaknesses in infrastructure detrimental to competitiveness of local businesses, the report recommends more participation by private investors in various sectors of infrastructure, especially in electricity production, telecommunications, and motorways. Morocco is currently looking at ways of expanding the privatization program approved by Parliament in 1989 beyond the original scope restricted to commercial sectors.³ Infrastructure, still characterized by public ownership, monopolies, and stifling regulations, should thus be the main focus of a second phase of privatization. Seven of the country's ten largest enterprises would be involved here.

2.2 The World Development Report 1994 cites examples from around the world of poor management of infrastructure services by public operators. It calls for innovative approaches based on commercial management, competition, and user involvement. Private provision of infrastructure services is considered a promising option, both to supplement tight public budgets and to improve the quality of the services. The relevance of these concepts to the Moroccan case was first tested in a study financed by USAID in 1993,⁴ which made a useful contribution to identification of issues and sensitization to privatization opportunities. The present report is an attempt to deepen the analysis in fewer sectors on the right balance of responsibilities between the public and the private sectors.

2.3 Good infrastructure contributes not only to the well-being of the population but also to greater mobility of factors and products making local businesses more competitive. Table 2.1 shows key indicators placing Morocco in the middle range of the lower middle-income economies. However, these levels are much lower than those of the industrial countries and the fast-developing countries of Asia and Latin America. For Morocco's competitiveness to increase it will thus need to rise above the middle range of the lower middle-income countries.

² IBRD: *Preparing for the 21st Century: Strengthening the Private Sector in Morocco*.

³ As per Law 39-89, the program covers 112 enterprises (banks, hotels, manufacturing and sales firms), plus their subsidiaries; two oil refineries were added to the list in January 1995, and the deadline for privatization has been extended to December 31, 1998.

⁴ See Price Waterhouse: *Participation du Secteur Privé dans les Prestations du Service Public*, August 31, 1993.

Table 2.1: Macroeconomic and sectoral indicators

Country	GNP US\$ per cap. 1994	Population Millions 1994	Electricity		Telecommunications ⁴			Water ⁵			Roads ⁶	
			Per cap. consumption (kWh) 1994 ²	Network losses (%) total prod.) 1992 ³	Lines per 100 inhab. 1994	Lines per employee 1994	Cellular per 100 inhab. 1994	Access to safe water (%)			Road density (km per million inhab.)	Paved roads (%)
								Total	Urban	Rural		
Indonesia	880	190.4	246	17%	1.33	61	0.04	41.6%	65.0%	31.7%	1282	47.7%
Philippines	950	67.0	343	13%	1.68	55	0.30	81.0%	92.8%	72.2%	2724	12.2%
Morocco	1140	26.4	432	9%	3.75	74	0.05	56.0%	90.0%	14.0%	2265	49.5%
Jordan	1440	4.0	1011	13%	7.24	79	0.03	95.6%	100.0%	97.8%	1714	100.0%
Algeria	1650	27.4	569	15%	4.11	61	0	81.0%	NA	NA	NA	NA
Colombia	1670	36.3	946	18%	9.68	136	0.28	96.0%	96.0%	31.0%	2958	11.9%
Tunisia	1790	8.8	718	6%	5.38	62	0.03	80.0%	94.7%	62.0%	NA	NA
Peru	2110	23.2	548	11%	3.31	87	0.16	58.4%	77.6%	22.3%	NA	NA

1. World Bank. Table 1. Basic Indicators, World Development Report 1996. Oxford University Press, New York, NY, 1996, pp. 188-189.
2. International Energy Agency (IEA). "Energy Indicators for Selected Countries" in Energy Statistics and Balances of Non-OECD Countries, 1993-1994. OECD, Paris, France, 1996.
3. World Bank. Table 32. Infrastructure, World Development Report 1995. Oxford University Press, New York, NY, 1995, pp. 224-225 (for Morocco: World Bank estimate). The concept of "network losses" combines technical and nontechnical losses. Technical losses result from transmission and distribution; nontechnical losses are largely due to illegal connections and other forms of fraud).
4. International Telecommunications Union (ITU). "Table 1. Basic Indicators and Table 2. Main Telephone Lines" in World Telecommunications Development Report 1995. ITU. Geneva Switzerland, 1995.
5. World Bank. Social Indicators of Development. Johns Hopkins University Press, 1996; and Table 32 - Infrastructure, World Development Report 1995; World Bank estimates (Algeria). The data are for the most recent year available (1989-1994).
6. International Road Federation (IRF). "Table 1. Road Networks" in World Road Statistics 1990-1994, IRF, 1995. The data for Morocco, the Philippines, and Jordan are for 1994; those for Colombia for 1992; and those for Indonesia for 1991.

2.4 With Morocco's membership in the World Trade Organization, with the progress being made toward establishment of a "single European market," and with the opportunities opening up as a result of the free trade agreement between Morocco and the European Union,⁵ the country could face a future in which its economy is fully exposed to out-of-control international competition. Before Moroccan producers can become competitive on the domestic market and also win shares of the external markets, much improvement will have to be made in such areas as internal organization, trade logistics, and the underlying infrastructure services. Liberalization of key sectors of the national economy is not simply a tenet of agreements that have been signed: it also responds to the basic need for greater productive efficiency.

2.5 These handicaps are found in most sectors of infrastructure. In the transport sector, they impact particularly heavily on the agro-industry subsector, in which the meeting of delivery deadlines, the quality of packaging and refrigeration, and downward-trending tariffs are essential to successful export operations. Specialized facilities at the ports and airports are still inadequate. The railways have to cope with difficult operating conditions resulting from the obsolescence of much of their network and rolling stock. The narrowness of roads is an hindrance to traffic in many places, and the motorways network is still in its infancy. Maritime transport services are below the standard prevailing on the major ocean routes. In the major cities, the shortcomings of the mass transit systems⁶ discourage travel by public transport and contribute to traffic congestion. Handicaps in the area of energy supply also have a serious impact, in terms of both cost and availability. The average electricity tariff for industrial users in November 1994 in Casablanca was close to 10 US cents per kWh, compared to 6.5 US cents in Tunisia, a factor tending to weaken the competitiveness of Moroccan producers on the world markets. The wait for a connection can be as long as 15 months, and the cost is high. Because of frequent power outages and voltage surges several manufacturers have had to install back-up generators. Even more troubling is the situation in the countryside, where only 13 percent of the population are connected to the power system. Lastly, the serious deficiencies in garbage collection in the major cities and in landfill management are even posing a threat to public health.

2.6 The situation is particularly difficult for Morocco because it needs not only to maintain, indeed often to replace, its existing infrastructure, but also to expand it to cope with the requirements of the faster economic growth envisioned in the plan known as *Maroc à grande vitesse*. Inadequate infrastructure can hold up economic growth or even paralyze economic activities: traffic bottlenecks, port congestion, stalled manufacturing processes due to a breakdown of overloaded electricity networks -- these are all examples of this type of handicap. Before getting to that point, the economy will have experienced losses which, although not glaring, are still very real, linked to difficulties of complying with international quality standards, longer transit times, lower productivity -- all factors tending to make Morocco's industries and services less competitive on the foreign markets. Moroccan exporters have in fact already reported losing some of their European outlets through failing to meet delivery dates, at the very moment when the "just-in-time" system pioneered by Japan has become an essential tool of successful global export strategies. The geographic proximity of the European market

⁵ The free trade agreement was signed on February 26, 1996.

⁶ In Casablanca, as in Rabat, it is estimated that there are some 4000 inhabitants per bus, almost twice the established norm for developing countries.

no longer gives Morocco a competitive edge over their Far Eastern competitors, for instance, which, though a very long way away, are better organized.

2.7 International experience provides a wealth of examples of increased efficiency in the management of infrastructure services following their transfer to the private sector (see in particular Annex 1 to Volume II). However, every country is an individual case. Any potential benefits will depend both on the level of relative inefficiency of the services delivered by the public sector and on the potential for mobilizing private enterprises. In certain cases, the benefits will derive from better technological choices or from the elimination of the unprofitable investments that can more easily be found in public expenditure programs. In other cases, benefits will result from gains in terms of operational productivity. Generally speaking, it is logical to think that the chief advantage of encouraging private participation in the infrastructure sector will be to stimulate the market and expedite those investments that are essential to growth. Actions to eliminate monopolies and prevent abuses of market power, remove stumbling-blocks to management autonomy, and relax employment conditions will undoubtedly have the most decisive impact.

2.8 Based on a representative sampling, a recent World Bank study on transport in the Maghreb countries concludes that, for Morocco, the weighted average of incremental transport costs represents 1.4 percent of the value of trade, imports and exports combined. Knowing that the cost of transportation is around 7 percent of trade value, it may be estimated that incremental costs account for 20 percent.⁷ Since the value of Morocco's international trade was close to DH 140 billion in 1995, the amount of annual savings possible if the transport sector were functioning efficiently would be some DH 2 billion. A number of indexes that surfaced during preparation of this study confirm that substantial potential margins of progress should be achievable. For example, a doubling of port productivity is within reach (Volume III, para. 4.8), and deregulation of trucking activities should bring down costs by 30-50 percent. For air transport, revenue per passenger/km is close to 30 percent lower than the international average (Volume III, para. 6.12).

2.9 It is the proper management of logistics that will unleash the dynamic forces of progress. Companies, especially those seeking outlets abroad, have learned how to gauge the importance of proper management of the logistical function, which can allow them to keep a minimum inventory on hand while still being able to satisfy clients demanding intact and punctual delivery of their goods. Logistical costs average 40 percent of sales price in the developing countries, but only 25 percent for companies that are able to handle this function well. The example of the United States is significant here. Commerce Department statistics show that, following deregulation in the early eighties, the annual logistical costs to the national economy fell from 14.2 percent to 10.9 percent of GNP between 1980 and 1986. In other words, the United States saved over 3 percent of the GNP by streamlining the transport sector! This analogy obviously has only relative value, but it seems likely that the margins of progress will be all the greater in Morocco since the induced effects on economic development in that country will be stronger.

2.10 The evolution and structure of public investments reveal a growing awareness of Morocco's infrastructural shortcomings. Over the period 1988-1992, investments by the Government, the local

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World Bank. *Maghreb Transport and Trade Facilitation Study*, March 13, 1995, Report No. 13908-MNA.

authorities, and the public enterprises in infrastructure (transport, telecommunications, irrigation, water and sanitation, production and distribution of electricity⁸) absorbed close to 6 percent of GDP. This was higher than the world average of 4 percent, but still more needs to be done, and in particular these resources should be used more efficiently to bring Morocco into the world economy⁹ and reduce unemployment and alleviate poverty. The fast-growth scenario for Morocco has its GDP increasing by 7-8 percent a year over the medium term, twice as fast as in the past 15 years. The World Development Report 1994 notes that there is a strong correlation between the availability of certain items of infrastructure (telecommunications networks, electricity distribution networks, paved roads, drinking water distribution networks) and per capita GDP, indicating that a one percent increase in the stock of capital in infrastructure is associated with a 1 percent increase in GDP. This assumption implies that infrastructure spending in Morocco is growing at an annual rate of 7-8 percent, which is consistent with its growth goals. In about 10 years time, such spending would in real terms be double the 1994 level, estimated at roughly DH 17 billion,¹⁰ putting infrastructure investments at over DH 250 billion for the period 1996-2005 (at 1994 prices).

2.11 The Government and the public sector are no longer able to finance all of these investments. To achieve macroeconomic stabilization, the country must return to strict budgetary orthodoxy and reduce its public debt. It is already apparent that the Government's infrastructure spending, which had been increasing by around 6 percent a year between 1986 and 1990, has been declining since 1991. In 1994, the General Budget and the budgets of the local authorities financed around DH 6 billion in infrastructure investment, or close to one third of overall investments in the sector. Over the next ten years, these budgets will be able to finance at most 25 percent of estimated investment expenditure. Public and private enterprises will therefore need to contribute 75 percent of the necessary funds, i.e. close to DH 190 billion. Assuming that the situation of the public sector remains unchanged, it is unlikely that it will be able to increase its investment capacity to any significant extent, and its contribution may not exceed DH 100 billion. Responsibility for mobilizing the additional DH 90 billion will thus lie with the private sector, which so far has only made a marginal contribution to infrastructure investment (less than 10 percent). Will private individuals be interested in investing such large sums without being able to assume certain of the responsibilities assumed today by the public monopolies? That is very unlikely, and in any case the logic of participation also implies withdrawal by the public sector. This is implicit in the fast-growth scenario, in which the capital expenditure of public enterprises decreases from 3.1 percent of GDP in 1995 to 1.5 percent in 2005. It will thus be up to the private sector to finance the bulk of the incremental infrastructure investment. Without this contribution, the level of investment in infrastructure will fall far short of minimum requirements and economic growth will suffer as a result.

⁸ Source: IBRD. *Kingdom of Morocco, Problems and Prospects in the Public Sector*, 1994. And Appraisal Report on the Secondary, Tertiary and Rural Roads (Table 1.1), 1995.

⁹ According to World Development Report 1994, the percentage of infrastructure investments in relation to GDP should reach 7 percent by the turn of the century.

¹⁰ Investment in transport (public and private) is estimated at around DH 7 billion. The difference is attributed to investments in the water, energy, and telecommunications sectors.

2.12 To see this participation simply as a solution to temporary public funding shortages could result in less than optimal approaches. Experience worldwide has shown that bringing in the private sector to manage infrastructure services boosts productivity and stimulates innovation. This should be a core objective for Morocco. Another important dimension is to ensure that private participation helps to enhance the quality of the services delivered. When dissatisfied consumers come to blows with a public monopoly, they generally lose, because the Government stands behind the public provider. When the service is provided by a private company, the public authorities are in a better position to deal with complaints in an impartial manner: this is in particular the case when a regulatory agency is established. From a more general point of view, users and consumers should take a firmer stance vis-à-vis both public and private providers of infrastructure services and put pressure on them to improve their service.

2.13 Demonopolization and heightened private sector participation in the infrastructure sectors should thus be a priority for the Government. This diagnosis is also shared by the Government, to judge from extracts from recent presentations by the Minister of Finance (Box 2.1)

Box 2.1: Private participation at the core of government policy

Address prepared for the Istanbul Conference on Private Participation in Infrastructure, October 1996 (presented by the Minister of Public Works)

Following are the main points of the Moroccan Government's presentation:

"Like many other countries, Morocco has adopted a policy of opening up its infrastructure activities to the private sector, with the aim, on the one hand, of improving the quality and economic efficiency of its infrastructure services, and, on the other, of reducing the burden placed by infrastructure on the public finances, with a view to channeling the maximum volume of resources to the social sectors" (p. 2).

"Demand for essential services such as water, electricity and transport are supposed to grow at an average annual rate of 7-12 percent depending on the sector and region. This substantial growth rate is incompatible with the financial capacities of the national budget." "One of the most serious problems is the inflexible pricing system and the adoption of prices that are often below cost. Public enterprises are also heavily dependent on government subsidies and guarantees when seeking external financing. The limitations noted below have resulted in the formulation of an ambitious policy for governmental withdrawal from the productive sectors." (...) "A far-reaching program for government withdrawal is now under way, focussing on the privatization of several public enterprises and demonopolization (...) particularly of the sectors of electricity, telecommunications, water distribution, and transport." (pp. 4-5)

Address to the Development Committee, Washington, April 1995.

The Finance Minister emphasized the need "to find supplemental and/or alternative financing sources, to enable Morocco to satisfy its infrastructure needs, through strengthened financial cooperation with both multilateral and bilateral donors, especially in the sense of improvement of their conventional financing terms and the development of innovative instruments that increasingly involve the private sector, both domestic and foreign" (p. 4).

He further stated (p. 7): "Sluggishness of public management is also a serious constraint on efficient allocation of public resources and continued public financing of the infrastructure sectors under optimum conditions in terms of cost, quality and execution time."

The Government's approach "is based on withdrawal by government from, in particular, industrial and commercial activities, which the private sector is in a position to perform better and more efficiently, in order to focus on strategic, social and public aspects, while playing an arbitral, supervisory and regulatory role in the other sectors. This same approach also underlies the new formulas of partnership between the public and private sectors" in the infrastructure sectors, most recently in electricity generation (p. 12).

"It is clear that if Morocco were to adhere to the conventional methods of public financing, project execution could not proceed at a rate compatible with the exigencies of sustained and durable economic growth (p. 13). In this context, reform of the financial sector should contribute to mobilization of domestic savings "as part of the process of diversification of infrastructure financing sources" (p. 13).

"In parallel with privatization, the process has begun of abolishing the monopolies held by certain public-service establishments in favor of the private sector, with the object of increasing the involvement of the private sector in the financing, management and provision of services that were previously reserved exclusively to the public sector" (p. 14). Given the budgetary and macroeconomic constraints, the Government is particularly concerned to encourage foreign investment and "limited-recourse project financing" for the development of infrastructure services.

"With the object of developing this trend [private-sector participation] and involving the private sector more and more in the construction of basic infrastructure, the public authorities are continuing their study of the subject, as part of a large private-sector development project, in association with the World Bank" (p. 11).

Sources: Address by the Finance Minister on the private financing of infrastructure in Morocco, Istanbul Conference, October 15-17, 1996; and *Infrastructure Financing in a Post-Adjustment Economy: The Case of Morocco*, document presented by the Moroccan Finance Minister to the April 27, 1995 meeting of the Development Committee (Bank/IMF) in Washington, D.C.

III. PREREQUISITES FOR SUCCESS

3.1 The constraints, challenges, and opportunities offered by the opening up of the various infrastructure sectors to private participation and to competition are in many ways common to the different infrastructure sectors. Some of the key themes are summarized below and are analyzed in detail in Volume II. Sectoral aspects are covered in Volume III.

A. Designing clear and realistic sectoral policies

3.2 Too often, discussions on the thrusts of a sectoral strategy are confused with those of the strategy of the dominant public enterprise. For instance, while reform of RAM may appear on the agenda of a CIPEP meeting, a discussion of air transport in general will not. Moreover, the obligations imposed on the dominant public enterprise are often not clearly defined. The objectives set for it are often mutually incompatible, and the enterprise then finds itself obliged to decide on the tradeoffs and determine the priorities that the Government has not been able to impose. The public enterprise may, for example, find itself committed to public service obligations or missions without any clear definition of their content or of the resources required for their financing. The absence of a global sectoral vision on the part of the Government favors the status quo, since the existence or scope of the pertinent public monopoly is hardly ever called into question. On the other hand, where such a strategy does exist, reforms will follow, as illustrated by the example of the energy and mining sectors (see Box 3.1 below).

3.3 One of the problems affecting preparation of sectoral strategies for infrastructure is the lack of up-to-date and reliable numerical data on the sectors concerned. The Government should consider the use of performance charts to enable decisionmakers to assess the performance of enterprises, both public and private, in the infrastructure sectors, to receive timely warning if that performance is compromising the country's competitive capacity, and to establish reference points (national and international) in the matter of performance that would facilitate better regulation of those sectors.

Box 3.1: Energy and Mining – Pioneering sectors in privatization and liberalization

Energy and mining are probably those sectors in Morocco in which the greatest progress has been made in recent years in the formulation and implementation of thorough-going sectoral reforms in terms of both liberalization and of privatization and restructuring. They serve as a useful example for other strategic sectors, demonstrating the beneficial effects of liberalization and privatization and showing that the public monopoly is often not the best means of protecting the public interest.

The first major reforms took place in the petroleum sector. Distribution became privatized in 1993-1994, when government participations (in general held by SNPP and representing half of the capital stock) were sold (often to the Government's private partners in the distribution companies) within the framework of the national privatization program. When the various sectoral ministries were asked in 1994 to suggest new enterprises to be added to the list of privatizable ones, only the Ministry of Energy and Mining responded, and a law passed in January 1995 added SAMIR and SCP to the list. Since then, an initial tranche of 30% of SAMIR's shares has been quoted on the stock market (March 1996) and the procedure for selecting a hard core of shareholders for SAMIR and of new owners for SCP is well advanced. SOMAS, a storage company for petroleum products, was sold in May 1996 to a group comprising key operators in the sector. These privatizations took place alongside liberalization of the sector. Liberalization of oil products took place in January 1995, since which time consumer prices have fluctuated to reflect world oil market prices. In August 1995, a law was enacted liberalizing imports of petroleum products. The tax system was also changed to ensure greater tax neutrality among fuels. Nevertheless, many prices (in particular handling costs, the refinery margin, storage and transport costs) are still centrally administered. Although imports of oil products by distributors are now free, they are subject to customs duty of 17.5%, which means that such imports are noncompetitive (crude imports are not subject to customs duty).

The natural gas sector has also been dominated by a major international project, Gazoduc Maghreb-Europe (GME), which runs through Morocco to link Algeria to Spain and Portugal. This project, constructed by an international consortium, was commissioned in October 1996. Projects for branch lines from this gas pipeline within Morocco are also under study (the chief of these would link the Casablanca region to the GME). While the gas would be used principally by gas-fired electrical power plants, it would also meet a large part of the demand from the industrial sector. Both the branch lines or connections to the GME and the new gas-fired power plants would be constructed and operated by the private sector. In addition, a new gas code is in process of preparation.

In the electricity sector, reforms are less advanced but no less ambitious. A new electricity code has been prepared and is expected to be adopted shortly. Following international bidding, the ABE-CMS consortium was awarded a concession for the production of electricity at Jorf Lasfar. It will immediately take over operation of the two existing powerplants and will build two more, for a total capacity on the order of 1300 MW. Furthermore, ONE should be subdivided into subsidiaries handling generation, transmission, and distribution, respectively. Lastly, electricity distribution in Casablanca should shortly be awarded under concession to a consortium headed by Lyonnaise des Eaux. A next stage in reform of this sector could be the introduction of greater competition across the sector and elimination of the monopoly held by ONE or any of its future subsidiaries.

Reforms are also making good progress in the mining sector. Several mines were privatized in 1995 and 1996. The Government has decided to withdraw from mining operations (except for OCP), to liquidate the BRPM subsidiaries that are in difficulty, and to sell off all of BRPM's participations in operating companies, and to refocus its activities on mapping, exploration, and promotion.

It is currently the ministry's intention to prolong this pioneering role through modernization of its own methods of management, to move on from the role of sector operator to that of strategic guide and creator of an economic and regulatory environment that will be encouraging to the private sector. The introduction a year ago of a system of participatory management by objectives is being matched by a major training effort, and ambitious data processing (information) plan, and a review of all procedures, whether they relate to internal management or concern consumer relations. The ministry has clearly expressed its desire to take part, right from the experimental stage, in reform of the Moroccan government.

3.4 Use of the contract plan system in Morocco has not always yielded optimum results. Originally devised as a planning tool, the system could have contributed to the development of true sectoral strategies. Rarely, however, do contract plans touch on fundamental issues such as liberalization of the

sector to which the public enterprise concerned belongs and opportunities for opening it up to competition and private participation. Contract plans are too often regarded by managers not as strategic management tools but as externally-imposed official obligations that they attempt to scale down as much as possible. As for the Government, its main focus where contract plans are concerned is often narrowly financial. In fact, they are really pseudo-contracts, and it is not uncommon for their key provisions to be violated either by the public enterprises or by the Government itself.¹¹ Does this mean that as a tool the system is useless? What it does is to illustrate and highlight the problems inherent in the public enterprise model, and the need to go beyond that model by bringing in private participation, in ways that this study aims to explore. It also demonstrates the need for proper regulation by a specific agency, since it is impossible to cover everything in a contract that is going to have less and less bearing on reality the longer it is in effect.

3.5 Lastly, realistic objectives need to be set for private participation. Too often, governments will mix political considerations and economic justifications, an approach resulting in low-yielding investments that do not cover their costs and place a heavy burden on the public finances. In Morocco, for example, the Government's declared objective in the motorways sector is to construct 1,000 km by 2004, some ten times more than the length of motorways in service in Morocco in 1995. Is such an objective compatible with the achievement of a sufficient return on investment? Would it not be preferable to allow the discipline of the market to govern the pace of motorway construction, and to acknowledge that private investors are often better placed to assess risks and benefits? The less realistic the objectives, the more difficult it will be to conclude any agreements for private participation. How can private investors be expected, for example, to take over a water distribution and sanitation system, in which they would have to make rapid and massive investments, when the present operator (the *régie*) is delivering at a loss an inferior service governed by the same specifications as those to be imposed on the private investor?

B. Reestablishing cost pricing and the sector's financial equilibrium

3.6 Introduction of a good economic system of pricing for public services is one of the main pillars of any sector reform, whether this involves private participation or not. On the one hand, users will have to pay the right price for the services they consume: sectoral reforms thus represent an opportunity for the elimination, or at least reduction, of the many subsidies and other, often hidden, cost-sharing mechanisms leading to economic distortions. On the other hand, private investors will not agree to take over the operation of public services if they find the tariff adjustment mechanisms arbitrary or, as seems to have been the case with certain *régies*, if the authorized profit margins are too low.

3.7 Achievement of financial equilibrium within the sector is a prerequisite for any sectoral reform. The local authorities, like the Government, are still falling more and more into arrears in their payments to the *régies* responsible for water and electricity distribution, a situation that produces chain reactions capable of damaging the financial equilibrium of the entire sector, while the *régies* themselves

¹¹ Violations by the Government are found in many infrastructure sectors: it may refuse to approve the tariff increases or pay the subsidies stipulated, or it may impose new obligations on the public enterprise concerned without giving it the means to discharge them.

are also accumulating payment arrears to ONE, ONEP, etc. Table 3.1 shows the extent of these cross arrears, illustrating how the situation has deteriorated since preparation of this study.

3.8 Many municipalities do not have the necessary funding available. They rely to a very large extent on transfers of part of the proceeds of the value added tax collected by the Central Government (30 %). Their investments are subsidized or financed by the Fonds d'Équipement des Communes (FEC), a Government-owned financial institution. The local authorities have limited resources, and they often experience delays and uncertainties in invoice collection and the receipt of subsidy payments.

All of these factors represent major risks for any private investor, the financial viability of whose investment would depend on contributions or financial guarantees from the local authorities and on their ability to make prompt payment for services rendered. Prerequisites for the achievement of such equilibrium would be the clearance of arrears and the establishment of reliable payment mechanisms. Pending implementation of permanent and more thorough-going reforms, the use of Government guarantees should be able to allay some of those risks.

3.9 A pricing policy has to be based on an analysis of the real cost of the services concerned. Tariff levels and structure send important signals to economic operators, producers and consumers. In the case of infrastructure, however, cost pricing is often concealed by subsidies (direct or indirect), or by opaque administrative accounting procedures when service delivery is the responsibility of a non-autonomous government agency (the direct municipal *régies*, for example).¹² Even the autonomous municipal *régies*, which handle water and electricity distribution and urban bus services, are far from producing the type of accounting data that commercial enterprises should produce. A sound estimate of costs and setting of prices is essential to avoid distortions. Mass transit fares in the large cities have long been too low and have ended up draining local coffers and causing shrinkage of supply. The bias toward low-cost transport has brought the railway enterprise to a condition of quasi-bankruptcy, obliging it to undergo financial restructuring at a cost to the Government of over DH 3 billion in 1994.

Excessively high port charges for roll-on roll-off traffic and containerized cargo have almost certainly slowed down unitization, to the detriment of transport efficiency. These examples all demonstrate the various consequences of inadequate public service pricing.

¹² One of the obstacles to the privatization of garbage collection, for instance, is that no one knows exactly how much this service currently costs the communes. It is difficult to evaluate private bids without being able to compare them against the costs incurred under the present public system.

Table 3.1 Level of public-sector cross arrears, 1995 and 1996

Arrears of government departments, local authorities, and public enterprises and *établissements publics* in the water, electricity, telecommunications, and transport sectors (at end June 1995 and end June 1996) in DH millions

	WATER			ELECTRICITY			TELECOMMUNICATIONS			TRANSPORT			GRAND TOTAL		
	Amount June 1996	Amount June 1995	% Var. June 1996/ June 1995	Amount June 1996	Amount June 1995	% Var. June 1996/ June 1995	Amount June 1996	Amount June 1995	% Var. June 1996/ June 1995	Amount June 1996	Amount June 1995	% Var. June 1996/ June 1995	Amount June 1996	Amount June 1995	% Var. June 1996/ June 1995
Government depts.	208	168	24	193	177	9	649	274	137	598	555	8	1648	1174	40
Public enterprises and <i>établissements publics</i> (except <i>régies</i>)	174	118	47	408	519	-21	108	117	-8	248	383	-35	938	1137	-18
Local authorities	268	269	0	419	470	-11	112	98	14	16	19	-16	815	856	-5
Private sector	400	324	23	729	409	78	2859	1819	57	114	87	31	4102	2639	55
GRAND TOTAL	1050	879	19	1749	1575	11	3728	2308	62	976	1044	-7	7503	5806	29

Source: Ministry of Finance (1996).

C. Strengthening the institutional framework

3.10 The lack of sectoral visions or strategies is partly attributable to the weak institutional framework. The organizational structure of the different sectors reviewed in this study, like the overall organization of public enterprise and public service management, is an obstacle to the reforms required to enable the country to become competitive. It is conducive neither to good management of the public services nor to the adoption of approaches involving increased private sector participation. For instance, there are conflicts of responsibility among the public agencies; there is little cooperation or coordination; the supervisory authorities interfere in the day-to-day running of the public services; certain powers or responsibilities may be devolved to authorities that do not have the necessary capabilities to discharge them effectively, etc.¹³

3.11 These problems are more severe within the context of municipal services. Local elected officials are responsible for the management of municipal services. However, there is some confusion concerning what actually constitutes an intrinsically municipal service. Furthermore, decisions taken by local elected officials cannot be implemented until they have been approved by the Ministry of the Interior, pursuant to Article 31 of Dahir 1-76-583. And where water and electricity services are concerned, and also urban transport, the supervisory authority over the pertinent *régies* is exercised not by the corresponding technical ministry but by a political ministry, which leads to even further fragmentation of institutional responsibilities and to situations in which nothing actually gets done.

3.12 The study recommends a review of the institutional pyramid. More specifically, it recommends that CIPEP (appropriately strengthened and furnished with the necessary resources) be entrusted with overall responsibility for management of a program to demonopolize and reactivate the infrastructure sectors, and that a central body (such as the Ministry of Privatization) be placed in charge of the program's preparation and implementation.

3.13 However, even the best institutional structure is not likely to be effective unless the agencies responsible for its implementation receive the full and committed support of the country's highest authorities. A commitment of this kind is essential, both to overcome the widespread opposition likely to come from those who are presently receiving direct or indirect monopoly rents, and to provide the necessary impetus and support for the various demonopolization and privatization initiatives.

D. Developing regulatory capacities

3.14 The institutional framework does not consist only of the agencies responsible for formulation and implementation of the proposed reforms. It also includes the regulatory bodies and mechanisms governing the sectors concerned. The success of demonopolizing and opening up these activities to the private sector could well hinge on the creation and effective operation of one (preferably) or several regulatory agencies. As far as is possible, the Government will need to draw a very clear line between its responsibilities as regulator of the economy and as agent of production. Without clearly segregating

¹³ These points have been developed in a recent World Bank memorandum on various issues of public administration in Morocco. They are also mentioned in Chapter V below, in Volume II, Chapter 3, and in various sector reports (see Volume III).

its activities in this way, the development of private sector participation has little chance of achieving anything near the desired degree of success.

3.15 It is also important to ensure that both users and providers of services have the legal means to express their viewpoints to the regulatory agency or agencies, and also that they have access to the appropriate legal channels should they need to appeal a decision deemed inequitable. Little recourse of this kind is open to them at present. This is due first of all to the fact that the Government cannot be forced to execute court decisions against it, and, in some cases, to the power of monopolistic public enterprises that are supported by their supervisory ministry. Private enterprises cited the risk of reprisals if they attempt to take legal action against such dominant public enterprises: such reprisals can take the form of deterioration in the delivery of services to them or even loss of the right or privilege to continue to run their business.

3.16 When the structure of a given sector of infrastructure does not permit direct competition within that sector or certain of its segments, regulatory mechanisms may be imposed, regardless of whether the principal operator belongs to the public or the private sector. Even when competitive conditions exist, there is a danger that certain operators will succeed in developing a power of monopoly, either individually or in cartels. The task of regulating the market to ensure efficient public service delivery, honest competition, protection of the public interest, etc., is a fundamental responsibility that the Government needs to be able to discharge. It is therefore essential that Morocco develop its regulatory capacities.

3.17 In Morocco, the regulatory issue is also a complicated one in the area of communal services. Where water and electricity distribution are concerned, the study has found that improvements are needed in the way in which those activities are integrated within the overall framework of their respective subsectors, and that such improvements will require the development of a nationwide regulatory system for both subsectors.

E. Promoting competition

3.18 Private participation in infrastructure services meets two major government objectives, namely to supplement the budgetary resources of the State through contribution by the private sector to the financing of infrastructure essential to the country's economic growth, and to enhance the performance and international competitiveness of those sectors, an improvement that will have positive fallout on the competitiveness of Moroccan exporters in general and of the economy as a whole.

3.19 To achieve those objectives, it is imperative that action be taken to eliminate the monopolies by which certain enterprises maintain a stranglehold on many infrastructure sectors, to free the country from the burden those enterprises have placed on the public finances, and to encourage to the greatest possible extent competition among operators. The public monopoly model is no longer suited to Morocco's current needs, and is even less appropriate to the challenges of the 21st century. The transport sector is the one where there is the highest potential for competition. The ongoing dismantling of the monopoly of *Office National des Transports* (ONT) needs to pick up momentum, and should not be an isolated measure: ports and air transport are also in need of this type of overhaul. In sectors heavily exposed to international competition, such as maritime transport, the temptation of

returning to protectionism must be vigorously resisted. Supervision of effective operation of the market mechanisms will remain an essential function of government, since today's competitive markets could still fall tomorrow into the clutches of a dominant enterprise. Application to the infrastructure sectors of the provisions of the general law on competition could provide a valuable tool to supplement the regulatory mechanisms existing in the sector; to make it possible, the law on protection of competition, which has long been at the drafting stage, needs to finally be enacted and implemented.

3.20 In those sectors of infrastructure where certain activities have the characteristics of a natural monopoly and others, although potentially competitive, may only be carried on under license or exclusive arrangement, the licenses or concessions should be awarded through competitive bidding. Generally speaking, concluding a private agreement is not appropriate. Instead, the study recommends the use of rigorous and transparent procedures for selecting a private partner. In principle, the authorities concerned should draw up a short list of potential bidders with the necessary experience in the area of public service operation and with access to the requisite funding. Such preselected bidders would then be asked to submit formal bids, which would be subject to rigorous evaluation.

3.21 The choice of a top-level partner with an international reputation to preserve will represent a guarantee for the concession-awarding authority. As a first step, the study recommends seeking such a strategic partner to revitalize infrastructure enterprises that are emerging from the mold of monopolistic or quasi-monopolistic public management, before any of their shares are listed on the stock exchange, something which could then be handled in a second phase. In a large number of cases, the public enterprise does not have the technical, commercial, financial or management resources that an international operator could provide. A transfer of shares to the employees of the enterprise or (via the stock exchange) to small stockholders, while perhaps representing a good supplementary measure, cannot help mobilize money or know-how. It should finally be noted that, where infrastructure is concerned, liberalization should in general precede, or at least take place alongside, privatization.

F. Amendments to the legal framework

3.22 The study also points up the need for the appropriate legal tools to implement the reforms. In particular, it looks at the legislation governing the different sectors and also concerning the public domain, concessions, conversion of public enterprises into companies under private law, etc., pointing up existing obstacles to be overcome and voids to be filled. A law on private participation, in the wake of and as a supplement to the privatization law, could fill certain of those gaps, sanction a reform program for the infrastructure sectors, and facilitate its implementation.

3.23 However, the drafting of such a law should not be allowed to hold up the implementation of pilot programs in various sectors. Quite the contrary, a law on private participation should be able to draw on a few specific and positive experiences in that area. Such pilot experiments could also require the enactment of special legislative provisions, as was the case with the private production of electricity.

G. Calling in private consultants

3.24 Not even the best institutions in the world or the best laws and regulations can operate without the necessary human, technical, and financial resources. The various government bodies, such as CIPEP, the respective ministries, and the regulatory agency, will therefore require the assistants of high-level experts, particularly in the initial stages of their activity. Careful and knowledgeable preparation of bidding documents and contracts will awaken the interest of the most serious bidders in the possibility of taking over a public service, and will guarantee the quality of bids submitted. Bid analysis is another critical stage. Lastly, an efficient performance monitoring system will need to be put in place before the contracts take effect. Since all of this can require quite complex studies, the use of expert consultants will be essential. Adequate resources will need to be allocated to the institutions concerned to cover assistance of this kind. These could come from external development assistance, from commissions on income from privatization, from fees charged to operators, or from budgetary allocations.

3.25 Lastly, the local authorities have not yet acquired the necessary experience in the area of privatization. There are many cases where the lack of regulatory capacity is very evident, in particular in the area of urban transport, a sector open to private participation since 1985. The transit crises presently affecting Casablanca and Rabat are the result of failure of the mechanisms at the municipal level responsible for awarding and regulating concessions. The difficulties encountered in negotiating concession contracts in the areas of water, electricity, and sanitation in Agadir, Casablanca, and elsewhere also illustrate the complexity of management of a reform process involving local as well as national authorities. Building capacities to manage this process of opening up to private participation and introducing competition are prerequisites for privatization of infrastructure services. And, in the first phase at least, those capacities can be developed only at the national level.

H. Developing financial markets

3.26 Recent experience in East Asia points up a strong correlation between the level of private participation in infrastructure services, on the one hand, and capital market development and high rates of savings, on the other. For instance, domestic savings stand at an average rate of 33% and stock exchange capitalization at 50% of GDP in Korea, Indonesia, Malaysia, the Philippines, and Thailand, countries that have all implemented major programs of private participation in infrastructure development. In Morocco, however, the domestic savings rate has fallen by 5 points of GDP since 1990, and now represents no more than 14%, demonstrating the need for rapid implementation of reforms designed to reduce the budget deficit and develop capital markets.

3.27 Infrastructure enterprises mostly generate revenue in local currency. Their operating costs, and, to a lesser extent, their investments, are also largely in local currency. Thus it is important to mobilize local financial resources to provide at least partial financing for those enterprises and their projects. In Morocco, banks will make loans only at short and medium term, up to a maximum of five years, a situation that is not compatible with the cash-flow profiles of infrastructure projects, involving large-scale and lumpy capital expenditures and long repayment periods. Foreign exchange borrowings may become necessary, although these have an additional drawback in the form of the exchange risk, which can dissuade promoters. The foreign currency financing of toll roads in Mexico is a particularly

striking example of how a large devaluation can compromise the financial viability of infrastructure investments.

3.28 It is essential that steps be taken to eliminate macroeconomic disequilibria and reduce the volume of public borrowings, which tend to saturate the markets and crowd out private investors. Certain institutional and regulatory reforms are essential to facilitate issues of securities by private companies. The necessary strengthening of the banking system is already coming about through the ongoing privatization of banks and insurance companies. A reform of the pension fund system to enable those funds to invest some of their assets in long-term bonds or in shares could also contribute to the development of a more dynamic financial market that would be more able to provide the long-term capital needed for infrastructure financing. Issues of shares, obligations, or convertible bonds by the private sector should be developed. The Government has undertaken to implement reforms in these different areas, an endeavor in which it is supported by a recent World Bank loan to develop financial markets. Such reforms will not bear fruit overnight. Meanwhile, recourse to international markets will provide the essential funding to supplement the emerging flow of financing from local sources.

3.29 In addition, certain modes of indirect and parallel public financing will need to be eliminated. It has happened in Morocco that the cash surpluses of certain monopolistic public enterprises have been absorbed and used by the Government for non-budgetary expenditures instead of being recycled on the financial market. Not only does this situation deprive the commercial banks of money that they could lend to the private sector, it also means that public funds are being spent without direct parliamentary supervision.¹⁴ The development of the motorways network offers an example of this practice. Société des Autoroutes du Maroc (ADM) was created to build and operate motorways. Its initial capital of DH 160 million comes from 15 public enterprises, including ONCF, ODEP, and Compagnie des Transports Marocains-Ligne Nationale (CTM-LN), a public intercity bus company that has since been privatized. Its capital was increased in 1994 (and again in 1995 and 1996) to allow for continuation of the motorway concessions program. CTM, now a private company, has naturally not followed up here. However, this choice is not offered to the public enterprises. Although ONCF, with no liquid assets, was able to refuse the invitation to subscribe, ODEP, operating at a profit, had to raise its participation from 50,000 to 70,000 shares. This effectively means that port users are being taxed to finance motorway investments.

I. Limiting subsidies

3.30 Infrastructure subsidies, particularly in the form of capital, represent a heavy drain on the government budget. The railways, historically one of the major beneficiaries of the subsidy system, received DH 10 billion in subsidies between 1980 and 1994! By 1995, their annual subsidy (DH 345 million in 1994) had reached DH 700 million. ONE received DH 800 million in subsidies in 1994 and

¹⁴ The conventional logic of the public finances demands reimbursement to the Treasury of funds generated by public enterprises in excess of their needs either through a profits tax or through the collection of dividends by their owner, i.e. the Government. Provision for the allocation of such revenue is made in the *Loi de Finances*. The current practice of extra-budgetary financing, however, is tantamount to granting a supplementary budget to a technical ministry which spends it at its discretion on the basis of its own internal priorities.

DH 494 million in 1995, while ONEP received DH 280 million in 1994. Subsidies to ADM totaled DH 47.5 million in 1994 and 72.5 million in 1995. Overall, public infrastructure enterprises absorb approximately two thirds of government subsidies to industrial and commercial enterprises and establishments. As already noted, this is not a viable situation. The cancellation in 1995 of subsidies to ONEP (some DH 300 million a year) is an example of the radical decisions that a cash-strapped Treasury may have to take. Choices will have to be made. Subsidization is the least justifiable in the land, air, and maritime transport sectors. On the other hand, in sectors such as water supply, sanitation, and subsidies may in certain cases be justified, particularly in view of those sectors' important external impacts. However, even when a subsidy is justifiable, the warning contained in World Development Report 1994 (page 81) should be borne in mind: "Price subsidies to infrastructure almost always benefit the nonpoor disproportionately." In any case it is important to avoid subsidizing inefficient management or commercial risks that should be borne by the operators.¹⁵

3.31 Mutualization, and cross-subsidization should be examined particularly attentively. As in many other countries, these formulas are widely applied in Morocco to promote political and social goals. For example, ADM uses revenue from existing motorway sections to finance new sections; the major water or electricity consumers subsidize the smaller ones; attempts are being made to mix profitable sections and "social" sections in bus routing plans; ports running at a loss are subsidized by those making a profit within ODEP; the phosphates industry is indirectly subsidized by the railways and ports thanks to special below-cost tariffs. These practices should be gradually phased out. Cost-sharing covers up the subsidy, thereby deflecting any debate on the subsidy's justifiability. It often ends up benefiting users who were not originally targeted. To retain this system also involves retaining monopolies, whose burden on the country's economy and competitiveness is well known, since only a monopoly can successfully overinvoice a captive effective demand. Cross-subsidization thus creates major economic distortions in resource allocation.

3.32 A safer method is to introduce competition to determine the amount of subsidies required. Bids prepared on this basis for bus-line operation in London resulted in a 70 percent reduction in subsidies! Similar subsidy reductions were also achieved in Buenos Aires when concessions were awarded for operation of the city's subway lines.

J. Tackling the overstaffing problem up front

3.33 One of the main criticisms leveled at the public enterprises is that they tend to carry payrolls that far outstrip their actual needs. Once the infrastructure sectors have been opened up to competition and to private participation, massive layoffs could come about, a possibility that is giving cause for concern both to the government and to the enterprise managers themselves. Still, any downsizing of this kind would only be temporary, since new jobs will be created as economic growth picks up in the wake of the reforms. In Chile, the unemployment rate rose to 23 percent in the early eighties following the first wave of privatization but then fell rapidly as the country started to post good economic results,

¹⁵ Privatization of bus transport has led in many countries to considerable cost savings and draconian reductions in subsidies for maintaining "social" lines. This illustrates the fact that subsidization of public services, a measure intended to help users, is in fact distorted to benefit the public operator, which then squanders the subsidy on wages for its bloated and highly-paid workforce and on various other wasteful expenditures.

stabilizing at around 5 percent in 1989. In general, people losing their jobs in this way are compensated, at least partially (or in some cases even more than compensated), by being hired back by the new private operators. In Morocco itself, for instance, privatization of urban transport has had a positive impact on employment in the sector, the private operators having created 5,500 new jobs over the past ten years, against losses of 1,000 in the transport *régies*. The first wave of privatization (1993-1996) has not actually resulted in any significant downsizing.

3.34 The employment issue will be particularly difficult to handle since many of the infrastructure subsectors are blatantly overstaffed. The railways could be the most seriously affected, since some 4,000 workers could potentially be laid off. A consistent nationwide approach across all sectors is recommended to solve this problem. This could take the form of a national layoff plan with clear guidelines for compensation, pension transfer rights, and retraining. A supporting program would also need to be implemented to lessen the impact of those reforms on the most vulnerable categories. There are also a number of different formulas for associating workers more closely with the reforms, one of these being to encourage employees to become stockholders, as provided in the existing privatization law. Chile again offers an interesting example here: Chilean workers have been authorized to take advances against their severance pay to purchase shares in their companies. Labor buy-out formulas may in certain cases prove an efficient solution, since they allow the workers themselves to make the decisions on how to reduce excess costs.

K. Reaching a consensus

3.35 To succeed, a reform program should be supported to the greatest possible extent by the principal stakeholders. Complete adherence by all parties is generally impossible, but it is important that the government seek to involve those with the largest stakes and attempt to convince them of the soundness of the program.¹⁶ It is essential that the users and the public in general be kept adequately informed. The support of public opinion is important to ensure the success of the reforms, whose principal beneficiaries will, in the final analysis, be the users.

3.36 It will also be important to secure the necessary support at the political level, be it through local elected officials, who have to approve transactions concerning municipal services, or through elected officials within the central government, whose intervention is required for the approval of any necessary amendments to the sector's legal and regulatory framework. Resistance encountered at the local level (as in Agadir and Casablanca, for example) by the promoters of water and electricity concessions is evidence of the difficulty of carrying out such operations without the full involvement of the political authorities.

¹⁶ In the past, boycotts have reportedly been mounted by workers on the staff of enterprises or government departments in Morocco who have felt threatened by contracts concluded with private companies, particularly in the areas of public lighting and garbage collection. The signing of a water services and sanitation concession in Buenos Aires is an example of successful negotiations among the parties concerned (see Volume III, Box 1.1).

IV. PRIVATE PARTICIPATION IN MUNICIPAL SERVICES

A. Water and electricity distribution

4.1 Water and electricity are distributed by municipal *régies* in the large cities, and by ONEP and ONE in over 300 small and medium-sized towns and in the rural areas.¹⁷ The paramount objective of securing a satisfactory standard of service at affordable prices has not been attained, and the quality of the services is very uneven. The majority of urban inhabitants receive satisfactory sanitation and water services, except in Tangier, where water has been available for only ten hours a day following the 1995 drought. In the rural areas, sanitation services are practically nonexistent, and water distribution is a community service relying on wells, boreholes, springs, and standpipes. Water shortages and inferior water quality are frequent problems. Electricity distribution follows a similar pattern: the service is relatively good in the cities, where power failures have been rare since 1992-1994, but is practically nonexistent in the rural areas. Some of the *régies* have managed to improve their operation even while still running at a loss; there is still a long way to go, in particular for water distribution, a sector whose networks are in need of massive rehabilitation but must still cater to the needs of a rapidly growing population. Between now and the year 2000 total investments of US\$2 billion will, according to certain estimates, be needed for water and sanitation investments, and close to US\$2.5 billion for electricity.

4.2 Institutional reforms are needed to encourage private sector participation. Five recommendations are offered:

- The reform process in the water and electricity distribution and sanitation sectors will not succeed until a true consensus is reached concerning the necessity of implementing that process. For such a consensus to be achieved, the country's highest authorities will have to analyze the principal options (particularly in terms of market structure and competition) and on that basis adopt clearcut positions. The debate should also involve the principal users of those services. A round table could be organized under the auspices of the Monitoring Committee of the private sector development project as a forum for reviewing the present report, supplementing it with the users' diagnosis, and formulating recommendations.
- The institutional framework needs to be clarified and simplified. It is recommended that a central body be entrusted with implementing the program for opening up the sectors concerned to private operators, either managing the process itself or assisting the local authorities.
- To ensure that the interests of the private operators and the users are fairly considered, a national autonomous regulatory agency should be set up with decision-making powers, particularly in the area of tariffs and of service quality control. This agency could be multi-sectoral and could, for example, cover both energy (electricity and gas) and water and telecommunications. In a first stage, the draft electricity code would

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See Annex I in Volume III, Chapter 1.

have to be adopted, and the electricity commission provided for in the code (or a gas and electricity commission) would have to be established. The commission's regulatory powers could then be strengthened and expanded to other infrastructure subsectors.

- • Where private operators are going to come in to take over activities previously performed by the *régies*, the latter would be liquidated.
- The assistance of external experts is essential to prepare the reform strategy, establish the regulatory framework, select private operators, and ensure the effective operation of the regulatory bodies.

4.3 Distributors should concentrate on their basic functions and contract out ancillary tasks. Subcontracting is already used for the equipping of housing plots, even though private enterprises are not currently treated on an equal footing with the *régies*. The system could be expanded to maintenance and vehicle repair and large-scale rehabilitation works. Where the basic functions are concerned, namely water and electricity distribution, their natural monopoly feature makes concession operation the most appropriate option.¹⁸ This involves an infusion of private capital, and allows for good coordination of investments and operation. In cases where private companies are unwilling to provide the capital required for rehabilitation and expansion, *affermage* may be the most appropriate solution, provided that adequate systems are established to allow for timely implementation of the investments and coordination between investment and operating needs. It is recommended that bids be invited as soon as possible for the launching of a pilot concession scheme.

B. Solid waste management

4.4 Population growth, urban concentration, and trends in consumption curves are all factors contributing to a rapid expansion in the volume of waste generated, which already stands at an annual level of 8-10 million tons nationwide. The municipalities are responsible, under the *Charte Communale*, for the collection of solid waste, but in the major cities the responsibility of dump yards lies with the *Communautés Urbaines* (CU). Current funding for solid waste disposal and treatment is highly inadequate and improperly managed. Solid waste management activities are generally carried out by municipal force account [*en régie municipale directe*], using large numbers of workers who have little motivation to improve productivity. Their equipment is inadequate, wrongly designed, and improperly utilized. Transport systems between collection point and landfill are mostly inadequate. Recycling is still rarely performed. The only treatment plant is located near Rabat and is operated by the water distribution *régie*, which manufactures compost under a contract with the municipality, but at a cost double its price.¹⁹

¹⁸ Where electricity is concerned, competition may be introduced all the way to the level of the final consumer, as illustrated by the experiences of the United Kingdom and Chile, for example. In those countries, the consumer selects his supplier, but receives electricity through a monopolistic distribution network; the distributor's role is solely to transmit the electricity, for which it receives a fee set by the regulatory authority.

¹⁹ Compost is sold at DH 25-35 per tonne, while its production cost is around DH 50-60 per tonne.

4.5 The quality of household waste collection is very poor. Collections are irregular: surveys taken separately in Tetouan, Casablanca, and Fès reveal that 30-50 percent of household waste is not collected, and that the number of unofficial dumps is rapidly increasing. In the case of industrial and other special wastes (hospital waste, for example), the absence of specialized services results in their being mixed with other wastes and ending up in inadequately equipped landfills where, particularly in Casablanca, recyclables are sorted out by the informal sector, often without supervision and under most unhygienic conditions. Chemical reactions and excessive heat occasionally trigger fires in the landfills, and seepage of toxic fluids poses a serious threat to the water table. Morocco has a high stake in keeping cities clean of solid wastes, reducing the risk of epidemics resulting from unsupervised dumping, and reversing a trend that could end up jeopardizing tourism. At present, very few local authorities are devoting adequate attention to this problem; and since the seriousness of this issue is not yet readily apparent to the man in the street, the first step towards its solution is to sensitize the public at large to its magnitude.²⁰

4.6 The private sector could enhance the efficiency of solid waste management and improve both the general conditions of hygiene and help preserve the environment, even if the few experiments in privatization over the past 20 years have not been exactly successful. It is true that foreign and local investors have sought involvement in the management of certain services such as treatment of household waste, operation of the Casablanca landfill, and, more recently, construction and operation of transfer stations and household waste collection, also in Casablanca. While these various projects have sometimes encountered technical problems, the main obstacle to their success has been the lack of political will on the part of local elected officials and of properly trained staff to prepare and negotiate contracts with the private sector.

4.7 Following are the basic thrusts of a possible strategy for opening up the sector to private participation:

- (a) *Defining the legal and regulatory framework* for the collection, transport, and disposal of solid waste. This is an essential prerequisite to ensure protection of the environment and encourage private participation. In particular, the law should stipulate the penalties for unauthorized dumping. The need for this provision has been acknowledged by the Government, and a bill on solid waste is being drafted. National regulations are also needed to define the framework within which these activities are to be carried out, the formulation of rules governing bid proceedings being particularly essential.
- (b) *Unequivocal allocation of responsibilities in the area of policymaking.* A consistent national policy needs to be defined. A study for preparation of a national master plan for solid waste management will serve to highlight the options. It is also important to review the level at which those activities should be organized, since the jurisdiction of a given commune may not coincide with the optimal service area. Furthermore, in

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A major event has occurred since this study was prepared, namely the dispatch of a Royal Letter on October 30, 1996 to the Minister of the Interior requesting that urgent and effective measures be taken to keep the cities of the kingdom clean and protect their environment.

Casablanca transfer stations have been awarded by the Wilaya, while this responsibility in fact lies with the CU.

- (c) *Defining optimal areas of activity* is an essential step in the economic analysis of projects. In each individual case, a comparison should be drawn between the possible economies of scale resulting from grouping together different services (collection, grouping at transfer stations, landfills, recycling, composting, incineration, etc.) under the responsibility of a single enterprise, thereby ensuring a differentiated supply to benefits derived from pluralistic supply that can be more specialized and better suited to the needs of a particular service, or which would stimulate competition and service quality.
- (d) *Separate treatment of hospital wastes* is advocated. This can be accomplished through the use of special incinerators, a routine procedure in most of the industrial countries. Private operators could provide this service to the hospitals for a fee, while the public authorities would simply monitor compliance with the pertinent regulations.
- (e) *The creation of a database* on solid waste production and management costs in the major cities is an advisable measure. The fact that the true cost of the services is unknown by most of the municipalities, which believe it to be lower than it actually is, is a serious obstacle to privatization.
- (f) *Experts* in organization of competitive bidding and contract negotiation should be hired to assist the local authorities or agencies responsible for those aspects.

C. Urban transport

4.8 The case of urban transport is an interesting one from several standpoints, since although this sector has been open to the private sector for some ten years, it continues to operate in unsatisfactory conditions. The municipal bus companies (*régies*) set up in the sixties suffered from chronic financial shortages preventing them from satisfying demand. The new policy introduced in August 1984 aimed to increase supply by establishing complementarity between the basic public service provided by the *régies* and privately run "first class" services, which transported only seated passengers at double the fare charged by the *régies*. Concession of private lines was initiated in Casablanca in 1985 with four companies, followed the next year by Rabat, and subsequently by the other cities in the kingdom. At present, over 50 concessions are in operation, estimated to handle some 60-80 percent of urban mass transit operations. Early results were positive: the private sector bus fleet numbered over 1,000 vehicles in Rabat and Casablanca, more than compensating for the erosion of the fleet owned by the *régies*, which were unable to replace their aging vehicles. However, the situation has regressed considerably over the past few years. Users complain of deteriorating public services and fare hikes. And at the same time, the *régies* are plunging deeper and deeper into debt and are being forced to curtail their own services. By 1995, urban transport in the major cities was once again in a critical situation: it was estimated that Casablanca and Rabat had approximately one bus per 4,000 inhabitants, half the international norm. The unsatisfied demand for mass transit could exceed 20 percent of effective trips in Casablanca.

4.9 This experiment in private sector participation in the mass transit sector should be seriously debated. It shows that the success of a policy to privatize the public services is dependent on the relevance of the institutional framework and of the type of regulatory mechanism selected, a topic central to the present study. In the case of urban transport in Morocco, the original weakness came from a misunderstanding of overall market needs. The true problems of mass transit were not dealt with, even though the transfer to private services of the most effective portion of the demand allowed for temporary decompression of the *régies*. The masses still remained dependent on the service provided by the *régies*, and with the added pressure of galloping urban population growth a crisis was inevitable, given that there had been no financial restructuring of the *régies* and they were still operating within an institutional framework incompatible with sustainable financial viability. Their fares did not cover their costs, and a much-needed mechanism to provide regular and adequate subsidies was not introduced. Consequently the public bus fleet could not be renewed, which is why supply on the part of the *régies* fell off dramatically over the past decade.²¹ With respect to private mass transit, the local authorities were unable to mobilize proper means to regulate this type of activity or monitor compliance with the requisite standards. It is true that they were advised by the *régies*, a situation that in some cases gave rise to conflicts of interest for the latter. Concessions were poorly designed and awarded under unsatisfactory conditions. Bid selection criteria were inappropriate and not strictly followed. Compliance with contract conditions tended to falter after the local authorities refused to enforce the fare adjustment provisions, leading private carriers to offset losses of earnings by ceasing to honor their own commitments, a situation in which they were abetted by the operational weaknesses of the *régies* and the administrative failings of the local authorities. Lastly, insufficient information was available to enable sound decisions to be made in the matter of regulating supply by reference to demand; and in the absence of an updated transport master plan fully integrated into the overall urban development plan the number of concessions multiplied very haphazardly. The inadequate capacity of the urban roads and resultant traffic congestion is not the least of the problems facing urban transport companies, particularly in the major cities where the commercial speed of buses has fallen to below 10 km per hour.

4.10 The first step toward solving the urban transport crisis is to reform the institutional framework. Management decisions need to be decentralized, and the political, technical, and financial supervision presently exercised over the *régies* by the Ministry of the Interior should be abolished. A national framework for the grant of urban transport concessions, including bidding procedures and new standard specifications, should be prepared by the ministries involved (Transport, Privatization, Interior). The local authorities in the major cities should develop internal capacities to manage urban transport issues (development of information systems and training of middle managers), thereby ensuring better performance in the planning of demand coverage, preparation of bidding documents, bid selection, and enforcement of compliance with the specifications. In the other cities, management capabilities could be installed at the regional, or even the national, level. A process of dialogue and consultation with user groups and local enterprises should be set up. Subsidization of the bus services should be properly structured and streamlined. Cost containment is an essential first step, which can be achieved through modernization of the fleet, downsizing of overstaffed units, and improved management of mass transit demand. The next step will be to minimize the subsidy by asking bidders to

²¹ In Rabat, only 80 out of a total fleet of 180 buses were in service in 1995!

offer competing quotations for its amount. The setting up of systems allowing for a more accurate targeting of the subsidy will also be necessary. Steps should be taken to keep the cross-subsidization between bus routing and user categories within reasonable limits, so as not to create distortions that could seriously affect the development of mass transit. Analyses will be needed to ensure the reliable mobilization of resources to finance those subsidies that are socially and economically desirable. Lastly, transport companies should have access to sources of investment financing that are more appropriate to the needs of a minimum-cost mass transit system.

4.11 There are four possible options for the future of the urban transport *régies*.

- (a) The *régies* could be financially restructured and run as commercial undertakings. The first stage could involve the adoption of the contract plan formula, already in use in other sectors, creating greater accountability at the management level and making the grant of subsidies conditional on the achievement of specific financial and productivity goals. However, since the local authorities would need time to strengthen their staffs to prepare and monitor such complex arrangements, this formula is not suitable for immediate application.
- (b) The *régies* could subcontract a few of their lines to private operators, a solution that has seemed to work satisfactorily in Porto (Portugal) for instance, and which could be regarded as an interim measure pending more complete privatization.
- (c) Those *régies* that are "recoverable" could be converted into *sociétés anonymes* (SAs) whose initial capital would be wholly subscribed by government (central or local). This would allow time for settling the issue of reductions in force and undertaking restructuring programs that will guarantee the companies' future financial viability. Once their liabilities have been cleared, the stock of the SAs could be quoted on the stock exchange or sold to private operators. Repurchase of *régies* by their management teams offers an interesting alternative.
- (d) The fourth option would be to leave urban transport to the private operators and to liquidate the *régies*.

4.12 Of these four options, those involving complete takeover of the services by private operators seems the most desirable. The public enterprise system has little chance of producing favorable results, since its inherent management constraints create an environment where there is little incentive for productivity and where the multiplicity of objectives ends up diluting manager accountability. International experience of contract plans shows that the benefits derived from them are at best transient. The option involving takeover of an enterprise by its staff is attractive, but it raises two questions, one concerning the mode of financing such repurchase, and the other concerning the speed with which the "culture" of the enterprise concerned can be transformed to enable it to face up to competition from an already firmly entrenched private sector. In the end, the idea of a complete transfer of all services to the private sector, associated with the development of market regulatory agencies (which could benefit from the expertise of the former staff of the liquidated transport *régies*) is the option offering the best chances of success.

V. PRIVATE PARTICIPATION IN THE TRANSPORT SECTOR

A. Completing transport deregulation

5.1 For economic growth to pick up speed it will be necessary first to increase transport productivity and then to reduce both costs and tariffs. Like a growing number of other countries, Morocco is now engaged in deregulation of its transport sector. It is interesting to note that pressure of competition among (for the most part private) transport companies has intensified to the point that the legal framework for the transport sector established by Dahir 1-63.260 of November 12, 1963 has just about been rendered obsolete. The draft Dahir adopted by the Government and slated for passage in 1997 provides for elimination of ONT's charter monopoly, freedom of pricing, free access to the profession of carrier subject to possession of the requisite qualifications, and legislation of transport operations handled for the account of third parties by trucks of less than 8 tons GVW. This major reform project should clear up the economic distortions created by cumbersome regulations. For the other branches of activity in the transport sector, deregulation is still pending. These could benefit from the experience of the trucking industry, whose somewhat similar structure and behavior have sometimes had harmful impacts on the operation of the market.

5.2 The trucking profession has hitherto been strictly regulated. The first requirement is to obtain an *agrément*, the authorization without which a truck of over 8 tons GVW may not be operated. In practice, the holder of an *agrément* rents it out to a trucker who is then responsible for its implementation. The level of such rents appears to have dropped considerably since the Ministry of Transport began awarding *agréments* less restrictively. Nevertheless, such rents were certainly not negligible in 1995, and a regulation of this kind can end up raising transport costs quite substantially.²² Then there is the charter monopoly [*monopole de l'affrètement*] for trucks of over 8 tonnes GVW. Designed as a means of providing affordable service to all of the provinces, the monopoly has been managed by ONT under such strict conditions that evasion and fraud are commonplace. As a result, a large proportion of highway freight traffic is carried by small trucks not subject to ONT's controls.²³ Considerable savings could be achieved by using larger trucks in a demonopolized market. The two opposing functions (commercial and regulatory functions) exercised by ONT represent one more blow to the free play of the market mechanisms. Sitting on both sides of the fends, ONT has thus been able to block initiatives designed to develop multimodal transport at its expense. For example, the Carré company, a subsidiary of ONCF for messaging and retail services, in 1989 unsuccessfully requested authorization to develop its own truck fleet. For combined transport, ONCF has to rent heavy trucks at the often prohibitive rates and the commission charged by ONT. Prospects for progress in the trucking sector will remain bleak until the quasi-monopolies and the regulations restricting intermodal competition are eliminated.

²² The rent varies according to the profit-making potential of the service concerned, for which clear guidelines exist. For instance, a rate of DH 3,000 per month was quoted for one-way operation of a truck of 19 tonnes GVW between Agadir and Casablanca. For transport by bus, rents of DH 10,000 or more a month were quoted.

²³ Small trucks reportedly carry 50-60 percent of the national heavy truck market! Considerable savings could be achieved by replacing small trucks by heavy ones (a 50-80 percent cost reduction).

B. Railways

5.3 The railways subsector is managed by ONCF, a public industrial and commercial establishment. As far as its infrastructure is concerned, the 1900-km network is aging but in general in good condition; and while sufficient rolling stock is available, it is also rather old. ONCF derives half of its revenue from phosphate traffic, one fourth from general freight operations, and one fourth from passenger traffic. ONCF's technical management is satisfactory, but its financial performance is poor. It has been running at a loss since 1980, its cumulative deficit over the period 1980-1984 topping DH 4 billion. The subsector's financial equilibrium is maintained thanks to large financial transfers from the Government amounting to a total of DH 10 billion over the period. ONCF's staff of 14,000 is much too large for its present volume of traffic, and downsizing its payroll to 10,000 is a reasonable goal. Over the medium term, the railways will need to handle increased competition from the trucking industry in the general freight and passenger markets, thanks to the development of the motorways network and liberalization of the trucking industry. Although their share in the overall transport market will probably continue to fall, the railways can still continue to play an essential role in the national transport system if they operate along commercial lines, improve the quality of service, achieve substantial cost reductions, particularly in the area of personnel, and mobilize resources to finance a substantial program for renewal and modernization of the infrastructure and equipment needed to enable them to remain competitive. Private sector participation would represent a decisive factor in establishing commercial management in the railways sector.

5.4 There are several possible options for private sector intervention in the sector.

- (a) ONCF would continue to run actual railway operations, but would transfer to the private sector non-railway activities (such as hotel operations) and activities that no longer have the requisite linkages with the core business of transport by rail. Support activities, in particular infrastructure and rolling-stock maintenance, would to a large extent be subcontracted to the private sector. Joint ventures with the private sector for the operation of specialized services would be developed. The private sector would be approached for rolling stock financing. This increase in private sector participation in support of ONCF would allow the enterprise to concentrate on its core activities, but in the final analysis would have only a limited impact on overall management of the railways sector.
- (b) Outright privatization of the railways through sale to the private sector of all of the railways' assets, following the experiment currently in progress in the United Kingdom, would represent a radical solution, one that would not seem to be politically acceptable in the present Moroccan context.
- (c) A further privatization option would consist of separating management of the railway infrastructure (which would continue to be handled by a public enterprise) from transport operations, which would be handled by one or more private enterprises, possibly in competition with each other. There are serious disadvantages to this formula. It impedes the resolution of technical conflicts in the areas of infrastructure management and transport operations, it deprives the operator of all control over

infrastructure costs, which account for up to 40 percent of total transport costs, and it makes it very difficult to determine the optimum level of track maintenance.

- (d) Operation of the railways under concession is the most promising option. The Government would retain ownership of the infrastructure, while actual railway operations (including management, maintenance, and infrastructure renewal) would be handled as a commercial business by the concession holder, at the latter's own risk. The concession could either cover all services or be restricted to certain specialized services (phosphate traffic, for example). Given the small size and strong technical integration of the Moroccan network, the idea of a global concession might be preferable to that of a partial concession, whose technical feasibility might be doubtful. The concession holder would freely define the configuration and pricing of commercial transport services; any passenger services operated by way of a public service obligation would be governed by public service contracts, with adequate financial compensation for the concession holder. The concession holder would pay the Government a concession fee. Rolling stock investments would be financed by the concession holder, while investments in infrastructure would be financed, preferably by the concession holder, or, in certain cases, in whole or in part by the Government but with appropriate repayment by the concession holder. Lastly, the Government could authorize use of the infrastructure by secondary railway operators, in particular in cases of abuse of market power or of inadequate performance by the concession holder in a particular segment of the market.

5.5 One formula for concession operation would be to have the concession awarded through competitive bid proceedings held to select the strategic shareholder of the future concession-holding company, without prior restructuring of the railway sector. The procedure of selecting the strategic shareholder would comprise several phases: preselection of candidates; preparation of the special conditions of the concession contract; acceptance of technical bids; and award on the basis of the financial quotations. Upon entry into effect of the concession, the concession holder would retain selected ONCF workers, while excess staff would be laid off by ONCF.

5.6 In a second formula, operation under concession would take effect in two stages. In the first stage, a *société anonyme* would be set up, separate from ONCF, with its capital fully subscribed by the Government: this company would be awarded the concession for operation of the railways. The company would at first take over a large number of ONCF's workers, but would pursue an active policy of downsizing, in particular through offers of early retirement and incentives for voluntary departures. In a second stage, following an interim period of two or three years during which the concession-holder would have to demonstrate its financial viability, the Government's shares in the company would be sold to private investors, partly through bidding for a strategic shareholding, partly through sales on the stock market.

C. Motorways

5.7 Roads play an important role in intercity transport, being used for some 90 percent of passenger traffic and 75 percent of freight traffic (excluding phosphates). Their economic significance is thus considerable. The system's capacity is already strained, a situation that escalating traffic growth will only intensify. It is therefore essential to strengthen capacity and to adopt the motorways alternative when conditions so justify.

5.8 In 1995, the existing motorways system comprised only two sections, about 110 km long in total. Plans for its development are contained in the Decade of the Motorways [*Décennie des Autoroutes*] program which provides for the construction of 1,000 km by the year 2004. Morocco's legislation on motorways concessions and toll system operation goes back to 1989 and the Société des Autoroutes du Maroc (ADM) was established that same year. ADM is a *société anonyme* whose shares were originally distributed among the Government, certain *Offices*, enterprises, and public banks and was awarded the concession to operate the Casablanca-Rabat section completed in 1987 and the concession for construction and operation of new sections that would extend the network under its responsibility to a total of around 400 km by 1995. Funding for ADM's motorways program has hitherto been provided through self-financing and borrowing. Self-financing comes from the operating surpluses on sections already in service and from capital increases subscribed by the shareholders. The Arab Funds and Italian bilateral assistance have up to now been the principal sources of loan funds. The financing structure for continuation of the program, as envisaged in a 1994 financial study, was based on borrowings to cover 70 percent of the cost of the works, the Government contributing 20 percent and the balance being self-financed.

5.9 The weaknesses of the present system are found at three levels. On the financial level, the size of the effort required of the Government is incompatible with the budgetary restrictions inherent in its policy for rehabilitation of the public finances. Particularly with the privatization of companies that are ADM's shareholders and with no prospects of dividends over the short or medium term, funding for the capital increases required is likely to become more and more of a drain on the public coffers. At the economic level, the traffic expected once the different sections of the program come into service is rarely of a volume to guarantee viability of the respective investment. This means that the prospects for concession-holders to obtain a good financial return is even more uncertain, with the risk that the Government may have to bear additional burdens should it be required to make good on its loan guarantees. Lastly, the toll system is certainly not being managed along the best possible lines, and the search for savings on construction and operation could have been taken further: these shortcomings are not unconnected with ADM's dominant "public" facet and its quasi-monopolistic position within the subsector. This type of institutional context is not the most conducive to progress or to the achievement of the best possible compromise between economic costs and efficiency.

5.10 The solution recommended is to open up the sector to *active* private-sector participation. The preferred option is to award concession contracts, with the concession-holder assuming responsibility for the investments. Other options are possible, such as *affermage*, which while being able to offer the same advantages in terms of dynamic management, has the drawback of not providing for private participation in investment costs. For a concession to have the best chances of success, several conditions need to be met. The most essential condition is that the project's economic viability be

established beyond all doubt. Of the proposed program, the Casablanca-Settat section seems to be the one most likely to respond to this requirement, and hence the most likely to interest private investors at the present time. Another condition is that the process of selecting the concessionaire be as transparent as possible. The bidding documents, including the draft contract, should be prepared with the assistance of internationally renowned experts, since there are a number of gaps in the existing legal and tax framework. Risk analysis and classification will be essential to steer contract negotiations and ensure that the awardee does not evade responsibility for the risks it should assume (particularly commercial risks linked to traffic forecasts). Lastly, introduction of the private sector and monitoring of its performance will require the development of new capacities (legal and financial) within the highways directorate. Such capacities were not so crucial to the maintenance of balanced relations between ADM and its technical supervisory authority. External assistance will be needed to ensure that the highways directorate can perform fully and independently its role of concession-granting authority.

5.11 There are many options for the role ADM is to play within the new system. It could remain the sole operator and open its capital to the private sector. There are a number of disadvantages to this formula. First of all, it is unlikely that in the present state of affairs private sources will be found that are willing to invest in ADM, unless they can contribute sufficient equity to give them effective control of the enterprise. Also, this formula does not allow for the competition among operators that will stimulate productivity and innovation. This is why an appropriate option might be to have two concession-holders, one being ADM, which, while retaining its present status, would be expected to emulate its private partner. The latter would serve to stimulate action, following the example of Cofiroute in the French motorway system.

5.12 The question of financing is the deciding factor when it comes to management choices and feasibility of the program. It seems unlikely that motorways can be built in Morocco without public subsidies. A trade-off is needed between the pace of motorway construction and the Government's ability to keep its expenditures within limits compatible with a return to macroeconomic equilibrium. Private capital participation, which will ease pressure on the public coffers, will in return increase the influence of commercial criteria in investment decisions. It may therefore prove necessary to accept a slower pace of construction than that recommended in the "Decade of the Motorways." A number of formulas (not mutually exclusive) could be considered to reduce the amount of subsidies required. An initial approach is that of cross-subsidization [*péréquation*] through the building on of a new section using seed money from the existing one, a practice already adopted by ADM. Since this practice reduces considerably the "contestability" of the motorways market, it has been denounced by the European institutions, although it has been widely used in a country like France. A possible alternative might be to channel the concession fees into a motorways fund that would contribute to the financing of new sections. Another approach would be to ask bidders to submit quotations stipulating the level of subsidy they estimate to be necessary for operations to break even. Through competition of this kind, the subsidy could be set at a level where it would not represent an unearned rent for the concession-holder. Contributions in kind are another formula enabling the Government to reduce its budgetary commitments, if not the actual amount of its assistance: provision at no charge of land neighboring the completed motorway through the grant of permits to develop commercial activities (service stations, hotels and restaurants, industrial parks, service areas, etc.) This formula was implemented recently in Germany. Lastly, development of the local financial market would offer a

means of mobilizing long-term financing safe from the exchange risks inherent in foreign currency borrowings.

D. Maritime sector

(a) Ports

5.13 Over 95 percent of Morocco's external trade passes through its ports. The Government is well aware of the need for efficient ports, and has undertaken large-scale investments during the eighties to expand and diversify the ports system, of which Casablanca remains the pivot. A new ports organization was put in place in 1984, when management of the ports was entrusted to an industrial and commercial public establishment, ODEP. Large volumes of funds have been invested in capacity building, with good results: ODEP has become an efficient organization, especially on technical aspects, dwarfing other port functions incumbent on the public administration. Port productivity has more than doubled over the past ten years. But it seems that ODEP has grown more monopolistic and imperious in its behavior toward users. Port fees end up financing activities that the Government should be funding (construction of fishing ports, dredging of access canals), but which, given its budgetary restraints, it prefers to offload onto ODEP. Productivity gains are only partially passed on to consumers, and tariff increases are becoming more and more frequent. The modernization process is making headway, but at a pace dictated by ODEP, which has so far done little to bring in private initiative, either for construction or for operation. In 1995 there was talk of privatizing the ports, but the subject was broached with little conviction, and the existing contract plan signed with the Government does not cover the transfer of ODEP's commercial functions to private operators. This can only slow up the effort required to lessen the gap between port productivity in Morocco and international standards in that area.

5.14 Morocco's ports organization should move away the present concept of service provider and take on more of an owner image. Either ODEP would become a purely commercial enterprise operating certain ports under a concession contract and in competition with private companies holding concessions on other ports, or it would refocus on functions incumbent on the public authority and on public domain management within ports, while the central government departments would handle the other key functions in the national interest (safety of coastwise shipping, protection of the shoreline, etc.). In the second case, ODEP would be "regulator" of the service activities that the private sector would henceforth take over to the broadest possible extent: handling, tugboat operation, storage, transit, etc. It would thus be responsible for balanced development of the ports (preparation and updating of master plans) and would either make or subsidize public investments serving to catalyze private investment (for example, deepening of access channels, construction of breakwaters, or building of access roads to a port development zone). It is recommended that this be the option selected. The development of competition on commercial bases should make it possible to maximize port revenues. In the major ports, several private enterprises would be invited to compete for the direct delivery of services to users. For smaller ports, the competition effect would be sought both through bidding competition to select a sole operator and through the choice of different management entities in ports with a partially shared hinterland. From this latter standpoint, regionalization of the ports administration (ODEP) is an alternative worthy of study. The option of converting ODEP into a *société anonyme* does not seem a good idea, since it would then retain a monopoly over which

governmental supervision could not easily be exercised. If the company remains controlled by public capital, it will be unlikely to improve its present situation, and, should private capital come to dominate, the private shareholders might be tempted to exploit any monopoly rents to the detriment of the national economy.

5.15 It is noted that the number of enterprises in search of port concessions throughout the world is on the increase, a situation that bodes well for external contributions of expertise and capital. To this is added a real local potential for private delivery of port services. Conditions for private participation in the ports are thus quite favorable, and should be exploited as effectively as possible. It will be necessary to modify the legal framework for port concessions. First of all, ODEP's new functions will have to be stated (steps will be taken to eliminate sources of conflict of interest with private port companies and the overlapping of responsibilities found, for example, in fishing port management) and much of the legislation on concessions will need to be amended, since this dates back to the beginning of the century and would place excessive restrictions on a concession-holder's rights. The rule should be to leave operators sufficient room for initiative. The Government should not seek to set all the concession parameters, since this would restrict the productivity gains and innovations that the private sector could contribute. More important than commitment of resources is commitment to results. Freedom of pricing should also be guaranteed, provided that there is true competition. The adoption of antitrust legislation (protection of competition) and its effective implementation will certainly contribute to the achievement of this objective. A decree could be enacted to establish national norms for selection of bidders, transparency of bid evaluation, and variability of contract duration depending on the nature of the activity concerned. Another priority would be to seek to establish a genuine community of port interests through balanced representation of consumers and service providers, to provide input in the formulation of decisions on development policy and the commercial promotion of ports.

5.16 The shift to a system of private participation as broadly described above should not come about suddenly, but should be influenced by a number of specific studies. The first stage is to consult users on the directions to be taken. At the same time, analyses will be performed of the current market conditions prevailing in Morocco's ports, in order to better gauge the specific possibilities for unbundling services currently performed by a single operator and assessing the potential for inter- as well as intra-port competition. A good balance will need to be found between economies of scale, on the one hand, and efficiency gains induced by competition among several operators, on the other. Better forecasting of market structures is an essential factor in configuring the new institutional framework. Another important aspect: it will be necessary to assess in advance the financial impact of redistribution of the roles played by the Government, ODEP, and the private sector, before proceeding to the tariff adjustments that will become necessary once the reforms are implemented, if the aim is to avoid drying up the resources that the Government and ODEP will need to finance their new management responsibilities. Lastly, it will be essential to seek the assistance of top-flight legal and other experts in organizing bid proceedings along lines ensuring the greatest possible transparency of selection.²⁴

²⁴ Since the present study was drafted, this analysis on the future of the ports sector has been more widely distributed and acknowledged. For instance, a recent document emanating from the Finance Ministry refers to the programming of various actions, including: "redefinition of the role of the *Office d'Exploitation des Ports* with respect to ports management, with a view to expanding the range of private intervention to include the other port services;

(b) *Maritime transport*

5.17 In terms of volume, Morocco's external trade depends almost exclusively on maritime transport. Dry and liquid bulk goods represent close to 80 percent of cargo flows, the containerized share of general freight traffic still accounting for no more than around 35 percent in 1994. Morocco's maritime traffic is rather narrowly-focused, having traditionally concentrated on bulk and "tramping" services, which emphasize freight rates over quality. However, structural changes in the nature and composition of exports and imports have started to become evident, a case in point being the increasing trade in goods with higher value-added content. To a large extent, this phenomenon is attributable to developments in the manufacturing and marketing methods of foreign clients, for which rapid, safe, and reliable transport is a primary concern. On the global sea trade markets, quality of service is today a deciding factor in success. Moroccan importers and exporters need to adapt to the new order if they are to safeguard their competitive capacity. For example, there has been a rapid increase in the containerized share of trade over the past decade. However, it seems that the general structure of maritime services is still inadequate and is generating additional costs.

5.18 Morocco's maritime transport services are provided by a large number of carriers. The pressure of competition has intensified, resulting in reductions in freight rates and in innovations in service delivery. In this context, foreign shipping companies have been more effective and have increased their share of the market to the detriment of Moroccan carriers, which handled only 13 per cent of traffic in 1994. The size of the Moroccan fleet, which expanded considerably between 1973 and 1987, has dwindled over the past five years. Today it has only 44 vessels carrying a total deadweight of around 250,000 tonnes, which are often ill equipped to cope with the new handling and maritime transport technologies or to operate on a minimum-cost basis. With an average age of almost 17 years, the fleet is technically obsolete. While 11 of the 13 maritime companies sailing under the national flag belong to private companies, the role of the latter remains marginal. Morocco's largest shipping companies are COMANAV, a *société anonyme* under government control, and MARPHOCEAN, a subsidiary of the Office Chérifien des Phosphates. MARPHOCEAN specializes in tramping, a sector that it manages well and in which it obtains good financial results, despite being a public enterprise. COMANAV's situation is very different. This company, whose main focus is the operation of regular lines (three quarters of freight transported in 1994), suffers from a number of constraints in terms of public service obligations: promotion of external trade, ownership of transport capacity as a means of averting the risks of a foreign cartel, job protection for sailors, etc. This means that COMANAV has to work unprofitable lines (to Maghreb and West African countries), and transport export products for prices below cost (principally citrus fruits and early vegetables). It has a staff of 1,400, while one third that number would suffice. It receives no government compensation of any kind for the additional costs thus incurred. COMANAV operates regularly at a loss, except for the exceptional profits obtained in some years from sales of assets.

5.19 One cause for concern is erosion of the share of the market served by national flag carriers, and private and public shipping companies alike are anxious to see the Government intervene to protect

introducing competition in the segments currently monopolized by that *Office*" (presentation to the Istanbul Conference on Private Participation in Infrastructure, October 15-18, 1996).

their share of the market. Several choices are possible. The worst thing would undoubtedly be market intervention to restrict competition. Classical methods of intervention are administrative distribution of cargo, protection of the national flag, and the requirement that foreign carriers be registered locally. If such protectionist measures were implemented, the consequences would be very negative for the country's trade: freight rates would rise and service quality would decline. International experience clearly shows that there is little to be gained and much to be lost from yielding to the temptation of protectionism in the area of maritime transport. Consequently, if a country wants to maintain a national shipping company, the only possible approach is to strengthen its local carrier to make it more competitive. The option of opening COMANAV's capital to a foreign strategic investor seems attractive, but could prove difficult. Selling this company to private local interests is a possibility: private carriers might be interested in expanding their activities to lines that were hitherto more or less reserved for COMANAV. Another possibility would be to attract a strategic investor that would acquire a participation enabling it to exercise management prerogatives, and, in a second stage, to gradually place the remainder of the Government's shareholding on the stock exchange. An alternative would be to have the company's present managers take it over. If none of these options can be implemented, the enterprise will have to be liquidated. Whatever happens, management of private or privatized shipping companies needs to be completely released from public service constraints, particularly those incumbent on national flag carriers.

E. Air transport

5.20 Morocco's present commercial air transport market comprises some four million passengers and 50,000 tons of freight a year. It is heavily concentrated on medium-haul flights out of or into Western Europe. Annual air traffic growth rates were rather weak between 1980 and 1995 compared to international trends over that period. Charter flights represented the most dynamic component of this market. Morocco is served by over 60 air companies, Royal Air Maroc (RAM) being the national flag carrier. Almost all air traffic passes through the country's 13 major airports (around thirty airports exist in Morocco). Domestic traffic (some 10 percent of the total) is sparse and shows little tendency to develop.

(a) Air companies

5.21 To promote tourism, the Government has adopted a determinedly liberal policy for charter services. In contrast, its policy for regular flights has remained protectionist, the aim being to preserve national air transport capabilities. RAM, a *société anonyme* of which the Government is the principal owner (94 percent of its capital stock), is the sole holder of national flag carrying rights under a contract with the Government dating back to August 8, 1959. RAM's share of the market for regular international flights, largely guaranteed by bilateral agreements, amounts to close to 50 percent. Its share of the charter market is somewhat smaller (45 percent). On domestic routes, RAM holds the monopoly for delivery of an expensive public service that runs at a loss for which the Government pays no compensation. Development of the international air transport market will intensify the pressure of competition for regular flights between Morocco and the rest of the world. Unless it can adapt effectively to the commercial and technical changes taking place in the market, RAM runs the risk of seeing its shares in that market erode. This constraint was particularly heavy at the beginning of 1995

when the company was facing a serious crisis. A new official has been appointed to rectify this difficult situation.

5.22 RAM's financial situation has been weakened by the drop in air transport tariffs on markets that are traditionally the most remunerative, and which used to allow it to offset losses on domestic and long-haul routes that were often heavily in the red. Another obstacle has been the growth slowdown that has hampered implementation of an ambitious plan to develop and modernize the fleet. RAM's debt rose from DH 1.7 billion in 1991 to DH 3.8 billion in 1994, while investments of DH 5 billion were estimated for 1995-2000. With a debt/equity ratio of over 5, much higher than the norm for the subsector, and dwindling prospects for a self-financing margin, RAM appeared to be at an impasse. These problems also pointed up a number of endemic weaknesses that RAM had hitherto put up with. In addition to the costly public service constraints already mentioned, crew productivity was insufficient (crews were overstaffed and relatively highly paid), commercial costs were high because the network was too vast, part of the fleet was overaged, and the company's structure was heavily characterized by vertical integration. The company's new management would rapidly develop a rehabilitation strategy focussing on staff downsizing and a wage freeze, initiate a systematic search for ways of achieving operational savings, and slash by half the number of orders for new aircraft up to the year 2000. The fact that the Government has not ended up having to provide RAM with financial assistance is evidence of the scope of the successful internal restructuring effort. In the long run, however, there is still the issue of recapitalization to be dealt with.

5.23 The rehabilitation policy involves reviewing in depth Morocco's air transport strategy and exploring RAM's future role. International competition for the Moroccan air transport market is going to intensify, which means that lower tariffs can be expected. It is in the interest of Morocco's external trade and also of its tourism to have its air transport sector operating efficiently and at the lowest cost. There is a danger that this will only come about within a context of competition that will force the national carrier(s) either to upgrade to the level of the best world carriers or to disappear entirely. To handle such challenges, two essential conditions will have to be met: elimination of public service constraints (possibly through the signature of agreements between the Government and RAM regarding the delivery of public services against compensation from the Government), and creation of a purely commercial dynamic by forming alliances and privatizing the company's stock.²⁵ If this is not feasible, then liquidation of RAM would be a possibility: its assets would be transferred to new operators and it would be left to the many companies already present on the market to serve the country. If the Government wants to maintain certain non-profitable routes (either domestic or international) these could be awarded to those carriers requesting the lowest subsidy for the provision of such services.

5.24 Privatization is naturally the most attractive option. It is true that RAM could be retained as a public enterprise, reorganized so as to develop its commercial autonomy in specialized branches on a given market, while also subcontracting certain areas to private operators. Another formula would be to seek a commercial alliance with a foreign company that would take out an equity participation in RAM's capital, but with no transfer of control. The company's prospects for yielding a profitable

²⁵ From another standpoint, it could be advantageous to seek off-budget formulas for financing the aircraft in the fleet, such as leasing, rather than going into debt.

their share of the market. Several choices are possible. The worst thing would undoubtedly be market intervention to restrict competition. Classical methods of intervention are administrative distribution of cargo, protection of the national flag, and the requirement that foreign carriers be registered locally. If such protectionist measures were implemented, the consequences would be very negative for the country's trade: freight rates would rise and service quality would decline. International experience clearly shows that there is little to be gained and much to be lost from yielding to the temptation of protectionism in the area of maritime transport. Consequently, if a country wants to maintain a national shipping company, the only possible approach is to strengthen its local carrier to make it more competitive. The option of opening COMANAV's capital to a foreign strategic investor seems attractive, but could prove difficult. Selling this company to private local interests is a possibility: private carriers might be interested in expanding their activities to lines that were hitherto more or less reserved for COMANAV. Another possibility would be to attract a strategic investor that would acquire a participation enabling it to exercise management prerogatives, and, in a second stage, to gradually place the remainder of the Government's shareholding on the stock exchange. An alternative would be to have the company's present managers take it over. If none of these options can be implemented, the enterprise will have to be liquidated. Whatever happens, management of private or privatized shipping companies needs to be completely released from public service constraints, particularly those incumbent on national flag carriers.

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when the company was facing a serious crisis. A new official has been appointed to rectify this difficult situation.

5.22 RAM's financial situation has been weakened by the drop in air transport tariffs on markets that are traditionally the most remunerative, and which used to allow it to offset losses on domestic and long-haul routes that were often heavily in the red. Another obstacle has been the growth slowdown that has hampered implementation of an ambitious plan to develop and modernize the fleet. RAM's debt rose from DH 1.7 billion in 1991 to DH 3.8 billion in 1994, while investments of DH 5 billion were estimated for 1995-2000. With a debt/equity ratio of over 5, much higher than the norm for the subsector, and dwindling prospects for a self-financing margin, RAM appeared to be at an impasse. These problems also pointed up a number of endemic weaknesses that RAM had hitherto put up with. In addition to the costly public service constraints already mentioned, crew productivity was insufficient (crews were overstaffed and relatively highly paid), commercial costs were high because the network was too vast, part of the fleet was overaged, and the company's structure was heavily characterized by vertical integration. The company's new management would rapidly develop a rehabilitation strategy focussing on staff downsizing and a wage freeze, initiate a systematic search for ways of achieving operational savings, and slash by half the number of orders for new aircraft up to the year 2000. The fact that the Government has not ended up having to provide RAM with financial assistance is evidence of the scope of the successful internal restructuring effort. In the long run, however, there is still the issue of recapitalization to be dealt with.

5.23 The rehabilitation policy involves reviewing in depth Morocco's air transport strategy and exploring RAM's future role. International competition for the Moroccan air transport market is going to intensify, which means that lower tariffs can be expected. It is in the interest of Morocco's external trade and also of its tourism to have its air transport sector operating efficiently and at the lowest cost. There is a danger that this will only come about within a context of competition that will force the national carrier(s) either to upgrade to the level of the best world carriers or to disappear entirely. To handle such challenges, two essential conditions will have to be met: elimination of public service constraints (possibly through the signature of agreements between the Government and RAM regarding the delivery of public services against compensation from the Government), and creation of a purely commercial dynamic by forming alliances and privatizing the company's stock.²⁵ If this is not feasible, then liquidation of RAM would be a possibility: its assets would be transferred to new operators and it would be left to the many companies already present on the market to serve the country. If the Government wants to maintain certain non-profitable routes (either domestic or international) these could be awarded to those carriers requesting the lowest subsidy for the provision of such services.

5.24 Privatization is naturally the most attractive option. It is true that RAM could be retained as a public enterprise, reorganized so as to develop its commercial autonomy in specialized branches on a given market, while also subcontracting certain areas to private operators. Another formula would be to seek a commercial alliance with a foreign company that would take out an equity participation in RAM's capital, but with no transfer of control. The company's prospects for yielding a profitable

²⁵ From another standpoint, it could be advantageous to seek off-budget formulas for financing the aircraft in the fleet, such as leasing, rather than going into debt.

return are not, however, good enough to encourage foreign investors, and if the Government remains the principal shareholder there is always the risk that it would tend to exercise its sovereign prerogatives at the management level. Privatization would limit that risk. The first step would be to implement RAM's financial restructuring program, in particular by clearing off its balance sheet all items that are compromising its financial viability. RAM should also be relieved of those activities that are not directly related to its function as an air carrier (food services, hotel services, vocational training, etc.), while other activities, such as maintenance, should be contracted out. The most promising option for RAM's privatization would be to organize competitive bidding for the sale of a block of shares giving majority control to a strategic shareholder deemed capable of accomplishing the company's rehabilitation and improving its performance. Company employees should also be encouraged to participate in the capital (following entry of the strategic shareholder), in order to expand the support base for handling the changes entailed in privatization and to serve as an incentive for improving labor productivity. At a later stage, the rest of the shares could be offered on the local stock market.

(b) Airports

5.25 Morocco's commercial airports are under the control of ONDA, a public establishment created in 1989, which holds the monopoly for the development, operation, and administration of the country's commercial airports. Since 1992, ONDA has also been responsible for managing the national air traffic control system, except for a few specialized aspects that still come under military jurisdiction. Airport traffic, totaling some 4.7 million passengers in 1994, has developed little over the past five years. Passenger traffic through Casablanca, the country's principal airport, totaled 2.2 million in 1994.

5.26 The Government, seeing tourism as one of the principal drivers of economic growth, launched a large-scale airport modernization and expansion program in 1993. Over the period 1993-1997, investments of close to DH 800 million are scheduled for rehabilitation and strengthening of air traffic control systems, runways, and parking areas in the principal airports, and for expansion of terminal facilities. Those plans have, however, proven to be overdimensioned. Designed on the basis of a long-term approach, at a time when the economic climate was much more favorable, they have led to the construction of new facilities or the expansion of existing ones with capacities far outstripping immediately foreseeable demand. For example, the terminals at Casablanca and Agadir have a capacity three times larger than their present traffic intake. Staged construction on a smaller scale would have been the wiser approach given the present budgetary constraints and the debt service obligations arising from the investments made. However, implementation of this investment program is by now too far advanced (a number of projects are already completed) for any streamlining to be possible.

5.27 ONDA's financial position suffered repercussions from an unfavorable economic climate: its business report for 1994 indicated a deficit of around DH 125 million for a total turnover of DH 647 million. Although this deficit contained provisions of DH 156 million for exceptional losses, the agency's self-financing capacity declined that year by 20 percent. In December 1994, its short-term debts rose to almost DH 850 million, a considerable increase over the preceding financial year. The poor financial situation is partly explained by the payment arrears of certain airport users, particularly RAM, which owed ONDA approximately DH 230 million at end 1994. ONDA's situation would be precarious without the assurance of income from the overflight taxes [taxes de survol] it has been receiving since the air control function was transferred. Indeed, it is overflight taxes that are

subsidizing the airports' financial deficit. The Government withdrew from financing of the subsector in 1992, except as regards noncommercial facilities and ad-hoc investments.

5.28 The role and functions of ONDA need to be redefined. Its board of directors should be expanded to include representatives of other users as well as RAM. Much more extensive competition needs to be introduced into this sector to improve its productivity. At present, the private sector's share in the delivery of airport services is limited to non-aeronautical activities. ONDA's management has indicated that some 20 percent of its annual turnover comes from concessions awarded to private enterprises. These mainly comprise shop rentals, ground transport, food services, and services for the benefit of ONDA staff.

5.29 It is essential to develop private sector participation in airport management in order to obtain a better return on the investments made. Activities performed by force account could be pared down substantially by contracting them out on the basis of precise specifications and the introduction of work and supervisory procedures compatible with security constraints. In addition, ONDA's staff would be encouraged to set up service companies, as in Venezuela. The organization of ground services needs to be overhauled with a view to more efficient performance. Certain activities, such as handling, should be opened up to competition, while others could be transferred under concession or contracted out to successful bidders.

5.30 A more radical formula would be to transfer operation of an entire airport, or of a single terminal, under contract to a private concession-holder. Another possibility would be to invite private enterprises to take out a participation in the capital of a company operating one of several airports. The advantage of such formulas, of which more and more cases are springing up throughout the world, is to ensure greater observance of commercial criteria in management decisions and, if necessary, to substitute private for public capital in financing airport investments.²⁶

²⁶

These options for private participation are currently being considered by the Government, as evidenced in a recent document from the Ministry of Finance: "A number of important actions are scheduled, including: (...) redefinition of the role of Office National des Aéroports, to allow for greater private sector involvement in the delivery of airport services, if not even in the overall management of airport platforms" (presentation to the Istanbul Conference on Private Participation in Infrastructure, October 15-17, 1996).

VI. CONCLUSIONS ON THE STRATEGY TO BE ADOPTED

6.1 Any reform has to fit within a strategy designed to meet certain specific objectives. Thus it is necessary to know the reason for wishing to increase private sector involvement in infrastructure management and financing, and how those objectives may be accomplished. The foregoing chapters have attempted to answer these basic questions, but the "road map" for bringing about the transition from the present situation to the form of private participation best suited to a particular sector still needs to be drawn up. A prerequisite for this is a deeper knowledge of the forces present in each subsector concerned, in which the pertinent Moroccan authorities must be directly involved. Once that knowledge has been acquired, a clearer idea can be formed of the actions of all kinds to be taken at various levels of the Government and of the enterprises themselves, of the most appropriate sequencing of those actions, and of the advisability of possible transitional measures designed to mitigate the shock of transferring infrastructure services to private management.

A. Objectives

6.2 The Moroccan authorities would appear to base their approach to infrastructure reform on two principal objectives:

- (a) improve quality and economic efficiency of infrastructure services, thereby contributing to the country's international competitiveness;
- (b) reduce the burden of those services on the public finances, thereby helping to reestablish budgetary equilibrium and to make room in the budget for the financing of other priority activities, such as health and education.

B. Strategy

6.3 Three broad options are possible:

- (a) streamline public enterprise management without restructuring the sector;
- (b) promote private participation without restructuring the sector;
- (c) restructure the sector and open it up to private participation.

6.4 The first of these options represents the classic approach already adopted by Morocco and many other countries. The results have on the whole been disappointing, since only in a few cases has there been any sustainable improvement in public enterprise performance. It has not often been possible to achieve the second of the above objectives, since no solution has been found to the remedy the lack of public funds for such urgent operations as rehabilitation, modernization, or expansion of existing facilities. This option could, however, represent a transition stage toward more far-reaching reforms. Not being geared to private sector participation, it is not covered in this report.²⁷

²⁷ Generally speaking, experience both in Morocco and elsewhere has shown that the problems of lack of autonomy and motivation for the public enterprises has not been truly overcome. Contract plans signed by enterprises with

6.5 The second approach is based on private participation without restructuring of the sector. It will apply in particular to situations classed as natural monopolies, such as water and electricity distribution and sanitation. When this approach is well designed, its adoption can lead to achievement of the two objectives identified above. Nevertheless, if the sector retains a monopolistic structure, transfer to the private sector will raise major issues in terms of regulation (for example, how to avoid monopoly abuses?). This second approach is, however, rarely suitable for sectors in which there is a potential for competition among operators within the sector itself.

6.6 The third approach demands organizational reform of the sector as well as private participation. A range of options exists here, from opening up an enterprise to the private sector without competition within the market (electricity production in Morocco is a case in point), to demonopolization with competition among operators (the normal solution for transport (air, maritime, and highway) services, involving horizontal and vertical dismantling of the public conglomerates, opening the way to a pluralistic form of supply where a monopolistic and monolithic structure formerly prevailed. This approach, intended to promote healthy competition within the sector itself, is the best suited to achieve the objectives of efficiency and economic growth. It will also make it possible to lighten the burden on the government budget.²⁸

6.7 Going beyond the statements issued by certain authorities and the few ongoing pilot experiments, it is necessary to translate these broad options into practical reality. Which are the sectors with the largest potential for private sector participation? Which sectors are the most urgently in need of private sector involvement? Which reforms should be given top priority? Which are the communes in which this type of initiative is the most likely to be well received? Is it advisable to launch a gradual reform program starting out with relatively small-scale pilot operations and allowing for the gradual correction of errors made at the start, or should priority be given to reforms likely to have the broadest and most immediate impact? The answer to these questions may differ from one sector to another, and will need to come from the pertinent Moroccan authorities.

6.8 The purpose of the present report is to contribute to this debate and to formulation of the principal options. An outline of a possible strategy for developing private sector participation in

government to clarify the roles and objectives of each of the partners have produced successful results in certain countries, such as Korea, where the managers of public enterprises have been assigned specific profit and productivity objectives whose achievement is rewarded in terms of prestige (honors in the press), bonuses, promotions, etc. But governments have rarely proven able to honor their financial commitments to enterprises operating under such contract plans. Moreover, the benefits of the reforms implemented have generally not been sustainable, since government interference tends to re-emerge, causing the situation of the public enterprises to start to decline again. See in particular the *World Development Report 1994*, World Bank, Washington D.C., p. 48; John Nellis, *Contract Plans and Public Enterprise Performance*, Washington D.C., World Bank Discussion Paper No. 48F, 1989; Sunita Kikeri, John Nellis and Mary Shirley, *Privatization: Lessons from Market Economies*, Washington, D.C., The World Bank Research Observer, Vol. 9, No. 2, July 1994.

²⁸

It should, however, be recalled that within the framework of possible privatization of a monopolistic public enterprise, elimination of the monopoly will have a negative impact on the selling price. For instance, shares of RAM will be worth more if it is allowed to retain its monopoly. In the long term, however, the benefits of competition will also be felt in terms of public finance (positive tax repercussions resulting from a more competitive economy).

Moroccan infrastructure is given in the executive summary that opens this volume. The attached annexes set out in matrix form a tentative road map for implementation of reforms that might be envisaged in the principal subsectors covered by the study. These simply serve to prove a few points of reference within an overall picture whose details still have to be worked out.

Annex 1.1: Water and electricity distribution and sanitation

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	1. Remedy quantitative and qualitative deficiencies of supply. 2. Rehabilitate the public finances.	Organization of audits comparing the performance of the different service providers and identifying functions to be subcontracted immediately.
Maturation of the process	1. Water and electricity distribution concessions were already in existence before independence. Negotiations are in progress with certain international operators for the award of new concessions. 2. No real consensus at government level concerning the need for heightened private sector involvement.	Supplement the report with diagnostic surveys completed by the users and the government departments. Organize a roundtable to review the present report and formulate recommendations to be submitted to the Government.
Organization of the sector	1. Simplification and limitation of supervisory power [<i>pouvoir de tutelle</i>]. 2. Designation of a single centralized agency (e.g. the Ministry of Privatization) to manage the reform process and, in particular, to select the private operators. 3. Dismantling of the <i>régies</i> in sectors where private operators have been selected.	An interministerial agency including the ministries directly involved in the sectors concerned should adopt the broad lines of a strategy for opening those sectors to the private sector and designate the agency responsible for management of the reform process.
Mode of private sector entry	1. Launching, prior to establishment of the regulatory framework, of a pilot project in a municipality whose elected officials are favorable to reforms. 2. Priority, across the entire program, to formulas for private financing of infrastructure.	1. Drafting of a law containing the essential rules governing the activity of private operators (e.g. sectors open to them, transparent and competitive methods of selection, etc.). 2. Launching of selection procedures with the assistance of external experts.
Regulation of the sector	Setting up of a national autonomous regulatory body, if possible multisectoral, with effective powers in the areas of service pricing and quality, and supported by external experts.	1. Technical assistance to be mobilized to develop the regulatory framework. 2. Adoption of the electricity code and establishment of the electricity commission, whose regulatory powers could subsequently be extended to other sectors of infrastructure.
Financing	1. Tariff adjustments to take account of cost variations linked to geographic factors, timetables, etc., thereby ensuring the sector's financial equilibrium. 2. Possible development of mechanisms to cover political risks.	1. Reduction of taxes on oil product imports. 2. Adoption of a plan for the payment of arrears within the public sector. 3. Implementation of measures designed to restrict consumption within government departments.

Annex 1.2: Urban transport

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	1. Remedy quantitative and qualitative deficiencies of supply. 2. Ensure the efficient operation of market mechanisms.	Produce a deeper diagnostic study of urban transport concessions.
Maturation of the process	1. Private participation has already been a reality for almost ten years. Private concessions are coming up for renewal. With the transport crisis in the large cities, the viability of the system of complementarity between <i>régies</i> and private sector is being called into question. Conditions are ripe for reforms.	To reach a consensus on the modalities of the necessary reforms, a committee comprising representatives of ministries already or slated to be involved, local authorities, banks, and professional agencies should be set up to develop those modalities and prepare a realistic timetable.
Organization of the sector	1. Segregating the market into mass transit and first class transport does not produce good results. The private sector should be able to participate at the mass transit level.	1. Studies for an urban transport master plan will need to be commissioned. These will serve as a framework of reference for the policy for the operation under concession of combined lines.
Mode of private sector entry	1. The conditions governing competition for the award of contracts need to be improved. 2. The privatization of viable <i>régies</i> could be considered.	1. Development of new specifications. 2. Concessions to be limited to five years. 3. Prepare a plan to dissolve the <i>régies</i> and/or convert them into <i>sociétés anonymes</i>.
Regulation of the sector	1. The present weaknesses in the area of regulation are at the root of numerous problems. 2. Reinforcement of the regulatory process is needed at two levels: - the Ministry of Transport should be responsible for stipulating the norms and general framework of the concessions; - regulatory capacities would need to be implemented locally. 3. Regulation is needed in such areas as tariffs, observance of specifications, safety and pollution standards, etc.	1. Develop a prototype concession contract for the local authorities to adapt to their own specific characteristics, and prepare bidding guidelines. 2. Initiate a debate on the regulatory agencies and their level within the administrative pyramid (for example, separation between the authority granting the concession and the regulatory authority).
Financing	1. The "social" lines should be put up for competition and be awarded to the enterprise requesting the lowest subsidy. 2. Longer-term financing is called for. An urban transport fund and guarantees of noncommercial risks are among the possible solutions.	1. A study on the financing of urban transport is necessary, including the question of funding to enable the communes to pay the subsidies provided for in the contracts. It would also examine the systems for the direct payment of subsidies to eligible parties as provided in the regulations. 2. Reform of the local finances is essential.

Annex 1.3: Motorways

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	1. Mobilize private capital to lessen the strain on the government budget. 2. Enhance efficiency of design and operation.	Amend the construction timetable for the "Motorways Decade" to avoid premature construction of certain sections.
Maturation of the process	1. The chances of massive private participation are jeopardized by conditions uncondusive to achievement of a good return. 2. The true significance of private participation does not yet seem to have been grasped by the government authorities.	1. Postpone startup of the works on the Casablanca-Settat section. 2. Relaunch bid proceedings for preparation of the documents for award of the concession for the Casablanca-Settat section. 3. Launch invitation to bid for concession of the Casablanca-El Jadida sections.
Organization of the sector	1. The present sole-operator formula needs to be changed. A system of multiple operators needs to be introduced into the motorways sector to foster a climate of emulation. 2. It is not essential to open up ADM's capital to private investors.	Steps should be taken to bring in a new private motorways company. The motorways network should be distributed fairly between the two operators (ADM and a private company). The participation of foreign interests is desirable to facilitate access to capital and promote innovation in motorway design and operation.
Mode of private sector entry	1. Operation under concession is the formula preferred. 2. Competition among potential contractors should be instituted.	The new private concession-holder would be selected by international competitive bidding, as would the construction companies.
Regulation of the sector	1. The highways directorate should be strengthened to enable it to perform the functions of technical and economic regulation. 2. Tolls should be raised to ensure a more realistic level of user participation in costs. Tolls could be set by the concession-holder but should be monitored by the Government. 3. Technical standards should be set by the Government in a less restrictive manner to encourage innovation.	1. Technical assistance is to be sought from donors for the development of autonomous regulatory capacities. 2. Model bidding documents are to be developed reflecting the sharing of responsibilities between the Government and private sector.
Financing	1. Recourse to budgetary assistance should be minimized. The grant of ancillary concessions (plots to be developed for business or residential purposes) is the preferred solution. 2. The building on of new sections, which will operate at a loss for a few years, using seed money from existing, heavily-traveled sections, should not represent an exclusive rent for the concession-holder. 3. A motorways development fund would be a useful tool.	1. The grant of sovereignty risk guarantees is to be examined. 2. It might be possible to establish a mutual fund for the two operators to facilitate the building of new sections and to place them on an equal footing. 3. This fund could be financed by the operating surplus of sections already in service and/or by a specific tax.

Annex 1.4: Ports

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	1. Improve quality and costs of port services. 2. Improve productivity of the ports. Expedite modernization of port works and facilities.	Consult users on priority needs. Publish port performance statistics, showing how they compare with international standards.
Maturation of the process	Private participation is limited in the ports. The public monopoly system is firmly entrenched, but given the example of foreign ports, the importance of this sector for international competitiveness, and pressure from users, there is clearly a call for radical reforms.	Adopt a new <i>ports policy</i>, based on the development of private participation and of intra- as well as inter-port competition. and publish a reference document (along the lines of the British "White Paper" on transport reform). Launch a pilot BOT operation in Tangiers. Privatize the specialized facilities at Jorf Lasfar.
Organization of the sector	1. Unify handling both on board and on ground. 2. Most port services are commercial. ODEP's vertical and horizontal structure needs to be broken down to establish competitive market conditions.	Launch a study to measure port costs in Morocco. Undertake a small-scale study to facilitate decisions on organizational options. This would cover such aspects as the status of fishing ports, the advisability of regionalizing the ports authority structure, and the unbundling of services.
Mode of private sector entry	1. With respect to the commercial services to be handed over by ODEP, the sale or rental of facilities might be considered. Where there is strong potential for competition, market entry will be open to all. In other cases, service contracts will be awarded by competitive bidding. 2. For infrastructure, concession formulas should be envisaged.	1. Demonopolize handling, security services, specialized terminal operation, etc. 2. Establish national norms for access to port-related trades. The entry of foreign operators is not to be discouraged. 3. Take inventory of facilities to be sold or leased by ODEP. 4. Organize bid proceedings.
Regulation of the sector	1. The functions performed by the owner, the police, the regulator, and the port services operator need to be clearly demarcated. 2. Merger of the ports directorate and the Casablanca and Mohammedia port authority into a single entity that could take over certain functions in the areas of regulation and shoreline planning and operation. 3. A law should be enacted setting down the guidelines governing the port services concession policy.	1. Maximizing intra- and inter-port competition will be the best regulatory tool. 2. The Government will be responsible for drafting the national guidelines concerning the structure of the concession contracts and specifications, and the appropriate bidding procedures. 3. Setting up of regulatory mechanisms and of a consultative committee to serve as the voice of the ports community and the users.
Financing	1. The private sector will need to contribute to financing of the ports. 2. Review the desirability of government guarantees to attract foreign private financing.	A financial study is to be performed to review the current cross-subsidization within ODEP's financial system and to pinpoint any tariff or other adjustments necessary to ensure the sector's equilibrium (including debt service).

Annex 1.5: Railways

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	1. Ensure that the railways are run along emphatically commercial lines and develop their competitiveness on a transport market that is becoming more and more competitive. 2. Restrict the Government's financial contribution to compensating for the discharge of public service obligations.	1. Make a clear distinction between railway services run on a commercial basis and those that are operated as a public service obligation. 2. Improve service quality, reduce costs, particularly personnel costs, mobilize financing of investment programs covering renewal and modernization.
Maturation of the process	ONCF's financial crisis reflects the inadequacy of the sector's present methods of operation and organizational structure. As competition from the roads sector intensifies, the railways will face even greater problems unless radical reforms are undertaken. The various experiments carried out in other countries have shown that railway operation under concession is the best means of completely overhauling and restructuring this subsector.	The Government will issue a declaration of railway policy defining the objectives and essential modalities of the sector's restructuring. The legal aspects of the restructuring should first be reviewed. A sensitization campaign targeting ONCF personnel will need to be launched. Special attention should be given to matters of downsizing and to the pension issue.
Organization of the sector	The railways will be run under concession by a private operator with complete freedom to decide on the configuration and pricing of the commercial services it delivers. Operations in the form of public service obligations will be covered under contracts with the Government. The option of allowing secondary operators access to the network will discourage abuses of market power. Non-railway assets will be sold. ONCF will be liquidated or converted into a <i>société de patrimoine ferroviaire</i> .	1. With the assistance of specialized consultants, carry out a financial simulation of operation under concession, and review the detailed modalities of this type of operation (prepare a draft concession contract). 2. Prepare for the rapid sale of ONCF's non-railway assets and financial participations.
Mode of private sector entry	1. Award of concession through competitive bidding that will select the strategic shareholder of the future concession-holding company, without prior restructuring of the sector; or 2. As a first step, create a <i>société anonyme</i>, separate from ONCF, with the Government as sole capital subscriber, to which the concession will be awarded. Subsequently (after two or three years), the shares would be sold both privately and through public offering.	1. Select one of the two concession formulas after making a detailed comparison of the advantages and disadvantages of each one. 2. Search for investors and issue calls for bids (formula 1) or set up a <i>société anonyme</i> (formula 2). 3. Develop the program for the downsizing process and the financing of early retirements (after the concession has been awarded).
Regulation of the sector	The regulatory instrument will be the concession contract, the respective accounts being subject to annual audit. Consultation between the Government and the concessionaire will be facilitated through a Monitoring Committee. Traffic safety and environmental protection remain the responsibility of the Government.	Preparation of the draft concession contract. The concession-holder will be required to give an opinion on the proposed contractual arrangements. Review of the procedures for monitoring the safety of railway operations and ensuring protection of the environment.
Financing	The concession-holder will finance all costs of infrastructure operation and maintenance plus all capital expenditure. While infrastructure expenditures (except for network extensions) would preferably be the responsibility of the concession-holder, the Government might agree to prefinance all or part of those expenditures, subject to future reimbursement. The Government would pay compensation for the discharge of public service obligations.	Study the mechanisms (guarantees in particular) for promoting direct financing by the concession-holder of investments in infrastructure with long life expectancy. Carry out a simulation of the financing to be mobilized by the Government to compensate for the discharge of public service obligations.

Annex 1.6: Airports

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	Improve quality and costs of airport services. Eliminate the need for government subsidies and cross-subsidization by over-flight taxes.	Review of the effectiveness of ONDA's role in achieving these objectives.
Maturation of the process	All of Morocco's airports are managed and supervised by ONDA. ONDA is managed by a Board composed of government representatives, with no users representation.	Establish a new airport management policy, to encourage maximum private-sector participation in ground services for freight and passengers.
Organization of the sector	Management of the national airports should be regionalized and privatized, each airport operating autonomously in the running of its day-to-day operations.	Launch all necessary reforms to decentralize management of the national airports and restructure ONDA's organization and mandate.
Mode of private sector entry	Since the major investments have already been made, private participation could take the form of operation under service concessions awarded through competitive bidding.	Define the procedures for greater private participation. Examine possibilities to attract freight carriers for use of secondary airports as a hub.
Regulation of the sector	ONDA should refocus its functions on supervision and coordination. The rights and obligations of each airport should be spelled out, in particular as regards modes of private participation.	Authorize completely unrestricted competition both among airports and among service providers within the same airport. Set standards for the award and monitoring of concessions. Set up a representative board of airport users.
Financing	Completely private, since no major short- or medium-term investment seems to be needed at present.	Assess ONDA's debts and other obligations before reorganizing the sector, and make arrangements for their clearance.

Annex 1.7: Air transport

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	Improve the quality of air transport. Eliminate the need for subsidies.	Review RAM's role and effectiveness in this context.
Maturation of the process	Morocco is served by over 50 airlines (regular and charter). RAM's share of international transport is on the decline. RAM holds the monopoly for the domestic market.	The Government has already adopted a policy for opening up to air transport operators.
Organization of the sector	Eliminate monopolies and other restrictions to competition, both for passengers and freights. The Government should withdraw as a shareholder and manager of RAM.	Commission a study to review options on how to promote competitiveness. Define measures in preparation for the privatization of RAM, in particular in the financial area.
Mode of private sector entry	A first option would be to issue calls for bids for the purchase of a controlling block of shares by a strategic investor, with the accompanying sale of a portion set aside for employees. A second option would be to forge an alliance with one or more foreign airlines and to contract out domestic air transport and other ancillary functions.	Examine the legislative framework and amend it as required to allow for privatization and liberalization of air transport.
Regulation of the sector	Restrict the Government's role to the setting and enforcement of technical and safety standards.	Authorize completely unrestricted competition among air transport companies, observing internationally accepted safety rules and technical standards.
Financing	Should come entirely from private sources.	Find a solution to RAM's financial obligations before privatization. Study the possibility of selling aircraft and taking them over via leasing agreements.

Annex 1.8: Maritime transport

Category of Analysis	Findings and Recommended Strategy	Programs and Actions
Objectives	Improve maritime transport services (range of services, regularity, quality, prices, etc.)	Abandon projects of a protectionist nature, particularly by setting a quota for vessels sailing under the national flag.
Maturation of the process	Morocco's maritime trade is handled by foreign (86.5 percent) as well as Moroccan (13.5 percent) vessels. COMANAV is struggling and its survival is dependent on public assistance. International experience shows that an "open sea" policy allowing for unrestricted competition among carriers is the most effective.	Adopt a maritime policy opening up sea transport to all qualified carriers, regardless of flag; amend the laws and regulations.
Organization of the sector	The Government should withdraw completely from ownership and management of maritime transport companies.	Prepare for COMANAV's privatization, in particular its financial restructuring.
Mode of private sector entry	COMANAV could be privatized in different ways: (1) sale of a controlling block of shares through competitive bidding; (2) gradual transfer of shares through stock exchange placement; (3) repurchase by managers and workers.	Amend the legal framework, if necessary to facilitate privatization.
Regulation of the sector	The Government's role should be limited to enforcing technical and safety standards.	Liberalize the market; the sole requirement for entry being compliance with international technical and safety standards.
Financing	Entirely private.	Arrange for COMANAV's financial restructuring prior to privatization.

IMAGING

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