Board Meeting of January 30, 1997
Statement by Joaquim Carvalho

**MOROCCO: Country Assistance Strategy**

Morocco’s impressive economic performance in the mid-to late 1980s earned it a place as one of most successful countries with economic transformation in the Middle East and North Africa. However, in recent years successive droughts and a stifling foreign debt burden have combined to slow down the momentum of reform, thus constraining growth and exposing huge underlying structural weaknesses and social disparities. In particular, urban employment is on the rise and poverty has increased significantly. At the same time, the fiscal and current account deficits have widened and external competitiveness has been eroded.

Fortunately, prudent monetary policies were pursued throughout this period of economic difficulty, and Morocco is currently poised for a strong recovery, led by a strong rebound in agriculture. For this growth to be sustainable, however, the Government of Morocco will need to take advantage of the emerging consensus-building process to provide renewed momentum to the reform effort and address the fundamental social and economic weaknesses that are an obstacle to the country’s development prospects.

As highlighted in the CAS, a number of internal factors continue to constrain Morocco’s growth. These include a high budget deficit, low levels of savings and investment, an insufficiently diversified economy and vulnerability to drought. Externally, high tariff levels, low export growth and a huge external debt also serve to reduce Morocco’s external competitiveness, although recent agreements with Europe, Morocco’s most important trade partner, are likely to mitigate some of these problems.

Of particular urgency are Morocco’s social development agenda and the environment, and we are pleased to note that these are given the priority they deserve in the CAS. In spite of high levels of public spending in the social sectors, severe inequities remain and a dual economy has emerged which offers superior social services for the urban middle class at the expense of the rural poor, especially women. Also, water is becoming dangerously scarce, with average rainfalls declining and pollution increasing in the river basins.

It is gratifying to note that the Government is fully aware of the challenges it is faced with in the coming years and has already begun to address them. We are particularly encouraged by
the steps taken by the Government to reduce the budget deficit, improve the business environment and reform the social sectors, as outlined on pages 6 to 10 of the CAS. Success in this endeavor will depend on the Government’s ability to forge a consensus in support of reform.

We have had an opportunity to discuss the recently completed Country Assistance Review at last Monday’s CODE meeting. This was a highly useful exercise as it enabled us to examine the relevance, effectiveness and efficiency of the Bank’s assistance strategy for Morocco since 1983. The general conclusion of this review was that the overall effectiveness of the Bank’s assistance during this period has been mixed — in correlation with the government’s own performance. We are pleased to note that the conclusions of the review, together with the results of the previous CAS, have been taken fully into account in designing the proposed CAS for Morocco. We believe that this process will be of great benefit to the quality of the Bank’s assistance in Morocco in the coming years.

We can give our strong endorsement to the Bank’s proposed country assistance strategy for Morocco. We believe that it is very much in line with the government’s own objectives, and that it addresses all the issues identified as priorities for the country’s sustained development. It will be important for the Bank to retain, to the extent possible a great deal of flexibility with regard to the instruments used in its intervention.

In particular, an optimal balance must be struck between investment and adjustment lending, bearing in mind that the political environment is in transition. Also, every effort must be made to mobilize private capital through such instruments as guarantees, and with the help of IFC and MIGA. We hope to see Morocco return to its position as one of IFC’s top ten clients in the near future. We would also like to see continued efforts to build partnerships with the private sector, particularly through the recently established Private Sector Development Committee.

Ultimately the efficacy of the proposed CAS will be judged not only by its success in stimulating growth, but also by the extent to which it deals with the social disparities that exist in Morocco. We are pleased to note that the CAS places appropriate emphasis on strengthening the Government’s social and rural development efforts, with special priority given to gender issues.

The next few years will be critical for Morocco as it seeks to achieve important economic objectives in a period of political transition. The key to success will lie in the government’s success with building a consensus in favor of reform. We wish the Moroccan authorities well in this challenging endeavor.