Statement by Todd Crawford  
Date of Meeting: May 31, 2001  

Morocco: Country Assistance Strategy / Information  
Infrastructure Sector Development  

Overview:  

First, we thank staff for their informative briefing in advance of today’s Board discussion. This CAS is a thorough and candid assessment of the challenges facing the economy of Morocco. We concur with the “core program” approach of this CAS, focusing on poverty reduction and policy dialogue pending the authorities’ completion of the next Budget law a budget bill later this year later this year. The budget will be a critical indicator of the Government’s ability to forge a consensus on key structural reforms and commitment to poverty reduction within a framework of fiscal consolidation.  

Growth and Macroeconomic Situation:  

We are very much concerned that poverty has increased in Morocco, along with income inequality (notably in rural areas) and unemployment. As the CAS notes, the lack of economic growth has been a key factor behind these developments. We urge the authorities to take timely and decisive actions to set the stage for spurring growth – in agriculture as well as manufactured exports, which, in turn, is tied to trade liberalization and a more flexible exchange rate. We welcome the authorities’ recent step towards a more pragmatic approach to exchange rate policy.  

The signing of the EU Association Accord was an encouraging move in trade liberalization. However, we urge both Morocco and the Bank not to restrict the trade liberalization agenda to relations with the EU as the CAS seems to suggest. We believe that the CAS should also recognize the tremendous opportunities for Morocco in pending negotiations in the WTO (both agriculture and services) as well as the prospect of a new round of multilateral trade negotiations, which could improve Morocco’s trade opportunities globally.  

Reassessing fiscal management is a sorely needed step to curb excessive spending and to increase revenues. While strong privatization revenues are welcome, we are very concerned that the authorities are likely to use the bulk of these proceeds to fill the current fiscal gap, rather than paying down debts or making important long-term investments. Not only would using proceeds for the current budget miss an important opportunity, but it would also defer important decisions
to boost revenues from other sources. While efforts to strengthen tax collection and limit spending (e.g., by lowering the civil service wage bill (12% of GDP) and reducing poorly targeted subsidies (3% of GDP) can be politically sensitive, they are essential for fiscal sustainability.

**Lending Program:**

**Public expenditure management** remains the key challenge for the authorities – to make optimal use of recent privatization receipts and redirect budget items, such as poorly targeted consumer food subsidies and the bloated civil service wage bill – to pressing social sector needs. As such, we welcome the emphasis in this CAS on supporting responsible public expenditure management girded by a frank policy dialogue that defines the imperatives for reform.

By strengthening the fiscal stance, the authorities will be better placed to invest in human capital. Although public spending in social sectors increased during the 1990s, spending levels are still well below averages for Morocco’s regional neighbors and have been insufficient to raise Morocco’s poor, notably girls and women, out of poverty. The level of spending is not nearly as important as the effectiveness of the spending. As such, we welcome the planned PER under this CAS, as well as the goals in the CAS Matrix to improve girls’ enrollment and literacy rates and access to primary health care.

In that same vein, the gender gap in Morocco remains wide despite recent gains in girls’ enrollment and literacy rates. We welcome the Bank’s support for the Gender Action Plan. We urge the authorities to focus on implementing the plan and increasing economic opportunities for girls and women. In particular, we hope the Bank’s dialogue with the authorities will stress the importance of strengthening the legal framework for equal rights for women in Morocco.

We share staff’s concern that environmental degradation is a major obstacle to sustainable economic growth, given the prominence of agriculture in GDP and the vulnerability of the rural population. At the time of the CODE discussion of the CAE, we were told that a draft environmental review of Morocco was being prepared. Can staff provide some examples of how environmental/natural resource management issues will be incorporated into the Bank’s other operations as suggested in the CAS? While we welcome mention of issues such as soil erosion and water availability, the CAS should devote greater attention to assessing how this lending program will address the poverty impacts of environmental damage. Furthermore, we would suggest that the Bank’s policy dialogue be aimed at helping to build the consensus for passage of environmental protection laws to preserve Morocco’s natural resource base.

We welcome plans for enhanced donor coordination. However, our USAID colleagues have voiced concerns regarding coordination issues on the ground. In particular, we are eager to understand the division of labor between the Bank and the African Development Bank and what plans are in place for coordination and harmonization of the two institutions’ country strategies for Morocco. Further, the absence of clear donor coordination renews our concerns about Morocco’s status as a “pilot country” for the CDF. The authorities’ rather lackluster record on structural reforms does not point to very solid ‘ownership’ of the development agenda, a pillar of
the CDF approach. We would encourage the Bank to reexamine its role in implementing the CDF in Morocco.

**Participation**

We recognize the significant political and economic changes that have taken place in Morocco over the past three years and welcome the growing voice that civil society has developed to hold the authorities accountable for poverty reduction and development initiatives. Many of those same voices have expressed frustration over the effectiveness of the Bank’s involvement in Morocco. *How does the Bank plan to address the frustrations expressed by several NGOs (Box 3.1 of the CAE) regarding their view that the Bank and the Moroccan Government’s development strategies lack transparency?*

We welcome the participatory process that informed this CAS, as described in Box 4. *Can staff tell us whether labor unions were among the organizations that were consulted?* Although they constitute a relatively small component of the total workforce in Morocco, union membership is estimated at 500,000 and should be afforded the opportunity to contribute constructively to these important discussions. *In addition, is passage of the long-pending Labor Code to increase labor flexibility and redeploys the workforce to more dynamic, competitive sectors of the economy one of the issues for discussion with the authorities?*

Achieving political consensus is also key to spurring economic reforms. Growing political tensions and the upcoming elections raise concerns that the authorities may place some of the most pressing economic and structural reforms on the back burner. We urge the Bank to work more closely with the authorities to support an open and transparent policy dialogue to garner widespread support for the reform agenda. On that note, we encourage the authorities to make this CAS public as a demonstration of their commitment to transparency and accountability.

We welcome the aims of the triggers for the Base Case and High Case scenarios, but are concerned that they lack specificity, particularly when the CAS notes that even the base case scenario implies a sharp correction of recent fiscal trends. For example, “containing the wage bill and other current expenditures” does not provide a quantifiable benchmark for critical fiscal/public management reforms. These triggers should be strengthened and made more specific.

**Information Infrastructure Sector Development Project**

We concur with staff that reform of the telecommunications and postal IT sectors is key to creating a conducive environment for private investment which will, in turn, spur employment and sustainable growth. Further, we welcome the reforms that have been achieved thanks to the Bank’s effective engagement with the authorities in these areas.

Since 1998, the Bank and African Development Bank have lent over $4300 million to Morocco for telecom and postal reforms. We are concerned that the Bank’s single tranche $65 million loan for additional telecom, postal and IT reforms will have minimal impact on sector policy. A
multi-tranche loan linked to meeting key criteria would have been a far more effective instrument. We also believe that this loan, on top of the cumulative lending to date in this sector, is disproportionate to more pressing needs in the key social sectors. The windfall from the partial sale of Maroc Telecom, the PTT privatization, and the GSM-2 license have yielded more than ample funds with which to undertake these reforms. We commend the authorities for allocating $600 million of the GSM-2 sale to the Hassan II Fund; however, we have concerns about the extra-budgetary nature of this Fund and that some of these funds are being used to recapitalize state-owned enterprises. Based on the totality of these concerns, we would like to be recorded as abstaining on this loan.

Conclusion:

We hope that the political openness in Morocco will be accompanied by a concerted commitment to structural reforms. The new budget bill and upcoming elections will be pivotal milestones in maintaining the momentum for reform that the proposed CAS will support. We concur with the scope and emphasis of the proposed CAS and encourage the authorities to undertake the difficult reforms that will point Morocco on a path of sustained growth and greater income equality.