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Washington, D.C.

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McNamara papers

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MOROCCO

MOROCCO

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3. 10/2/69 Mamoun Tahiri, Minister of Finance
- 3.a 10/9/69 Mr. Tazi
- 11/12/69 Sinaceur Ben Larbi, Charge de Mission, Royal Cabinet  
(Rabat) H.E. Moulay Abdeslam Ouazzani, Governor of Rabat-Sale Prefecture  
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Farouk Bennis, representative of Minister of Finance
- 11/13/69 Dr. Mohamed Benhima, Minister of State in charge of Agriculture  
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- " Mamoun Tahiri, Minister of Finance
- " Mohamed El Fasi, Minister of State in charge of Cultural Affairs  
and Traditional Education
- " *President of Young Employers Association*
- " Mohamed Bel Larbi, President of Young Employers Association
- " Clark Prather, President, American Chamber of Commerce, Morocco  
Othman Bengelloun, Vice President, American Chamber of Commerce,  
Morocco  
Jacques Lambrichts, Member, American Chamber of Commerce, Morocco  
Francois Hoche, Member, American Chamber of Commerce, Morocco
- " Ahmed Reda Guedira, Minister of State in charge of secondary,  
technical, university education and of formation of cadres
- " Dr. Moulay Ahmed Laraki, Prime Minister
- " Prince Moulay Hassan Ben Mehdi, President, National Bank for  
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Mohamed Benkirane, Director General, National Bank for Economic  
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- " Amine Bengelloun, Director General, Compagnie Marocaine de Credit  
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- " Abdelaziz Alami, Director General, Banque Commerciale du Maroc
- " Driss Slaoui, Director General of Royal Cabinet  
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Nationale and Handicrafts
- " Abdelhadi Boutaleb, Minister of Foreign Affairs
- " Hadj Mohammed Bahnini, Minister of Administrative Affairs, Secretary  
General of the Government

- 11/14/69 Colonel Bouazza Aboulhimz, Governor of Casablanca Prefecture  
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- " Mr. Sakkat, owner, Filatis Textile Co.
- " Mohamed Karim Lamrani, Cherifien de Phosphate (accompanied to  
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- 11/14/69 Colonel Demnati, Governor of the Province  
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- 11/15/69 Ahmed Benbouchta, Governor of the Province  
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- 11/15/69 Their Majesties the King and Queen  
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4. " Memoranda of Conversation with the King of Morocco (two memos);  
Memorandum of Conversations with other individuals
- 11/12-15/69 Others possibly met:  
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- Mohamed Imani, Minister of Public Works and Communications  
Mohamed Jaidi, Minister of Commerce, Industry and Mines  
Abdelkrim Lazrak, Minister of Tourism  
Mustapha Faris, Secretary of State for Planning and Technical  
Development  
General Mohamed Oufkir, Minister of the Interior, Town Planning  
and Technical Development  
Mfadel Lahlou, Director, Caisse Nationale de Credit Agricole (CNCA)  
Haj Miloud Chaabi, Federation des Chambres de Commerce et de  
l'industrie du Maroc  
Mohamed Drissi, President, Junior Chamber of Commerce
5. 3/6/70 Mohamed Bargach, Chairman of the Board, BNDE  
Mohamed Benkirane, Director General, BNDE  
Ambassador Ahmed Osman
- 5.a 9/9/70 Mr. Tazi
6. 9/23/70 Abdelkrim Lazraq, Minister of Finance  
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7. 1/5/71 " " " " "
8. 2/22/71 Mohamed Bargach, Chairman of the Board, BNDE
9. 9/28/71 Prime Minister Karim Lamrani  
Mustapha Faris, Secretary of State for Finance  
Mr. Fassi-Fihri, Director of Economic Affairs, Prime Minister's office
- 12/3/71 (Meeting of the Consultative Group on International Agricultural Research)  
N. el Ghorf, Africa Developing Region
10. 1/4/72 Badreddine Senoussi, Moroccan Ambassador to Washington
11. 7/7/72 Ambassador Badreddine Senoussi

12. 7/19/72 Abdellatif Ghissassi, Minister of Public Works  
Ambassador Badreddine Senoussi
13. 9/27/72 Moroccan delegation to the Annual Meeting:  
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Karim Lanrani, Prime Minister  
Abdallah Fassi Fihri, Secretary of State for Economic Affairs
14. 3/23/73 Ambassador Badreddine Senoussi  
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15. 1/29/74 Karim Lamrani, President and General Manager, Office Cherifien des  
Phosphates  
Ambassador Badreddine Senoussi
16. 10/3/74 Abdelkader Benslimane, Minister of Finance  
Ambassador Badreddine Senoussi  
Mohamed Benjelloun, Director of the Exchange Office, Embassy of Morocco  
2/7/75 Ambassador Abdelhadi Boutaleb
17. 1/8/76 Abdelkader Benslimane, Minister of Finance  
(Kingston)  
4/19/77 Ambassador Abdelhadi Boutaleb (farewell call)
18. 6/15/77 Ambassador Bengoulloun
19. 9/28/78 Abdellatif Ghissassi, Minister of Finance  
Annual Meeting  
Mr. Bennani, Dep. Governor, Central Bank
19. 11/16/78 King Hassan II  
Blair  
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20. 1/25/79 Sec. of State Otmane Slimani  
(Economic Affairs)  
Ambassador Ali Bengelloun
21. 10/1/79 Messrs. Reghaye, Minister of Finance  
annual meeting  
Bennai, Dep. Governor, Central Bank  
Kabbaj, Alt. ED  
Belkora, Prime Minister's office  
Benkirane, Ministry of Finance  
Tazi, Director of the Treasury
22. 9/28/80 Mr. Rerhaye, Minister of Finance  
Annual Meeting  
Mr. Tazi, Director of the Treasury  
Mr. Bennani, Vice-Governor, Bank of Morocco  
Mr. Jouahri, Director of Economic Affairs  
Mr. Kabbaj, Alt ED



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 17, 1968

FROM: Michael L. Lejeune

SUBJECT: MOROCCO - Brief for Your Meeting with Mr. Tahiri,  
the Finance Minister of Morocco

1. A meeting between you and Mr. Tahiri is scheduled for 3.00 p.m. Wednesday, May 22. This will be preceded by a meeting which Mr. Knapp and I (and perhaps others) will be having with Mr. Tahiri at 11.30 a.m. for a full discussion of all the outstanding issues between Morocco and the Bank.

2. As general background for your meeting, I attach:

- (a) a copy (Annex I) of the brief on relations with Morocco prepared while I was away in Europe and which I believe was given to you recently;
- (b) a copy (Annex V) of the first draft of the new economic report on Morocco, which became available just this afternoon and which neither I nor anyone else in the Bank except the authors has yet read.

Should you wish to go into the details of the main issues, I also attach copies of several other papers and will refer to them below.

3. As you know, relations with Morocco have been difficult for some years. During this last year several of the long-standing issues have come to a head. It is difficult to say whether our relations have worsened in the process. The consequent clarification of the issues may have led to a better appreciation on each side of the other's problems. I hope we have reached a point where we now understand each other better and can move forward to a more productive relationship.

4. The main issues are:

- (a) Agricultural Development Policy. For political and social reasons the Moroccan Government is committed to an agricultural development policy which puts [an undue proportion of their resources into capital intensive irrigation projects yielding only a low economic return.] We believe that economically more effective development in the agricultural sector could be achieved by spending less on investment in dams, for example, and more



on the development of rain-fed agriculture. Despite this difference in view, however, we decided early this year, and made it clear to the Moroccans, that [we are willing, in principle, to continue to help finance individual agricultural projects provided the ones in which we are involved have a reasonable economic return.] [We are, however, reluctant to move ahead at the moment because of the evident poor management of the agricultural projects in which we are already involved.] A fuller discussion of these issues is contained in my memorandum to Mr. Knapp of February 8, 1968 and the minutes of a meeting held on February 9 to discuss it. These two papers are attached as Annexes II and III. ✓

- (b) Poor Administration and Management in Agriculture. In our view there are serious shortcomings in the organization and management of the agricultural administrative and technical services. In an effort to improve these, as a matter of technical assistance we engaged some consultants (Consortium Grontmij Cinam) to study and report on "Organization and Staffing of Agricultural Services". This report, together with one which we carried out ourselves on the various agricultural projects and programs, were discussed with the Moroccan authorities by a mission headed by Mr. Chadenet in Rabat at the end of November 1967. It is our hope that the Moroccan Government will signify its assent to carry out some of the reforms suggested but so far we have not had this assurance. The above-mentioned memorandum to Mr. Knapp also covers this point. ✓
- (c) Mismanagement of Projects Financed by the Bank. We have financed two agricultural projects, one for a project called Sidi Slimane and the other for agricultural credit. In both there are serious shortcomings in their administration and management. ✓  
Indeed in the case of the agricultural credit project there is a clear breach of the loan agreement. ✓  
Consequently we have suspended disbursement on this loan. ✓  
With respect both to this project and to the Sidi Slimane project, we have told the Moroccans in detail what needs to be done to cure the situation. We have yet to hear from them what progress has been made in taking these measures. We have undertaken to send a mission to review progress at the appropriate time, which we would hope to be very soon. ✓

- (d) Appraisal of New Agricultural Projects. In one form or another [the Moroccan Government has put before us for consideration three projects: Tadla, Sebou and the DERRO project.] We have told them that we are ready to undertake appraisal of the Tadla project once matters are straightened out with respect to the Sidi Slimane loan and we are assured that a start is to be made in reforming agricultural administration. We raised technical questions about the phasing proposed for the Sebou project and are now reviewing the reply received from Morocco. We believe the DERRO project to be uneconomic (whatever its social and political virtues may be) and have implied that we would not be willing to become involved in it. ✓
- (e) Banque Nationale pour le Développement Economique (BNDE). In BNDE there are problems of management and profitability. The second results mainly from the low lending rate (7%). Both these subjects were covered in difficult "pre-negotiations" last February. While these led to a measure of agreement with Mr. Tahiri and BNDE on steps to improve performance, Mr. Tahiri was adamant in refusing to permit an increase in BNDE's 7% lending rate because of the effect this might have on interest rates generally which, as a matter of policy, have been kept low. Reluctantly we decided not to press the lending rate issue at this stage and, based on the understandings reached on other matters in Rabat, we invited negotiations for a further loan. These are now taking place. [Mr. Tahiri may take issue with our limiting the amount of the loan to a one year's estimated needs but we feel strongly that another review of the BNDE's management and profitability is required within a year.] We have said that any further lending to BNDE (i.e. next year) would have to be preceded by a thorough investigation of the lending rate question. We understand Mr. Tahiri intends that a general study of the interest rate structure in Morocco be conducted. This would be salutary. The condition of the present contemplated loan is that a foreign adviser be appointed to BNDE. Mr. Tahiri may revert to the question of the subsidization of the cost of such an adviser, a matter which has become an important issue during the current BNDE negotiations. As you know, up to now it has been our policy not to offer subsidization of the cost of staff for private profit-making institutions. However, perhaps the time has come to revise this policy. I suggest you be receptive to Mr. Tahiri's views, but withhold any commitment until you are ready to settle the general policy. Attached as Annex IV is the ✓

copy of the memorandum to the Loan Committee  
respecting the proposed loan to BNDE.

5. Mr. Tahiri may also refer to the role of the Bank in tourism. In a letter to me, he has noted that the Bank is now organizing itself to deal with tourism and has asked whether a project for development of touristic facilities in the area of Tangiers which was previously rejected by the Bank could now be re-examined. I am looking into this and hope to give him an answer before he sees you. ✓

6. He may also raise the question of the site of the next meeting of the Consultative Group for Morocco. Normally such meetings would be in Paris but the relations between France and Morocco precluded it last time and may preclude it again. Mr. Tahiri would like to have it in Rabat. We do not wish to do so. It would be administratively inconvenient and would set a precedent which would be most unfortunate with respect to other Consultative Groups. London or Rome would be suitable if Paris is impossible. ✓

7. On the positive side, we are eager to improve our relations with Morocco and to undertake further lending for suitable projects. We know the agricultural sector well. One of our first objectives is to identify projects lending themselves to Bank financing in other sectors than agriculture. The first step in this respect will be to review the list of projects for which the Government is seeking external assistance. This list - which will be circulated to the Consultative Group - should be completed by the Moroccans and sent to us in the next few weeks. We have expressed interest in financing the development of the large phosphate mines, but have not yet been formally approached in this regard. ✓  
✓  
✓  
✓  
✓

Arthur H. Jensen

c.c. Mr. Knapp

2

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: October 17, 1968

FROM: Michael L. Lejeune

SUBJECT: Morocco - Meeting between Mr. Tahiri and Mr. McNamara

Mr. Tahiri, accompanied by Mr. Tazi, had a short meeting with Mr. McNamara on September 30. In addition to Mr. McNamara, the following were present: Mr. Knapp, Mr. Friedman and Mr. Lejeune.

Mr. McNamara opened the meeting by saying that he was glad to hear that relations between the Bank and Morocco had improved and as he understood it there were no outstanding questions with respect to the proposed loan to BNDE. Mr. Tahiri confirmed that relations have significantly improved. He said that they had hoped that the Bank would interest itself in the Sebou project, a large agricultural project which had been under study for a number of years. He said that the initiative on this was now with the Bank. I reminded Mr. Tahiri that there was still information which we had asked for which we had not yet received but we understood that it would be provided shortly. We would not be in a position to undertake appraisal of the Sebou project until this information was in hand.

Mr. Tahiri also raised the question of the consultative group and said that he thought that the best time to have the meeting of the group was when the Bank was able to say which of the various projects in the Moroccan Development Plan it was prepared to finance. Mr. McNamara replied that the most important thing was to have a meeting of the consultative group since this would focus interest on Morocco. It would be better to have an early meeting than to wait until the Bank was in a position to make further commitments on a series of projects. Mr. McNamara asked when a meeting could be held in the light of the present stage of the economic work on Morocco. Mr. Friedman and I confirmed that the economic report would soon be ready to go to the Executive Directors and that it would be no problem to have a consultative group meeting in January.

Respecting the Sebou project, Mr. McNamara asked me to ascertain exactly what further work was required of the Moroccans before the Bank could begin its examination and let Mr. Tahiri know before he left Washington. (This was done the following day in a further meeting between Mr. Tahiri and me.)

As we left the meeting I told Mr. Tahiri that the Bank was lifting the suspension of disbursement on the CNCA loan and gave him a copy of the letter from Mr. Knapp to Mr. Abdelaziz Alami, Director General of CNCA.

c.c. Messrs. McNamara ✓  
Knapp  
Friedman  
Chadenet  
Diamond  
Evans

*Michael L. Lejeune*

MLL:ms

3

## OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: M. P. Benjenk *MPB*

SUBJECT: Morocco - Meeting of Minister of Finance  
with Mr. McNamara at the Annual  
Meeting

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DATE: December 4, 1969

The Minister of Finance of Morocco, Mr. Mamoun Tahiri, called on Mr. McNamara on October 2. Also present were Messrs. Knapp, Tazi, Lejeune and Benjenk.

The Minister of Finance said that he was very pleased to see the Bank's much increased activity in Morocco during the past year. He was glad, in particular, that some of the recent difficulties which had delayed the conclusion of the negotiations on the Sebou Project had now been overcome.

Mr. McNamara also expressed his satisfaction at the increased activity of the Bank in Morocco and noted that the 1970 lending program for Morocco would be a very large one indeed. The highway and Sebou loans would probably be approved by the Board in October and, responding to the invitation of His Majesty the King of Morocco to visit the country, Mr. McNamara said that he would be happy to come to Morocco in November and sign these two loans in Rabat.

Mr. Tahiri expressed his pleasure at this news and said that it would be a happy occasion for two such important loans to be signed in Morocco by the President of the Bank himself.

cc: Mr. McNamara's office  
Mr. Bart

President has seen

MPB:ab

October 2, 1969

MR. McNAMARA;

The following from Mr. Lejeune:

"Subject: Morocco - consultation on appointment of Director of the Office du Rharb (Sebou Project)

As Burke Knapp may have told you, I had a long and difficult session with the Moroccan Minister of Finance (accompanied by Mr. Tazi) yesterday, but I think we have now got to the point that he will wish to go ahead with the loan, knowing that he will receive a unilateral letter from us in the form of the draft you saw last week. However, he made some suggestions in the wording of the letter which clarified some points which were not clear to him which improved it from both his and our point of view, and which tended to make it easier for him to deal with in Rabat. I have discussed these with Burke, and subject to some further (probably noncontroversial) changes which need to be cleared with the lawyers, I think we can arrive at something he will swallow.

For your information, the general line I took with him was that what he was asking for was an exception to our normal policy of seeking consultation on appointments in cases similar to the Sebou Project. I told him that in the interest of getting ahead with a program of activity in Morocco, we were ready to make an exception in this case, but he should recognize that we have our own problems and that making an exception for Morocco could have repercussions on our maintaining a policy of consultation in other countries. I gave him an indication of the number of times we had managed to obtain consultation and mentioned Pakistan, India, Brazil and Argentina.

I think the point which made the greatest impact on him was that he was embarrassing the Bank in its relations with others.

By the time he comes to see you at 9:00 we probably shall not have been able to finalize the wording of the letter, but we expect to do it today.

Michael L. Lejeune "

President has seen



3a

MEMORANDUM FOR THE RECORD

October 13, 1969

Mr. McNamara's Meeting with Mr. Tazi on October 9

Mr. McNamara referred to his talks with the Finance Minister of Morocco during the Annual Meeting. The Minister had informed him that Ramadan would begin on November 15. Mr. McNamara proposed a visit to Morocco during the period November 12-15. He asked Mr. Tazi whether this would be convenient to His Majesty. Mr. Tazi mentioned that Ramadan would occur at various times in different countries and that it now appeared that it would begin on the 13th of November in Morocco. He asked whether any other dates in November would also be convenient. Mr. McNamara said that the above period--with departure from Morocco on Sunday, November 16--was the only time that he would be free. He wished to ensure himself that that period would be convenient to the Moroccan authorities. Mr. Tazi affirmed that this was indeed convenient.

Mr. McNamara asked Mr. Tazi to propose a schedule of events during the visit. He was interested to know when he should meet with the government officials. Mr. Tazi suggested that the loan signing be set for the first day of his visit. He mentioned that His Majesty would wish to place a plane at his disposal while visiting Morocco. Mr. McNamara said he was very anxious to learn about both problems and prospects facing the country. He also wished to travel by car for about 100 miles, or so, to acquaint himself with rural life and development. He would want to see some project sites, talk with BNDE officials, and spend about half an hour each with people who Mr. Tazi thought would be most interesting persons to meet in Morocco, such as newspaper personalities, university officials, political leaders, etc. Mr. Tazi said that the Moroccan authorities would be most delighted if Mrs. McNamara could accompany him.

L.E. Christoffersen

President has seen

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## OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: March 18, 1970

FROM: Maurice P. Bart *MPB*

SUBJECT: Mr. McNamara's meetings during his visit to Morocco - November 1969

1. In the course of his visit to Morocco, Mr. McNamara met on November 13 with the Cabinet Members and personalities listed below. Those present at most of these meetings were: Mr. Sinaceur Ben Larbi from the Royal Cabinet, Mr. Abderrahman Tazi, Mr. William Clark, Mr. M. P. Benjenk, Mr. L. Christoffersen and Mr. M. P. Bart. The present memorandum summarizes the exchanges of views which took place.

Meeting with Dr. Benhima, Minister of Agriculture

2. Dr. Benhima opened the discussion with a description of Morocco's needs and lines of actions in the agricultural sector. In the irrigated sector, the aim is to expand the area from 200,000 to 1 million hectares within a generation. This requires heavy investments in infrastructure, especially dams. Morocco has convinced foreign donors that projects in five irrigation perimeters are bankable (Moulouya, Tadla, Haouz, Doukkala and Sebou). Dr. Benhima referred to the Bank's criticism of the Ziz, Draa and Massa projects which, in the Government's view, are necessary to ensure a regional balance between the Saharan and the Atlantic zones and to check migration to the cities. The Government expects the beneficiaries of these projects to share in their costs and would impose sanctions, including expropriation in extreme cases, if the landowners do not develop their land. The law now provides for distribution to small farmers in irrigated areas of State, collective, foreign land, and possibly expropriated private land.

3. In the rainfed sector, 6 million hectares are cultivated when rainfall is adequate. The Government is not neglecting this sector but has not made development compulsory as in irrigated areas. It is providing assistance for mechanization, fertilizers, seeds, livestock and range improvement. Cooperatives are being set up to facilitate the purchase of equipment and the regrouping of holdings through either the same system of pooling land resources as in irrigated areas or under joint registration of land.

4. Replying to questions raised by Mr. McNamara, Dr. Benhima indicated that the regrouping of rainfed land has started on a small scale; change of ownership will normally be limited to collective and "habous" (religious endowments) land but the law allows for the expropriation of large landowners if the objective of giving 20 hectares to each family cannot be met otherwise. Cooperatives, under the guidance

of the Ministry of Agriculture, will be in charge of joint farming operations in rainfed areas, whereas the regional development authorities will have this responsibility in irrigated areas. The increase in productivity is expected to raise incomes to 2000-2500 DH/hectare/year within 10 years in irrigated areas, and to 500/DH/Ha/year in rainfed (which would triple present income). This will take a generation, however, as King Hassan wants to persuade rather than to force the farmers. The main objective is for Morocco to achieve self-sufficiency in foodstuffs. In addition, the purchasing power of the rural population should be increased through the development of internal and external markets. However, without family planning and training of cadres, agricultural production will not progress at a rate higher than population growth.

5. Dr. Benhima concluded with a plea for lighter administrative requirements related to external aid, which differ widely from one donor to another. He hoped Mr. McNamara would enjoy his visit of the Sebou project, where planning and land tenure problems are being faced but will be solved shortly; in his opinion, the Rharb plain will become Morocco's California in ten years' time.

#### Meeting with Mr. Tahiri, Minister of Finance

6. Mr. Tahiri outlined recent trends in the economy, Morocco's budget and payments positions and need for external capital. Despite the measures taken to increase domestic savings (the low rate of which is of concern to Mr. McNamara), to curb current expenditure and to earmark for development special resources (such as the revenues from State monopolies), the Government faces a financing gap which can only be met by foreign assistance. In this regard, the Consultative Group meeting has had moral rather than practical results and it is hoped that it could play a more effective role in the future through regular meetings and, if necessary, special meetings devoted to sectoral problems.

7. The slow pace of industrial growth was noted. In contrast to the experience in Iran, the Moroccan private sector lacks aggressivity. It has not fully recovered from the contraction of the domestic market and the loss of trained cadres resulting from the large scale departure of foreigners after independence. The spirit of enterprise is still new in Morocco but transformation in agriculture, commerce and handicrafts is under way. Thus textile merchants have moved to textile manufacturing. The key to further progress is the training of managerial talents. Morocco's association with the Common Market offers good prospects for attracting new investors and increasing exports of agricultural as well as industrial products.

8. As regards the balance of payments, a small surplus is expected in the current year despite increased imports of equipment. Tourism has been a major factor in achieving this surplus. Capital flight, which had been heavy at the time of the massive departure of foreigners, is now lower and does not seem to be caused by Moroccans except parts of the Jewish Community which, though free and assimilated, is worried by the possible consequences of the situation in the Middle East.

Meeting with Mr. El Fasi, Minister of State for Cultural Affairs and Traditional Education.

9. Mr. El Fasi explained the system of traditional education which has roots going back to the 10th century and is based on Arabic and Koranic studies, the latter being the source of Islamic law. The system is being progressively modernized through the introduction of foreign languages and science. Mention was made of the skills which Morocco had preserved in traditional arts and handicrafts.

Meeting with Mr. Guedira, Minister of State for Secondary, Technical and Higher Education.

10. Mr. Guedira recalled his previous encounter with Mr. McNamara on the occasion of the meeting between President Kennedy and King Hassan. He would have to deal with much different subjects this time, starting with the IDA-financed education project, in which the methods of both the Bank and the Government were preventing the use of funds as scheduled with the consequence that a postponement of the closing date would have to be requested.

11. On the broader plane of policies, education ought to be the top priority for external assistance. This is a problem common to the whole "third world" but is faced also in America where some people lack nothing but education. In reply to questions by Mr. McNamara Mr. Guedira said he had not yet defined his objectives in the field of education; they were currently under study. Broadly speaking, the main targets should be to generalize culture and to meet Morocco's needs in cadres. Since independence, the educational system has undergone deep and rapid changes. Total enrollment has jumped from 400,000 to 1,200,000 in three or four years and has been stabilized since 1965 at the 1,500,000 level, or 10 percent of total population. This achievement, quite creditable in view of the resources available, does not, however, match demographic growth. Enrollment of children of primary school age is near 100 percent in towns but does not exceed 40-60 percent in rural areas. The location of schools is not always suitable and is being reviewed.

12. Another important change is the replacement of the French language by Arabic, which was introduced in primary schools in 1966. This change has met with serious difficulties due to lack of teachers and books; furthermore, it prevents an easy transition between primary and secondary schools, where French remained the prevailing language. The harmonization of both systems is a necessity. The retention of French is of particular importance to prepare students for a curriculum with more emphasis on sciences. Secondary schools presently have an academic orientation with the result that many graduates are unemployed. The number of medical students is growing.

13. The utilization of students in military service as training aides in villages (as was done in Iran) is being considered, but despite the recent introduction of compulsory service, there is still a relatively low proportion of school graduates in the Armed Forces.

Meeting with Dr. Laraki, Prime Minister

14. Dr. Laraki stressed the importance of Mr. McNamara's visit not only because of the increased Bank lending and closer cooperation between the Bank and Morocco, but also because he looks forward to Mr. McNamara's recommendations after he has seen Morocco for himself and assessed the possibility for the Bank to help in new sectors as well as in its traditional fields of activity. Mr. McNamara replied that the signing of the agreements for the Sebou and road projects is an adequate excuse for visiting Morocco; the real purpose of his visit is to show his desire to be of assistance to Morocco and to put behind old irritations. The level of lending contemplated for Morocco, which exceeds by far what was done in the past, evidences this desire and is symbolical of a new relationship. While in the past, both Morocco and the Bank acted too slowly to advance, he is confident that an adequate lending program can now be developed.

15. Dr. Laraki emphasized the Government's policy for the mobilization of savings. There is nevertheless a need for Bank participation in the financing of local expenditure and he wishes the Bank could do something in this field in the future. Mr. McNamara replied that while the Bank can be flexible within limit, it must be assured that there is adequate progress in taxation and public savings. This matter will be re-examined whenever it comes up again.

16. Dr. Laraki reiterated the importance of any recommendations coming from the Bank following Mr. McNamara's visit. However, the political factors which, in certain regions, justify uneconomic projects (which were criticized by the Bank) should not be disregarded. Mr. McNamara mentioned the real problem this represents for the Bank as the custodian

of scarce development resources. This does not mean, however, that political - which he would rather call social - considerations should not be taken into account. Similar problems are faced throughout the Arab and Islamic world, from Indonesia to Morocco. He has tried to visit all key countries in this area in order to work out a new basis for operations, taking into account the similarities in culture and in development problems.

Other meetings

17. Mr. McNamara also met with: Mr. Mohamed Bel Larbi, Chairman, of the Association des Jeunes Patrons and General Manager of the SOMACA, car assembly company; Prince Moulay Hassan Ben Mehdi and Mr. Benkirane, President and General Manager of BNDE respectively; Mr. Amine Benjelloun, General Manager of the Compagnie Marocaine de Crédit et de Banque; Mr. Abdelaziz Alami, General Manager of the Banque Commerciale du Maroc; and (on November 14 in Casablanca) Mr. Sakkat, owner of the Filatis Textile Company.

18. All these meetings focussed on the constraints faced by Moroccan industry and on possible means for stepping up industrial growth. Mentioned as constraints were: the Government's excessive controls and unpredictable behavior, the domination of the sector by old-established French firms, mercantile attitudes, the scarcity of managerial talent which is often attracted to the public sector, the narrowness of the market and the high returns obtained in banking and real estate.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: M. P. Benjenk *my*

SUBJECT: Morocco - Mr. McNamara's conversation  
with King Hassan

DATE: November 24, 1969

Mr. McNamara visited Morocco from November 12 to November 16. He was accompanied by Messrs. Clark, Benjenk, Bart and Christoffersen. On November 13, he signed the \$46 million loan to Morocco for the Sebou Project and the loan and credit (\$7.3 million each) for the Road Project. On the same day, Mr. McNamara also had conversations with the Prime Minister, the Minister of Finance, the Minister of Agriculture, the Minister of Secondary and Higher Education, with the President and Director General of BNDE and with Moroccan businessmen. Mr. Bart will summarize these meetings in a separate memorandum. On November 14 and 15, Mr. McNamara visited Casablanca, Agadir, Marakesch, Fes and the Rharb valley, returning to Rabat on the evening of November 15. That night, Mr. McNamara was the guest of King Hassan for dinner at the Royal Palace.

Most of the conversation between the King and Mr. McNamara centered on Morocco's industrial development. Mr. McNamara told the King that he had received an impression of sluggishness as far as the prospects and growth rate of Moroccan industry were concerned. There seemed to be a lack of drive and also hesitancy on the part of Moroccan businessmen, which he had found disappointing. When asked by the King what he thought the reasons for this were, Mr. McNamara said that he would hesitate to give a definite opinion after only three days in Morocco; however, his impression was that there were a number of reasons for this situation. First, there was the apparent unwillingness on the part of industrialists to expand their business into something larger than the family business size, since this would mean seeking outside partners. Second, there did not seem to be sufficient interest in seeking export markets which could be the basis for an increase in the size of many existing industries. Third, the banks and particularly BNDE, seemed to be too restrictive in supplying capital to industries needing expansion. For example, BNDE would not provide more than 50% of the cost of any project. Fourthly, there seemed to be a feeling on the part of businessmen that the Government was too intrusive in business matters, wanting to control

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President has seen

everything and not wishing to allow private enterprise to experiment in new areas. The King commented that prudence was necessary in the allocation of capital, since money might go to unscrupulous businessmen. Mr. McNamara said that the making of mistakes was part of the development of a private enterprise system. It was better to have nine successes and one error than no successes and no errors. The King said that he agreed with Mr. McNamara's approach.

Discussing the type of industrial development that was good for Morocco, the King said that he believed in the development of basic industries, such as iron and steel and added that he did not feel there could be real development based only on processing and light industries. When Mr. McNamara stressed the importance of the opportunities for tourism in Morocco, the King remarked that tourism was useful but that it was a matter of fashion and in any case it might encourage a nation to laziness and to rely too much upon it. The King also asked whether the Bank could give additional help to Morocco through BNDE for the development of a fishing industry. Mr. McNamara replied that it seemed to him that such financing was already possible through the Bank's line of credit to BNDE.

After this exchange, the King said it was obvious to him that the Bank could greatly help Morocco if it were to conduct a study of the industrial sector and advise the Government on how to proceed with a policy for industrial development. He said he would welcome a Bank mission to carry out such a study. Mr. McNamara agreed that a sector study for industry would be useful and undertook to send a Bank mission to carry it out.

The King of Morocco spoke warmly of economic cooperation with neighbouring Algeria in particular. He felt such cooperation could take the form of the passage of a pipeline carrying natural gas from Algeria through Northern Morocco into Spain and the rest of Europe. Similarly, a railway line and a port to carry and export iron ore from the south of Algeria through Southern Morocco via the Atlantic would also be encouraged. Such projects would help open up the infertile north and south of the country while the center of Morocco was being developed by the policy of building large irrigation projects.

Mr. McNamara told the King that he had been very pleased to see that Morocco had started a family planning program and asked the King whether he felt that this was an important policy which

should be pursued. The King replied "yes and no". He felt that population planning was a good thing but that it should not be exaggerated. Morocco needed more skilled people than it had at present and might also, in the future, export technicians to other parts of Africa. Population policies should not be too restrictive, he said.

The rest of the conversation with the King was devoted to current world affairs.

cc: Messrs. McNamara  
Knapp  
Lejeune  
Fuchs  
Diamond

MPB:ab  
(dictated on November 21, 1969)

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November 17, 1969

MEMORANDUM OF CONVERSATION WITH THE KING OF MOROCCO, NOVEMBER 15, 1969

The King of Morocco and Mr. McNamara had a private conversation at the Royal Palace in Rabat on November 15. During the conversation, the King gave his views on a number of political issues.

The General Situation in North Africa

The King felt that the situation could still be retrieved, if certain facts were kept in mind. He was concerned about what he called the attempts to place a "cornerstone" into North Africa, through successful attempts at subversion, as had happened in Sudan and Libya. The third point in the triangle might well become Algeria.

With regard to Libya, the King felt that the situation there had not crystalized yet and that the military regime was still weak. The regime consisted of ten officers, an army of 5000 men and a police which was more attached to the royal regime than to the new group in power. The regime had set up no party to indoctrinate the masses, no labor unions, and was therefore still without real popular support. He said that one could draw one's own conclusion from this situation, but added that he did not wish to suggest that the new regime should be subverted, as he did not believe in subversion. But time was short, and he had no doubt that Egyptian officers would replace the U.S. military once Wheelus Base was given up.

Turning to Algeria, the King spoke very warmly of the personal relationship which he had established with President Boumedienne. The latter, he felt, was the "best" man in Algeria today and was laboring to extricate Algeria from the situation in which it had been left by former President Ben Bella. Boumedienne had painted a picture to the King of the extent to which Algeria had, under his predecessor, mortgaged itself to the Soviet Union, which, said the King, bordered on the "delirious," committing Algeria's economy for the next 40 years. The most dangerous aspect of the Algerian situation was the fact that 2000 young Algerian army officers had been trained in Russia and might have ideas very different from those of Boumedienne.

Turning to reaction in Morocco to what was happening in the neighboring countries, the King said he was not unduly worried as to the consequences of recent revolutions on his own regime. There was no one in Morocco, either civilian or military, who could possibly visualize himself as a replacement for the King and "ride on a white horse to the Mosque to lead the people to prayer." He hoped for close economic cooperation with Algeria by arranging for the passage of Algerian natural gas through northern Morocco and across the Straits into Spain and Europe and by providing a railway route and a port on the Atlantic for Algeria's iron ore from Tidouf. The railroad and

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port would contribute to opening up Morocco's underpopulated south and the natural gas would help to industrialize the overpopulated north. In between these two "pincers of prosperity," the center of the country would be stable thanks to the policy of building irrigation dams in various parts of Morocco.

### The Middle East Crisis

The King said he did not know what would come of the forthcoming Arab "summit," which he called a "bluff" on the part of President Nasser. The latter, he felt, was in no position to fight a successful battle against Israel. In all the preceding discussions, Morocco had taken the position that it was up to the Arab countries whose territory was occupied to say whether a peaceful solution was possible or whether a resort to military measures was necessary. In either case, Morocco would support them. Many Arab countries, including Algeria -- which had gradually extricated itself from Egyptian influence -- were now putting pressure on Nasser to have him make up his mind, one way or the other, on peace or war. There were two major obstacles to a peaceful solution at this time. The first was the lack of any spirit of conciliation on the part of the Israelis, who had remained stubborn against possible compromise. The other was the uncompromising attitude of King Faisal of Saudi Arabia, who was now the principal obstacle to a peaceful solution, since he regarded his role of guardian of the Holy Places of Islam as incompatible with peace with Israel. The King felt that it might be useful if the United States put some "gentle, very gentle pressure" upon King Faisal, bearing in mind that he was a very tough Bedouin and would not take kindly to any foreign interference.

The King felt that those who had caused the 1967 war should also be those who should make the peace, although it might cost them their positions. Western countries or the World Bank should extend economic help to Nasser, because such aid would reinforce a peaceful stance on his part. As far as Nasser himself was concerned, the King said that he was "an intellectual gangster whose world is worth nothing." One of the advantages of having Nasser conclude peace himself was that he would be overthrown shortly thereafter, "thus ridding the world of a dangerous man."

### The Future of Palestine

Turning to the future of Palestine, the King said that he would place his bet on the Palestine Liberation Organization (P.L.O.). It would not be possible in the future to deprive the Palestinians of their right to a country, particularly since they were now prepared to have a "multi-racial, multi-religious state, living side by side with Israel." The creation of a Palestinian state meant, sooner or later, the disappearance of Jordan and King Hussein of Jordan knew it. He had already taken the necessary personal precautions, including that of securing his personal fortune abroad. He had also said that he would renounce (or would be willing to renounce) his son's right to be successor.

### Contacts with Israel

The King said that, through intermediaries including some of his officers, he had had contacts with the Israelis, to induce them to take a less stubborn

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line. Not much had been achieved through these contacts. He had expected the Israelis to understand that a compromise solution would be followed by the ousting of those who had waged war against them, which they should welcome.

Algerian-U.S. Relations

The King said that President Boumedienne had asked him to sound out the U.S. as to the possibility of renewing diplomatic relations. Algeria had declared its willingness to renew such relations, if no conditions were attached.

U.S. and North Africa

The King said that he would appreciate being told how the U.S. considered the fate of North Africa, particularly Morocco and Tunisia. He would be interested to know whether his country was behind the "ideological anti-missile screen" or not.

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## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 8, 1970

FROM: M.P. Bart

*p.p. [Signature]*SUBJECT: Morocco - Mr. McNamara's meeting with Mr. Bargach, Chairman of BNDE

*Rm nally*  
*cc gfo*  
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1. Following the signing of the fourth loan to BNDE on March 6, 1970, Mr. McNamara met in his office with Mr. Bargach, Chairman of BNDE's board, accompanied by Ambassador Ahmed Osman and by Mr. Benkirane, BNDE's General Manager. Were also present: Messrs. Tazi, Benjenk, Diamond, Christoffersen and Bart.

2. Mr. Bargach started by stressing the importance given by King Hassan to the long association between BNDE and the Bank and to the forthcoming industrial mission. As former Minister of Agriculture, he himself believed that Morocco's considerable investment effort in agriculture would not fully bear fruit unless it was matched by the development of a competitive industry in view of the need to lessen population pressure on the land and to increase value added of agricultural products through food processing. BNDE planned to play a substantial role in identifying new industrial projects especially those which could take advantage of new prospects offered by Morocco's association with the common market. However, BNDE needed for that the support and advice of the Bank especially for market studies, research and prospection. Mr. Bargach continued that domestic savings existed in Morocco but were hardly used for industrial development by the tradition-oriented middle class which had hardly entered industry so far, except in textiles. Despite the constraints facing industry and the entrenched position of old firms which hampered the creation of modern ones, Morocco had to make progress in this field and Mr. McNamara's advice as to how the Government and the BNDE could help in this process would be valuable.

3. Mr. McNamara replied that he didn't know Morocco before his visit last November and that his advice could only reflect the impressions gained during the three days he spent there. However, his experience of industrial environment made him believe that Moroccan industry was stagnant, in part because of the severe blow given by the large-scale departure of foreigners after independence, but mostly because the entrepreneurs were not sufficiently aggressive. Nor did BNDE's forecast of activities, with a static volume at the low level of about \$ 14 million per year in coming years, reflect much dynamism. To this last point, Mr. Bargach replied that BNDE's activities were checked by the competition from suppliers credits, as well as by its inability



to engage the new staff required to increase business as this would cut on profitability, a matter which he understood to be of particular importance to the Bank. Mr. McNamara observed that at its present level of profits BNDE could afford to recruit a few additional staff members.

cc: Office of the President (3)

Mr. Benjenk

Mr. Diamond

Mr. Pollan

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 5, 1970

FROM: M. P. Benjenk *MB*SUBJECT: Morocco - Signing of Fourth BNDE loan (\$15 million)

1. Please find below a few notes in connection with the signing of the fourth loan to BNDE at 3:00 p.m. on Friday, March 6, and your subsequent meeting with Messrs. Bargach and Benkirane, Chairman of the Board and Director General of BNDE, respectively. I am also attaching remarks you might like to use during the signing ceremony.

2. The Bank Group has been associated with BNDE since the Government relinquished its majority ownership in 1962. IFC, with an investment of \$0.9 million, owns a quarter of BNDE's share capital and the Bank has made three loans to BNDE: \$15 million in 1963, \$17.5 million in 1967 and \$15 million in 1968. The present \$15 million loan will increase total Bank lending to BNDE to \$62.5 million; it is expected that this loan will cover the foreign exchange needs of BNDE's growing lending activities until April 1971. Continuing Bank lending to BNDE is envisaged in our five-year lending program (\$15 million in 1971, 1973 and 1975). So far, BNDE has been the only channel through which the Bank has made funds available for industrial and tourist development in Morocco. However, negotiations will start next week for a \$10 million loan to CIH (a credit institution specialized in housing and hotel financing) for hotel financing; once this loan is made, BNDE will concentrate mostly in lending for industry but will continue making equity investments in tourist enterprises.

3. BNDE has played a major role in financing industrial and tourist investment in the country; actually, very few new enterprises in the country have not received financial assistance from BNDE. Total BNDE financial assistance since its inception amounts to about \$155 million of which 23 percent to food processing industries, 16 percent to textile industries and 10 percent to the tourist sector. Textiles are now the most important element of its direct loan portfolio. As shown in the attached data sheet on BNDE, its direct lending operations have increased substantially since 1964 (more than threefold) to reach a level of about \$12.0 million in 1969; a third of this amount approximately was lent for tourism, mainly for hotel construction, through CIH out of World Bank loans proceeds. BNDE's projected lending activities (also shown in the attachment) show an increase of 16 percent for the next four years; this is a substantial increase taking into account that lending for tourism will be assumed by CIH once the Bank makes loans directly to that institution. Equity investments have been low throughout the life of BNDE and non-existent for the last two years; their projected equity participations show an improvement but at still a very moderate scale after 1970.

March 5, 1970

4. During your discussions with BNDE's Chairman and Director General, you may wish to refer to the following points:

- (A) The role of BNDE as promoter of new investments has varied in different fields. In tourism, it has played an active and constructive role through its subsidiary SOMADET which has set up several hotels and holiday villages in the country. In other industrial branches, BNDE has taken a more active role in looking for partners and promoting investment than the role usually taken by a pure lending agency. However, given the relatively recent entry of Moroccan entrepreneurs into industry, and their reluctance to bring in outsiders such as BNDE as partners, equity investments have been on the low side. There is room for improvement in this area and for building up closer relations with the private sector so that BNDE can be looked at as a source of advice and equity capital.
- (B) The constraints for continuing expansion of BNDE's lending. BNDE has been so far lending from 30 percent to 40 percent of the total cost of projects. This proportion (which is greater in most individual cases as the average is distorted by some very large investments for which French subsidized suppliers credits were available) is not out of line in relation with other development finance companies abroad and could not be easily increased.
- (C) Cooperation between BNDE and the forthcoming Bank industrial mission due to arrive in Morocco in the early days of April. Although we do not want the mission to become too identified with BNDE, Mr. Bargach's personal contacts and knowledge of the industrial sector could be of use to the mission.
- (D) Mr. Bargach may tell you of his desire to introduce more foreign expertise into BNDE. We, of course, would welcome this. However, he will probably go on to say that such expertise is very expensive and would reduce the already low dividends of BNDE (6 percent last year and 4 percent in 1968), while the Bank and IFC continue to insist on higher dividends. The answer to that comment is, of course, that BNDE is lending at artificially low rates and that it could afford both higher dividends and foreign experts if it were allowed to lend at more than the very unrealistic rate of 7 percent.

Attachments

ANNEX I

<u>Capital structure (end of 1969)</u>	<u>%</u>	<u>US \$ equivalent (000)</u>
Moroccan		
Government	43.2	1,739
Private institutions	14.8	596
Individuals	.4	2
Foreign		
IFC	24.7	987
Foreign institutions	16.9	676
<b>TOTAL SHARE CAPITAL</b>		<u>4,000</u>

OTHER Long-term resources

Reserves	2,080
Subordinated Gov. loans	8,000
Long-term bonds	3,120
USAID loan	3,000
World Bank loans (net)	58,700
	<u>78,800</u>

Operations approved and planned (000 US \$)

	<u>Actual</u>						<u>BNDE's own Projections</u>				
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Loans	3.8	7.0	11.2	9.6	12.2	11.1 <sup>1/</sup>	14.0	13.0	14.0	14.0	14.0
Rediscounts	2.1	8.3	4.4	14.1	7.8	0.7	5.0	6.0	7.0	7.0	6.0
Equity Invest.	0.3	1.1	1.1	0.4	-	..	1.7	0.6	0.4	0.4	0.4
<u>Profitability</u>											
	<u>Actual</u>						<u>Projected</u>				
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Net profit/assets	1.65	1.46	1.60	1.45	1.46	1.45	1.45	1.46	1.45	1.46	1.44
Net profit/equity	5.16	5.03	6.57	6.99	8.60	9.93	10.6	11.1	11.0	11.3	11.0
Net profit/share cap.	5.95	5.93	8.01	8.83	14.90	15.60	18.2	20.4	20.9	24.0	25.1

*flat - no growth*

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Suggested remarks by Mr. McNamara on the occasion of the signing  
of the Fourth Loan to BNDE.

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Mr. Ambassador, Mr. Chairman,

I am particularly gratified to have the opportunity to participate in the signing of this fourth loan to BNDE.

With this loan, the total assistance extended by the Bank to BNDE will have reached \$62.5 million. The continued and close relationship thus established between BNDE and the Bank, strengthened by IFC's participation in BNDE's capital, has enabled us to contribute substantially to our common objective of developing Morocco's economy.

In the industrial sector where the bulk of BNDE's activities are concentrated, much remains to be done, however. When I visited Morocco last November, I was impressed by the fact that industry and handicrafts contribute only 12 percent to the national product, that manufacturing employs not more than 160,000 workers and that private entrepreneurs are not demonstrating the aggressiveness which could have been expected in Morocco's liberal economy. When this situation is seen against Morocco's increasing unemployment problem, which is illustrated by the current plan target of creating 750,000 new jobs over five years, it is evident that further expansion of industry is of high national priority.

The Bank is prepared to continue and enlarge its assistance in this field, in which His Majesty King Hassan and his Government have a great interest. I expect that the forthcoming Bank industrial mission will cast light on the constraints faced by Moroccan industry in recent years and on the means of stepping up its development. Morocco's association with the

European Economic Community opens new prospects for exports which need to be thoroughly explored. In the final analysis, industrial development will hinge chiefly on the investment climate created by the Government, on the drive and initiative demonstrated by the private sector, and on the assistance provided by institutions such as BNDE. You can rest assured that the Bank will contribute to the maximum extent possible to this effort.

Finally, let me say, Mr. Chairman, how glad I am to welcome you here in your new capacity. You are an old friend of the Bank and we have had the pleasure over the years to work with you at the Bank of Morocco, then as Minister of Planning and again as Minister of Agriculture. My colleagues and I look forward to working with you in BNDE in the future. Lastly, let me also welcome Mr. Benkirane, who is at home here and whom it is always a pleasure to see.

Mr. Robert S. McNamara

January 29, 1970

M. P. Benjenk

Visit of Chairman of BNDE

1. Mr. Mohamed Bargach, the new chairman of the Board of the BNDE, intends to come to Washington next month to sign the BNDE loan and has asked to see you on the occasion of his visit here. Mr. Bargach has been a prominent figure in Moroccan politics in the past ten years, having held various Cabinet offices in the Government, the most recent of these being the position of Minister of Agriculture from 1967 to 1969. He has, in the past, been very close to the King himself although there seems to have been some estrangement between them in recent months.

2. During my brief visit to Morocco last week Mr. Bargach told me that he felt that BNDE needed to become more dynamic and do more promotional work in the Moroccan business community. He told me that his efforts in this direction were encountering some resistance within the BNDE and that one of the purposes of his visiting Washington would be to obtain support from us for some of his views. That is the background as to why he wishes to see you and Mr. Diamond.

3. Mr. Bargach is a highly intelligent man, but highly strung and, at times, demagogic. He is not likely to remain the chairman of BNDE (a part time post) very long, but he is well worth seeing. He has suggested either February 9 or February 23 for his visit, with a strong preference for the latter. If you are prepared to see him, which I recommend, and since February 23 is a holiday, I should like to propose to him that he come on February 9 or February 24. Please let me know your decision, so that I can send him a cable.

MPBenjenk:gr

cc: Mr. Knapp  
Mr. Diamond  
Mr. Bart

President has seen

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**MAY 07 2013**

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September 9, 1970

MEMORANDUM OF CONVERSATION WITH MR. TAZI

During a meeting today which he asked for, Mr. Tazi reported he had conveyed to the Prime Minister and the King of Morocco, both orally and in writing, my concern over the Government's failure to proceed with the land reform in the Sebu in accordance with the plan which we had agreed upon.

When I emphasized to Tazi again that we could not tolerate private individuals manipulating the project to advance their personal gain, he admitted that the Minister of Interior had been distributing the land to his friends, including military officers and others. When I asked point-blank whether these actions were known to the King, he said nothing was done in Morocco without the King's knowledge and support. He went on to say that steps had been taken to stop the practice, but he was not sure what could be done to "recapture" the land which had already been distributed by the Minister.

Robert S. McNamara



## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

FROM: M.P. Benjenk *mb*

SUBJECT: MOROCCO - Meeting with Mr. McNamara in Copenhagen

DATE: October 22 1970

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Mr. McNamara saw the Moroccan Minister of Finance, Mr. Lazraq, on Wednesday, September 23. Mr. Knapp, Mr. Tazi and Mr. Benjenk were also present.

Mr. Lazraq began by conveying to Mr. McNamara a message from the King of Morocco inviting him to spend the weekend after the Annual Meeting in Morocco. Mr. McNamara thanked the Minister for this kind invitation and asked him to convey to His Majesty his regret that previous engagements in the United States would prevent him from accepting.

The Minister of Finance expressed his satisfaction at the general state of relations between Morocco and the Bank. The relationship was a very active one with many projects in the pipeline, and Morocco was having the benefit not only of the Bank's financial assistance but also very useful advice on many matters connected with the economy and with the projects being financed.

The Minister went on to say that the state of Morocco's economy was satisfactory and that the growth target of 4.3% per year had been exceeded in each of the first two years of the Plan, although the rate of population growth had still been quite large, i.e., 3.2%. Morocco would continue to need considerable amounts of foreign assistance both from bilateral and multilateral sources. He felt, however, that there was a limitation to the amounts of bilateral aid that were obtainable and hoped that the help of the World Bank Group would be substantial. While Morocco's external debt was not yet alarming there was a limit to conventional borrowing and Morocco hoped for a much larger contribution from IDA.

The Minister turned to a brief review of three different projects which were under discussion with the Bank and dwelt on the SEBOU project. In connection with this project the Minister said that the agricultural reform legislation of 1969, which had been incorporated in the agreement with the Bank, would be applied notwithstanding rumors as to the contrary and the Bank should have no fears in this regard.

Finally the Minister said that another matter under discussion with the Bank was the question of Morocco's interest rate policy and the way it affected a number of World Bank borrowers in Morocco, such as BNDE, CIH, and CNCA. He was looking forward to discussions of these matters with an open mind.

President has seen

Mr. McNamara replied that he, too, felt that the Bank's relations with Morocco were good. There had been considerable progress in the Bank's understanding of Morocco's economy and of its problems and he felt that Morocco was getting used to the Bank's procedures and that a real dialogue was now taking place. On the two questions mentioned by the Prime Minister, namely the SEBOU project and the question of interest rates, Mr. McNamara made the following comments:

On the SEBOU project, he stressed the need for the terms of the loan agreement to be applied as negotiated, including such points as those related to the land reform aspects of the project. With regard to Morocco's interest rate policy he said that he had only two preoccupations, namely that the policy pursued should encourage capital within the country to be channeled to the most productive uses and that it should ensure the maximum stimulation for public and private saving. He ended by expressing the hope that there would be a further extension of the areas of cooperation between Morocco and the Bank.

Mr. McNamara  
Mr. Knapp  
Mr. Tazi



## OFFICE MEMORANDUM

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MAY 07 2013

DATE: January 19, 1971

TO: Memorandum for the Record

FROM: R.H. Springuel

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CONFIDENTIALSUBJECT: MOROCCO - Visit of H.E. Abdelkrim LAZRAQ, Minister of Finance

1. On January 5, 1971, Mr. Lazraq, Minister of Finance of Morocco, accompanied by Mr. Tazi, visited Mr. McNamara. Messrs. Knapp, Benjenk and Springuel were also present.
2. After presenting the compliments of H. M. the King of Morocco to Mr. McNamara, Mr. Lazraq indicated that H. M. had noted the recent loan for agricultural credit to Israel for a project directed essentially at developing agricultural exports. H. M. would like very much to see a similar project prepared in Morocco. An irrigated area would be chosen in agreement with the Bank and, if successful, further projects could be prepared for other irrigated sectors. Mr. Lazraq was conscious that the Israeli project had been essentially developed by the Government and that the role of the Bank was mainly financial, but he hoped that the Bank would be prepared to give some assistance to Morocco for preparing a similar project.
3. Mr. McNamara fully agreed with the priority given by the Moroccan Government to the development of agriculture, and with its desire to emphasize agricultural exports. He recalled that during his visit to Morocco, he discussed the possibility of developing exports of tomatoes; he had no doubts that countries like Turkey, Israel and Morocco had a tremendous potential for exports of fresh food to Europe, and that the potential market for those products was still largely untapped. Mr. McNamara added that the Bank was of course prepared to help Morocco develop such a project. However, the organization of a reconnaissance mission would have to depend on staff availability, and he asked Mr. Benjenk to follow this up with the Projects Department.
4. Turning to the Sebou project, the Minister noted the Bank's preoccupation with the program of land reforms in the Sebou area. The Government was concerned with the precedents it would be setting for agricultural reform. This was a problem of establishing the right equilibrium between economic and social considerations, and legislation was being prepared in this respect. It also involved taking over foreign-owned land, which necessarily pre-supposed compensation and therefore budgetary resources. The problem had been discussed with Mr. Maurice Schumann, the French Foreign Minister, during his recent visit to Morocco, and a solution could be foreseen in the framework of the general cooperation between France and Morocco.

President has seen!

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5. Mr. McNamara thought that a satisfactory balance between social and economic considerations had been established in the loan documents, and the real question was whether Morocco would adhere to the agreements which it had signed. A supervision mission would come soon to examine the execution of the project. Mr. Benjenk mentioned that a questionnaire had been left with the Moroccan authorities, and that the Minister had promised to answer one part of it shortly, reserving for later the questions relating to the status of the land already planted.

6. Turning to the interest rate policy question, the Minister welcomed the study the Bank had undertaken on the subject. The Government was particularly concerned that this question be considered in its totality, and not for one sector alone. He would, therefore, propose that the fifth loan to BNDE proceed as scheduled, without being postponed until all the elements of the Bank study would have become available. The Government would be completely open to the Bank suggestions when the study would be available, and be ready to discuss whatever measures had to be taken at that point, but he wanted specifically to request that the question of the interest would not be made a condition to the loan to BNDE.

7. Mr. McNamara remarked that this approach would be difficult; there had been several objections from Board members at the time of the last BNDE loan, and he would ask Mr. Knapp to summarize them, but first he wanted to mention the problems as he saw them:

- (i) The Moroccan rate of interest was out of line with the rate applicable to other development banks, and out of line with the rate prevailing on the international market. By lending at 7 per cent, BNDE was precluding any diversification of its sources of funds; the Bank proportion in BNDE financing was larger than for any other development bank, and under present conditions, this dependency would grow further, which was not acceptable.
- (ii) A low rate of interest might imply a misallocation of funds in the sense that capital intensive investments were encouraged if the rate to be paid was too inferior to the real cost of capital in Morocco.
- (iii) While everybody agreed that Moroccan industry needed incentives to develop, a flat across the board interest rate subsidy seemed a particularly inefficient way to provide them. Incentives should preferably be determined according to the real priority of projects or subsectors.

8. Mr. Knapp said that he had been in the chair for the Board meeting which approved the last loan to BNDE. The questions raised were in line with the points just mentioned by Mr. McNamara, and particularly focused on the potential misallocation of investments. The questions

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had been very probing and one of the Executive Directors had even asked for a commitment that no further loan should be negotiated with ENDE as long as it charged such a low rate of interest. Defending the interests of Morocco as well as that of the Bank, Mr. Knapp had declined to give any commitment, but there was no doubt that it would be extremely embarrassing to come back to the Executive Directors with a fifth loan with an equally low rate.

9. Mr. Lazraq was conscious of the importance of the interest rate issue. The Moroccan Government had deliberately decided not to follow the movements of international rates for monetary and economic policy reasons, but it knew that other policies might be considered. Mr. Lazraq felt that the problem of diversification of ENDE resources was perhaps the most important one. The large role of the Bank in financing ENDE was a testimony of the close cooperation between the two institutions, but the Government too wanted to reduce ENDE's dependency on the World Bank. Local bond issues had recently been authorized, and negotiations were underway with the Belgian and the French Governments for bilateral financing at subsidized interest rate. Further, the Government was prepared to examine whether ENDE rates could be increased with compensatory subsidies to the borrowers. However, there was no budgetary provision for subsidizing industry in 1971, and there might therefore be a problem for that year.

10. Summarizing this part of the conversation, Mr. McNamara wanted to emphasize that:

- (i) there was a clear-cut need to foster Moroccan industrialization;
- (ii) we knew that the Government was fully behind the industrialization of the country;
- (iii) the Bank was equally prepared to give priority to the development of Moroccan industry;
- (iv) the Bank had already invested considerable manpower in the industrialization effort (e.g. the industrial survey);
- (v) a mere technical point on the interest rate should not be allowed to stand in the way of the continuation of this effort.

11. Mr. McNamara said he did not want to get involved into the technicalities of the rate of interest discussion, but he emphasized that, in his judgment, the Executive Directors of the Bank would not accept a fifth time the continuation of the rate presently applied by ENDE. He very much hoped that the Bank and Morocco negotiators would use their combined ingenuity to find a solution to this problem. The Minister said that a solution should and would be found.



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12. Finally, concluding the conversation, the Minister wanted to thank Mr. McNamara for the last meeting of the Consultative Group which had been so ably organized and conducted by Mr. Benjenk and his team. He thought Mr. McNamara would be happy to know that as a direct result of that meeting, he was proceeding to Canada for negotiations on Canadian bilateral assistance.

cc: Mr. Knapp  
Mr. Benjenk  
Mr. Pollan

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
(through Mr. J. Burke Knapp)

DATE: December 31, 1970

FROM: M.P. Benjenk and William Diamond

SUBJECT: MOROCCO

1. The Finance Minister of Morocco will visit you on Tuesday, January 5. A principal subject of discussion will be Bank lending to BNDE.
2. The Bank has already lent \$62.5 million to BNDE and we are now considering a fifth loan; for BNDE has exhausted its foreign exchange resources and the demand for capital continues to be substantial. We are recommending a \$25 million loan, enough to cover a substantial part of its resource gap for the next two years, subject to satisfaction on one main issue: the interest rate.
3. BNDE now charges 7% for its loans, less than the World Bank's lending rate and less than that of any other development finance company financed by the Bank Group. The Government will not permit BNDE to charge more than 7% for its loans, 1/ or to pay more than 7% for its borrowings; and it pays BNDE a subsidy on the cost of BNDE's borrowings exceeding 5% and up to 7%. This is a situation which we must now seek to change, in the light of the policies laid out in your statements 2/ to the Board on interest rates<sup>2/</sup> or in the light of the positions we have taken with other institutions in the past year or so. In our opinion, therefore, the loan should be made only if BNDE raises its interest rate from 7% to 9%, and the subsidy now paid to BNDE by the Government is eliminated on all new borrowing. We have already informed the Government of this recommendation.
4. The interest rate issue in BNDE has bedevilled us since December 1962, when the first Bank loan was made to BNDE. The matter has become of increasing concern to the Executive Directors. It was a principal subject of discussion at the Board meeting which Mr. Knapp chaired on January 13, 1970, when the fourth loan to BNDE was approved. Mr. Knapp wrote to you on January 14, calling attention to criticisms made by Executive Directors, which were based partly on "the adverse effects of this low interest rate upon the financial position of the borrower, and capacity of BNDE to attract additional private subscriptions to its share capital" and on "the more basic question of whether such a low rate did not threaten to encourage the misallocation of investment". As Mr. Knapp wrote in his memorandum, he was under pressure to say whether the management would put forward to the Board a new loan to BNDE if BNDE's interest rate were not changed. He ducked the issue in January, but we are not likely to be able to do so again.

1/ Of course, this policy would have to be modified to permit another loan from the World Bank.

2/ Such as, per instance, the statement of April 8, 1970 (SEC M 70-149).

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5. Attached is the text of a memorandum prepared at the request of the Secretary General of the Ministry of Finance, to be delivered to him next week, setting forth the underlying arguments for an increase in the interest rate. Briefly:

- a. BNDE's interest rate is less than the cost of capital, and creates the risk of misallocation of capital. The Government has acknowledged this fact, in agreeing that BNDE and CIH use the recent Bank loans only for projects whose internal rate of return is at least 10%. But this is, at best, an imperfect way of dealing with a basic distortion.
- b. BNDE has been precluded from seeking financial resources in the market either at home or abroad. (The Government recently blocked a 7-1/2% loan of \$2.7 million equivalent offered to BNDE by 3 German banks.)
- c. The Bank already provides about 56% of BNDE's resources (only one other company has so large a proportion of Bank funds); on the basis of BNDE's projections, that proportion will rise to about 77% by 1975, far beyond our expected involvement in any other such company.
- d. BNDE's profits come, basically, from the Government's subsidies. In 1969, these provided 48% of BNDE's profits, much more than the dividend payout; in 1975, they would provide 76% of net income, almost as much as a 10% dividend and all appropriations to reserves.
- e. Providing a subsidy to industry by means of a low interest rate, through BNDE, is a poor device; for it confuses subsidies to BNDE with subsidies to industry, inhibits an effective calculation of the real cost of stimulating industrial investment, may interfere with BNDE's judgment of the economic merits of the proposals before it, and has the institutional consequences already mentioned.

6. We have looked into the effect of the Bank's proposal on various matters. (a) It would have an insignificant effect on either the prices or the profits of BNDE's borrowers. (b) It might have some immediate effect on BNDE's business, by diverting some borrowers to commercial banks, which are always a source of some competition with development banks. But BNDE's competitive position would not be seriously affected in the longer run, and the Government could relieve the situation - measures which it should in any event take to keep suppliers' credits under control and to assure only sound financing of investment projects. (c) Government finances would benefit from the proposal. (d) BNDE's profitability would

Mr. Robert S. McNamara  
(through Mr. J. Burke Knapp)

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not be significantly improved; earnings would have to grow much more to achieve the objective of share sales to the Moroccan public. However, BNDE's profits would be based primarily on its earnings, thus establishing its financial position on the basis of its own performance rather than on the basis of annual cash outlays from the Treasury.

7. Industrial investment in Morocco has been sluggish and entrepreneurs are tradition-bound, and we would not want to take an action which might slow down investment still further. Accordingly, the Bank's recent economic mission looked into the effect of the interest rate subsidy on industrial investment. Its conclusions were that the interest subsidy of itself is of small significance to Moroccan industrial entrepreneurs, and that it is only a small part of the total package of incentives to industry. Consequently, we have recommended a review of the entire incentives system for industry (we have already recommended such a review for hotel construction) with a view to putting it on a more rational and selective basis. If the Government feared to cut the interest subsidy before the review was done, we would be prepared to see the Government provide BNDE's borrowers (hopefully on a selective basis) with some rebate on the interest they pay BNDE, as an interim measure, pending development of a new incentives system.

8. We have suggested a program for the study of the incentive system, beginning February when we go to Rabat for a discussion of our report on Moroccan industry. We are prepared to work with the Government on the study and formulation of the new system.

9. To sum up, in our view BNDE's interest rate regime, in existence since 1962, is inconsistent with Bank policy, undermines BNDE's financial position and inhibits it from mobilizing finance from other sources. It encourages misallocation of capital and will be an increasing drain on the Treasury - all for apparently insignificant benefits to industry. We would like to see this situation changed before we proceed with a fifth loan to BNDE.

Attachment

cc: Messrs. Cope  
Baum  
Adomakoh

## PROPOSAL TO INCREASE THE INTEREST RATE CHARGED BY BNDE

1. This memorandum is written at the request of Mr. M'Daghri, Secretary General of the Ministry of Finance of Morocco. In discussions with Bank staff in Rabat in early December, Mr. M'Daghri asked for a detailed statement on the effect of the proposed increase in BNDE's interest rate.

### The Bank's Proposal

2. The Bank's proposal is set forth in a letter which Mr. Benjenk sent on November 20, 1970, to H. E. the Prime Minister. (It is attached as Annex 1). The letter recommended:

- (a) an increase in BNDE's interest rate from the present 7% to 9%, and
- (b) the abolition of Government subsidies to BNDE on borrowings contracted by BNDE after it has raised its interest rate.

If the Government is concerned about the effect of an increase in BNDE's interest rate on the level of industrial investment, it might consider providing direct interest rebates to those of BNDE's borrowers which the Government thought required them, this to be regarded as an interim measure pending completion of a study of Morocco's incentive system with a view to putting it on a rational and selective basis.

### Reasons for the Proposal

3. At the present time, BNDE charges 7% for its loans. This rate of interest is lower than that of the World Bank and is the lowest among the development finance companies associated with the Bank Group. The Convention of January 22, 1960 between BNDE and the Government forbids BNDE from raising its interest rate beyond 7% and provides BNDE with a subsidy to cover borrowing costs in excess of 5%, up to 7%. (There is also a tax benefit). Thus the World Bank loan made to BNDE in March 1970 cost 7%; BNDE relends the proceeds of the loan at 7% and receives a subsidy equivalent to 2% on the amount of the loan outstanding. The Convention also appears to forbid BNDE to borrow at a cost of more than 7%. The Convention would thus have to be waived or revised to permit BNDE to borrow from the World Bank today.

5. Profitability. BNDE's profitability has been a matter of serious concern since the World Bank Group first began to finance BNDE in 1962; it has been a subject of discussion in every negotiation. On the surface, the situation has improved since BNDE's share capital was reduced in 1968; other favorable factors have been the increase in leverage and continued control over administrative expenses. Nevertheless, BNDE's earning and dividend payout are still not good enough to achieve the Government's original objective of promoting the sale of BNDE's shares to the Moroccan public. Even today's earnings and dividend rest heavily on the Government subsidy. (See para. 6 below). However, it would take more than a feasible increase in BNDE's interest rate to achieve the objective of making BNDE's shares saleable. Thus BNDE's profitability per se

is not a factor in the present proposal to raise its interest rate from 7% to 9%. In fact, the proposal would have a negligible effect on profits. Net profits after tax would rise by less than 1.5% over the five years 1971-1975, for the increase in income is virtually offset by the loss of subsidy. (See Annex 2).

6. Dependence on Government. One effect of the present arrangement is that 48% of BNDE's net profits were provided by the Government in 1969 in the form of interest rate subsidies. This proportion is rising. As may be seen in Annex 3, financial forecasts for the next five years indicate that this subsidy will rise steadily, to around 76% of net income in 1975. The subsidy was already higher than BNDE's 6% dividend payout in 1969; by 1975 it will be almost as high as the sum of dividends paid at 10% (DH 2 million) and estimated appropriations to reserves (DH 4.8 million). This is an undesirable trend, which has important implications both for Government finances (see para. 22 below) and for BNDE's ability to maintain its autonomy in investment decision-making. The Bank's proposal would, in effect, replace the Government subsidy by BNDE's own earnings, with benefit to government finances and to BNDE's standing as a financial institution.

7. Mobilization of Resources. BNDE's present 7% rate prevents it from borrowing as widely as it should. At present, BNDE obtains virtually all of its finance from the Government and from the World Bank.

8. The policy of the Government has been to force BNDE to rely on the World Bank for virtually all its external borrowings and to depend on the Government and its agencies for all domestic borrowings. As a result, the World Bank, at the end of 1970, will have provided about 56% of BNDE's long-term resources; on the basis of present projections, the proportion will rise to about 77% in 1975. BNDE has been discouraged from borrowing from other sources. Thus the Government asked it to turn down an offer by three German banks, last year, to lend DM 10 million at 7 1/2% because the interest rate exceeded 7%. The developing degree of dependence on the World Bank is patently undesirable. Moreover, the Bank would not be justified in lending to cover all the import component of BNDE's loans indefinitely, if capital were available from other sources on reasonable terms.

9. As for Government, it now provides 17% of BNDE's long-term borrowings; there has not yet been an effort to borrow from the private market. Diversification and expansion of BNDE's sources of finance, both at home and abroad, require that BNDE be enabled to seek capital on market terms, by paying what the market requires and by charging what is needed to pay the market.

10. Effect of Interest Subsidy on Industrial Investment. Seven percent clearly understates the cost of capital in Morocco. Thus that rate can not be used in appraising an investment, if there is a concern that every investment

yield a satisfactory rate of return. The Government recognized this fact, when CIH and BNDE both agreed in 1970 that no project would be financed under World Bank lines of credit unless it shows an internal rate of return of 10%, and that this criterion will gradually be extended to cover all investments by those institutions. The use of such a shadow rate may be necessary as an interim measure, but the underlying distortion for which it provides only an imperfect correction, should be eliminated.

11. The Government may be concerned that elimination of the interest rate subsidy will have a depressing effect on industrial investment. The Bank's economic mission that visited Morocco in April 1970 concluded that the influence of interest rates on the overall level of investment and of economic activity was marginal; it found that private investment decisions were primarily affected by market opportunities, the efficiency of Government administration and the availability of managerial talent and experience. Moreover, other investment incentives were often more important in investor's decisions than the interest rate itself; the interest rate subsidy appears to be a relatively minor part of the package. Consequently, in the mission's view, the whole package of Government incentives needs to be reconsidered and readjusted in such a way as to encourage a better allocation of investment resources. (Opportunity for such a review will come soon, when the Bank discusses with the Government the recommendations in the Bank's report on Morocco's industry). The continued sluggishness of Moroccan industry suggests that some incentives are still needed -- although on a selective rather than a standard basis -- to attract the tradition-bound Moroccan entrepreneur into high priority industries based on export markets; and a subsidy on interest rates might, for some types of cases, prove appropriate. Pending completion of that study, therefore, the Bank would be prepared to accept continuation of a rebate for BNDE's borrowers, in order to reduce the cost of capital to them to less than 9%, on the understanding that the cost of such a rebate to the Government will not be greater than the subsidy to BNDE and that the rebates are considered only an interim measure.

12. Administration of Subsidies. If an interest rebate is to be provided to BNDE's borrowers, it should be provided directly by the Government and not through BNDE. Using a financial institution to administer a system of subsidies obscures their real meaning, by confusing subsidies to the financial institution with subsidies to the industrial entrepreneur; and it therefore inhibits an effective calculation of the real cost of stimulating industrial investment. Moreover, it may interfere with the institution's judgment of the economic merits of the proposals before it. Finally, it can also have the institutional effects already noted in BNDE's case -- excessive reliance on the World Bank, dependence on Government, inability to tap the financial markets both at home and abroad. Whatever industrial incentives are ultimately considered appropriate should be provided directly by the Government, through some channel other than BNDE.

Effect of Rate Increase on Borrowers' Profits and Prices

13. It has been suggested that an increase in BNDE's interest rate would result in increasing the prices of its borrowers' products or in reducing their profits or both.

14. BNDE's extensive experience with industrial enterprises indicates that its "typical" borrower has a debt/equity ratio of 2:3, annual sales of 1.2 times total assets and a return of 10% on net worth. For that "typical" borrower, an increase of the interest rate on a BNDE loan from 7% to 9% would mean a reduction of net profit of 6 2/3% even if the entire interest increase were absorbed by the enterprise, that is, the return on net worth would fall from 10% to 9.3%. On the other hand, if the entire rate increase were passed on to consumers through an increase in prices, prices would have to be raised by only 0.67%. (See Annex 4). Evidently the price and profit effect of the proposed interest rate increase would be trivial, in the typical case.

Effect of Interest Rate Increase on BNDE's Competitive Position

15. It has been suggested that the proposed increase in BNDE's interest rate would result in diverting borrowers from BNDE to other sources of finance.

16. Suppliers' Credits. These are a source of competition for financing equipment imports. Suppliers' credits often carry interest rates lower than the 7% now charged by BNDE. However, the attraction of suppliers' credits has to be weighed in the light of the entire package of terms they offer. Following are important features of typical suppliers' credits compared to BNDE loans.

<u>Supplier's Credit</u>	<u>BNDE Loan</u>
	<u>Interest Rate</u>
Possibly lower than BNDE	Now 7% proposed to go to 9%
	<u>Term</u>
Generally 2 to 5 years	5 to 15 years
	<u>Cost of Equipment</u>
Investor must pay commissions which are often built into contract prices. Procurement is often tied to a specific country, which may not be the cheapest supplier of the particular equipment.	Investor can obtain equipment from the cheapest suitable source in all member countries of the Bank Group plus Switzerland.



Supplier's Credit

BNDE Loan

Foreign Exchange Risk

Investor carries the risk

Government carries the risk

Scrutiny and Follow-up

Probably none, except that necessary to assure maintenance of value of security.

Burdensome on investor (or should be), but partly offset by availability of financial and technical advice, if needed.

Thus a loan from BNDE offers very substantial advantages, even if its interest rate may be higher than that of a supplier's credit.

17. Medium-term Rediscountable Credits. Under the present system in Morocco, BNDE is the only institution empowered to intervene in this type of operation; BNDE must thus appraise a project calling for a medium-term rediscountable credit before it will offer its "second signature". If an applicant for such a credit presents a proposal for a medium-term loan which obviously calls for long-term financing, BNDE would, as part of its intervention, have the duty to deny its signature. BNDE would thus continue to act exactly as it does now, and should do.

18. Short- and Medium-term Credit from Commercial Banks. This is now a source of competition, and would become more so if BNDE's interest rate were raised. Investors often want to finance long-term assets with short- or medium-term funds, in the hope that such facilities will be renewed when needed. This is a significant risk, which a sophisticated borrower will not take; nor would such a borrower be led to take it by a 2% change in rate whose effect on his profits and prices (as shown in paragraph 14) is insignificant. In any event, such credit is limited by the Bank's resources and by the Bank of Morocco's credit ceiling.

19. Moreover the Government has the means of minimizing such competition. The Commission des Investissements (on which BNDE is represented) must approve all projects which call for certain financial incentives from the Government. An unsound financing plan, relying too much on short- or medium-term credit, could be detected by the Commission and prevented from receiving the benefit of incentive schemes. Finally, Morocco does not command a plentiful supply of foreign exchange, and it could use its foreign exchange controls to help minimize the sale of foreign exchange for equipment imports under unsound financial plans. On the same grounds, the Government should keep a close watch on the volume and terms of suppliers' credits.

20. Summing up, a 2% interest rate increase might divert some borrowers; but BNDE's competitive position should not, on balance, in the long run, be significantly affected. In any event, the Government, if it wants BNDE to

become a strong, viable institution able to raise capital on the basis of its own performance and if it is concerned with the establishment of soundly financed enterprises, has the means of minimizing unsound competition. Finally, the Bank's proposal is not to shut off all subsidies, but to provide them directly through Government rather than through BNDE and, after adequate study, to provide them to selective categories rather than across the board.

#### Effect of Government Administration of the Subsidy System

21. It has been suggested that Moroccan investors may be deterred from launching industrial projects if interest rate subsidies were administered by the Government rather than by BNDE. There could be procedural delays, and doubts about the timeliness of payments. This may be a valid point. However, interest rate subsidies are only one of the financial incentives provided by the Government, and industrial investors must already deal with Government on the others. And, it is difficult to justify allowing an alleged inefficiency of Government to stand in the way of the other important objectives to be achieved by shifting responsibility for administering interest rate subsidies.

#### Effect of the Bank's Proposal on Government Finances

22. A question has been raised about the effect of the proposal on Government finances; this question was posed by H. E. the Finance Minister. It should be noted that, while the existing subsidy arrangements result in an outlay of about DH 2.2 million in 1970, the call on the Government will rise rapidly, to DH 7 million in 1975. (See para. 6 and Annex 3). This drain might be acceptable if it were necessary, but there are doubts about whether the interest rate subsidy serves any purpose at all. Thus, the Bank's proposal would result in a saving aggregating DH 11.4 million over the next five years. If the Government, as an interim measure, decides to provide rebates to BNDE's borrowers, then of course savings on subsidies to BNDE would be offset by payments direct to BNDE's borrowers. Annex 5 compares these sums: the amount saved by Government by abolition of subsidy payments to BNDE, and the amount which would be paid as rebates to BNDE's borrowers under various assumptions. The tabulation shows that, only if the rebates averaged at least 1 3/4%, would the Government be called upon to pay more than in present circumstances. Since, however, the incentive system which emerges from the forthcoming study and discussion will probably result in the establishment of a selective system of incentives which may include interest rebates only in some cases, the average rebate will almost certainly be less than 1 3/4%. The Government will thus be the net gainer under the proposal.

#### Program for Further Work on the Investment Incentive System

23. On October 26, the Bank sent to H. E. the Finance Minister a report, dated September 1, 1970, on "Mining and Manufacturing in Morocco". This report contains policy recommendations which are now being examined by the Moroccan Government as a preliminary to discussions with the Bank. The Bank

expects soon to receive the Government's reaction, so that discussions can be held in Rabat not later than February 1971. These discussions should lead to understandings between Morocco and the Bank regarding, among other things:

- a. the types of industrial activities which require financial or other incentives to stimulate private investment;
- b. the types of incentives which are needed to stimulate investment in the foregoing priority areas;
- c. a detailed timetable -- extending not later than December 31, 1971 -- for (i) working out measures to give substance to the new system of incentives and (ii) putting them into effect.

24. As in the case of industry, the Bank has already proposed to the Government a detailed review of the effect of the present hotel investment incentive system, including the effect of the interest rate subsidies on CIH's hotel loans. Such a review, and its conclusions, should be available when negotiations for a second Bank loan to CIH are held, now planned for the second half of 1971.

25. In both cases, administration of incentives should be divorced from the institutions providing finance for the enterprises involved so as to assure objective appraisal of proposals and to encourage the establishment of BNDE's and CIH's operations on a sound basis.

December 30, 1970

(Paris)

November 20, 1970

(Unofficial translation into English)

His Excellency  
Moulay Ahmed Laraki  
Prime Minister  
Rabat, Morocco

Dear Mr. Prime Minister,

I have the honor of referring to the discussions I have had in Paris with His Excellency the Minister of Finance on BNDE's interest rate. Following his request, I summarize below the views of the Bank on this matter.

In accordance with the agreement given by His Excellency Mamoun Tahiri in September 1969, the Bank Economic mission of April 1970 has proceeded to make a study on the interest rate structure in Morocco and, more particularly, on the terms and conditions of financing applied by BNDE, CIH, and CNCA, as well as the conditions on which these institutions can have access to foreign financial markets and loans, among those given by the Bank.

On the basis of the Mission's conclusions, the Bank has concluded that the interest rates prevailing in Morocco are lower than those of the majority of other member countries, although available capital is lower than capital needs. The Mission has not had the necessary time to complete a study on the supply and demand of capital in Morocco and, therefore, has not been able to reach conclusions on the level and structure of interest rates which could be justified for Morocco, given its present stage of development. To study these problems in the coming months appears necessary so as to be able to determine whether the interest rates now prevailing allow to mobilize savings and to ensure that savings are directed towards investments with a sufficient return. The Bank would be ready and willing to cooperate with the Moroccan authorities for the study of this general problem.

In the meantime, considering the unexpected urgency of foreign exchange needs by BNDE, a problem more limited but important, a provisional solution is requested for the coming weeks. The Bank thinks that the interest rate charged now by BNDE constitutes an obstacle for its diversification of resources, which is an essential objective for the Bank in its relations with development finance companies in the world. In the case of BNDE, it is even more urgent to achieve this objective, considering that BNDE's foreign exchange needs are increasing and that BNDE's dependence on Bank resources is almost exclusive, as against higher diversification of the majority of development banks which the Bank finances since several years. An increase in the interest rate charged by BNDE would allow BNDE to raise some resources at international financial market costs.

- 2 -

Concerning the first aspect of the interest rate problem, namely the one of resources, the Bank thinks that it could be solved by a change as follows:

- a) an increase in the following weeks of BNDE's interest rate from 7 to 9 percent;
- b) dismantling of the Government subsidies on BNDE's cost of borrowings signed after the increase in BNDE's interest rate.

The Bank recognizes, however, that there is a second aspect to this question, namely borrowing costs supported by BNDE's borrowers. The Bank acknowledges that the interest rate cannot be utilized as the only economic factor deciding investment as long as an encouragement of industrial expansion by incentives such as equipment rents, etc., appear necessary. While waiting for general decisions on incentives to encourage industrial expansion which the Moroccan authorities plan to make, and for discussions on this subject which will take place with the Bank during the next few months following the industrial report submitted by the Bank to the Government, the Bank would not object to the Government subsidizing directly BNDE's borrowers in order to reduce their financial costs to a level lower than 9 percent. Such a subsidy would, of course, be reexamined in the light of future general dispositions relating to industrial incentives.

His Excellency the Minister of Finance has told me about his worry concerning a possible increase in Government expenditures which could be implied by the suggested change in the form of the interest rate subsidy on industrial loans. The Bank staff members have calculated that additional charges for the Government would be very small, but we agree with the Minister that the change should not impose new charges to development. On the contrary, it appears useful and desirable to us that the amounts spent by the Government in the concept of incentives to industry do not increase, and that the result be a fractional increase of interest rate supported by BNDE's borrowers.

I would like to suggest that the above proposals be discussed during the visit to Morocco that Messieurs Bart and Springuel project around December 2. I truly hope that a solution to this problem can be found jointly.

Please accept, Mr. Prime Minister, the assurances of my highest regards.

Munir P. Benjenk  
Director  
Europe, Middle East and North Africa Department

cc: His Excellency Abdelkrim Lazraq, Minister of Finance

Effect of Proposed Rate Increase on BNDE's Profitability

(in thousands of DH)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Total 1971-75</u>
<u>A. Projections at 7% Rate</u>						
Total income	19,800	22,940	26,850	30,630	34,090	134,310
Total expenses	<u>13,595</u>	<u>15,715</u>	<u>18,600</u>	<u>21,200</u>	<u>23,850</u>	<u>92,960</u>
Profit before tax	6,205	7,225	8,250	9,430	10,240	41,350
Tax	<u>1,680</u>	<u>1,991</u>	<u>2,239</u>	<u>2,560</u>	<u>2,728</u>	<u>11,198</u>
Profit after tax	<u>4,525</u>	<u>5,234</u>	<u>6,011</u>	<u>6,870</u>	<u>7,512</u>	<u>30,152</u>
<u>B. Projections at 9% Rate</u>						
Total income	19,926	24,240	29,620	35,070	39,900	148,756
Total expenses	<u>13,724</u>	<u>16,550</u>	<u>20,896</u>	<u>25,496</u>	<u>29,988</u>	<u>106,654</u>
Profit before tax	6,202	7,690	8,724	9,574	9,912	42,102
Tax	<u>1,679</u>	<u>2,214</u>	<u>2,467</u>	<u>2,629</u>	<u>2,570</u>	<u>11,559</u>
Profit after tax	<u>4,523</u>	<u>5,476</u>	<u>6,257</u>	<u>6,945</u>	<u>7,342</u>	<u>30,543</u>
<u>C. Effect of the Rate Increase on BNDE's Net Profit</u>						
	-2	+ 242	+ 246	+ 75	- 170	+ 391

The foregoing estimates are based on the forecasts and assumptions that appear in Annex 6.

Subsidies Received by BNDE with Respect to the Interest  
it Pays on Borrowings, Compared to its Total Profit

(in millions of DH)

	<u>1969</u> (Actual)	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
A. Projected net income	<u>3.26</u>	<u>4.06</u>	<u>4.52</u>	<u>5.23</u>	<u>6.01</u>	<u>6.87</u>	<u>7.51</u>
Profit before tax	4.19	5.56	6.20	7.22	8.25	9.43	10.24
(Less subsidy)	(1.13)	(2.20)	(2.94)	(3.96)	(5.00)	(6.00)	(7.00)
(Less taxes without deductions)	( <u>1.37</u> )	( <u>1.50</u> )	( <u>1.46</u> )	( <u>1.46</u> )	( <u>1.46</u> )	( <u>1.54</u> )	( <u>1.46</u> )
B. Net Profit	<u>1.69</u>	<u>1.86</u>	<u>1.80</u>	<u>1.80</u>	<u>1.79</u>	<u>1.89</u>	<u>1.78</u>
C. Net subsidy (A-B)	1.57	2.20	2.72	3.43	4.22	4.98	5.73
D. Net subsidy as % of net profit (C/A)	48	54	60	65	70	73	76

The foregoing estimates are based on the forecasts and assumptions that appear in pages 2 and 3 of Annex 6.

Effect of a 2% Increase in Interest Rate on the Prices  
and Profits of BNDE's Borrowers

1. Average Financial Structure of a BNDE Borrower

Debt/Equity = 40/60  
Turnover (Sales/Total Assets) = 1.2  
Expected net profit = 10% of equity

2. Average Borrower's Financial Statements

a) Balance Sheet

Assets	1,000	BNDE loan	400
		Equity	600

b) Income Statement

Sales	1,200
Earnings before	
Interest and Taxes (EBIT)	143
Less interest at 7%	<u>28</u>
Profit before Tax	115
Less tax at 48%	<u>55</u>
Net Profit	<u>60</u>

3. Effect of a 2% Increase in BNDE's Interest Rate

a) Assuming increase is absorbed  
by borrower

Sales	1,200
EBIT	143
Less interest at 9%	<u>36</u>
Profit before Tax	107
Less tax at 48%	<u>51</u>
Profit after Tax	<u>56</u>

b) Assuming increase is passed  
to customer

Sales	1,208
EBIT	151
Less interest at 9%	<u>36</u>
Profit before Tax	115
Less tax at 48%	<u>55</u>
Profit after Tax	<u>60</u>

Profits decrease by  $4/60 = 6-2/3\%$

Prices increase by  $8/1,200 = 0.67\%$



Effect of Proposal on Government Finances

(in thousands of DH)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
1. Government subsidies to BNDE which would be saved under proposal	129	769	2,042	3,542	4,888
2. Higher interest costs to BNDE's borrowers	125	1,300	2,770	4,440	5,810
3. Government's saving (-) or extra outlay (+) (1 - 2) if average government subsidy is:					
2% (full subsidy)	- 4	+531	+728	+898	+922
1-3/4%	- 16	+371	+388	+298	+287
1-1/2%	- 35	+206	+40	-212	-518
1-1/4%	- 48	+45	-310	-765	-1,238
1%	- 66	-119	-657	-1,322	-1,983
3/4%	- 82	-281	-1,000	-1,884	-2,708
1/2%	- 98	-443	-1,348	-2,432	-3,434
1/4%	-113	-506	-1,696	-2,987	-4,160
No subsidy	-129	-769	-2,042	-3,542	-4,888

The foregoing estimates are based on the forecasts and assumptions that appear in pages 4 - 6 of Annex 6.

Comparison of Forecasts  
Based on Present Interest Rates  
and on Proposed 2% Increase

Table I provides a forecast of BNDE's operations in 1970-1975, as agreed with BNDE. Table II shows BNDE's projected income statements for the period 1971-1975 on the assumptions that BNDE will lend at 7%, borrow all its needs (DH 420 million) at 7-1/4% and receive a subsidy from the Government on all borrowing costs exceeding 5% (and up to 7%). Table III projects the the same statements on different assumptions: that BNDE lends at 9% on loan contracts it signs after April 1, 1971; that no Government subsidy is paid to BNDE on borrowings BNDE contracts starting with 1971; and that, of borrowings totaling DH 420 million, BNDE will borrow DH 295 million at 7-1/4% from the World Bank and DH 125 million at 9% from other sources. This assumes that the World Bank will supply 83% of the resources BNDE needs to borrow in the period 1971-1972 and about 63% in the period 1973-1975. Of course, the ability of BNDE to borrow at 9% from sources other than the World Bank is still to be tested. Tables IV and V provide additional detailed calculations.

Table I

Forecast of Operations 1970-1975

(in thousands of DH)

	<u>1969</u> (Actual)	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>I. Direct Loans</u>							
Loans approved <sup>1/</sup>	65,520	100,000	108,000	105,000	111,000	117,000	125,000
Contracts signed	68,465	70,000	100,000	111,000	104,000	113,000	121,000
Disbursements	42,709	60,000	75,000	95,000	100,000	104,000	110,000
<u>II. Equity Investments</u>							
Investments approved	105	3,000	8,500	3,000	2,000	2,000	2,000
Contracts signed	105	3,000	8,500	3,000	2,000	2,000	2,000
Disbursements	720	1,055	5,875	6,275	6,300	2,000	2,000
<u>III. Rediscountable Credits</u>							
Credits approved	5,370	60,000	80,000	40,000	40,000	40,000	40,000
Contracts signed	29,680	60,000	80,000	40,000	40,000	40,000	40,000
Outstanding, end of period	134,537	150,000	185,000	175,000	165,000	155,000	145,000

<sup>1/</sup> Net of cancellations

Summary of Assumptions for Direct Lending Operations

1. About 50% of loans approved during a year are committed during the same year; the remaining 50% are committed the next year.
2. About 30% of loans committed during a year are disbursed during the same year; 50% are disbursed in the next year and 15% in the following year. About 5% of loans approved and committed are not disbursed.

Table II

Projected Statements of Income 1970-1975, on Present Basis

(in thousands of DH)

Year ending December 31,	<u>1969</u> (Actual)	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>INCOME</u>							
Income from loans							
Direct loans	12,768	14,500	16,150	19,130	22,640	26,180	29,380
Rediscountable loans	1,108	1,200	1,700	1,630	1,560	1,490	1,420
Commitment charges, other fees, commissions	210	450	550	530	580	610	640
Dividend income	601	750	900	1,150	1,570	1,850	2,150
Income from short-term investments	203	400	350	350	350	350	350
Other income, rental income	150	150	150	150	150	150	150
Total Income	<u>15,040</u>	<u>17,450</u>	<u>19,800</u>	<u>22,940</u>	<u>26,850</u>	<u>30,630</u>	<u>34,090</u>
<u>EXPENSES</u>							
Financial expenses	7,985	8,835	10,695	12,615	15,300	17,700	20,100
Personnel expenses	1,755	1,850	1,950	2,100	2,250	2,400	2,600
General expenses (including provision for 1969 and 1970)	<u>1,113</u>	<u>1,200</u>	<u>950</u>	<u>1,000</u>	<u>1,050</u>	<u>1,100</u>	<u>1,150</u>
Total Expenses	<u>10,853</u>	<u>11,885</u>	<u>13,595</u>	<u>15,715</u>	<u>18,600</u>	<u>21,200</u>	<u>23,850</u>
Profit before tax	4,187	5,565	6,205	7,225	8,250	9,430	10,240
Provision for tax	<u>924</u>	<u>1,508</u>	<u>1,680</u>	<u>1,991</u>	<u>2,239</u>	<u>2,560</u>	<u>2,728</u>
Net Profit	<u>3,263</u>	<u>4,057</u>	<u>4,525</u>	<u>5,234</u>	<u>6,011</u>	<u>6,870</u>	<u>7,512</u>

Assumptions: Operations as in Table I. BNDE's interest rate is 7%. Borrowing costs to BNDE exceeding 5% (and up to 7%) are subsidized by the Government; BNDE will borrow at a cost of 7-1/4%, so that its spread will be 1-3/4% (7% lending rate - 7-1/4% interest cost plus 2% Government subsidy).

Table III

Projected Statements of Income 1970-1975, on Basis of Proposal

(in thousands of DH)

	<u>1969</u> (Actual)	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>INCOME</u>							
Income from loans							
Direct loans	12,768	14,500	16,276	20,430	25,410	30,620	35,190
Rediscountable loans	1,108	1,200	1,700	1,630	1,560	1,490	1,420
Commitment charges, other fees, commissions	210	450	550	530	580	610	640
Dividend income	601	750	900	1,150	1,570	1,850	2,150
Income from short-term investments	203	400	350	350	350	350	350
Other income, rental income	150	150	150	150	150	150	150
<u>Total Income</u>	<u>15,040</u>	<u>17,450</u>	<u>19,926</u>	<u>24,240</u>	<u>29,620</u>	<u>35,070</u>	<u>39,900</u>
<u>EXPENSES</u>							
Financial expenses	7,985	8,835	10,824	13,450	17,596	21,996	26,238
Personnel expenses	1,755	1,850	1,950	2,100	2,250	2,400	2,600
General expenses	1,113	1,200	950	1,000	1,050	1,100	1,150
<u>Total Expenses</u>	<u>10,853</u>	<u>11,885</u>	<u>13,724</u>	<u>16,550</u>	<u>20,896</u>	<u>25,496</u>	<u>29,988</u>
Profit before tax	4,187	5,565	6,202	7,690	8,724	9,574	9,912
Provision for tax	924	1,508	1,679	2,214	2,467	2,629	2,570
<u>Net Profit</u>	<u>3,263</u>	<u>4,057</u>	<u>4,523</u>	<u>5,476</u>	<u>6,257</u>	<u>6,945</u>	<u>7,342</u>
<u>Projected Profits/ Share Capital</u>							
On present basis		20.3	22.6%	26.2%	30.1%	34.4%	37.6%
On proposed basis		-	22.6%	27.4%	31.8%	34.7%	36.7%
Net effect		-	-	+1.2%	+1.7%	+0.3%	-0.9%

Assumptions: Same operations as in Table II. Government subsidy is abolished for BNDE's new borrowings, and BNDE charges 9% on direct loans from April 1, 1971. BNDE pays 9% on loans of DH 125 million from sources other than the Bank, and 7-1/4% on new IBRD loans.

Calculation of Increases in BNDE's Gross Income  
as a Result of a 9% Lending Rate Beginning April 1, 1971

(in thousands of DH)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Contracts Signed at 9%</u>	75,000 <sup>1/</sup>	111,000	104,000	113,000	121,000
<u>Disbursements 2/</u>					
1971 commitments	16,875	43,125	11,250	-	-
1972 commitments	-	33,300	55,500	16,650	-
1973 commitments	-	-	31,200	52,000	15,600
1974 commitments	-	-	-	33,900	56,500
1975 commitments	-	-	-	-	36,300
Total disbursements	<u>16,875</u>	<u>76,425</u>	<u>97,950</u>	<u>102,550</u>	<u>108,400</u>
<u>Repayments</u>					
1971 commitments	-	-	7,500	15,000	15,000
1972 commitments	-	-	-	11,100	22,200
1973 commitments	-	-	-	-	10,400
Total repayments	<u>-</u>	<u>-</u>	<u>7,500</u>	<u>26,100</u>	<u>47,600</u>
Outstanding on December 31	<u>16,875</u>	<u>93,300</u>	<u>183,750</u>	<u>260,200</u>	<u>321,000</u>
Average amount outstanding during the year	<u>6,315</u>	<u>65,050</u>	<u>138,525</u>	<u>221,975</u>	<u>290,600</u>
Increase in interest income (2%)	<u>125</u>	<u>1,300</u>	<u>2,770</u>	<u>4,440</u>	<u>5,810</u>
Income from direct loans	<u>16,276</u>	<u>20,430</u>	<u>25,410</u>	<u>30,620</u>	<u>35,190</u>

1/ 75% of commitments projected for 1971.

2/ 30% of commitments are disbursed in the same year, 50% the following year and 15% in the third year; 5% remains undisbursed.

Calculation of Increase in Financial Costs after Abolition  
of Government Subsidy and Borrowing at 9% from Sources  
Other than the Bank

Assumptions: Bank Loans at 7-1/4%  
Other Borrowings at 9%

Loans from IBRD: \$25 million (DH 125 million) in 1971  
\$25 million (DH 125 million) in 1973  
\$30 million (DH 150 million) in 1975

Loans from Other Sources: DH 25 million in 1972  
DH 30 million in 1973  
DH 35 million in 1974  
DH 35 million in 1975

<u>Disbursements</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
a) IBRD Loans: 5th	12,900	43,600	47,800	20,700	-
6th	-	-	12,900	43,600	47,800
7th	-	-	-	-	15,500
Total IBRD	12,900	43,600	60,700	64,300	63,300
b) Other Loans: 1972	-	7,500	12,500	5,000	-
1973	-	-	9,000	15,000	6,000
1974	-	-	-	10,500	17,500
1975	-	-	-	-	10,500
Total Other Sources	-	7,500	21,500	30,500	34,000
Total Disbursements	<u>12,900</u>	<u>51,100</u>	<u>82,200</u>	<u>94,800</u>	<u>97,300</u>
Repayments IBRD	-	-	6,000	18,500	31,000
Others	-	-	-	2,500	5,500
	-	-	6,000	21,000	36,500
Outstanding End Year	12,900	64,000	140,200	214,000	274,800
Average During Year	<u>6,450</u>	<u>38,450</u>	<u>102,100</u>	<u>117,100</u>	<u>244,400</u>
BNDE will forego 2% subsidies equivalent to	129	769	2,042	3,542	4,888
and will pay 9% on borrowings from Other Sources with an ad- ditional cost of (1-3/4%)	-	66	254	754	1,250
Increase in financial cost	129	835	2,296	4,296	6,138
Total financial costs	10,824	13,450	17,596	21,996	26,238

## OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

DATE: December 30, 1970

FROM: M. P. Benjenk *my*SUBJECT: Briefing for Visit of Moroccan Finance Minister

1. H.E. Abdelkrim Lazraq, Finance Minister of Morocco, will be calling on you January 5, 1971, at 4.30 p.m.

2. Major issues of the moment:

A. Gharb-Sebou Irrigation Project

The Government has been slow to implement the land distribution program that is an essential part of the project. It was reported to the Bank last May that land in the project area designated for distribution to the cultivators occupying it had in fact been sold to large private Moroccan land-holders. I communicated our concern about the land distribution program in my letters to the Prime Minister of May 26 and August 28 (Please see Annexes I and II). The subject has also been raised repeatedly in discussions with the Moroccan Government, with the King himself last September, and most recently with the Finance Minister at the time of the Morocco Consultative Group Meeting, last November. At that time the Minister stated that the Government was proceeding to complete the inventory of land-holding in the Gharb promised to the Bank, as well as preliminary studies and surveys needed prior to re-groupment and redistribution of the land. Concerning the 4,000 ha. in the first part of the project area to be developed that have been sold without permission by foreign holders to private Moroccan owners, the Minister reiterated the Government's intention to expropriate and redistribute some 2,800 ha. The Government plans to leave in the hands of their purchasers about 1,200 ha. in orange plantations on the premise that large farmers would be in a better position to maximise production from the plantations than small holders. We have no objection to this policy. ✓

3. Land distribution in the Gharb, including the project area, became a domestic political issue early in December when tenants on the land protested publicly land preparation by equipment they believed belonged to a new private absentee owner. It was reported that they themselves had raised money and tried unsuccessfully to buy the land. In the ensuing riot, six people were killed by the police. These incidents and the Government's failure to implement the land distribution program expeditiously became an issue in the Moroccan press. The Minister of Interior initially alleged that the land in question belonged to two private individuals, both prominent in political and commercial circles. Subsequently the two denied ownership of the land, which from our information still remains obscure. Most recently the Government has announced that these lands would in fact be expropriated and either cultivated under state-owned farms or distributed.



4. A second major concern in this project is the early appointment of a director for the regional agricultural development office. The post has been vacant since September, and internal Moroccan bureaucratic problems have allegedly caused the delay. To date the Bank has not been informed of the proposed new director. You will recall that after considerable debate on the issue at the time of loan negotiations, the Bank wrote to the Government asking to be informed in advance of any new appointee to this office and his qualifications. ✓

5. You may wish to emphasize to the Minister the Bank's concern that:

- (a) the inventory of land-holding in the Gharb be completed and that the Government expedite steps to carry out the land distribution program; and ✓
- (b) a new and well-qualified director of the regional land development office be promptly appointed. ✓

B. Interest Rate of the BNDE (Banque Nationale pour le Développement Economique).

6. Mr. Diamond and I are sending you a separate note outlining our position on this matter.

C. Status of Other Projects

7. We have four projects in the FY 1971 lending program totalling \$55 million of which \$5 million from IDA. One of these, the loan to CIH, was approved last August. The three others are BNDE (\$25 million), Agricultural Credit (\$10 million) and Education (\$10 million). The appraisal missions for the last two projects have just returned to Washington and are likely to recommend larger loans.

8. The project pipeline for the following years is quite adequate and includes for FY 1972 a second loan to CIH (\$15 million), an electric power transmission project (\$10 to \$15 million) and the Rabat-Casablanca water supply project (\$20 million of which \$10 million from IDA).

9. For FY 1973 and subsequent years, new agricultural projects are being identified; of particular interest is the potential development of the Oum-er-Rbia basin. The cost of developing the resources of this major river system in northwestern Morocco is expected to total \$500 million. A number of dams and extensive irrigation networks will be required and the phasing of development will require careful planning. A comprehensive report on the development of the Oum-er-Rbia is just being completed by a Swiss consultant, Alpinconsult. The Bank plans to meet with the Government in late January, 1971, to discuss the report and begin formulation of a development program. The magnitude and nature of this scheme makes it suitable for joint financing and Germany has expressed interest in participating with the Bank.

10. Other projects which have been identified in the field of agriculture are the flood control project for the Sebou area and a number of small and medium-size water-use projects in the upper valleys of the Sebou, Tessaout and Souss. Continued lending to BNDE, CIH and CNCA as well as for additional water supply projects is also contemplated.

August 28, 1970

His Excellency  
Dr. Moulay Ahmed Laraki  
Prime Minister  
Rabat, Morocco

Dear Mr. Prime Minister:

Gharb-Sebou Project

I wish to acknowledge receipt of your letter of June 13 regarding changes in land tenure in the Gharb-Sebou project and should like to thank you for your response to the points raised in my letter of May 26.

The complete inventory that you mention of the land which could be distributed in the Gharb should cast light on the crucial land tenure problem in the area of the Bank-financed project. Since your letter does not specify the categories of land to be covered by this inventory, I thought I should let you know our views in this regard. We feel that its usefulness would be seriously impaired if it covered only collective land, habous land and land in the public and private domain of the State (including, among others, the recovered "lots de colonisation"). According to the information available, the total area of all these categories of land in the project would be insufficient to allow for the land redistribution initially contemplated under the project, which aimed at bringing all small farms to an average area of about 5 ha. and of creating new farms of a similar average size for part of the numerous landless farming population now living in the area. We therefore deem it most advisable that the above inventory include, if this were not already the case, the large landholdings presently of the "melk" category which would need to be expropriated in part or in whole in order to allow for a land redistribution program substantially along the lines envisaged at the time of the negotiations for the Bank loan.

I should like to take this opportunity to mention another matter related to the Gharb-Sebou Project. We understand that a new Director of the Office du Gharb has lately been appointed or will be appointed shortly.

The Bank attaches great importance to seeing that any appointee to this post has the high level of competence and experience needed in the discharge of these important responsibilities. As you know, the matter of possible new appointments to this post was the subject of several discussions during and after the negotiations for the Bank loan, following which the Bank's position was stated in a letter dated November 7, 1969 to His Excellency Mamoun Tahiri, of which I attach a copy. In the spirit of close cooperation which prevails in the relations between Morocco and the Bank, we have much interest in being kept abreast in good time of all important changes in the projects financed by the Bank--such as the replacement of the Director of the Office du Gharb--so as to give us an opportunity to convey whatever views we may have in this regard, and we look forward to receiving shortly the relevant information regarding the new Director.

I should like to add that we are planning to send a mission to Morocco by the end of September to review progress of the Gharb-Sebou and Sidi Slimane projects as well as of the preparation for the study of flood control in the Gharb. I would appreciate your informing us by cable whether this timing is convenient.

Yours sincerely,

M. P. Benjenk  
Director  
Europe, Middle East and North Africa  
Department

cleared with and cc: Messrs. Bartsch  
Rocha  
CC: Mr. Tazi  
Mr. Lemoigne

MPBart:lp

Translation

May 26, 1970

His Excellency  
Dr. Moulay Ahmed Laraki  
Prime Minister  
Rabat, Morocco

Dear Mr. Prime Minister,

Rharb-Sebou Project

We learned from various, but corroborative, reports received by members of the recent Bank missions to Morocco that important changes are being introduced in the plan for re-distribution of the land included in the Sebou-Rharb project. In the course of the meeting which you held on April 29 with the members of the Bank missions who were then in Morocco, Mr. Bart had informed you of the Bank's desire to be fully informed of the nature of those changes in view of their possible implications with regard to the project.

The Bank's interest in the status of the land tenure situation in the Rharb area derives from the fact that, according to the Loan Agreement signed by Morocco and the Bank, the project financed by the Bank includes explicitly "land consolidation, re-organization and re-distribution throughout the Project Area, in accordance with the Agricultural Investment Code" (paragraph 2 of Schedule 3 of the Loan Agreement). The various legislative documents constituting the Agricultural Investment Code specify, as you know, the steps expected to be taken on collective land, habous (religious trusts) and melk (freehold ownership) in order to allow through the intermediary of the common fund for agrarian reform the creation of the maximum number of viable farms within the irrigated areas.

The changes in land tenure which recently took place in the area referred to could result in the replacement of the comprehensive program planned for the Rharb, on which the project conception had been based, by a much more limited plan of land distribution. Under the new plan, distribution to each rural family living in the area of a farm averaging 5 ha., previously considered as the minimum viable size, would not be possible. This change could obviously have far reaching consequences for the technical and economic aspects of the project financed by the Bank, as well as for the land tenure structures in the project area.

As we do not know the reasons which have caused the introduction of apparently substantial modifications to the program initially agreed upon, I would be obliged if you would kindly inform the Bank on this subject as well as on the precise plans for land redistribution which the Government intends now to apply. I would also appreciate being informed of the timetable of the Government regarding the promulgation of the still pending legislation required for the enforcement of the Agricultural Investment Code.

I am sure that you will agree that changes affecting the project agreed upon and more particularly its institutional and technical aspects, as well as its justification, should be the subject of joint discussions before they are introduced. I would like to mention in this regard that due to lack of sufficient information regarding land distribution in three rural communes of the project, we have not been able to agree to the tender documents for some of the land consolidation which ought to be financed by the Bank.

Yours sincerely,

M. P. Benjenk  
Director  
Europe, Middle East and North Africa  
Department

cc.: Mr. A. Tazi

cleared with and cc.: Mr. El Fishawy  
Mr. J. Malone

MPBart/MPBenjenk:cmc