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Report No.: 73410-MA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF EURO 150 MILLION

(US\$203.2 MILLION EQUIVALENT)

TO

THE KINGDOM OF MOROCCO

FOR A

SECOND DEVELOPMENT POLICY LOAN IN SUPPORT OF

THE PLAN MAROC VERT

February 26, 2013

Sustainable Development Department
Maghreb Country Management Unit
Middle East and North Africa Region

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KINGDOM OF MOROCCO – GOVERNMENT FISCAL YEAR
January 1st – December 31st

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 31st, 2013)

Currency Unit	Moroccan Dirham	Euro
US\$1.00	MAD 8.21	€0.74

ABBREVIATION AND ACRONYMS

ADA	Agricultural Development Agency (<i>Agence pour le développement agricole</i>)
AFD	French Development Agency (<i>Agence française de développement</i>)
AfDB	African Development Bank
BAM	Central Bank of Morocco (<i>Bank Al-Maghrib</i>)
BC	Belgian Corporation
CBM	Central Bank of Morocco
CDA	Agricultural Development Center (<i>Centre de développement agricole</i>)
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
CPS	Country Partnership Strategy
CRPII	Pillar II Resources Center (<i>Centre des ressources Pilier II</i>)
CSM	Council for Strategic Monitoring
CT	Centers of Works (<i>Centres des travaux</i>)
DPA	Provincial Agricultural Directorate (<i>Direction provinciale de l'agriculture</i>)
DPL	Development Policy Loan
DRA	Regional Agricultural Directorate (<i>Direction régionale de l'agriculture</i>)
DSS	Strategy and Statistics Directorate (<i>Direction de la stratégie et des statistiques</i>)
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDA	Agricultural Development Fund (<i>Fonds de développement agricole</i>)
FDI	Foreign Direct Investment
FDR	Rural Development Fund (<i>Fonds de développement rural</i>)
FSAP	Financial Sector Assessment Program
FTA	Free Trade Agreement

GCC	Gulf Cooperation Countries
GDP	Gross Domestic Product
GEF	Global Environment Facility
GoM	Government of Morocco
HACCP	Hazard Analysis and Critical Control Point
IBRD	International Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
INDH	National Initiative for Human Development (<i>Initiative nationale pour le développement humain</i>)
INRA	National Institute for Agronomic Research (<i>Institut national de la recherche agronomique</i>)
ISO	International Standards Organization
KfW	German Development Bank
LSI	Large Scale Irrigation
M&E	Monitoring and Evaluation
MAD	Moroccan Dirham
MAGG	Ministry of General Affairs and Governance (<i>Ministère des Affaires générales et de la gouvernance</i>)
MAPM	Ministry of Agriculture and Maritime Fisheries (<i>Ministère de l'Agriculture et de la pêche maritime</i>)
MCC	Millenium Challenge Corporation
MENA	Middle East and North Africa
MEF	Ministry of Economy and Finance (<i>Ministère de l'Économie et des finances</i>)
MEMEE	Ministry of Energy, Mines, Water and Environment (<i>Ministère de l'Énergie, des mines, de l'eau et de l'environnement</i>)
MET	Ministry of Infrastructure and Transportation (<i>Ministère de l'Équipement et du transport</i>)
MI	Ministry of Interior (<i>Ministère de l'Intérieur</i>)
MICNT	Ministry of Industry, Commerce, and New Technologies (<i>Ministère de l'Industrie, du commerce et des nouvelles technologies</i>)
O&M	Operations & maintenance
ONCA	National Agency for Agricultural Advisory Services (<i>Office national du conseil agricole</i>)
ONSSA	National Food Safety Agency (<i>Office national de sécurité sanitaire des produits alimentaires</i>)
OPA	Professional Agriculture Organization (<i>Organisation professionnelle agricole</i>)
ORDAR	Regional Agriculture and Rural Development Offices (<i>Offices régionaux de développement agricole et rural</i>)
ORMVA	Public Agricultural Development Agency (<i>Office régional de mise en valeur agricole</i>)
PAR	Regional Agricultural Plan (<i>Plan agricole régional</i>)

PARL	Public Administration Reform Loan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management System
PJD	<i>Parti de la justice et du développement</i>
PLL	Precautionary and Liquidity Line
PMV	Green Morocco Plan (<i>Plan Maroc Vert</i>)
PNEEI	National Program of Irrigation Water Conservation (<i>Programme national d'économie d'eau en irrigation</i>)
PPPs	Public Private Partnerships
PSIA	Poverty and Social Impact Analysis
RBA	River basin agency
SCCF	Special Climate Change Fund
SEAT	State Secretariat for Territorial Planning (<i>Secrétariat d'État chargé de l'Aménagement du territoire</i>)
SEEE	State Secretariat for Water and Environment (<i>Secrétariat d'État chargé de l'Eau et de l'environnement</i>)
SEP	Social and Economic Program
SGG	General Secretariat of the Government
SME	Small and medium size enterprises
SOE	State-Owned Enterprise
TA	Technical Assistance
UCS	Use of Country System
USAID	United States Agency for International Development
VAT	Value-Added Tax
WMS	Wholesale markets and slaughterhouses

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**KINGDOM OF MOROCCO
SECOND DEVELOPMENT POLICY LOAN IN SUPPORT OF
THE PLAN MAROC VERT**

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LOAN AND PROGRAM SUMMARY

KINGDOM OF MOROCCO

SECOND DEVELOPMENT POLICY LOAN IN SUPPORT OF THE PLAN MAROC VERT

Borrower	Kingdom of Morocco
Implementing Agency	Ministry of Economy and Finance (MEF) and Ministry of Agriculture and Maritime Fisheries (MAPM)
Financing Data	EUR 150 million (US\$203.2 million equivalent) The Borrower has requested a Euro denominated Variable Spread Loan (VSL), linked to commitment with a 29 year maturity and 7 years grace period with level repayment of principal.
Operation Type	The proposed operation is the second development policy loan in a programmatic series of two single-tranche loans
Main Policy Areas	<ul style="list-style-type: none"> A. Domestic Markets B. Agricultural Investment Support C. Agricultural Services D. Irrigation Water
Key Outcome Indicators	<p>A. Improve the efficiency of domestic markets: (i) Number of fruit and vegetable wholesale markets under new management model launched; (ii) Number of private slaughterhouses launched; and (iii) Number of slaughterhouse concessions under new management model launched</p> <p>B. Improve the socio-economic impacts of projects directed to small farmers: (i) Percent of new Pillar II projects submitted by the Professional Agriculture Organizations (OPA); and (ii) Percent of small farmers benefitting from Pillar II support</p> <p>C. Improve agricultural services: (i) Percent of research and extension projects funded through the competitive financing mechanism; (ii) Number of extension advisory services contracted to the private sector; (iii) Number of training days per category of actor, of which percent for women; (iv) Number of Hazard Analysis and Critical Control Point (HACCP)-certified agri-food processing establishments; and (v) Percent of shipments of Moroccan food and agricultural export products refused by the EU on sanitary grounds</p> <p>D. Improve the use and the management of irrigation water and the planning of irrigation infrastructure: (i) Percentage increase in the number of declarations received of groundwater abstraction points and the number of authorizations delivered for groundwater abstraction; (ii) Cumulative number of farmers participating in projects of collective reconversion to drip irrigation; (iii) Number of Regional Agriculture and Rural Development Offices (ORDAR) created; and (iv) Percentage of fully budgeted irrigation schemes associated with dams under construction or planned</p>

<p>Program Development Objectives and Contribution to CPS</p>	<p>The Program Development Objective is to increase the agri-food sector’s productivity and diversification with the goal of maintaining higher rates of agricultural growth and employment.</p> <p>The proposed DPL is a key component of the current Country Partnership Strategy (CPS) (FY10-FY13). It also contributes directly to the three pillars around which the World Bank’s program is structured:</p> <ul style="list-style-type: none"> (i) Growth, competitiveness, and employment; (ii) Service delivery to citizens; and (iii) Sustainable development in a changing climate. <p>Furthermore, it is linked to the two cross-cutting themes of governance and territoriality.</p>
<p>Risks and Risk Mitigation</p>	<p>Macroeconomic Risk. Morocco faces three exogenous macroeconomic risks: (i) the possible deterioration of the ongoing global economic conditions - especially in Europe; (ii) the volatility of the agricultural output due to its dependence on changing climatic conditions; and (iii) continued high world prices of food and energy. Morocco also could suffer from endogenous risks, essentially those related to a slow or non-consequential implementation of the needed reforms resulting primarily from resistance of vested interests groups. Morocco will face reduced growth prospects in case the above mentioned exogenous shocks materialize. Morocco’s management and mitigation of these risks are predicated on the Government’s strong commitment to proceed with the ongoing and envisaged reforms outlined in the Program Document.</p> <p>Sector risk. Agriculture sector reforms are back on track after some delays following the appointment of the Government. Government commitment to sector reform is high given the continuity provided by the re-appointed Minister of Agriculture, the ownership within the relevant line-ministries of the strategic vision embedded in the <i>Plan Maroc Vert</i> (PMV), and the strong commitment to the implementation of the PMV by His Majesty the King. The Ministry of General Affairs and Governance (MAGG) has set up an inter-ministerial committee to coordinate the actions of all stakeholders of the project.</p> <p>Stakeholder risks. Some of the proposed reforms may be opposed by vested interests and marginalized stakeholders, especially considering the current socio-political climate in Morocco. This is most likely to occur in relation to reforms associated with domestic markets and irrigation. Specific measures to mitigate risks associated with domestic markets have been identified, including development of a Social Plan.</p>

	Climate change risks. Morocco remains susceptible to chronic drought. The dependence of Moroccan agriculture on rainfed yields, particularly for poor and vulnerable farmers, coupled with increased water scarcity and a changing climate poses long run concerns for the agriculture sector. The Government is aware of the situation and is developing an integrated strategy to address climate change issues, which the World Bank is supporting through its operations.
Operation ID	P127822

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE KINGDOM OF MOROCCO

I. INTRODUCTION

1. **This Program Document proposes a second Development Policy Loan (DPL) in support of the *Plan Maroc Vert* to the Kingdom of Morocco.** The proposed operation is the second of a programmatic series of two single-tranche DPLs of EUR 150 million each. The series follows a request by the Government of Morocco (GoM) in February 2009 and confirmed in January 2010. The first DPL in this series was approved by the Board of the World Bank on 15 March 2011. The program supports the implementation of four components of the agri-food sector strategy outlined in the *Plan Maroc Vert* (PMV), the GoM's agricultural development strategy for the period 2008-2020. These components include: (A) domestic markets; (B) agricultural investment support; (C) agricultural services; and (D) irrigation water. The objectives of the operation are to: (A) improve the efficiency of domestic markets; (B) improve the socio-economic impacts of projects directed to small farmers; (C) improve agricultural services; and (D) improve the use and management of irrigation water and the planning of irrigation infrastructure.

2. **The program supports an ambitious Government initiative in the agriculture sector and builds on extensive dialogue between the World Bank and the GoM and is underpinned by a large body of analytical work and sector operations.** The proposed program has benefited from a broad range of analytical work recently completed by the World Bank and others. Key analytical activities completed by the World Bank include economic and sector work, policy notes, and topical research and analysis covering strategic themes such as agri-food trade, wholesale markets and food security, agricultural subsidy schemes, contract-farming, land markets, rural poverty, climate change adaptation and mitigation, and territorial development. The program also builds on the outcomes and experience from past and ongoing World Bank operations in water and irrigation, integrated rural development, human development, and public sector administration reform. Additional value added of the World Bank includes bringing global best practice lessons to the implementation of the PMV and furthering inter-ministerial coordination.

3. **The policy framework supported by this program has helped the Ministry of Agriculture and Maritime Fisheries (*Ministère de l'Agriculture et de la pêche maritime, MAPM*) inform, focus, and leverage the support of other donors and the private sector.** A large number of multilateral and bilateral donors have mobilized around the investment agenda set out by the PMV. Key players include the International Finance Corporation (IFC), Millennium Challenge Corporation (MCC), United States Agency for International Development (USAID), European Union (EU), African Development Bank (AfDB), French Development Agency (AFD), International Fund for Agricultural Development (IFAD), Belgian Cooperation (BC), German Development Bank (KfW), and Food and Agriculture Organization (FAO). Most of the donors support the implementation of Pillar II investment projects in specific agri-food

chains (*filières*) in specific regions and/or focus on capacity-building activities related to the Pillar II investment program and sustainable natural resource management.

II. COUNTRY CONTEXT¹

4. **The wave of democratization that has swept the Middle East and North Africa (MENA) region since the start of the Arab Spring has also enveloped Morocco although its experience has been a reasonably peaceful one with social demonstrations taking place regularly across the country during 2011-12 and only sporadic outbursts of violence noted.** This social movement, known as the “February 20 Movement”, started with calls for political change, a curbing of corruption and a more inclusive development process. His Majesty King Mohammed VI’s response was to propose, in March 2011, a broad and comprehensive package of political reforms that gathered the support of the population through a constitutional referendum held on July 1, 2011.² The constitution sets the basis for a more open and democratic society, provides mechanisms for the construction of a modern state and institutions, and lays the foundation for decentralization. The constitution also contributes to improving the status of women in Morocco through the adoption of the principle of equality between men and women and through provisions on increasing the participation of women in decision-making bodies. Also, Morocco lifted all reservations pertaining to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). Efforts to reduce gender discrimination within the legal system produced changes in the country's criminal code, labor code, and code of personal status.

5. **The Constitution introduces a new institutional model based on separated, balanced and complementary powers.** In addition, it reinforces the principles of good governance, human rights and protection of individual freedoms, as well as increased institutional responsibility and accountability. The main changes reflected in the constitution are: (i) strengthening the role of Parliament through greater oversight powers over the Government; (ii) elevating of the Prime Minister status to that of Head of Government; (iii) enhancing the independence of the judiciary as a power that is autonomous from the executive and the legislative; (iv) respecting all human rights as they are universally recognized; (v) establishment of important institutions, including the National Council for Human Rights, the Ombudsman system, the Competitiveness Council, the National Authority for Integrity and the Prevention and Fight against Corruption; (vi) establishment of the Council for Youth and Community Work; (vii) establishment of advanced regionalization as a democratic and highly decentralized system of governance; and (viii) establishment of the agency for gender parity and against discrimination.

6. **Transparent elections, held on November 25, 2011 were won by the “*Parti de la justice et du développement*” (PJD), an Islamic party that had traditionally been in active opposition and has seen its support increasing steadily in recent years.** The PJD won 27 percent of the vote, almost twice that of the second largest political party. An intense period of discussions among political parties then followed, leading to the formation, in early January

¹ Unless otherwise indicated, all estimations and projections of economic indicators are those of the World Bank. All historical data are those of the Government.

² The vote in favor of the proposed reforms was 98 percent with a participation rate of 73 percent.

2012, of a four-party coalition Government, with the head of the PJD Abdelilah Benkirane becoming the Head of Government.

7. **The Arab Spring protests and constitutional changes represent real pressure on the Moroccan State for meaningful and quick change.** While the people seem to be willing to support the Government and its mandate, they are expecting and indeed demanding that the Government break with the past and usher in more credible and faster reforms, notably in the areas of job creation and improvement of the quality of public services delivered. Morocco is thus on the threshold of potentially profound social, political and economic transformation. The Government is determined to assume more ownership of the political process and to pursue the reforms in this context.

8. **Many important tasks are awaiting the Parliament.** In addition to adopting various organic laws—such as the new Budget Organic Law and the one planned for regionalization— and establishing the institutions dedicated to human rights and economic and social development, the Parliament will need to start reforming mechanisms that govern the relationship between the legislature and the executive. The Government’s program voted by Parliament on January 26, 2012, is in line with such challenges as it centers on the rapid implementation of the Constitution and promotes good governance, transparency, and accountability within the public sector.

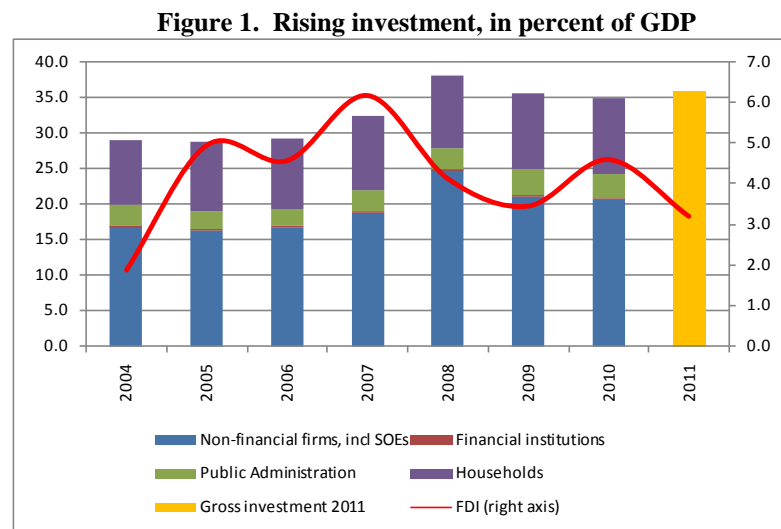
A. MACROECONOMIC ACHIEVEMENTS OVER THE LAST DECADE

9. **Morocco made significant economic headways during the last decade.** Growth pattern shifted to a higher level averaging 4.9 percent over 2001-2011, much higher than the average rate of the 1990s (2.8 percent). Inflation was subdued, recording less than two percent in average over the period. The growth and inflation performance allowed gross domestic product (GDP) per capita to almost double over the last decade to reach the equivalent of US\$3,100 in 2011. The unemployment rate declined from 12.3 percent in 2000 to 8.9 percent in 2011. Absolute poverty decreased from 15.3 percent to roughly nine percent between 2001 and 2007. Based on these achievements, Morocco gained “investment grade” rating in 2007, which was confirmed over 2009-2011 despite ongoing world economic turmoil. Annex 7 presents additional details of Morocco’s achievements in the last decade.

10. **These achievements were in part the result of sound macroeconomic policies.** The steady consolidation of public finance turned fiscal deficits³ into surpluses in 2007 and 2008 (averaging 0.3 percent of GDP). The fiscal deficits widened to 2.2 percent of GDP in 2009 and 4.7 percent of GDP in 2010 but remained manageable. The Treasury total debt steadily declined from 68 percent of GDP in 2000 to 50.3 percent of GDP in 2010. Monetary policy sought to keep inflation under check while managing both liquidity and the exchange rate in an effective manner. In addition to timely adjustments of its money policy rate and reserve requirement rate, the Central Bank implemented an adequate mix of its other instruments, including foreign exchange swaps, issuance or buyback of debt securities, and the purchase or sale of securities in the secondary market.

³ Budget figures do not include privatization receipts.

11. **Morocco's economic improvement was also due to the implementation of ambitious structural reforms.** During the last decade, Morocco liberalized a number of sectors, including transport, energy, and telecommunications. The financial sector was strengthened in support of the new dynamism of the nonagricultural sector. Ambitious sector-specific strategies were implemented



Source: Moroccan Government and Staff estimates.

to increase investment and employment opportunities. Gross investment, which used to hover around 25 percent of GDP on average in the 1990s, picked up in the 2000s to reach 38 percent of GDP in 2008 (Figure 1). Morocco also sought to deepen its integration into the world economy through the signing of many free trade agreements (FTAs) culminating with the “Advanced Status” awarded by the European Union (EU) in 2008. Foreign direct investments (FDI) inflows increased to reach an average of 4.3 percent of GDP over 2006-11, thus contributing to the expansion of the country’s stock of capital.

12. **Notwithstanding those economic achievements, Morocco remains confronted with important human and social challenges.** Morocco’s social and human development outcomes are still below expectations. Economic vulnerability (poor and vulnerable) remains widespread, meaning that a quarter of the population—around 8 million people—is either in absolute poverty or under constant threat of falling back into poverty. The partial closure of the rural-urban income gap has not cancelled disparities: 70 percent of poverty in Morocco is still rural and in 2007 the urban poverty rate was 4.8 percent compared to 14.5 percent in rural areas. Income of the poor has been growing at a slower rate than the average income. There has been a remarkable increase in access to education, but overall illiteracy rates and gender disparity in access to secondary education remain high: 21 percent of male youth and 42 percent of female youth are illiterate and 72 percent of rural women are illiterate. Both education quality and learning outcomes lag behind those of other countries with similar income levels. Even with progress in increasing overall life expectancy and reducing average infant mortality rate, levels of infant and maternal mortality remain high, and lag Millennium Development Goals (MDG) targets. In sum, inequality, gender inequality, and urban-rural disparities in poverty and social outcomes remain a challenge.

13. **Morocco’s ongoing human and social challenges reflect the slow structural transformation of the economy.** To be sure, Morocco’s production structure has gradually shifted toward services with both primary and secondary sectors’ shares in GDP declining over time. However, while the increased service orientation of the economy is emulating trends observed throughout the world, the weak performance of the manufacturing sector stems from

the relatively slow modernization of the industrial sector, which also explains the performance of Moroccan exports. The latter continue to be concentrated around relatively undiversified, low knowledge, low value-added, traditional products. As a result, Morocco has not fully reaped the benefits from the market access opportunities and trade dynamics of its trading partners. Exports have been kept below potential and their contribution to growth and employment has yet to be unleashed.

14. Morocco's slow structural transformation seems to be less due to the lack of investment than the low return on investment. Investment in Morocco appears to be less productive than in other emerging economies. Public investments are concentrated in relatively low productive projects or in projects that need time to fully mature. Indeed, a large share of public investments made over the last years has been directed to the tourism sector, phosphate related industries, energy, and infrastructure projects (highways, ports, airports, small dams, free trade zones, etc.). Investments in those sectors require time to be operational at full capacity and thus profitable. The Government has launched analytical efforts to investigate the issue and propose remedies.

15. The agri-food sector is an important pillar of the Moroccan economy. Representing 15 percent of Morocco's GDP and 23 percent of the country's exports, and employing close to half of the labor force, the agri-food sector (together with the forestry and fishing) is a key pillar of the Moroccan economy. In the rural areas it is the primary source of employment and income for about 80 percent of the labor force. Although rural poverty decreased from 25 percent in 2001 to 14 percent in 2007 largely due to the combined effect of increases in the value of agricultural production, diversification of the rural economy, and increases in remittances, the contribution to overall inequality of the gap between rural and urban living standards in Morocco is the highest of any Middle East and North Africa (MENA) country. In fact, poverty rates in rural areas are almost three times as high as in urban areas and 70 percent of poverty in Morocco remains rural. With a Gini coefficient of 0.6, land remains inequitably distributed: a majority of low-productivity smallholders owns only 26 percent of cultivated land, while a minority of less than one percent of mostly commercial and export-oriented farms owns about 14 percent.

16. The agri-food sector's growth potential is constrained by the dualistic nature of farming in Morocco. The vast majority of the 1.5 million agricultural holdings are semi-subsistence farms that have low productivity and product quality levels and limited market integration. These farms are small (70 percent are less than 5 hectares) and largely rainfed and vulnerable to recurrent droughts. Farm work is performed by both men and women, with a significant portion of women's work remaining unrecognized, unpaid, or underpaid. Farms often have aging household heads with a low education (more than 45 percent of the heads of farming families are over 55 years old, and 81 percent are illiterate) and have limited adoption of modern production technologies. Traditionally, in order to meet their food and feed needs and partially in response to the incentives provided by Government subsidy schemes and market protection, smallholders typically engaged in the production of low-value agricultural commodities such as wheat and barley. This large group of smallholder farmers co-exists with a small but very efficient group of commercial farmers producing milk for domestic markets and crops (such as citrus, tomatoes, strawberries, grapes, melons, and peppers) for high-value export markets. This sub-sector of mainly irrigated production accounts for 7 percent of GDP, 50 percent of

Morocco's agricultural value added, generates over 75 percent of Morocco's agricultural exports, and provides jobs to 50 percent of the rural labor force, many of whom are women.

17. **In an effort to directly encourage growth of the agri-food sector, Morocco launched a transformative agricultural development strategy - the Plan Maroc Vert (PMV) for the period 2008-2020.** The PMV is an ambitious strategy that aims to transform this sector into a stable source of growth, competitiveness, and broad-based economic development in rural areas through a combination of agricultural investments and systemic public sector reforms. At its outset, up to 170 billion MAD of combined public and private sector investments from 2009 to 2020 was envisaged in around 1,450 commercial (Pillar I) and smallholder (Pillar II) agriculture investment projects; the latter focusing mainly on marginalized rural areas. Since 2008, investments in the agri-food sector have grown at a compounded annual growth rate of about 12 percent, totaling over 24 billion MAD. Of the total investments in the PMV to date, 5.6 billion MAD have been directed to Pillar II projects. These investments have resulted in sector growth both in terms of volume and value, thanks in part to favorable climatic conditions over some agricultural campaigns since the launch of the PMV. The total volume of agriculture production increased by 40 percent between 2005-2007 and 2011, while agriculture value added per worker increased by 53 percent between 2007 and 2010.

18. **The PMV is facilitating a paradigm shift from a highly protected agriculture sector to a more open market sector which emphasizes integrated value-addition along the agri-food chain in order to create better opportunities for small and large farmers alike.** In combination with the GoM's ongoing National Program of Irrigation Water Conservation (*Programme national d'économie d'eau en irrigation*, PNEEI) and the systemic public sector reforms undertaken by the PMV, these investments are to realize the agri-food sector's domestic and export growth potential, particularly in fresh and processed high-value fruits and vegetables, stemming from Morocco's geographic position and privileged access to the EU and US markets, rising domestic demand for quality food driven by growing incomes, favorable climate, and abundant and relatively low cost labor. The PMV is leveraging these advantages in a number of ways. First, the PMV is increasing the agriculture sector's resilience to climate change through crop switching which reduces dependence on vulnerable crops such as cereals, improved management of water and irrigation resources, and integrating the use of multi-risk insurance. The PMV also aims to increase the sector's competitiveness by emphasizing production of higher value crops. Thus far, 35 percent of agricultural production in terms of volume has been targeted for this increased competitiveness, and this is expected to increase to 50 percent of production by 2020. Across the sector, agricultural intensification efforts, driven by a 50 percent increase in the use of mechanized tractors and 100 percent increase in the use of certified seeds, have led to an increase in outputs. Total production of cereals has increased by 52 percent, while the share of cereals in total agricultural output has fallen from an average of 23 percent from 2000-2005 to 15 percent from 2006-2010. This is largely due to crop switching efforts focusing on higher value crops: for example, marginal areas used for cereal cultivation are in the process of being converted into olive orchards. Olive production has thus increased by 83 percent. Also, a focus on increasing competitiveness in livestock and dairy value chains is demonstrated by an increase in animal feed production which supports the 22 percent growth in red meat and 35

percent increase in milk products. Other selected high value agri-food chains have seen growth in output, such as citrus (36 percent) and dates (45 percent).⁴

19. **Key indicators suggest solid progress has been achieved through DPL/1.** Under Component A, the launch of two new private slaughterhouses since 2010 and the preparation of another three will increase competition and modernize management in the sector. Under Component B, whereas in 2010 five percent of small farmers benefited from Pillar II projects, this figure was over 25 percent in September 2012. Moreover, the percent of new Pillar II projects proposed by farmers' organizations or associations increased from 15 percent in 2010 to nearly 37 percent in 2012. Under Component C, a 480 percent increase in training since 2010 translates into improved agricultural services, as does the introduction of 51 new private sector agriculture advisory contracts and the HAACP certification of an additional 300 food production units. Under Component D, declarations and authorization of groundwater abstraction have increased by 67 percent and the number of farmers participating in collective reconversion to drip irrigation increased from 3,000 to nearly 20,000. The DPL/2 will further contribute to the PMV's transformation of the agriculture sector.

B. RECENT ECONOMIC DEVELOPMENTS IN MOROCCO

20. **Since 2008, Morocco has been hit by a number of adverse exogenous shocks.** Like other emerging countries, Morocco has suffered from the global finance crisis as well as the high global fuel and food prices. Given its strong trade exposure to the EU, Morocco has been particularly vulnerable to developments in the euro area and the resolution of the sovereign debt crises in Spain, Italy and other countries. Yet, even under a mild scenario of orderly resolution, Morocco's external demand will remain weak under the current projections for growth in the EU and other advanced economies. At the same time, prices of the main commodities have remained high, with the price of Brent crude averaging nearly US\$ 113.4 in September 2012, up 18.6 percent from its lowest level of June 2012. In addition, cereal prices have soared following droughts in the United States and Russia, which may lead to another food crisis in the coming months. Internally, Morocco has suffered from a decline in its agricultural output that has put more pressure on the balance of payments and the budget due to increasing food imports, especially cereals.

21. **Despite those negative exogenous shocks, Morocco's non-agricultural output is projected to remain robust in 2012.** Over the first three quarters of 2012, while the agricultural sector suffered from insufficient rainfall resulting in an 8.8 percent drop in production, non-agricultural GDP increased by 4.5 percent, allowing GDP growth to post a positive rate (2.7 percent) although it is one of the lowest rates in a decade. Domestic demand remains the main driver of growth. Public consumption gained 5.1 percent while household consumption increased by 4.5 percent over the period benefiting from the recent wage rises and relatively low prices of non-food products. Investment increased by 3.2 percent, mostly driven by programs of social housing, public works, and industrial equipment.

⁴ The pre-PMV (baseline) is the 2006-2007 agricultural campaign. The post-PMV is the latest agricultural campaign 2011-2012.

22. **The Government and the Central Bank have shown continued commitment to control inflation.** Despite higher world prices of imported commodities, inflation has remained relatively low, mostly because of basic food and fuel subsidies and prudent monetary policy. Subsidies have allowed the Government to control consumer prices of basic food and fuels. As a result, the average consumer price index increased just marginally over the first nine months of 2012, edging up to 1.1 percent, similar to the same period last year. Among all sectors, higher food prices have contributed the most to inflation (up 2 percent). The upward adjustment of the administered prices for fuel products in June 2012 and related direct increase in transportation prices (by 2.6 percent) has had limited indirect effect so far on overall inflation.

23. **Morocco's unemployment rate has been stubbornly high.** Less than half of the Moroccan population is actually active (either employed or looking for a job), which reflects one of the lowest participation rates among comparator countries. Participation rates⁵ have been steadily declining from 55.3 percent in 1999 to 48.6 percent over the first three quarters of 2012. The unemployment rate remained quasi-stable over the same period, reaching 9.1 percent of the active population or about one million unemployed. Regarding the profile of the job seekers, 4 out of 5 unemployed are urban jobless, 2 out of 3 are youth aged 15-29, 1 in 4 jobless holds a university diploma, half of the unemployed look for their first jobs, and more than two third have been jobless for more than one year. Efforts to engage young women in the workforce are ongoing but hampered by cultural, social, policy and institutional challenges that limit women's access to formal employment opportunities: women constitute only 42 percent of the labor force.

24. **The economic turmoil in Europe and continued high prices of commodities have had negative consequences on Morocco's fiscal balance.** The fiscal deficit⁶ deteriorated to 6.9 percent of GDP in 2011 and central Government debt jumped to 53.7 percent of GDP. In 2012, the fiscal deficit is estimated to stay high. The deficit reached 5.1 percent of GDP at end-September 2012 (up from 4.2 percent of GDP during the same period last year). Given the impact on subsidies of higher world prices of basic food and fuel products, the deficit is expected to increase over the rest of the year. However, the decision of the Government to increase the prices of liquid fuel products in June 2012 (up 19.6 percent for gasoline, 14 percent for gasoil, and 13.4 percent for industrial fuel), should help reduce the projected deficit by 0.6 percent of GDP this year and 1 percent of GDP in 2013. This measure, combined with strict controls of recurrent expenditures, should contain the fiscal deficit to around 6-6.5 percent of GDP in 2012.

25. **The current universal and open subsidy system and higher wage bill are increasingly testing Morocco's record of fiscal prudence.** Despite the good performance of tax collection over the first nine months of 2012 (up 5.5 percent), Government revenues could not compensate for the expansion of current expenditures (up 11.3 percent), mostly due to higher subsidies and a larger public wage bill. The cost of the subsidy system (6.5 percent of GDP by end-September 2012 vs. 6.2 percent of GDP by end September 2011), along with the Government wage bill (11.5 percent of GDP, up from 10.7 percent of GDP), explain 75.3 percent of the increase in current expenditures. Subsidies and the wage bill represent 61 percent of total expenditures. Subsidies rocketed to a historical record level of US\$5.93 billion (48 billion MAD)

⁵ Labor participation rate is determined by the share of the population that is employed or actively looking for a job.

⁶ Fiscal deficit does not include privatization receipts.

in 2011 (or 6.1 percent of GDP), which is 76.5 percent higher than that of the previous year (Table 1).

Table 1. Annual Subsidies (in percent of GDP)

Commodities	2007	2008	2009	2010	2011	Est. 2012
Food	0.8	1.1	0.7	0.7	1.0	1.0
Fuels	1.7	3.5	1.1	2.9	5.1	5.2
Total Subsidies	2.5	4.6	1.7	3.6	6.1	6.2

Source: Moroccan Authorities and Bank staff estimates

26. **Even though deficit financing has been exclusively through domestic market, there are no apparent signs of crowding out private investment, as interest rates eased over the period.** Net external financing has been negative as disbursement from multilateral creditors was very low, but is expected to scale up over the rest of the year. Overall, the central Government debt increased by 4.6 percentage points of GDP by June 2012, bringing it to about 55.3 percent of GDP– compared to 50.7 percent of GDP end-June 2011– of which 12 percent of GDP is foreign-exchange denominated. This debt level remains manageable provided the Government continues implementing the announced measures for this year to consolidate public finances, notably through reducing the unnecessary current expenditures, rationalizing transfers to public entities, including state-owned enterprises (SOE), and improving tax collection and fighting fraud and tax evasion.

27. **The weakening fiscal situation has been putting the balance of payments under stress.** The trade deficit continued to deteriorate in 2012 due to sluggish external demand, notably from Europe, and higher world prices of imported commodities. The trade deficit increased by ten percent over January-October 2012 compared to the same period last year. Total nominal imports increased by 6.6 percent, entirely due to higher import prices, while exports grew by three percent reflecting volume effect. Morocco suffered a loss of 5.6 percent in its term of trade. Tourism receipts declined by 2.5 percent and workers' remittances dropped 3.1 percent. The current account deficit is therefore estimated to have widened to ten percent⁷ of GDP over the period; trends indicate that the annual deficit at the end of 2012 would reach nine percent of GDP. On the capital account side, foreign direct investment (FDI) inflows grew by a healthy four percent during the period, thanks to foreign investors' continued confidence in the Moroccan economy. However, total net external capital flows were not sufficient to finance the current account deficit and net international reserves declined by almost US\$4 billion since end-2011 to reach the critical level of US\$15.5 billion in October 2012, corresponding to 3.8 months of imports coverage. Nevertheless, the Government's raising of US\$1.5 billion on international financial market in December, coupled with an expected scaling up of disbursement from multilateral and bilateral financing sources should boost foreign reserves to more than 4 months of imports by the end of the year.

28. **To stimulate economic activity and help finance the economy, the Central Bank decided to reduce its policy rate from 3.25 percent to 3 percent in March 2012 – rate confirmed in December – and money reserve requirement for banks from 6 to 4 percent in September 2012.** These decisions were taken to inject liquidity into the money market to meet

⁷ Bank staff estimates.

financing needs of economic agents in a context of low inflation and a balance of inflationary risks tilted to the downside. As a result, money supply increased by 3.6 percent by end October 2012 (year-on-year), compared with a growth of 5.0 percent during the same period in 2011. Bank credit to the economy increased by 4.0 percent (compared to 7.0 percent last year), mostly driven by credit to corporate treasuries (up 10.4 percent), which in part reflects liquidity needs of businesses to compensate for large arrears overdue by the public sector. Credit to housing also increased substantially (up 5.8 percent) due to extending social housing programs backed by the Government. Consumption credit jumped 11.1 percent in part because of easier access to credit and the relatively low prices of housing equipment. At the same time, credit to business equipment dropped by 1.0 percent. Non-performing loans remained at 4.3 percent of total credit to the private sector, stable over the period January-October 2012. Overall, the conduct of monetary policy has remained in line with the objective of price stability.

C. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

29. **Morocco's macroeconomic room for maneuvering has narrowed considerably.** The twin deficits that have accumulated to finance the series of adverse external shocks since 2008 have largely exhausted the room for maneuver that Morocco had built prior to these crises through prudent macroeconomic policies and management. They unveiled two main weaknesses that are endangering Morocco's external and fiscal sustainability in case of a further deterioration of its external or domestic environment. First, the low structural transformation of the economy, which hinders the prospects of a rapid increase in competitiveness, exports, and quality job generation. Second, the pursuit of highly onerous fiscal policies, such as the universal subsidy system and tax exoneration programs. These two weaknesses are contributing to the reversal of the downward trend of public debt and the depletion of foreign reserves to critical levels.

30. **Macroeconomic prospects in the medium term will greatly depend on the scope, depth and pace of Morocco's reform programs as well as developments in Europe – the main trading partner of Morocco.** Morocco is expected to benefit from ongoing reforms to improve the economy's overall competitiveness and the effectiveness of sectoral policies. The current reforms to strengthen governance and justice, consolidate public finance, and deepen decentralization are critical to achieving long-lasting improvement in economic efficiency, productivity, and employment. Under these assumptions, economic growth should recover to around 5 percent by 2015. Inflation is projected to remain under control at 2.5 percent or below. Main macroeconomic indicators are presented in Table 2 below.

Table 2. Base-line Medium Term Macroeconomic Indicators

			Est.	Projections			
	2010	2011	2012	2013	2014	2015	2016
Part A: Main Macro Aggregates							
Real annual growth rates							
GDP at market prices	3.6	5.0	2.5	4.5	4.9	5.2	5.4
Non-Agricultural GDP	4.5	4.9	4.1	4.1	5.3	5.7	5.9
GDP per capita	2.5	3.8	1.5	3.5	3.8	4.2	4.5
Total consumption	1.5	6.8	2.7	4.5	4.5	5.0	4.9
Gross domestic investment (GDI)	-1.6	3.3	4.1	3.1	3.5	4.0	4.3
Exports (GNFS)	16.6	2.1	3.5	5.8	7.4	7.3	7.5
Imports (GNFS)	3.6	5.0	4.8	4.5	5.2	5.5	5.4
Nominal GDP growth	4.3	5.0	4.5	7.1	7.6	7.8	7.9
Savings-investment balance, as percentage of GDP							
Gross domestic investment	35.0	36.0	36.7	36.2	35.8	35.3	35.0
of which Government investment	5.8	5.9	5.2	5.4	5.5	5.6	5.7
Foreign savings	4.5	8.0	9.0	8.4	7.2	6.2	5.5
Gross national savings	30.5	27.9	27.7	27.8	28.5	29.1	29.5
Government savings (Privatization receipts excl.)	1.7	-1.0	-1.2	0.1	1.2	1.8	2.6
non-Government savings	28.9	28.9	28.9	27.8	27.3	27.3	26.9
Gross domestic savings	26.3	24.0	22.2	22.4	23.1	23.5	23.9
Prices and money							
GDP inflation (period average)	0.6	0.1	2.0	2.5	2.6	2.5	2.4
Annual average exchange rate (LCU/US\$)	8.4	8.1	8.6	8.6	8.7	8.7	8.8
Incremental capital-output ratio (GDI based)	9.8	7.0	14.5	8.2	7.4	6.8	6.5
Money growth	4.8	6.5	5.6	7.6	8.7	8.9	9.0
Part B: Government Finance Indicators							
Percentage of GDP							
Total revenues (excl. privatization) ⁸	25.4	25.9	25.8	26.4	26.8	26.8	26.7
of which Tax revenues	22.7	23.0	23.5	24.0	24.3	24.2	24.2
Total expenditures (incl. CST)	29.9	33.0	32.3	32.0	31.4	30.8	30.1
of which wages and salaries	10.3	11.0	11.1	11.0	10.6	10.4	10.1
of which subsidies	3.6	6.1	6.2	4.4	4.0	3.6	3.3
Deficit(-)/Surplus(+) (commit. Basis)	-4.7	-6.9	-6.2	-5.3	-4.4	-3.8	-3.2
Other							
Total Debt of Central Government/GDP	50.3	53.7	56.8	57.6	57.4	56.6	55.3
Total interest payments/Tax revenues	10.1	9.9	10.8	10.8	10.4	10.0	9.5
Part C: Balance of Payments indicators							
Exports of G&S (US\$, mln)	30,308	35,456	36,368	38,660	42,141	45,799	49,684
Imports of G&S (US\$, mln)	40,192	49,507	50,539	53,050	56,315	59,928	63,902
Remittances (US\$), change in %	7.1	7.3	-7.0	9.0	10.0	9.5	9.0
Current Account balance (in % of GDP)	-4.5	-8.0	-9.0	-8.4	-7.2	-6.2	-5.5
Gross reserves (CB) in months of MGNFS	5.3	5.3	4.4	4.2	4.0	3.9	4.1

Source: Government of Morocco until 2011 and World Bank staff estimates after

31. **Should the underlying sources of growth be slow to materialize, growth prospects would have to be adjusted downward.** A potential deterioration of the world economy, particularly in Europe, would negatively impact the medium term macroeconomic outlook through reduced prospects on exports, including tourism, as well as on workers' remittances and FDI flows. Similarly, sustained high commodity prices, a deterioration of the regional context and prolonged global financial uncertainties would have an adverse impact on Morocco's prospects. Moreover, there is a potential risk that even pre-crisis growth levels might not be sustainable over the medium term if internal demand remains the key driver of growth.

32. **In line with the Constitutional requirement, the Government has further committed to fiscal stability and to progressively decrease the budget deficit to the medium term target of about 3 percent of GDP by 2016 through the implementation of a set of critical reforms.** The key measures include:

⁸ Revenues include VAT of local governments.

- **Reforming the universal subsidy system.** Fully aware of the considerable financial burden the current system imposes on public finances, the Government announced the launch of the reform of the subsidy system with the 2013 Budget law. In essence, the overall goal is to improve its efficiency through targeted social programs while progressively allowing for international market price pass-through, especially for fuel products. Currently, the key axes of the reform are: (i) progressive removal of untargeted subsidies; and (ii) identification of alternative targeted systems to support poor and vulnerable households;
- **Implementing civil service reform including the implementation of a new remuneration system.** Following a long preparation phase, the Government has now reiterated its plans to roll out a comprehensive civil service reform including a clear and well defined remuneration system. Together with measures foreseen in the new Organic budget law soon to be submitted to Parliament, these measures will result in better management and control of the wage bill;
- **Accelerate the fiscal and pension reform agenda.** Key fiscal reform measures include maintaining momentum of the ongoing tax reform to broaden the tax base, improving the efficiency of the Value Added Tax (VAT), strengthening tax administration, and removing unproductive tax exemptions. These measures would offset the negative impact of the reduced top rates on corporate and personal income taxes. Another key measure is the commitment to a comprehensive reform of the pension system, starting with a parametric reform of the public sector pension fund (*Caisse marocaine des retraites*, CMR) in order to ensure it has a balanced budget in the short term;
- **Enhancing the efficiency of public investment as well as that of the private sector.** The Government strategy seeks to consolidate public investment efforts in social sectors (health, education, social housing) while working on the profitability of existing investments, mainly in sectors such as industry, agriculture and tourism. In particular, the Government plans to support high value added industries, mainly through PPP funding for training, infrastructure and logistics. Regarding small and medium size enterprises (SMEs), the Government intends to support marketing of their products, especially abroad.

33. **The Government's debt strategy is to diversify financing sources and take on a greater proportion of external financing (Table 3).** Three main factors underpin the decision of the Government to reinforce its external sources, especially multilateral and concessional. The first is linked to Morocco's public debt maturity structure. The maturity of public debt has fallen in recent years and will fall further given that the Government mostly financed its needs through issuing short-term T-bills in the domestic market. The main reason behind this choice is to avoid affecting long-term floating rates for banks' domestic lending to the private sector, especially housing credit, as they are indexed to primary market rates on long-term securities (10 and 15 year bonds). The second relates to the higher balance of payments needs. The third is due to the current higher borrowing requirements of the Budget, in a context of tightening liquidity of the domestic financial markets after a long period of an over-liquid money market.

**Table 3. Morocco: Financing Requirements of the Central Government
(in percent of GDP)**

	Est.				Projections	
	2011	2012	2013	2014	2015	2016
Financing required	16.7	17.5	17.5	16.6	15.5	14.8
Budget deficit (+)	6.9	6.2	5.3	4.3	3.8	3.2
Amortization	9.8	11.3	12.2	12.3	11.6	11.5
Domestic	9.0	10.5	11.3	11.3	10.7	10.5
External	0.8	0.9	0.9	0.9	0.9	1.0
Total Financing available	16.7	17.5	17.5	16.6	15.5	14.8
Domestic financing	14.1	14.3	14.2	13.2	12.3	11.8
External disbursement	1.5	2.1	2.3	2.4	2.5	2.4
Others (Privatization, grants,...)	1.1	1.1	1.0	1.0	0.7	0.6

Source: Government of Morocco until 2011, and World Bank staff estimates after 2011.

34. **In this context, new external financing schemes are being put in place.** The most important one was the August 2012 Precautionary and Liquidity Line (PLL) of US\$ 6.2 billion approved by the International Monetary Fund (IMF). The PLL is part of the proactive approach of the Government to ensure new external financing lines to be able to cope, if necessary, with a deterioration of internal and external balances that would emerge from a possible worsening situation in Europe. State Owned Enterprises (SOEs) are also seeking more external financing in line with the Government policy. To this end, *Office chérifien des phosphates* (OCP) benefited from a Euro 100 million loan recently. MedZ, a subsidiary of *Caisse de dépôts et de gestion*, specialized in developing industrial zones and incubating firms in emerging sectors, has benefited from Euro 150 million awarded by *Agence française de développement* (AFD) and Euro 100 million by European Investment Bank (EIB). The Euro 100 million from AFD credit will be used by MedZ for the early repayment of domestic banking loans with onerous conditions. The Government has raised US\$1.5 billion from the international market in December 2012.

35. **Despite its deterioration in 2012, the external position is expected to remain sustainable over the medium term provided that key critical reforms under implementation take hold.** As noted earlier, the current account deficit is expected to deteriorate in 2012 and to progressively edge downward to around 5.5 percent of GDP in 2016 benefiting from improved export potentials and a recovery of tourism activities and workers' remittances. This scenario critically assumes that Morocco would benefit from its continued reform efforts in trade and competitiveness, supported among others by the World Bank. These reforms, along with sector strategies already under implementation, would translate into higher productive private investments, including FDI, and progressive gains in competitiveness of its exports, including tourism. In this context, external debt is expected to follow an inverted U path reaching a maximum at 40.9 percent of GDP in 2016 before steadily dropping thereafter, while net foreign reserves will remain above 4 months of imports.

36. **Balance of payments financing requirements constitute a moderate concern in the medium term, given the country's relatively low outstanding external debt and still adequate foreign reserves.** As the current account deficits are projected to steadily improve in the medium term, financing them through traditional multilateral and bilateral credit lines along

with other private capital flows, including FDIs should not be a major constraint. In addition, the Gulf Cooperation Countries (GCC) countries recently confirmed their intention to invest US\$5 billion over the next five years in FDIs. Any remaining financing gap could be filled by tapping international financial markets. The PLL from the IMF will continue to provide a useful line of credit.

37. The authorities are considering a possible move to a more formal inflation targeting system in conjunction with a more flexible exchange rate. The Central Bank has developed the necessary prerequisites and tools to shift to an inflation targeting framework. However, the timing of this reform should be carefully considered as it requires measures to ensure fiscal sustainability especially with regards to reforming the subsidy system so as to prevent a negative impact on financial stability. The current exchange rate regime has contributed to macroeconomic stability, yet given the rigidities of the economy, the recent trends in the current account balance would suggest that it could possibly be undermining international competitiveness. In the future, a more flexible exchange rate policy would help strengthen structural reforms to foster competitiveness and weather external shocks.

38. A comprehensive public debt sustainability analysis indicates that the fiscal framework remains sustainable although it would weaken under some medium term downside risks, notably those related to “no policy change” assumption (A2) and growth shock (B2). Indeed, when the debt sustainability analysis was run under the assumption of “no-policy-change” scenario, the debt stock increased over the period 2012-2017, before reversing the trend, while under the scenario of “reduced GDP growth by half standard deviation” the debt stock steadily increases. All the other scenarios⁹ proved fully sustainable over the medium term (See Annex 7).

39. In sum, Morocco is facing growing economic and fiscal challenges. Assuming that the ongoing key fiscal and structural reforms, including those envisaged in the 2013 budget Law adopted in Parliament and described above, are implemented in a timely fashion, Morocco’s macroeconomic framework would remain adequate and sustainable in the medium term. In particular, the projected macroeconomic outlook and the success of the structural reforms depend on a robust fiscal consolidation, a prudent monetary policy, and more flexible exchange rate policy over the medium term that supports external competitiveness. Until now, the negative effects of the global environment on Morocco have been weathered relatively well, thanks to strong economic fundamentals and sound macroeconomic policies carried out over the last decade. Yet, in contrast to when the international crisis struck in 2008, the Government today has much smaller margins for maneuver. Its commitment to deepen and expand the current reform efforts is key to the prospects for a sustainable recovery of investment, growth, and employment in the years to come.

⁹ The Scenarios are as follows: A1. Key variables are at their historical averages; A2. No policy change (constant primary balance); B1. Real interest rate is at baseline plus one standard deviations; B2. Real GDP growth is at baseline minus one-half standard deviation; B3. Primary balance is at baseline minus one-half standard deviation; B4. Combination of B1-B3 using one-quarter standard deviation shocks; B5. One time 30 percent real depreciation in 2012 and B6. 10 percent of GDP increase in other debt-creating flows in 2012

III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

40. **The GoM has an ambitious agricultural development strategy, the *Plan Maroc Vert* (PMV), for the period 2008-2020.** The PMV, launched in April 2008, constitutes an ambitious investment program in the agri-food sector and provides a road map for implementing a series of systemic public sector reforms. The ongoing National Program of Irrigation Water Conservation (*Programme national d'économie d'eau en irrigation*, PNEEI) is an integral part of the strategy. The PMV's development was motivated by several factors, including: (i) the desire of the Government to confront problems of falling productivity and low incomes in the agri-food sector; (ii) the higher and more volatile international food commodity prices in 2007; and (iii) the domestic pressure to address the challenges in a sector that was perceived as a drag on the rest of the economy. These factors continue to be pertinent in the current national and international economic context. The PMV aims to transform the agri-food sector into a key source of economic growth that contributes to employment creation and poverty reduction in rural areas. At the same time, policy reforms and investments in a productive, dynamic and market-oriented agri-food sector are designed to improve food security in Morocco, promote the country's integration in the global economy, and help the sector adapt to climate change. The vision laid down in the PMV constitutes a paradigm shift from the strategies of the past which emphasized food self-sufficiency through inward-looking, import substitution policies. The PMV recognizes the opportunities and threats that come with an increasingly competitive global economy and sets out to integrate the agri-food sector into this global framework.

41. **The PNEEI is an integral part of the PMV's reform and investment agenda.** The PNEEI aims to improve agricultural revenues by supporting the conversion of the current irrigation technologies by using more efficient irrigation technologies and practices, as well as a better valorization of water at both the production and marketing level. These strategic objectives were confirmed by the National Water Strategy developed by the State Secretariat for Water and Environment (SEEE) in 2009. The PNEEI is a 15 year development program supporting the conversion of an estimated 555,000 hectares of surface irrigation to drip irrigation, of which 220,000 hectares are situated within Large Scale Irrigation (LSI) systems. It is structured around five components: (i) modernization of collective irrigation systems; (ii) modernization of individual irrigation systems; (iii) improved agricultural water management; (iv) enhanced technical assistance for drip irrigation and productivity improvements; and (v) targeted support measures.

42. **The PMV's investment program is structured around two pillars.** An estimated 140 billion MAD of combined public and private investments are expected to be directed to a total of 955 commercial (Pillar I) and 545 smallholder (Pillar II) agricultural development projects in the period 2008-2020. Pillar I investments aim to integrate commercially-oriented producers in high value added and high productivity agri-food chains. Pillar II investments aim to increase incomes of smallholder farms through crop switching, diversification, and intensification, as well as strengthening farmer organizations and supporting their integration in suitable agri-food chains. The overall philosophy is that Pillar I projects will rely largely on significant private sector financing with some public support. Pillar II projects will mainly be financed by public resources. In the period 2008-2020, total public investment resources for Pillar I and II projects

(including cross-cutting reforms, see following paragraph) are expected to amount to 66.6 billion MAD (approximately one-third of the total cost of the PMV) and would serve primarily to leverage the private investment (approximately two thirds of the cost of the PMV) resources required to realize the program. Under both pillars, the process of value creation is to be driven by a voluntary aggregation of farmers and farm organizations (*agrégés*) around private investors, traders, and/or entrepreneurs (*agrégateurs*). One of the most innovative features of the PMV is that it conditions Government support on the conclusion of tri-lateral contractual arrangements between *agrégateurs*, *agrégés*, and the GoM. The contract farming model is designed to help overcome existing land constraints, promote farmer organization, and enable producers' access to finance, knowledge, and technologies, support risk-sharing, and improve marketing. Of the 1,500 projects¹⁰ envisaged under the PMV, 459 are currently being implemented. They include 134 Pillar I projects totaling 28.6 billion MAD and 325 Pillar II projects totaling 10.3 billion MAD.

43. To achieve the successful implementation of the two pillar strategy, the PMV's investment program is accompanied by a series of cross-cutting reform actions. The key strategic axes of this cross-cutting systemic public sector reform program include:

- (i) Reorienting the role of the Ministry of Agriculture and Maritime Fisheries (MAPM) towards functions regarding the planning, piloting, and implementation of programs, and delegating other agricultural services functions to private actors through Public Private Partnerships (PPPs);
- (ii) Improving the agricultural business environment through improved access to investment financing as well as a realignment and improved targeting of agricultural subsidy schemes;
- (iii) Pursuing new agricultural Free Trade Agreements (FTAs) and reorienting existing ones to improve access to high value export markets and gradually liberalize protected sub-sectors;
- (iv) Reducing domestic market distortions through increased investment and improved management of marketing infrastructure and liberalizing distribution of fruit, vegetables, and meat;
- (v) Strengthening irrigation water services by delegating management of LSI systems to private operators, extending existing irrigation perimeters, promoting on-farm drip irrigation, and ensuring inter-agency coordination of investment programs;
- (vi) Reorganizing and strengthening the advisory services, through a National Advisory Strategy, including the creation of a national advisory agency and a policy strengthening private advisory agents.
- (vii) Mobilizing agricultural land by accelerating the process of private sector participation in the operation of state-owned and collective lands and promoting contract farming.

44. Before the launch of the programmatic DPL series, the GoM had already been undertaking important institutional reforms and arranged for program financing. With

¹⁰ These projects were identified through a participatory planning and consultation process at the regional level and each year specific projects are/will be further developed into bankable projects by the regional directorates. The design of these investments is based around a supply chain concept. Priority supply chains have been defined for each region based on their economic and agro-climatic conditions.

respect to the PMV's agricultural policy and institutional reform agenda, the MAPM established 16 Regional Agricultural Directorates (DRAs) contributing to more de-concentrated service delivery in each region. In addition, the Chambers of Agriculture were restructured and their number was reduced from 37 to 16 in the context of strengthening decentralization. In another nod to de-concentration, MAPM's Regional Agricultural Directorate (DRAs) and Provincial Agricultural Directorate (DPAs) prepared in consultation with sector stakeholders 16 Regional Agricultural Plans (PARs) including territorial-based agricultural investment proposals (Pillar I and II), which were adopted by the Regional Councils, the Chambers of Agriculture, and the local authorities in April 2009. It also signed results-oriented contract programs with 17 priority agri-food chains (*filières*) on the basis of the PARs. Professional associations (*Inter-professions*) were established for these priority agri-food chains. Furthermore, specialized agencies such as Agricultural Development Agency (ADA)¹¹ and ONSSA¹² were created and tasked with implementing the PMV's investment program (Pillar I and II) and the new Food Safety Law respectively. In December 2009, the GoM concluded its agricultural trade negotiations with the European Commission. The Free Trade Agreement (FTA) which was adopted by the European Parliament on February 16th 2012, liberalizes with immediate effect 55 percent of tariffs on Morocco's agricultural and fisheries products (rising from 33 percent) and 70 percent of tariffs on the EU's agricultural and fisheries products over a period of 10 years (rising from 1 percent). With regards to program financing, the MAPM signed a multi-year agreement on the financing of the PMV (2009-2015) with the Ministry of Economy and Finance (MEF) in April 2009.¹³ In addition, the MAPM and MEF revised the relevant Decrees and Implementing regulations (*Arrêtés*) related to the Agricultural Development Fund (*Fonds de développement agricole*, FDA), the GoM's principal agricultural subsidy instrument, with a view to simplify procedures and aligning support measures with the strategic directions of the PMV.

45. The MAPM is undertaking extensive and regular consultations in relation to the PMV. The MAPM regularly organizes consultations in the context of the annual review of the 16 PARs and the monitoring of the implementation progress of the contract-programs signed with the 17 priority agri-food chains, as well as during the national conference on the agricultural sector (*Assises de l'agriculture*), carried out annually in Meknes. At Pillar I and Pillar II projects level, the ADA organizes regularly supervision missions including consultations with groups of beneficiaries. Consultations specifically addressing environmental aspects were carried out as part of the Strategic Environmental Impact Evaluation of the PMV commissioned by ADA with staff of the MAPM at central and local level, farmers associations, private stakeholders, chambers of agriculture, and donor community between December 2011 and March 2012. Three consultations were organized by the MAPM in relation to the reforms supported under the DPL series, and specifically to validate the findings of the Environmental Due Diligence Review, with ministerial staff, representatives from non-government organizations working on environmental issues, and representatives from universities between 2010 and 2012. Further consultations took place in November 2012 through January 2013 in the context of the Social Plan related to

¹¹ *Loi 42-08 portant création de l'Agence pour le développement agricole promulguée par le dahir n° 1-09-16 du 22 safar 1430 (18 février 2009)*

¹² *Loi 25-08 portant création de l'Office national de sécurité sanitaire des produits alimentaires publiée au Bulletin officiel n° 5714 du 5 mars 2009*

¹³ The agreement defines the total (public and private) financial needs associated with the implementation of the PMV during the period 2008-2020, which are estimated at 17 billion USD. The public financing share of this amount (including donor resources) is estimated at 8 billion USD.

domestic market reforms. As part of the gender analysis of the PMV, the MAPM is programming consultations over the first half of 2013.

46. **The World Bank built on the consultations carried out by the MAPM.** Consultations with universities and professional organizations were organized by the World Bank in relation to the preparation of the CPS. To prepare the CPS Progress Report, the World Bank also organized consultations with civil society, the private sector, non-governmental organizations, other donors, and the GoM. During the preparation of DPL/1, consultations were organized with dedicated stakeholder focus groups in the context of the Poverty and Social Impact Analysis (PSIA). During the preparation of the DPL/2, additional consultations have taken place in the context of a Social Plan in relation to Component A (Domestic Markets), the Political Economy Analysis of the Irrigation Sector Reforms (June 2012), and as part of the gender analysis of the DPL series (November 2012).

47. **Consultations highlighted some concerns related to the PMV, and identified possible improvements.** The following concerns were highlighted during the consultations: (i) large number of intermediaries and lack of transparency in fruit, vegetable, and red meat value chains contributing to relatively high consumer prices and low producer revenues; (ii) weak human and technical capacity of producers and producer organizations constraining technology transfers and access to finance; (iii) insecure land rights and land fragmentation limiting agricultural investments; and (iv) unsustainable use of water resources. Suggestions included: (i) improving financial support mechanisms for producers and producer organizations; (ii) developing strong support structures for producers and producer organizations; (iii) strengthening the dialogue between Government and professional organizations; and (iv) promoting efficient water use and agricultural land management. The consultations confirmed the importance of the PMV and relevance of the specific actions in the programmatic series, including modernizing domestic marketing and distributions systems, improving the effectiveness of available public investment support under Pillar II through increased transparency and accountability, strengthening agricultural services to producers and producer organizations, and improving the sustainability of irrigation water resources.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINKS TO THE CPS

48. **The proposed DPL contributes to the objectives of the World Bank Group's Morocco Country Partnership Strategy (CPS) for FY2010-2013 and to the shift in emphasis of the World Bank program under the CPS progress report discussed by the Board in June 2012.** It addresses the three long term development challenges facing Morocco identified in the CPS: (i) enhancing growth and employment; (ii) reducing social disparities; and (iii) ensuring sustainability. By supporting the GoM's pursuit of institutional and policy reforms in relation to domestic markets, agricultural investments and services, and irrigation water resources, it also contributes directly to the three thematic pillars around which the World Bank's program is structured: (i) growth, competitiveness, and employment; (ii) service delivery to citizens; and (iii) sustainable development in a changing climate. Furthermore, all four components of the DPL support the objectives of the CPS's cross-cutting themes of governance

and territoriality. The operation is fully consistent with the World Bank's program going forward, as discussed in the CPS Progress Report, allowing for continuity while also adhering to the MENA Region's strategy of "doing things differently" in the post-Arab Spring context. The proposed DPL is also aligned with the World Bank's framework for engagement in MENA, by contributing to three of MENA's strategic pillars: (i) promoting sustainable growth; (ii) increasing social and economic inclusion; and (iii) strengthening governance. The DPL supports the renewed focus of the CPS Progress Report on gender. In addition to a significant proportion of female project beneficiaries, DPL/2 encourages the client to support enhanced participation opportunities for women and has triggered MAPM to launch a comprehensive gender analysis of the PMV in 2013.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

49. **The World Bank and the IMF maintain a close collaboration in Morocco.** Regular exchanges between Fund and World Bank country teams are customary. Discussions focus on the respective work programs, country priorities, recent developments and prospects, and reflect the growing weight of DPLs in the World Bank's Morocco portfolio. The Fund participates in World Bank project review meetings where relevant. Similarly, World Bank staff was consulted in the context of the IMF's 2012 Article IV consultation with Morocco, which was concluded by the IMF's Executive Board on February 1, 2013. The IMF has also completed its first review of Morocco's performance under the economic program supported by the PLL arrangement (approved on August 3, 2012 in an amount equivalent to US\$6.2 billion) and reaffirmed Morocco's continued qualification to access PLL resources. The Public Information Notice issued by the IMF on February 5, 2013 is provided in Annex 6.

50. **The World Bank works closely with other donors.** The programmatic framework and results indicators established by the Policy Matrix of the proposed DPL have been leveraged by the MAPM to organize its work with other donors supporting the PMV. Though no joint activities are foreseen under the programmatic series, the World Bank, IFC, EU, AfDB, FAO, IFAD, MCC, AFD, KfW, BC, and USAID have been coordinating their respective preparation and implementation activities on a bilateral basis to avoid overlaps and ensure coherence. The financial and technical assistance programs thus developed by other donors in parallel to the DPL series focus on financing (i) Pillar II projects focusing on specific agri-food chains and in certain regions, and related institutional capacity-building efforts at central, regional, and local level; (ii) institutional capacity-building and investments in sustainable natural resource management; (iii) irrigation efficiency measures. The financial assistance programs take the form of either project or budget support. The analytical and advisory needs related to the DPL program identified in Annex 5 are being co-financed by the GoM, the World Bank and other donors on a case by case basis. MAPM has been organizing yearly donor round tables to monitor and evaluate progress with respect to implementing the PMV and enhance sector dialogue. In parallel, regular meetings have been chaired on a rotating basis by donors involved in the PMV program to discuss operational and topical questions related to their PMV support programs.

C. RELATIONSHIP TO OTHER BANK OPERATIONS

51. **The proposed DPL/2 builds on recent World Bank operations in the agriculture and agriculture-related sectors.** The institutional and policy reforms supported under the proposed DPL/2 aim to improve the efficiency of the domestic markets, the socio-economic impact of projects directed to small farmers, the agricultural services, and the use and management of irrigation water and the planning of irrigation infrastructures. The DPL/2 builds on the experience of the DPL/1 as well as the Irrigation-based Community Development Project (DRI-PMH), the Rainfed Agricultural Development Project (DRI-MVB), and the National Initiative for Human Development (INDH) Project all of which have been supported by the World Bank. The implementation of these projects highlighted important institutional and structural constraints that need to be relaxed to effectively promote integrated rural development. It also underlined the need for greater attention to the marketing aspects of agricultural development, as well as the importance of support structures for producers and producer organizations. The actions aimed at improving the use and management of irrigation water under the DPL series include some of the actions originally foreseen under the irrigation water component of the Water Sector DPL series launched in 2007. While the irrigation water component of this Water Sector DPL series was completed successfully, the series was closed in 2009 after completion of the first operation in the series due to the non-realization of prior actions related to sector governance and integrated water resources management. The recently completed Public Administration Reform Loan DPL (PARL) series strengthened the GoM's overall public sector management through improved budget management, human resources management, control of the public payroll, and e-government. The MAPM has been actively engaged in the PARL Performance based budget contracts between the central MAPM services and three pilot DRAs (Gharb, Chaouïa, and Rabat) have been put in place for 2012 with World Bank technical assistance. The remaining 13 DRAs are expected to follow suit.

52. **The DPL/2 will be complemented by other World Bank operations recently approved or currently in the pipeline.** The second INDH Program for Result operation, which became effective in September 7, 2012, further strengthens the capacity of local Government, civil society actors, and marginalized groups, to effectively participate in decision-making processes at the local level. The Special Climate Change Fund (SCCF)/GEF grant for Integrating Climate Change in the implementation of the PMV (PICCPMV), which became effective in October 2011, is closely aligned with the DPL, supporting the integration of climate change adaptation measures into selected Pillar II projects in five target Regions (Gharb, Chaouïa, Rabat, Doukkala, and Tadla). Similarly, the proposed Social and Integrated Agriculture project (ASIMA) to be financed under GEF-5 is expected to support land and biodiversity conservation measures in selected Pillar II projects in marginal areas of two target Regions (Souss and Marrakesh). The proposed Green Growth DPL (under preparation), which builds on the World Bank's analytical work on climate change mitigation and adaptation, will reinforce the actions undertaken with respect to the sustainable use of land and water resources. The institutional and policy reforms supported under the irrigation water component of the DPL will improve the effectiveness and the sustainability of the investments financed within the framework of the ongoing Oum-Er-Rbia Basin Irrigated Agriculture Modernization project aimed at the modernization of irrigation systems and the improvement of farmers' access to technology, financing, and markets. Furthermore, the Second Education Sector DPL (under preparation)

operations support human capital building in rural areas through improved effectiveness and efficiency of service delivery and learning outcomes at the primary and lower secondary education levels. Finally, the proposed First Competitiveness DPL (under preparation) and the proposed Second Financial Sector DPL (under preparation) will contribute to an improved business environment, which among others would benefit the agricultural and rural sectors. While the First Competitiveness DPL seeks to improve the investment climate, further trade policy reform and trade facilitation, and improve economic governance, the Second Financial Sector DPL fosters household and SME access to financial services, increased financial stability, supervision and regulation, and capital market development.

D. LESSONS LEARNED

53. **A programmatic series of DPLs is the appropriate instrument for supporting the implementation of systemic public sector reform programs in Morocco provided the institutional environment is sufficiently mature for the proposed reforms.** Programmatic DPLs have become the GoM's preferred instrument for implementing public sector-wide, systemic reforms, as demonstrated by many of the past, ongoing, and pipeline World Bank operations in the financial, public administration, solid waste, and education sectors. Programmatic DPLs provide for the necessary flexibility in implementing a broad and complex systemic reform program such as the one embedded in the PMV, while supporting the GoM's and stakeholders' commitment to the implementation of the program over the medium term. Furthermore, they establish an overall framework for coordinating other donor programs in the sector. Provided the proposed reforms are sufficiently embraced by the Government, a programmatic DPL is the right lending tool to support their implementation.

54. **Lessons learned from DPL/1 and applied to the preparation of DPL/2 include the importance of close collaboration between the MAPM and World Bank teams and the importance of flexibility.** Success in the delivery of the DPL/2 operation comes from the MAPM and WB teams working closely together to diagnose the constraints to the agriculture sector and to jointly articulate a strategy to overcome them. Open and frank dialogue creates a strong program with buy-in and trust on all sides. As a result, DPL/2 has been able to adhere closely to its initial structure even as conditions have changed. The second year of the operation saw significant slippage in two triggers: (i) wholesale market pilots (Component A); and; (ii) irrigation tariff reform (Component D). By working closely together and being flexible the World Bank has supported the GoM respond to the political risks inherent in these key reforms and take advantage of opportunities as they presented themselves, such as the liberalization of the domestic distribution of red meat and the restructuring of the irrigation utility statutes.

55. **Strong government-wide ownership and commitment are fundamental to a successful implementation of systemic public sector reform programs.** Realizing the ambitious reform program laid down in the PMV will require the continuous mobilization of a broad range of actors at both the political and technical levels of Government as well as various sector stakeholders. The PMV reform agenda has the support of the highest levels of the State, the Government and key sector stakeholders. In his statements delivered in June 2008 and April 2009, His Majesty King Mohamed VI highlighted the need to address the rural-urban gap by promoting broad-based agriculture modernization and competitiveness, adapted to regional

specificity, while taking into account water-resource constraints and preservation of the environment. In addition, the PMV has been adopted as a government-wide agricultural development strategy with financing secured through a multi-year agreement on the financing of the PMV (2009-2015). Moreover, results-oriented ‘contract-programs’ embedded in the PMV have been signed by the MAPM and key producer associations in 17 priority agri-food chains and other relevant ministries specifying respective roles, responsibilities, and commitments. The World Bank and the Ministry of General Affairs and Governance (MAGG) will continue to play an important role facilitating inter-institutional coordination, in particular with respect to the proposed reform programs related to domestic markets and irrigation water. Finally, Morocco’s Advanced Association Status in the context of the EU’s Euro-Mediterranean Partnership is likely to further promote and sustain reform momentum in the country as exemplified by the recently adopted FTA on agricultural and fisheries products.

56. Government efforts to promote integrated rural development can produce better results by strengthening the links between the Government’s decentralized and deconcentrated structures and increasing local capacity. The integrated rural development approach promoted under the *Stratégie 2020 de développement rural* (2020 rural development strategy), which had been adopted by the GoM in 1999, has been constrained by the complexity of proposed projects, low technical capacity at the decentralized and deconcentrated government levels, and insufficient accountability links between the decentralized and deconcentrated services of the Government administration. In addition, the approach did not sufficiently take into account the valorization and marketing aspects of agricultural development and necessary support structures for producers and producer organizations. The PMV has taken this experience into account by enhancing the governance and public financial management aspects of agricultural investment support (Pillar II), providing training to increase local capacity, encouraging greater local participation in decision making, and strengthening the links between central and region services through the creation of specialized technical agencies such as ADA and ONSSA.

57. Investments in agricultural development must be accompanied by systemic reforms that enable equitable and sustainable agricultural development. International experience with agricultural development programs indicates that success depends on a variety of factors, including: (i) suitable incentives for domestic market development and international trade; (ii) strong agricultural institutions and the services to the rural population; and (iii) income diversification and a vertical integration of production and marketing systems. The activities supported under the DPL series seek to capitalize on these lessons by enabling producers to better respond to opportunities in high value markets, to better take advantage of public institutions and services, and to integrate themselves into the value chain.

58. Agricultural land management reform is best supported with a targeted operation. Agricultural land management was not incorporated in this DPL series because experience in other regions has shown that agricultural land management programs are best supported under a targeted operation led by the responsible line-Ministry.¹⁴ Most land policy questions in Morocco

¹⁴ See for example Albania Agricultural Services Project (ASP) 2001-2008 – Implementation Completion Report (2008).

are under the authority of several ministries. Importantly, however, the contract farming model used for the Pillar II investment program is successfully overcoming near-term land constraints.

E. ANALYTICAL UNDERPINNINGS

59. **A large body of analytical work recently completed by the World Bank and other multilateral organizations underpins the DPL series.** Following the publication of the 2008 World Development Report *Agriculture for Development*, the World Bank conducted a sector-wide diagnostic identifying key challenges and constraints facing the Moroccan agri-food sector and outlining a series of policy recommendations in its Morocco Agricultural Sector Policy Note (2009) and Morocco Agricultural Sector Review (2010). A similar exercise was conducted by the World Bank at the regional level in the context of the report *Improving Food Security in Arab Countries* (2009). An analysis of recent poverty trends in rural areas in Morocco is provided by the World Bank's Rural Poverty Policy Note (2010). The GoM's past and current agricultural trade policies have been reviewed in the World Bank's Agricultural Trade Policy Report (2010) and the WTO Trade Policy Review (2009), while a socio-economic impact evaluation of agricultural market liberalization was conducted by the *RuralStruc* Study (2009). Agricultural subsidy and support schemes were reviewed by the WTO Trade Policy Review (2009) and an impact evaluation was conducted by the World Bank as part of the Opportunity Cost Analysis of Morocco's Cereal Policy (2009). All these analyses laid the ground for Component A of the DPL series. Furthermore, key issues supporting the choice of focusing Component B on small farmers were examined by the World Bank in its Case Study Review of Contract-farming (2010), presented during a workshop on contract farming models organized by the MAPM in January 2010, and its Land Market Development Study (2008). An assessment of the climate change adaptation aspects of agricultural development was conducted by the World Bank's Study on Climate Change Impact on Moroccan Agriculture (2010), underpinning the focus on agricultural innovation system under Component C. Territoriality and governance questions were the subject of the World Bank's Regional Development Study (2009) and Policy Notes on Decentralization and De-concentration (2009), and Territorial Development (2009).

60. **This large body of analytical work highlights the potential linkages between the DPL series and the reduction in rural poverty.** Research outcomes underline that, despite the sharp decrease in rural poverty observed between 2001 and 2007, persistent rural poverty and vulnerability driven by low productivity subsistence agriculture, weak diversification, poor human capital endowments and gender gaps, remain a significant development challenge for Morocco. It stands out as the country with one of the largest inequalities in living standards between urban and rural areas in MENA and among other countries with similar incomes per capita and a high gender gap index, underscoring the magnitude and scope of disparities between men and women. In the context of the PMV, the GoM has embarked on a process of market-oriented agricultural investments and policy reforms. It aims to increase producer incomes and create on- and off-farm employment by promoting high value crop production for both domestic and export markets. At the same time, it seeks to maintain a minimum level of domestic production in a number of strategic staple crops and other commodities through better targeted public support measures. As highlighted in the 2008 World Development Report, supporting agricultural growth and development can be an effective source of poverty alleviation in rural areas. Success of the GoM's new strategic direction, however, will critically depend upon

producers' capacity to respond to market price signals and integrate into modern domestic and export-oriented market networks and value chains. At a minimum, this will require producers' access to (public and private) investment capital and core public goods such as high quality marketing infrastructure (as promoted under Component A of the DPL series) and adequate agricultural services and support institutions, including research (as promoted under Component C). Confidence between producers and market-oriented investors/traders will be reinforced, for example through proper contract enforcement (as supported under Component B with reference to the contract farming model). Furthermore, the strategy would need to ensure sustainable resource management, in particular water, and take climate change risks into account (as addressed under Component D).

61. **The reform agenda developed by the GoM for the agri-food sector is also the product of extensive analytical work.** The PMV was commissioned by the MAPM and includes a diagnostic of national and international experience with agricultural development and a roadmap outlining the ongoing agricultural investment program and policy reforms. The MAPM also commissioned a study on municipal slaughterhouses identifying a series of priority facilities to be upgraded, directly contributing to the design of Component A of the DPL series. The MAPM's *Conseil général du développement agricole* produced a report in May 2009 with recommendations for the implementation of the Pillar II investment program of the PMV taking into account the specific needs of smallholder agriculture in mountainous areas and oases, which backs up the focus of Component B on smallholders in marginal areas. A series of studies commissioned by the MAPM and other relevant Ministries concerning institutional reforms in the areas of municipal fruit and vegetable wholesale markets, agricultural risks, extension and advisory services, and irrigation water management PPPs, have been finalized, providing important inputs to both Components A and D.

62. **Additional analytical and advisory work will continue to facilitate the implementation of the proposed reforms.** A list of analytical and advisory work to be carried out during the preparation and implementation period of the second DPL is presented in Annex 5. The activities would be co-financed by the GoM, the World Bank, and other donors. Importantly, the IFC has finalized a technical assistance program structured around two components: (i) improving agricultural investment policies and promoting investments; and (ii) improving the legal and institutional framework governing wholesale markets, thus in synergy with Component A of the DPL series.

V. THE PROPOSED SECOND DEVELOPMENT POLICY LOAN IN SUPPORT OF THE PLAN MAROC VERT

A. OPERATION DESCRIPTION

63. **The proposed DPL series supports the implementation of the GoM's PMV program (2008-2020) by targeting supply and demand constraints to agricultural development.** The program development objective is to increase the agri-food sector's productivity and diversification with the goal of maintaining higher rates of agricultural growth and employment.

64. **The DPL series is structured around four of the key cross-cutting policy and institutional reform priorities identified in the PMV.** Demand constraints to agricultural development are covered by Component A (Domestic Markets) of the DPL program, and supply constraints are covered under Components B (Agricultural Investment Support), Component C (Agricultural Services), and Component D (Irrigation Water). The series aims at supporting the achievement of four critical outcomes: (A) improve the efficiency of domestic markets; (B) improve the socio-economic impacts of projects directed to small farmers; (C) improve agricultural services; and (D) improve the use and management of irrigation water and the planning of irrigation infrastructures.

65. **The proposed operation is the second in a programmatic series of two DPLs.** The GoM has asked for the World Bank's financial and technical assistance to implement key cross-cutting policy and institutional reforms identified in the PMV, including the governance and public financial management structures of the agricultural investment program under Pillar II of the PMV. The World Bank is well positioned to assist the GoM in implementing its agri-food reforms in light of its experience in supporting the design and implementation of similar operations in other regions.¹⁵ In addition to sharing international best practices, World Bank support of an inter-ministerial policy dialogue encourages collaboration and maximizes development impact. The analytical and advisory needs identified in Annex 5 are co-financed by the GoM, the World Bank, and other donors. A SCCF/GEF grant (US\$4.35 million) focused on integrating climate change adaptation in the implementation of the PMV (PICCPMV) is closely aligned with the DPL series. If approved, the proposed GEF grant (US\$6.44 million) for the Social and Integrated agriculture (ASIMA) would further complement the DPL series by supporting land and biodiversity conservation measures in marginal areas.

¹⁵ For example, the Turkey Agricultural Reform Implementation Project (ARIP) 2001-2008 and the Moldova Poverty Reduction Support Credit (PRSC) 2006-2008.

Table 4. DPL/2 Prior Actions¹⁶

A.1	The agreement between the municipality of Berkane, MAPM, and MI introducing a new management model in the Berkane fruit and vegetable wholesale market, has been signed on February 14, 2013
A.2	The specifications for technical, administrative and contractual requirements for operating municipal slaughterhouse concessions have been adopted by inter-ministerial decision No. 59 of MAPM and MI dated October 16, 2012
	Decree No. 2-12-612 dated December 4, 2012, amending and completing the Order (<i>Arrêté</i>) dated September 28, 1955 on control over hygiene and cleanliness of market meats, and the associated Order (<i>Arrêté</i>) No. 3466-12 dated December 4, 2012 issued by MAPM and MI, on the conditions of the entry and selling of market meats, have been published in the National Gazette No. 6115 dated January 7, 2013
B.1	Fifty-four pre-selection technical committees for projects directed to small farmers at the de-concentrated level, have been established by MAPM in 2012
B.2	Law No. 04/12 on contract farming has been published in the National Gazette No. 6070 dated August 2, 2012
C.1	The National Coordination Committee for Agricultural Research, Extension, and Training Activities has been established by MAPM on October 20, 2011 and the sixteen Regional Coordination Committees for Agricultural Research, Extension, and Training Activities have been established by MAPM with uniform rules of operation in 2011 and 2012
	The National Agricultural Advisory Services Strategy and Action Plan for Delivering Agricultural Advisory Services, and the associated sixteen regional action plans, have been adopted by MAPM on March 9, 2011 and May 9, 2012, respectively
C.2	Decree No. 2-10-473 dated September 6, 2011 implementing Law No. 28/07 on the sanitary safety of food products, has been published in the National Gazette No. 5984 dated October 6, 2011, and four associated implementing Orders (<i>Arrêtés</i>) have been submitted for approval by MAPM to the Secretary General of the Government in 2012
	The cost-recovery system for veterinary and food products safety services has been adopted by inter-ministerial decision of MAPM and MEF dated August 30, 2011
D.1	The draft Law amending Law No. 23/97 on farmers' financial contribution to the costs of modernizing off-farm irrigation systems, has been submitted by MAPM to the Secretary General of the Government on October 9, 2012
D.2	The draft Laws creating the ORDARs and setting the basis for the establishment of subsidiaries of the ORDARs, which will be in charge of irrigation management and which will have the legal personality and financial autonomy, have been submitted by MAPM to the Secretary General of the Government on January 15, 2013
D.3	Adequate funding for the irrigation perimeters located downstream of dams under construction has been allocated in the Borrower's budget laws for 2010, 2011, 2012, and 2013

B. POLICY AREAS

Component A. Domestic Markets

66. **The 38 municipal fruit and vegetable wholesale markets in Morocco are plagued by decaying infrastructure, inadequate management, limited marketing services, and poor sanitary conditions.** The *Charte communale*, which is in the process of being revised with the ongoing decentralization, stipulates that the communes have a monopoly on decisions regarding the establishment and management of fruit and vegetable wholesale markets in their

¹⁶ Annex 3 presents a comparison of the DPL/2 triggers envisioned under DPL/1 and the completed DPL/2 prior actions.

jurisdictions.¹⁷ Prices are in principle set by the market management and a fixed tax (*redevance*) of seven percent on the gross sales value of each transaction is levied by the commune. The tax is collected by intermediaries (*mandataires*) contracted by the communes, who retain a share of the collected tax, while the remainder flows into the budget of the commune.¹⁸ The lack of uniform rules governing the operation of markets and the reinvestment of market revenues have contributed to opaque management and poor physical condition of the markets.

67. Dysfunctional domestic marketing and distribution systems for fruits and vegetables result in high marketing costs, low producer incomes and high consumer prices, while undermining incentives for quality. Current legislation prohibits farmers and traders from selling directly to retailers in urban communes. They are obliged instead to market their produce through the fruit and vegetable wholesale market of the commune where the retailer is located.¹⁹ But farmers, especially small ones, often lack the resources to transport their products to distant wholesale markets. As a result, their produce is often first traded in a wholesale market closer to the farm where a seven percent tax is levied, then marketed through a second wholesale market (where another seven percent tax is levied) of the commune where the retailer is located. The current system depresses producer revenues and inflates consumer prices, both of which hurt the poor disproportionately. It also reduces competitiveness, undermines incentive for value addition, constrains producers' integration in value chains, and distorts domestic trade flows.

68. The weak services of wholesale markets have pushed many producers to market their produce through informal channels. The MAPM has estimated that currently only 30-50 percent of the domestic fruit and vegetable production flows through the municipal wholesale markets, with the remainder being diverted into informal markets that do not have the necessary logistical platforms to preserve and/or improve product quality.

69. The existing distortions combined with trade liberalization in the agriculture sector could put local producers at a further disadvantage when it comes to the domestic market. The gradual trade liberalization foreseen under the agricultural FTA with the EU could put domestic producers in an increasingly disadvantageous position since importers are allowed to market imported produce directly to retailers after paying the fixed transaction tax of seven percent at the wholesale market of entry. Thus large modern retail operations may ultimately find it less expensive to source high quality fresh fruits and vegetables outside the country than within, because the transactions costs are lower.

70. The domestic red meat marketing and distribution system faces similar challenges. With the exception of fully prepared cuts, wholesalers cannot market meat directly to retailers if the meat does not originate from the municipally owned slaughterhouse located at the point of retail sale.²⁰ While communes are responsible for the overall maintenance of municipal slaughterhouses, the slaughtering of animals and meat cutting are generally conducted by a large

¹⁷ *Loi 78-00 portant charte communale promulguée par le Dahir 1-02-297 du 3 octobre 2002 et modifiée par le Dahir 1-08-153 du 18 février 2009*

¹⁸ *Arrêté du 22 mai 1962 du Ministre de l'Intérieur portant sur le statut des mandataires et règlements des marchés de gros de fruits et légumes et des halles aux poissons des communes urbaines*

¹⁹ *Dahir 1-00-225 du 5 juin 2000 portant promulgation de la Loi 06-99 sur la liberté des prix et de la concurrence*

²⁰ *Arrêté viziriel du 28 septembre 1955 relatif au contrôle de la salubrité des viandes foraines*

number of small, private businesses run by *chevillards*. The latter typically purchase animals from farmers and transport them to municipal slaughterhouses, where they slaughter the animals and sell the meat to local butchers. Various municipal taxes are levied at the slaughterhouses and enter the general budget of the commune, including a *taxe d'abattage*, *taxes accessoires* for complementary services offered by the slaughterhouse, and a *surtaxe d'abattage au profit de la bienfaisance*.²¹ In addition, a *taxe spéciale de sauvegarde du cheptel* is levied, which enters into the FDA. While the level of the *taxe spéciale* is established by the Finance Law, the other tax levels are established by municipal councils and thus vary from commune to commune. As with fruit and vegetable wholesale markets, there are no mandatory reinvestments of slaughterhouse revenues and no uniform rules for their operation. As a result, slaughterhouses generally suffer from outdated infrastructure and equipment, inappropriate locations, inadequate services, and sub-standard sanitary conditions. In addition to encouraging illegal slaughtering practices in the informal market, these various constraints negatively affect producer revenues, consumer prices, product quality and safety conditions, and domestic trade flows.

71. The objective of Component A is to improve the efficiency of domestic markets by reducing marketing costs and improving marketing services through the modernization of fruit and vegetable markets and slaughterhouses. To this end, the DPL series supports the following two institutional reforms:

- Improve the institutional and regulatory framework governing fruit and vegetable wholesale markets
- Improve the institutional and regulatory framework governing slaughterhouses

72. These reforms are part of a process of institutional change that is projected to have a major impact on Moroccan producers and consumers, as well as enabling the sector to function more efficiently in the domestic market and to compete more effectively in the international market. The impact of the reforms will take time to materialize because the process of change involves many actors both in the central Government and in the municipalities that traditionally have played a large role in regulating marketing at the local level. The legal and institutional reform process is expected to be supported under the technical assistance program currently being undertaken by the IFC.

A.1. Improve the institutional and regulatory framework governing fruit and vegetable wholesale markets

73. A national strategy and action plan for the restructuring of fruit and vegetable wholesale marketing has been adopted by the key ministerial stakeholders. Following a comprehensive national fruit and vegetable wholesale markets study, the MAPM, MICNT, and MI, adopted a national strategy and action plan under DPL/1 for the restructuring of fruit and vegetable wholesale marketing (*Schéma national d'orientation des marchés de gros de fruits et légumes*). The *Schéma national d'orientation* includes: (i) an overall plan for wholesale markets (*Schéma d'implantation des marchés de gros*) that takes into account the projected evolution of domestic production, consumption, and trade trends until 2020; (ii) identification of viable wholesale market ownership and management models, including required institutional and

²¹ *Loi 30-89 portant sur la fiscalité des collectivités locales promulguée par le Dahir n° 1-89-187 du 21 rebia II 1410 (21 novembre 1989)*

regulatory adjustments; and (iii) necessary accompanying measures for the implementation of the *Schéma national d'orientation*.

74. **New ownership and management models for fruit and vegetable wholesale markets are being piloted on the basis of the *Schéma national d'orientation* to inform and build momentum for the necessary institutional and regulatory reforms.** Following the adoption of the *Schéma national d'orientation*, the MI started to examine a possible revision of the status of the intermediaries (*mandataires*) and the development of a draft Law (Dahir). In addition, three pilot projects have been identified in rural areas that will introduce new ownership and management models for fruit and vegetable wholesale markets. The pilot projects comprise the Rabat, Meknès, and Berkane municipalities. The objective of the pilots is to demonstrate the effect of potential win-win arrangements among local stakeholders. Generally, the pilots are expected to modernize wholesale market infrastructure and services, and to pursue improved management of the facilities by attracting private operators through public–private partnerships. New options for payment and taxation systems are being developed, including the replacement of the current fixed tax (*redevance*) of seven percent applied to the gross sales value of each transaction conducted on the wholesale markets with a service-based fee system. Under DPL/2, the signing of one agreement with local governments for launching the pilot projects has been pursued. This convention is a precondition for a successful introduction of new ownership and management models and accompanying institutional and regulatory reforms.

75. **The prior action for DPL/2 is:** The agreement between the municipality of Berkane, MAPM, and MI introducing a new management model in the Berkane fruit and vegetable wholesale market, has been signed on February 14, 2013²²

76. **The expected result for this reform** is the successful introduction of a new ownership and management model for fruit and vegetable wholesale markets, including the introduction of a service-based payment system. This result will be measured through the number of fruit and vegetable wholesale markets under new management models launched.

A.2. Improve the institutional and regulatory framework governing slaughterhouses

77. **New ownership and management models for slaughterhouses are promoted under the DPL series to improve the management of slaughterhouse infrastructure and services.** The ‘contract program’ for the red meat agri-food chain foresees the launching of eight integrated projects (*projets intégrés*) driven by private entrepreneurs in the period 2010–2014. Two integrated projects have already been launched by private investors with support of the MAPM and ONSSA, and three more are under preparation. In addition, under DPL/1 ONSSA has adopted the norms for sanitary and hygienic management of private slaughterhouses (*Cahier des prescriptions*). The MAPM and ONSSA conducted a study of municipally owned slaughterhouses that identified 12 priority slaughterhouses for modernization. The management of these slaughterhouses will be delegated to private operators through concessions. Three

²² Under DPL/1 the DPL/2 trigger for A.1 was: Three conventions will be signed between local government and relevant ministerial departments for implementing fruit and vegetable wholesale market pilot projects introducing new management models. While the prior action in DPL/2 focuses on only one pilot project in Berkane, the objective to test new management models is still achieved.

municipal slaughterhouses have been identified by the MAPM and ONSSA as potential pilot projects for introducing concession models. Pre-feasibility studies of these three pilot projects have been realized with FAO technical support.

78. **Liberalization of the domestic red meat market.** As initially envisioned, this reform was to occur in a stepwise fashion, with concessions of municipal slaughterhouses to be eventually followed the removal of municipal re-inspection requirements. Results achieved have gone far beyond expectations. The prior action on the inter-ministerial adoption of a *Cahier des prescriptions* for municipal slaughterhouses, as identified during the preparation of the DPL/1, has been completed under DPL/2 but also superseded by the issuance of an inter-ministerial decree allowing for the free passage of red meat in communes. This decree effectively allows appropriately certified private suppliers to deliver carcasses to retailers without mandatory re-inspection at municipal slaughterhouses.

79. **The prior actions for DPL/2 are:**

- The specifications for technical, administrative and contractual requirements for operating municipal slaughterhouse concessions have been adopted by inter-ministerial decision No. 59 of MAPM and MI dated October 16, 2012
- Decree No. 2-12-612 dated December 4, 2012, amending and completing the Order (*Arrêté*) dated September 28, 1955 on control over hygiene and cleanliness of market meats, and the associated Order (*Arrêté*) No. 3466-12 dated December 4, 2012 issued by MAPM and MI, on the conditions of the entry and selling of market meats, have been published in the National Gazette No. 6115 dated January 7, 2013²³

80. **The expected result of this reform** is the successful promotion of a new ownership and management model for slaughterhouses, with reductions in: (i) the number of intermediaries in the red-meat agri-food chain, (ii) reinspection taxes, and (iii) the size of the informal sector. This result will be measured through: (i) number of private slaughterhouses launched; and (ii) number of slaughterhouse concessions under new management model launched.

Component B. Agricultural Investment Support

81. **Implementing the PMV's agricultural investment program directed to small farmers (Pillar II) has posed significant governance and public financial management challenges.** ADA was established in 2008 to manage and monitor the implementation of the Pillar II (and Pillar I) investment program. Monitoring and evaluation mechanisms have been put in place, but must be further improved and strengthened. The Pillar II (and Pillar I) projects included in the PARs were largely developed by the DRAs and DPAs in consultation with potential beneficiaries. However, stakeholder consultations prior to the launch of the DPL series revealed important information needs on how potential beneficiaries can access available investment support and underlined the key role MAPM's support structures, *agrégateurs*, and other sector stakeholders play in assisting potential beneficiaries in this process. In this context, the de-concentration at the level of the DRAs of the decision-making processes as regards the

²³ Under DPL/1 there was only one DPL/2 trigger for A.2. This second prior action under A.2 in DPL/2 demonstrates the GoM's desire to go above and beyond what was originally envisioned and that the GoM is committed to improving the institutional and regulatory framework governing slaughterhouses.

identification and implementation of Pillar II projects, though important, should be reinforced to bring the agricultural investment program's governance structures closer to beneficiaries and ensure the participation of all relevant stakeholders in the decision-making processes. Pillar II projects are financed through the general budget, grants, and loans from national and international donors, the Hassan II Fund for Economic Social and Development, and contributions from the Rural Development Fund (FDR) (while Pillar I is largely financed through the private sector with the support of the FDA). Of the 1,500 projects envisaged under the PMV, 325 Pillar II projects representing 10.3 billion MAD are currently being implemented (in addition to 134 Pillar I projects representing 28.6 billion MAD).

82. The sustainability of Pillar II projects largely depends on the success of the proposed contract farming (*agrégation*) model. As outlined in Section III, value creation should be achieved through a voluntary aggregation of farmers (*agrégés*) around private investors, OPA, traders, and/or entrepreneurs (*agrégateurs*). Public investment support provided under Pillar II serves primarily to leverage the private investment resources required to cover the remaining investment costs and is conditioned on the conclusion of tri-lateral contractual arrangements between *agrégateurs*, *agrégés*, and the GoM. This contract farming model is intended to help overcome existing land constraints, promote farmer organizations, support risk-sharing, optimize production and marketing links, and enable producers' access to finance, knowledge, and technologies. International experience suggests that the success of such vertical integration critically depends on a sufficient level of trust between *agrégateurs* and *agrégés* to enter into a mutually beneficial contractual relationship.

83. The objective of Component B is to improve the socio-economic impacts of projects directed to small farmers. To this end, the DPL series supports the following two institutional reforms:

- Improve the governance and public financial management of projects directed to small farmers
- Establish a legal and institutional framework to support contract farming

B.1. Improve the governance and public financial management of projects directed to small farmers

84. Good governance and public financial management rules for the Pillar II investment program have been strengthened. International experience shows that transparency and stakeholder participation are critical to the effectiveness of publicly financed projects. The transparency of ADA's governance and public financial management systems for the Pillar II investment program has improved with the development and wide dissemination under DPL/1 of operational manuals that outline the procedures for: (i) prioritizing the use of budget allocations for implementing Pillar II projects; and (ii) preparing, submitting, and implementing Pillar II projects. In addition, an internet-based project monitoring and evaluation system of the implementation of Pillar II projects has been established at the central (ADA) and regional level (DRAs). It functions on the basis of clearly established baseline indicators and reporting requirements. To these ends, a monitoring and evaluation framework based on results indicators for each individual Pillar II project has been developed.

85. **Stakeholder participation in the decision-making process for the Pillar II investment program has been enhanced.** Under the proposed operation, accountability has been further improved by supporting stakeholder participation in the decision-making processes related to the identification of Pillar II projects. Fifty-four stakeholder-based provincial committees (45 DPAs and 9 ORMVAs) have been created to be responsible for preselecting Pillar II project proposals. The committees would include MAPM's de-concentrated services and are complemented by sector representatives (OPAs, Regional Chambers of Agriculture), research institutions, and provincial government representatives on an as needed basis. Some OPAs in agri-food chains such as argan have majority female members, facilitating greater participation of women associations and cooperatives in project selection. The de-concentration of the Pillar II project selection committees has increased the percent of new Pillar II projects proposed by OPAs from 15 to 37 percent from 2010 to 2012. An internal regulation specifying the internal decision-making procedures of the provincial technical committees have been developed by ADA. In addition, the MAPM has developed a circular stipulating that all project documents pertaining to Pillar II projects, including procurement packages, would have to be made public at the level of each Center of Works (*Centre des travaux*, CT).²⁴

86. **The prior action for DPL/2 is:** Fifty-four pre-selection technical committees for projects directed to small farmers at the de-concentrated level, have been established by MAPM in 2012

87. **The expected result of this reform** is increased participation, transparency, accountability, and gender equality in the decision-making and implementation process of Pillar II projects as operational procedures are formally established and disseminated, local stakeholders participate in the project identification process, and monitoring and evaluation mechanisms are put in place. This result will be measured through the percent of new Pillar II projects submitted by the OPAs.

B.2. Establish a legal and institutional framework supporting contract farming

88. **The Decree governing public support of contract farming (*Agrégation*) projects under Pillar II have been promulgated.** Contract farming has two important positive effects: (i) it improves the efficiency of the investments by encouraging integration rather than isolated initiatives; and (ii) it facilitates the incorporation of small farmers into modern integrated value-chains managed by the private sector. The GoM allocated resources for Pillar II projects for a total of 830 million MAD for 2011. In this framework, the signing of the multi-year agreement on the financing of the PMV (2009-2015) by the MAPM and the MEF, the circular regarding budget installment and transfer procedures for financing Pillar II projects, and FDR contributions to Pillar II projects have been important achievements, and has resulted in an increase in the percent of small farmers benefiting from Pillar II projects from 5 percent in 2010 to over 25 percent in 2012. In addition, the Decree and implementing regulations (*Arrêtés*) on Government support of aggregation projects have been published under DPL/1.²⁵

²⁴ *Note circulaire* du MAPM, June 29, 2012

²⁵ *Décret n° 2-09-600 réglementant les encouragements de l'État en faveur des investissements agricoles réalisés dans le cadre de projets d'agrégation*

89. **A legal and regulatory framework for contract farming has been put in place.** Creating an enabling environment for contract farming is critical for the effective involvement of small farmers in domestic markets. A law on contract farming has been published in the National Gazette in July 2012. The Law facilitates the implementation of the contract farming model underlying the Pillar I and Pillar II investment support program. It provides a framework for contracts and the establishment of special courts for resolving contract-related disputes between *agregés* and *agregateurs*, ultimately creating a basis for their contractual relationships. A draft Implementing Decree (*Décret d'application*) has been prepared by ADA and submitted to the MAPM's Directorate for Legal and Administrative Affairs for review. Upon validation by the Directorate, the draft Implementing Decree will be submitted to the General Secretariat of the Government (SSG).

90. **The prior action for DPL/2 is:** Law No. 04/12 on contract farming has been published in the National Gazette No. 6070 dated August 2, 2012²⁶

91. **The expected result of this reform** is the institutionalization of the incentives granted to small farmers in the framework of the contract farming. This result will be measured through the percent of small farmers benefitting from Pillar II support.

Component C. Agricultural Services

92. **A disjointed public agricultural innovation system constrains technology transfers to farmers.** In addition to the human capital constraints outlined in section II, the effective transfer of technologies to farmers is limited by a public agricultural innovation system that is underfunded and understaffed and lacks formal coordination of research, training and extension activities. The allocation of funds to research programs and extension activities has typically been based on interactions between and within the different layers of the public administration. Producers, particularly smallholders, have limited participation in the decision-making process. Only a few producer organizations perform research and extension activities. The public extension and advisory service delivered by MAPM reaches only a small share of the total agricultural population. These trends in the public agricultural innovation system are counterbalanced to some extent by the increase in private operators—including input suppliers and exporters—that are expanding their field presence to engage in research and extension activities aimed at improving their profitability.

93. **International food safety and quality standards will become increasingly important determinants of competitiveness.** Following the adoption of the new food safety law and the signing of the agricultural FTA with the EU, Moroccan producers and processors need to meet stringent international food quality standards in order to take advantage of high value export markets opportunities and to compete effectively with foreign imports on the increasingly demanding domestic market. The rules-based food control system that focuses on final food products is shifting to a modern risk-based system underpinned by self-monitoring by producers and processors across the value chain. The public plant health and veterinary services, under the

²⁶ Under DPL/1 the DPL/2 trigger for B.2 was: A draft law on contract farming will be submitted to Government for approval. The prior action completed under DPL/2 goes above and beyond what was originally envisioned by publishing the law in the National Gazette.

aegis of the Food Safety Agency (ONSSA), will have a key role in helping producers and processors adjust to international food safety and quality standards such as the Hazard Analysis and Critical Control Point (HACCP) and International Standards Organization (ISO). In addition, they would need to encourage compliance with these standards by separating their risk assessment, risk management, and risk communications functions. The information generated from food safety risk assessments will be used to evaluate available strategies for risk management. Risk communication requires the interactive exchange of information throughout this process among risk assessors, risk managers, and sector stakeholders.

94. **The objective of Component C is to improve agricultural services.** To this end, the DPL series supports the following two institutional reforms:

- Improve the effectiveness of the agricultural innovation system
- Establish an effective food safety control system

C.1. Improve the effectiveness of the agricultural innovation system

95. **The program builds on a series of actions taken by the MAPM since the adoption of the PMV.** The MAPM reorganized its decentralized services by establishing 16 Regional Agricultural Directorates (DRA), which now oversee the Ministry services at the provincial (DPA) and local level (CT). The regional and provincial agricultural directorates prepared, in consultation with sector stakeholders, 16 Regional Agricultural Plans (PARs) including territorial-based agricultural project proposals (Pillar I and II), which have been adopted by the regional councils. The MAPM also signed results-oriented ‘contract programs’ with 17 priority agri-food chains on the basis of the PARs, both of which are subject to annual reviews. In addition, the previous 37 *Chambres d’agriculture* have been restructured into 16 *Chambres régionales d’agriculture* and the National Institute for Agronomic Research (*Institut national de la recherche agronomique*, INRA) has established six additional research centers to ensure its presence in each region in Morocco. The DPL series builds on these reforms by supporting four levels of the agricultural innovation system, including: (i) the decision-making process regarding the strategic orientation of agricultural research, extension, and training activities at the national and regional levels; (ii) the financing mechanism for agricultural research; (iii) the organization of the extension and advisory services system; and (iv) local capacity-building.

96. **The MAPM’s funding mechanism for applied research has been improved and expanded to include research and development to promote demand-driven agricultural innovation partnerships and to ensure the effective transfer of new technologies.** The circular governing the MAPM’s funding mechanism for applied research has been amended so that project proposals for both applied research and research and development are selected competitively according to established procedures and transparent criteria. Decisions on funding of proposals will be taken by the National Coordination Committee for Research and Development, established on October 20, 2011 and composed of representatives of the MAPM, INRA, higher education bodies (IAV²⁷ and ENA²⁸), ONSSA, Association of Chambers of Agriculture, and other professional associations. Financing under the amended Circular is conditioned on: (i) partnership agreements between different parts of the agricultural innovation

²⁷ *Institute of Agriculture and Veterinary Sciences Hassan II in Rabat*

²⁸ *École nationale d’agriculture in Meknès*

system; and (ii) formal arrangements for the transfer of the newly developed technologies to beneficiaries. The expansion of the competitive funding mechanism with research and development projects was not foreseen at the start of the DPL series. It is expected that public funds for applied research and research and development projects will thus be allocated in a more efficient and demand-driven way, reinforce links between (public and private) research and education institutions, farmers and farmer organizations, and (public and private) extension and advisory services, and ensure transfer of results to farmers. A budget of 7 million MAD for the competitive funding mechanism was included in the 2013 Finance Law, and currently all nine of the ongoing research and extension projects are funded by the competitive financing mechanism.

97. Regional Coordination Committees for Research and Development have been established to formalize and promote cooperation between the various actors in the regional agricultural innovation system and inform the priority research themes to be financed under the reformed competitive funding mechanism. The regional committees include representatives of the DRAs, INRA, *Chambres régionales d'agriculture*, and other professional associations. They represent institutionalized mechanisms for coordinating regional agricultural innovation activities among public, private, and civil society actors. The committees are responsible for coordinating the overall planning and implementation of development activities, including Pillar I and Pillar II projects envisaged by the PARs. This would improve the decision-making process for defining priorities in research and development, applied research, extension, and training, as well coordination of implementation. An internal regulation specifying the internal decision-making procedures governing the National Coordination Committee and the Regional Coordination Committees has been validated in September 2012.

98. A pluralistic approach to delivering agricultural advisory services would be implemented to diversify and improve the quality of extension and advisory services offered to farmers. The MAPM has prepared a National Agricultural Advisory Services Strategy which proposes a mixed (public and private) integrated system for delivering agricultural advisory services to farmers. In this context, the MAPM envisages: (i) setting-up a system of private agricultural advisors (*Conseillers agricoles*); and (ii) creation of a National Agency for Agricultural Advisory Services (ONCA). The Law No. 58/12 establishing the National Agency for Agricultural Advisory Service was resubmitted to the Government and adopted by the First Chamber in July 2012 and by the Second Chamber in November 2012. A study aimed at further defining the institutional arrangements governing the ONCA is under preparation. It is expected to help further clarify the division of labor between the ONCA and the existing public institutions delivering agricultural advisory services (ORMVA/CDAs, DPAs, CTs, CRPII), the recently established *Chambres régionales d'agriculture* and private agricultural advisors (*Conseillers agricoles*). The *Conseillers agricoles* will be contracted by the MAPM, producer organizations, and private firms to provide a broad range of services (e.g., rural mobilization, extension, advisory). By 2012, over 50 extension advisory service contracts with the private sector had been issued.

99. The prior actions for DPL/2 are:

- The National Coordination Committee for Agricultural Research, Extension, and Training Activities has been established by MAPM on October 20, 2011 and the sixteen Regional Coordination Committees for Agricultural Research, Extension, and Training

Activities have been established by MAPM with uniform rules of operation in 2011 and 2012

- The National Agricultural Advisory Services Strategy and Action Plan for Delivering Agricultural Advisory Services, and the associated sixteen regional action plans, have been adopted by MAPM on March 9, 2011 and May 9, 2012, respectively

100. **Expected results of this reform** are: (i) improved effectiveness of the system of agricultural research and development thanks to better coordination and synergies between stakeholders; and (ii) reinforced capacity of stakeholders, including farmers, to design and implement Pillar II projects. These results will be measured through: (i) percent of research and extension projects funded through the competitive financing mechanism; (ii) number of extension advisory services contracted to the private sector; and (iii) number of training days per category of actor, of which percent for women.

C.2. Establish an effective food safety control system

101. **The GoM has put in place a legal and institutional food safety framework in line with international standards.** Under DPL/1, a new food safety law²⁹ was promulgated in March 2010 that reflects existing international principles on risk analysis, in particular the standards and codes of the Codex Alimentarius Commission.³⁰ In addition, the Government created ONSSA to bring all administrative structures involved in food safety and quality controls³¹ in a single body.³² The underlying approach has been food risk analysis in its three constituent components: risk assessment, risk management, and risk communication. Following the model already in place for the delivery of some veterinary services such as compulsory vaccination campaigns, ONSSA expanded the sub-contracting of some advisory and inspection functions to accredited private service providers while maintaining overall responsibility for resolving disputes and ensuring a high quality and transparent system. Thanks to the renewed emphasis on institutional food safety, there has been a 100 percent increase in the number of HACCP-certified agri-food processing units, totaling 600.

102. **Implementing texts of the new food safety law would be adopted and cost recovery mechanisms for certain food safety services would be introduced.** The implementing texts foreseen under the new food safety law, including its implementing Decree and the associated implementing regulations (*Arrêtés*), would determine: (i) technical conditions that establishments, including slaughterhouses, must satisfy for approval of their activities; (ii) the

²⁹ *Loi n° 28-07 relative à la Sécurité sanitaire des produits alimentaires publiée au Bulletin officiel n° 5822 du 18 mars 2010*

³⁰ The Codex Alimentarius is a collection of internationally recognized standards, codes of practice, guidelines and other recommendations relating to foods, food production and food safety. Its texts are developed and maintained by the Codex Alimentarius Commission, a body that was established in 1963 by the Food and Agriculture Organization of the United Nations (FAO) and the World Health Organization (WHO). The WTO Agreement on the Application of Sanitary and Phytosanitary Measures uses the Codex Alimentarius as an important reference to determine the limits within which a member country can adopt food safety, animal health and plant protection measures that have an impact on international trade.

³¹ Except the *Établissement autonome de contrôle et de coordination des exportations* (<http://www.eacce.org.ma/>) and the *Laboratoire officiel d'analyses et de recherches chimiques* (<http://www.loarc.org/>)

³² *Loi n° 25-08 portant création de l'Office national de sécurité sanitaire des produits alimentaires publiée au Bulletin officiel n° 5714 du 5 mars 2009*

modalities of the implementation of self-control and traceability systems; and (iii) labeling requirements. In addition, a system introducing cost recovery mechanisms for certain sanitary and/or phytosanitary services (such as certification of seeds and seedlings, diagnosis, disease control, and livestock identification) would be implemented.

103. **The prior actions for DPL/2 are:**

- Decree No. 2-10-473 dated September 6, 2011 implementing Law No. 28/07 on the sanitary safety of food products, has been published in the National Gazette No. 5984 dated October 6, 2011, and four associated implementing Orders (*Arrêtés*) have been submitted for approval by MAPM to the Secretary General of the Government in 2012
- The cost-recovery system for veterinary and food products safety services has been adopted by inter-ministerial decision of MAPM and MEF dated August 30, 2011

104. **Expected results of this reform** are to improve management of food safety risks and enhance international competitiveness. This result will be measured through: (i) number of HACCP-certified agri-food processing establishments; and (ii) percent of shipments of Moroccan food and agricultural export products refused by the EU on sanitary grounds.

Component D. Irrigation Water

105. **Improved use and management of irrigation water will be critical for Moroccan agriculture.** The agricultural sector accounts for 85 percent of water withdrawals in Morocco and faces an increasing water deficit due to mounting water scarcity and rising competition from urban, industrial, and tourism sectors. In addition, irrigation practices dominated by surface irrigation and deficient water service contribute to low water valorization (the average value-added of irrigation water is 1.63 MAD/m³, which is well below its potential of 4 MAD/m³). An important pillar of the GoM's strategy of reducing current and future water deficits while increasing the productivity of irrigated agriculture is to improve water management at the level of farmers and service providers as well as water infrastructure planning at the level of the State. Farmers need to rationalize water use based on market costs and benefits with the ultimate goal of putting water to its highest valued use. Service providers need to reduce losses and improve the quality of service delivery. Service delivery is constrained by a combination of factors including: tariffs below operations and maintenance (O&M) costs (average cost recovery rate is 76 percent); collection rates lower than targeted in some ORMVAs (Gharb and Loukkos), generating important arrears; water revenues not exclusively allocated to the water service (hence, no relationship between tariff increases and service improvement); poor maintenance due to insufficient budget; long procedures for procurement and staff recruitment; and constraining mechanisms for allocating water to farmers. Coordination of investment planning and financing between government institutions involved in the water and irrigation sector is insufficient, resulting in a persistent gap between water mobilization capacity through dam storage and area irrigated (108,000 ha of land located downstream of dams could be irrigated but is not equipped with irrigation infrastructure).

106. **Climate change is likely to exacerbate water scarcity in the longer run.** In the majority of river basins in Morocco, withdrawals from multiple aquifers already exceed renewable groundwater amounts, and water resources are expected to decrease even more as a

consequence of climate change. Recent studies suggest that Morocco may experience gradually increasing aridity because of higher temperatures as well as lower and more volatile precipitation. This could result in a more pronounced overexploitation of groundwater and a decrease in the availability of surface water for irrigation, with significant variability among river basins. These changes are expected to negatively affect agricultural yields and increase the volatility of agricultural production.

107. The GoM adopted a National Program of Irrigation Water Conservation (PNEEI) to help address these challenges. The PNEEI forms an integral part of the PMV. The program aims to improve agricultural revenues by supporting the conversion to more efficient irrigation technologies and practices as well as a better valorization at both the production and marketing level. It supports the conversion of an estimated 555,000 hectares of surface and sprinkler irrigation to drip irrigation, including 220,000 hectares in Large Scale Irrigation (LSI) areas (collective conversion) and 335,000 hectares in private irrigation areas (individual conversion). The PNEEI is structured around five components: (i) collective modernization at the level of public schemes including off-farm and on-farm irrigation equipment; (ii) individual modernization at the level of private farms; (iii) improving agricultural valorization at both the production and marketing level; (iv) enhancing technical support for farmers, irrigation service providers, and equipment suppliers; and (v) other support measures. Upon completion of the program, the total irrigated area with drip irrigation is expected to cover close to 50 percent of the surface equipped for irrigation.

108. The objective of Component D is to improve the use and management of irrigation water and the planning of irrigation infrastructures. To this end, the DPL series supports the following three institutional reforms:

- Improve the application efficiency of farmers' water use while preserving aquifers' sustainability
- Improve the performance of irrigation service operators
- Improve irrigation infrastructure planning by the Government

D.1. Improve the application efficiency of farmers' water use while preserving aquifers' sustainability

109. Monitoring of groundwater abstraction will be reinforced to improve the sustainability of irrigated agriculture. The GoM has significantly improved the incentive framework for the development of drip irrigation by introducing substantial subsidy increases for the acquisition of on-farm drip irrigation equipment. However, international experience suggests that deployment of drip irrigation by itself does not necessarily encourage conservation unless accompanied by an effective monitoring and control of water resources abstraction, especially for groundwater. In Morocco, surface water (a large part of which is stored in dams) is controlled by river basin agencies (RBAs). This helps to ensure that, in dry years, surface water demand is adjusted to surface water availability by reduction of irrigated areas. However, groundwater is directly abstracted by private farmers with almost no control by RBAs despite a water law that requires water users to register their wells and apply for an abstraction authorization. Hence, groundwater abstraction is currently much higher than the renewable volume in most aquifers. Current support to improve the efficiency of farmers' water application through conversion to drip irrigation is complemented by efforts to enhance the knowledge and monitoring of

groundwater abstraction. The regulations set by the GoM to support drip irrigation were amended under DPL/1 in order to condition the disbursement to farmers of subsidies for drip irrigation to the installation of meters on their wells and the registration of their wells to the RBA in view of obtaining an abstraction authorization. Since 2010, an additional 17,000 farmers have participated in collective reconversion to drip irrigation and there has been a 67 percent increase in the number of declarations and authorization of groundwater abstraction. Ultimately, the combination of these two measures will contribute to enabling the GoM to monitor groundwater exploitation and, consequently, to improve the sustainability of irrigated agriculture using groundwater. To be effective, these measures should be complemented by the enhancement of RBAs' capacity to monitor and police groundwater abstraction. The World Bank and other donors are supporting the Ministry of Energy, Mines, Water and Environment (MEMEE) and RBAs through capacity enhancement projects.³³

110. Farmers' financial contribution to investments in the modernization of off-farm irrigation systems would be reduced to promote the conversion to more efficient irrigation in Large Scale Irrigation (LSI) areas. Experience over the last decade shows that conversion to drip irrigation is developed mainly in areas where groundwater is accessible, generally outside of LSI perimeters. The PNEEI aims to develop drip irrigation in LSI perimeters as well, with an objective of 220,000 ha to be converted by 2025 by replacing open canals networks with pressurized pipelines systems. The Agricultural Investment Code of 1969 established that farmers in LSI have to financially contribute to the Government investment efforts through "direct participation" covering 40 percent of the cost of the initial investment in new off-farm irrigation infrastructure, but this "direct participation" was waived for agricultural properties of less than five hectares or for the first five hectares of agricultural properties of less than 20 hectares. In 1997, the Law No. 23/97 amended the Agricultural Investment Code to remove the waiver for smallholders and to introduce provisions to require all farmers (including smallholders) to cover the costs of subsequent modernizations. In this way, after 1997, all farmers in LSI had to cover 40 percent of the cost of modernized off-farm irrigation infrastructure. This hindered farmers (especially smallholders) participation in collective conversion projects planned by the Government as part of PNEEI implementation. DPL/2 supports an amendment to the Law No. 23/97 to restore the provisions of the Agricultural Investments Code which exonerated of "direct participation" smallholders and beneficiaries of rehabilitation and modernization investments, in order to encourage farmers' participation in collective conversion projects. An amendment to the Law 23/97 has been prepared by the MAPM and submitted to the General Secretariat of the Government (SGG). "Direct participation" rates will be determined by the by-laws.

111. The prior action for DPL/2 is: The draft Law amending Law No. 23/97 on farmers' financial contribution to the costs of modernizing off-farm irrigation systems, has been submitted by MAPM to the Secretary General of the Government on October 9, 2012

112. The expected results of this reform are: (i) the improved monitoring of groundwater abstraction in areas where drip irrigation is developed; and (ii) the facilitation of the conversion

³³ These include the ongoing USD1 million PHRD Grant TF092827 for "Strengthening Capacity to Adapt to Climate Change Impacts on Water Management in the Oum er Rbia Basin Project", and the GIZ – AGIRE program to support Integrated Water Resources Management in Morocco.

to drip irrigation in LSI areas. These results will be measured through: (i) percentage increase in the number of declarations received of groundwater abstraction points and the number of authorizations delivered for groundwater abstraction; and (ii) cumulative number of farmers participating in projects of collective conversion to drip irrigation.

D.2. Improve the performance of irrigation service operators

113. **In 2004, with support from the World Bank, the GoM prepared a reform of LSI service providers aimed at delegating irrigation service management to the private sector through Public Private Partnerships (PPP).** This reform built on the successful implementation of a PPP in the El Guerdane, and was integrated in the PMV in 2008. As initially designed, the programmatic DPL series supported the implementation of this prerequisite through two main steps: DPL/1 promoted improvement in the collection of arrears and DPL/2 intended to promote tariffs adjustments to reach cost recovery of O&M.

114. **Actions to incentivize farmers to pay arrears were successful.** Within the framework of the previous Water DPL series supported by the World Bank, the GoM had launched two successive operations in 2006 and 2008 waiving interests and fees associated with accumulated arrears for farmers who pay their debts related to irrigation water within a period of twelve months. These operations allowed the ORMVAs to recover 315 million MAD. The GoM launched a third debt forgiveness operation under DPL/1, which is estimated to have recovered additional 398 million MAD for the ORMVAs.

115. **The initially proposed irrigation water tariff adjustments plan could not be pursued.** Morocco is among the countries that has made significant progress in irrigation service cost recovery. In LSI areas, water is billed on a volumetric basis and the O&M cost recovery rates in 2010 varied between 68 percent and 100 percent, depending on the utility. The GoM intends to continue narrowing the gap between the irrigation water tariffs and the O&M costs in LSI areas with the objective to reach 100 percent in all perimeters. To this end, in September 2009 the GoM issued an implementing regulation (*Arrêté*) announcing five biannual tariffs increases to send a clear price signal to farmers and to future companies potentially interested in PPPs. After the implementation of the first tariff increase, this measure sparked public protests by farmers in a number of LSIs, which led the GoM to postpone the measure. The GoM has again stressed that the socio-political conditions make the approval of the proposed irrigation water tariff adjustments particularly difficult. In the meantime, the GoM, with support from the World Bank and other donors, launched a political economy analysis of the proposed irrigation sector reform (regarding the tariff increase and the PPP agenda). This study relied on a comprehensive consultation process with all stakeholders, and included a staff survey and focus group discussions within the ORMVAs of Gharb, Loukkos, and Tadla. The study revealed the resistance of various stakeholders in the implementation of the reform and recommended refocusing the reform process to first improve the service delivery and efficiency of the ORMVAs.

116. **MAPM opted to restructure the ORMVAs to isolate irrigation water service delivery from its other mandates and to establish this service into subsidiary companies and to regroup all deconcentrated services of MAPM at the regional level under an**

umbrella institution named ORDAR. Building on the results of the political economy analysis of the irrigation sector reform and taking into consideration the institutional reforms launched under the PMV, including the creation of the National Food Safety Agency (ONSSA) in 2009, of the National Agency for Agricultural Advisory Services (ONCA) in 2012, and of the Agriculture Development Agency (ADA) in 2009, the GoM, with support from the World Bank, launched a study to review the possible next steps of the irrigation water service reform. This study recommended continuing the institutional restructuring of ORMVAs in order to refocus the irrigation water service delivery into a dedicated allowing them to function as real Irrigation Utilities. Taking into consideration the recommendations of the study and in order to embed the irrigation water service delivery within the broader reform of its deconcentrated services, the MAPM decided to isolate irrigation water services and establish them as subsidiary irrigation companies, functioning with principles of transparency and financial and managerial autonomy. In the meantime, MAPM undertook efforts to reorganize its deconcentrated agencies and services at the regional level to regroup all of them into Regional Agriculture and Rural Development Offices (*Offices régionaux de développement agricole et rural*, ORDAR). The regional irrigation companies will be set as subsidiaries of the ORDARs. Each ORDAR will serve as a common platform for local delivery of all regional services (extension, food safety, irrigation, investment, and research) associated with MAPM. The creation of ORDARs represents a major initiative by MAPM to make service delivery more responsive and accountable to regional stakeholders and clients.

117. Undertaking this fundamental restructuring of the ORMVAs will require a two-step process. As a first step, MAPM will legally create Regional Agriculture and Rural Development Offices (*Offices régionaux de développement agricole et rural*, ORDAR), replacing the current ORMVAs as well as all deconcentrated services of MAPM (DRAs, DPA, etc.). The draft law proposed by MAPM creates the ORDARs and states that irrigation water service delivery will be corporatized into regional irrigation companies. The actual establishment of said companies will take place as a second step, after the law creating the ORDARs is enacted. However, the draft law creating the ORDARs explicitly states that each of the regional irrigation companies to be created will operate along the key principles of transparent and accountable service delivery and financing, management of revenues and expenditures to ensure sustainability, and reporting to an independent board. The World Bank agreed to MAPM's request to replace the initial prior action (D.2) on irrigation water tariffs with the submission to the SGG of the draft law creating the ORDARs and setting the basis for the establishment of regional irrigation companies. This fundamental restructuring will change the cost structure of the irrigation water service and render the tariff adjustment plan proposed in 2009 obsolete. Tackling the institutional, legal and managerial framework of the irrigation utilities improves the link between service delivery and tariffs and is considered an important strategic step on the path to bringing PPPs into the sector.

118. The prior action for DPL/2 is: The draft Laws creating the ORDARs and setting the basis for the establishment of subsidiaries of the ORDARs, which will be in charge of irrigation management and which will have the legal personality and financial autonomy, have been submitted by MAPM to the Secretary General of the Government on January 15, 2013³⁴

³⁴ Under DPL/1 the DPL/2 trigger for D.2 was: The adjustment plan for irrigation water tariffs will be implemented according to an updated calendar. The revision to the prior action in DPL/2 represents an even more substantial

119. **The expected result of this reform** is the improved institutional arrangement for local delivery of all services associated with MAPM and, in a second step, the establishment of corporatized regional irrigation companies which will have a legal personality and financial autonomy. This will ultimately make possible the introduction of the private sector for the management of irrigation services. This result will be measured through the number of ORDARs created.

D.3. Improve irrigation infrastructure planning by the Government

120. **An integrated investment plan for water mobilization and irrigation infrastructure development would promote better coordination among different government actors.** Weak planning coordination of water mobilization (responsibility of MEMEE) and irrigation infrastructure (responsibility of MAPM) has contributed to underutilization of already mobilized water resources. In 2010, the gap between the potential area irrigable by reservoirs and the actual area irrigated by these reservoirs reached 108,000 ha. The investment needed to fill this gap is estimated at 15 billion MAD. MAPM elaborated a program to close the irrigation infrastructure gap. This program is included in the multi-year agreement on the financing of the PMV (2009-2015) signed between MEF and MAPM and is currently being implemented. In order to avoid future gaps created following the construction of new dams, the GoM adopted under DPL/1 an integrated investment plan for the development of irrigation perimeters located downstream of the dams programmed by the MEMEE for the period 2010–2012. This new integrated approach of planning allows MEF to allocate financial resources consistently for investments in water mobilization as well as investments in irrigation infrastructure development.

121. **The prior action for DPL/2 is:** Adequate funding for the irrigation perimeters located downstream of dams under construction has been allocated in the Borrower's budget laws for 2010, 2011, 2012, and 2013

122. **The expected result of this reform** is improved coherence in the planning of investments in water mobilization and investments in irrigation systems. This result will be measured through the percentage of fully budgeted irrigation schemes associated with dams under construction or planned.

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACT

123. **Although the operation is expected to have significant positive impacts on poverty and social inclusion, preparation has included assessments of potential negative distributional impacts and related mitigation measures.** A Poverty and Social Impact Analysis (PSIA) was carried out during DPL/1 preparation. It focused on the potential impacts of the: (i) restructuring of the fruit and vegetable wholesale markets and slaughterhouses on formal and informal operators; (ii) implementation of Pillar I and II projects including contract farming;

reform than what was envisioned that will create the institutional framework necessary for improvements in service delivery while enabling the overall long term strategy of introducing PPPs into the sector.

(iii) irrigation water tariff adjustments;³⁵ and (iv) agricultural services reform and introduction of enhanced food safety and quality standards. The DPL/1 PSIA also built on consultations carried out in the form of specialized workshops involving key institutional actors. Consultations in relation to Component A (Domestic Markets) focused on the wholesale markets for fruits and vegetables in the potential pilot cities of Meknès, Rabat, and Agadir, and the slaughterhouses of Meknès, Rabat, and Marrakech. The geographic scope for the other three components (Agricultural Investment Support, Agricultural Services, and Irrigation Water) comprised the regions Marrakech Tensift Al Haouz, Souss-Massa-Draa, Abda-Doukkala, Chaouia-Ourdigha, Greater Casablanca, and Taza-Al Hoceima-Taounate. With the preparation of DPL/2, three additional studies (and corresponding consultations) were undertaken: (i) a Social Plan in relation to Component A (Domestic Markets); (ii) a Political Economy Analysis of the irrigation sector reform, jointly financed with the Belgian Technical Cooperation in relation to Component D (Irrigation Water); and (iii) a gender analysis of the PMV, specifically targeting the Components supported through the DPL.

124. **The reform under Component A (Domestic Markets) is likely to primarily benefit large numbers of small farmers, even if those at the interface between formal and informal sector, may be negatively affected.** The first type of impact concerns the delocalization of markets and slaughterhouses away from the city centers into peri-urban and rural areas. Employees as well as informal sector workers could face a steep rise in transport costs to retain their revenues, which may be attenuated by funding transport options (depending on whether the wholesale markets and slaughterhouses are publically or privately operated). A second type of impact concerns the restructuring of the management model through PPPs. The risk is that existing operators and their personnel as well as groups of informal sector workers (petty traders and restaurateurs, guards, transport people) would lose sources of revenue. Relevant actors at the level of Morocco's 38 wholesale markets who could be negatively affected by the proposed reforms include 374 *mandataires* and their personnel (an estimated total of 1,343), 640 municipal wholesale market employees, and between 14,000 and 16,000 informal sector workers. Similarly, at the level of Morocco's 180 municipal slaughterhouses on average between 60 to 80 *chevillards* and their personnel (estimated between 50 to 60 workers and 20 to 30 slaughterers), and a portion of municipal officials could potentially be disadvantaged through the proposed closure, re-designation, or introduction of the new management models at selected sites.

125. **The MAPM recognizes the importance of undertaking specific mitigating actions to facilitate wholesale market and slaughterhouse reform.** The development and implementation of communication and consultation plan is a key tool to raise awareness among stakeholders about the goals of increased efficiency and effectiveness pursued by the reform program, as it can be used to highlight the expected impacts and envisaged solutions to the different groups of interest. The MAPM is well aware from their earlier experience with introducing concessions in slaughterhouses and that the reform will benefit from greater recognition of the contribution of informal sector workers to the wholesale market and slaughterhouse operations. In this regard, the effects of both delocalization and privatization of wholesale markets and slaughterhouses could be partly mitigated by internalizing the impacts within the process and encouraging operators to take actions such as: (i) setting-up transport facilities linking old and new sites; (ii)

³⁵ This builds on the analysis undertaken as part of the previous Water Sector DPL.

re-absorbing (i.e. formalizing) informal sector workers; and (iii) guaranteeing security to employees. The GoM is aware that social programs centered on training, skilling and re-skilling, and aimed at economic reconversion and reinsertion of impacted stakeholders will need to be designed to accompany the proposed reforms. Tailored vocational training programs as well as financial incentives and technical support can facilitate the development of microenterprises whose activities need to be integrated with the Domestic Market reform. At the institutional level, slaughterhouse working conditions are improved through the *Cahier des prescriptions* (concessions) stipulating the technical, administrative, and contractual requirements for operating structures, including those related to urban transport, health and hygiene, security and infrastructure maintenance.

126. The Social Plan under preparation will outline measures for mitigating negative impacts on groups economically active in the wholesale markets and slaughterhouses. The Social Plan (*Plan d'accompagnement social*) has the underlying objectives of ensuring that the welfare and employment concerns of these groups are addressed as new systems are put in place while strengthening social acceptance of the reform. It will include the following elements:

- A set of fundamental principles to guide design and implementation;
- Measures for the redeployment, reintegration, and retraining of affected workers and economic agents linked to the wholesale markets and slaughterhouses, as appropriate;
- A communication strategy/plan targeting both national and local stakeholders;
- A cooperation framework for government stakeholders;
- A detailed series of intermediary steps for the Plan's implementation; and
- Cost estimates of the measures, based on an estimation of the number of persons affected.

To strengthen its viability, the Social Plan will take into account and address institutional/governance issues at the national as well as local level. It will also account for differences at the local level in terms of number and profile of persons affected and the economic environment, as well opportunities created by the reform measures. Finally, an assessment of existing national and local support mechanisms and resources will be incorporated, along with identification of new support measures required. As much as possible, at the implementation level, the Social Plan will encourage stakeholders to draw on lessons learned from similar reforms in Morocco as well as internationally. The preparation of the Social Plan was launched during a workshop held on January 3, 2013, aiming to validate the proposed methodology. Participants included representatives from MAPM, MI, and the relevant professional organization (*Confédération Marocaine de l'Agriculture et du Développement Rural*, COMADER). The Social Plan's ultimate success lies in its design, implementation, and as well as good cooperation at the operational level between MAPM, MI, and MICNT. Ministerial support and oversight, such as through the working committee which meets periodically, will be important for seeing it through. The World Bank is providing technical assistance for the development of the Social Plan.

127. Reforms promoted under Component C (Agricultural Services) to put in place food safety standards imply the need for resources and expertise to ensure compliance. To this effect, ONSSA is working with small processing facilities with limited capacity to develop upgrading plans. The contract farming model may also be a powerful tool to bring groups of farmers up to the new standards in the framework of Pillar II projects.

128. **Measures promoted under Component D (Irrigation Water) aiming at enhancing irrigation efficiency have largely beneficial impacts, but require capacity building and awareness raising efforts to improve implementation.** An in-depth analysis of the linkages between quality of service delivery and irrigation water tariffs was carried out during the preparation of the DPL series, accounting for the point of view and perception of the different groups of interest involved in the reform. The consultations with farmers and stakeholders carried out during the PSIA data collection under DPL/1 highlighted fairly localized rather than generalized opposition to tariff increases. Although certain farmers face constraints (particularly within smallholder farms and in farms growing low value crops), there is typically no capacity to pay problem. The main drivers of opposition are often related to the relationship between farmers and local political structures such as provincial and regional councils and chambers of agriculture (e.g., in the Tadla perimeter), which ends up influencing the acceptability of the new irrigation water tariffs. The consultations highlighted that farmers do not see direct improvements in service quality associated with tariff increases. This is partly a perception problem that will be overcome with the removal of food safety and extension services from the mandate of ORMVAs, allowing them to focus on their core mission of irrigation service delivery. It is also partly the reality of a budget process that includes separate revenue and cost centers, a problem that will be tackled in the reform of the statutes of the ORMVAs. The MAPM is committed to the stepwise reform of the ORMVAs to show an improvement of service delivery. The Political Economy Analysis of Irrigation Sector Reform examines the factors that derailed earlier attempts at tariff reform, assesses the potential distributional impacts of irrigation sector reform on the different stakeholders, identifies possible strategies for reform, defines mitigating measures for potential negative impacts, and suggests a Government communication strategy to accompany reforms. Consultations at the regional level have been carried out in three irrigation perimeters (Loukkos, Gharb, and Tadla) that have differing economic, technical, and climatic characteristics.

129. **Efforts by MAPM to enhance gender equality in the PMV are currently underway, with significant positive implications on the efficiency, effectiveness, sustainability, and equity aspects of the reform process.** The MAPM has commissioned a comprehensive gender analysis of the PMV which will strengthen the agriculture strategy's overall social inclusion goal. The analysis will be carried out in the first half of 2013. In addition, a gender analysis of the DPL series, conducted by the World Bank, highlighted the potential areas for action. While no specific gender issues were identified for Component A (Domestic Markets), for Component B (Agricultural Investment Support), recommendations include supporting capacity building of the technical committees to develop and apply gender criteria in the selection of Pillar II projects and promote gender considerations in their implementation. Similarly, for Component C (Agricultural Services), the competencies of the Regional Coordination Committees for Research and Development could include gender based criteria in the selection of priority research themes. Specific mechanisms integrated into the National Agricultural Advisory Services Strategy and Action Plan are already in place and can be easily used to report how the Plan is reducing the gender gap in access to advisory services with the associated measurable indicators. Regarding Component D (Irrigation Water), both women and men farmers are expected to benefit in similar ways from the development of drip irrigation in LSI areas. The employment potential of women and men will largely depend on the new crops adopted and will differ considerably by region.

130. **While not part of the World Bank's support, the Government's agricultural land mobilization objectives in the framework of the PMV are likely to lead to overall positive effects, although the potential localized opposition should be taken into consideration.** In order to achieve its objectives, the Government aims to mobilize roughly 700,000 ha of collective land. As this land mobilization takes place within a program of agriculture development projects under PMV Pillar I and II, it can generate a number of broadly positive effects, such as the valorization of land, increased access by small holders to public and private investments within PMV projects, and job creation. The key risk to implementation is that land mobilization stirs up tensions among stakeholders regarding the transfer of rights. This risk is generally context specific, and not inherent to the implementation of the PMV but to all collective land transactions in Morocco. In addition to encouraging the creation of cooperatives/associations of rights holders, good communication between the authorities and the rights holders is critical to success. An additional mitigation measure under consideration is that each Pillar I and II project include a mini social assessment addressing issues around land tenure. Another risk concerns the mobilization of land where there are not sufficient water resources to realize the proposed Pillar I or II projects. To minimize this risk, ADA and the DRA have set up social (and environmental) screening criteria to contribute to project sustainability.

B. ENVIRONMENTAL ASPECTS

131. **Over the last decade, Morocco made significant progress in improving the institutional and legal framework for environmental protection.** The State Secretariat (in charge of Water and Environment), within the Ministry of Mines, Energy, Water and Environment (MEMEE), has become a full-fledged environmental administration. Morocco developed a comprehensive environmental strategy in 2005 -the National Environmental and Sustainable Development Strategy- with four main priorities: water protection, waste reduction and management, water quality improvement, and soil protection. In addition, the Government passed Law No. 12/03 in 2003 defining the requirements for Environmental Impact Assessments (EIAs) and creating a national committee within the MEMEE for the review and oversight of EIAs. Furthermore, the Council of Government recently enacted two decrees related to the establishment of the national and regional EIA committees as well as a decree for public consultation and disclosure. Additional measures are also being taken to strengthen the Moroccan environmental institutions and legal framework with the support of various donors and international development agencies, notably GTZ. All these developments strengthen the environmental protection framework in Morocco, both at national and local level, and contribute to the necessary legal and institutional capacity to manage the potential environmental impacts of the proposed reforms.

132. **The assessment of the potential environmental impacts of the reforms under the proposed DPL series concluded that on balance it is likely to have significant positive effects on the environment.** As per Operation Policy (OP) 8.60, the World Bank assesses whether specific country policies supported by a DPL series are likely to cause significant impact on the country's environment, forests, and other natural resources. To this end, an Environmental Due Diligence Review was undertaken under DPL/1 (November 2012) and reviewed under DPL/2 (December 2012). The assessment identified the primary transmission channels through which the proposed reform actions could impact natural resources, and estimated the potential

magnitude of these impacts. In addition, an assessment was conducted of the political, legal, and institutional framework governing these potential environmental impacts as well as the capacity of the environmental authorities in Morocco to address them. The Environmental Due Diligence Review of DPL/2 also benefitted from the strategic environmental impact evaluation of the PMV program commissioned by ADA in August 2012. ADA commissioned extensive consultations with staff of the MAPM at central and local level, farmers associations, private stakeholders, chambers of agriculture, and the donor community between December 2011 and March 2012. In addition, three consultations were organized by MAPM between 2010 and 2012 in relation to the reforms supported under the DPL series, and specifically to validate the findings of the Environmental Due Diligence Review with ministerial staff, representatives from non-government organizations working on environmental issues, and representatives from universities.

133. The reforms under Component A (Domestic Markets) are likely to have intermediate negative environmental impacts. Potential negative effects include the concentration of pollution sources (water, land, air, noise) as a consequence of the increase in volume of transactions per facility (both wholesale markets and slaughterhouses). This increase in volume stems from: (i) a reduction in the number of facilities at national level due to the rationalization of the network; and (ii) an estimated increase in the volume of agricultural transactions by 2020 (+280 percent in fruit and vegetables and +75 percent in red meat). These potential negative effects, if not properly mitigated, could be important and long lasting. The Environmental Due Diligence Review concludes that proper mitigation measures have been already identified, and include: (i) the preparation and implementation of an EIA prior to the construction and/or rehabilitation of wholesale markets and slaughterhouses, as required under the Moroccan Law; and (ii) the adherence to the technical specifications (*Cahier des prescriptions techniques*) for the proper management of private and municipal slaughterhouses, as prepared under prior actions under A.2 of DPL/1 and DPL/2. The Environmental Due Diligence Review also highlights that the new construction and/or rehabilitation of wholesale markets and slaughterhouses can have a number of positive environmental implications. Among others, the upgrade in the facilities can facilitate consolidated and improved waste handling and disposal, thus enhancing environmental sustainability and public health.

134. The reforms carried out under Component B (Agricultural Investment Support), C (Agricultural Services), and D (Irrigation Water) are expected to have positive environmental impacts on water and land resources management. The Environmental Due Diligence Review concludes that potential positive impacts can be further enhanced by including: (i) environmental screening mechanisms governing the identification and selection of Pillar II projects (Component B); and (ii) the promotion of monitoring mechanisms for groundwater extraction (Component D).

C. IMPLEMENTATION, MONITORING AND EVALUATION

135. Responsibility for implementing the program rests with the MAPM. The Strategy and Statistics Directorate (DSS) of the MAPM will be responsible for the overall implementation, monitoring and evaluation of the program in collaboration with other government stakeholders such as the MEF, MICNT, MI, and SEEE. In addition, a Steering

Committee including the representatives of the Government departments and organizations involved in the program has been established at the level of the Ministry of Governance and General Affairs (MAGG) and is responsible for supporting the inter-ministerial coordination of the implementation of the DPL program.

136. **Monitoring and evaluation of the program will be an integral part of the supervision process.** World Bank staff will focus on the outcomes of the program and the adjustments that need to be made to the operation as it evolves, to take into account the latest country developments, stakeholder support, and feasible options for realizing the intended development goals. While taking into account the goals of the DPL program, the review will be largely based on the policy reform actions, results indicators and associated target values included in the proposed Policy Matrix (Annex 2) and Results Monitoring and Evaluation Framework (Annex 4) respectively. At the same time, the overall status of the Government's program will be monitored to determine whether country conditions and the specific policy actions of the proposed operation have been met. The selected monitoring indicators and associated target values focus largely on measuring progress in terms of institutional gains achieved under the DPL program, rather than development gains on the ground. In fact, the program's development gains are unlikely to materialize in the relatively short timeframe of the proposed program and hence would be difficult to measure.

D. FIDUCIARY ASPECTS

137. **A Public Expenditure and Financial Accountability (PEFA) assessment was undertaken in 2009 jointly by the European Commission and the World Bank.** The PEFA report has confirmed substantial progress in Public Finance Management (PFM) reforms in Morocco. The results based on the PEFA ratings indicate in particular that Morocco has an overall credible, comprehensive, and transparent budget. The PFM system also supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The main strengths of the Moroccan PFM are the following aspects: (i) credible and transparent budget; (ii) transparency of taxpayer obligations and liabilities; (iii) timeliness and regularity of Government's banks' accounts reconciliation; (iv) accurate and timely in year budget reports covering expenditures at both commitment and payment stages; and, (iv) strong cash and debt management. The main challenges of the Morocco PFM relate to: (i) improvement of the budget classification, since despite the level of detail, accuracy, and reliability, it does not yet allow for reliable direct tracking of program-related spending being financed under priority programs; (ii) timeliness of annual statements which are submitted for external audit 15 months after the end of the fiscal year; (iii) the limited extent of legislative scrutiny of external audit reports; and (iv) the frequency and scope of audit rated average as is follow-up of audit recommendations. The Government is committed to address these challenges and, in order to do so, has introduced measures to: (i) move to a performance based budgeting framework, (ii) develop a multi-year agreement on the financing of the PMV (2009-2015) to assist in fiscal sustainability, (iii) modernize its accounting and internal audit framework; and (iv) improve revenue management. The 2009 PEFA is also contributing to the Government's reform process by providing information on the extent to which reforms are yielding improved performance. In addition, the Kingdom of Morocco publishes its annual budget on the MEF website³⁶ as well as

³⁶ http://www.finances.gov.ma/portal/page?_pageid=53,1&_dad=portal&_schema=PORTAL

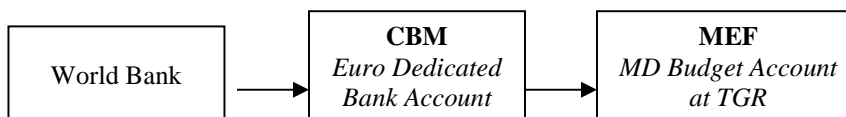
in the official gazette in a timely manner, following adoption by Parliament. In conclusion, the strength of Morocco's PFM system and the Government's commitment to reform, taken together, are, in the World Bank's view, adequate to support this DPL.

138. **Foreign exchange** - No safeguard assessment of the Central Bank (Bank Al-Maghrib) was conducted by the IMF. However, the Central Bank is audited on a yearly basis with the audit report being disclosed publicly. The 2009, 2010, and 2011 audits were unqualified. However, the World Bank was not able to review the Management Letter, and therefore has limited information on the foreign exchange control environment. The World Bank should receive and review the management letter in order to obtain a clearer view on the Foreign exchange environment.

139. **With reference to the flow of funds, the proposed loan will follow the World Bank's disbursement procedures for development policy operations.** Once the loan is approved by the World Bank's board and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions as defined in the Loan Agreement (the World Bank is satisfied with: (i) the program being carried out by the Borrower and (ii) the adequacy of the Borrower's macroeconomic policy framework) and in a single instalment. The account into which the loan proceeds will be deposited forms part of the country's official foreign exchange reserves. Flow of funds (including foreign currency exchange) is subject to standard public financial processes. The Government budget is comprehensive, unified and subject to centralized treasury account.

E. DISBURSEMENT AND AUDITING

140. **The loan proceeds will be deposited by the International Bank of Reconstruction and Development (IBRD) in a dedicated account opened by the Borrower and acceptable to the World Bank at the Central Bank of Morocco (CBM) (Bank Al Maghrib), upon submission of a signed withdrawal application.** Such arrangements mitigate the fiduciary risk of any possible loss or diversion of the loan proceeds from the foreign currency Bank account into which loan proceeds are deposited. The Borrower should ensure that upon the deposit of loan proceeds into said account, an equivalent amount, in the local currency, is credited to the treasury current account at the Central Bank. The Borrower will report to the World Bank within 30 days after the loan disbursement on the amount deposited in the foreign currency account and credited to the budget management system. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to IBRD. Amounts refunded to the World Bank upon such request shall be cancelled. The loan proceeds will be administered by the Ministry of Economy and Finance (MEF).



141. **Although an audit of the use of the funds may not be required, IBRD reserves the right to ask for a transaction audit.** This audit, when asked for, will cover the accuracy of the

transactions i.e., receipts and payments of the dedicated account, including accuracy of exchange rate conversions; confirming that the dedicated account was used only for the purposes of the operation where no other amounts have been deposited into the account. Also the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the World Bank is 6 months from the date a request for such audit is issued.

F. RISKS AND RISK MITIGATION

142. **Inter-sectoral reforms are slower than expected.** There is a risk that the sector reforms proposed under the PMV are delayed. These risks are mitigated by the continuity provided by the re-appointed Minister of Agriculture, the ownership within the relevant line-ministries of the strategic vision related to the PMV, and the demonstrably strong commitment to the implementation of the PMV by His Majesty the King. In addition, Morocco's Advanced Association Status with the EU and bilateral agricultural trade liberalization will help maintain reform momentum in the agri-food sector. A Steering Committee of all government stakeholders involved in the implementation of the DPL program has already been established at the level of the MAGG. Furthermore, significant reform actions had already been undertaken by the Government prior to the DPL series, including the creation of 16 DRAs, establishment of specialized agencies such as ADA and ONSSA, regionalization of the Chambers of Agriculture, creation of *Interprofessions* for 17 priority agri-food chains, reform of the agricultural subsidy system under the FDA, and the signing of an agricultural FTA with the European Commission. A multi-year agreement on the financing of the PMV (2009-2015) has been signed between the MEF and the MAPM and the MAPM's budgets for 2011, 2012, and 2013 have been in line with the multi-year agreement on the financing of the PMV.

143. **Some of the proposed reforms may be opposed by vested interests and stakeholders, especially considering the current socio-political climate.** The proposed reform agenda for domestic markets may meet resistance from municipalities as well as the vested interests of current agents and intermediaries linked to the municipal fruit and vegetable wholesale markets (*mandataires*) and users of slaughterhouses (*chevillards*). Important mitigating measures include the development and implementation of a communication and consultation plan, social measures supporting re-training, and improved regulations governing working conditions at wholesale markets and slaughterhouses (WMS). Resistance of municipalities in relation to the domestic markets reform program is being mitigated through the demonstration effect of the win-win arrangements in the new wholesale market ownership and management structures piloted under the program. Specific measures to mitigate the risk of opposition stemming from the vested interests of current agents, intermediaries and users at the level of the fruit and vegetable wholesale markets and slaughterhouses, water users, and stakeholders on collective lands, have been proposed based on the PSIA completed under DPL/1 and continue to be taken into account in the design of the program. They will be further complemented by the outcomes of the soon to be completed study on the political economy of the irrigation sector reform including safeguard measures ensuring enhanced stakeholder consultation and participation in the decision-making processes related to the proposed reforms.


144. **The private sector may be hesitant to participate in the proposed contract farming model for the Pillar I and Pillar II investment program.** Although central and local administrations play a mediating role between producers and potential investors and active mobilization of investment resources is pursued by ADA, the risk of a lack of confidence between potential *agrégés* (organized farmers) and *agrégateurs* (investors, traders, and entrepreneurs) could undermine the design of the PMV's Pillar I and Pillar II investments. The adoption of the Law on Contract farming could mitigate this condition by creating a supportive legal and institutional environment, for example through the establishment of a procedure in the law. The *agrégateurs* will sign contracts with both ADA and *agrégés* in order to benefit from Government investment support under the PMV. The modernization and liberalization of domestic marketing and distribution systems supported under the DPL program, the proposed IFC support program for improving the agricultural investment climate and promoting agricultural investments, as well as the enhanced subsidies and investment support under the reformed FDA constitute additional mitigating measures by promoting greater cooperation between producers and investors through an improved incentive framework.


145. **Heightened risks to the outlook related to macroeconomic stability and fiscal balances require decisive actions to put the fiscal stance back on a sustainable path.** On the one hand, Morocco faces three exogenous macroeconomic risks: (i) the possible deterioration of the ongoing global economic difficulties - especially in Europe; (ii) the volatility of the agricultural output due to its dependence on changing climatic conditions; and (iii) continued high world prices of food and energy. On the other hand, Morocco also could suffer from endogenous risks, essentially those related to a slow or non-consequential implementation of the needed reforms stemming from resistance of vested interests groups or from a waning political determination to implement politically and socially sensitive policies, such as the subsidy reform. Morocco would face reduced growth prospects in case the above mentioned exogenous shocks materialize. In particular, in the event that the current European economic uncertainty evolves in a recession in the order of a -1 to -1.5 percent GDP growth in 2013, World Bank estimates for Morocco indicate a reduced growth rate by half point for the same year. Should oil prices remain at current high levels, Morocco would likely see its GDP growth prospects reduced relative to the baseline scenario. This would also have important fiscal implications that pose perhaps the most significant medium term macroeconomic risk - that of deterioration of the fiscal balance which would be exacerbated by the increasing costs of the subsidy system. Morocco's management and mitigation of these risks are predicated on the Government's strong commitment to proceed with the ongoing and envisaged reforms outlined earlier. The Government is also adopting specific measures in the event of a negative agricultural outcome that relate to the suspension of import duties on cereals and support to affected farmers and livestock producers. It is devising strategies to cope with potentially sustained high oil prices, including requesting World Bank support to develop mechanisms to hedge commodity price risks. More importantly, it is devising measures to mitigate the impact of subsidies on public finances to be eventually introduced in 2013 after the partial adjustment to oil prices implemented early June 2012. In this regard, there is broad understanding that the needed consolidation of public finances will require three critical measures the Government is already working on: deepening of fiscal reform, regaining control over the wage bill evolution and subsidy reform.

146. **Morocco remains vulnerable to chronic drought, adverse climate events and fluctuations in energy prices.** The dependence of Moroccan agriculture on rainfed agriculture, particularly for poor and vulnerable farmers, coupled with increased water scarcity and potential for negative climate events in the medium and long run pose serious social and economic concerns. The Government is well aware of the situation and is devoting considerable efforts that would lead to an integrated strategy to address these issues. The new strategy addressing the impact of global warming as well as the PMV are key contributions to foster this agenda. The World Bank is expected to continue to support such efforts in the sector through the proposed Green Growth DPL. In addition, the existing SCCF/GEF grant on integrating climate change adaptation in the implementation of the PMV is closely aligned with the DPL series.

ANNEXES

ANNEX 1: LETTER OF DEVELOPMENT POLICY


المملكة المغربية
Royaume du Maroc


وزارة الفلاحة والصيد البحري
Ministère de l'Agriculture et de la Pêche Maritime

N° 251 DSS/DC/SCM Rabat le.....
- 7 FEV. 2013

Monsieur Jim YONG KIM
Président de la Banque Mondiale
1818 H Street N.W. –Washington–

Objet : Lettre de politique de développement du secteur agricole.


Monsieur le Président,


Comme vous le savez, depuis la fin des années 90, le Maroc offre l'image d'un vaste chantier de réformes qui a entraîné des mutations structurelles et un dynamisme remarquable au niveau des différents compartiments de l'activité économique. La poursuite de ces réformes a permis à l'économie nationale, en dépit des mutations rapides de l'environnement international et des années de sécheresse, de consolider les acquis sans pour autant compromettre la stabilité des équilibres fondamentaux. Ces réformes se sont traduites notamment par l'accélération de la croissance économique, l'appui du secteur privé, l'amélioration de la compétitivité de notre tissu productif, le renforcement de l'intégration du Maroc à l'économie mondiale, l'amélioration du profil des finances publiques, la lutte contre la pauvreté et l'exclusion et l'amélioration des indicateurs de développement humain appelés à enregistrer de nouveaux progrès pour marquer de manière significative la vie des citoyens et des citoyennes.

Le Gouvernement est déterminé dans ce cadre à poursuivre ces réformes et à veiller à la préservation des équilibres financiers conformément aux dispositions de la nouvelle constitution. Dans son programme 2012-2016 adopté par le Parlement, le Gouvernement s'est engagé à œuvrer à la préservation et à la consolidation des équilibres financiers et macro-économiques, en vue notamment de garantir un climat des affaires incitatif pour les investisseurs aussi bien nationaux qu'internationaux.

Afin d'assurer les équilibres extérieurs le Gouvernement veillera à corriger les déséquilibres structurels externes enregistrés au niveau de la balance commerciale et du compte courant de la balance des paiements, à travers notamment l'identification et l'élimination des contraintes à l'investissement et à la compétitivité dans le cadre d'une vision intégrée, y compris les contraintes liées au coût des facteurs de production, à la logistique, aux exportations, à l'éducation et à la formation et au climat des investissements.

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I- PRESENTATION DU SECTEUR AGRICOLE

L'agriculture constitue un pilier important du développement au Maroc. Son poids économique et social, son association structurante au monde rural, ainsi que la multiplicité de ses fonctions concernant notamment les volets alimentaires, économiques, sociaux et environnementaux, en font un moteur fort de développement pour notre pays.

L'importance du secteur agricole se manifeste par sa contribution notable, à la formation du PIB national (15% à 20%) et à la création d'emploi notamment en milieu rural où l'agriculture reste le premier employeur (80%) et la principale source de revenu (1,5 millions d'agriculteurs).

L'agriculture nationale permet de couvrir partiellement ou totalement les besoins du marché local en produits alimentaires. Les taux de couverture des besoins nationaux par la production locale ont été consolidés à 55 % pour les céréales, 100% de fruits et légumes, 43% sucre, 20% des Huiles, 90% du lait et jusqu'à 100% des viandes. En effet, les céréales, les huiles végétales et les graines oléagineuses, le sucre et les produits laitiers constituent 66% de la valeur moyenne des importations agricoles.

Les exportations alimentaires, quant à elles, représentent 19% des exportations globales du pays, soit 22 Milliards de DH. Elles sont composées essentiellement d'agrumes frais, de légumes frais et de conserves végétales, qui contribuent avec respectivement 20, 20 et 16% dans la valeur moyenne des exportations agricoles.

Les zones irriguées qui couvrent 1,4 millions d'ha, soit 15% de la superficie agricole, participent à hauteur de 45% de la valeur ajoutée agricole. Ce patrimoine, bien qu'inégalement réparti sur le territoire national, constitue des pôles de développement qui contribuent de manière significative à renforcer et à stabiliser la sécurité alimentaire du pays et à améliorer les conditions de vie en milieu rural.

Par ailleurs, notre agriculture reste à prédominance céréalière (70% de la SAU pour 10 % des emplois) et donc trop soumise aux aléas climatiques. De ce fait, il est important d'adapter les politiques agricoles à la diversité agro écologique du pays et aux effets des changements climatiques.

Pour une partie importante du secteur et au niveau des différentes régions, le tissu d'acteurs existant est à la fois morcelé, faible, désorganisé et incapable de faire face aux défis de l'agriculture moderne par ses propres moyens. En effet, la faiblesse du tissu des acteurs, couplée à un déficit d'organisation des filières autour d'agrégateurs à forte capacité d'investissement et de management, reste la principale source du déficit de productivité, d'investissement et de valorisation de l'agriculture marocaine. C'est là aussi la raison principale du déficit de financement du secteur par le système bancaire national, qui couvre à peine 16% des besoins.

Le maillon commercialisation est une étape primordiale pour la valorisation des produits agricoles dont la compétitivité au stade de la production est confirmée. Il s'agit de développer les forces de vente au niveau du marché intérieur comme à l'export pour atteindre les objectifs fixés. Le marché intérieur peut selon les cas, bénéficier de cette dynamique et/ ou en constituer le catalyseur.

Cependant, Les circuits de commercialisation du marché intérieur souffrent de déficits structurels liés au manque de libéralisation et de concurrence, de dysfonctionnements dans la formation des prix de référence et l'échange d'information y afférent au niveau national, et des limites quant au développement de la distribution moderne.

Les coûts de transactions pour les produits agricoles restent élevés. Des efforts sont entrepris pour moderniser les circuits de distributions dans le marché interne (réforme du commerce de gros, modernisation des infrastructures, promotion de la qualité : labellisation, traçabilité, indication géographique...).

En termes de stratégie, un fonctionnement efficace du marché national autour d'acteurs structurés et organisés, permettant l'approvisionnement des consommateurs marocains en produits de qualité, à prix compétitif et/ou abordable, est traduit par les lignes de forces suivantes :

- Amélioration de l'accès au marché par libéralisation progressive des marchés nationaux ;
- Mise à niveau des normes en termes de qualité et d'hygiène ;
- Promotion de la modernisation des circuits de commercialisation :

Par ailleurs, l'agriculture nationale s'est inscrite résolument dans une dynamique d'ouverture sur le marché international, soit à travers des initiatives unilatérales de libéralisation des échanges, soit à travers des accords bilatéraux ou multilatéraux de libre échange.

Cette ouverture a permis au secteur d'externaliser une partie de son potentiel productif et de participer ainsi à la concrétisation d'acquis au niveau des marchés intérieur et extérieur. Un effort est en cours pour adapter le dispositif de soutien et de protection des filières de production agricoles nationales en fonction des objectifs fixés pour le secteur, tout en tenant compte des engagements pris par le pays au niveau international.

Compte tenu de la conjoncture sur le marché international et des perspectives à long terme de l'évolution des marchés internationaux des produits agricoles (tendance à l'augmentation de la demande, raffermissement des prix des produits alimentaires, accroissement de la demande pour les bio-fuels, fluctuations importantes des cours des matières premières agricoles), un ajustement des mesures de protection tarifaires devrait être accompagné par la mise en place d'un cadre favorable et incitatif à une meilleure allocation des ressources du secteur et une amélioration de la compétitivité des filières nationales, garants d'une croissance dans le secteur et d'une sécurité alimentaire pour le pays.

Il s'agit également d'améliorer la visibilité à long terme pour les investisseurs et les opérateurs et de favoriser l'engagement dans la durée des acteurs.

Pour consolider nos acquis, et tirer profit de la place stratégique que peut jouer le Maroc en tant que plateforme d'un flux de commerce, des affaires et d'investissement, une stratégie offensive de promotion de nos exportations est également nécessaire, notamment à travers une harmonisation des réglementations et procédures, un appui continu aux dynamiques constatées des filières , la promotion de la qualité et du label Maroc pour les produits de grandes valeurs commerciales, le développement et la promotion de certains produits niches et de terroirs, la prospection des marchés...etc.

Pour faire face à ces différentes contraintes, le Maroc a engagé depuis deux ans, sa nouvelle feuille de route nationale pour le secteur agricole « Plan Maroc Vert », ayant pour objectif de moderniser l'agriculture et de l'intégrer de manière harmonieuse à l'économie nationale et internationale.

Ce Plan vise à faire du secteur agricole le principal moteur du développement économique national, au cours des quinze années à venir où des objectifs de production bien définis et chiffrés ont été établis et déclinés à l'échelle territoriale dans le cadre des Plans Agricoles Régionaux.

II- STRATEGIE AGRICOLE DU GOUVERNEMENT

Le Plan Maroc Vert a adopté une approche globale pragmatique destinée à mobiliser tous les acteurs du développement agricole. Il repose sur deux piliers:

- ✓ Le premier pilier porte sur le développement d'une agriculture productiviste et moderne répondant aux règles du marché en s'appuyant sur les investissements privés dans les filières à haute valeur ajoutée et haute productivité.
- ✓ Le deuxième pilier concerne l'accompagnement d'une agriculture solidaire et la lutte contre la pauvreté dans les zones à économie fragile et ce, à travers l'amélioration des revenus des agriculteurs pauvres par la mise en place de projets intégrés économiquement viables.

Les retombées socio-économiques de cette stratégie sont ambitieuses en termes de valeur ajoutée, d'investissements, de création d'emplois, et d'amélioration des revenus des agriculteurs. Le Plan Maroc Vert s'appuie par ailleurs sur la refonte du cadre sectoriel et l'amélioration des facteurs transversaux, notamment en ce qui concerne les politiques de l'eau, du foncier et l'organisation interprofessionnelle.

Ce plan a mis au cœur de l'équation une meilleure intégration amont-aval avec un renforcement de l'investissement. Cet aval agro-industriel qui possède un potentiel de développement important et adopte le modèle de l'agrégation des petits et moyens acteurs par les plus grands.

Afin de toucher l'ensemble du secteur, cette stratégie s'est dotée d'un portefeuille de projets intéressant à la fois l'agriculture moderne et intensive (Pilier I) et l'agriculture solidaire (Pilier II) :

- L'objectif du Pilier I : consolider et développer une agriculture performante, adaptée aux règles du marché, grâce à une nouvelle vague d'investissements privés, organisés autour de nouveaux modèles d'agrégation équitables (700 à 900 projets d'agrégation concrets et 110 à 150 Milliards Dh d'investissement sur 10 ans) ;
- L'objectif du Pilier II : développer une approche orientée vers la lutte contre la pauvreté, en augmentant significativement le revenu agricole des exploitants les plus fragiles, notamment dans les zones fragiles (550 Projets solidaires et 15 à 20 Milliards Dh Sur 10 ans).

Le principe fondateur est une intervention publique là où l'initiative privée est insuffisante pour créer une dynamique de croissance. Les investissements privés sont levés auprès de nouveaux

investisseurs nationaux et internationaux entrant dans le secteur, avec des investissements créés autour de projets d'agrégations gagnant-gagnant, grâce à une offre Maroc spécifique et adaptée.

Ce plan de développement a nécessité d'importantes réformes et s'appuie sur un mode de gouvernance structuré, responsable et relayé dans chacune des régions du Maroc par les différents intervenants et opérateurs du secteur : représentants des agriculteurs, collectivités locales, professionnels et les départements ministériels concernés.

Plan Maroc Vert : réalisations

Dans sa première phase d'exécution, le Plan Maroc Vert a connu le lancement d'une série importante de réformes institutionnelles, notamment :

- La réorganisation du Ministère de l'Agriculture et de la Pêche Maritime (MAPM) au niveau central (mai 2009); avec plus de proximité décisionnelle dans les régions ;
- La mise en place d'une nouvelle agence de développement agricole (ADA) pour promouvoir l'investissement privé dans le secteur agricole et d'un Office national pour la sécurité sanitaire des aliments avec la promulgation d'une loi sur la sécurité sanitaire des produits alimentaires qui constitue actuellement un outil important de réglementation et de structuration du secteur agro-industriel ;
- La mise en place de 16 Directions Régionales de l'Agriculture (DRA) et 16 Chambres d'Agriculture. Ces structures territoriales ont pour portefeuilles les 16 Plans agricoles régionaux (PAR). qui représentent la déclinaison propre au niveau de chaque région des ambitions du PMV en termes de projet, d'investissement, d'emploi, d'export, etc ;
- La création de l'Agence pour le Développement des Zones Oasiennes et de l'Arganier (approuvée au conseil du gouvernement en mai 2010) ;
- La mise en place d'un centre pour la promotion des ressources pilier II (CRP II) à IFRANE ;
- La mise en place de l'office National de la sécurité sanitaire des aliments.

Pour la concrétisation des objectifs fixés en termes de création de richesse et d'emploi, et de lutte contre la pauvreté, des partenariats gagnant-gagnant ont été conclus et mis en œuvre avec les parties prenantes aux différents niveaux (filières, territoires, etc.) et concernent :

- 17 Contrats Programmes Filières entre l'Etat et les professionnels : sucre, agrumes, céréales, maraichage, palmier dattier, lait, viandes rouges, aviculture, semences, oléiculture, arboriculture fruitière, cultures biologiques, apiculture, l'élevage camelin, l'arganier, rosier, safran ainsi que les mécanismes institutionnels pour le suivi et l'évaluation annuelle de leur mise en œuvre ;
- Création de 15 interprofessions regroupant l'ensemble des acteurs des chaînes de valeurs ;
- 16 Contrats Agricoles Régionaux représentant la concrétisation propre à chaque région du PMV en termes de projet, d'investissement, d'emploi, d'export sont conduits avec les partenaires locaux (collectivités locales, chambres d'agriculture et les départements ministériels concernés) ;
- Mise en place d'un Project Management Office pour la gestion des Contrats Programmes Etat / Profession ;

- Des contrats de partenariats sont aussi en cours entre l'Etat et des banques de la place pour assurer un accompagnement financier, y compris la création d'une structure spécialisée pour le financement des petits agriculteurs. D'autres partenariats ont été aussi initiés avec des opérateurs publics et privés concernés par le secteur (opérateurs du secteur de l'eau, agrégateur, bailleurs de fonds nationaux et internationaux, ONG, etc.);
- Révision de fond du système incitatif agricole dans le but d'améliorer son rôle primordial dans l'expansion des investissements agricoles, et de contribuer efficacement à l'atteinte des objectifs du Plan Maroc Vert dans l'ensemble des filières de production concernées.

Sur le terrain, cette réforme du FDA a pu être rapidement opérationnalisée grâce à d'importantes mesures d'accompagnement, dont notamment la consolidation du rôle des guichets uniques dans les Directions Provinciales de l'Agriculture et des Offices Régionaux de Mise en Valeur Agricole, la mise en place d'un système d'information à travers laquelle sont instruites toutes les demandes de subvention des agriculteurs, et le déploiement d'un plan de communication et d'information au profit des agriculteurs et des investisseurs potentiels.

Le MAPM a mis en place une nouvelle Stratégie de gestion des risques et d'assurance agricole dans l'objectif d'accompagner la mise en œuvre du Plan Maroc Vert. Au début de la campagne agricole 2011/2012, le MAPM a lancé avec la Mutuelle Agricole Marocaine d'Assurances MAMDA le produit d'assurance « Multirisque Climatique », pour couvrir les récoltes céréalières et légumineuses menacées par une multitude de périls climatiques. Ce produit qui est venu en réponse aux attentes des acteurs du secteur agricole, couvre, sur l'ensemble du territoire marocain, les principaux risques climatiques suivants : la sécheresse, la grêle, le gel, le vent violent, le vent de sable et l'excès d'eau. Depuis son lancement, ce nouveau produit a rencontré beaucoup de succès auprès des agriculteurs et a ainsi dépassé l'objectif ambitieux de 300.000 ha, qui avait été arrêté par l'Etat et la MAMDA, pour atteindre 327.000 ha à fin 2011.

Une nouvelle stratégie du Conseil Agricole a été élaborée et a pour objectifs de renforcer l'accompagnement des agriculteurs et d'accroître le transfert de savoir-faire agricole sur le terrain. Cette stratégie permettra de garantir un service public de proximité pour tous les agriculteurs et d'atteindre un taux de couverture de 1 conseiller pour 1350 agriculteurs à horizon 2015, contre 1 pour 3800 aujourd'hui.

Ladite stratégie s'articule autour de 3 principaux axes:

- **Le développement du conseil agricole privé**, avec un cadre légal approprié, et le subventionnement dégressif des prestations de conseil agricoles dans certaines conditions;
- **La redynamisation des services de l'Etat à travers** la modernisation des structures de proximité de l'Etat et la mise en place de nouveaux outils modernes de communication et de gestion des connaissances;
- **La responsabilisation des instances représentatives des agriculteurs** (chambres d'Agriculture et interprofessions) avec engagement contractuel sur une feuille de route participative.

Elle vise un accompagnement soutenu et efficace des projets et des filières de production retenus au niveau des Plans Agricoles Régionaux. Elle a été déclinée en plans d'action pluriannuels qui définissent de nouveaux mécanismes de gouvernance, outils et modes de diffusion de la connaissance agricole. Le but étant d'asseoir un dispositif de conseil agricole pluriel et performant pour être en phase avec l'évolution que connaît le secteur agricole.

Un autre chantier sur lequel s'est penché le PMV est celui de l'intégration du genre dans la stratégie agricole. En effet, l'apport de la femme rurale au niveau du secteur agricole peut être perçu à travers :

- Sa forte participation effective aux travaux agricoles,
- sa participation à la valorisation du patrimoine biologique,
- sa présence en tant que chef d'exploitation,
- son aptitude à l'organisation et au travail collectif.

Etant donné l'immense potentiel de la femme rurale et l'importante valeur ajoutée qu'elle peut générer pour le développement agricole, le Département de l'Agriculture est en cours de lancement d'une étude pour le renforcement de la dimension "genre" dans le cadre du PMV, en collaboration avec la Banque Mondiale, et qui aura pour but ultime la création des conditions favorables à une meilleure compétitivité de la micro-entreprise féminine et d'une plus grande intégration des femmes rurales dans la dynamique économique de leurs régions.

Plan Maroc Vert : chiffres clés

Quatre ans après son lancement, la nouvelle stratégie agricole a été consolidée et opérationnalisée, offrant une visibilité aux acteurs nationaux et internationaux et constituant un réel outil de développement et de lutte contre la pauvreté pour le Maroc.

Grâce aux différentes actions lancées depuis la mise en œuvre du PMV, les résultats en termes de production se sont nettement améliorés et ce sur l'ensemble des filières à l'exception de la filière sucrière. Le MAPM compte remédier à cette situation à travers la signature imminente du nouveau contrat programme sucrier qui vise 53% d'autosuffisance à horizon 2020 et donner ainsi à l'amont de la filière les moyens pour garantir son développement.

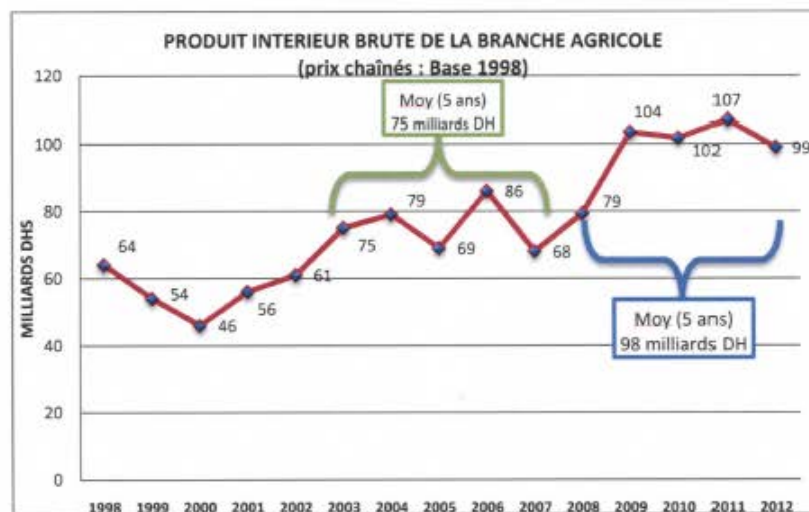
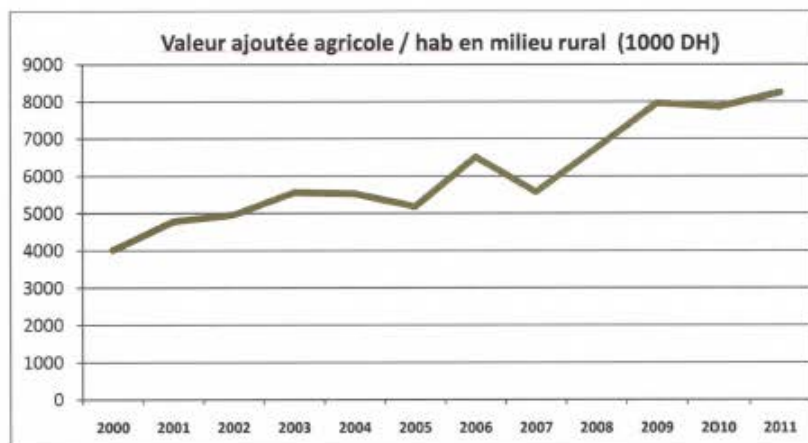
Le MAPM et les professions agricoles concernées ont convenu d'entreprendre de vastes programmes de mise à niveau des filières de production en fixant des objectifs quantitatifs mais aussi en accompagnant les interprofessions dans leur organisation à travers l'appui à la structuration sur l'ensemble de la chaîne de valeur (promotion de la qualité, recherche, formation, transfert de technologie...).

A titre d'exemple, et pour mieux percevoir les progrès réels sur le terrain du PMV, on a noté une croissance de la production des différentes filières, entre 2005-2007 et 2008-2012, chiffrée comme suit :

- +67% pour les Olives : de 774.000 T à 1.295.000 T,
- + 42% pour les Céréales : de 57 M Qx à 80 M Qx T,
- +40% pour les Dattes : de 81.000 T à 114.000 T,
- + 40% pour les Viandes blanches : de 363.000 T à 508.00 T,

- +28% pour les Agrumes : de 1.251.000 T à 1.599.000 T,
- +21% pour le Lait : de 1,68 milliards de L à 2,03 milliards de L,
- + 17% pour les Viandes rouges : de 363.000 T à 426.000 T.

En termes d'impact du PMV sur la croissance agricole totale, on a noté une nette augmentation de la valeur ajoutée agricole par habitant et du produit intérieur brut de la branche agricole, comme illustré ci-dessous :



III- Prêt de Politique de Développement :

Le Plan Maroc Vert poursuit ses grands chantiers de réformes, le Prêt de politique de développement (PPD), objet de la présente lettre, vise à soutenir la mise en œuvre de ce Programme qui se focalise sur les axes suivants :

- L'Intégration des agriculteurs dans le marché intérieur ;
- L'Amélioration de l'impact socio-économique des projets du pilier II consacrée à la petite agriculture solidaire ;
- L'Amélioration des services agricoles ;
- L'Amélioration de l'usage et la gestion de l'eau d'irrigation et de la planification.

1. Intégration des agriculteurs dans le marché intérieur

L'objectif général est d'améliorer le contexte institutionnel et réglementaire régissant les marchés de gros de fruits et légumes, les abattoirs et leur gestion en vue d'assurer :

- Un meilleur accès des producteurs aux infrastructures de qualité de marchés de gros et d'abattoirs,
- L'augmentation des revenus agricoles,
- L'amélioration de la qualité et de la sécurité sanitaire des produits et des intrants agricoles,
- Réductions des coûts de transactions des fruits et légumes et de la viande dans les marchés intérieurs.

En vue d'atteindre ces objectifs, l'Etat a engagé essentiellement, lors du 1^{er} PPD, des mesures qui ont permis :

- **L'amélioration du contexte institutionnel et réglementaire régissant les marchés de gros de fruits et légumes** à travers la mise en place d'un Schéma National d'Orientation des Marchés de Gros des fruits et légumes et la mise en œuvre de projets pilotes de marchés de fruits et légumes introduisant de nouveaux modèles de gestion.

Pour un suivi constructif et pragmatique de ces actions, un effort de partenariat interministériel intense a été mis en place. Ainsi un comité de suivi nommé par le Ministre de l'Agriculture a été institué pour travailler de près avec les partenaires concernés par le schéma national d'orientation des marchés de gros de fruits et légumes en cohérence avec les orientations du programme.

Cet effort se poursuivra pour le PPD2 à travers la signature de trois conventions entre les collectivités locales et les départements ministériels concernés pour la mise en œuvre des projets pilotes des marchés de gros des fruits et des légumes qui visent à introduire de nouveaux modèles de gestion.

Dans un premier temps une convention sera signée entre le Ministère de l'Intérieur, le Ministère de l'Agriculture et de la Pêche Maritime, le Ministère de l'Industrie, du Commerce et des Nouvelles Technologies, la Région de l'Oriental, la Commune Urbaine de Berkane, la Commune Rurale de Madagh, et l'Agence de Développement de l'Oriental. Cette convention a pour objet de définir un cadre de partenariat entre les parties contractantes en vue de mettre en place un marché de gros de fruits et légumes qui sera géré selon un nouveau mode de gestion. Deux autres projets pilotes des marchés de gros des fruits et légumes suivront.

- **L'amélioration du contexte institutionnel et réglementaire régissant les abattoirs**, ainsi que les systèmes de distribution de viandes rouges à travers d'une part le développement des cahiers des charges harmonisés pour les abattoirs en concession et d'autre part les projets intégrés.

A ce titre, le contrat-programme pour la filière viandes rouges a retenu l'encouragement à l'externalisation de la gestion des abattoirs communaux au secteur privé, comme axe majeur du développement et de la mise en œuvre de la filière.

A cet effet, le PPD1 a permis la validation de deux Cahiers des Prescriptions liés à l'efficacité des abattoirs. Il s'agit du CPS relatif aux normes définissant les conditions sanitaires, hygiéniques et d'équipement des abattoirs privés (adopté par l'ONSSA en 2010), et du CPS relatif aux exigences contractuelles, administratives et techniques pour l'exploitation des concessions des abattoirs municipaux (adopté par le MI et le MAPM en novembre 2012).

Par ailleurs, et dans le cadre du développement de la filière viandes rouges, un projet de décret modifiant et complétant l'arrêté viziriel du 28 septembre 1955 relatif au contrôle de la salubrité des viandes foraines et un projet d'arrêté conjoint du Ministre de l'Intérieur et du Ministre de l'Agriculture et de la Pêche Maritime fixant les conditions d'introduction et de vente des viandes foraines ont été mis dans le circuit d'approbation du Secrétariat Général du Gouvernement.

2. Amélioration de l'impact socio-économique des projets du pilier II consacrée à la petite agriculture solidaire

L'objectif général du Pilier II est d'améliorer l'impact socio-économique des projets à travers l'amélioration de leur gouvernance et leur financement, et l'établissement du contexte légal et institutionnel régissant l'agrégation.

A cet effet, l'Etat a mis en place une approche participative, inclusive et transparente pour la mise en œuvre des projets Pilier II. Le Ministère de l'Agriculture et de la Pêche Maritime, grâce à l'élaboration des Plans Agricoles Régionaux, dispose actuellement d'une feuille de route claire, permettant d'avoir une certaine visibilité à court, moyen et long terme. Les actions envisagées visent à renforcer les règles de bonne gouvernance pour assurer l'appropriation des projets et garantir ainsi leur pérennité.

Cette approche a permis également de veiller à ce que les petits agriculteurs des zones cibles, y compris les femmes et les jeunes, contribuent au processus de prise de décision et de mise en œuvre des projets Pilier II. Un manuel de priorisation des projets et un manuel de procédure sont établis dans ce sens.

A titre de rappel, les procédures de mise en œuvre des projets pilier II au niveau du terrain ont été améliorées à travers notamment :

- La contractualisation comme préalable à la mise en œuvre des projets pilier II (circulaire en date du 23 Février 2012 auprès des DRA, DPA et ORMVA invitant ces structures à veiller à la satisfaction d'un certain nombre de préalables avant tout engagement de crédits aux projets Pilier II).
- Nouvelle procédure de mise en œuvre des projets PMV qui stipule entre autres le renforcement de l'approche participative dans toutes les phases des projets.
- Décisions de désignation des membres des Comités Techniques Locaux (50 décisions concernant les Comités Techniques Provinciaux).
- L'intégration de la composante environnementale et changement climatique dans le Plan Maroc Vert.

Cette adaptation aux réalités de terrain a permis d'instaurer un climat de confiance avec les agriculteurs. Ceci est confirmé par l'augmentation d'année en année de la participation et le « poids » des agriculteurs dans les projets Pilier II ainsi que de leur Organisation Professionnelle Agricole (OPA).

En 2010, 5% des petits agriculteurs ont bénéficié de projets Pilier II, ce chiffre a évolué pour atteindre en septembre 2012 plus de 25%.

En outre, le pourcentage des nouveaux projets du Pilier II proposés par les organisations professionnelles agricoles est passé de 15% en 2010 à plus de 36% en 2012.

En outre, un système de suivi et d'évaluation, en ligne, de la mise en œuvre des projets Piliers II est en cours d'amélioration, à la fois au niveau central (ADA) et qu'au niveau régional (DRA). Il fonctionne sur la base d'indicateurs de référence clairement définis. A cette fin, un cadre de suivi et d'évaluation comprenant des indicateurs de résultats pour chacun des projets Pilier II a déjà été élaboré par l'ADA.

Un effort de communication a été également entrepris à travers une circulaire du Ministre de l'Agriculture pour afficher au niveau des régions les documents relatifs aux projets pilier II.

De même, l'Etat a institutionnalisé les encouragements accordés aux petits agriculteurs dans le cadre de l'agrégation : la loi N°04-12 relative à l'agrégation agricole a été publiée au Bulletin officiel du 2 août 2012 et un décret réglementant les encouragements de l'Etat en faveur des investissements dans le cadre de projets d'agrégation est en cours de publication dans ce sens. Les arrêtés d'application de cette loi sont en cours d'élaboration.

Le modèle d'agrégation basé sur la conclusion d'un accord contractuel trilatéral entre les agrégateurs, les agrégés, et le Gouvernement a pour objectif d'aider à surmonter les contraintes foncières existantes, de promouvoir les organisations paysannes, encourager le partage des risques, permettre d'optimiser les liens entre la production et la commercialisation, et permettre aux producteurs d'avoir accès au financement, aux connaissances et aux technologies.

3. Amélioration des services agricoles

L'objectif général vise à améliorer l'efficacité du système d'innovation agricole et le renforcement de l'efficacité du contrôle sanitaire des aliments :

- Amélioration de l'efficacité du système d'innovations agricoles : le Gouvernement a déjà créé des structures chargées (comités, groupes de travail,...) du suivi des contrats - programmes signés avec les filières (approche verticale) qui comprennent tous des volets de vulgarisation et de formation. En outre, le Gouvernement du Maroc a régionalisé les services déconcentrés du Ministère de l'Agriculture et de la Pêche Maritime et les Chambres d'Agriculture.
Il a également initié la création de 6 centres régionaux de l'Institut National de la Recherche Agronomique, l'élaboration un statut juridique pour les conseillers agricoles privés, et la mise en place du centre de formation Centre des Ressources Pilier II à Ifrane.

Le Ministère de l'Agriculture et de la Pêche Maritime a ouvert le chantier du conseil agricole afin d'accompagner la mise en œuvre du Plan Maroc Vert par un dispositif pluriel de conseil agricole fondé sur l'autonomisation progressive des agriculteurs et la responsabilisation des acteurs.

L'Etat régule et stimule le développement du conseil agricole privé tout en restant garant d'un service public de proximité aux agriculteurs. Les acteurs privés sont responsabilisés pour relayer l'action de l'Etat.

La mise en œuvre de la stratégie du conseil agricole enclenchée, en 2011, avec des projets en cours de déploiement a connu l'état d'avancement suivant :

- *Création de l'Office National de Conseil Agricole (ONCA)* : le projet de loi 58-12 est en cours de publication,
- *Mise en place du dispositif de coordination et de suivi de la stratégie (PMO)*,
- *Modernisation du réseau local* : réhabilitation et équipement structures de proximité,
- *Mise en place du réseau virtuel de connaissance agricole* à travers la signature d'une convention entre le MAPM et la FAO pour la mise en place du réseau virtuel « *Projet VERCON* ».

Au delà de l'adoption de cette stratégie et afin d'améliorer l'efficacité du système de recherche et développement agricole, un mécanisme compétitif d'octroi de financement pour des projets de recherche appliquée et de vulgarisation (MCRDV) a été établi lors du PPD1. Des comités consultatifs aux niveaux national et régional ont été créés pour coordonner les actions de recherche appliquée, de vulgarisation et de formation (approche horizontale), y compris les activités ne faisant pas partie des contrats-programmes. Ces comités sont composés des représentants des secteurs public et privé et de la société civile. Ils opèrent sur la base de règles uniformes.

Le comité de coordination national du MCRDV a été mis en place par le MAPM le 20 octobre 2011. A ce jour, 9 projets de recherche et développement ont été retenus dont 6 ont été sélectionnés par ce comité pour financement sous le mécanisme compétitif. Ces projets seront mis en œuvre sur une période de 3 années (septembre 2012-septembre 2015). Le budget alloué

à ce mécanisme a atteint de 6 millions de DHS en 2012 et 7 millions de DHS sont prévus pour 2013.

- Etablissement d'un système efficace de contrôle sanitaire des aliments. Le Gouvernement du Maroc a déjà créé l'Office National de Sécurité Sanitaire des Produits Alimentaires par Dahir n° 1-09-20 du 22 safar 1430 (18 février 2009) portant promulgation de la loi n° 25-08 portant création de l'Office National de Sécurité Sanitaire des Produits Alimentaires, et approuvé la Loi sur la Sécurité Sanitaire des Aliments. Le programme se concentrera ainsi sur la mise en place des textes d'application et des actions administratives nécessaires qui s'ensuivent. Ces actions seraient complétées par une campagne intégrée d'information et d'accompagnement des consommateurs, producteurs et entreprises agro-industrielles.

4. Amélioration de l'usage et la gestion de l'eau d'irrigation et de la planification des aménagements hydro-agricoles.

Cet axe vise les objectifs suivants :

- Améliorer l'efficacité et la durabilité de l'usage de l'eau par les agriculteurs.
- Améliorer les performances des opérateurs du service d'irrigation.
- Améliorer la planification des aménagements hydro-agricoles.

En vue d'atteindre ces objectifs, L'Etat prendra les mesures suivantes :

- **Poursuivre les efforts de promotion du développement de l'irrigation localisée tout en incitant les agriculteurs à déclarer leurs prélèvements d'eau dans les nappes en vue d'une utilisation de l'eau d'irrigation plus efficace et durable.** Le Gouvernement du Maroc a déjà amélioré de manière significative le cadre incitatif pour le développement de l'irrigation localisée et de complément par la mise en place d'une politique volontariste de reconversion aux techniques d'irrigation économes en eau à travers la modernisation des réseaux publics d'irrigation et l'octroi des incitations financières conséquentes pour l'acquisition des équipements internes d'irrigation en vue de donner une impulsion au Programme National d'Economie d'Eau en Irrigation (PNEEI).

L'Etat a mis en place des mesures visant à compléter ce cadre incitatif en révisant le taux de participation des agriculteurs au coût de l'équipement externe de modernisation des réseaux d'irrigation et en exigeant des bénéficiaires des subventions de se mettre en conformité avec la loi sur l'eau en matière de prélèvements sur les nappes. Dans ce sens, l'arrêté et l'instruction réglementant les aides de l'Etat à l'irrigation localisée ont été publiés et un projet de loi d'amendement de la loi n°23-97 est transmis au Secrétariat Général du Gouvernement pour le mettre dans le circuit d'approbation.

- **Améliorer les performances techniques et financières des opérateurs du service d'irrigation en vue d'assurer l'efficacité et la durabilité des équipements hydro-agricoles.** Le Gouvernement du Maroc vient d'initier une réforme globale et structurante des services déconcentrés et décentralisés permettant donner une meilleure visibilité sur le devenir du service de l'eau d'irrigation au sein des ORMVA et sur les conditions pour assurer un service de l'eau efficace et durable.

La réforme projetée prévoit la refonte des services déconcentrés du Département et des Offices Régionaux de Mise en Valeur Agricole en les intégrant dans le cadre de seize Offices Régionaux de Développement Agricole et Rural. Ces offices auront pour missions de contribuer à l'actualisation et l'élaboration des Plans Agricoles Régionaux et d'assurer leur mise en œuvre, ainsi que celle des Plans Régionaux de Développement Rural et la maîtrise d'ouvrage déléguée pour le compte de l'Etat et des collectivités territoriales.

La réforme fixe, également, les conditions d'autonomie managériale et financière du service d'irrigation. A cet effet, il est prévu de confier la gestion du service de l'eau à une filiale société anonyme gérée de façon autonome pour assurer l'exploitation et l'entretien des réseaux d'irrigation et la gestion du service de l'eau dans les périmètres actuellement gérés par les Offices Régionaux de Mise en Valeur Agricole. Cette filiale dont les relations avec l'Etat et avec l'ORDAR seront régies par une convention qui garantira que les recettes soient affectées à l'exploitation et à l'entretien des réseaux en vue d'améliorer le service de l'eau et en assurer la pérennité des aménagements hydroagricoles et les relations avec les usagers seront gérées par des contrats de fourniture d'eau permettant de garantir un service de l'eau de qualité dans le cadre d'une tarification permettant la couverture des coûts du service.

L'action à inscrire dans le cadre de ce PPD2 consistera en l'introduction dans le circuit d'approbation (Transmission au Secrétariat Général du Gouvernement) de 16 projets de loi consacrant la création des Offices Régionaux de Développement Agricole et Rural et la filialisation du service de l'eau dans les périmètres irrigués gérés par les ORMVA en vue d'en assurer une autonomie financière et managériale.

- **Assurer la cohérence des investissements en irrigation avec les investissements en mobilisation de l'eau en vue de valoriser l'eau mobilisée.** Le Gouvernement a planifié un programme de développement de l'irrigation en aval des barrages existants en vue de réduire le décalage entre les superficies dominées par les barrages et les superficies équipées en réseaux d'irrigation. Les actions proposées dans ce cadre visent à anticiper les décalages potentiels qui pourraient être créés suite à la construction de nouveaux barrages programmés et ce, par l'établissement des plans d'investissement et des études de faisabilité des périmètres d'irrigation.

IV- Modalités de suivi et de mise en œuvre du programme de réforme

En plus du suivi évaluation opérationnel du programme qui sera assuré par la Direction de la Stratégie et des Statistiques du Ministère de l'Agriculture et de la Pêche Maritime, le comité de pilotage, mis en place lors du premier PPD, au niveau du Ministère des Affaires Générales et de la Gouvernance, assurera la coordination interministérielle, et du suivi stratégique de sa mise en œuvre. A titre de rappel, ce comité regroupe les représentants des départements ministériels et organismes intervenant dans le programme à savoir le Ministère de l'Agriculture et de la Pêche Maritime, le Ministère de l'Economie et des Finances, le Ministère de l'Intérieur, le Ministère du Commerce de l'Industrie et des Nouvelles Technologies, l'Office National de la Sécurité Sanitaire des produits Alimentaires et l'Agence pour le Développement Agricole.

Conscient de la nécessité d'assurer l'adhésion autour des objectifs et des modalités d'exécution du Plan Maroc Vert, le Gouvernement Marocain compte élaborer une stratégie de communication qui définira les messages, les audiences cibles, ainsi que les moyens appropriés pour y parvenir.

Compte tenu de l'ampleur de ce programme de réforme qui s'inscrit dans la continuité des efforts déjà entrepris, le Gouvernement du Maroc compte sur l'appui de votre institution par un Prêt de Politique de Développement.

En vous remerciant pour l'intérêt que la Banque Mondiale porte au développement de ce secteur, je vous prie de croire Monsieur le Président, à l'expression de ma considération distinguée.

Le Ministre de l'Agriculture
et de la Pêche Maritime



Aziz AKHANNOUCH

UNOFFICIAL TRANSLATION
Original signed February 7, 2013

No.....DSS/DC/SCM

Rabat,.....

Mr. Jim YONG KIM
President of the World Bank
1818 H Street N.W., Washington, D.C.

Subject: Agricultural Sector Letter of Development Policy

Mr. President,

As you are aware, since the late 1990s, Morocco has been undertaking a raft of visible reforms that have led to structural changes and remarkably robust activity in the different areas of economic activity. Because of these reforms, the gains made by the domestic economy have been strengthened while maintaining domestic economic equilibrium, despite the rapid changes in the international environment and years of drought. These reforms have been reflected, in particular, in the acceleration of economic growth, support for the private sector, greater competitiveness of our productive fabric, Morocco's enhanced level of integration into the global economy, improvement in the public finance situation, efforts to reduce poverty and exclusion, and improvement in the human development indicators used to record further progress that tangibly and significantly impacts the lives of the people.

Against this backdrop, the Government is determined to continue these reforms and ensure the preservation of financial equilibrium in accordance with the provisions of the new constitution. In the Government's 2012-2016 program adopted by the Parliament, the Government made a commitment to work toward preserving and strengthening financial and macroeconomic equilibria, with the aim of guaranteeing, among other things, a national and international investor-friendly business climate.

In order to ensure external equilibrium, the Government will seek to correct the external structural disequilibria noted with respect to the trade balance and the current account balance of payments by identifying and eliminating constraints to investment and competitiveness, in the context of an integrated vision, including the constraints linked to production factor cost, logistics, exports, education and training, and the investment climate.

I- THE AGRICULTURAL SECTOR

Agriculture is an important pillar for Morocco's development. Its economic and social weight, the key linkage it provides to the rural areas, and its myriad functions in the food, economic, social, and environmental areas, in particular, make it a powerful engine of our country's development.

The importance of the agricultural sector is reflected in its significant contribution to national GDP (15 percent to 20 percent) and job creation, particularly in rural areas where agriculture remains the main employer (80 percent) and the main source of income (1.5 million farmers).

National agriculture meets the needs of the local food market either fully or partially. National demand met by local production has been put at 55 percent for grain, 100 percent for fruits and vegetables, 43 percent for sugar, 20 percent for oil, 90 percent for dairy, and up to 100 percent for meats. Grain, vegetable oil and oil seeds, sugar, and dairy products account for 66 percent of the average value of agricultural imports.

Food exports account for 19 percent of the country's global exports (DH 22 billion) and are comprised largely of fresh citrus and fresh and canned vegetables, which account for 20 percent, 20 percent, and 16 percent, respectively, of the average value of agricultural exports.

Irrigated areas, which cover 1.4 million hectares or 15 percent of agricultural land, account for 45 percent of agricultural value added. This land, although unevenly distributed throughout the country, constitutes hubs of development that contribute significantly to strengthening and stabilizing Morocco's food security situation and to improving living conditions in rural areas.

Furthermore, our agriculture revolves mainly around grain (70 percent of the utilized agricultural area (UAA) and 10 percent of employment) and is thus too vulnerable to climate-related events. For this reason, it is important to adapt agricultural policies to the agroecological diversity offered by the country and to the effects of climate change.

In the case of a sizeable part of the sector and in terms of the different regions, the network of actors is fragmented, weak, disorganized, and incapable of handling the challenges of modern agriculture using its own resources. Indeed, the deficient nature of the network of actors and a lack of organization of the sectors around agroprocessors (*agrégateurs*) with strong investment and management potential, continue to be the main reason for the low productivity of Morocco's agricultural sector, as well as the lack of investment and development. This is also the main reason for inadequate financing of the sector by the national banking system, which meets a mere 16 percent of needs in this area.

Marketing is a key phase in the development of agricultural products, with proven competitiveness during the production stage. A sales strategy for both the domestic and export markets needs to be developed in order to achieve fixed objectives. Depending on the

situation, the domestic market could derive benefit from and/or serve as a catalyst for this process.

However, the domestic marketing channels are plagued by structural deficits linked to the lack of liberalization and competitiveness as well as dysfunctions in the setting of benchmark prices and the exchange of information pertaining thereto at the national level, as well as limitations that curb the development of a modern distribution system.

Transaction costs for agricultural products remain high. Efforts are being made to modernize domestic market distribution channels (reform of wholesale commerce, upgraded infrastructure, the promotion of quality through labeling, traceability, geographic origin, etc.).

From the standpoint of strategy, the effective functioning of the domestic market built around organized actors facilitating the supply of quality products to Moroccan consumers at competitive and/or affordable prices is reflected in the following main features:

- Enhanced market access through the gradual liberalization of domestic markets;
- Upgrading of quality and hygiene standards;
- Promoting the modernization of marketing channels.

Furthermore, domestic agriculture has been clearly placed on a path of openness to international markets, either through unilateral trade liberalization initiatives or bilateral or multilateral free trade agreements.

This openness has allowed the sector to outsource a portion of its productive potential and thus help achieve progress with the domestic and external markets. An effort is underway to adapt the mechanism for supporting and protecting the domestic agricultural production sectors, based on the objectives set for the sector, while being mindful of Morocco's international commitments.

Taking into account international market conditions and the projected long-term trends in international markets for agricultural products (trend toward higher demand, high prices for food products, greater demand for biofuels, significant volatility in agricultural commodity prices), adjustment of tariff protection measures should be accompanied by the establishment of a framework conducive to more efficient allocation of sector resources and improved competitiveness of national sectors, which ensure growth of the sector and food security for the country.

This also entails enhanced long-term projections with respect to investors and operators and an effort to foster long-term commitment by actors.

To build on our progress and benefit from the strategic position that Morocco can enjoy as a platform for trade flows, business, and investment, an aggressive export promotion strategy is also necessary, in particular through the harmonization of regulations and procedures, continued support for sector momentum, the promotion of quality and the Moroccan label for

high-value commercial products, the development and promotion of certain niche markets and local products, market exploration, etc.

To address these different constraints, Morocco implemented its new national road map for the agricultural sector called the Morocco Green Plan [*Plan Maroc Vert* PMV] two years ago. It is aimed at modernizing agriculture and harmoniously integrating it into the domestic and international markets.

This Plan aims to make the agricultural sector the main engine of national economic development over the next 15 years, where clearly defined, quantitative targets are set and shaped at the territorial level through Regional Agricultural Plans.

II- GOVERNMENT'S AGRICULTURAL STRATEGY

The Morocco Green Plan adopted a pragmatic global approach aimed at mobilizing all agricultural development actors. It rests on two pillars:

- ✓ The first pillar focuses on modern, production-driven agriculture that complies with market rules by relying on private investment in high-value-added and high-productivity sectors.
- ✓ The second pillar focuses on support for social agriculture and combating poverty in areas with fragile economies by increasing the incomes of poor farmers through the implementation of integrated and economically viable projects.
- ✓

The socioeconomic impact of this strategy is far-reaching in terms of value added, investment, job creation, and higher income for farmers. In addition, the Morocco Green Plan is based on restructuring the sectoral framework and enhancing cross-cutting factors, in particular those related to water and land policies and interprofessional collaboration.

Central to this plan is enhanced upstream and downstream integration with strengthened investment. This agro-industrial downstream process, which possesses significant potential for development, adopts the model of agro-processing arrangements (*modèle d'agrégation*) between small and medium-sized actors and larger ones.

In order to cover the entire sector, this strategy involves a portfolio of projects that are useful to both modern and intensive agriculture (Pillar 1) and social agriculture (Pillar II):

- The objective of Pillar I: Strengthen and develop efficient agricultural processes that are in line with market rules, based on new private investment flows organized around new and equitable agro-processing arrangements (700 to 900 specific agro-processing arrangements and investment amounting to DH 110 billion to 150 billion over a ten-year period);
- The objective of Pillar II: Develop an approach oriented toward combating poverty by significantly increasing the agricultural revenue of the most vulnerable farmers, particularly

in fragile zones (550 social projects amounting to DH 15 billion to 20 billion over a ten-year period).

The founding principle is one of public intervention where private initiative is inadequate to foster a growth process. Private investment is generated by national and international investors entering the sector, with investment focused on win-win agro-processing arrangements resulting from Morocco's tailored and specific supply.

This development plan has required significant reforms and is based on organized and accountable governance that is replicated in each region of Morocco by the various sector participants and operators—farmer representatives, local governments, professionals, and the relevant government ministries.

Morocco Green Plan: Achievements

During its first phase of execution, a series of important institutional reforms was launched as part of the Morocco Green Plan. They include:

- The reorganization of the Ministry of Agriculture and Maritime Fisheries (MAPM) at the central level (May 2009), with greater decision-making authority being granted to the regions;
- The establishment of a new Agency for Agricultural Development (*agence de développement agricole* ADA) to promote private investment in the agricultural sector and a National Food Safety Office (*Office national pour la sécurité sanitaire des aliments*), with the promulgation of a law on the safety of food products, currently an important tool for regulating and organizing the agroindustrial sector;
- The establishment of 16 Regional Agricultural Directorates [*Directions Régionales de l'Agriculture* DRA] and 16 Chambers of Agriculture [*Chambres d'Agriculture*] with portfolios composed of the 16 Regional Agricultural Plans [*Plans Agricoles Régionaux* PAR], which represent the individual Morocco Green Plan goals for each region from the standpoint of projects, investments, employment, exports, etc.);
- The creation of the Agency for the Development of Oasis and Argan Zones [*Agence pour le Développement des Zones Oasiennes et de l'Arganier*] (approved by the Council of Government in May 2010);
- The establishment of a Center for Resource Promotion (pillar II) (CRP II) in Ifrane;
- The creation of the National Food Safety Office.

With a view to achieving the objectives pertaining to wealth and job creation and poverty reduction, win-win partnerships were concluded and implemented with stakeholders at various levels (sectoral, regional, etc.), and related to the following:

- 17 program contracts concluded between the Government and professionals for the following sectors: sugar, citrus, grain, market gardening, date palms, milk, red meat, poultry farming, seeds, olive growing, fruit farming, organic farming, apiculture, camel

rearing, argan, rosebush, saffron, as well as institutional mechanisms for annual monitoring and evaluation of their implementation;

- The establishment of 15 interprofessional associations bringing together all actors in the value chains;
- 16 Regional Agricultural Contracts for the individual implementation of the Morocco Green Plan in each region in terms of projects, investments, jobs, and exports have been implemented with the local partners (local governments, Chambers of Agriculture, and the relevant ministerial departments);
- The establishment of a Project Management Office to manage program contracts concluded between the Government and professionals;
- Partnership agreements concluded between the Government and local banks are also in place to provide financial assistance, including the establishment of a specialized structure to provide financing to small farmers. Other partnerships were also launched with relevant public and private sector operators (water sector operators, agroprocessors [*agrégateurs*], national and international donors, NGOs, etc.);
- A complete revision of the agricultural incentive system with a view to enhancing its key role in the expansion of agricultural investments and ensuring its effective contribution to the achievement of the objectives of the Morocco Green Plan in all the production sectors involved.

The rapid on-the-ground implementation of this reform of the Agricultural Development Fund was made possible by major support measures, including in particular the strengthening of the role of one-stop windows in province-level agricultural directorates and regional agricultural development offices, the implementation of an information system through which all subsidy requests from farmers are processed, and the unveiling of a communication and information plan for farmers and potential investors.

The MAPM has put in place a new risk management and agricultural insurance strategy, with a view to supporting implementation of the Morocco Green Plan. At the start of the 2011/2012 agricultural season, the MAPM, in collaboration with *Mutuelle Agricole Marocaine d'Assurances* (Moroccan Mutual Agricultural Insurance Company, MAMDA), introduced the “comprehensive climate” insurance product to cover grain and vegetable harvests threatened by a raft of climate hazards. This product, developed to meet the expectations of agricultural sector actors, provides nationwide coverage for the following major climate risks: drought, hail, frost, high winds, sandstorms, and flooding. Since its inception, this new product has proved extremely popular with farmers, surpassing the ambitious target of 300,000 hectares set by the Government and MAMDA to reach 327,000 hectares by end-2011.

A new Agricultural Council strategy was designed and seeks to strengthen support for farmers and increase the transfer of agricultural know-how on the ground. This strategy will help ensure the provision of a public outreach service to all farmers, and achieve a coverage rate of 1 advisor per 1,350 farmers by 2015, compared to the current rate of 1 advisor per 3,800 farmers.

This strategy is structured around three main objectives:

- **The development of the private agricultural council**, with an appropriate legal framework, and the gradual reduction of subsidies for agricultural council services under certain conditions;
- **The revitalization of government services** by modernizing local government structures and implementing new modern communication and knowledge management tools; and
- **The empowerment of bodies representing farmers** (Chambers of Agriculture and interprofessional associations) through a contractual commitment set forth in a participatory road map.

The strategy seeks to provide sustained and effective support of projects and productive sectors included in the Regional Agricultural Plans. It has been broken down into multi-year action plans that define new governance mechanisms, tools, and methods for disseminating agricultural knowledge, with a view to establishing a versatile and effective agricultural council mechanism that will be in line with the ongoing changes in the agricultural sector.

The mainstreaming of gender into the agricultural strategy is another area covered by the Morocco Green Plan. Indeed, the contributions made by rural women to the agricultural sector are manifested in:

- Their strong and effective participation in agricultural activities;
- Their involvement in the development of biological resources;
- Their role as managers; and
- Their organizational and team work skills.

In light of the immense potential of rural women and the important value added they are capable of generating for agricultural development, the Department of Agriculture, in conjunction with the World Bank, is currently launching a study to strengthen the “gender” dimension in the Morocco Green Plan, with the ultimate aim of creating conditions conducive to greater competitiveness of microenterprises headed by women and increased involvement of rural women in the economic growth process in their regions.

Morocco Green Plan: Key Figures

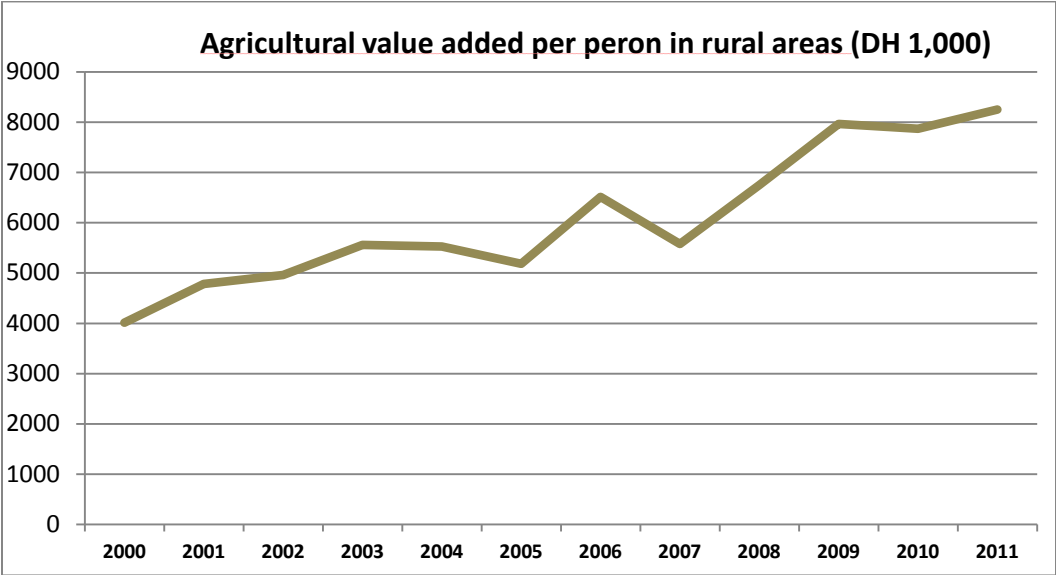
Four years since its launch, the new agricultural strategy has been strengthened and implemented. It has given visibility to national and international actors and is an effective development and anti-poverty tool for Morocco.

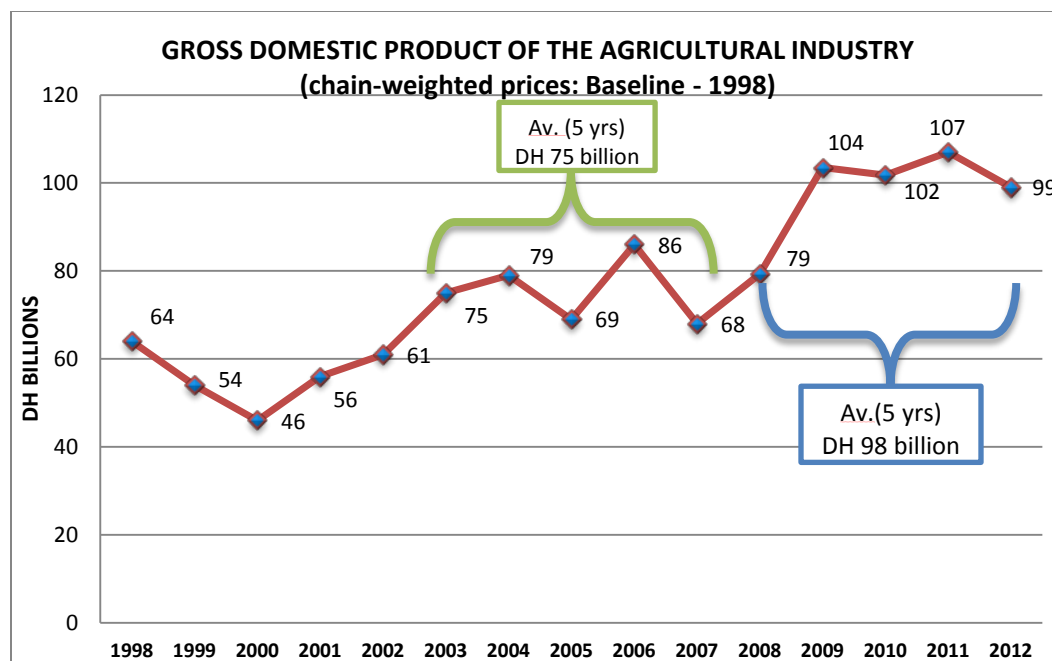
As a result of the various actions launched since the implementation of the Morocco Green Plan, production outcomes have improved considerably in all sectors except the sugar sector. The MAPM plans to correct this situation with the prompt signing of the new sugar program contract that targets a 53 percent self-sufficiency rate by 2020, thereby equipping the sector upstream with the resources needed to ensure its development.

The MAPM and the agricultural professionals involved agreed to implement far-reaching programs to upgrade the production sectors, by not only establishing quantitative objectives but also by providing assistance with interprofessional organization through support with overall value chain structuring (quality promotion, research, training, technology transfer, etc.). By way of example and to better illustrate the real progress achieved by the Morocco Green Plan on the ground, growth production figures for the various sectors for the periods 2005-2007 and 2008-2012 are as follows:

- +67 percent for olives: an increase from 774,000 metric tons to 1,295,000 metric tons;
- + 42 percent for grain: an increase from 57 million Qx to 80 million Qx T;
- +40 percent for dates: an increase from 81,000 metric tons to 114,000 metric tons;
- + 40 percent for white meat: an increase from 363,000 metric tons to 508,000 metric tons;
- +28 percent for citrus: an increase from 1,251,000 metric tons to 1,599,000 metric tons;
- +21 percent for milk: an increase from 1.68 billion liters to 2.03 billion liters; and,
- + 17 percent for red meats: an increase from 363,000 metric tons to 426,000 metric tons.

In terms of the impact of the Morocco Green Plan on overall agricultural growth, there was a sharp increase in the agricultural value added per person and the gross domestic product for the agricultural industry, as illustrated below:





III- Development Policy Loan:

While the Morocco Green Plan continues to implement its major reforms, the Development Policy Loan (DPL), the focus of this Letter of Development Policy, seeks to support the implementation of this Program that focuses on the following areas:

- The integration of farmers into the domestic market;
- The improvement of the socioeconomic impact of Pillar II projects targeting small farmers;
- The improvement of agricultural services; and
- The improvement of irrigation water use and management and of planning.

1. Integration of farmers into the domestic market

The general objective is to improve the institutional and regulatory framework governing wholesale fruit and vegetable markets, slaughterhouses, and their management, with a view to:

- Ensuring greater access by producers to quality wholesale markets and slaughterhouses;
- Increasing agricultural revenue;
- Improving the quality and safety of agricultural inputs and products; and
- Reducing the transaction costs for fruit, vegetables, and meat on domestic markets.

In order to achieve these objectives, the Government essentially implemented the following measures under the first DPL, which have:

- **Improved the institutional and regulatory framework governing wholesale fruit and vegetable markets** with the implementation of a National Policy for Wholesale Fruit and

Vegetable Markets and the implementation of pilot projects for fruit and vegetable markets introducing new management models.

A strong interministerial partnership was established to ensure constructive and pragmatic monitoring of these actions. A monitoring committee appointed by the Minister of Agriculture was set up to work closely with the partners involved with the national policy for wholesale fruit and vegetable markets, consistent with the program's direction.

This effort will be continued under the second DPL with the signing of three agreements between local governments and the relevant government ministries for the implementation of pilot projects for wholesale fruit and vegetable markets that seek to introduce new management models.

First, an agreement will be signed between the Ministry of the Interior, the Ministry of Agriculture and Maritime Fisheries, the Ministry of Industry, Commerce, and New Technologies, the Oriental Region, the Urban Commune of Berkane, the Rural Commune of Madagh, and the Oriental Development Agency. This agreement aims to define a partnership framework between the contracting parties with a view to establishing a wholesale fruit and vegetable market that will be managed using a new method. Two other pilot projects for wholesale fruit and vegetable markets will follow.

- **Improved the institutional and regulatory framework governing slaughterhouses** and red meat distribution systems through the development of standard technical specifications for private slaughterhouses on one hand and integrated projects on the other.

To that end, the program contract for the red meat industry promoted outsourcing management of commune-level slaughterhouses to the private sector as the major area of focus for the development and operationalization of the industry.

In this connection, the first DPL facilitated validation of two sets of Specifications regarding the efficiency of slaughterhouses. The first relates to the standards defining sanitary, hygienic, and facility requirements for private slaughterhouses (adopted by ONSSA in 2010), while the second pertains to contractual, administrative, and technical requirements for the operation of private municipal slaughterhouses (adopted by the MI and MAPM in November 2012).

Moreover, as part of the effort to develop the red meat industry, a draft decree amending and supplementing the vizirial decree of September 28, 1955 on food safety control of "*viandes foraines*"³⁷ and a joint draft decree from the Minister of the Interior and the Minister of Agriculture and Maritime Fisheries establishing the conditions for the introduction and sale of market meats were submitted for the approval of the General Secretariat of the Government.

³⁷ *Viandes foraines* refers to meat from slaughterhouses sold outside of its place of origin.

2. Improvement of the socioeconomic impact of Pillar II projects targeting small farmers

The overall objective of Pillar II is to improve the socioeconomic impact of projects by improving their governance and funding and establishing the legal and institutional framework governing agro-processing (*agrégation*).

To that end, the Government adopted a participatory, inclusive, and transparent approach to implement Pillar II projects. The Regional Agricultural Plans have provided the Ministry of Agriculture and Maritime Fisheries with a clear road map that lays out a short-, medium-, and long-term vision. The planned actions seek to strengthen good governance with a view to ensuring ownership of projects and thus their sustainability.

This approach also helped ensure that small farmers in the target areas, including women and young people, contributed to the decision-making and implementation process for Pillar II projects. A project prioritization manual and a procedures manual are being drafted for this purpose.

Improvements to the on-the-ground implementation procedures for Pillar II projects were made as follows:

- The introduction of contracts as a prerequisite for implementation of Pillar II projects (circular dated February 23, 2012 disseminated to the Regional Agricultural Directorates, Province-level Agricultural Directorates, and the Regional Agricultural Development Office (ORMVA), calling on these entities to ensure compliance with a number of prerequisites prior to commitment of credit to Pillar II projects);
- The introduction of a new implementation procedure for Morocco Green Plan projects that stipulates, among other things, the strengthening of the participatory approach during all project phases;
- Decisions to appoint members of the Local Technical Committees (50 decisions relating to the Province-Level Technical Committees); and
- The integration of the environment and climate change component into the Morocco Green Plan.

This adaptation to the prevailing conditions helped create a climate of confidence with the farmers, as evidenced by the year-on-year increase in the level of involvement and the “influence” of the farmers and their Agricultural Professional Organization (OPA) in Pillar II projects.

In 2010, five percent of small farmers benefited from Pillar II projects; by September 2012, this figure had risen to over 25 percent. Furthermore, the percentage of new Pillar II projects proposed by professional agricultural organizations jumped from 15 percent in 2010 to more than 36 percent in 2012.

In addition, an on-line monitoring and evaluation system for implementation of Pillar II projects is being upgraded at both the central (ADA) and regional (DRA) levels, and will be based on clearly defined reference indicators. To that end, a monitoring and evaluation framework comprising results indicators for each Pillar II project has already been developed by ADA.

A circular from the Minister of Agriculture was also disseminated in the regions to communicate the documents on Pillar II projects.

Similarly, the Government institutionalized the incentives provided to small farmers under the agro-processing arrangements (*agrégation*): Law No. 04-12 on agricultural agro-processing arrangements was published in the Official Gazette of August 2, 2012 and a decree regulating government incentives for investments in agro-processing arrangements projects is being published in this regard. The implementing decrees for this law are being drafted.

The model of agro-processing arrangements is based on the conclusion of a tripartite agreement between the agro-processors, the small farmers involved in the agro-processing arrangements (*agrégés*), and the Government seeks to help overcome existing land constraints, promote small farmer organizations, encourage risk sharing, optimize production and marketing links, and enable producers to gain access to financing, knowledge, and technologies.

3. Improvement of agricultural services

The general objective is to enhance the effectiveness of the agricultural innovation system and strengthen the efficiency of sanitary food control:

- Improved efficiency of the agricultural innovation system: the Government has already established structures (committees, working groups, etc.) and tasked them with monitoring program contracts signed with the sectors (vertical approach), which include all extension and training components. The Government of Morocco also decentralized the deconcentrated services of the Ministry of Agriculture and Maritime Fisheries and the Chambers of Agriculture.

It also created six regional centers for the National Institute for Agronomic Research, developed a legal framework for private agricultural advisors, and established the training center (CRP II) in Ifrane.

The Ministry of Agriculture and Maritime Fisheries launched the agricultural advisory services with a view to supporting implementation of the Morocco Green Plan using a versatile agricultural advisory mechanism that is based on the gradual autonomy of farmers and the accountability of the actors.

The Government regulates and stimulates the development of private agricultural advisory services, while remaining responsible for the provision of a public outreach service to farmers. Private stakeholders are responsible for replicating government actions.

The implementation of the agricultural council strategy launched in 2011 along with projects currently being executed has produced the following results:

- *The establishment of the National Agricultural Council Board (Office National de Conseil Agricole ONCA):* draft law 58-12 is in the process of being published;
- *The introduction of the strategy coordination and monitoring mechanism (PMO);*
- *The modernization of the local network:* rehabilitation and equipping of local structures; and
- *The establishment of the virtual agricultural knowledge network* with the signing of an agreement between the MAPM and FAO for the establishment of the “VERCON project” virtual network.

In addition to the adoption of this strategy and with a view to enhancing the effectiveness of the agricultural research and development system, a competitive financing mechanism for applied research and extension projects (MCRDV) was established under the first DPL. National and regional advisory committees were established to coordinate applied research, extension, and training activities (horizontal approach), including activities not included in the program contracts. These committees are composed of representatives of the public and private sectors and civil society, and observe uniform rules of operation.

The MCRDV’s national coordination committee was established by the MAPM on October 20, 2011. To date, nine research and development projects have been identified, six of which were selected by this committee for financing by the competitive mechanism. These projects will be implemented over a three-year period (September 2012-September 2015). The budget earmarked for this mechanism amounted to DH 6 million in 2012, and the sum of DH 7 million has been projected for 2013.

- Establishment of an effective food safety control system. The Government of Morocco has already established the National Food Safety Office through Dahir No. 1-09-20 of 22 Safar 1430 (February 18, 2009) promulgating Law No. 25-08 establishing the National Food Safety Office, and approved the Law on Food Safety. The program will therefore focus on the application of the implementing provisions and the necessary ensuing administrative actions. These actions would be bolstered by an integrated information and support campaign for consumers, producers, and agroindustrial enterprises.

4. Improvement of irrigation water use and management and of planning of hydro-agricultural facilities

The following objectives are targeted:

- Improve the efficiency and sustainability of water use by farmers;
- Improve the performance of irrigation service operators; and
- Improve planning of hydro-agricultural facilities.

The Government will take the following steps to achieve these objectives:

- **Continue efforts to promote the development of drip irrigation while encouraging farmers to declare their water abstraction with a view to more efficient and sustainable irrigation water use.** The Government of Morocco has already significantly improved the incentive framework for drip and supplemental irrigation development with the introduction of a proactive policy to shift to irrigation water-saving techniques by modernizing public irrigation networks and providing substantial financial incentives for the purchase of on-farm irrigation equipment in order to galvanize the National Irrigation Water Conservation Program (*Programme National d'Economie d'Eau en Irrigation* PNEEI).

The Government implemented measures to supplement this incentive framework by revising the farmer participation rate in the cost of off-farm irrigation network modernization equipment and by requiring farmers receiving subsidies to comply with the law on water abstraction. In this connection, the decree and directive regulating government aid for drip irrigation were published and a draft amendment of Law No. 23-97 is being submitted to the Secretariat General of the Government for its approval.

- **Improve the technical and financial performance of irrigation service operators with a view to ensuring the efficiency and sustainability of hydro-agricultural facilities.** The Government of Morocco recently launched a comprehensive structural reform of decentralized and deconcentrated services in order to provide a clearer vision of the future of the irrigation water service within ORMVAs and the conditions for providing efficient and sustainable water services.

The projected reform provides for an overhaul of the deconcentrated services of the Department and Regional Agricultural Development Offices by integrating them into the 16 Regional Agricultural and Rural Development Offices. These offices will be tasked with contributing to the updating and development of the Regional Agricultural Plans and ensuring the implementation of these plans and the Regional Rural Development Plans, and will be responsible for delegated management on behalf of the Government and regional and local authorities.

The reform also establishes the conditions for managerial and financial autonomy of the irrigation service. Plans are therefore in place to entrust management of the water services to an independently managed subsidiary of a limited liability company that will be responsible for the operation and maintenance of the irrigation networks, as well as management of the water service in the areas currently managed by the Regional Agricultural Development Offices. This subsidiary's relationship with the Government and the ORDAR will be governed by an agreement that will ensure that revenues are allocated for the operation and maintenance of the networks, with a view to improving the water service and guaranteeing the sustainability of the hydro-agricultural facilities. Relationships with users will be governed by water supply contracts to provide quality water services based on a rate structure that will cover service costs.

Actions to be taken under this second DPL will entail the introduction for approval (Transmission to Secretariat General of the Government) of 16 draft laws pertaining to the establishment of the Regional Agricultural and Rural Development Offices and the transfer to a subsidiary of provision of water services in the irrigated areas managed by the ORMVAs, with a view to ensuring their financial and managerial autonomy.

- **Ensure coherence of irrigation investments with water mobilization investments in order to use available water more efficiently.** The Government has planned an irrigation development program downstream of existing dams with a view to reducing the gap between areas dominated by dams and areas with irrigation networks. Proposed actions seek to anticipate potential gaps that could develop subsequent to the planned construction of new dams, through the establishment of investment plans and feasibility studies on the irrigation systems.

IV- Monitoring and Implementation Arrangements for the Reform Program

In addition to the operational monitoring and evaluation of the program to be carried out by the Strategy and Statistics Department of the Ministry of Agriculture and Maritime Fisheries, the steering committee, which was established under the first DPL in the Ministry of General Affairs and Governance, will be responsible for the interministerial coordination and strategic monitoring of its implementation. This committee is composed of representatives of the government ministries and organizations involved in the program, namely, the Ministry of Economy and Finance, the Ministry of the Interior, the Ministry of Commerce, Industry, and New Technologies, the National Food Safety Office, and the Agency for Agricultural Development.

Mindful of the need to secure buy-in of the objectives and implementation arrangements for the Morocco Green Plan, the Government of Morocco intends to design a communication strategy that will include messages and identify the target groups and appropriate resources required to achieve this goal.

Given the scale of this reform program, the continuation of an ongoing effort, the Government of Morocco is counting on your institution's support through a Development Policy Loan.

I would like to avail myself of this opportunity to thank you for the World Bank's interest in the development of this sector.

Very truly yours,

The Minister of Agriculture and Maritime Fisheries

ANNEX 2: PROPOSED POLICY MATRIX

OBJECTIVES	ACTIONS		INDICATORS
	DPL/1 (Completed)	DPL/2	
A. Domestic Markets - Improve the efficiency of domestic markets			
<i>A.1. Improve the institutional and regulatory framework governing fruit and vegetable wholesale markets</i>			
The efficiency of domestic markets is improved by reducing marketing costs and improving marketing services	The national fruit and vegetable wholesale markets reform strategy and action plan (<i>Schéma national d'orientation</i>) have been validated by MICNT, MAPM, and MI on June 25, 2010	The agreement between the municipality of Berkane, MAPM, and MI introducing a new management model in the Berkane fruit and vegetable wholesale market, has been signed on February 14, 2013	Number of fruit and vegetable wholesale markets under new management model launched (Target: 1)
<i>A.2. Improve the institutional and regulatory framework governing slaughterhouses</i>			
The efficiency of slaughterhouses is improved by reducing marketing costs and improving marketing services	The specifications for sanitary, hygienic, and facility requirements of private slaughterhouses (<i>Cahier des prescriptions</i>) have been adopted by ONSSA on October 1, 2010	The specifications for technical, administrative and contractual requirements for operating municipal slaughterhouse concessions have been adopted by inter-ministerial decision No. 59 of MAPM and MI dated October 16, 2012 Decree No. 2-12-612 dated December 4, 2012, amending and completing the Order (<i>Arrêté</i>) dated September 28, 1955 on control over hygiene and cleanliness of market meats, and the associated Order (<i>Arrêté</i>) No. 3466-12 dated December 4, 2012 issued by MAPM and MI, on the conditions of the entry and selling of market meats, have been published in the National Gazette No. 6115 dated January 7, 2013	Number of private slaughterhouses launched (Target: 7) Number of slaughterhouse concessions under new management model launched (Target: 1)
B. Agricultural Investment Support - Improve the socio-economic impacts of projects directed to small farmers			
<i>B.1. Improve the governance and public financial management of projects directed to small farmers</i>			

OBJECTIVES	ACTIONS		INDICATORS
	DPL/1 (Completed)	DPL/2	
Pillar II projects are identified and implemented in a participatory and transparent way	The manual describing procedures for prioritizing the financing for projects directed to small farmers, and the manual describing procedures for preparing, submitting, and implementing projects directed to small farmers have been adopted by MAPM on November 2, 2010	Fifty-four pre-selection technical committees for projects directed to small farmers at the de-concentrated level, have been established by MAPM in 2012	Percent of new Pillar II projects submitted by the OPA (Target: 40%)
<i>B.2. Establish a legal and institutional framework supporting contract farming</i>			
Institutionalize the incentives granted to small farmers in the framework of the contract farming (<i>Agrégation</i>)	Decree No. 2-09-600 dated December 31, 2009 and implementing regulation (<i>Arrêté</i>) No. 361-10 dated January 26, 2010 regulating Government support for contract farming (<i>Agrégation</i>) projects have been published in the National Gazette No. 5800 bis dated December 30, 2009 and No. 5818 dated March 4, 2010, respectively	Law No. 04/12 on contract farming has been published in the National Gazette No. 6070 dated August 2, 2012	Percent of small farmers benefitting from Pillar II support (Target: 15%)
C. Agricultural Services - Improve agricultural services			
<i>C.1. Improve the effectiveness of the agricultural innovation system</i>			
Improve the effectiveness of the system of agricultural research and development	The Circular (<i>Circulaire</i>) governing the competitive applied research financing mechanism has been issued by MAPM on December 8, 2010	The National Coordination Committee for Agricultural Research, Extension, and Training Activities has been established by MAPM on October 20, 2011 and the sixteen Regional Coordination Committees for Agricultural Research, Extension, and Training Activities have been established by MAPM with uniform rules of operation in 2011 and 2012	Percent of research and extension projects funded through the competitive financing mechanism (Target: 100%)

OBJECTIVES	ACTIONS		INDICATORS
	DPL/1 (Completed)	DPL/2	
The capacities of different actors (farmers, politicians, OPA, MAPM services, chambers of agriculture) to design and implement Pillar II projects are reinforced	The draft law on the legal status of the agricultural advisor (<i>Conseiller agricole</i>) has been submitted by MAPM to the Secretary General of the Government on December 14, 2010; the financing of the CRPII has been included in the 2011 budget law of the Borrower; and the acting CRPII director has been appointed by MAPM on September 16, 2010	The National Agricultural Advisory Services Strategy and Action Plan for Delivering Agricultural Advisory Services, and the associated sixteen regional action plans, have been adopted by MAPM on March 9, 2011 and May 9, 2012, respectively	Number of extension advisory services contracted to the private sector (Target: 60) Number of training days per category of actor, of which percent for women (Target: 880 days, +10%)
<i>C.2. Establish an effective food safety control system</i>			
Food safety risks are reduced and international competitiveness is enhanced	The Law No. 28/07 concerning the sanitary safety of food products has been published in the National Gazette No. 5822 dated March 18, 2010; and the food safety control functions to be delegated to private operators have been identified by ONSSA on December 14, 2010	Decree No. 2-10-473 dated September 6, 2011 implementing Law No. 28/07 on the sanitary safety of food products, has been published in the National Gazette No. 5984 dated October 6, 2011, and four associated implementing Orders (<i>Arrêtés</i>) have been submitted for approval by MAPM to the Secretary General of the Government in 2012 The cost-recovery system for veterinary and food products safety services has been adopted by inter-ministerial decision of MAPM and MEF dated August 30, 2011	Number of HACCP-certified agri-food processing establishments (Target: 700) Percent of shipments of Moroccan food and agricultural export products refused by the EU on sanitary grounds (Target: 0.08%)
D. Irrigation Water - Improve the use and the management of irrigation water and the planning of irrigation infrastructure			
<i>D.1. Improve the application efficiency of farmers' water use while preserving aquifers' sustainability</i>			
Facilitate drip irrigation development in LSI areas	Implementing regulation (<i>Arrêté</i>) No. 362-10 dated January 26, 2010 requiring the beneficiaries of State	The draft Law amending Law No. 23/97 on farmers' financial contribution to the costs of modernizing off-farm	Percentage increase in the number of declarations received of groundwater abstraction points and the number of authorizations

OBJECTIVES	ACTIONS		INDICATORS
	DPL/1 (Completed)	DPL/2	
	<p>assistance for drip irrigation to install a water metering system has been published in the National Gazette No. 5818 dated March 4, 2010; and the associated Instruction requiring these beneficiaries to include in their application package for the above assistance a declaration or authorization of water abstraction has been signed by MAPM and MEF in April 2010</p>	<p>irrigation systems, has been submitted by MAPM to the Secretary General of the Government on October 9, 2012</p>	<p>delivered for groundwater abstraction³⁸ (Target: 10%)</p> <p>Cumulative number of farmers participating in projects of collective reconversion to drip irrigation³⁹ (Target : 10,800)</p>
<i>D.2. Improve the performance of irrigation service operators</i>			
<p>Improve financial performance of irrigation service in ORMVAs</p>	<p>The decision to waive interest and fees associated with accumulated arrears for farmers who commit to reimburse their debts related to irrigation water within a period of twelve months starting from the date of signature of this decision, has been signed by MEF on April 2, 2010</p> <p>Feasibility studies defining strategic PPP options for six ORMVAs are completed</p>	<p>The draft Laws creating the ORDARs and setting the basis for the establishment of subsidiaries of the ORDARs, which will be in charge of irrigation management and which will have the legal personality and financial autonomy, have been submitted by MAPM to the Secretary General of the Government on January 15, 2013</p>	<p>Number of ORDARs created (Target: 16)</p>
<i>D.3. Improve irrigation infrastructure planning by the Government</i>			
<p>Improve coherence of planning of investments in dams and investments in irrigation</p>	<p>The integrated investment plan for the irrigation perimeters downstream of the dams under construction and those programmed for the period 2010-2012 has been transmitted by MAPM to MEF on December 1, 2010</p>	<p>Adequate funding for the irrigation perimeters located downstream of dams under construction has been allocated in the Borrower's budget laws for 2010, 2011, 2012, and 2013</p>	<p>Percentage of fully budgeted irrigation schemes associated with dams under construction or planned (Target: 100%)</p>

³⁸ Percentage increase calculated as follows: (declarations received + authorizations delivered)/2,500 - 1

³⁹ Ongoing projects only are considered.

ANNEX 3: INDICATIVE TRIGGERS UNDER DPL/1 AND DPL/2 PRIOR ACTIONS

Objectives	Policy Actions	
	DPL/2 (Indicative Triggers)	DPL/2 (Prior Actions)
A. Domestic Markets		
A.1. Improve the institutional and regulatory framework governing fruit and vegetable wholesale markets	Three conventions will be signed between local government and relevant ministerial departments for implementing fruit and vegetable wholesale market pilot projects introducing new management models	The agreement between the municipality of Berkane, MAPM, and MI introducing a new management model in the Berkane fruit and vegetable wholesale market, has been signed on February 14, 2013
A.2. Improve the institutional and regulatory framework governing slaughterhouses	The specifications for technical, administrative, and contractual requirements for operating concessions (<i>Cahier des Prescriptions</i>) will be adopted by inter-ministerial decision of MAPM-MI	The specifications for technical, administrative and contractual requirements for operating municipal slaughterhouse concessions have been adopted by inter-ministerial decision No. 59 of MAPM and MI dated October 16, 2012
	N/A	Decree No. 2-12-612 dated December 4, 2012, amending and completing the Order (<i>Arrêté</i>) dated September 28, 1955 on control over hygiene and cleanliness of market meats, and the associated Order (<i>Arrêté</i>) No. 3466-12 dated December 4, 2012 issued by MAPM and MI, on the conditions of the entry and selling of market meats, have been published in the National Gazette No. 6115 dated January 7, 2013
B. Agricultural Investment Support		
B.1. Improve the governance and public financial management projects directed to small farmers	A pre-selection technical committee for projects directed to small farmers at the provincial level will be implemented by ADA	Fifty-four pre-selection technical committees for projects directed to small farmers at the de-concentrated level, have been established by MAPM in 2012
B.2. Establish a legal and institutional framework supporting contract farming	A draft law on contract farming will be submitted for Government approval	Law No. 04/12 on contract farming has been published in the National Gazette No. 6070 dated August 2, 2012

C. Agricultural Services		
C.1. Improve the effectiveness of the agricultural innovation system	National and Regional Consultative Committees will be operational, comprising the MAPM, agricultural research and educational institutions, and professional organization, with uniform rules of operation to coordinate applied research, extension and training activities	The National Coordination Committee for Agricultural Research, Extension, and Training Activities has been established by MAPM on October 20, 2011 and the sixteen Regional Coordination Committees for Agricultural Research, Extension, and Training Activities have been established by MAPM with uniform rules of operation in 2011 and 2012
	The National Extension and Advisory Services Strategy and Action Plan for developing a mixed (public and private) system for delivering extension and advisory services will be adopted	The National Agricultural Advisory Services Strategy and Action Plan for Delivering Agricultural Advisory Services, and the associated sixteen regional action plans, have been adopted by MAPM on March 9, 2011 and May 9, 2012, respectively
C.2. Establish an effective food safety control system	The implementing texts of the Law No. 28-07 concerning the sanitary safety of the food products will be presented to the Council of Government	Decree No. 2-10-473 dated September 6, 2011 implementing Law No. 28/07 on the sanitary safety of food products, has been published in the National Gazette No. 5984 dated October 6, 2011, and four associated implementing Orders (<i>Arrêtés</i>) have been submitted for approval by MAPM to the Secretary General of the Government in 2012
	A cost-recovery system for veterinary and/or phytosanitary services will be adopted by MAPM	The cost-recovery system for veterinary and food products safety services has been adopted by inter-ministerial decision of MAPM and MEF dated August 30, 2011
D. Irrigation Water		
D.1. Improve the application efficiency of farmers' water use while preserving aquifers' sustainability	A draft amendment of the Law 23/97 on direct contribution concerning farmers' financial contribution rates to the cost of modernizing off-farm irrigation systems will be submitted to the Government Secretary General	The draft Law amending Law No. 23/97 on farmers' financial contribution to the costs of modernizing off-farm irrigation systems, has been submitted by MAPM to the Secretary General of the Government on October 9, 2012
D.2. Improve the	The adjustment plan for irrigation water tariffs will	The draft Laws creating the ORDARs and setting

performance of irrigation service operators	be implemented according to an updated calendar	the basis for the establishment of subsidiaries of the ORDARs, which will be in charge of irrigation management and which will have the legal personality and financial autonomy, have been submitted by MAPM to the Secretary General of the Government on January 15, 2013
D.3. Improve irrigation infrastructure planning by the Government	Resources for the irrigation perimeters located downstream dams under construction or programmed in the budget law will be allocated	Adequate funding for the irrigation perimeters located downstream of dams under construction has been allocated in the Borrower's budget laws for 2010, 2011, 2012, and 2013

ANNEX 4: PROPOSED RESULTS MONITORING AND EVALUATION FRAMEWORK

Indicator	Baseline 2010	Target One Year After Approval of DPL/1 March 2012	Status February 2013	Target One Year After Approval of DPL/2 March 2014
A. Improve the efficiency of domestic markets				
<i>A.1. Improve the institutional and regulatory framework governing fruit and vegetable wholesale markets</i>				
Number of fruit and vegetable wholesale markets under new management model launched	0	0	0	1
<i>A.2. Improve the institutional and regulatory framework governing slaughterhouses</i>				
Number of private slaughterhouses launched	0	2	2	7
Number of slaughterhouse concessions under new management model launched	0	0	0	1
B. Improve the socio-economic impacts of projects directed to small farmers				
<i>B.1. Improve the governance and public financial management of projects directed to small farmers</i>				
Percent of new Pillar II projects submitted by the OPA	15%	24%	36.5%	40%
<i>B.2. Establish a legal and institutional framework supporting contract farming</i>				
Percent of small farmers benefitting from Pillar II support	5%	7.4%	25.1%	15%

Indicator	Baseline 2010	Target One Year After Approval of DPL/1 March 2012	Status February 2013	Target One Year After Approval of DPL/2 March 2014
C. Improve agricultural services				
<i>C.1. Improve the effectiveness of the agricultural innovation system</i>				
Percent of research and extension projects funded through the competitive financing mechanism	0%	100%	100%	100%
Number of extension advisory services contracted to the private sector	0	29	51	60
Number of training days per category of actor, of which percent for women	180 n/a	239 n/a	1,049 20%	880 +10%
<i>C.2. Establish an effective food safety control system</i>				
Number of HACCP-certified agri-food processing establishments	300	450	600	700
Percent of shipments of Moroccan food and agricultural export products refused by the EU on sanitary grounds	0.12%	0.11%	0.11%	0.08%

Indicator	Baseline 2010	Target One Year After Approval of DPL/1 March 2012	Status February 2013	Target One Year After Approval of DPL/2 March 2014
D. Improve the use and the management of irrigation water and the planning of irrigation infrastructure				
<i>D.1. Improve the application efficiency of farmers' water use while preserving aquifers' sustainability</i>				
Percentage increase in the number of declarations received of groundwater abstraction points and the number of authorizations delivered for groundwater abstraction ⁴⁰	0% (2,500)	49.8% (3,745)	66.7% (6,245)	10%
Cumulative number of farmers participating in projects of collective reconversion to drip irrigation ⁴¹	3,000	5,774	19,443	10,800
<i>D.2. Improve the performance of irrigation service operators</i>				
Number of ORDARs created	0	0	0	16
<i>D.3. Improve irrigation infrastructure planning by the Government</i>				
Percentage of fully budgeted irrigation schemes associated with dams under construction or planned	18%	100%	100%	100%

⁴⁰ Percentage increase calculated as follows: (declarations received + authorizations delivered)/2,500 - 1

⁴¹ Ongoing projects only are considered.

ANNEX 5: ANALYTICAL AND ADVISORY WORK

Output	Responsible Agency	(Co-)Financing Sources	Timeframe
Political Economy Analysis of the Irrigation Sector Reform	MAPM (DSS) / World Bank	WB / CTB	2012
Strategic Environmental Impact Evaluation of the PMV	ADA	ADA	2012
Feasibility studies for selected wholesale market and slaughterhouse pilot projects	MAPM (DSS) / MICNT (DCD) / MI (DGCL)	MI / MICNT / MAPM	2013
Establishment of an improved legal and institutional framework for wholesale markets	MAPM (DSS) / MICNT (DCD) / MI (DGCL)	IFC	2013
Restructuring of extension services	MAPM (DEFR)	MAPM	2012
Social Plan for wholesale markets and slaughterhouses	MI/MAPM	WB	2012-2013
Gender analysis of the PMV	MAPM (DEFR) / MAPM (DSS)	MAPM	2013

ANNEX 6: FUND RELATIONS NOTE

IMF Executive Board Concludes 2012 Article IV Consultation with Morocco Public Information Notice (PIN) No. 13/13 February 5, 2013

On February 1, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco¹:

Background

Morocco has a track record of strong macroeconomic policies that, over the last decade, contributed to solid growth, low inflation, comfortable external reserves, financial deepening, and poverty reduction. These favorable developments have helped Morocco cushion the impact of the international crisis and respond to pressing social needs. In the context of political transitions in many countries in the region and high social demands, a new constitution was adopted in July 2011 in order to pave the way for broad-ranging political changes and reforms, including strengthened roles for the head of government and Parliament. Morocco's positive record helped it qualify last August for a 24-month arrangement under the Precautionary and Liquidity Line (PLL), which aims to provide insurance against external shocks. More recently, this performance has been challenged by a deteriorating external environment and, in 2012, poor rainfall. Growth is expected to slow in 2012 to 3.2 percent, largely due to a lower-than-average cereal crop, but nonagricultural GDP growth is projected to remain robust at around 4.5 percent. Headline inflation has remained subdued at 1.6 percent (year-on-year) in November 2012, despite significant increases in the prices of several subsidized energy products in June, as part of the government's effort to contain the fiscal cost of subsidies. Core inflation (excluding food and transport) was close to zero due to the large negative contribution of lower communication tariffs. Despite relatively strong growth, unemployment has remained around 9 percent since 2010.

The fiscal deficit should decline to about 6 percent of GDP in 2012, thanks to a combination of measures notably the increase in some energy-administered prices in June and the control of nonessential spending. Delays in the adoption of the 2012 budget and in disbursement of external grants resulted in lower-than-projected investment. This, in turn, helped offset the subsidy bill that reached about 6.2 percent of GDP. The 2013 budget envisions a further reduction of the deficit by 1.4 percent point of GDP to 4.7 percent of GDP. For the medium term, the authorities aim at a deficit below 3 percent of GDP.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

The current account deficit is expected to increase to 8.8 percent of GDP in 2012 as import growth, pushed by energy-related imports, outpaced slow export growth. Tourism receipts and remittances are projected to fall slightly relative to 2011, reflecting the deterioration in the European economy. While gross international reserves (GIR) fell steadily in 2011 and most of 2012, they stabilized at around four months of imports in the last quarter. The issuance of a US\$1.5 billion sovereign bond at favorable terms in late 2012 provided additional support in this regard.

Monetary conditions have remained broadly supportive. Lower international reserves had a substantial restrictive impact on bank liquidity, contributing to slowing credit growth to 7 percent in 2012. To help fill the liquidity shortage, the central bank stepped up its liquidity injection, including by extending eligible collateral for its repo. The policy interest rate was cut by 0.25 percentage point to 3 percent in March 2012 and has remained unchanged since then. In September 2012, it also cut its reserve requirements for banks by 2 percentage points to 4 percent.

Morocco's social indicators have improved over the past decade. Higher economic growth, lower unemployment, better health and educational outcomes, better access to basic infrastructure, and a marked reduction in poverty rates are tangible evidence of the progress made in fostering inclusive growth. However, unemployment remains high particularly among the youth. The authorities' reform agenda includes measures to boost potential growth, tackle inequalities in the distribution of income and access to health care, particularly across regions as well as reduce unemployment.

Executive Board Assessment

Executive Directors commended the authorities for their overall sound macroeconomic policies, which, over the past decade, have helped deliver solid growth, low inflation, and poverty reduction despite continued high youth unemployment. This strong performance has been challenged recently by external and domestic shocks in a context of pressing social demands. Directors agreed that the authorities' program of fiscal consolidation, prudent monetary and financial policies, and structural reforms to boost competitiveness and inclusive growth and rebuild shock buffers is appropriate to deal with these challenges. They emphasized that the outlook hinges on the timely and sustained implementation of the reform agenda.

Directors welcomed the fiscal consolidation envisioned in the 2013 budget and beyond to help maintain external and fiscal sustainability, while emphasizing that consolidation should be as growth-friendly as possible. They welcomed the steps being taken toward reforming the subsidy system, and called on the authorities to move ahead resolutely in this area to aid medium-term fiscal adjustment and better assist the most vulnerable groups of the population. Directors also stressed the importance of moving ahead with pension reform to ensure the system's viability. They encouraged a careful approach to fiscal decentralization so as not to increase fiscal risks. They welcomed plans to lower the ratio of the government wage bill to GDP and accelerate tax reforms. Directors concurred that clear communications and high-quality social dialogue will be key to successful implementation of the fiscal reform agenda.

Directors considered the current monetary policy stance to be appropriate. They encouraged the authorities to move toward greater exchange rate flexibility to enhance external competitiveness and the economy's ability to absorb shocks, in coordination with other macroeconomic and structural policies.

Directors called for stepped-up efforts to foster higher and more inclusive growth, including by boosting youth employment and reducing inequalities in income and in access to health care and education. They underscored the importance of structural reforms to enhance external competitiveness and diversify the export base. They welcomed planned reforms to improve the business climate and promote small and medium-sized enterprises, both crucial to accelerate private-sector-led growth.

Directors noted that the financial sector remains sound overall. They commended the authorities' efforts to further strengthen financial regulation and supervision, particularly in light of increasing international exposure of Moroccan banks. In this regard, they welcomed the authorities' interest in a Financial Sector Assessment Program update. Directors encouraged the authorities to strengthen legislation against money laundering and terrorism financing, and to intensify reforms to promote financial development and deepening.

Directors agreed that Morocco continues to meet the qualification criteria for a Precautionary and Liquidity Line (PLL) arrangement. They noted that the arrangement provides useful insurance against exogenous shocks and that the program supported by the PLL is on track. Directors welcomed the authorities' intention to continue to treat the PLL as precautionary.

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Morocco: Selected Economic Indicators, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(Annual percentage change)								
Output and Prices									
Real GDP	3.6	5.0	3.2	4.5	4.8	5.0	5.4	5.7	5.8
Real nonagricultural GDP	4.9	5.0	4.5	4.5	4.7	5.0	5.4	5.8	5.9
Consumer prices (end of period)	2.2	0.9	2.3	2.5	2.5	2.5	2.5	2.6	2.6
Consumer prices (period average)	1.0	0.9	1.3	2.4	2.5	2.5	2.5	2.6	2.6
	(In percent of GDP)								
Investment and Saving									
Gross capital formation	35.0	36.0	36.1	36.6	37.4	37.8	38.2	38.4	38.8
Of which: Nongovernment	31.2	31.5	31.9	31.8	31.9	32.1	32.4	32.6	32.9
Gross national savings	30.9	27.9	27.3	30.4	31.7	32.6	33.4	33.9	34.3
<i>Of which: Nongovernment</i>	28.9	28.5	28.4	29.4	29.5	29.5	29.7	29.9	29.9
	(In percent of GDP)								
Public Finances									
Revenue 1/	27.5	27.8	27.7	28.2	28.3	28.2	28.2	28.1	28.2
Expenditure	31.9	34.6	33.8	32.9	32.4	31.7	31.2	30.7	30.6
Budget balance	-4.4	-6.8	-6.1	-4.7	-4.1	-3.5	-3.0	-2.7	-2.4
Primary balance (excluding grants)	-2.3	-4.7	-3.8	-3.4	-2.7	-2.0	-1.5	-1.1	-0.8
Total government debt	51.3	54.4	58.2	59.0	59.0	58.4	57.0	55.2	53.3
	(Annual percentage change; unless otherwise indicated)								
Monetary Sector									
Credit to the private sector 2/	7.5	9.9	7.0	8.0	...	...	...	...	...
Broad money	4.8	6.5	3.3	7.9	...	...	...	...	...
Velocity of broad money	0.9	0.8	0.9	0.8	...	...	...	...	...
Three-month treasury bill rate (period average, in percent) 3/	3.4	3.5	3.2	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External Sector									
Exports of goods (in U.S. dollars, percentage change)	26.7	21.0	-3.5	10.4	8.1	5.6	6.5	6.9	7.1
Imports of goods (in U.S. dollars, percentage change)	7.7	25.4	-1.6	5.9	5.0	5.4	5.9	6.8	7.6
Merchandise trade balance	-16.4	-19.6	-20.0	-18.8	-17.8	-17.5	-17.1	-16.8	-16.7
Current account excluding official transfers	-4.4	-8.4	-8.9	-7.9	-6.8	-6.4	-5.8	-5.4	-5.3
Current account including official transfers	-4.1	-8.0	-8.8	-6.3	-5.7	-5.3	-4.8	-4.5	-4.5
Foreign direct investment	0.8	2.3	2.2	2.8	2.8	2.9	3.0	3.0	3.0
Total external debt	24.7	23.6	26.4	27.5	27.1	26.6	25.9	24.6	23.8
Gross reserves (in billions of U.S. dollars)	23.6	20.6	17.5	18.4	18.8	19.7	21.3	22.6	24.6
In months of next year imports of goods and services	5.7	5.1	4.1	4.1	4.0	4.0	4.0	4.0	4.1
In percent of short-term external debt (on remaining maturity basis)	1,546	1,222	1,037	1,091	1,112	1,168	1,259	1,339	1,455
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	90.8	99.2	97.5	104.8	112.2	120.4	129.7	140.6	152.6
Unemployment rate (in percent)	9.1	8.9	...	...	...	...	...	...	...
Net imports of energy products (in billions of U.S. dollars)	-8.1	-11.2	-11.8	-11.5	-11.4	-11.3	-11.2	-11.1	-11.1
Local currency per U.S. dollar (period average)	8.4	8.1	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-4.1	-1.7	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Includes changes in the balance of other special treasury accounts.

2/ Includes credit to public enterprises.

3/ Most recent data for 2012.

ANNEX 7: MOROCCO FISCAL SUSTAINABILITY ANALYSIS

7.1 Public Sector Debt Sustainability Framework, 2006-2020

(In percent of GDP, unless otherwise indicated)

	2006	2007	2008	2009	2010	Est. 2011	Proj. 2012	Proj. 2013	Proj. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
I. Baseline Projections															
Public sector debt 1/	57.3	53.5	47.3	47.1	50.3	53.7	56.8	57.6	57.4	56.6	55.2	54.0	52.6	51.2	49.7
o/w foreign-currency denominated	11.3	10.7	9.9	10.7	12.1	12.4	13.1	13.6	14.1	14.7	15.0	15.1	15.1	15.0	14.8
Change in public sector debt	-4.8	-3.8	-6.2	-0.2	3.2	3.4	3.1	0.8	-0.2	-0.8	-1.4	-1.3	-1.4	-1.4	-1.5
Identified debt-creating flows (4+7+12)	-4.9	-5.2	-5.6	-0.9	3.4	4.2	3.5	1.2	0.1	-0.5	-1.1	-1.0	-1.0	-0.9	-0.9
Primary deficit	-1.3	-3.3	-3.1	-0.2	2.4	4.6	3.6	2.7	1.8	1.4	0.9	0.9	0.8	0.8	0.8
Revenue and grants	25.1	27.4	29.7	26.0	25.4	25.9	25.8	26.4	26.8	26.8	26.7	26.7	26.7	26.7	26.7
Primary (noninterest) expenditure	23.8	24.1	26.6	25.8	27.7	30.5	29.4	29.1	28.6	28.2	27.6	27.6	27.5	27.4	27.4
Automatic debt dynamics 2/	-3.2	-1.5	-2.5	-0.7	1.0	0.2	0.3	-1.1	-1.5	-1.7	-1.8	-1.7	-1.8	-1.8	-1.9
Contribution from interest rate/growth differential 3/	-2.1	-0.5	-3.0	-0.5	0.4	-0.1	0.2	-1.2	-1.5	-1.8	-1.8	-1.8	-1.8	-1.9	-1.9
Of which contribution from real interest rate	2.3	1.0	-0.3	1.7	2.0	2.2	1.5	1.2	1.1	1.0	1.0	1.1	1.0	0.9	0.8
Of which contribution from real GDP growth	-4.4	-1.5	-2.7	-2.1	-1.6	-2.4	-1.3	-2.4	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.7
Contribution from exchange rate depreciation 4/	-1.1	-1.0	0.5	-0.3	0.7	0.3	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	-0.4	-0.5	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	0.0	0.1	0.3
Privatization receipts (negative)	-0.4	-0.5	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Residual, including asset changes (2-3)	0.1	1.5	-0.6	0.8	-0.2	-0.8	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6
Public sector debt-to-revenue ratio 1/	228.6	195.5	159.2	181.2	198.6	207.6	220.1	218.2	214.1	211.5	206.8	202.5	197.3	191.9	186.4
Gross financing need 5/	15.2	16.2	15.8	20.3	25.6	22.1	21.0	20.8	19.7	18.2	17.1	16.3	15.5	14.6	14.0
in billions of U.S. dollars	10.0	12.2	14.0	18.4	23.3	20.7	20.5	21.5	21.9	21.7	21.9	22.5	22.9	23.3	23.9
Key Macroeconomic and Fiscal Assumptions															
Real GDP growth (in percent)	7.8	2.7	5.6	4.8	3.6	5.0	2.5	4.5	4.9	5.2	5.4	5.5	5.6	5.7	5.7
Average nominal interest rate on public debt (in percent) 6/	5.7	5.8	5.5	5.3	5.1	4.7	4.9	4.9	4.7	4.5	4.4	4.2	4.1	3.9	3.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.2	1.9	-0.3	3.8	4.4	4.7	2.9	2.4	2.1	2.1	2.0	2.2	2.1	1.9	1.8
Nominal appreciation (increase in US dollar value of local currency, in percent)	9.4	9.6	-4.8	3.0	-5.9	-2.8	-0.5	-0.5	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Inflation rate (GDP deflator, in percent)	1.5	3.9	5.9	1.5	0.6	0.1	2.0	2.5	2.6	2.5	2.4	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	3.9	16.7	1.5	11.4	15.4	-1.1	3.5	3.1	3.5	3.4	5.2	5.3	5.5	5.6
Primary deficit	-1.3	-3.3	-3.1	-0.2	2.4	4.6	3.6	2.7	1.8	1.4	0.9	0.9	0.8	0.8	0.8
II. Stress Tests for Public Debt Ratio															
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2011-2016 7/						53.7	52.4	51.1	50.0	49.0	48.0	47.1	46.1	45.3	44.4
A2. No policy change (constant primary balance) in 2011-2016						53.7	57.0	59.1	61.0	62.7	64.2	65.7	64.6	63.6	62.7
B. Bound Tests															
B1. Real interest rate is at baseline plus one standard deviations						53.7	57.3	58.6	58.9	58.5	57.6	56.8	55.8	54.8	53.7
B2. Real GDP growth is at baseline minus one-half standard deviation						53.7	57.5	59.4	60.4	61.0	61.2	61.8	62.4	63.1	63.9
B3. Primary balance is at baseline minus one-half standard deviation						53.7	57.8	59.6	60.2	60.3	59.8	59.4	58.8	58.1	57.4
B4. Combination of B1-B3 using one-quarter standard deviation shocks						53.7	57.8	59.6	60.3	60.4	59.9	59.5	58.9	58.3	57.5
B5. One time 30 percent real depreciation in 2012 9/						53.7	62.5	63.3	62.9	61.9	60.4	59.0	57.4	55.8	54.2
B6. 10 percent of GDP increase in other debt-creating flows in 2012						53.7	56.8	57.6	57.4	56.6	55.2	54.0	52.6	51.2	49.7

Source: Government of Morocco and staff calculation and estimate

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ The implied change in other key variables under this scenario is discussed in the text.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

7.2 Central Government Public Finances (IN PERCENT OF GDP)

	Actual				Est.	Projections				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Total revenues	23.8	25.1	27.3	29.5	26.0	23.7	25.1	25.6	25.7	
Tax Revenues	21.7	22.2	24.9	27.2	23.5	22.0	23.4	24.0	24.1	
Direct Taxes	8.2	8.8	9.8	11.8	9.8	8.7	9.5	9.6	9.7	
Business income tax	3.7	4.2	4.9	6.7	5.9	5.1	5.5	5.6	5.7	
Personal income tax	4.3	4.2	4.5	4.8	3.5	3.3	3.7	3.7	3.7	
Other direct taxes	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	
Indirect taxes	9.1	9.5	10.9	11.6	10.4	10.2	10.9	11.3	11.3	
VAT	6.2	6.8	8.1	8.9	7.7	7.7	8.1	8.3	8.3	
Domestic VAT	2.4	2.9	3.4	3.8	3.3	3.4	3.7	3.8	3.8	
Import VAT	3.8	3.9	4.7	5.1	4.5	4.3	4.4	4.5	4.5	
Excise taxes	2.9	2.8	2.8	2.7	2.7	2.5	2.8	3.0	3.0	
TIC on energy	1.7	1.6	1.6	1.5	1.6	1.5	1.7	1.9	1.9	
Other TIC	1.2	1.2	1.2	1.2	1.0	1.1	1.1	1.2	1.2	
Registration and stamp taxes	1.2	1.2	1.5	1.5	1.3	1.3	1.3	1.3	1.3	
Customs duties	2.8	2.3	2.3	2.1	1.7	1.5	1.5	1.5	1.5	
Road Fund	0.3	0.3	0.4	0.2	0.4	0.3	0.3	0.3	0.3	
Nontax Revenue	2.1	2.9	2.4	2.3	2.5	1.7	1.7	1.6	1.6	
Monopolies & PEs	1.0	1.3	1.3	1.1	1.4	1.2	1.2	1.1	1.1	
Other nontax receipts	1.0	1.5	1.1	1.1	1.1	0.5	0.5	0.5	0.5	
Total Expenditures, incl.net lending	29.9	27.6	28.6	30.8	29.4	28.6	28.3	28.4	28.2	
Current Expenditure, incl. Transf. to Loc. Gov.	26.0	23.5	24.0	25.3	23.1	22.6	22.2	22.3	22.1	
Current Expenditure	24.1	21.5	21.6	22.6	20.8	20.3	19.8	19.8	19.6	
Consumption	18.7	16.0	15.8	15.4	16.6	16.1	15.8	15.8	15.8	
Wages & salaries	11.7	10.9	10.6	10.2	10.3	10.4	10.1	10.1	10.0	
Other goods & services & transfers	6.9	5.0	5.2	5.3	6.4	5.6	5.6	5.6	5.7	
Consumer subsidies	2.1	2.3	2.7	4.6	1.7	1.8	1.6	1.6	1.6	
Total Interest	3.3	3.2	3.1	2.6	2.4	2.4	2.4	2.4	2.3	
External Debt	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Domestic Debt	2.9	2.8	2.7	2.2	2.0	2.0	2.0	2.0	1.8	
Transfers to Local Gov.	1.9	2.0	2.4	2.7	2.3	2.3	2.4	2.5	2.5	
Total Capital expenditures, incl. net lending	3.9	4.1	4.6	5.5	6.3	6.0	6.1	6.1	6.1	
Balance of other special accounts	0.9	0.6	1.5	1.7	1.2	0.3	0.2	0.2	0.2	
Budget Def (-)/Surplus (+) (commit. basis)	-5.2	-2.0	0.2	0.4	-2.2	-4.6	-2.9	-2.5	-2.3	
Total financing	5.2	2.0	-0.2	-0.4	2.2	4.6	2.9	2.5	2.3	
Domestic (incl. arrears)	4.1	1.6	-1.2	-2.1	0.4	2.5	0.8	0.6	0.4	
External (incl. grants and privatization)	1.2	0.4	1.1	1.6	1.7	2.0	2.1	1.8	1.8	

Source: Moroccan Government and staff estimates

7.3 Macroeconomic developments over the last decade

Figure 2. Growth shifted to higher path and is less volatile and less dependent on agriculture (in percent)

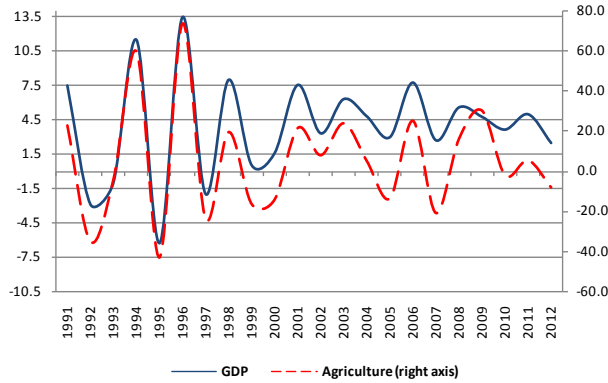


Figure 3. Unemployment declined, but remains high for urban youth and educated (in percent)

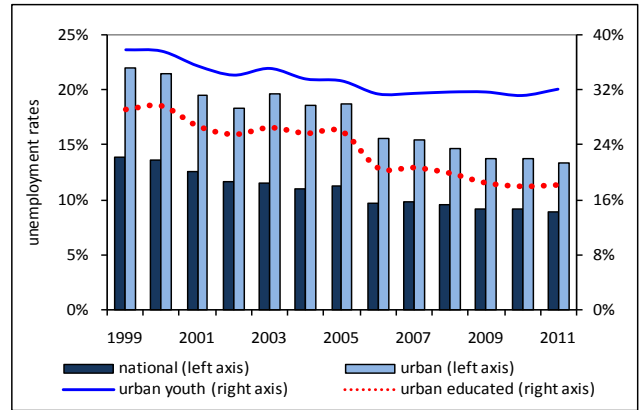


Figure 4. External position is deteriorating with vulnerability in trade (in percent of GDP)

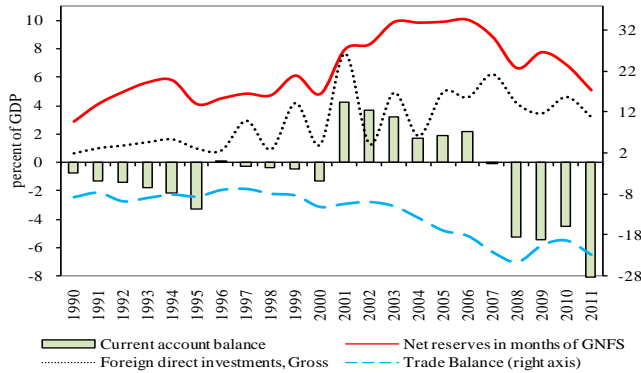


Figure 5. Public Finances have improved before the global crisis but are now under pressure (in percent of GDP)

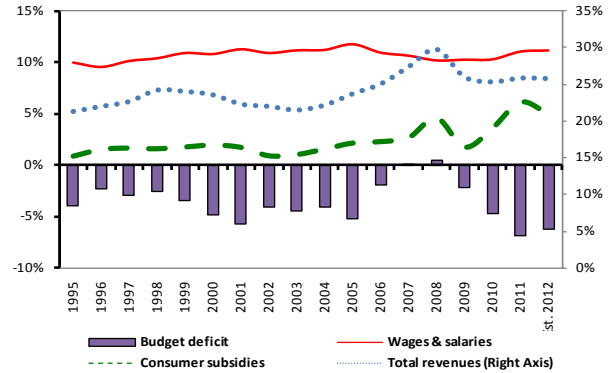


Figure 6. Inflation remains subdued Cumulated year over year (in percent)

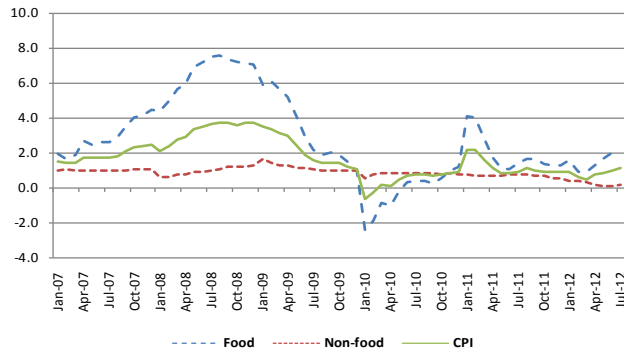
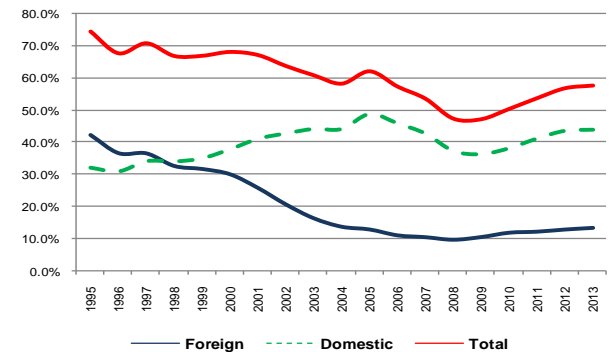


Figure 7. After a steady decline, Central Government debt increased in 2011, but is sustainable in the MT (in percent of GDP)



Source: Moroccan Government and Staff estimates.

7.4 Morocco: Public Debt Sustainability (IN PERCENT OF GDP)

Figure.1- External debt sustainability analysis, main scenarios

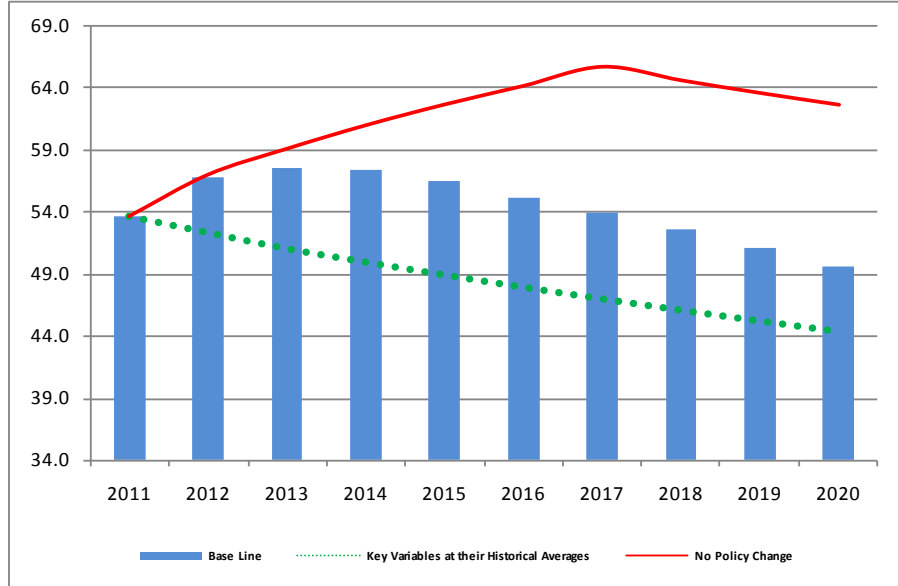
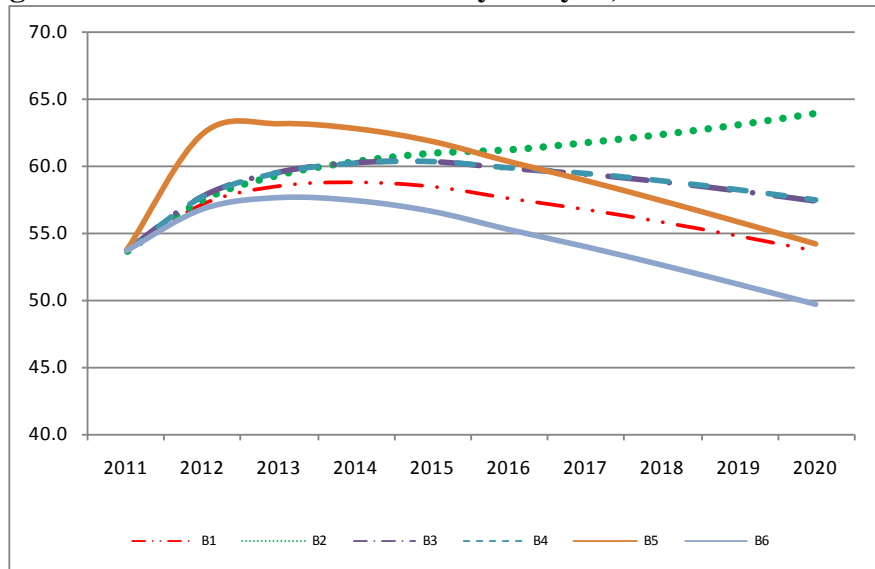


Figure 2- External debt sustainability analysis, alternative scenarios



7.5 Morocco at a glance

Morocco at a glance

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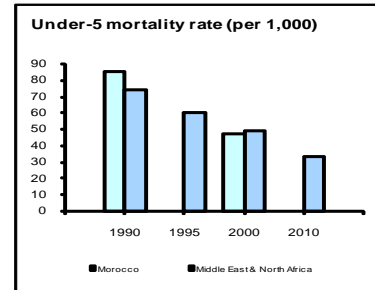
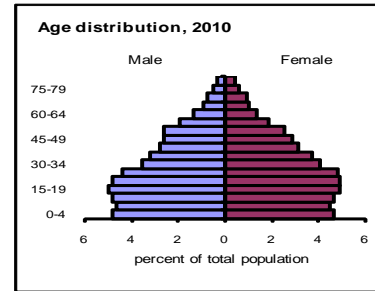
Key Development Indicators

(2011)

	Morocco	M. East & North Africa	Lower middle income
Population, mid-year (millions)	32.3	331	2,519
Surface area (thousand sq. km)	447	8,775	23,579
Population growth (%)	1.1	1.7	1.5
Urban population (% of total population)	57	58	39
GNI (Atlas method, US\$ billions)	95.8	1,283	4,078
GNI per capita (Atlas method, US\$)	2,970	3,874	1,619
GNI per capita (PPP, international \$)	4,600	8,068	3,632
GDP growth (%)	5.0	4.3	6.9
GDP per capita growth (%)	3.8	2.5	5.3

(most recent estimate, 2005–2011)

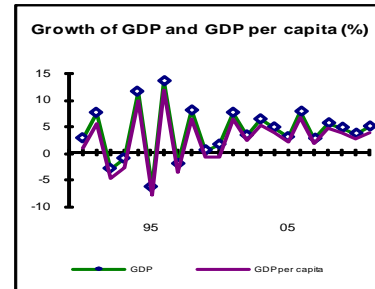
Poverty headcount ratio at \$1.25 a day (PPP, %)	3	3	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	14	14	..
Life expectancy at birth (years)	73	72	65
Infant mortality (per 1,000 live births)	32	27	50
Child malnutrition (% of children under 5)	..	8	25
Adult literacy, male (% of ages 15 and older)	69	82	80
Adult literacy, female (% of ages 15 and older)	44	66	62
Gross primary enrollment, male (% of age group)	..	106	110
Gross primary enrollment, female (% of age group)	..	98	104
Access to an improved water source (% of population)	96	89	87
Access to improved sanitation facilities (% of population)	51	88	47



Net Aid Flows	1980	1990	2000	2011 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	1,161	1,241	434	994
<i>Top 3 donors (in 2010):</i>				
France	135	217	155	254
European Union Institutions	12	29	117	223
Japan	4	111	103	121
Aid (% of GNI)	5.7	4.4	1.2	1.1
Aid per capita (US\$)	60	51	15	31

Long-Term Economic Trends

Consumer prices (annual % change)	9.4	7.0	1.9	0.9
GDP implicit deflator (annual % change)	15.2	7.8	-0.6	0.1
Exchange rate (annual average, local per US\$)	3.9	8.2	10.6	8.1
Terms of trade index (2000 = 100)	80	75	100	95



	1980	1990	2000	2011
Population, mid-year (millions)	19.4	24.2	28.8	32.3
GDP (US\$ millions)	21,079	28,839	37,022	99,212
<i>(% of GDP)</i>				
Agriculture	18.4	19.3	14.9	15.5
Industry	29.8	30.4	29.1	30.2
Manufacturing	15.9	18.9	17.5	15.4
Services	51.1	50.3	56.0	54.3
Household final consumption expenditure	61.8	60.0	61.4	58.9
General gov't final consumption expenditure	18.0	16.8	18.4	18.2
Gross capital formation	28.5	28.7	25.5	36.0
Exports of goods and services	19.9	25.7	28.0	35.6
Imports of goods and services	28.2	31.2	33.4	48.7
Gross savings	22.1	28.3	24.3	27.9

1980–90 1990–2000 2000–11
(average annual growth %)

2.2	1.8	1.0
5.1	2.9	4.8

6.8	0.3	6.0
2.4	3.0	3.7
3.3	2.6	2.9
1.5	1.7	4.9
5.0	2.8	4.7
5.2	2.3	4.0
2.3	3.4	7.8
6.2	5.5	5.7
3.5	4.4	7.4

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.

^a Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade*(US\$ millions)*

	2000	2011
Total merchandise exports (fob)	7,419	21,506
Total merchandise imports (cif)	11,531	44,252
Net trade in goods and services	-2,085	-14,050

Current account balance	-475	-7,986
as a % of GDP	-1.3	-8.0

Workers' remittances and compensation of employees (receipts)	2,161	6,423
Reserves, including gold	5,138	19,657

Central Government Finance*(% of GDP)*

Current revenue (including grants)	23.6	25.9
Tax revenue	21.7	23.4
Current expenditure	23.4	26.8

Overall surplus/deficit	-4.8	-6.9
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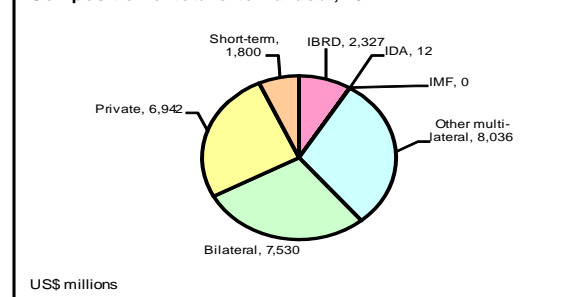
Highest marginal tax rate (%)		
Individual
Corporate

External Debt and Resource Flows*(US\$ millions)*

Total debt outstanding and disbursed	20,674	29,585
Total debt service	2,610	2,737
Debt relief (HIPC, MDRI)	-	-

Total debt (% of GDP)	55.8	31.6
Total debt service (% of exports)	20.3	15.0

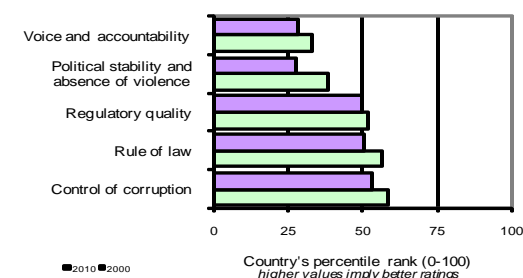
Foreign direct investment (net inflows)	470	3,178
Portfolio equity (net inflows)	30	486

Composition of total external debt, 2011**Private Sector Development**

Time required to start a business (days)	-	12
Cost to start a business (% of GNI per capita)	-	15.8
Time required to register property (days)	-	75

Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Access to/cost of financing	..	84.4
Tax rates	..	62.6

Stock market capitalization (% of GDP)	29.4	76.2
Bank capital to asset ratio (%)	9.8	8.4

Governance indicators, 2000 and 2010Source: Worldwide Governance Indicators (www.govindicators.org)**Technology and Infrastructure**

Paved roads (% of total)	56.4	70.3
Fixed line and mobile phone subscribers (per 100 people)	13	112
High technology exports (% of manufactured exports)	11.3	7.7

Environment

Agricultural land (% of land area)	69	67
Forest area (% of land area)	12.7	12.7
Terrestrial protected areas (% of land area)	1.5	1.5

Freshwater resources per capita (cu. meters)	985	917
Freshwater withdrawal (billion cubic meters)

CO2 emissions per capita (mt)	1.2	1.5
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GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	8.3	8.8
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Energy use per capita (kg of oil equivalent)	356	477
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World Bank Group portfolio*(US\$ millions)*

IBRD		
Total debt outstanding and disbursed	2,837	2,468
Disbursements	138	271
Principal repayments	307	202
Interest payments	190	52

IDA		
Total debt outstanding and disbursed	27	13
Disbursements	0	0
Total debt service	2	1

IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	29	110
Disbursements for IFC own account	1	2
Portfolio sales, prepayments and repayments for IFC own account	7	11

MIGA		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2011 data are preliminary.
 .. indicates data are not available. - indicates observation is not applicable.

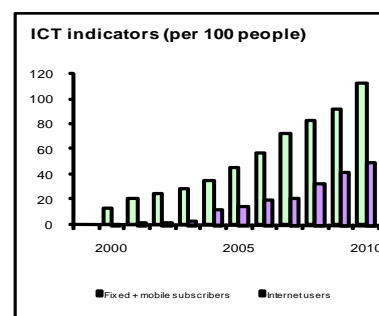
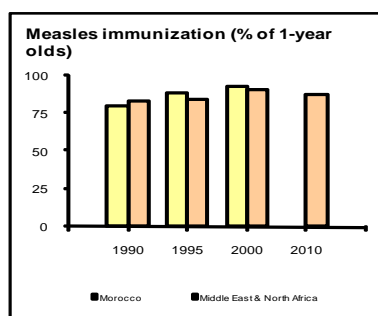
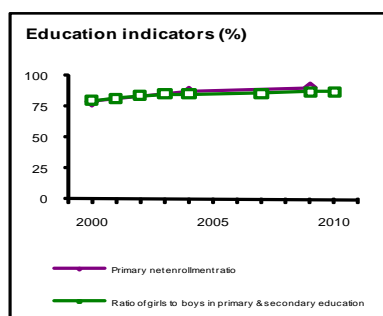
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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Morocco			
	1990	1995	2000	2010
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	2.5	..	6.3	2.5
Poverty headcount ratio at national poverty line (% of population)	13.1	..	15.3	8.8
Share of income or consumption to the poorest quintile (%)	6.6	..	6.3	6.5
Prevalence of malnutrition (% of children under 5)	9.0	..	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	58	72	79	91
Primary completion rate (% of relevant age group)	51	48	57	85
Secondary school enrollment (gross, %)	38	38	38	56
Youth literacy rate (% of people ages 15-24)	55	62	67	80
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	67	72	80	87
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	20	22
Proportion of seats held by women in national parliament (%)	..	1	1	11
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	85	..	47	38
Infant mortality rate (per 1,000 live births)	66	57	40	32
Measles immunization (proportion of one-year olds immunized, %)	80	88	93	94
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	332	228	228	132
Births attended by skilled health staff (% of total)	31	34	48	83
Contraceptive prevalence (% of women ages 15-49)	42	50	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	110	113	95	81
Tuberculosis case detection rate (% , all forms)	76	73	92	97
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	75	..	80	96
Access to improved sanitation facilities (% of population)	58	..	68	51
Forest area (% of land area)	6.8	12.7	12.7	12.7
Terrestrial protected areas (% of land area)	1.2	1.5	1.5	1.5
CO2 emissions (metric tons per capita)	1.0	1.1	1.2	1.5
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	9.7	8.2	8.3	8.8
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	1.6	4.2	4.9	11.7
Mobile phone subscribers (per 100 people)	0.0	0.1	8.1	100.1
Internet users (per 100 people)	0.0	0.0	0.7	49.0
Computer users (per 100 people)	..	..	..	50.9



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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Development Economics, Development Data Group (DECDG).