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**Report No. 22115-MOR**

**MEMORANDUM OF THE PRESIDENT  
OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
AND THE  
INTERNATIONAL FINANCE CORPORATION  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
COUNTRY ASSISTANCE STRATEGY  
OF THE  
WORLD BANK GROUP  
FOR  
THE KINGDOM OF MOROCCO**

**May 7, 2001**

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## CURRENCY EQUIVALENTS

Unit of Currency = Moroccan Dirhams (DM)  
Period Average Exchange Rates (DM per US dollar)

| 1996 | 1997 | 1998 | 1999 | 2000  | 2001* |
|------|------|------|------|-------|-------|
| 8.72 | 9.52 | 9.60 | 9.80 | 10.63 | 10.73 |

\* Rate for 2001 is average January 1- April 20

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

|       |  |
|-------|--|
| AAA   | = Analytical and Advisory Activities                       |
| AfDB  | = African Development Bank                                 |
| CAS   | = Country Assistance Strategy                              |
| CAE   | = Country Assistance Evaluation                            |
| CBD   | = Community Based Development                              |
| CDF   | = Comprehensive Development Framework                      |
| CDR   | = Comprehensive Development Review                         |
| CPFR  | = Country Portfolio Performance Review                     |
| EA    | = Environmental Assessment                                 |
| EIA   | = Environmental Impact Assessment                          |
| EIB   | = European Investment Bank                                 |
| EU    | = European Union   |
| FIAS  | = Foreign Investment Advisory Service                      |
| FM    | = Financial Management                                     |
| FSAP  | = Financial Sector Assessment Program                      |
| GDLN  | = Global Distance Learning Network                         |
| GDP   | = Gross Domestic Product                                   |
| GEF   | = Global Environmental Fund                                |
| GOM   | = Government of Morocco                                    |
| ICR   | = Implementation Completion Report                         |
| IDF   | = Institutional Development Fund                           |
| IFC   | = International Finance Corporation                        |
| IGF   | = Inspection Générale des Finances                         |
| IMF   | = International Monetary Fund                              |
| IT    | = Information Technology                                   |
| LIL   | = Learning and Innovation Loan                             |
| LMI   | = Lower Middle Income Countries                            |
| METAP | = Mediterranean Environmental Technical Assistance Program |
| MIGA  | = Multilateral Investment Guarantee Agency                 |
| MNA   | = Middle East and North Africa Region                      |
| MOU   | = Memorandum Of Understanding                              |
| NER   | = Net Enrollment Rate                                      |
| NGO   | = Non-Governmental Organizations                           |
| OED   | = Operations Evaluation Department                         |
| PER   | = Public Expenditure Review                                |
| PHRD  | = Policy and Human Resources Development Fund              |
| PPI   | = Private Participation in Infrastructure                  |
| SME   | = Small and Medium Enterprise                              |
| SSR   | = Social and Structural Review                             |
| UN    | = United Nations   |
| UNDP  | = United Nations Development Program                       |
| WBI   | = World Bank Institute                                     |

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**KINGDOM OF MOROCCO**

**COUNTRY ASSISTANCE STRATEGY**

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---

**EXECUTIVE SUMMARY**

**The Bank Group is confronting a vastly changed environment compared to the one it faced at the onset of the last CAS...**

i. Over the last four years, Morocco has undergone a major transition, which has fundamentally altered the way the Bank Group and development partners work in the country. The country has witnessed a fundamental opening of the political process, with the main opposition parties forming a government for the first time since Morocco's independence. This was accompanied by a major opening of the civil society. Since the death of King Hassan II, Mohamed VI has moved even further allowing the return of long time dissidents and stressing the rule of law and social progress as his main development objectives. This transition is still unfolding, with new elections scheduled in about 12 months -- i.e. during the CAS period.

ii. While this profound transition has so far been peaceful and orderly, it involved difficult trade-offs. Although economic and social reforms continued, consensus building within the seven party Government slowed down decision-making on economic policy, preventing Morocco from lifting itself out of its low growth path. In the meanwhile, two years of drought further contributed to weaken economic growth. As a result, Morocco's growth trend rate continued to slacken, entailing a stagnation in per capita incomes over the last decade, as well as increased poverty and urban unemployment, in sharp contrast with the performance of most other middle income countries over the same period. Poverty, at around 20 percent of the population, and urban unemployment, around 22 percent, now constitute the key challenges facing the country. If left unattended, they could also undermine the on-going political transition.

iii. Yet, the country has enormous opportunities as well. It has established a solid track record in economic stabilization over the last decade and is facing the prospects of a windfall of privatization revenues, especially following its successful deregulation and privatization of its telecommunications sector. This provides a unique platform to accelerate the reform agenda to boost growth while at the same time strengthening human resources and accelerating rural and social programs – all key ingredients to improve general living standards while reducing the large social gaps between urban and rural areas. Indeed, the Government recently signaled its continued focus on economic issues, through a realignment of its exchange rate, which will in turn require strong fiscal discipline in the future.

**...entailing new constraints and new opportunities...**

- Morocco has evolved into a more pluralistic society. This requires much more consensus building, in particular with regard to the difficult second generation

institutional reforms on the agenda (such as that of the civil service) that involve strong vested interests.

- Civil society has also emerged as a new important actor, both vocal on the political scene and active on the ground, but it is still relatively fragmented.
- Despite clear progress on access to basic social services over the last few years, the gap between rural and urban areas remains huge, and income poverty has increased due to declining growth and repeated droughts affecting agriculture.
- On the macroeconomic front, the country continues to enjoy financial stability, but trends are not encouraging, with stagnating growth and a progressive deterioration in government savings, which may jeopardize financial stability in the medium term if corrective actions are not introduced in the coming years. Recent actions, such as the adjustment of the exchange rate peg, will need to be accompanied by a more flexible management of this instrument, as well as strong fiscal discipline and structural measures, to lead to a new sustained growth path.
- Finally, the country does not need major external financing flows due to the availability of both concessional funding (especially from the EU) and the one time privatization proceeds, which may amount to US\$ 5 billion over the next three years.

**.. and requiring a fundamental rethinking of the Bank Group country strategy.**

iv. Bank Group's assistance is thus at a juncture. It needs to adapt itself to the country's new environment and capitalize on recent advances in decentralization and participation to deepen its poverty impact on the ground. Finally, since it is clear that without growth only a limited impact can be achieved on poverty reduction in the short to medium term, the Bank Group needs to balance appropriately reform support and actions on the ground to maximize the overall impact of the Government program on the living standards of the population. Therefore, the CAS strategic directions are:

- focusing on the poverty challenge, especially in rural Morocco, and working on key emerging areas of progress, such as decentralization;
- remaining present as a lead external partner on the structural front, by supporting advances on reforms, while continuing to build up the policy dialogue and consensus on macroeconomic and sectoral issues;
- strengthening partnerships with other external agencies, especially the EU and AfDB, under improved coordination mechanisms within the Government.

v. In this environment, the CAS proposes to focus Bank activities on a base case program composed of: (i) a *core program* with tangible impact on the ground, and (ii) *support for sectoral reforms* contingent on government actions. The core program focuses squarely on social development issues, on community-based approaches, and on governance and decentralization, while also seeking new partnerships with the emerging civil society. This is a key priority of the King and the Government, with great potential for progress. At the same time, however, the Bank also plans to remain fully engaged on macro and structural reform issues through analytical work, and be ready to support the Government reform efforts, depending on progress on fiscal and structural issues.

vi. In terms of lending amount, the base case program would remain at about the same level as during the last five years, or about \$250 million, compared to \$300 million in the previous CAS. However, it would include significant shifts. First, the program would be divided into two components: a core poverty focused program and a sectoral reform support

component. The core program would amount to \$150 million, composed of about three operations per year (excluding smaller institution building projects). This program would seek to deepen the shift towards catalytic projects, institutional support, and analytical work, and be clearly focused on the poverty and social agenda facing the country. Second, the sector reform program, of about \$100 million per year, would seek to support priority reforms by the Government, currently under preparation, but not yet fully developed. This second component, thus, would depend on progress in two areas: (i) fiscal triggers to ensure that the budget remains sustainable in the long term; and (ii) sectoral triggers demonstrating the up-front commitment of the Government so as to support the actual implementation of the reforms. In this respect, the next Budget law (i.e., for 2002) will reveal Government intentions both with regard to the depth of the fiscal consolidation contemplated and on the direction of structural reforms.

vii. The recent adjustment in the management of the exchange rate clearly demonstrates the Government's continued focus on economic reforms. The next Budget law is also expected to achieve greater fiscal discipline and tax reform, and to include further advances on structural issues, *inter alia* the launching of a broader public sector reform program, with increased emphasis on decentralization; a new framework for simplifying the business environment; and continued rationalization of the food subsidy scheme. These are all avenues the Bank would be ready to support when the details of such policies are worked out. Should reforms be delayed, the Bank would focus on the core program of the country, and reallocate resources towards analytical work to build consensus on the reform agenda.

viii. The Bank would, however, also be ready to support strongly the Government should it implement a more aggressive growth-oriented reform program. A *high case scenario* is therefore proposed amounting to up to US\$ 450 million in total per year to also support programmatic or broad based adjustment lending and/or specific interventions designed to protect the most vulnerable groups affected by the reforms. Such a scenario would be triggered by a more aggressive reform program, including measures to further improve the external competitiveness of the economy, within a framework of fiscal sustainability.

ix. In this process, the Bank Group intends to continue to focus on the development of the private sector. The Bank will focus on the business environment, issues relating to employment and growth, and support for new services sector, such as information technology. Collaboration will also be further strengthened with the EU on issues related to competitiveness and EU integration. The IFC will support this thrust through efforts aimed at mobilizing financing for complex projects, providing innovative financial instruments, especially for SMEs, and supporting institution building in the financial sector.

#### **Linking the CAS with the CDF**

x. Overall, in terms of approach, Morocco fully fits with the concept of the CDF. Progress has been broad-based, encompassing political opening, the rule of law and social development. Morocco followed a unique process with the Government embarking on the CDF at the time of preparation of its five-year plan. At that time, the Government requested Bank assistance in assessing sectoral performance in some 16 sectors to provide a broad policy and institutional context to their program and to review priorities for action. These sectoral matrices were then discussed with key counterparts. A series of seminars was conducted on key sectoral issues, such as health insurance reform, education reform, and issues of governance and corruption, to name a few. Following the approval of the Plan, the Ministry of Finance has now prepared a broad financing plan to improve coordination of external financing sources. The CAS program fits within this framework and proposes various avenues to streamline the CDF concept in the future.

- xi. In summary, the CAS proposes a refocused but flexible approach over the next three years, as this will encompass a decisive period for Morocco, with elections scheduled for around the middle of 2002. The proposed base case embodies this flexibility fully by focusing on a core program, complemented by contingent support for reforms depending on progress and emerging priorities.
- xii. In this environment, the Executive Directors may wish to focus on the following issues:
- Is the base case program, with its twin approach on a core poverty oriented program and support for reforms, appropriate to reach the CAS poverty objectives?
  - Is the composition of the program, and the balance between lending, analytical work and institution building adequate?
  - Are the level of assistance and the proposed triggers of the base case and the high case programs in line with Morocco's development challenges and current policies?

## I. BACKGROUND AND RECENT DEVELOPMENTS

1. During the last years, Morocco has embarked on one of the most successful processes of rapid political opening in the Middle East and North Africa. In addition, civil society has experienced a tremendous expansion. Particularly important is the increasing assertiveness of the media, notably the press, which has created new channels for civil society to voice concerns and demonstrate its achievements. The key political events in this still unfolding process were:

- In September 1997, the House of Representatives were elected by universal suffrage for the first time, as called for under the new Constitution of 1996. A new electoral legal framework is currently being prepared.
- In March 1998, Abderrahmane Youssoufi, the leading opposition figure and a one-time exile, formed a Government backed by a seven-party center-left coalition. Following a limited reshuffle in September 2000, Mr. Youssoufi's Government is expected to remain in office until the next legislative elections, in 2002.
- Political democratization and modernization have been gaining further momentum since Mohammed VI's accession to the throne in July 1999, including progress on human rights and the return of well-known dissidents. The new King's agenda stresses social, poverty, governance and gender issues, as well as the need for 'a new concept of authority' based on the rule of law, and on a public administration supporting development rather than control of the society. He has backed his ideas with decisions that were both symbolic and had strong implications for governance, including a major reshuffle among the senior staff of the Ministry of Interior and local governors. A new legislative framework for decentralization is also currently under preparation.

2. The focus of the Bank's poverty reduction strategy and assistance shifted during the mid-1990s towards social development and access to services, away from a narrower focus on economic adjustment. This shift in emphasis is due to both the consolidation of Morocco's stabilization efforts of the early 1990s, as well as an increasing awareness both in Morocco and in the Bank of the burden that poor and unequal social progress represents for Morocco's long-term development. The 1997 CAS was the first Bank strategic document that focused on the difference between the "two Moroccos": a relatively prosperous urban one, and a rural, backward Morocco with social indicators closer to those of Sub-Saharan Africa than of MNA countries. In support of this approach, the Bank's strategy emphasized social sector reforms, particularly in education and health, and the provision of basic infrastructure and social services in rural areas. The Bank's strategy, however, also considered income growth as an essential element of poverty reduction, and stressed continued fiscal and structural reform. Given successful stabilization, conditions were ripe to improve Morocco's rather weak growth performance of the early 1990s. Where does Morocco stand after four years?

**Table 1. Morocco: Selected Poverty Indicators**

| Period  | Past      |       | Latest available year |       |
|---|-----------|-------|-----------------------|-------|
|   | Urban     | Rural | Urban                 | Rural |
|   | 1990-1991 |       | 1998-1999             |       |
| Population (millions)   | 12.3      | 12.7  | 15.4                  | 12.9  |
| Poverty incidence (percentage of total)                             | 8%        | 18%   | 12%                   | 27%   |
| Number of poor (millions)   | 0.9       | 2.3   | 1.8                   | 3.5   |
| Number of economically vulnerable (millions) <sup>1/</sup>          | 2.3       | 6.6   | 5.0                   | 7.1   |
| Poverty depth (percentage) <sup>2/</sup>                            | 0.4%      | 1.2%  | 0.8%                  | 2.5%  |
|   | 1990-1991 |       | 1998-1999             |       |
| GINI coefficient  | 37.7      | 31.2  | 37.7                  | 31.6  |
|   | 1992      |       | 2000                  |       |
| Percentage of households with access to safe water <sup>3/</sup>    | 98%       | 14%   | 100%                  | 42%   |
| Percentage of villages with access to electricity                   |           | 15%   |                       | 45%   |
|   | 1990-1991 |       | 1999                  |       |
| Percentage of households with access to electricity                 | 89%       | 13%   | 89%                   | 22%   |
|   | 1990-1991 |       | 1998-1999             |       |
| Women who last gave birth at home                                   | 43%       | 84%   | 28%                   | 79%   |
| Percentage of pregnant women who visited prenatal care facilities   | 65%       | 24%   | 76%                   | 37%   |
|   | 1980-1992 |       | 1992-1997             |       |
| Maternal mortality rate (per 100,000 births)                        | 284       | 362   | 125                   | 307   |
|   | 1990-1991 |       | 1998-1999             |       |
| Female primary net enrollment rate (% school-age female population) | 79%       | 28%   | 83%                   | 47%   |
| Female youth literacy rate (aged 15-24)                             | 76%       | 21%   | 77%                   | 25%   |

Sources: Living Standards Measurement Surveys of 1990/91 and 1998/99, Labor Market Survey 1999, Statistical Yearbooks, Statistical Office of Morocco; Provincial Department of Ministry of Equipment; National Electricity Office.

1. People between the poverty line and 1.5 times the poverty line.
2. Indicates inequality/income distribution among the poor. An increase in the index implies a deterioration in income distribution.
3. Percentage of the population with access to a permanent source of drinking water with acceptable sanitary conditions, generally stand pipes provided by the local authorities. Does not include catch basins or other unprotected sources of water (even if uncontaminated).

### A. Poverty Trends

#### 3. Social and human development policies have gained momentum since the mid-1990s...

- Access to health and education in rural areas has improved (Table 1) especially since the mid-1990s, reflecting the new focus in Government policies on the poorest provinces through instruments such as the flagship social programs (the 'BAJ')<sup>1</sup>. Girls' net enrollment in rural primary schools increased sharply from 28 percent to 47 percent during 1991-98. These strong improvements follow many years of slow progress.
- Over the past two years, the authorities have successfully mobilized financial resources to accelerate rural infrastructure programs (electricity, potable water and roads). As a result, the timeframe for providing the rural population with universal access was reduced from 30 to about 10 years, a remarkable achievement.
- In education, perhaps Morocco's most important long-term development challenge, the authorities and other stakeholders reached a consensus in 1999 on the main elements of

<sup>1</sup> The Social Priorities Program for the poorest provinces.

reform. This breakthrough is set out in the “Charter for Education” prepared by a Royal Commission composed of all key stakeholders.

- In an effort to become more responsive and effective, the Government has also initiated several partnerships with civil society. For example, Government endorsed an ambitious Gender Action Plan entirely prepared by a group of NGOs and women’s representatives, an unprecedented initiative in the MNA region. It is also supporting NGO-sponsored schools and literacy programs. Finally, the authorities are establishing a Social Fund, which by supporting community-based development, has strong potential to efficiently reduce poverty.

**4. ... but inefficiencies and gaps in the social sectors remain substantial,...**

- Despite significant public spending on education (6 percent of GDP), both quality and coverage remain weak. Although illiteracy is slowly receding, it remains one of the highest (52 percent) in MNA and lower middle-income countries (LMI). Similarly, although school enrollment is increasing, 2.5 million children, a majority of them rural girls, still do not attend school. Quality is also an issue as evidenced by poor retention rates in school: 25 percent of schoolchildren drop out before the fifth grade, and only 10 percent make it to 11<sup>th</sup> grade. University students take on average 8 years to complete a 4-year program, to find all too often their skills unsuited to the labor market.
- The health system also lags behind most LMI and regional comparators. While life expectancy has increased to 67 years and vaccination is widespread, many outcome indicators remain disturbingly low: e.g., maternal and infant mortality are considerably higher than the regional average<sup>2</sup>, with continued significant urban-rural disparities. Low, inequitable and inefficient spending on health, particularly in the public sector<sup>3</sup>, has created serious problems in terms of access and quality, and is compounded by one of the lowest health insurance coverage rates in the region (15 percent of population).
- Despite efforts to enhance the status and condition of women<sup>4</sup>, gender indicators, especially in literacy and health and in rural areas, remain among the worst in the region. For example, 83 percent of women are illiterate in rural areas. One of the few bright spots is the high labor force participation for women.
- Access to basic infrastructure by the rural population, in spite of the recent progress, remains limited and constitutes a severe constraint to economic and social development.

**5. .... and most disturbingly, as a result of slow growth, income poverty and unemployment substantially increased during the 1990s.**

- Poverty, which had declined from 21 to 13 percent of the population during 1984-91, bounced back to 19 percent in 1998 (Box 1), and now affects 5.3 million people.<sup>5</sup> The vulnerable population also increased dramatically, from 9 to 12 million, or about 45 percent of the population.<sup>6</sup> Slow and volatile growth in a period characterized by repeated droughts, rather than distributive factors, is mainly to blame.

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<sup>2</sup> Maternal: 230 per 100,000, vs. 134 in the region. Infant: 48 per 1,000 vs. 45.

<sup>3</sup> Total spending: Around 4 percent of GDP, vs. 5.4 percent in the region. Public spending is only 1.4 percent of GDP (1999 figures).

<sup>4</sup> The Government adopted the Beijing action program, ratified the Convention for the Elimination of All Forms of Discrimination Against Women (CEDAW) and endorsed the Gender Action Plan.

<sup>5</sup> The poverty line is based on per-capita consumption. See Morocco – Poverty Assessment Update, May 2001.

<sup>6</sup> Defined as living between the poverty line and 1.5 times the poverty line.

- Urban unemployment has risen to an all-time high of 22 percent of the labor force in 1999, up from 15 percent in 1991, and is 27 percent among young graduates. Employment pressures will only intensify in the near future since the growth of the labor force is expected to increase as a result of demographic trends.

**Box 1: Rising Poverty in Morocco**

**The latest Poverty Update for Morocco is based on a Living Standards Measurement Survey conducted in 1998-99. It points to a significant deterioration in poverty indicators:**

- While poverty declined substantially in the 1980s, its incidence increased in almost all regions of Morocco during the 1990s: about 5.3 million people, i.e. 19 percent of the population, are now considered poor, compared to 13 percent in 1991. The number of Moroccans vulnerable to poverty during episodes of instability, such as droughts, also increased dramatically, from around 9 million in 1991 to 12 million in 1998, or about 45 percent of the population.
- The lack of economic growth has been a key factor behind these developments, explaining 84 percent of the poverty increase. Rising inequality accounted for the balance, and affected essentially rural areas. Public and private transfers (remittances from abroad) constitute the backbone of the safety net in the country.
- While income poverty worsened, access to basic services, however, improved over the period. The Government also recently introduced a drought emergency program focused on labor intensive work, to cushion the impact of droughts on the poor.
- Poverty continues to be mostly a rural phenomenon: in 1998-99 more than one fourth of the population living in rural areas are poor, as compared to one-tenth in urban areas. The depth and severity of poverty are also much higher in rural areas, and have significantly increased since 1991. However, due to weak performance in the manufacturing sector and continuing rural migration, the number of urban poor doubled to 1,800,000 during the period; about one third of the poor now live in urban areas.
- The profile of the poor has not changed during the 1990s: poverty in both urban and rural areas is largely associated with (i) larger household size, higher child/adult ratios and a high dependency ratio; and (ii) lack of human capital (in 1998-99, about 64 percent of the poor had no education and about 17 percent had only primary education). Urban poor household heads are most likely to be either wage earners or self-employed in the services or construction, rural poor household heads are mainly self-employed and work in agriculture.

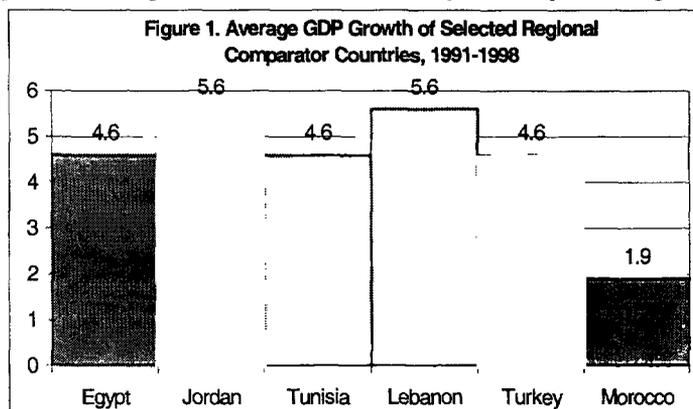
**B. Economic Developments**

**6. Indeed, while Morocco has been relatively successful with stabilization...**

- Consolidating its stabilization efforts, Morocco has over recent years maintained inflation below 3 percent p.a. and the current account deficit at around 1 percent of GDP. To reduce external vulnerability, the authorities have relied more on domestic financing sources to meet fiscal needs and gradually reduced external debt to about 55 percent of

GDP in 1999<sup>7</sup>. These results are based on prudent monetary and fiscal policies that have supported until very recently a fixed exchange rate that in turn anchored expectations.<sup>8</sup>

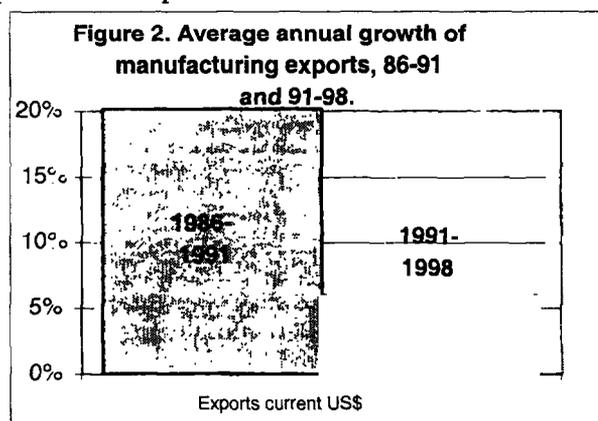
- The fiscal deficit has been kept around 3 percent of GDP until very recently, although fiscal management was more constrained than suggested by this performance. The 1998-1999 and 1999-2000 budgets relied heavily on one-time measures;<sup>9</sup> without these measures, the deficit would have been around 5 percent of GDP. Additional challenges include: (i) expected revenue losses of 2 percent of GDP from the implementation of the EU trade agreement over the medium-term; (ii) continuing pressures on the wage bill, already high at 12 percent of GDP; and (iii) contingent liabilities in the banking system, or in the pension funds of the public sector.



- The financial sector has been liberalized by the gradual elimination of almost all forms of direct state intervention, and the regulatory framework has been modernized. The Bank's recent Financial Sector Review assessed Morocco's financial system as generally sound and with limited exposure to risks, although characterized by weak competition. Some specialized public banks, however, need to be restructured and revitalized.

7. ... it has experienced a volatile and below-potential growth performance.

- Growth dropped from an annual average of 4.4 percent during 1986-91 to 1.9 percent during 1991-98, turning Morocco from one of the best to one of the worst performers within the MENA Region (Figure 1). With population increasing at 1.7 percent p.a., this has implied virtual stagnation of per capita income, and a reduction of per capita private consumption that was crowded out by public consumption.
- The contribution of agriculture to overall growth turned negative during 1991-99: minus 0.3 percent p.a., a sharp drop from a positive contribution of 0.8 percent p.a. during 1986-91. Droughts became more frequent and output fluctuations more pronounced leading to an increase in overall GDP volatility during the 1990s. This, combined with weaknesses in the safety net system, is a key



<sup>7</sup> Due to exchange rate movements, total debt increased temporarily in 2000, to 59 percent of GDP.

<sup>8</sup> The authorities modified the currency basket underlying the exchange rate in late April, implying a de facto devaluation of 5 percent.

<sup>9</sup> Such as exceptional 'dividends' imposed on public enterprises; lump sums paid by private enterprises as part of a tax amnesty scheme; and the sale of State assets.

contributing factor behind the increase of rural poverty.

- The manufacturing sector's lack of dynamism has been an important factor behind the increase in urban unemployment and poverty. Its average growth rate dropped from 4.5 percent p.a. in the late 1980s to 2.6 percent in the 1990s, less than half of that of other emerging economies. The sector also lost competitiveness as evidenced by slower export growth and the loss of market share (Figure 2). Service sectors are, however, emerging, such as tourism and information technology.

**8. Slow growth reflects both increasingly rigid macro policies as well as slow, albeit steady, progress in implementing structural reforms:**

- Successful as they have been, stabilization policies have started to take a toll on competitiveness. First, the exchange rate peg contributed to a real appreciation of the dirham, by over 20 percent during 1990-2000 leading the authorities, in April 2001, to effectively devalue the domestic currency by 5 percent in nominal terms. Second, the only mixed success achieved in reducing the fiscal deficit and total public debt has implied some crowding out in financial markets and upward pressure on interest rates. Finally, the fiscal deficit was mostly contained through cuts in public investment, while recurrent expenditures, particularly the wage bill, have remained high. It is not yet clear whether the recent readjustment of the exchange rate is a first step towards a more flexible management of this instrument, and what other measures the authorities are considering in the fiscal area.
- Accelerating and completing the process of structural reforms is a key condition to unleash the growth potential in a sustainable way. Many reforms have been achieved in the 90s: the financial sector was largely liberalized, a privatization program has been under way since 1993, including private sector participation in many infrastructure sectors, and the investment climate was strengthened. More recently, the Government also initiated a strong drive to enhance transparency and public sector governance. Some of the more important initiatives are the customs administration reform, a new law on public procurement, transparent procedures for privatization, initiating the reform of the judiciary and the establishment of a competition council, together with price liberalization.
- Despite those improvements, the private sector response has been lagging, due to the uneven progress on the reform program and slow decision making. For example, while the Government has established commercial courts and passed new laws on competition policy and on the liberalization of the road freight transport, implementation of these laws has been slow. Other remaining constraints identified in the recent Private Sector Assessment include: the weight and inefficiency of the administration, access to land, investment procedures, skills of the labor force, rigidity of labor markets, access to financial services for the SMEs, and agriculture incentives and policies.
- A success story, however, is Morocco's policy of liberalization and privatization of the Telecom sector, which is yielding unprecedented economic and financial benefits and which illustrates well the potential benefits of structural reforms. In the late 90s, the Government of Morocco, with support from the Bank, embarked on a radical reform of the regulatory framework. In 1999, the award of a second GSM mobile phone license by international bidding fetched more than US\$ 1 billion. IFC supported this reform through investment in Medi Telecom, the winning cellular operator for this license, and was instrumental in mobilizing other sources of financing. This reform triggered a major

reduction of communication prices and the creation of thousands of jobs. Further benefits are expected from the privatization of the state-owned telecom operator, the first phase of which was completed recently. Together with the attribution of a third mobile phone license, the partial privatization of the national airline carrier, and continued divestiture of other large public enterprises, the government could reap up to US\$ 5 billion, equivalent to around 17 percent of current GDP, over the next 3 to 5 years.

## II. KEY DEVELOPMENT CHALLENGES

9. **The positive political, economic and financial developments that are taking place present Morocco with the best opportunity in more than a decade to tackle successfully its difficult development challenges. Progress in policy reform and institution building made during the 1990s provide a strong foundation upon which to jumpstart the economy. Morocco's most positive initial conditions are:**

- The process of political opening has placed Morocco ahead of most countries of the Region. Although it may have reduced the continuity in government and affected its focus on economic issues, political opening is bringing far-reaching developments. New partners in development are emerging. The contribution of a vibrant civil society to development is tangible and increasingly encouraged. The public sector is expected to become more effective as local Government and local representatives of the central Government take on increasing responsibility in the coming years.
- The progress achieved during the 1990s on economic management is a strong basis from which to implement more aggressive growth oriented policies and programs. Strong stabilization was needed to re-establish credibility following the rescheduling agreements of the late 1980s. Later on, it provided the basis to support structural reform, notably in the financial sector and in opening the economy to private investments. Without stabilization, the authorities would not have been able to correct the fiscal excesses of the 1980s, and macro instability would have reduced both the quality and quantity of private investment. Without the liberalized markets and the stronger regulatory institutions, Morocco would be less able to reap benefits from the EU Association agreement, and generally integrate successfully into the world economy. While growth and poverty reduction have been weaker than hoped for during the 1990s, this is not because of too much reform, but because of too little progress on some critical structural reforms and because of the rigid macro framework which emerged. The recent decision to rebalance the currency peg basket and the resulting *de facto* 5 percent devaluation is a step in the right direction to allow the economy to maximize its return from reform.
- Potentially large privatization revenues provide a unique opportunity to reduce social gaps and to create the conditions for long-term growth. In view of their one time effect, Morocco should manage these resources carefully and use them to finance key social priorities such as education reform or the extension of health insurance, as well as stronger structural reforms in support of growth-oriented policies.

10. **Morocco's main development challenges can be summarized into four inter-related objectives that cut across sector issues: achieving higher growth to reduce poverty, improving the access of poor households to social services, enhancing public sector efficiency, and reducing vulnerability, in particular to droughts and, in the medium-term, to environmental degradation.**

## **A. The Growth Challenge**

11. Higher growth and competitiveness hinge on the implementation of the outstanding structural reform agenda, including in social sectors. However, because many of these reforms are of a 'second generation' nature and require a significant measure of institution and consensus-building, their effects will build gradually over time. While pursuing them aggressively, Morocco therefore needs to also put in place an economic framework that allows the economy to exploit fully its current growth potential, so that it can address the critical poverty and unemployment challenges it is facing today.

12. In order to achieve higher growth in the short-term, Morocco is essentially presented with two broad options: boost domestic demand through expansionary fiscal policies, or rely to a larger extent on the dynamics of international trade.

- Allowing for a higher budget deficit would not be a viable option. Total public debt has been receding but still stands at a high 80 percent of GDP and, as already noted, fiscal management remains constrained.
- The option of a non debt-creating fiscal expansion is available to Morocco, thanks to the large expected privatization revenues. However, allocating these revenues only to public investment would likely have only a transitory impact on growth, given the estimated modest supply-side effects in the long run. Allocating them to current expenditures would endanger the sustainability of the already fragile overall fiscal position.
- Fiscal and supply-side rigidities suggest that the best option to realize the full growth potential in the short-term might be a shift in economic policy based on the strong dynamics of international trade. To this effect, two complementary measures should be implemented: (i) increased flexibility in the exchange rate regime, building on the recent devaluation to restore competitiveness of the tradable sector, and to allow enterprises to diversify; and (ii) an acceleration and broadening of the trade liberalization agenda with the EU to alleviate inflationary risks and maintain the pressure on import substitution industries to improve productivity. Such an agenda should be complemented by aggressive reforms to tackle supply-side constraints. Finally, there are two additional elements of the agenda, discussed in more detail below, regarding social issues. First, the authorities should simultaneously improve the currently fragmented and limited social protection system in order to mitigate the possible adverse short-term effects of such a policy shift on the poor. Second, they should also take action to accelerate the integration of poor rural areas into the mainstream of the economy.

## **B. Improving the Poverty Focus of Public Policies and Expenditures**

13. Growth is key to poverty reduction, but, to make more rapid headway in reducing the large social gaps, public policies need to promote equity much more forcefully than in the past. Indeed, during most of the 1990s, expenditures on investment and social programs were restrained, and budget priorities were only reassessed during the last few years. Equity therefore remains a serious issue in most sectors:

- In the rural sector, the incidence of both the investment expenditures and subsidies is biased towards larger farmers. For example, over 70 percent of the Ministry of Agriculture's investment budget goes to large-scale irrigation, and since O&M costs are only partially recovered from users, it benefits mostly larger and better-off farmers. A similar bias results from the high border protection for so-called strategic commodities

(wheat, sugar, and oil seeds) since large farmers produce the bulk of marketable surpluses. High protection may have also induced some poorer farmers into soft wheat production, increasing their vulnerability to drought. A food subsidies program, established to compensate poor consumers for the impact of protection on domestic prices, is poorly targeted. Recently, however, increased budgetary funding for rural development and drought emergency programs have targeted poorer rural areas. Also, the Government has dismantled the protection-cum-subsidy system for oil seeds in 2000, but still maintains the system for the two other commodities.

- In education, unequal expenditure patterns explain many of the gaps observed at the primary level and in rural areas. As much as 20 and 17 percent of resources go to the secondary and tertiary levels, respectively, which benefit more the urban and better-off segments of the population but are provided free of charge. Among the many important breakthroughs achieved by the Royal Commission on Education, however, is a consensus for primary universal education and on regional decentralization and support for community schools to achieve this goal.
- In the health sector, despite recent increases, public spending remains low by international standards, and is skewed towards the urban hospital sector, which absorbs 70 percent of the recurrent budget. As a result, 40 percent of public spending on health benefits the top quintile of income distribution, as against 20 percent of spending for the two bottom quintiles. Access to health facilities in some rural areas are 4 times lower than in urban areas, and key public programs such as reproductive health are chronically under-funded. Another emerging concern is the need to carefully monitor and control the potential spread of HIV infections.
- More generally, Morocco does not spend enough on specific poverty or employment-targeted programs. Aggregate spending on social sectors is low by regional standards (12 vs. 20 percent of GDP in MNA countries), and most resources go to education, health, food subsidies, and pensions, limiting the resources available for other forms of social assistance. *Promotion Nationale*, the public works scheme, with 0.3 percent of GDP, provides jobs to an average of 40,000 unskilled workers per year. Spending on *Entraide Nationale*, which caters to the needs of disadvantaged women and children, is below 0.1 percent of GDP, and the program reaches only 80,000 individuals. Finally, with the resources allocated to adult literacy programs (US\$ 3.5 million a year), it would take decades to reduce illiteracy to the LMI average rate of around 16 percent.

### C. The Reform of the State

14. The State in Morocco remains heavily involved in the provision of goods and services, well beyond what would be justified by objectives of regulation or redistribution, and in excess of its capacity to provide strategic leadership. Public sector management has been traditionally characterized by excessive centralization and a culture of administrative formalism, which has gradually degraded into poor accountability and pervasive petty controls. Not only does this affect efficiency, but it also creates opportunities for mismanagement and corruption, cited by private enterprises as one of the main obstacles to their development. The Government has placed the issues of transparency and corruption squarely on its agenda. The key governance issues are as follows:

- Alternative delivery mechanisms involving the private sector or civil society could much improve the coverage and efficiency of public services. Incipient support to NGO-led

education and literacy programs needs to be expanded through additional budgetary resources, and improved capacity to regulate and monitor partnerships.

- Excessive centralization has resulted in slow program implementation, lack of cross-sector coordination and insufficient participation from stakeholders. Current centralized procedures for budget preparation and execution have not led to better strategic prioritization either, nor better efficiency in the use of resources, particularly in social sectors. There are multiple examples of this: public hospital occupancy rates stand at around 50 percent; recently-built schools sometimes remain unattended for lack of basic services such as water or access roads; in secondary education, pupil-to-teacher ratios average only 12, a very low level by international standards. Despite growing consensus in Morocco that the centralized administration model has become an obstacle to, rather than an agent of, development, reform efforts are still at their very beginning.
- Finally, the heavy burden of the wage bill (12 percent of GDP) is not the only problem leading to calls for civil service reform. The skills mix, biased towards implementation rather than managerial or analytical profiles, does not serve well the needs of a modern administration. An opaque and fragmented compensation system, coupled with constraining regulations, has inhibited staff redeployment, impeded administrative decentralization, and led to larger recruitment than would otherwise be necessary.

#### **D. Reducing Agricultural Vulnerability and Environmental Threats**

15. With 45 percent of the population and 70 percent of the poor living in rural areas, agriculture is key to the living standards of the most deprived in Morocco. Increasing fluctuations in agricultural output and the associated expansion-contraction cycles in rural household incomes obviously influence their consumption-savings behavior. Indeed, the growing economic uncertainty observed in the 90's, decreasing real prices for main crops, weak income levels, and the absence of a genuine social protection system allowing to smooth out the effects of droughts, seem to lead to asymmetric consumption patterns, with significant consumption drops during drought years not offset by increases during expansion phases.

16. Environmental degradation is of concern, not only for growth sustainability, but also for equity since the poor are the most affected. The main issues include the lack of water and sanitation, with particular impact on the poor, water quality issues and urban pollution. Most generally, water availability at 700m<sup>3</sup>/person/year puts Morocco in a situation of 'water stress'. In rural areas, the lack of water and related infrastructure is affecting seriously the ability of the rural poor to cope with what seem to be growing climatic shocks. Regional disparities, with the deterioration of water quality in some water basins with high industrial and urban concentration, aggravate the problem. The country is also subject to an increasing fragility of forest and grazing land, with around 50 per cent of land affected by erosion.

### **III. MOROCCO'S DEVELOPMENT PROGRAM**

17. Morocco's development program was initially formulated in the current Government's policy statement of 1998. It was further fleshed out in the five-year Plan approved by Parliament in July 2000, which takes into account recent developments such as the vision of education reform laid out by the Royal Commission, and the prospect of exceptional privatization revenues. It addresses the four key development challenges as follows:

## **A. The Growth Agenda**

18. The acceleration of growth to an average of 5 percent over the five-year period is a central objective of the five-year plan, and would be supported by higher public investment levels and structural reforms. Mostly on account of privatization revenues, public investment would increase markedly over the period, to average 4.5-5 percent of GDP. The EU agreement represents a cornerstone in Morocco's integration strategy. The recent currency realignment also reflects the growing importance of Europe in Morocco's trade.

19. The Government expects private sector development to be a key source of growth. It would encourage the private sector by continued implementation of ongoing structural reforms, including: (i) privatization and PPI; (ii) the business environment, with special emphasis on SMEs, export promotion, streamlined procedures for foreign and domestic investment, and improved access to land; (iii) labor market policies, including the approval of a much delayed new labor code, increased private sector participation in the professional training system, and better market intermediation through the new National Agency for Employment; (iv) tax administration, realignment of external tariffs, and the judicial system, including further strengthening of commercial courts; and (v) continued strengthening of the financial sector.

## **B. Improving the Poverty Focus of Public Policies and Expenditures**

20. As noted above, the objectives of equity and inclusion, repeatedly stressed by King Mohammed VI, have gained importance in the Government's program. The Plan targets the generalization of education at entry levels by 2002-03. To this end, 10,000 new teacher positions were created under the current 2001 budget and the Plan envisions a large school construction program. The Government is also considering extending medical insurance, including to the poor, to be financed with budget resources. Additional pro-poor policies and programs being introduced are: (i) a further acceleration of rural infrastructure programs, with a view of reaching 60-70 percent of the rural population by 2004; (ii) a set of integrated and participatory rural development programs, targeted at the poorest rural areas; and (iii) the creation of the Social Fund, and the reform of *Entraide Nationale*, based on the results of a pilot reform program started in 1999.

## **C. The Reform of the State**

21. The Government plans to improve public sector efficiency by implementing the following measures: (i) enhanced autonomy for local municipalities, through a legislative reform currently under preparation, and the establishment of intermediate levels of government (regions); (ii) administrative decentralization, the principles of which were recently laid out in a draft charter, and successfully experimented under the recent emergency drought program; (iii) across-the-board simplification of rules and regulations including the reduction of the administration's discretionary powers; and (iv) increased accountability, through further build up of commercial and administrative courts, and the strengthening or creation of Chambers of Accounts at the central and the regional levels.

## **D. Reducing Agricultural Vulnerability and Environmental Threats**

22. The Government has launched a national drought protection program following a second drought year in 2000. The program includes measures to improve water distribution,

strengthening of cattle feed distribution and subsidies, debt rescheduling for farmers, and cereal distribution. The program has successfully used a decentralized and participatory approach that has had maximum and quick impact. The program will now be institutionalized to ensure rapid reaction in the event of drought.

### **E. Bank Assessment**

23. Overall, the Government's strategy does reflect Morocco's key development priorities and to a large extent identifies the budgetary resources and instruments to achieve them, as evident for instance for education reform and rural sector development. The Government strategy, however, raises four sets of issues:

- Many of the reforms underlying the Plan's growth targets are of an institutional nature and might take longer than expected to materialize. Under unchanged macroeconomic policies, it is unlikely that Morocco will rapidly embark on a path of sustained and significantly higher growth. The recent readjustment of the currency peg basket, while sending a positive signal and helping prevent a further appreciation of the real effective exchange rate, might not be enough to alter significantly the growth outlook. Restoring competitiveness would require continued flexible management of the exchange rate. Similarly, these changes in exchange rate policy should be accompanied by a wider policy package that includes trade liberalization, tight fiscal policy and structural reforms to facilitate private sector activity. Stagnation of agriculture output is also unlikely to be reversed until the issue of crop patterns, and the related questions of protection, water management and price incentives, is addressed.
- Fiscal management is under strain, and is a cause for concern. The 5-year Plan's objective of reducing the deficit to 1 percent of GDP by 2004 hinges on 'compensatory measures' of 4 percent of GDP, which have not been identified. Savings on the wage bill or food subsidies will require difficult reforms in order to materialize. On the expenditure side, strong pressures are already arising from education reform, particularly through the wage bill, and further pressure may come from health insurance or the assumption of contingent liabilities (public pensions schemes and specialized banks).
- Key structural reforms in areas such as education, extension of health insurance, health financing for the poor, or the civil service, lack a clear vision as to how they will be implemented, or financed. Education reform, in particular, requires a well-articulated plan integrating and sequencing its various aspects, including fiscal costs and efficiency gains.
- While privatization revenues would present a unique opportunity to finance some of the one-time costs of important structural or social reforms or to ease future fiscal constraints, no provision to that effect has been made under the Government strategy. Most of the privatization revenues have hitherto gone to finance lower budgetary savings, and only a limited part has been earmarked for financing various investment projects and recapitalization operations under the Hassan II fund<sup>10</sup>.

24. Finally, the political opening process is still unfolding. Over the last few years, the political decision-making process has sought to build consensus among the coalition members, and with civil society more generally. While transparency was enhanced, consensus building has

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<sup>10</sup> The Hassan II Fund was created in 1999 as an extra-budgetary account intended to earmark for investment part of the proceeds of the second GSM license.

often caused delays and a lack of clear vision and drive, increasing uncertainties in the private sector. With the advent of new elections next year, it is hoped that the Government will forge an early consensus on reforms to allow it to move more decisively on its agenda.

#### IV. MEDIUM-TERM PROSPECTS

25. Morocco is at a juncture in its development agenda. In particular, choices made today in three economic policy areas will have a significant impact on economic prospects over the medium-term. First, there is broad consensus that structural reforms should continue to be an important focus of the reform program over the next four years. As noted above, the Government has made significant progress during the last few years in tackling structural issues, as well as improving human capital and reducing disparities between urban and rural Morocco. Implementing these reforms at a faster speed would help jumpstart the economy, in particular if private investors feel more reassured about the Government's commitment and capacity to manage the economy. Second, structural (second generation) reforms alone are unlikely to achieve a sharp increase in the growth rate, especially over the CAS period. The prospects for the Moroccan economy over the next 4 years also critically hinge on sound macroeconomic policies. Finally, a decisive choice confronted by the authorities is how to use the large privatization receipts. An unwise use would represent a missed opportunity to quickly tackle key structural constraints, and might potentially undermine macroeconomic stability over the medium-term.

26. The fundamental differences between the two scenarios described below depend on choices in these three areas. The partial adjustment (base) case is defined as a continuation of the macro policies of the 1990s, characterized by sustainable fiscal management and a nominal exchange rate peg. However, given the recent deterioration of the budgetary situation financed with the large privatization receipts, this scenario is conditioned on significant fiscal adjustment over the next 3 years. In this regard, the fiscal measures of the next budget law for 2002 will be critical in keeping Morocco firmly in this scenario. Also, following the recent readjustment of the currency peg, the scenario assumes that the authorities would ensure that no real appreciation of the currency occurs in the next few years. This scenario also assumes continued progress on the structural front, along the same trends as in the 1990s. The high case, or full adjustment scenario, represents a more dynamic policy stance, more susceptible to generate the higher economic growth rates necessary for unemployment and poverty reduction.

##### A. Base Case Scenario (Partial Adjustment)

**27. The base case is predicated on the preservation of a stable macroeconomic framework in a context of medium-term fiscal sustainability, a benign external environment, and continuing structural reforms.**

28. As noted above, this scenario, based on the Moroccan five-year plan, restores the economic policy framework of the 1990s, but given today's policies, it implies a sharp correction of recent fiscal trends. Indeed, the 2001 budget law foresees a fiscal deficit of 7.7 percent of GDP, although the debt-creating fiscal deficit is kept in the range of 1.2 percent of GDP, thanks to privatization receipts of about 6.5 percent of GDP. This budget marks a serious deterioration in the structure of public expenditures, essentially negative levels of government savings, which could threaten medium-term fiscal sustainability. The realization of the base case scenario will therefore hinge critically on three conditions that need to be achieved through ongoing fiscal

management during 2001, and through adequate measures in future Budget laws (see CAS Annex for detailed macro projections):

- **Maintaining current budget revenues as a percentage of GDP (24 percent)** from 2001 onwards, in the context of declining customs duties under the EU agreement. This will imply continued improvement in tax collection, and the broadening of the tax base (especially with respect to VAT).
- **Less than full execution of budgeted investment**, at around 85 percent of the levels envisaged in the Plan, counting on implementation constraints and enforcement of tight selection criteria. This should result in a level of Government investment above 5 percent of GDP for the CAS period, compared to 4.5 percent in 1997-98.

**Table 2. Partial Adjustment Scenario – Selected Macroeconomic Indicators**

| Indicator                                      | Actual |       | Estimate |       | Projected |       |       |       |
|--|--------|-------|----------|-------|-----------|-------|-------|-------|
|  | 1997   | 1998  | 1999     | 2000  | 2001      | 2002  | 2003  | 2004  |
| <b>Growth rates (%)</b>                        |        |       |          |       |           |       |       |       |
| Real GDP                                       | -2.2%  | 6.8%  | -0.7%    | 0.8%  | 8.0%      | 3.4%  | 3.6%  | 3.8%  |
| Real non-agriculture GDP                       | 3.2%   | 3.9%  | 3.0%     | 3.4%  | 3.9%      | 3.9%  | 4.1%  | 4.2%  |
| Real Consumption per Capita                    | -4.3%  | 6.8%  | -3.8%    | -1.8% | 6.6%      | 0.8%  | 1.9%  | 2.3%  |
| Import Volume, GNFS                            | 7.3%   | 21.4% | 4.7%     | -2.8% | 5.5%      | 4.9%  | 5.6%  | 5.9%  |
| Export Volume, GNFS                            | 8.3%   | 2.2%  | 4.8%     | -0.8% | 4.0%      | 6.9%  | 5.7%  | 5.8%  |
| <b>Ratios to GDP (%)</b>                       |        |       |          |       |           |       |       |       |
| Gross Domestic Investment <sup>1/</sup>        | 20.7%  | 22.5% | 24.2%    | 24.5% | 24.7%     | 25.2% | 25.4% | 25.6% |
| Government Deficit (excl.grants) <sup>2/</sup> | -3.3%  | -2.7% | -3.8%    | -6.4% | -7.7%     | -5.5% | -4.3% | -3.5% |
| Government Current Revenues                    | 25.5%  | 27.4% | 27.1%    | 26.2% | 23.8%     | 23.9% | 23.9% | 24.0% |
| Government Current Expenditures                | 24.6%  | 25.2% | 26.0%    | 26.5% | 25.5%     | 23.6% | 22.9% | 22.3% |
| Government Budgetary Investment                | 4.2%   | 4.9%  | 4.9%     | 6.1%  | 6.0%      | 5.8%  | 5.4%  | 5.2%  |
| Total External Debt                            | 60.3%  | 57.5% | 54.5%    | 59.4% | 54.9%     | 50.1% | 45.7% | 42.5% |
| Current account balance                        | -0.3%  | -0.4% | -0.5%    | -1.6% | -1.5%     | -1.1% | -1.0% | -1.0% |

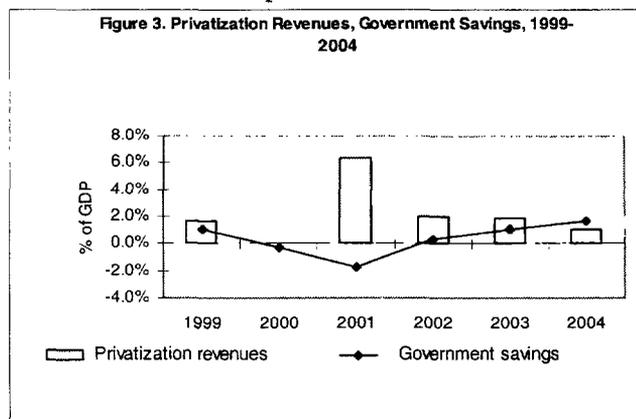
<sup>1/</sup> Includes changes in stocks.

<sup>2/</sup> Fiscal years in 1997 and 1998, calendar years otherwise.

- **Progress in reducing current expenditures.** First, the 2001 budget law includes a number of one-time expenditure items, such as the drought program, a retroactive payment for the exceptional promotion of civil servants, and partial buffering of higher oil prices. A moderately tight control of Government consumption starting in 2002 would allow to cut these expenditures by 1.3 percent of GDP by 2003. Second, further reform of the food subsidy system could be implemented, following the elimination of cooking oil subsidies in November 2000. Finally, it will be critical to enforce a strict control of the wage bill: zero net recruitment and no discretionary wage increases from 2002 onward would allow to reduce the wage bill by around 1.5 percentage point of GDP by 2004<sup>11</sup>. The CAS program will fully take the fiscal situation into account, not only in the determination of assistance levels but also by devoting resources to analytical work and policy dialogue on issues such as the reform of civil service or food subsidies.

<sup>11</sup> Except for the increase resulting from the process of conversion of temporary workers.

29. Under these assumptions, more than half of cumulated privatization revenues will still be absorbed to finance lower government savings, which will return to their 1999 level only by the end of the CAS period. The debt-creating fiscal deficit (i.e. after privatization receipts) would be brought down to around 3 percent of GDP, assuring base-line fiscal sustainability as indicated by a declining Government debt-to-GDP ratio<sup>12</sup>. Consequently, the Treasury would face manageable pressures to meet its financing needs, and continue to favor domestic-currency denominated debt while foreign net financing flows are expected to remain mostly negative over the medium term (Table 3).



30. Monetary policy is expected to remain prudent and the major challenge will be to cope with the large private capital inflows to avoid excessive expansion of the monetary base. Inflation is projected to increase to about 3 percent in 2001 (as per the GDP deflator) reflecting the expansionary fiscal impulse, the rebound in agriculture, last year's 10 percent increase in the minimum wage, and the recent 5 percent devaluation of the currency. The real effective exchange rate is projected to avoid any further appreciation, thanks to the recent decision to adjust the relative weight of the US dollar and the Euro in the peg basket and to stringent fiscal policy.

31. The environment for the private sector is expected to benefit from:

- Continued, albeit gradual, implementation of structural reforms yielding moderate productivity gains; possibly accompanied by a harmonization of trade tariffs and faster trade liberalization, to offset the higher protection granted by the devaluation.
- Further recovery of private investment, based on the positive trend since 1998, and on other recent developments. At the sector level, the ongoing rebound in the tourism and construction sectors is expected to continue.

32. Under these assumptions, GDP growth would be stronger than in the 1990s. After two years of stagnation, GDP growth is projected to rebound to 7 percent to 8 percent in 2001. This rebound reflects the recovery in agriculture following two years of drought. Thereafter, however, agricultural growth would subside to factor in the probability of at least one drought over the CAS period. Overall GDP growth is projected to reach 3.8 percent in 2004, mostly on account of non-agricultural output. This increase would be mainly driven by higher private and public investment, and by export performance improving as a result of sustained EU demand. However, growth would be lower than envisaged by the five-year Plan (an average of 5 percent p.a. throughout the period), but consistent with past patterns of investment efficiency in Morocco.

<sup>12</sup> The key to fiscal sustainability beyond the CAS period will be ensuring a sound budget position when windfall revenues dry out in 4-5 years time. It is also crucial that the deterioration of public savings in 2001 be managed tightly, in the light of possible shocks. The projections show that the level of primary deficit associated with the base case fiscal stance would remain consistent with further reduction of Government's total debt, from 83 to around 72 percent of GDP between 2000-04. However, most of this debt reduction is expected to happen in 2003, in relation with higher government savings. This makes the fiscal situation vulnerable to interest rate shocks and other exogenous factors that could derail the expected trend. In sum, the fiscal stance warrants close and continuous monitoring.

Simple elasticity based estimations suggest that with this scenario, poverty could recede to around 15 percent of population by 2003. However, urban unemployment would continue to deteriorate due to continuing increases in labor force participation, and could reach 24 percent of the urban labor force by 2003-04.

33. No significant tensions on external accounts are expected under the partial adjustment scenario. The current account deficit, fuelled to 1.6 percent of GDP in 2000 by the drought and higher oil prices, would remain at this level in 2001, mainly due to a higher fiscal deficit. It would progressively recede to about 1 percent of GDP as a result of the improving service balance and sustained current transfers. The trade balance would, however, not improve significantly. The situation would remain manageable thanks to substantial net foreign capital inflows – around 2 percent of GDP p.a. – resulting from privatization operations and foreign direct investment. Under this scenario, Morocco's financing needs would be mainly driven by external debt repayments increasing from around US\$ 2.4 to US\$ 2.7 billion between 2000 and 2003, especially as rescheduled London Club private debt is due in the next few years. Total external debt outstanding would as a result decrease further by 2004 to reach 42 percent of GDP.

34. In the event of a lack of a strong fiscal adjustment, there would be no immediate financial instability, but fiscal sustainability would be compromised in the medium term (possibly beyond this CAS period) as privatization receipts dwindle, and financing needs would have to be met through increased borrowing. Aided by the fiscal stimulus generated by the privatization receipts, growth would remain close to the base case over the next few years but would not be sustained later on. The higher fiscal deficit could crowd out private investment and could lead to higher inflation and interest rates, if budgetary financing needs are met through domestic borrowing. Even under these conditions, poverty would likely decline in the short-term, because of continued progress on improving social conditions through policies that allow better access to health and education in rural areas and for girls.

### **B. High Case Scenario (Full Adjustment)**

**35. Prospects for higher and sustained growth sufficient to make a rapid dent in poverty and unemployment will depend on adopting a balanced package that includes both a new macroeconomic framework and a strong set of accompanying structural reforms.**

36. To have a rapid impact on poverty, Morocco must strive for a significant jump in growth performance. Sustained growth rates will have to rely on external demand and the dynamics of integration, which in turn would have to be based on a significant improvement in external competitiveness. To this effect, Morocco would need to establish a more outward oriented policy framework with a higher degree of exchange rate flexibility, all the while maintaining macroeconomic stability. To fully realize the benefits of the new policy approach and minimize risks, Morocco would need to exploit the synergies of reforms along several axes:

(i) Building on the recent changes to the currency peg basket, and the concomitant 5 percent depreciation, introduce a much more flexible *exchange rate policy stance*, to allow the external sector to fully develop its growth potential and reverse the loss of competitiveness due to real exchange rate appreciation in the 1990s.

**Table 3. Morocco – Financing Plan (US\$ million)**

|                                |       |      |      | Actual |      | Est. |      | Projected |      |      |
|--------------------------------|-------|------|------|--------|------|------|------|-----------|------|------|
|                                | 1995  | 1996 | 1997 | 1998   | 1999 | 2000 | 2001 | 2002      | 2003 | 2004 |
| Financing Requirement          | 2576  | 2263 | 2763 | 2152   | 3766 | 2552 | 4937 | 2866      | 3129 | 3284 |
| Current Account (excl. grants) | -1186 | 35   | -87  | -144   | -156 | -548 | -537 | -418      | -409 | -432 |
| Debt Service <sup>a</sup>      | 3764  | 3352 | 3190 | 2782   | 3047 | 3534 | 3614 | 3496      | 3656 | 3344 |
| Amortization                   | 2373  | 2006 | 2123 | 1761   | 1971 | 2413 | 2541 | 2480      | 2706 | 2440 |
| Interest                       | 1391  | 1346 | 1068 | 1021   | 1076 | 1121 | 1073 | 1016      | 949  | 905  |
| Reserve Build-Up <sup>b</sup>  | -982  | 292  | 553  | 247    | 1638 | -409 | 1858 | -32       | 13   | 413  |
| Financing Sources              | 2576  | 2263 | 2763 | 2152   | 3766 | 2552 | 4937 | 2866      | 3129 | 3284 |
| FDI and Portfolio Capital      | 340   | 469  | 1108 | 337    | 846  | 113  | 2647 | 1000      | 1000 | 1000 |
| Medium and Long Term Loans     | 2089  | 1757 | 1313 | 1586   | 2541 | 2290 | 2199 | 1766      | 2057 | 2178 |
| a. Multilateral                | 906   | 797  | 568  | 641    | 781  | 594  | 776  | 717       | 738  | 789  |
| b. Bilateral                   | 449   | 532  | 283  | 214    | 243  | 575  | 558  | 497       | 552  | 493  |
| c. Private Guaranteed          | 632   | 337  | 187  | 393    | 432  | 892  | 595  | 437       | 547  | 501  |
| d. Private Non-Guaranteed      | 103   | 91   | 275  | 338    | 1085 | 230  | 270  | 115       | 220  | 395  |
| Official Capital Grants        | 0     | 0    | 0    | 0      | 0    | 50   | 0    | 0         | 0    | 0    |
| Other Capital <sup>c</sup>     | 147   | 38   | 342  | 228    | 380  | 99   | 91   | 100       | 73   | 106  |

a. Includes IMF interest payments

b. Includes IMF credit purchases and repurchases

c. Mostly net short term capital, changes in assets holdings of commercial banks and private citizens

(ii) *Tightening of fiscal policy*, to hold back inflation and ensure that private investment is not crowded out, and a monetary policy framework compatible with a more flexible exchange rate policy. Fiscal stringency will need to compensate for reduced tariff revenues. In particular, reducing the wage bill from its current high level will be essential to dampen wage inflation and keep the deficit under control, while simultaneously permitting a shift in expenditures towards priority public investment and social expenditures. The latter is critical to more quickly integrate rural Morocco into the mainstream economy.

(iii) *Faster trade liberalization*. Given current high protection levels, the back-loaded structure of the trade liberalization agenda with the EU may, if left unchanged, in effect increase protection for producers for the domestic market.<sup>13</sup> The recent devaluation only compounds this. A faster acceleration of the reduction of trade barriers would hence be an essential complement to increased flexibility in the exchange rate regime to ensure efficient resource allocation in favor of competitive industries, to minimize inflationary pressures and to generally increase the attractiveness of Morocco for private investors.

(iv) *Structural measures to eliminate supply side constraints*, including:

- A liberalization of labor market constraints, in particular passing the long delayed labor code and promoting a more liberal system of labor retraining. Increasing labor market flexibility will facilitate the reallocation of labor to the tradable sectors, in particular to export oriented industries, and other industries with under-exploited potential such as

<sup>13</sup> According to the EU agreement, the dismantling of protection for Moroccan producers will mainly take place at the end of the 12 year implementation period.

fisheries, tourism and information technology. At the micro level, it would also create more flexibility for firms to adjust their labor force. These measures would also effectively reduce labor costs and promote employment.

- Removal of the constraints to access land. Difficulties and delays in accessing land are ranked by firms as a key constraint to investment in tourism and new industrial units.
- Improvements in public-private interaction. The hassle factor is high in Morocco and private sector managers spend a significant amount of time in dealing with public sector rules and regulations. Administrative procedures are particularly heavy with regard to the creation of new firms, a significant barrier to enhancing competition and growth.
- Reform of agricultural price policies. The stagnation of agriculture has been a significant factor in the disappointing growth performance of the 1990s. The more flexible exchange rate regime would create a good opportunity to reduce agricultural protection, and review agriculture support policies.

(v) *Faster integration of rural areas*, and strengthening *the social protection* system to shield the poor and most vulnerable segments of the population from any negative effects of the reforms. For example, in parallel to the changes in agriculture policy, it may be possible to replace the existing subsidy schemes for wheat and sugar by better targeted systems. In addition, re-establishing positive fiscal savings, together with stronger reallocation of public expenditures, should enable the government to substantially accelerate its rural programs.

37. This package, if implemented in its entirety, is expected to incite strong growth without putting macroeconomic stability at risk. A more flexible exchange rate regime is expected to result in an initial deterioration in the current account, but as the export sector picks up, the deficit should be reduced to less than one percent of GDP. Tight fiscal policy, privatization receipts, and the increase in economic growth are expected to lead to a reduction of the fiscal deficit over time. The synergies among the policies described above should also contain any inflationary impact of a more flexible exchange rate regime.

38. With this broad based policy package, growth rates are expected to reach 6-7 percent per year, on account of a sustained response in the manufacturing and other sectors with a strong growth potential. As a consequence, Morocco would be able to significantly reduce the poverty incidence back to some 13 percent of the population by 2004, assuming that private consumption grows in parallel with output. The relatively labor intensive nature of growth would also drive the urban unemployment rate to below 20 percent.

### **C. Exogenous Risks and Vulnerabilities**

39. Major exogenous risks on Morocco's growth performance and external position include: (i) vulnerability to consecutive severe droughts and related volatility of output; (ii) contingent liabilities; and (iii) external shocks, fast deterioration of terms of trade, and an important dependency on EU economic performance. The Bank would assist the Government in addressing these risks by: (i) integrating vulnerability alleviation as one of the CAS strategic objectives (see next chapter); (ii) analyzing the issue of contingent liabilities in an integrated fashion in an upcoming PER; (iii) maintaining a close monitoring on macroeconomic developments, and advocating economic policies that increase Morocco's integration and resilience to the international economy. Under the full and partial adjustment scenarios, the materialization of these risks on a limited scale might call for additional financial support from the Bank, provided good sector policies and adjustment measures are in place.

## V. BANK GROUP STRATEGY

### A. New Challenges and Opportunities for the Bank Group

40. **Morocco has changed both politically and economically over the last three years, and to increase its effectiveness and relevance, the Bank Group needs to reposition itself at this critical juncture in the country's development process.** During the previous CAS period, the Bank Group sought to reduce the social gap between rural and urban areas. The Bank Group also encouraged the process of private sector-led development. The results of the last CAS are mixed, however, and OED rated Bank assistance *marginally unsatisfactory* (see Box 2).<sup>14</sup> While Bank interventions have helped create breakthroughs in the country's development agenda and its advice and support remains widely sought, the Bank needs to continue to adapt the way it does business to the new country environment. How can the Bank Group increase its effectiveness, taking into account the changes taking place in Morocco, as well as successes and failures from recent experience?

- Strong progress was initiated on the social programs –the previous CAS's major objective–and consensus has now emerged in the country on the crucial need to reduce the large disparities between the “two Moroccos”. Basic infrastructure programs have been successfully launched to improve rural access; a social fund was created; and consensus was finally reached on a major education reform program, while education outcome indicators improved on the ground, thanks to integrated approaches in the poorest provinces. The challenge will be to reinforce the impact and efficiency of existing programs by deepening bottom-up approaches.
- The forthcoming elections in about 12 months may focus the Government on its political agenda, preventing the decisive drive needed on economic issues. A key challenge for the Bank will be to continue to support economic reforms, even during this period, as a resumption of growth is critical for poverty alleviation. In addition, the Bank should show flexibility in its program and strengthen analytical work to be prepared to help the new Government following the elections. Should it move decisively on its reform program, increased Bank financing would be required rapidly to support the reform drive and address any potential negative impact on the poor.
- Over the recent years, the Government has been successful in diversifying its financing sources and expected privatization receipts are likely to eliminate any major financing constraints over the next few years. What the Government seeks from the Bank is technical advice, deep analytical work, institution building, and a catalytic role in leveraging concessional and private financing. This implies that the Bank's role should not be measured solely in terms of lending, but in terms of its development impact and catalytic role.

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<sup>14</sup> Management's evaluation of the last CAS points to mixed results. It believes that tangible progress was made on rural access and education reform – the two central CAS objectives –, as well as on opening towards civil society. The Bank played a critical role in supporting Government efforts in these central areas. Progress on other areas of the reform program was, however, less satisfactory. There was little tangible progress on public sector reform and fiscal objectives. Indeed the rigidity of the budget further accentuated, and government savings declined. Progress on structural reforms continued, but not to the extent needed to boost significantly private sector confidence, except in telecommunications.

- The demand for IFC's services has also changed during the 1990s towards large, complex and innovative projects. In recent years, IFC has become significantly less competitive in Morocco as other sources of capital, both private and donor based (e.g., the EIB), have become more readily available. Some of these sources have lower spreads while others are more able to provide local currency financing. As a result, IFC's program dropped significantly; new approvals for the five years starting in FY90 totaled US\$ 187 million, but in the following five years amounted to only US\$ 16 million. Correspondingly, IFC's portfolio decreased from US\$ 196 million at end of FY92 to US\$ 32 million at end of FY00. Furthermore, since FY95, roughly US\$ 67 million in loans were prepaid by clients with access to alternative sources of financing at lower rates. Nevertheless, events in FY01 have proven that when project structuring is complex or volumes large, demand for IFC's services increases. IFC invested US\$ 89 million in FY01 on its own account in Medi Telecom, the consortium for the second cellular license, and played a key role in mobilizing an additional US\$ 310 million in B-loans. This one investment resulted in a significant increase in IFC's portfolio to US\$ 105 million at the end of March 2001. Other recent innovative projects include a partial risk guarantee in the MENA Forfeiting Facility (of which the exposure to Morocco is expected to be US\$ 10 million) to provide trade finance for local companies, and a US\$ 5 million equity stake in a regional investment fund targeting SMEs.
- Developing deeper partnerships will be key to improve the Bank Group's effectiveness. First, the increasing importance of bilateral aid implies a need for tighter coordination, in particular with the EU. The signing of the association agreements with the EU provides the broad framework for Morocco's integration into the world economy, and brings increased concessional finance. Relations with the EU will thus need to be further strengthened during the next few years to ensure a consistent and complementary approach to Morocco's development. Second, the strong emergence of civil society is a new positive dimension of the development process in Morocco which should reinforce societal consensus, and hence the sustainability of reforms. For the Bank, the challenge is to develop more effective partnerships to enhance community-based and decentralized approaches, with stronger impact on the ground.
- During the previous CAS, the Bank Group made significant efforts to improve and adjust its program to the country's changing environment. The Bank (i) emphasized a rationalization of the existing portfolio to improve its performance (see portfolio section); (ii) launched various initiatives with civil society, such as a network of social scientists, and supported the action plan on gender; and (iii) gradually transformed investment projects towards catalytic interventions to support broad program approaches. It also increased analytical work and its dissemination to foster consensus on reforms and institutional work to promote sustainability. These efforts will be further reinforced during the next CAS period.

### Box 2: The Country Assistance Assessment by OED

In its recent CAE, OED rated the implementation of the 1997 CAS marginally unsatisfactory. According to OED, the CAS's strategic priorities were and remain highly relevant, but the program implemented was less so:

- Total commitments remained within the base case target of US\$ 1 billion, but with a significant shift between investment and adjustment lending. Half of investment lending went to rural and social programs, which exceeded the CAS target of one-third, but of a lower overall investment program.
- Adjustment lending had mixed results: the first Telecommunications loan and the Contractual Savings Development Loan (US\$ 100 million each) met their objectives. The one-tranche Policy Reform Support Loan (PRSL, US\$ 250 million) added value by increasing cohesiveness in the Government program, but its results are deemed disappointing, in view of the slow progress on administrative and civil service reform, as well as the relaxation of fiscal discipline.
- Investment projects were in some cases dropped or downsized due to low government interest, limited availability of counterpart funding, or priority given to concessional funding. The cost of doing business in Morocco has been increasing, due to the length and cost of project preparation, decreasing size of investment projects, and the efforts, albeit successful, of addressing portfolio quality problems.
- Analytical and advisory activities were graded highly but became more expensive than MENA and Bank averages. Dissemination and consensus-building efforts were helpful in accompanying the Government's outreach efforts towards civil society, but less successful in terms of reform outcomes. The Bank catalytic support of the participatory preparation of a gender Plan of Action was praised as best practice.

### B. CAS Approach and Key Objectives

41. Given the new country environment, the rising poverty incidence and the social gaps still existing in the country, the proposed CAS will further deepen its poverty focus through community-based and decentralized approaches. Indeed, Morocco is at the vanguard of MENA in opening up its civil society, democratization, promoting the rule of law, decentralization and community participation. These are all avenues which can have a sustained impact on poverty and will thus form the first leg of the Bank institutional support and lending programs. The current economic policies of the government, however, are unlikely to have a sustained impact on poverty reduction as long as stronger growth and agriculture reform agendas are not adopted. Hence, the second crucial leg of the assistance program will be to promote strong analytical work and dialogue on the conditions needed to revitalize private investment and growth, to be complemented by financial support once consensus has been reached on the reforms needed.

42. **The CAS, hence, proposes to focus on the four following objectives: (i) promoting human development and inclusion policies in the "second Morocco"; (ii) enhancing conditions for economic growth and private sector development; (iii) reducing vulnerability of the poor, especially in rural areas; and (iv) improving governance, an area critical for the success of the other three priorities.**

- Promoting *human development and inclusion policies in the "second Morocco"*, focusing on the delivery of basic education and health and on gender equality, is the key to enhancing Morocco's long-term growth potential. To this end, assistance would be

targeted towards developing disadvantaged rural areas, expanding on the approach initiated under the previous CAS. Key instruments would be infrastructure and social programs that promote decentralization, community participation and cross-sectoral integration, thus not only serving the objective of greater opportunities and equity, but also improving the efficiency of public programs.

- *Enhancing economic growth* is strongly correlated with poverty outcomes in Morocco and is key for creating jobs, both for the urban population and rural migrants. The focus will be on building consensus on a growth-oriented economic framework, and on supporting the development of SMEs and the services sector (particularly those activities linked to information technology), which are highly relevant to urban poverty and unemployment. IFC investments will focus on large projects that require mobilization of international funding, as well as SMEs and other investments with strong developmental impact. The Bank would also be prepared to use its guarantee facility, should this be required. There are also several areas, e.g. agricultural incentives and the business environment, where the Bank would be prepared to support broader reform programs, once consensus has been reached on their key components.
- The Bank would also plan to support the Government to address the issue of *vulnerability* to droughts, through both short-term coping mechanisms and, in the longer run, a reform of the agriculture incentive framework. Safety nets for the poor will also be high on the agenda as this is an area where Morocco lags behind other countries. IFC is also looking into financial instruments to help manage the risks resulting from adverse weather.
- Across-the-board progress on *public governance* is essential to the effectiveness and the long-term sustainability of the above development actions. Hence, this area would be included in the cooperation priorities for the Bank, building on the progress recently made in terms of consensus and political signals. Governance includes a wide variety of difficult issues ranging from decentralization to budget management and civil service reform, accountability, and the strengthening of civil society. Here the Bank would mostly focus on institution building, but would also be ready to support selected reforms in areas such as public administration or decentralization, should the Government initiate deeper reforms.

43. **To achieve these objectives and implement our program effectively, the ways of doing business will be inspired by the following principles: selectivity, participation and partnership, institutional development and knowledge transfer, and an increasing role of the country office set up during the last CAS period. The CDF process initiated recently would serve as the glue of this new approach (see Box 3).**

44. ***Selectivity:***

- The CDF and the recently approved new five-year plan provide the foundation for selectivity. The Ministry of Finance has recently prepared a broad financing plan by sources of financing, to determine the areas of interventions of each external financing agency. This will provide a tighter framework for coordination, which in the past has been relatively weak.
- In this new context, the Bank would focus on rural development, social development and public sector reform, especially with regards to public expenditures management, decentralization and municipal development. Interventions would be reduced in: (i) private sector and financial sector development, where the EU is taking a strong lead

(except for analytical work, and support for SME development); and (ii) major infrastructure programs, such as transport, energy, and urban water and sanitation which are not focused on the poor. Flexibility was, however, requested by the Moroccans, in cases where the Bank Group could provide a strong catalytic impact on institutional reforms, such as the PPI framework and the investment code.

- Another important role for the Bank Group is to maintain a broad overview of progress on the development front, in particular in the structural and institutional areas. This would be done through the CDF and analytical work, while focusing on specific interventions to avoid dilution of Bank resources and impact.
- Selectivity also applies to IFC's activities. The Corporation will concentrate efforts on those private sector investments where additionality is greatest and where its actions complement reforms. The PPI framework, SME development and support to new service sectors are all areas where the Bank and the IFC are working jointly.

### **Box 3: The CDF**

The CDF is an evolving process. The key priority of the Government in starting this process was twofold: (i) analytical work to underpin the new Five-year Plan it was preparing, and (ii) consensus building and outreach to civil society.

- At the request of the Government, the Bank prepared 16 sectoral matrices which were then incorporated in the new five-year plan. The plan was prepared in consultation with the private sector and civil society. Following approval of the Plan, the Ministry of Finance prepared a broad financing program. The CAS fits within that framework.
- To streamline this initiative, three avenues are currently under discussions:
  1. Improved coordination of all actors behind the Five-year Plan, and deepening work on a long-term program behind the King's new vision of inclusion
  2. Continued analytical work, through regular analytical updates of Morocco's development issues and challenges (SSR/CDR type exercise)
  3. Deeper analysis and agreement behind a comprehensive and participatory poverty reduction along the lines of the WDR 2000 report

#### **45. Partnerships:**

- The emerging civil society, the decentralization drive and the introduction of new concepts of authority based on services to the citizens rather than on control, involve a major shift in attitudes in the country and will require strong institutional support. These trends also represent a major opportunity to improve the efficiency of public expenditures. This will represent a strong new avenue in all the Bank's interventions, and constitute an explicit objective of this CAS. The Bank should also build on the consultations with civil society initiated to help formulate this CAS (see Box 4) through specific catalytic interventions, as described in Annex B11.
- Coordination on the ground has improved following the establishment of the Bank's local office three years ago which, since summer of 2000, also has IFC representation. The shift towards program interventions will, however, require more upfront coordination, especially on broad sector strategies and objectives. In this respect, coordination will be strengthened in particular with the UN agencies, and with the AfDB and the EU. Following a tripartite meeting with the latter two during the CAS preparation, the following joint priorities were agreed: (i) strong focus on education and literacy program;

(ii) health reform; (iii) agriculture and water strategy; and (iv) rural development. PSD development will be a key area of emphasis in the new EU program; the respective approaches will be closely coordinated to ensure complementarity. UNDP and the Bank are already cooperating closely in social programs and on the CDF/UNDAF approach.

- Finally, increased coordination of external agencies will also require closer coordination within the Government, as aid coordination responsibilities are currently scattered among three different ministries. This issue has been highlighted as part of the policy dialogue with the authorities.

#### **Box 4: Participatory Process**

- Over the last year, as part of the CDF process, the Bank organized a series of public seminars with the Government and Civil Society on a wide range of topics, such as health financing, education, rural development, SME development, and corruption. An inter-governmental seminar on the Sources of Growth was held in June last year.
- The preparatory work of the CAS was carried out in the Field Office, and involved substantial brainstorming between the Bank team in Morocco and our counterpart ministries.
- A full-day consultation with more than 60 Civil Society organizations was held in October 2000 in Rabat, with the presence of the Regional Vice-president and the Country Director, to investigate avenues for closer partnership between the Bank and NGOs. The recommendations from these consultations were integrated in this CAS and will be discussed with Civil Society in the coming months (Annex B11).
- A mission led by the Country Director discussed the CAS with the Authorities in February 2001. This was accompanied by discussions with the other donors active in Morocco, in particular agencies of the UN system, the EU, the AfDB, and key bilaterals.

#### 46. ***Knowledge Transfer and Institution Building:***

- This is the basic value added that the government expects from the Bank Group in all interventions. The CAS proposes to emphasize catalytic projects; joint and participatory approaches on analytical work; increased dissemination; as well as small institutional projects to support think tanks, civil society, flexible advice and seminars, and information networks, especially through the GDLN and global gateway initiatives.
- Support from the WBI will be crucial in the Bank Group's knowledge management activities in Morocco, in particular regarding decentralization and local government. In 2001, WBI will contribute to a workshop on decentralization and local government, to be followed up with a WBI dedicated course on local government financial management. Decentralization and local government will also be key themes for the 4th Mediterranean Development Forum in March 2002 in Amman. WBI will also be very active in delivering through the GDLN a variety of courses on development policy.

#### 47. ***Country Office:***

- The increased emphasis on participatory approaches, outreach efforts towards civil society, partnerships and knowledge transfer, and the CDF will further increase the role of the Bank's local office in the support program. The office, set up three years ago, is now fully operational and staffed with 7 higher level staff, including one staff from IFC. Over time, it should remain budget neutral, but with an increase in local hires and a slight reduction of headquarters staff. Its mandate and profile will change with increased accountability placed on (i) portfolio management; (ii) support for social sectors and rural development; (iii) governance; and (iv) civil society outreach and participative

approaches. The local office is already taking the lead on small catalytic projects and self-standing institutional development grants.

### C. Assistance Levels and Triggers

48. The Bank's lending program over the previous CAS period (FY97-99) averaged US\$ 300 million for 4 to 5 operations p.a. but was substantially reduced last year to two small institutional projects, as the Government was preparing its new five-year plan. The program is expected to amount to US\$ 98 million this year for the two projects submitted together with this CAS. In the future, investment lending is expected to remain poverty focused and be further reduced to enable a redirection of operational resources towards analytical work and institutional building efforts. At the same time, flexibility will be critical to be able to support selected sectoral reform efforts more intensively once the environment is appropriate and to support the priorities of the new Government after the elections.

49. **Hence the CAS proposes a base case program of about US\$ 250 million p.a., with two components: (i) a core program, of about three investment projects p.a. (excluding LILs and other small institution-building operations), amounting to about US\$ 100-150 million p.a. and centered on poverty alleviation and social development, and (ii) a sector reform program, of about \$100 million per year, supporting priority reforms of the Government, contingent on macroeconomic and sectoral reforms (see Table 4).**

- *The core component* would focus squarely on social development issues, on community-based approaches, and on governance and decentralization, while also seeking new partnerships with the civil society. It would seek to deepen the shift towards catalytic projects, institutional support and analytical work, in particular to support consensus on a more growth-oriented economic framework. IFC would aim to strengthen the private sector through support for complex and innovative projects, complementing Bank efforts aiming at streamlining the business environment.
- *The reform component* would consist of one sector reform operation per year when the Government corrects the fiscal stance and there is consensus on policy reform in the respective sectors. While the Government is making progress in several critical reform areas, it is difficult to predict in which will progress be fastest and strongest. Given this context, rather than prejudging where Government will make most progress, the Bank will stand ready to support reform and institutional development in areas: (1) critical for development; (2) consistent with the Bank's mandate and comparative advantage; and (3) where progress has been significant, signaling strong commitment by the authorities to reform in the sector.

**Table 4. Bank Assistance Levels and Triggers**

|                                 | BASE CASE   |  | HIGH CASE   |
|---------------------------------|---|--|---|
|                                 | Core Program  | Sector Reform Program  |   |
| <b>Program</b>                  | Focus on human resource development and inclusion of "second Morocco."            | Support to selected sectoral reform depending on commitment and progress. Potential areas are:<br>-Decentralization<br>-Public administration<br>-Private Sector<br>-Agriculture   | Base Case program plus support to high growth policy package.   |
| <b>Lending flows (per year)</b> | US\$ 100-150 million<br>Investment projects and institutional support activities. | US\$ 100 million.<br>Sector adjustment loans or program loans.   | US\$ 250-450 million.<br>Base case plus programmatic support and/or targeted interventions to reduce the costs of adjustment.   |
| <b>Triggers</b>                 |   | <ul style="list-style-type: none"> <li>• Fiscal triggers. Necessary for all sector programs: <ul style="list-style-type: none"> <li>- Maintaining budget revenues as percent of GDP (24 percent).</li> <li>- Containing wage bill and other current expenditures.</li> </ul> </li> <li>• Sectoral triggers. Commitment in each sector would be assessed separately: <ul style="list-style-type: none"> <li>DECENTRALIZATION <ul style="list-style-type: none"> <li>- Effective decentralization of accountability and decision making.</li> <li>- Actions to improve financial management capacity in local governments.</li> </ul> </li> <li>PUBLIC ADMINISTRATION <ul style="list-style-type: none"> <li>- Improved incentive framework for civil service.</li> </ul> </li> <li>PRIVATE SECTOR <ul style="list-style-type: none"> <li>- Establishment of broad PPI framework.</li> <li>- Streamlining of business environment.</li> </ul> </li> <li>AGRICULTURE <ul style="list-style-type: none"> <li>- Liberalization of agricultural price system.</li> </ul> </li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Adoption of growth-oriented macro framework including a more flexible exchange rate regime and strengthened fiscal policy.</li> <li>• Trade liberalization</li> <li>• Structural reforms to remove supply side constraints: <ul style="list-style-type: none"> <li>- Streamlining business environment (e.g., land access).</li> <li>- Labor market flexibility.</li> </ul> </li> <li>• Social protection reform.</li> </ul> |

50. Given Morocco's record of prudent fiscal management during the 1990s and recent policy measures, it is likely that macroeconomic policies would be strengthened over the next year or so as the Government shifts its attention from the political to the economic agenda. Should reform be delayed, however, the Bank would concentrate on the core component of the program, and reallocate resources towards analytical work to build consensus on the reform agenda. In case of a serious, but unlikely, unraveling of the fiscal situation leading to

macroeconomic instability, the Bank's program would be further reduced, and the Bank would closely coordinate activities with the IMF.

51. The CAS also considers a high case program, which would be triggered by the adoption by the Government of an economic policy framework more conducive to growth, including the adoption of a more flexible exchange rate regime and faster trade liberalization. Under this program, the Bank would carry out further analytical work on trade reform and on social protection mechanisms for potential job-losers. The Bank would also be ready to help the Government bear the fiscal or balance of payment costs of adjustment, through programmatic lending and quick-disbursing operations. Under this scenario, lending volumes could reach up to US\$ 450 million in a given year. This lending amount would come close to stabilizing net transfers, but exposure would improve gradually as a result of higher GDP and export growth rates.

#### **D. The Bank Group's Base Case Program: The Core Component**

52. As noted before, the central objective of the core program is to increase household incomes, economic opportunities and access to services in the least advantaged rural areas, with particular attention to gender disparities. The recent political developments provide the Bank Group with an opportunity to renew its approach to these objectives, and to rely to a much larger extent than in the past on community participation and alternative delivery mechanisms. To support the CAS objectives, the core component of the base case program will focus on the four following aspects.

##### ***Poverty-Reduction through Inclusion and Participation***

53. As in the previous CAS, this critical area of assistance aims to reduce urban-rural disparities and further social development.

- **Poor rural areas.** The Bank would support three adaptable programs promoting community-based development (CBD) in poor rural areas. These projects would pioneer decentralized and cross-sector approaches. They would bring basic infrastructure and social services such as health and education together with economic opportunities. They would be based on needs expressed by local communities, and develop their respective natural resources: small-scale irrigation for marginal mountain areas; livestock for rainfed areas; and watersheds, range-land and forests for environmentally sensitive areas. The contingent financing of such projects is secured under the Government's five-year plan and the first (integrated small-scale irrigation) project is presented to the Executive Directors together with this CAS. Besides this new generation of innovative projects, the Bank will continue to support rural infrastructure programs (roads, drinking water and electricity), as needed, including through the possible use of guarantees.
- **Education.** Implementation of the education reform program will be a key focus of the CAS. An important entry point for Bank support will be a project aiming to extend and improve non-formal education. Considering the critical importance of education reform for Morocco, the Bank will spare no effort to respond flexibly to other Government requests for assistance in implementing the Education Charter. At this time, such requests include enhancements to the quality of formal education, and work on the fiscal sustainability of education reform, which will be assessed as part of the ongoing Public Expenditure Review (see below). As part of a response graduated to the depth and scope of the government's reform effort, the Bank would also be ready to provide technical

assistance to overall reform engineering, support to pilot programs such as regional decentralization or school evaluation, or targeted school expansion programs.

- **Literacy.** The Government has requested Bank support to launch a new major literacy initiative. This will receive very high priority through AAA and a planned operation. The Bank's support would build upon the alternative delivery mechanisms recently developed with the private sector and NGOs as well as best practice international experiences. This is an area where the catalytic impact on other donors will be very large. The EU and AfDB have already expressed their intention to join.
- **Social Fund.** The Bank would support the recently created Social Fund through ongoing grant funds and an institutional-building operation, with a view to focusing its activities on small community-based projects. The Bank would also be ready to support child protection initiatives and the implementation of the Gender Action Plan.
- **Poverty Report.** To support its thrust in community-based poverty alleviation programs, the Bank would launch a Participative Poverty Assessment (PPA). Building on the recently completed Poverty Assessment Update, which focused on the LSMS data, the PPA will expand the analysis to the other dimensions of poverty, along the WDR 2000 lines.
- **Health.** In the health sector, the Bank would focus its cooperation on improving access to basic health, with particular focus on children and women, through its ongoing health projects and the upcoming integrated rural programs. The Bank is also helping the Government improve health sector management and financing, in particular by supporting its efforts to develop a national health insurance. The Bank will refrain from preparing new operations but will instead support the efforts of the EU and the AfDB which are preparing a joint operation of significant size.

### *Growth and Private Sector Agenda*

54. The Bank Group will work with the Government and the business community to put in place the conditions for sustained growth and employment. This work integrates Bank support for policy change with targeted transactions by IFC to support private sector development, the core of any growth strategy.

55. **The Bank Program.** The central objective for the Bank is to build consensus on a growth-oriented economic framework through AAA activities and to support selectively employment generation, particularly in the SME and the IT sectors. These activities will to a large extent involve joint work between the Bank and IFC.

- **Growth-oriented economic policies.** The Bank will carry out further analytical work aiming to build a consensus on a growth-oriented economic policy framework in close coordination with the IMF. This work would deepen the analysis of Morocco's economic integration challenges and competitiveness, and seek to demonstrate the sustainability of pro-growth policies in terms of fiscal management, external account balances and social impact. The FSAP will update the assessment of financial sector vulnerabilities in advance of any further liberalization of external transactions. The Bank Group will also help define a broad PPI strategy for Morocco in light of the success in telecommunications. Beyond this dialogue, there is a need to reinforce Morocco's own capacity to formulate quality economic policies in the context of an increasingly complex policy environment. This objective will be pursued under an IDF grant under implementation, the outcome of which might be the setting up of a Council of Economic Advisers.

- **Employment generation.** At the operational level, the Bank Group will focus on SME development, with a potentially strong impact on unemployment and poverty. In this domain, the Bank and IFC are developing, with the SME global department, a strategy to deliver innovative support to SMEs (discussed below). Beyond this, the Bank would also help develop the labor intensive services sector, especially information technology, cultural heritage and tourism.
- **Information infrastructure.** The CAS is being accompanied by an adjustment loan supporting IT and telecommunications reforms. This operation was conceived as a follow-up operation to support and deepen the liberalization of the telecommunications and IT sectors initiated with the Telecommunication, Post and Information Technology adjustment loan approved by the Board in May 1999. The operation seeks to (i) support the privatization of the main public operator; (ii) consolidate the regulatory framework; and (iii) initiate the transition from macro reform to micro applications in the IT and postal areas. The operation involved intensive preparation and guidance, leading to the recent successful privatization of Maroc Telecom. Although outside the proposed core program, continued support on this long delayed operation, initiated before the CAS preparation, was deemed important in view of the excellent track record and dialogue so far; the pioneering role of Morocco in telecommunication privatization in the region; the request of a Bank endorsement by the Government; and the need to deepen the reform process to maximize the impact of the reforms on the population. The project was, however, reduced in size and to a one-tranche operation to take into account the new CAS framework. It will be followed by smaller investment projects in the IT and postal sectors, possibly combined with support for the SME sector.

56. **IFC's Strategy.** In line with the principle of additionality, IFC's strategy will be to support large projects with complex structuring, SMEs, the financial sector, and selected other investments with strong developmental benefits. IFC will act as catalyst in attracting international funding for large investments. Overall, IFC has reassessed its approach in Morocco for the most effective use of its expertise and resources for the country:

- The upper limit on size of a locally completed financing package is currently in the range of US\$ 100 million to US\$ 150 million. Generally, investments above this range require support from the Bank Group on the policy and regulatory side as well as investment funding and structuring expertise. Following Medi Telecom, this type of investment would also apply to future projects in other infrastructure sectors, such as power, transport and water. IFC may also provide advice on infrastructure privatization in Morocco.
- On the other end of the spectrum, small businesses find it difficult to obtain financing locally as the financial sector in Morocco is not able to assess the risks in financing SMEs or new sectors. Therefore, the Bank and IFC are working jointly to develop an innovative strategy in support of SME development. The consensus of an early diagnostic review is that the Bank Group should focus on work with existing agencies to provide technical assistance (TA) and advisory work; promote better enabling environments; and emphasize schemes to facilitate SME financing through financial intermediaries. TA would include assistance on the appropriate legal and regulatory framework, as well as the transfer of modern lending techniques to selected financial institutions, information management systems and standardized financial products to reduce transaction costs and expand outreach.
- The support for SMEs could particularly benefit newer sectors, such as information technology, which are not able to find financing locally. There is an active, diversified,

and well organized IT sector in Morocco, which is complemented by a strong presence of large international firms in this sector there. With IFC's increased focus on IT, there is potential for that work in Morocco. IFC's support for small IT companies would be done mostly through financial intermediaries, but selective direct investments may be considered.

- In the financial sector, IFC has been active and will continue to play a role beyond the support for SMEs, particularly in the area of institution building or the development of new financial instruments. For example, in FY00, IFC approved the MENA Forfaiting Facility, which will operate in five countries, including Morocco (other countries are Egypt, Lebanon, Tunisia and Jordan). This facility is aimed at fostering trade by supporting local companies in their access to international markets; and expanding the availability of medium-term finance for cross-border trade. IFC is seeking to introduce new financial instruments such as local currency guarantees that provide additional financial capacity without exposing businesses to foreign exchange risk, or instruments to manage weather related risks. These financing mechanisms will be more adaptive and responsive to market needs. Other areas IFC will selectively assess include cross-border investments.

57. **MIGA.** To promote foreign investment, an MOU was signed between MIGA and the Government to market privatization opportunities in Morocco through MIGA's online service. MIGA has insured one project in the financial sector but has no exposure today in Morocco.

### *Vulnerability*

58. While a reform of agricultural incentives will be critical to reduce the medium-term vulnerability of the poor's income and consumption to droughts, coping mechanisms need to be supported and developed in the meantime. A particular effort must also be made to stop the degradation of natural resources on which many rural poor depend (water, rangeland, etc.), and to help build consensus for a more sustainable and equitable global policy of utilization of scarce water resources.

- **Social protection.** The Bank has an ongoing policy dialogue with the Government on social protection and the establishment of safety nets. The CAS proposes to deepen this dialogue with both the Government and civil society and possibly initiate small catalytic institutional projects. In the context of the sector reform program, the Bank would be prepared to scale up support, should the Government show resolve in reforming the food subsidies system or the safety net programs.
- **Water management.** With irrigation water accounting for 85 percent of water consumption in Morocco, and water availability per capita foreseen to halve by 2020 under unchanged use patterns, full cost recovery has become crucial from sustainability and equity standpoints. Building on the 1995 Water Sector Review and on its experience in irrigated perimeters, the Bank will undertake a comprehensive review of rural water management, and an emergency drought preparedness study. If requested, drought management could be an area for Bank support and could represent a solid opportunity to push forward an integrated water resources approach.

**Table 5. The Bank's Program**

**A. Lending Program (excluding LILs)**

| <u>FY01</u>                  |           | <u>FY02</u>  |            | <u>FY03</u>          |            | <u>FY04</u>       |            |
|------------------------------|-----------|--------------|------------|----------------------|------------|-------------------|------------|
| <u>Core Program</u>          |           |              |            |                      |            |                   |            |
| IT Telecom                   | 65        | Education    | 50         | SME/IT               | 30         | Education         | 40         |
| Small Irrig. CBD             | 33        | Rainfed CBD  | 20         | Rural Infrastructure | 40         | Forestry CBD      | 20         |
|                              |           | Asset Mgt.   | 30         | Literacy             | 20         | Cultural Heritage | 40         |
| <u>Sector Reform Program</u> |           |              |            |                      |            |                   |            |
|                              |           | --           |            | Sector Reform        | 100        | Sector Reform     | 100        |
| <b>Total</b>                 | <b>98</b> | <b>Total</b> | <b>100</b> | <b>Total</b>         | <b>190</b> | <b>Total</b>      | <b>200</b> |

**B. Institutional Development**

| <u>FY01</u>                                   |  | <u>FY02</u>             |   | <u>FY03</u>           |   | <u>FY04</u>               |   |
|---|--|-------------------------|---|-----------------------|---|---------------------------|---|
| Think Tank (IDF)                              |  | Social Fund LIL         | 5 | Cultural Heritage LIL | 5 | Municipal Development LIL | 5 |
| GDLN Center                                   |  | Governance LIL          | 5 | Irrigation LIL        | 5 | Gender Action Plan        |   |
| Support to Council of Economic Advisors (IDF) |  | NGO Cap. Building (IDF) |   | Child Protection      |   | Monitoring                |   |

**C. Analytical Work**

| <u>FY01</u>  | <u>FY02</u>                                       | <u>FY03</u>   | <u>FY04</u>   |
|--|---|---|---|
| <u>Formal Reports</u>  |   |   |   |
| Sources of Growth Poverty Assessment Municipal Study               | PER/Public Sector Mgt. Agriculture/Water Strategy | Particip. Poverty Review & Social Protection Strategy SSR | CAS Environment Review  |
| <u>Policy Notes</u>  |   |   |   |
| Agriculture Incentives Education Strategy Social Protection Review | Literacy Strategy PPI Strategy CBD Note (NGOs)    | FSAP Health Sector  | Fiduciary Assessment Update EU Integration Strategy Judicial Reform |
| <u>Expanded ICRs</u>   |   |   |   |
| Irrigation   | Roads Program                                     | Rural Water Supply  |   |

- **Environment.** As a priority, the Bank would focus on awareness-raising and coalition building to support the enactment of Morocco's draft Comprehensive Environment Protection Law and Environment Impact Assessment Law, which are the cornerstone of environment protection (see para. 68). While stand-alone environment projects are not foreseen, environment will be mainstreamed into future projects, consistent with the

Region's Environment Strategy. The GEF will also be used to support projects in the areas of climate change, energy conservation and efficiency, and renewable energy. The Bank will also follow up on activities in which Morocco is already involved under the Prototype Carbon Fund.

### **Governance**

59. Recent political developments in Morocco have made it possible for the Bank to start a dialogue on governance. While this area is probably one of the most decisive for the country's long-term development, expectations are that the dialogue will proceed gradually as it requires much consensus building. It will be built upon analytical work, dialogue and pilot institutional activities to test approaches on a limited scale, along the following lines:

- **Public finance management.** A participatory PER will emphasize public finance management, including budget programming and execution, administrative decentralization, alternative delivery mechanisms and civil service redeployment. A Public Asset Management project (FY02) will help rationalize investment and maintenance expenditures, and improve state land management.
- **Accountability.** At the Government's request, a small Governance project (FY02) would aim at reducing the scope for discretionary powers, and therefore for corruption, in administrative procedures, and at strengthening external and internal controls.
- **Local Governments** are very relevant to, but under-equipped to deal with, issues affecting the poor, such as land management and urban zoning, sewerage, and the provision of infrastructure. In addition to the ongoing dialogue on the overall framework for decentralization, analytical work and institutional projects could be undertaken to help strengthen the capacity of local governments and the provision of municipal services.
- **Civil Society.** Following up on an IDF grant dedicated to building up NGO institutional capacity, and the concerns heard during the CAS consultations, the Bank is considering expanding support in this area. Possible areas of intervention include improving the regulatory framework for NGOs, training, access to knowledge, and networking.

### **E. The Bank Group's Base Case Program: The Sector Reform Component**

60. The central objective of the sector reform component of the base case program is to support reforms to enhance growth opportunities and increase the efficiency and effectiveness of the public sector. As mentioned above, such support will be contingent on improvements in the fiscal stance and on appropriate actions in the respective sectors. Flexibility will thus be required on behalf of the Bank, as the choice of sectors will depend on Government priorities. At this stage, the following areas have tentatively been discussed with the authorities:

- *Decentralization and Municipal Development.* The Government is currently finalizing a new charter for decentralization. The Bank is also completing sector work on municipal development. Areas under review are: (i) the charter for decentralization; (ii) budget and financial control mechanisms to improve efficiency and accountability at the local level; (iii) financial market mechanisms to support municipal investments; and (iv) institutional building at the local level. A possible operation could either be a municipal financing cum institutional building project or broader based reform support through an adjustment operation. The latter would be contingent on actions taken to improve local financial management capacity and effectively decentralize accountability and decision-making

- *Public Administration and Civil Service Reform.* The Government has initiated actions to improve transparency and accountability, but still lacks an overall program to rationalize and modernize its large public sector, in particular the Civil Service. At the request of the Government, as noted above, the Bank is initiating a broad public expenditure review focusing *inter alia* on the following issues: investment programming; staff compensation and redeployment strategies; and modernization of budget and personnel procedures. The improvement of an incentive framework for the Civil Service would serve as a trigger for Bank support.
- *Business Environment for the Private Sector.* Much remains to be done to improve the competitiveness of the private sector and simplify the business environment. The Government has recently established a commission to review the business climate and key constraints facing the private sector. The Bank has also completed a Private Sector Assessment and a Sources of Growth study, and FIAS is completing a review of the investment code. Finally, the Bank is proposing a review of the PPI framework, based on the success of the telecommunications liberalization framework. For a broader adjustment operation, the Government and the Bank would need to agree on a PPI framework as well as measures to streamline the business environment. The Bank would not, however, directly support competitiveness at the firm level ('mise à niveau' program), which is already supported by the EU.
- *Agriculture Incentives.* The Government has issued a rural development strategy which forms the basis for the integrated rural development projects. However, the incentives system in agriculture remains distorted. A large array of analytical work is already available, but agriculture remains a very sensitive sector. At the request of the Government, the Bank is proposing to initiate a broad agriculture and water strategy note in close collaboration with the Ministry of Agriculture, focusing on the incentive framework and on possible safety net measures to alleviate the adjustment costs on the vulnerable population. Should the Government show resolve in addressing these complex and sensitive issues, strong financial support would be required during the transition period.

## VI. PORTFOLIO MANAGEMENT

### A. Portfolio Management

61. Bank Portfolio management improved substantially over the last CAS period. In FY 97, 45 percent of the portfolio was considered at risk of not meeting its objectives. As of July 1, 2000, only three projects were problematic, representing 15 percent of the portfolio. This improvement was due to four main factors: (i) a substantial restructuring of the portfolio, which was oversized at the beginning of the last CAS, in close coordination with the Moroccan authorities (US\$ 480 million cancelled over the CAS period); (ii) proactive supervision and portfolio management; (iii) annual country portfolio performance reviews (CPPR), focusing on systemic issues; and (iv) tight management of problem projects, including strict enforcement of key covenants and closing dates. Based on the results of the latest CPPR mission, although commitments and projects at risk increased recently, it is expected that the percentage of the portfolio currently at risk will be reduced to around 15 percent by the end of the fiscal year.

62. While the trend in the portfolio is satisfactory, there is no room for complacency as some projects continue to face difficulties in implementing key policy reforms. During this CAS period, the portfolio management strategy will intensify follow-up on the policy content of the

operations and their institutional impact; improve monitoring mechanisms to assess the projects impact; and link more closely existing projects with new operations and analytical work to ensure an integrated approach in reaching the CAS objectives.

**Table 6. Portfolio Summary**  
By fiscal year. As of March 31, 2001

|   | <u>FY96</u> | <u>FY97</u> | <u>FY98</u> | <u>FY99</u> | <u>FY00</u> | <u>FY01</u> 5/ |
|---|-------------|-------------|-------------|-------------|-------------|----------------|
| # Projects in Portfolio 1/                                | 25          | 22          | 19          | 20          | 20          | 19             |
| Net Commitment Amount (US\$m)                             | 2,305       | 1,820       | 1,353       | 982         | 900         | 667            |
| Cancellations (US\$m) 2/                                  | 198         | 159         | 165         | 155         | 0.8         | --             |
| Undisbursed Amount begin. of FY (net of adjustment loans) | 1,442       | 1,173       | 913         | 650         | 535         | 391            |
| Total Disbursements (US\$m) 2/                            | 485         | 302         | 271         | 411         | 107         | 90             |
| Disbursement Ratio 2/3/                                   | 23          | 17          | 18          | 15          | 20          | 14             |
| Proactivity Index (expected for FY01) 4/                  | 100         | 83          | 75          | 100         | 100         | 100            |
| Realism Index (expected for FY01) 5/                      | 100         | 80          | 100         | 100         | 100         | 100            |
| Projects at Risk (% of total)                             |             |             |             |             |             |                |
| by number   | 24          | 45          | 32          | 20          | 15          | 32             |
| by amount   | 2           | 48          | 24          | 22          | 15          | 23             |

1/ Excluding projects closed during the FY and including GEF (protected areas management).

2/ Including disbursements/cancellations of projects closed during the previous FY.

3/ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio (excluding closed projects) at the beginning of the year (investment projects only). Annualized for FY01.

4/ Percent of projects rated as problem projects 12 months earlier that have since been restructured, closed or upgraded.

5/ Percent of projects rated unsatisfactory on DO and/or IP to projects at risk.

63. The grant portfolio (GEF projects, PHRD grants and IDF grants) has been reviewed regularly as part of the CPPRs. Performance of the PHRD and IDF grants deteriorated in recent years, as changing government priorities led to implementation delays and cancellation of several grants. These problems are now being solved. IDF grants have been increasingly used to strengthen capacity on generic implementation issues. These include grants for improved procurement and audit capacity, and a pilot experience with multi-year budget planning.

64. The cost of doing business in Morocco has been relatively high over the last four years. First, in FY97 and 98, a major clean up of the lending program took place, based on revised Government priorities; this increased the number of dropped operations in those years. And second, the direct cost of lending also remained high in some cases due to protracted discussions, and long lead time between appraisal and Board. Both problems were discussed with Moroccan officials. While over the last year, delays continued to occur due to the preparation of the plan, the government has now instituted clear priorities for all external financing agencies, and a mechanism has been put in place to ensure closer coordination among the key Government agencies concerned. This is expected to substantially reduce the costs of preparing new operations, although the choice of the Government to use Bank operations on catalytic and innovative projects may continue to involve relative high costs, especially per dollar lent.

65. IFC's portfolio at the end of March 2001 amounted to US\$ 105 million in six investments, of which US\$ 38 million was in equity or quasi-equity investments. One project, Medi Telecom, accounts for almost 85 percent of the total exposure. The performance of IFC's portfolio in Morocco is satisfactory.

**Table 7: Time and Resource Costs of Bank Operations**

|   | <u>FY96</u> | <u>FY97</u> | <u>FY98</u>        | <u>FY99</u>      | <u>FY00</u>       |
|---|-------------|-------------|--------------------|------------------|-------------------|
| Av. Time Appraisal to Board (months)                              | 8.5         | 7.3         | 12.6 <sup>1/</sup> | 11 <sup>1/</sup> | 2.9               |
| Direct Cost of Lending (US\$ 000)                                 | 386         | 266         | 515                | 392              | 167 <sup>2/</sup> |
| Direct Cost of Supervision (av. per project per year in US\$ 000) | 53          | 51          | 69                 | 58               | 61                |

1/ Large variance due to a few long delayed projects

2/ Not fully representative: small TA operations prepared with bilateral financing

## **B. Fiduciary Provisions and Safeguards**

66. The Moroccan public **Financial Management** (FM) system is based on sound *ex-ante* controls for commitments of public expenditures, that are anchored in very detailed but cumbersome rules. The related payment system relies heavily on *ex-post* audits for reconciliation of the accounts carried out by Inspection Générale des Finances (IGF). The ongoing PER exercise will review all aspects of public financial management, with particular attention to budgeting, accounting, treasury functions, reporting, and *ex-post* auditing. The PER will offer proposals for capacity building and reform of the legal framework.

67. **Auditing.** The IGF is the official auditor for the accounts of government-executed projects. IGF's audits have at times raised problems regarding their timeliness and quality particularly the auditing standards applied. The status of compliance with Bank policies on audits is reviewed regularly as part of the CPPR exercises. Meanwhile the Bank will continue to provide support to the IGF capacity building program, for which an IDF grant is being implemented.

68. A major development concerning **procurement** in Morocco was the issuance of a new decree which became effective in July 1999. The decree reflects current international practice and adequate control structures to control and oversee procurement in the country. Although the decree is generally in line with the Bank's procedures, certain procedures are not acceptable to the Bank, mainly the use of: (i) two-envelope system for works and goods; and (ii) open competitive bidding for consultants' services. Nevertheless, the decree allows to waive national legislation and apply the guidelines of international agencies. The overall procurement risks associated with projects financed in Morocco are considered low.

69. **Environmental Assessment.** Morocco has not yet enacted the comprehensive draft Law on Environmental Protection and the draft Law and Decree regulating Environment Impact Assessments (EIA). As a result, the country is vulnerable to environment risks. The establishment of a Ministry in charge of Spatial Planning and Environment and of an EIA unit within this ministry are positive developments, but human capacity for monitoring, reviewing and enforcing EIAs remains weak. To help build Government capacity in this area and ensure full compliance with environment safeguards in Bank financed operations, the Bank will:

- Use its past work with METAP activities to work with the authorities to improve EIA procedures particularly in the areas of sector environment assessment, public consultation and dissemination of information. It will also assist with the preparation of, and follow-up on, project-and sector-specific environment management plans.

- Offer training on EA preparation and review, NGOs, private sector and environment specialists, through the METAP-funded regional center in Tunisia.
- Disseminate its 'Guidebook for EA preparation and review' designed specifically for the MNA Region by its environment group.
- Undertake special field-based environment safeguards compliance reviews, to identify and mitigate areas of vulnerability in terms of regional and corporate risks. In FY01, the Rural Water and Sanitation, and the Fes Medina Projects are being reviewed.

70. **Social Assessment.** The ongoing and proposed portfolio have minimal issues regarding resettlement or other social safeguards. Nevertheless, some projects have required careful attention, such as that of the rehabilitation of the medina of Fez. A detailed review process has been institutionalized to scrutinize all project documents for safeguard issues that include the three social policies (involuntary resettlement, cultural property and indigenous peoples). Local capacity to undertake social analyses has also been increasing and improving over time. The Bank has established a network of local social scientists who have participated in project preparation jointly with task teams. There is, however, still a need to further strengthen local capacity to conduct social analyses.

## VII. COUNTRY RISK MANAGEMENT

### A. Country Creditworthiness

71. **Bank Lending Flows.** The table below summarizes IBRD net disbursements and transfers under the base case macroeconomic scenario. This case responds to the Government's likely request for financing, based on its own financing plan and corresponds to the proposed base case program of the CAS. The lending flows and exposure are hence likely to be smaller until the conditions to move on the sectoral reform programs are in place.

72. Net disbursements were cumulatively negative over the last CAS period, reflecting the country strategy of reducing its external debt, portfolio restructuring, and limits on adjustment lending. No change in this trend is expected over the CAS period. Meanwhile, important flows of concessional money are expected from the EU and from privatization receipts. Starting in 2001, the share of IBRD debt service in total public debt is expected to remain below 15 percent, while preferred creditors debt service in total public debt will remain below 34 percent through 2004. Overall, Bank exposure would remain manageable and improve over the medium-term.

73. **Creditworthiness.** Prudent macroeconomic policies, a sound active public debt management policy, and liberalization and deepening of the domestic financial markets have allowed Morocco to significantly reduce its external debt over the last decade, partly by reducing its overall indebtedness, and partly by substituting external with domestic debt. Total external public debt stood at 55 percent of GDP at the end of 1999 (equivalent to US\$ 19 billion), down from 88 percent in 1990 and 60 percent in 1996, and is expected to gradually decline over the medium term<sup>15</sup>. Long-term and public and publicly guaranteed debt represents nearly 90 percent of total external debt. However, if this policy has allowed Morocco to obtain a rating from major international agencies, the country does not yet benefit from an investment grade. As a result, and also due to the East Asia crisis, Morocco has delayed borrowing from the international

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<sup>15</sup> The temporary increase in total external debt as percent of GDP in 2000 was due to exchange rate movements.

markets. But, as conditions soften, the country might be able to tap the international markets to a limited extent allowing it to reduce the pressures on the domestic market.

**Table 8. Morocco – World Bank Lending Flows and Exposure (Base Case)**

| Calendar                               | Act. Est. Projected |      |      |      |      |      |      |      |      |      |
|--|---------------------|------|------|------|------|------|------|------|------|------|
|  | 1995                | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| <u>Lending Flows (In US\$ million)</u> |                     |      |      |      |      |      |      |      |      |      |
| Disbursements                          | 426                 | 380  | 141  | 253  | 404  | 138  | 150  | 107  | 161  | 237  |
| Repayments                             | 349                 | 341  | 294  | 286  | 302  | 307  | 241  | 238  | 247  | 270  |
| Net Disbursement                       | 78                  | 39   | -153 | -34  | 102  | -169 | -91  | -131 | -86  | -33  |
| Interest Payments                      | 282                 | 260  | 238  | 206  | 212  | 190  | 200  | 186  | 174  | 168  |
| Debt Service (DS)                      | 630                 | 600  | 532  | 493  | 514  | 497  | 441  | 424  | 421  | 438  |
| Net Transfers                          | -204                | -221 | -391 | -240 | -110 | -358 | -291 | -318 | -261 | -201 |
| Total Debt Outstanding                 | 3966                | 3732 | 3271 | 3388 | 3194 | 2837 | 2747 | 2616 | 2529 | 2496 |
| <u>Debt Exposure Indicators (%)</u>    |                     |      |      |      |      |      |      |      |      |      |
| Total Debt Outstanding/ GDP            | 68.7                | 59.6 | 60.3 | 57.5 | 54.5 | 59.4 | 54.9 | 50.1 | 45.7 | 42.5 |
| Total Debt Service/ Exports (XGS)      | 33.4                | 28.0 | 27.6 | 22.9 | 23.9 | 27.6 | 26.7 | 23.7 | 23.3 | 20.0 |
| <u>IBRD exposure indicators: (%)</u>   |                     |      |      |      |      |      |      |      |      |      |
| IBRD DS / Public DS                    | 17.0                | 18.1 | 17.6 | 18.3 | 17.5 | 15.6 | 13.6 | 13.7 | 13.0 | 14.9 |
| IBRD DS / (XGS)                        | 5.6                 | 5.0  | 4.7  | 4.0  | 4.0  | 3.9  | 3.3  | 2.9  | 2.7  | 2.6  |
| Preferred Creditor DS/Public           | 32.4                | 32.8 | 35.1 | 33.7 | 31.6 | 31.6 | 29.8 | 31.3 | 29.4 | 33.4 |

74. **Risks and uncertainties.** The risks linked with the fiscal and external position are discussed in the macro-section. Additional risks to economic performance might derive from the scheduled parliamentary elections in June 2002, which could induce delays in tackling economic reforms. The recent Government actions on the exchange rate realignment, however, demonstrate the Government's continued focus on economic issues. The basic mitigation strategy for the Bank consists of a strong reduction of exposure, by requiring strong fiscal adjustment and sectoral triggers for the support to sector reforms. In this respect, the next Budget Law will provide crucial information on the depth of the fiscal consolidation and the direction of reforms contemplated. The base case program will, anyhow, imply large negative resource transfers for the Bank.

75. Morocco has a tradition as one of the most stable country in the region, and the successful political transition has demonstrated the resilience of the constitutional apparatus. Although the continuing political transition will not always be smooth, political risks are deemed limited.

76. Worsening economic conditions, resulting in large youth urban unemployment, are likely to bring heightened social tensions in the next few years. The democratization process, together with the strong popular standing and constitutional powers of the monarchy, should allow to diffuse these tensions for some time, but the adoption of growth-oriented economic policies will remain key for reducing them.

**Table 9: Morocco Core Performance Indicators**

| Area                         | Proposed monitoring indicators  | Baseline <sup>1</sup> | Targets 2004 |
|------------------------------|---|-----------------------|--------------|
| <b>Poverty and Inclusion</b> | • Poverty incidence in rural areas  | 27%                   | 22%          |
|                              | • Net primary enrolment rates of rural girls, as percentage of NER of urban boys <sup>2</sup> | 53%                   | 75%          |
|                              | • Maternal mortality rate in rural areas (per 100 000) <sup>3</sup>                           | 307                   | 250-270      |
|                              | • Households with access to safe water  | 42%                   | 60-70%       |
| <b>Vulnerability</b>         | • Water cost recovery <sup>4</sup>  | 62%                   | 90%          |
|                              | • Public expenditure on social assistance programs <sup>5</sup> (% of GDP)                    | 0.6%                  | 1.2%         |
| <b>Growth and Employment</b> | • Poverty incidence   | 19%                   | 15%          |
|                              | • Fiscal deficit (% of GDP)   | 7.7%                  | 3.4%         |
| <b>Public Governance</b>     | • Total government wage bill (% of GDP)   | 12%                   | < 10%        |

1. Refers to latest available year, 1997-2001.

2. Related International Development Goal (IDG) is to eliminate gender disparity in primary and secondary education by 2005.

3. Related IDG is to reduce the maternal mortality rate by three quarters by 2015.

4. Rates of recovering operations and management costs by water fees collected in the nine large scale irrigation areas.

5. Defined as resources on employment program and public works (Promotion Nationale), welfare (Entraide Nationale) and literacy programs.

## **B. Performance Indicators and Monitoring**

77. To measure progress towards achieving the objectives of the CAS, two sets of monitoring indicators are proposed, reflecting advancements in each of the key areas covered by the CAS: (i) poverty and inclusion; (ii) vulnerability; (iii) growth and employment; and (iv) public governance. The first set of indicators consists of core performance indicators, outlined in Table 9 below, which measure progress in outcomes in Morocco in each key area. Table 10 comprises intermediate milestones related to the Bank Group's dialogue and program aimed at bringing about the development outcomes.

**Table 10. CAS Monitoring Indicators**

| Area                         | Proposed monitoring indicators  |
|------------------------------|---|
| <b>Poverty and inclusion</b> | <ul style="list-style-type: none"> <li>• Rural infrastructure programs (water, electricity, roads) to reach 60-70% of the population</li> <li>• Agreement and progress on implementation of plan for education reform seeking universal primary access</li> <li>• Successful launching of a major literacy campaign</li> <li>• Increase in community schools and implementation of the social fund</li> </ul> |
| <b>Growth and employment</b> | <ul style="list-style-type: none"> <li>• Containment of fiscal deficit and restructuring of fiscal expenditures</li> <li>• Agreement on growth oriented economic framework</li> </ul>   |
| <b>Vulnerability</b>         | <ul style="list-style-type: none"> <li>• Removal of consumer subsidies systems in key agricultural products.</li> <li>• Extended coverage of social assistance programs</li> <li>• Passing the law on ELA</li> </ul>  |
| <b>Governance</b>            | <ul style="list-style-type: none"> <li>• Agreement on framework for decentralization and participation in key rural programs</li> <li>• Wage bill &lt;10 percent of GDP</li> </ul>  |

78. In summary, the CAS proposes a refocused but flexible approach over the next three years, as this will encompass a decisive period for Morocco, with elections scheduled for around the middle of 2002. The proposed base case embodies this flexibility fully by focusing on a core program, complemented by contingent support for reforms depending on progress and emerging priorities.

James D. Wolfensohn  
President

By:  
Shengman Zhang

Peter Woicke

Washington, D.C.  
May 7, 2001



## Morocco at a glance

5/7/2001

## POVERTY and SOCIAL

## 1999

|                                     | Morocco | M. East & North Africa | Lower-middle-income |
|-------------------------------------|---------|------------------------|---------------------|
| Population, mid-year (millions)     | 26.2    | 291                    | 2,094               |
| GNP per capita (Atlas method, US\$) | 1,190   | 2,060                  | 1,200               |
| GNP (Atlas method, US\$ billions)   | 33.6    | 599                    | 2,513               |

## Average annual growth, 1993-99

|                 | Morocco | M. East & North Africa | Lower-middle-income |
|-----------------|---------|------------------------|---------------------|
| Population (%)  | 1.7     | 2.1                    | 1.1                 |
| Labor force (%) | 2.6     | 3.0                    | 1.2                 |

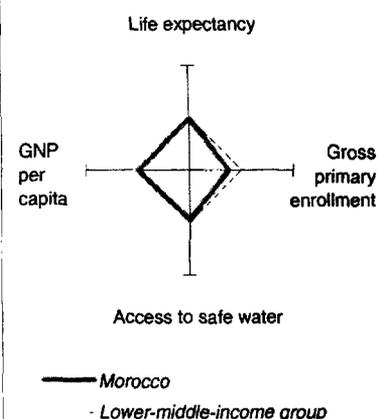
## Most recent estimate (latest year available, 1993-99)

|   | Morocco | M. East & North Africa | Lower-middle-income |
|---|---------|------------------------|---------------------|
| Poverty (% of population below national poverty line) | 19      | ..                     | ..                  |
| Urban population (% of total population)              | 55      | 58                     | 43                  |
| Life expectancy at birth (years)                      | 67      | 68                     | 69                  |
| Infant mortality (per 1,000 live births)              | 48      | 45                     | 32                  |
| Child malnutrition (% of children under 5)            | ..      | 15                     | 15                  |
| Access to improved water source (% of population)     | 82      | 71                     | 86                  |
| Illiteracy (% of population age 15+)                  | 52      | 36                     | 16                  |
| Gross primary enrollment (% of school-age population) | 86      | 95                     | 114                 |
| Male  | 97      | 102                    | 114                 |
| Female  | 74      | 88                     | 116                 |

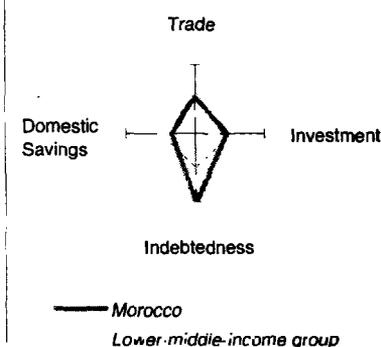
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

|                                   | 1979    | 1989    | 1998 | 1999 |
|-----------------------------------|---------|---------|------|------|
| GDP (US\$ billions)               | 15.9    | 22.8    | 35.7 | 35.0 |
| Gross domestic investment/GDP     | 24.5    | 23.7    | 22.5 | 24.2 |
| Exports of goods and services/GDP | 17.0    | 23.6    | 28.0 | 30.1 |
| Gross domestic savings/GDP        | 11.6    | 18.2    | 18.4 | 20.1 |
| Gross national savings/GDP        | 15.6    | 20.5    | 21.7 | 23.0 |
| Current account balance/GDP       | -9.6    | -3.5    | -0.4 | -0.5 |
| Interest payments/GDP             | 3.0     | 4.8     | 2.9  | 3.0  |
| Total debt/GDP                    | 49.6    | 95.7    | 57.5 | 54.5 |
| Total debt service/exports        | 26.3    | 30.2    | 22.9 | 23.9 |
| Present value of debt/GDP         | ..      | ..      | ..   | ..   |
| Present value of debt/exports     | ..      | ..      | ..   | ..   |
|                                   | 1979-89 | 1989-99 | 1998 | 1999 |
| Average annual growth:            |         |         |      |      |
| GDP                               | 4.0     | 2.3     | 6.8  | -0.7 |
| GNP per capita                    | 1.5     | 0.6     | 5.8  | -2.2 |
| Exports of goods and services     | 7.2     | 5.4     | 5.9  | 4.2  |

## Development diamond\*



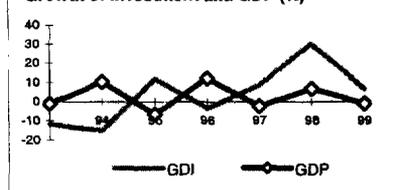
## Economic ratios\*



## STRUCTURE of the ECONOMY

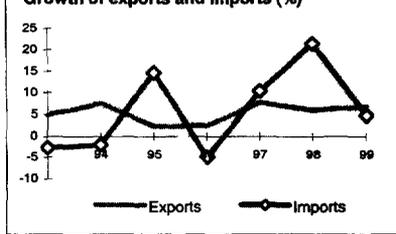
|                                | 1979 | 1989 | 1998 | 1999 |
|--------------------------------|------|------|------|------|
| (% of GDP)                     |      |      |      |      |
| Agriculture                    | 17.9 | 17.2 | 17.0 | 14.8 |
| Industry                       | 32.7 | 33.2 | 31.9 | 32.7 |
| Manufacturing                  | 16.8 | 17.8 | 17.1 | 17.3 |
| Services                       | 49.4 | 49.6 | 51.1 | 52.6 |
| Private consumption            | 67.0 | 66.1 | 63.5 | 60.6 |
| General government consumption | 21.3 | 15.7 | 18.1 | 19.3 |
| Imports of goods and services  | 29.9 | 29.1 | 32.0 | 34.2 |

## Growth of investment and GDP (%)



|                                | 1979-89 | 1989-99 | 1998 | 1999  |
|--------------------------------|---------|---------|------|-------|
| (average annual growth)        |         |         |      |       |
| Agriculture                    | 5.8     | -0.8    | 24.7 | -19.8 |
| Industry                       | 2.4     | 3.2     | 1.8  | 2.5   |
| Manufacturing                  | 3.9     | 3.0     | 2.4  | 2.5   |
| Services                       | 4.3     | 2.8     | 5.1  | 3.3   |
| Private consumption            | 4.0     | 2.9     | 9.1  | -4.1  |
| General government consumption | 1.0     | 3.2     | 6.6  | 6.2   |
| Gross domestic investment      | 0.6     | 1.7     | 30.1 | 6.9   |
| Imports of goods and services  | 1.9     | 6.0     | 21.4 | 4.7   |
| Gross national product         | 3.7     | 2.4     | 7.6  | -0.6  |

## Growth of exports and imports (%)



Note: 1999 data are preliminary estimates.

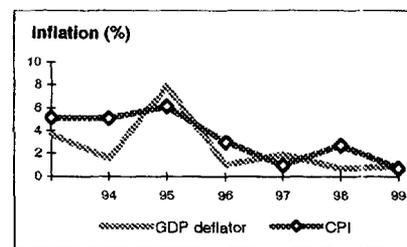
\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

1. Refers to 2000 figures. Includes access to treated surface water and untreated but uncontaminated water. The definition of improved water source has changed over time.

Morocco

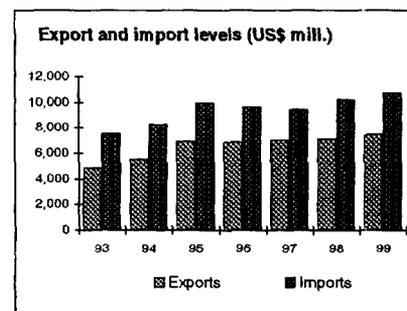
PRICES and GOVERNMENT FINANCE

|                                     | 1979 | 1989 | 1998 | 1999 |
|-------------------------------------|------|------|------|------|
| <b>Domestic prices</b>              |      |      |      |      |
| (% change)                          |      |      |      |      |
| Consumer prices                     | 8.3  | 3.1  | 2.7  | 0.7  |
| Implicit GDP deflator               | 7.3  | 4.0  | 0.7  | 0.9  |
| <b>Government finance</b>           |      |      |      |      |
| (% of GDP, includes current grants) |      |      |      |      |
| Current revenue                     | 22.2 | 22.6 | 27.4 | 27.1 |
| Current budget balance              | 2.8  | 1.4  | 2.2  | 1.1  |
| Overall surplus/deficit             | -9.4 | -6.0 | -2.7 | -3.8 |



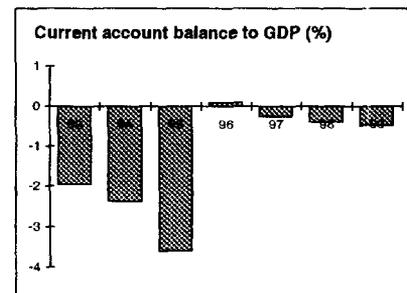
TRADE

|                               | 1979  | 1989  | 1998   | 1999   |
|-------------------------------|-------|-------|--------|--------|
| (US\$ millions)               |       |       |        |        |
| Total exports (fob)           | 1,955 | 3,851 | 7,144  | 7,514  |
| Agriculture & Food items      | 641   | 1,016 | 1,627  | 1,590  |
| Phosphate rock                | 568   | 489   | 459    | 434    |
| Manufactures                  | 345   | 1,644 | 3,932  | 4,085  |
| Total imports (cif)           | 3,673 | 5,842 | 10,274 | 10,804 |
| Food                          | 550   | 590   | 1,191  | 1,177  |
| Fuel and energy               | 710   | 843   | 922    | 1,330  |
| Capital goods                 | 844   | 1,458 | 2,567  | 2,830  |
| Export price index (1995=100) | 71    | 85    | 93     | 87     |
| Import price index (1995=100) | 78    | 85    | 89     | 89     |
| Terms of trade (1995=100)     | 91    | 99    | 105    | 98     |



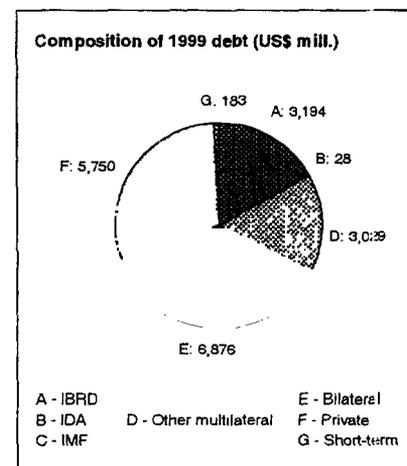
BALANCE of PAYMENTS

|   | 1979   | 1989   | 1998   | 1999   |
|---|--------|--------|--------|--------|
| (US\$ millions)                         |        |        |        |        |
| Exports of goods and services           | 2,707  | 5,391  | 9,970  | 10,648 |
| Imports of goods and services           | 4,752  | 6,641  | 11,425 | 11,964 |
| Resource balance                        | -2,045 | -1,249 | -1,455 | -1,317 |
| Net income                              | -409   | -1,159 | -1,033 | -977   |
| Net current transfers                   | 923    | 1,606  | 2,345  | 2,137  |
| Current account balance                 | -1,531 | -803   | -144   | -156   |
| Financing items (net)                   | 1,499  | 808    | 391    | 1,795  |
| Changes in net reserves                 | 32     | -5     | -247   | -1,638 |
| <b>Memo:</b>                            |        |        |        |        |
| Reserves including gold (US\$ millions) | ..     | 552    | 4,693  | 5,920  |
| Conversion rate (DEC, local/US\$)       | 3.9    | 8.5    | 9.6    | 9.8    |



EXTERNAL DEBT and RESOURCE FLOWS

|                                      | 1979  | 1989   | 1998   | 1999   |
|--------------------------------------|-------|--------|--------|--------|
| (US\$ millions)                      |       |        |        |        |
| Total debt outstanding and disbursed | 7,886 | 21,874 | 20,491 | 19,060 |
| IBRD                                 | 504   | 2,686  | 3,388  | 3,194  |
| IDA                                  | 38    | 40     | 29     | 28     |
| Total debt service                   | 972   | 2,042  | 2,782  | 3,047  |
| IBRD                                 | 65    | 381    | 493    | 514    |
| IDA                                  | 0     | 1      | 2      | 2      |
| Composition of net resource flows    |       |        |        |        |
| Official grants                      | 95    | 101    | ..     | ..     |
| Official creditors                   | 331   | 688    | -455   | -226   |
| Private creditors                    | 673   | 228    | 281    | -212   |
| Foreign direct investment            | 39    | 167    | 313    | 839    |
| Portfolio equity                     | 0     | 0      | ..     | ..     |
| World Bank program                   |       |        |        |        |
| Commitments                          | 357   | 518    | 204    | 356    |
| Disbursements                        | 137   | 364    | 253    | 404    |
| Principal repayments                 | 25    | 182    | 286    | 302    |
| Net flows                            | 112   | 182    | -34    | 102    |
| Interest payments                    | 41    | 200    | 206    | 212    |
| Net transfers                        | 72    | -18    | -240   | -110   |



**CAS Annex B2 - Morocco**  
**Selected Indicators of Bank Portfolio Performance and Management**  
As of Date 4/1/2001

| <b>Indicator</b>                                  | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> |
|---|-------------|-------------|-------------|-------------|
| <b>Portfolio Assessment</b>                       |             |             |             |             |
| Number of Projects Under Implementation <i>a</i>  | 19          | 20          | 20          | 19          |
| Average Implementation Period (years) <i>b</i>    | 3.5         | 2.9         | 3.2         | 3.7         |
| Percent of Problem Projects by Number <i>a, c</i> | 32          | 20          | 15          | 32          |
| Percent of Problem Projects by Amount <i>a, c</i> | 24          | 22          | 15          | 23          |
| Percent of Projects at Risk by Number <i>a, d</i> | 32          | 20          | 15          | 32          |
| Percent of Projects at Risk by Amount <i>a, d</i> | 24          | 22          | 15          | 23          |
| Disbursement Ratio (%) <i>e</i>                   | 18          | 15          | 20          | 14          |
| <b>Portfolio Management</b>                       |             |             |             |             |
| CPPR during the year (yes/no)                     | yes         | yes         | yes         | yes         |
| Supervision Resources (total US\$)                | 1803        | 1380        | 1162        | 1002        |
| Average Supervision (US\$/project)                | 69          | 58          | 61          | 53          |

| <b>Memorandum Item</b>                    | <b>Since FY 80</b> | <b>Last Five FYs</b> |
|---|--------------------|----------------------|
| Proj Eval by OED by Number                | 88                 | 17                   |
| Proj Eval by OED by Amt (US\$ millions)   | 5632               | 1370                 |
| % of OED Projects Rated U or HU by Number | 25                 | 47                   |
| % of OED Projects Rated U or HU by Amt    | 23                 | 43                   |

- a. As shown in the Annual Report on Portfolio Performance (except for current FY). GEF project (Protected Areas Management) included.
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only. Annualized for FY01.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio which includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex B3 - Bank Group Program Summary**  
As of Date 4/1/2001

**Proposed IBRD Base Case Lending Program <sup>a</sup>**

| <i>Fiscal year</i>    | <i>Proj ID</i>                   | <i>US\$(M)</i> | <i>Strategic Rewards <sup>b</sup><br/>(H/M/L)</i> | <i>Implementation <sup>b</sup><br/>Risks (H/M/L)</i> |
|-----------------------|----------------------------------|----------------|---|--|
| <b>CORE POVERTY</b>   |                                  |                |   |  |
| 2001                  | IT AND TELECOMMUNICATIONS        | 65             | M   | L  |
|                       | IRRIGATION BASED COMMUNITY DEVT. | 33             | H   | M  |
| 2002                  | ASSET MANAGEMENT LOAN            | 30             | M   | H  |
|                       | EDUCATION                        | 50             | H   | H  |
|                       | RAINFED DEVELOPMENT              | 20             | H   | M  |
| 2003                  | SME DEVELOPMENT/ IT              | 30             | H   | H  |
|                       | RURAL INFRASTRUCTURE             | 40             | H   | L  |
|                       | LITERACY                         | 20             | H   | M  |
| 2004                  | EDUCATION                        | 40             | H   | M  |
|                       | FORESTRY                         | 20             | H   | M  |
|                       | CULTURAL HERITAGE & TOURISM APL  | 40             | H   | H  |
|                       | <b>TOTAL</b>                     | <b>388</b>     |   |  |
| <b>SECTOR REFORMS</b> |                                  |                |   |  |
| 2003                  | SECTORAL ADJUSTMENT LOAN         | 100            | H   | H  |
| 2004                  | SECTORAL ADJUSTMENT LOAN         | 100            | H   | H  |
|                       | <b>TOTAL</b>                     | <b>200</b>     |   |  |
| <b>INSTITUTIONAL</b>  |                                  |                |   |  |
| 2002                  | SOCIAL FUND LIL                  | 5              | H   | L  |
|                       | GOOD GOVERNANCE DEVT. LIL        | 5              | H   | M  |
| 2003                  | CULTURAL HERITAGE LIL            | 5              | M   | M  |
|                       | IRRIGATION LIL                   | 5              | M   | L  |
| 2004                  | MUNICIPAL DEVELOPMENT LIL        | 5              | H   | H  |
|                       | <b>TOTAL</b>                     | <b>25</b>      |   |  |
|                       | <b>TOTAL BASE CASE</b>           | <b>613</b>     |   |  |

a. This table represents the proposed Base Case program for the next three fiscal years.

b. For each project, indicates whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L)

**CAS Annex B3 (IFC & MIGA) for Morocco**  
**Morocco - IFC and MIGA Program, FY 1998-2001**  
As of Date 4/1/2001

|                                 | 1998 | 1999 | 2000 | 2001 |
|---------------------------------|------|------|------|------|
| IFC approvals (US\$m)           | 0    | 14   | 12   | 94   |
| <b>Sector (%)</b>               |      |      |      |      |
| TEXTILES                        | 0    | 100  | 0    | 0    |
| FINANCIAL SERVICES              | 0    | 0    | 43   | 0    |
| HOTELS & TOURISM                | 0    | 0    | 57   | 0    |
| TELECOMMUNICATIONS              | 0    | 0    | 0    | 100  |
| <b>Total</b>                    | 0    | 100  | 100  | 100  |
| <b>Investment instrument(%)</b> |      |      |      |      |
| Loans                           | 0    | 38   | 38   | 70   |
| Equity                          | 0    | 62   | 43   | 0    |
| Quasi-Equity                    | 0    | 0    | 19   | 30   |
| Other                           | 0    | 0    | 0    | 0    |
| <b>Total</b>                    | 0    | 100  | 100  | 100  |
| MIGA guarantees (US\$m)         | 0    | 0    | 0    | 0    |

## CAS Annex B4 - Morocco

### Summary of Nonlending Services

As of Date 4/1/2001

| <i>Product</i>  | <i>Completion FY</i> | <i>Cost (US\$000)</i> | <i>Audience a.</i>              | <i>Objective b.</i>                                  |
|---|----------------------|-----------------------|---------------------------------|--|
| <b>Recent completions</b>                                 |                      |                       |                                 |  |
| Sources of Growth   | FY00                 | 93                    | Government, Bank                | Knowledge generation, Problem-solving                |
| Poverty Update  | FY00                 | 72                    | Government, Bank, Public        | Knowledge generation, public debate, Problem-solving |
| CDF - Cultural Heritage                                   | FY00                 | 60                    | Government, Donor, Bank, Public | "  |
| CDF - Governance  | FY00                 | 60                    | "                               | "  |
| CDF - Women/Civil Society                                 | FY00                 | 29                    | "                               | "  |
| CDF - Social Sectors                                      | FY00                 | 96                    | "                               | "  |
| CDF - Urban Strategy Note                                 | FY00                 | 33                    | "                               | "  |
| CDF - Energy Strategy Note                                | FY00                 | 47                    | "                               | "  |
| CDF - Transport Strategy Note                             | FY00                 | 8                     | "                               | "  |
| CDF - UrbanWater Strategy Note                            | FY00                 | 28                    | "                               | "  |
| CDF - PSD/FSD Strategy Note                               | FY00                 | 18                    | "                               | "  |
| CDF - Rural Infrastructure Strategy Note                  | FY00                 | 37                    | "                               | "  |
| Education Reform note                                     | FY01                 | 70                    | Government                      | Problem-solving                                      |
| <b>Underway</b>   |                      |                       |                                 |  |
| Municipal Management Strategy Note                        | FY01                 | 190                   | Government, Bank                | Knowledge generation, Problem-solving                |
| Agricultural Incentives Note                              | FY01                 | 50                    | Government, Bank                | Problem-solving                                      |
| Social Protection Review                                  | FY01                 | 50                    | Government, Bank                | Knowledge generation, Problem-solving                |
| PER   | FY02                 | 200                   | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| Agriculture/Water Strategy Note                           | FY02                 | 100                   | Government, Bank                | Problem-solving                                      |
| <b>Proposed</b>   |                      |                       |                                 |  |
| Literacy Strategy Note                                    | FY02                 | 70                    | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| PPI strategy Note   | FY02                 | 70                    | Government, Bank                | Knowledge generation, Problem-solving                |
| Community Based Development (NGO) Note                    | FY02                 | 70                    | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| Participatory Poverty Review & Social Protection Strategy | FY03                 | 200                   | Government, Bank, Public        | Knowledge generation, public debate, Problem-solving |
| Social and Structural Review                              | FY03                 | 150                   | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| Financial Sector Assessment                               | FY03                 | 100                   | Government, Bank and IMF        | Knowledge generation, Problem-solving                |
| Health Sector Note  | FY03                 | 70                    | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| Environmental Review                                      | FY04                 | 150                   | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| EU Integration Strategy Note                              | FY04                 | 100                   | Government, Bank, Donors        | Knowledge generation, Problem-solving                |
| Judicial Reform Note                                      | FY04                 | 70                    | Government, Bank                | Knowledge generation, Problem-solving                |
| Fiduciary Assessment                                      | FY04                 | 40                    | Bank, Government                | Problem-solving                                      |

## Morocco Social Indicators

|  | Latest single year |         |         | Same region/income group     |                             |
|--|--------------------|---------|---------|------------------------------|-----------------------------|
|  | 1970-75            | 1980-85 | 1993-99 | M. East<br>& North<br>Africa | Lower-<br>middle-<br>income |
| <b>POPULATION</b>                                      |                    |         |         |                              |                             |
| Total population, mid-year (millions)                  | 17.3               | 21.6    | 28.2    | 290.3                        | 2,093.0                     |
| Growth rate (% annual average for period)              | 2.4                | 2.2     | 1.7     | 2.0                          | 1.1                         |
| Urban population (% of population)                     | 37.7               | 44.6    | 55.3    | 58.2                         | 42.9                        |
| Total fertility rate (births per woman)                | 6.3                | 4.7     | 2.9     | 3.5                          | 2.1                         |
| <b>POVERTY</b>   |                    |         |         |                              |                             |
| <i>(% of population)</i>                               |                    |         |         |                              |                             |
| National headcount index                               | ..                 | 26.0    | 19.0    | ..                           | ..                          |
| Urban headcount index                                  | ..                 | 17.3    | 12.0    | ..                           | ..                          |
| Rural headcount index                                  | ..                 | 32.6    | 27.2    | ..                           | ..                          |
| <b>INCOME</b>  |                    |         |         |                              |                             |
| GNI per capita (US\$)                                  | 550                | 610     | 1,190   | 2,060                        | 1,200                       |
| Consumer price index (1995=100)                        | 23                 | 59      | 108     | 114                          | 137                         |
| Food price index (1995=100)                            | ..                 | 54      | 102     | ..                           | ..                          |
| <b>INCOME/CONSUMPTION DISTRIBUTION</b>                 |                    |         |         |                              |                             |
| Gini index   | ..                 | ..      | 39.5    | ..                           | ..                          |
| Lowest quintile (% of income or consumption)           | ..                 | ..      | 6.5     | ..                           | ..                          |
| Highest quintile (% of income or consumption)          | ..                 | ..      | 46.6    | ..                           | ..                          |
| <b>SOCIAL INDICATORS</b>                               |                    |         |         |                              |                             |
| <b>Public expenditure</b>                              |                    |         |         |                              |                             |
| Health (% of GDP) <sup>1</sup>                         | ..                 | ..      | 1.2     | 2.2                          | 2.3                         |
| Education (% of GNI) <sup>2</sup>                      | 5.3                | 6.3     | 5.0     | 5.2                          | 4.8                         |
| Social security and welfare (% of GDP)                 | 1.5                | 1.7     | 2.3     | ..                           | ..                          |
| <b>Net primary school enrollment rate</b>              |                    |         |         |                              |                             |
| <i>(% of age group)</i>                                |                    |         |         |                              |                             |
| Total  | 47                 | 61      | 74      | 87                           | 99                          |
| Male   | 58                 | 73      | 83      | 90                           | 100                         |
| Female   | 35                 | 48      | 65      | 83                           | 99                          |
| <b>Access to an improved water source <sup>3</sup></b> |                    |         |         |                              |                             |
| <i>(% of population)</i>                               |                    |         |         |                              |                             |
| Total  | ..                 | 32      | 82      | 89                           | 80                          |
| Urban  | ..                 | 63      | 100     | 96                           | 94                          |
| Rural  | ..                 | 2       | 58      | 80                           | 69                          |
| <b>Immunization rate</b>                               |                    |         |         |                              |                             |
| <i>(% under 12 months)</i>                             |                    |         |         |                              |                             |
| Measles  | ..                 | 45      | 93      | 91                           | 87                          |
| DPT  | ..                 | 51      | 94      | 92                           | 87                          |
| Child malnutrition (% under 5 years)                   | ..                 | ..      | ..      | ..                           | 9                           |
| <b>Life expectancy at birth</b>                        |                    |         |         |                              |                             |
| <i>(years)</i>   |                    |         |         |                              |                             |
| Total  | 55                 | 61      | 67      | 68                           | 69                          |
| Male   | 53                 | 59      | 65      | 67                           | 67                          |
| Female   | 56                 | 63      | 69      | 69                           | 72                          |
| <b>Mortality</b>                                       |                    |         |         |                              |                             |
| Infant (per 1,000 live births)                         | 115                | 79      | 48      | 45                           | 32                          |
| Under 5 (per 1,000 live births)                        | 187                | 152     | 62      | 56                           | 40                          |
| <b>Adult (15-59)</b>                                   |                    |         |         |                              |                             |
| Male (per 1,000 population)                            | 330                | 264     | 199     | 183                          | 191                         |
| Female (per 1,000 population)                          | 258                | 207     | 145     | 151                          | 133                         |
| Maternal (per 100,000 live births)                     | ..                 | ..      | 230     | ..                           | ..                          |
| Births attended by skilled health staff (%)            | ..                 | 24      | 40      | ..                           | ..                          |

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data. Latest year for access to improved water source data is 2000.

Source: 2001 World Development Indicators CD-ROM, World Bank. 1. For the period 1993-1999, refers to 1997.

2. For the period 1993-1999, refers to 1996. 3. Includes access to treated surface water and untreated but uncontaminated water.

Definitions of improved water source have changed over time.

## Morocco - Key Economic Indicators

| Indicator   | Estimate |       |       |       | Projected |       |       |       |       |
|---|----------|-------|-------|-------|-----------|-------|-------|-------|-------|
|   | 1996     | 1997  | 1998  | 1999  | 2000      | 2001  | 2002  | 2003  | 2004  |
| <b>National accounts (as % of GDP)</b>                                |          |       |       |       |           |       |       |       |       |
| Gross domestic product at market prices <sup>a</sup>                  | 100      | 100   | 100   | 100   | 100       | 100   | 100   | 100   | 100   |
| Agriculture   | 19%      | 15%   | 17%   | 15%   | 13%       | 16%   | 15%   | 15%   | 15%   |
| Industry  | 31%      | 33%   | 32%   | 33%   | 33%       | 32%   | 32%   | 32%   | 32%   |
| Services  | 50%      | 52%   | 51%   | 53%   | 54%       | 52%   | 53%   | 53%   | 53%   |
| Total Consumption   | 84       | 83    | 82    | 80    | 82        | 82    | 81    | 80    | 80    |
| Gross domestic fixed investment                                       | 19       | 21    | 22    | 24    | 24        | 24    | 25    | 25    | 25    |
| Government investment   | 3        | 3     | 3     | 3     | 4         | 4     | 4     | 3     | 3     |
| Private investment<br>(includes increase in stocks)                   | 17       | 17    | 20    | 21    | 21        | 21    | 22    | 22    | 22    |
| Exports (GNFS) <sup>b</sup>   | 26       | 28    | 28    | 30    | 31        | 32    | 33    | 33    | 34    |
| Imports (GNFS)  | 30       | 32    | 32    | 34    | 38        | 38    | 38    | 39    | 39    |
| Gross domestic savings  | 16       | 17    | 18    | 20    | 18        | 18    | 19    | 20    | 20    |
| Gross national savings <sup>c</sup>                                   | 19       | 20    | 22    | 23    | 23        | 23    | 24    | 24    | 25    |
| <i>Memorandum items</i>   |          |       |       |       |           |       |       |       |       |
| Gross domestic product<br>(US\$ million at current prices)            | 36639    | 33414 | 35667 | 34998 | 33481     | 35471 | 37407 | 39525 | 41843 |
| GNP per capita (US\$, Atlas method)                                   | 1290     | 1250  | 1250  | 1190  | 1250      | 1270  | 1250  | 1280  | 1340  |
| Real annual growth rates (% , calculated from 1980 prices)            |          |       |       |       |           |       |       |       |       |
| Gross domestic product at market prices                               | 12.2     | -2.2  | 6.8   | -0.7  | 0.8       | 8.0   | 3.4   | 3.6   | 3.8   |
| Gross Domestic Income   | 12.9     | -1.1  | 10.7  | -0.5  | -2.0      | 8.7   | 3.6   | 4.0   | 4.2   |
| Real annual per capita growth rates (% , calculated from 1980 prices) |          |       |       |       |           |       |       |       |       |
| Gross domestic product at market prices                               | 10.3     | -3.9  | 5.0   | -2.3  | -0.9      | 6.2   | 1.7   | 1.9   | 2.2   |
| Total consumption   | 9.5      | -4.3  | 6.8   | -3.8  | -1.8      | 6.6   | 0.8   | 1.9   | 2.3   |
| Private consumption   | 10.5     | -5.7  | 7.3   | -5.6  | -0.9      | 4.8   | 2.5   | 2.9   | 2.9   |
| <b>Balance of Payments (US\$ millions)</b>                            |          |       |       |       |           |       |       |       |       |
| Exports (GNFS) <sup>b</sup>   | 9629     | 9510  | 9970  | 10648 | 10495     | 11185 | 12259 | 13200 | 14172 |
| Merchandise FOB   | 6886     | 7039  | 7144  | 7514  | 7297      | 7647  | 8343  | 8941  | 9561  |
| Imports (GNFS) <sup>b</sup>   | 10862    | 10627 | 11425 | 11964 | 12652     | 13396 | 14378 | 15317 | 16340 |
| Merchandise FOB   | 9080     | 8903  | 9463  | 9956  | 10597     | 11191 | 12006 | 12782 | 13630 |
| Resource balance  | -1233    | -1117 | -1455 | -1317 | -2157     | -2211 | -2119 | -2117 | -2167 |
| Net current transfers   | 2576     | 2205  | 2345  | 2137  | 2408      | 2474  | 2478  | 2535  | 2589  |
| Current account balance, incl. grants                                 | 35       | -87   | -144  | -156  | -498      | -537  | -418  | -409  | -432  |
| Net private foreign direct investment                                 | 327      | 1071  | 313   | 839   | 103       | 2632  | 980   | 975   | 970   |
| Long-term loans (net)   | -68      | -736  | -186  | -437  | -111      | -378  | -707  | -644  | -251  |
| Official  | -13      | -816  | -455  | -226  | -535      | 162   | 94    | 174   | 146   |
| Private   | -55      | 80    | 269   | -212  | 425       | -540  | -801  | -818  | -398  |
| Other capital (net, incl. errors & omissions)                         | -2       | 305   | 264   | 1393  | 97        | 142   | 113   | 92    | 126   |
| Change in reserves <sup>d</sup>                                       | -292     | -553  | -247  | -1638 | 409       | -1858 | 32    | -13   | -413  |
| <i>Memorandum items</i>   |          |       |       |       |           |       |       |       |       |
| Resource balance (% of GDP)   | -3.4     | -3.3  | -4.1  | -3.8  | -6.4      | -6.2  | -5.7  | -5.4  | -5.2  |
| Real annual growth rates ( YR80 prices)                               |          |       |       |       |           |       |       |       |       |
| Merchandise exports (FOB)   | -2.1     | 6.0   | 6.7   | 10.3  | -1.9      | 2.7   | 7.0   | 5.5   | 5.7   |
| Primary   | -5.0     | 3.7   | 5.3   | 14.9  | -1.5      | 6.8   | 6.8   | 6.0   | 6.0   |
| Manufactures  | 2.1      | 9.1   | 7.6   | 4.5   | -1.5      | -0.6  | 7.2   | 5.2   | 5.3   |
| Merchandise imports (CIF)   | -4.6     | 3.6   | 16.9  | 4.9   | -2.9      | 5.6   | 5.0   | 5.7   | 6.0   |

(Continued)

**Morocco - Key Economic Indicators  
(Continued)**

| Indicator  | Estimate |       |       |       | Projected |       |       |       |       |
|--|----------|-------|-------|-------|-----------|-------|-------|-------|-------|
|  | 1996     | 1997  | 1998  | 1999  | 2000      | 2001  | 2002  | 2003  | 2004  |
| <b>Public finance (as % of GDP at market prices)<sup>e</sup></b> |          |       |       |       |           |       |       |       |       |
| Current revenues   | 24.5     | 25.5  | 27.4  | 27.1  | 26.2      | 23.8  | 23.9  | 23.9  | 24.0  |
| Current expenditures   | 23.5     | 24.6  | 25.2  | 26.0  | 26.5      | 25.5  | 23.6  | 22.9  | 22.3  |
| Current account surplus (+) or deficit (-)                       | 1.0      | 0.9   | 2.2   | 1.1   | -0.3      | -1.7  | 0.3   | 1.1   | 1.7   |
| Government Investment  | 4.5      | 4.2   | 4.9   | 4.9   | 6.1       | 6.0   | 5.8   | 5.4   | 5.2   |
| Foreign financing  | -1.5     | -1.9  | -1.7  | -1.1  | -1.3      | -0.7  | -1.3  | -1.5  | -0.9  |
| Budget Deficit   | -3.5     | -3.3  | -2.7  | -3.8  | -6.4      | -7.7  | -5.5  | -4.3  | -3.5  |
| <b>Monetary indicators</b>                                       |          |       |       |       |           |       |       |       |       |
| M2/GDP   | 65.0     | 71.1  | 69.9  | 77.0  | 81.3      | 81.3  | 81.2  | 81.2  | 81.2  |
| Growth of M2 (%)   | 6.5      | 9.0   | 5.8   | 10.2  | 9.1       | 11.2  | 5.9   | 6.2   | 6.4   |
| Private sector credit growth /<br>total credit growth (%)        | 80.3     | 68.2  | 112.3 | 202.8 | 36.2      | 63.1  | 40.2  | 59.1  | 49.1  |
| <b>Price indices (YR80 = 100)</b>                                |          |       |       |       |           |       |       |       |       |
| Merchandise export price index                                   | 118.6    | 114.4 | 108.8 | 101.9 | 102.8     | 104.9 | 107.0 | 108.6 | 109.9 |
| Merchandise import price index                                   | 115.0    | 108.8 | 100.5 | 100.8 | 110.5     | 110.5 | 112.9 | 113.7 | 114.3 |
| Merchandise terms of trade index                                 | 103.2    | 105.1 | 108.3 | 101.1 | 93.1      | 95.0  | 94.8  | 95.6  | 96.2  |
| Real exchange rate (US\$/LCU) <sup>f</sup>                       | 113.7    | 114.7 | 117.5 | 118.7 | 122.0     | 117.7 | 117.7 | 117.7 | 117.8 |
| <b>Real interest rates</b>                                       |          |       |       |       |           |       |       |       |       |
| Consumer price index (% change)                                  | 3.0      | 1.0   | 2.7   | 0.7   | 1.9       | 1.9   | 2.3   | 2.0   | 2.1   |
| GDP deflator (% change)  | 1.0      | 2.0   | 0.7   | 0.9   | 2.5       | 3.0   | 2.5   | 2.5   | 2.5   |

a. GDP at market prices

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Central government. Fiscal years in 1996, 1997, and 1998. Calendar years otherwise

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation. Based on Europe CPI.

## Morocco - Key Exposure Indicators: Base Case

| Indicator   | Estimate |       |       |       |       | Projected |       |       |       |
|---|----------|-------|-------|-------|-------|-----------|-------|-------|-------|
|   | 1996     | 1997  | 1998  | 1999  | 2000  | 2001      | 2002  | 2003  | 2004  |
| Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup> | 21851    | 20161 | 20491 | 19060 | 19871 | 19479     | 18752 | 18081 | 17800 |
| Net disbursements (US\$m) <sup>a</sup>                          | -171     | -876  | -292  | -264  | -123  | -342      | -714  | -650  | -261  |
| Total debt service (TDS) (US\$m) <sup>a</sup>                   | 3352     | 3190  | 2782  | 3047  | 3534  | 3614      | 3496  | 3656  | 3344  |
| Debt and debt service indicators (%)                            |          |       |       |       |       |           |       |       |       |
| TDO/XGS <sup>b</sup>  | 182.3    | 174.2 | 168.3 | 149.2 | 155.0 | 143.8     | 127.1 | 115.1 | 106.3 |
| TDO/GDP   | 59.6     | 60.3  | 57.5  | 54.5  | 59.4  | 54.9      | 50.1  | 45.7  | 42.5  |
| TDS/XGS   | 28.0     | 27.6  | 22.9  | 23.9  | 27.6  | 26.7      | 23.7  | 23.3  | 20.0  |
| Concessional/TDO  | 30.5     | 31.2  | 31.3  | 31.7  | 29.3  | 31.2      | 33.8  | 36.2  | 37.8  |
| IBRD exposure indicators (%)                                    |          |       |       |       |       |           |       |       |       |
| IBRD DS/public DS   | 18.1     | 17.6  | 18.3  | 17.5  | 15.6  | 13.6      | 13.7  | 13.0  | 14.9  |
| Preferred creditor DS/public DS (%)                             | 32.8     | 35.1  | 33.7  | 31.6  | 31.6  | 29.8      | 31.3  | 29.4  | 33.4  |
| IBRD DS/XGS   | 5.0      | 4.7   | 4.0   | 4.0   | 3.9   | 3.3       | 2.9   | 2.7   | 2.6   |
| IBRD TDO (US\$m) <sup>d</sup>                                   | 3732     | 3271  | 3388  | 3194  | 2838  | 2747      | 2616  | 2529  | 2496  |
| Share of IBRD portfolio (%)                                     | 4        | 3     | 3     | 3     | 2     | 2         | 2     | 2     | 2     |
| IDA TDO (US\$m) <sup>d</sup>                                    | 32       | 31    | 29    | 28    | 27    | 25        | 24    | 23    | 22    |
| IFC (US\$m)   |          |       |       |       |       |           |       |       |       |
| Loans   | 0.0      | 0.0   | 0.0   | 5.0   | 4.0   | 66.0      | ..    | ..    | ..    |
| Equity and quasi-equity /c                                      | 1.0      | 0.0   | 0.0   | 9.0   | 7.0   | 28.0      | ..    | ..    | ..    |
| MIGA  |          |       |       |       |       |           |       |       |       |
| MIGA guarantees (US\$m)   | ..       | ..    | ..    | ..    | ..    | ..        | ..    | ..    | ..    |

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

**CAS Annex B8 - Morocco**  
**Status of Bank Group Operations (Operations Portfolio)**

As of Date 4/1/2001

Closed  
Projects 111

| Project ID     | Project Name                      | Last PSR<br>Supervision Rating b/ |                            | Fiscal Year | Original Amount in US\$ Millions |     |       |         |         | Difference Between<br>Expected and Actual<br>Disbursements <sup>a/</sup> |           |
|----------------|-----------------------------------|-----------------------------------|----------------------------|-------------|----------------------------------|-----|-------|---------|---------|--|-----------|
|                |                                   | Development<br>Objectives         | Implementation<br>Progress |             | IBRD                             | IDA | GRANT | Cancel. | Undisb. | Orig.  | Frm Rev'd |
|                |                                   |                                   |                            |             |                                  |     |       |         |         |  |           |
| P042414        | COOR/MON SOCIAL PRO               | S                                 | S                          | 1996        | 28                               | 0   | 0     | 0       | 9.4     | 3.9  | 0         |
| P005525        | HEALTH MANAGEMENT                 | S                                 | S                          | 1999        | 66                               | 0   | 0     | 0       | 54      | 36.7   | 0.5       |
| P005499        | IRR. AREAS AGR. SERV              | S                                 | S                          | 1994        | 25                               | 0   | 0     | 9.9     | 3.7     | 15   | 2.7       |
| P005519        | LAKHDAR WATERSHED MG              | S                                 | U                          | 1999        | 4                                | 0   | 0     | 0       | 3.7     | 1.4  | 0         |
| P063918        | LEGAL AND JUDICIAL DEVELOPMENT    | S                                 | S                          | 2000        | 5.3                              | 0   | 0     | 0       | 5.2     | 0.3  | 0         |
| P005524        | FES/MEDINA REHAB.                 | S                                 | S                          | 1999        | 14                               | 0   | 0     | 0       | 11.3    | 7.6  | 0         |
| P048314        | PROTECTED AREAS MANAGEMENT        | S                                 | U                          | 2000        | 0                                | 0   | 10.5  | 0       | 9.3     | 0  | 0         |
| P005489        | SECONDARY ROADS                   | S                                 | S                          | 1995        | 57.6                             | 0   | 0     | 0       | 14.5    | 21.7   | 3.3       |
| P005523        | MUNICIPAL FINANCE II              | U                                 | S                          | 1998        | 70                               | 0   | 0     | 0       | 22.1    | 28   | 0         |
| P052247        | PILOT FISHERIES DEV.              | U                                 | S                          | 1999        | 5                                | 0   | 0     | 0       | 3.9     | 1.6  | 0         |
| P038978        | PSD III-VOC TRG.                  | HU                                | U                          | 1997        | 23                               | 0   | 0     | 0       | 12.3    | 13.6   | 7.1       |
| P043725        | RAILWAY RESTR & PRIV              | S                                 | S                          | 1997        | 85                               | 0   | 0     | 0       | 61.8    | 43.5   | 0         |
| P040566        | RURAL W.S.& SANITATN              | S                                 | S                          | 1998        | 10                               | 0   | 0     | 0       | 4.5     | 5.3  | -0.4      |
| P005503        | SEW.& WATER REUSE II              | U                                 | U                          | 1996        | 40                               | 0   | 0     | 0       | 30.3    | 18.5   | 0         |
| P005501        | SPI - EDUCATION                   | S                                 | S                          | 1996        | 54                               | 0   | 0     | 0       | 30.6    | 12.8   | 0.7       |
| P042415        | SPI - HEALTH                      | S                                 | S                          | 1996        | 68                               | 0   | 0     | 0       | 14      | -1.5   | 0         |
| P065757        | SUSTAINABLE COASTAL TOURISM DEVT. | S                                 | S                          | 2000        | 2.2                              | 0   | 0     | 0       | 2.2     | 0.4  | 0         |
| P005521        | WATER RESOURCE MGMT.              | S                                 | S                          | 1998        | 20                               | 0   | 0     | 0       | 16.1    | 7.4  | 0         |
| P005435        | WATER SUPPLY V                    | S                                 | S                          | 1994        | 160                              | 0   | 0     | 71      | 19.1    | 90.7   | 9.3       |
| Overall Result |                                   |                                   |                            | Result      | 737.1                            | 0   | 10.5  | 80.9    | 328.2   | 306.7  | 23.2      |

|                                  | Active Projects | Closed Projects | Total * |
|----------------------------------|-----------------|-----------------|---------|
| Total Disbursed (IBRD and IDA) : | 278.2           | 6,647.9         | 6,926.1 |
| of which has been repaid :       | 8.05            | 4,363.5         | 4,371.6 |
| Total now held by IBRD and IDA : | -               | -               | 2,863.6 |
| Amount sold :                    | -               | 20.1            | 20.1    |
| of which repaid :                | -               | 20.1            | 20.1    |
| Total Undisbursed :              | 319             | 10.9            | 329.8   |

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Following the FY94 Annual Review of Portfolio Performance (ARPP), a letter based system was introduced (HS = Highly Satisfactory, S = Satisfactory, U = Unsatisfactory, HU = Highly Unsatisfactory): see proposed improvements in Project and Portfolio Performance Rating Methodology ( SecM94-901), August 23, 1994.

\* Data includes one guarantee (Jorf Lasfar)

**CAS Annex B8 (IFC) for Morocco**

**Morocco**  
**Statement of IFC's**  
**Held and Disbursed Portfolio**  
**(In US Dollars Millions)**  
**As of Date 4/1/2001**

| FY Approval | Company          | Held |        |       |        | Disbursed |        |       |        |
|-------------|------------------|------|--------|-------|--------|-----------|--------|-------|--------|
|             |                  | Loan | Equity | Quasi | Partic | Loan      | Equity | Quasi | Partic |
| 1995        | Attijari         | 0.0  | 0.5    | 0.0   | 0.0    | 0.0       | 0.5    | 0.0   | 0.0    |
| 1990        | ENNASR           | 0.5  | 0.0    | 0.0   | 0.0    | 0.5       | 0.0    | 0.0   | 0.0    |
| 1994/96     | Mediafinance     | 0.0  | 1.2    | 0.0   | 0.0    | 0.0       | 1.2    | 0.0   | 0.0    |
| 1999        | Settavex         | 0.0  | 9.0    | 0.0   | 0.0    | 0.0       | 9.0    | 0.0   | 0.0    |
| 2000        | Maghreb Invest P | 0.0  | 5.0    | 0.0   | 0.0    | 0.0       | 1.3    | 0.0   | 0.0    |
| 2001        | Medi Telecom     | 66.4 | 0.0    | 22.1  | 310.1  | 66.4      | 0.0    | 22.1  | 310.1  |
|             | Total Portfolio: | 66.9 | 15.6   | 22.1  | 310.1  | 66.9      | 11.9   | 22.1  | 310.1  |

**Approvals Pending Commitment**

| Loan | Equity | Quasi | Partic |
|------|--------|-------|--------|
|------|--------|-------|--------|

MOROCCO – CAS PROGRAM MATRIX <sup>1</sup>

**1A. POVERTY, INCLUSION AND VULNERABILITY: DIAGNOSIS**

**Overview:** Over the past three decades, social indicators have improved steadily in Morocco, and the more pronounced strengthening of social policy since the mid-1990s has been reflected in a closer focus on rural areas and on dialogue with civil society at large. In all, however, these efforts have not been sufficient to close the large gaps to countries at similar income levels or to offset the impact of low and volatile growth on consumption levels throughout the 1990s: the incidence of poverty increased to 19 percent in 1998/99 compared to 13 percent in 1990/91, and the number of people who are economically vulnerable increased by almost three million. Unemployment is high and social gaps in access and outcomes remain large, between men and women and between rural and urban areas. Human development and inclusion policies are the greatest challenge to significantly reducing poverty and protecting the most vulnerable, as well as enhancing Morocco's growth potential over the longer term.

| Development indicators  | Morocco <sup>2</sup>                     | Benchmark  | Country issues   | WBG performance <sup>3</sup>   |
|---|--|--|--|--|
| <p><b>1. Rural development, water and environment</b></p> <p>- Percent of rural population below the poverty line</p> <p>- Rural illiteracy (population aged 10 and above) women</p> <p>-Share of large scale irrigation in MADREF budget</p> | <p>27%</p> <p>67%<br/>83%</p> <p>70%</p> | <p><u>Indicators for urban Morocco</u></p> <p>12%</p> <p>35%</p> | <ul style="list-style-type: none"> <li>• <u>Poverty has increased significantly in the rural areas.</u> Despite the Government efforts with its sectoral programs supported by the Bank on basic education and health (BAJ), rural potable water and sanitation (PAGER), rural roads (PNRR) and rural electrification (PERG), development indicators are showing large inequities in the rural world.</li> <li>• <u>Agricultural growth trend is stagnating.</u> The incentive framework, notably price policy, needs to be adjusted to promote growth in the sector.</li> <li>• <u>The pressure is increasing on natural resources, mainly on water resources.</u> The scarcity and growing demand for water require optimal water resource planning and management. The Water Law promulgated in 1995 constitutes a favorable framework for better planning, but its implementation is encountering problems due to delays in promulgating decrees related to the financing of river basin agencies. The efficiency of water use, both at the level of the distributing agencies and users, is far from optimal, notably because the water pricing system does not reflect the economic value of water and does not allow to recover the water service costs.</li> </ul> | <ul style="list-style-type: none"> <li>• As a result of the Bank's 1998 Rural Development Strategy report, the Government has prepared its own "2020 Rural Development Strategy" which emphasizes decentralization, integration of sectoral programs, and community participation in rural areas;</li> <li>• Access to basic services and rural infrastructure, through Bank financed projects (BAJ, PAGER and Secondary Roads) has improved. Also, a pilot fisheries project is testing new approaches to promote small-scale fisheries;</li> <li>• Agricultural policy reforms, addressed in the Rural Development Strategy (AAA) and in the Second Agricultural Sector Investment Loan (ASIL 2) have shown little progress;</li> <li>• A policy note on subsidies is under preparation;</li> <li>• <u>In the water sector,</u> the Water Management Project supports the implementation of the Water Law; the Large Scale Irrigation Improvement Project (LSI 2) has allowed improvement of irrigation efficiency, ORMVA management and water tariff increases, but the institutional framework remains inadequate. The Agricultural Support Service Project (PSDA) has contributed to agricultural intensification in irrigated areas, though below expectations.</li> </ul> |

1. The program matrix is organized along the main themes of the CAS, namely (i) poverty, inclusion and vulnerability, (ii) growth and (iii) public governance. Each section contains (a) diagnosis and (b) program.
2. Latest year available, 1995-2000.
3. Self and OED evaluation.

| Development indicators  | Morocco   | Benchmark  | Country issues  | WBG performance   |
|---|---|--|---|---|
| <ul style="list-style-type: none"> <li>- Rates of recovering O&amp;M costs by water fees collected in the nine large scale irrigation areas</li> <li>- Household with access to basic infrastructure in rural areas               <ul style="list-style-type: none"> <li>+ Safe water (2000)</li> <li>+ Electricity (1999)</li> </ul> </li> <li>- Agricultural VA growth (% p.a.), 1991-1998</li> </ul> | <p>62% (average)</p> <p>42%</p> <p>22%</p> <p>- 0.3</p> | <p>100%</p> <p>89%</p>   | <ul style="list-style-type: none"> <li>• <u>There is no legal framework for environmental protection. The lack of EIA regulations is of particular concern.</u></li> </ul>  | <ul style="list-style-type: none"> <li>• <u>Sustainable natural resources management</u> has received increasing attention through a Forestry Project (PDF 2), a Pilot Watershed Management Project and protected areas management project (GEF);</li> <li>• <u>Environmental work</u> has focused on strengthening institutional and legal capacity of the Ministry of Environment as well as on CZM, protected areas, and mainstreaming environment in other projects (e.g. water, tourism).</li> </ul>   |
| <p><b>2. Social protection/safety nets.</b><br/>Public expenditure on social welfare program (<i>entraide Nationale</i>), % of GDP</p> <ul style="list-style-type: none"> <li>- Vocational training (% of GDP)</li> <li>- Labor force with formal pension coverage</li> <li>- Population with health insurance coverage</li> </ul>  | <p>0.05%</p> <p>0.3%</p> <p>28%</p> <p>15%</p>          | <p><u>Indicators for MENA region</u></p> <p>n.a.</p> <p>0.5%</p> | <ul style="list-style-type: none"> <li>• The rural population's vulnerability to fluctuations in agricultural output is high, but there is no social protection system in place to cushion the effect of droughts. Public social assistance programs (food subsidies, public works, welfare) are in general not sufficiently targeted to the poor and are limited in coverage.</li> <li>• Training programs are mainly center-based and tailored for pre-employment, and little has been achieved in terms of creating a balance between pre-employment and in-service training which helps upgrading the existing labor force.</li> <li>• A large share of the population – self employed, agricultural workers and workers in the informal sector – lack pension coverage and other forms of old-age support.</li> <li>• <i>Promotion Nationale</i> provides temporary employment in rural areas and has been effectively used to scale-up labor intensive activities during droughts. But roughly 50% of its budget is shifted towards urban areas to support local Government.</li> <li>• NGO administered safety net programs are expanding, although their institutional capacity still needs strengthening.</li> </ul> | <ul style="list-style-type: none"> <li>• Based on the recent LSMS (1998/99) a poverty update report has been prepared (March 2001) to assess the extent and trend of poverty and review the role of key social policies. The Government has been very collaborative;</li> <li>• A social protection note is under preparation;</li> <li>• The Private Sector Development III (in-service training) project (FY96, US\$23 million) has introduced mechanisms which develop human resources through in-service training;</li> <li>• An evaluation of the <i>entraide Nationale</i> (in-kind welfare program) has been prepared and detailed restructuring measures have been proposed;</li> <li>• BAJ Coordination and Monitoring Project (FY 96, US\$28 million) focused on (i) PN to create employment and improve infrastructure; (ii) coordination of the BAJ programs; and (iii) establishment of the Living Conditions Observatory to monitor poverty.</li> </ul> |

| Development indicators   | Morocco <sup>2</sup>   | Benchmark  | Country issues   | WBG performance <sup>3</sup>  |
|--|--|--|--|---|
| <p><b>3. Education</b></p> <ul style="list-style-type: none"> <li>- Female youth literacy rate<br/>(% of all aged 15 - 24)</li> <li>- Female primary net enrolment rates in rural areas</li> <li>- Public spending on basic education [Grades 1-9]<br/>(% of GDP)</li> </ul>   | <p>52%</p> <p>47%</p> <p>3%</p>                                    | <p><u>Lower Middle Income Countries</u></p> <p>93%</p>   | <ul style="list-style-type: none"> <li>• Public spending on education absorbs 6 percent of GDP (1999), or half of the Government's spending on social areas. Education programs have increasingly been targeted to girls in rural areas, with promising results. However, limited institutional efficiency and insufficient focus on basic primary education is slowing progress. The low quality of the education system is reflected in low retention rates and low literacy rates.</li> <li>• The <b>1999 National Education &amp; Training Charter</b>, prepared by the Royal Commission on Education, sets out a set of ambitious objectives for the long-term improvement of the education system. The Government has begun implementing aspects of the Charter, but has yet to develop an overall implementation strategy.</li> </ul> | <ul style="list-style-type: none"> <li>• The BAJ (Basic Education in Rural Areas) project, approved in FY96 at an amount of US\$ 37.5 million, supported the government program to increase access and improve the quality of primary education in rural areas. The project has contributed to the increase in enrolment rates and in forging public-private partnerships.</li> </ul>   |
| <p><b>4. Health.</b></p> <ul style="list-style-type: none"> <li>- Maternal mortality rate (per 100000 live births)<br/>In rural areas<br/>In urban areas</li> <li>- Pregnant women in rural areas giving birth at home</li> <li>- Infant mortality rate (per 1000 births)</li> <li>- Public spending on health (% of GDP)</li> </ul> | <p>208</p> <p>307</p> <p>125</p> <p>79%</p> <p>48</p> <p>1.4 %</p> | <p><u>Indicators for MENA region</u></p> <p>151</p> <p>44</p> <p>3.0%<br/>(Tunisia)</p> <p>3.7%<br/>(Jordan)</p> | <ul style="list-style-type: none"> <li>• Inadequate funding and inefficient resource allocation account for low quality of public services and low physical access.</li> <li>• Public spending on health is, at just above 1 percent of GDP, comparatively low, and has traditionally been skewed towards the richer segment of the population and urban areas.</li> <li>• Insurance coverage is voluntary and limited to 15 percent of the population, mostly civil servants in urban areas. It is heavily subsidized and ineffective in risk pooling.</li> </ul>   | <ul style="list-style-type: none"> <li>• Two-pronged approach to strengthen basic health care services and support structural reforms: <ul style="list-style-type: none"> <li>- Basic Health Project (FY96, US\$68 million) focusing on rural areas, within the context of the BAJ project.</li> <li>- Health Financing and Management Project (FY99, US\$ 66 million).</li> </ul> </li> <li>• Progress has been slower in politically sensitive areas including health insurance, decentralization and human resource issues.</li> </ul> |

| 1 B. POVERTY, VULNERABILITY AND INCLUSION: WORLD BANK PROGRAM  |  |   |  |   |
|--|--|---|--|---|
| Development priority   |  | Development cooperation program   |  |   |
| Government of Morocco  | WBG  | WBG programs  |  | Donor Partners  |
|  |  | Instruments   | Progress indicators  |   |
| <p><b>1. Rural development, water and environment</b></p> <ul style="list-style-type: none"> <li>• The Government's new 2020 Rural Development Strategy focuses on: <ul style="list-style-type: none"> <li>- Enabling environment for rural development and agricultural growth focusing on rural employment, water management and drought resilience.</li> <li>- Participatory, integrated small scale projects, beginning with poor irrigated and rainfed areas.</li> <li>- Expansion of basic rural infrastructure and access to social services.</li> <li>- Sustainable natural resources management based on user participation and preservation of the natural resource base.</li> <li>- Poverty alleviation through rural town development (growth poles between rural and urban areas), rural employment promotion and targeted social safety nets.</li> <li>- Integration of rural women into the development process and development of human resources in rural areas.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Facilitating agricultural growth and competitiveness</li> <li>• Promoting local participatory development in priority areas and enhancing rural non-agricultural and private sector economic activities</li> <li>• Improving access to social and economic infrastructure</li> <li>• Rationalizing water management and policies</li> <li>• Improving natural resources and environmental management</li> </ul> | <p><b>IBRD</b></p> <ul style="list-style-type: none"> <li>• An Agricultural Policy Note is under preparation to stimulate the dialogue.</li> <li>• Projects in conjunction with government programs, with a decentralized approach and focused on coordination across sectors: <ul style="list-style-type: none"> <li>- As the first step toward implementing the 2020 RDS, a participatory integrated rural development project based on small and medium irrigation, including rural roads, water supply/sanitation, electrification, health and education facilities (FY01).</li> <li>- Preparation of a Rainfed Agriculture Development Project (FY02) is underway.</li> </ul> </li> <li>• Support establishment of Social Development Agency (ADS) and promote partnership with Local Development Associations and NGOs</li> <li>• Continue implementing ongoing rural infrastructure programs (Rural Water Supply and Sanitation, National Rural Roads and Rural Electrification (FY03) and basic education and health programs (BAJ)</li> <li>• Following up on past large scale irrigation projects, sector work is planned on economic and institutional issues.</li> <li>• Complete establishment of Oum er R'bia River Basin Agency under ongoing Water Resources Management Project.</li> <li>• Draw lessons of experience from Lakhdar Pilot Watershed Management Project and launch preparation of Improved Forestry Management Project (FY04)</li> </ul> | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Incidence of poverty in rural areas</li> <li>- Access to basic infrastructure</li> <li>- Funds allocated to FDR for complementary community infrastructure and basic services</li> <li>- Increase in ADS financed activities in poor, marginalized rural areas</li> <li>- Rates of recovering O&amp;M costs by water fees collected in the nine large scale irrigation areas</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>- Removal of the consumer subsidies systems in key products (sugar and soft wheat).</li> <li>- Issuance of outstanding Decrees on water charges and pollution fees</li> <li>- Establishment of regulatory framework for environmental protection</li> </ul> | <ul style="list-style-type: none"> <li>• EU ( rural roads, fisheries, FTA, rural water, social safety nets)</li> <li>• USAID and KfW (River Basin Agencies)</li> <li>• AFD, OECF, KfW (rural water)</li> <li>• GIZ, CIDA, UNDP</li> </ul> |

| Development priority   |   | Development cooperation program  |   |  |
|--|---|--|---|--|
| Government of Morocco  | WBG   | WBG programs   |   | Donor Partners   |
|  |   | Instruments  | Progress Indicators   |  |
| <p><b>2. Social protection/ safety nets</b></p> <ul style="list-style-type: none"> <li>Continuing the development of in-service training;</li> <li>Extending medical insurance;</li> <li>Creation of a Social Fund;</li> <li>Piloting the reform of the welfare program (Entraide Nationale);</li> <li>Rural development programs;</li> <li>Institutionalizing the national drought program;</li> <li>Emphasis on alternative delivery mechanisms.</li> </ul>  | <ul style="list-style-type: none"> <li>Promote reinforcement of the intensity and coverage of public safety nets;</li> <li>Build on the achievements in the 1997 CAS with bottom-up approaches to supporting the delivery of social programs in rural areas;</li> <li>Integrated, community based rural development programs;</li> <li>Emphasize local community empowerment in poverty alleviation.</li> </ul>   | <p><b>IBRD:</b></p> <ul style="list-style-type: none"> <li>Support the Social Fund activities</li> <li>Support Government reform in promoting in-service training</li> <li>Expand public work programs (PN)</li> <li>Evaluate the extent of child labor and provide support for Child Protection</li> <li>Help Government to reorient PN's resources to labor intensive activities in rural areas</li> <li>Support implementation of the Gender Action plan</li> <li>Participative Poverty Assessment</li> </ul> | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>Allocate in minimum over 20% of the Vocational Training Tax (TFP) to in-service training</li> <li>Poverty incidence in both rural and urban areas</li> <li>Coverage of the assistance programs (EN, PN)</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>Approve by the Council of Ministers a revised 1974 decree on vocational training tax (TFP) to (i) separate funding for pre-service and in-service training and allocate at least a minimum amount of the TFP to in-service training; and (ii) institutionalize the Operations Manual of in-service training and legal status of the Central Committee and Regional Committees.</li> <li>Introduce a comprehensive program for protecting the children in collaboration with other donors (UNICEF/ILO).</li> </ul> | <ul style="list-style-type: none"> <li>EU</li> <li>USAID</li> <li>UNDP</li> <li>UNICEF</li> <li>ILO</li> </ul> |
| <p><b>3. Education</b></p> <ul style="list-style-type: none"> <li>The long term strategy for <u>education</u> is laid out in the <b>1999 National Education &amp; Training Charter</b> which reflects a national consensus. This action plan includes: <ul style="list-style-type: none"> <li>Universalization of primary education (2002-2003);</li> <li>Restructuring of educational cycles;</li> <li>Quality improvement;</li> <li>Regional decentralization;</li> <li>Human resource reform;</li> <li>Partnerships with the private sector.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Support the government's reform efforts, in particular the <b>Charter</b>, focusing on rural areas and especially decentralization: <ul style="list-style-type: none"> <li>Reform engineering through pilot programs in decentralization;</li> <li>Improvement of teaching quality through curriculum renovation and teacher training;</li> <li>Expansion of network of public and community-based schools;</li> <li>Support the government's literacy program.</li> </ul> </li> </ul> | <p><b>IBRD:</b></p> <ul style="list-style-type: none"> <li>Education reform support (APL), with first phase concentrating on basic education sub-sector</li> <li>AAA on selected issues e.g. literacy note</li> </ul>  | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>Primary net enrollment rates (disaggregated by gender and urban/rural)</li> <li>Primary repetition, dropout and promotion rates (disaggregated by gender and urban/rural)</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>Production of annual implementation action plan</li> </ul>  | <ul style="list-style-type: none"> <li>USAID, UNICEF, UNESCO, EU, Coopération Française.</li> </ul>            |

| Development priority  |   | Development cooperation program   |  |   |
|---|---|---|--|---|
| Government of Morocco   | WBG   | WBG programs  |  | Donor Partners  |
|   |   | Instruments   | Progress indicators  |   |
| <p><b>4. Health</b></p> <ul style="list-style-type: none"> <li>• The government emphasizes the need to rationalize resources and improve access, quality and sustainability. The Health Sector Strategy includes:               <ul style="list-style-type: none"> <li>- Hospital reform (resource allocation, quality of services);</li> <li>- Priority public health program: (TB, family planning, AIDS);</li> <li>- Compulsory health insurance for all workers in the formal sector (30% of LF);</li> <li>- System for medical assistance for the poorest (55 percent of the population).</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Provide support to:               <ul style="list-style-type: none"> <li>- Priority public health programs</li> <li>- Access to basic health in rural areas</li> <li>- Programs focused on child and maternal health</li> <li>- Provide support to the development and implementation of new health financing strategies.</li> </ul> </li> </ul> | <p><b>IBRD:</b></p> <ul style="list-style-type: none"> <li>• Analytical support to policy formulation and implementation, and ongoing project.</li> </ul> | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Access to basic health care in rural areas, e.g. percentage of births assisted by skilled personnel.</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>- Implementation of:               <ul style="list-style-type: none"> <li>- Hospital reform</li> <li>- Health financing reform</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• EU (MEDA 2). AfDB (joint operation) -</li> </ul> |

## 2 A. GROWTH: DIAGNOSIS

**Overview:** The low levels and high volatility in growth have been a key factor in the increase in poverty throughout the 1990s. While the economy has remained stable from a macroeconomic perspective, a combination of droughts and a slowdown in non-agricultural sectors has increased poverty, rural migration and urban unemployment rates. Per capita incomes have stagnated and private consumption has to a significant extent been crowded out by public consumption. Structural reforms have continued to be implemented in a gradual and uneven way, which has proved insufficient to improve competitiveness. Despite reforms to improve the general investment climate, the private sector response has been lagging due to overall macro constraints and remaining micro problems related to the weight and inefficiency of the administration.

| Development indicators   | Morocco <sup>2</sup>      | Benchmark  | Country issues  | WBG performance <sup>3</sup>   |
|--|---------------------------|--|---|--|
| <b>1. Macro and trade</b><br>- Per capita growth (average 1991-1998)<br>- Fiscal deficit (as % of GDP)<br>- Urban unemployment             | 0%<br><br>7.7%<br><br>22% | <u>Lower Middle Income Countries</u><br><br>2.5% | <ul style="list-style-type: none"> <li>Economic policy has achieved stabilization but has failed to increase growth and competitiveness: moreover, fiscal adjustment did not involve a deep restructuring of public expenditures;</li> <li>Fiscal management is now under strain: privatization revenues have financed a sharp increase in current expenditures;</li> <li>The Dirham has appreciated in real terms and exports growth was halved in 1990s compared to the late 1980s;</li> <li>After considerable achievements in the 1980s, trade liberalization slowed down in the 1990s. However, the recent conclusion of the FTA with EU (March 2000) is a crucial step towards international integration.</li> </ul>                        | <ul style="list-style-type: none"> <li>A one tranche PRSL(FY99, \$250 million) was successful in assisting in the formulation of the reform agenda, but was less successful in engendering progress on the implementation of structural reforms;</li> <li>A Growth Study was discussed at a widely attended Government seminar. In general, analytical and advisory services have been of high quality but have not been sufficient to move the reform agenda.</li> </ul>  |
| <b>2. Private sector development</b><br>- Private sector share of value-added<br>- Manufacturing sector VA growth (average p.a. 1991-1998) | 73%<br><br>2.6%           | <u>Lower Middle Income Countries</u><br><br>2.9% | <ul style="list-style-type: none"> <li>Important policy changes have improved the PS environment (stable economy, progressive liberalization, PPI, legal and judicial reform), but the weak private sector performance of the 1990s is evidence of an important outstanding agenda, including:               <ul style="list-style-type: none"> <li>Low public savings, little investment in infrastructure, slow progress on privatization;</li> <li>Concentration (and thus vulnerability) of exports both in terms of products and markets;</li> <li>Limited and uneven competition, cumbersome administrative procedures, lack of skilled workers, and high cost and limited access to financing, especially for SMEs.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>WB initiatives have been centered around support to SMEs (in particular export development), promotion of PPI, and improvement of the business environment, including through strengthening commercial laws.</li> <li>IFC activities dropped significantly in the 1990s as a result of increased access to concessional financing, but retained an important role in larger projects, e.g. in telecom. IFC also provided important support to SMEs through an equity investment in a fund that provides financing and venture capital to SMEs.</li> </ul> |

| Development indicators  | Morocco <sup>2</sup>                               | Benchmark  | Country Issues  | WBG performance <sup>3</sup>  |
|---|--|--|---|---|
| <b>3. Financial sector development</b><br>- Gross domestic savings (% of GDP)<br>- Financial deepening (M2 as % of GDP)<br>- Claims on the private sector (% of GDP)  | 20%<br><br>77%<br><br>54%                          | <u>Lower Middle Income Countries</u><br><br>30%<br><br>74% | <ul style="list-style-type: none"> <li>• The financial sector has undergone important reforms in the 1990s: banking activities have to some extent been liberalized, the banking regulatory framework has been modernized, and capital markets have developed. However:               <ul style="list-style-type: none"> <li>- Financial deepening and market liquidity still lag behind other countries;</li> <li>- The level of savings is low;</li> <li>- In spite of progress in reforming the insurance industry, institutional investors remain dominated by very large (government owned) institutions;</li> <li>- The poor, esp. in rural areas, lack access to credit as well as savings instruments, which further exposes them to sharp swings in income;</li> <li>- The financial viability of the pensions system is threatened over the medium term.</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>• Analytical and advisory support for the overall financial sector strategy, capital markets etc has provided important input to the policy formulation;</li> <li>• Cross cutting work on savings/social protection continues. A Contractual Savings Development Loan (FY98) was intended to reform contractual savings institutions and thus encourage higher private savings and investment;</li> <li>• IFC's initiatives have focused on institution building in the area of capital markets and factoring as well as access to trade finance to local companies (e.g. partial risk guarantee scheme in the MENA Forfaiting Facility).</li> </ul>   |
| <b>4. Infrastructure</b><br>- Access to sanitation in urban areas<br>- Paved road density/km/1000<br>- Tourist visits per year (millions)<br>- Tourism as %GDP<br>- Telephone main lines penetration (per 1000 habitants)<br>- Mobile phones penetration (per 1000 habitants) | 70<br><br>1.2<br><br>2<br><br>8<br><br>53<br><br>4 | 70<br><br>1.5<br><br>>10<br><br>90<br><br>18               | <p><i>Institutional issues are paramount as a result of poorly developed and cumbersome regulatory framework, weak autonomy and accountability and inefficiency of public infrastructure service providers.</i></p> <ul style="list-style-type: none"> <li>• A considerable stock of urban infrastructure exists but not sufficient emphasis is placed on rehabilitation and maintenance, and sustainable financing of urban transport, sanitation and water services</li> <li>• Road network is in poor condition and limited in rural areas.</li> <li>• Strong public presence but the infrastructure sector is – gradually – being opened up to the private sector. In transport, water and energy in some of the larger cities.</li> <li>• Rapid rates of urbanization put strong pressure on infrastructure in urban areas, resulting in unserved areas that house the poor.</li> <li>• The housing sector is constrained by lack of financing, land, and inadequate subsidy system.</li> <li>• The municipal charter is being revised – de facto centralized decision making, overlapping functions, etc. remain problems to well functioning local communities.</li> <li>• A well integrated urban development, tourism and cultural heritage strategy is needed to improve quality of life in urban areas and boost growth.</li> <li>• Telecommunications infrastructure has been improved, however, there is still a need to develop telecommunications and postal networks to reach levels of countries of similar income level, ensure better inclusion of rural areas, and an enabling regulatory framework for private participation.</li> </ul> | <ul style="list-style-type: none"> <li>• The World Bank lending portfolio includes projects in the fields of land development, municipal finance, cultural heritage, urban water and sanitation, railways, secondary roads and power generation, and, under preparation, tourism development, rural infrastructure and public asset maintenance. Technical assistance has been given in the areas of municipal development, housing, energy efficiency and solar-thermal power generation.</li> <li>• The World Bank provided key support to the reform of the regulatory framework for telecommunications. This is being followed up by an information and telecommunications loan in FY01.</li> <li>• IFC's role was instrumental in structuring complex and large volumes of financing as demonstrated by the Meditecom investment.</li> </ul> |

| <b>2 B. GROWTH: WORLD BANK PROGRAM</b>  |  |  |   |  |
|---|--|--|---|--|
| <b>Development priority</b>   |  | <b>Development cooperation program</b>   |   |  |
| <b>Government of Morocco</b>  | <b>WBG</b>   | <b>WBG programs</b>  |   | <b>Donor partners</b>  |
|   |  | <b>Instruments</b>   | <b>Progress Indicators</b>  |  |
| <p><b>1. Macro and trade</b></p> <ul style="list-style-type: none"> <li>• The fiscal deficit is to be reduced to around 3 percent of GDP by 2004</li> <li>• Further integration with international economy, in particular regional integration, to accompany the Free Trade Agreement with EU.</li> </ul>   | <ul style="list-style-type: none"> <li>• Focus on building consensus on a growth oriented framework.</li> </ul>  | <p><b>IBRD</b></p> <ul style="list-style-type: none"> <li>• Analytical work on growth oriented policies, with wide dissemination, emphasis on consensus building (e.g. EU integration strategy);</li> <li>• Institutional support to economic policy formulation (IDF).</li> </ul>   | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Fiscal deficit as percent of GDP</li> <li>- Civil service wage bill as percent of GDP</li> <li>- Non-EU mean tariff rate.</li> </ul>  | <ul style="list-style-type: none"> <li>• IMF</li> </ul>                                    |
| <p><b>2. Private sector development</b></p> <ul style="list-style-type: none"> <li>• Strengthening the business environment with focus on SMEs, export promotion, investment procedures;</li> <li>• Strengthening the regulatory and institutional framework for PPI and continue with liberalization;</li> <li>• Accelerating the privatization program, with telecom and air transport under way;</li> <li>• Public enterprise reform.</li> </ul> | <ul style="list-style-type: none"> <li>• Combating urban poverty and unemployment by improving the business climate, with particular emphasis on SMEs and on the services sector (IT, tourism);</li> <li>• Focus on coordination with other partners and on support which is not currently being provided elsewhere.</li> </ul>              | <p><b>IBRD/IFC :</b></p> <ul style="list-style-type: none"> <li>• PPI strategy</li> <li>• IT/postal project</li> <li>• SME country mapping exercise to determine most effective approach and tools to support SMEs.</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Partnerships being explored with financial intermediaries to provide SMEs with appropriate financing mechanisms.</li> <li>• IFC investments, where appropriate and with strong developmental benefits, in PPI.</li> </ul> | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Share of bank credit to the private sector</li> <li>- Exports growth</li> <li>- Infrastructure services (cost/coverage)</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>- Further legal and judiciary reform</li> </ul> | <ul style="list-style-type: none"> <li>• African Development Bank</li> <li>• EU</li> </ul> |
| <p><b>3. Financial sector</b></p> <ul style="list-style-type: none"> <li>• Strengthening capital markets and improving domestic debt management;</li> <li>• Restructuring of main public banks;</li> <li>• Housing finance;</li> <li>• SME finance.</li> </ul>  | <ul style="list-style-type: none"> <li>• Provide mainly analytical and advisory services to support policy formulation and reform implementation</li> <li>• Seek to leverage financing in areas where little support is being provided.</li> <li>• IFC will only work in areas with clear developmental impact and additionality.</li> </ul> | <p><b>IBRD:</b></p> <ul style="list-style-type: none"> <li>• Financial sector assessment program</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• New financial instruments under consideration (e.g., weather insurance, local currency products, etc.).</li> <li>• Institutional building investments to further development of capital markets.</li> </ul>  | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Improved access to financial services, especially in rural areas.</li> <li>- Share of bank credit to the private sector</li> </ul>  | <ul style="list-style-type: none"> <li>• EU</li> </ul>                                     |

| Development priority   |   | Development cooperation program   |  |   |
|--|---|---|--|---|
| Government of Morocco  | WBG   | WBG programs  |  | Donor partners  |
|  |   | Instruments   | Progress Indicators  |   |
| <p><b>4. Infrastructure and IT</b></p> <ul style="list-style-type: none"> <li>• Increase local autonomy of municipalities</li> <li>• Enhance private sector participation in all sectors</li> <li>• Upgrade the IT sector and more particularly:               <ul style="list-style-type: none"> <li>- Develop “software” (inter-university networks, technology parks, etc.)</li> <li>- Enhance business and competitive environment for IT firms</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Work on institutional and regulatory strengthening</li> <li>• Provide analytical and advisory services</li> <li>• Focus on rural access</li> </ul> | <p><b>IBRD:</b></p> <ul style="list-style-type: none"> <li>• Lending:               <ul style="list-style-type: none"> <li>Rural Infrastructure</li> <li>Tourism/cultural heritage</li> <li>IT / Telecom reform</li> </ul> </li> <li>• Institutional Support:               <ul style="list-style-type: none"> <li>Public Asset Management</li> <li>Cultural Heritage</li> </ul> </li> <li>• AAA:               <ul style="list-style-type: none"> <li>PPI note</li> </ul> </li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Potential investments, where needed in Infrastructure or IT</li> </ul> | <p><u>Quantitative:</u></p> <p>Degree of private sector participation<br/>Telecommunications revenues as % of GDP</p> <p><u>Qualitative</u></p> <p>Implementation of regulatory changes to support PPI</p> | <ul style="list-style-type: none"> <li>• USAID, AfD, UNESCO (urban development)</li> <li>• USAID, AfD, KfW (municipalities)</li> <li>• EIB</li> </ul> |

**3A. PUBLIC GOVERNANCE: DIAGNOSIS**

**Overview:** The political opening in Morocco has spurred an open debate on governance issues, including accountability, decentralization, transparency and corruption, and the need for modernizing institutions to match the process of international integration. However, the large presence of the state in the provision of goods and services together with the high degree of centralization in the administration are an impediment to efficient and effective delivery of public services, and to the development of a dynamic private sector. The World Bank program is intended to support targeted interventions in the areas of decentralization, public expenditures management, and judicial reform while continuing to place emphasis on fostering public discussion and involving civil society

| Development indicators  | Morocco <sup>2</sup>  | Benchmark   | Country issues   | WBG performance <sup>3</sup>   |
|---|---|---|--|--|
| <ul style="list-style-type: none"> <li>- Public sector % of value-added</li> <li>- Public expenditure % of GDP</li> <li>- Government wage bill as % of total expenditures as % of GDP</li> <li>- Local expenditures % of GDP</li> <li>- Local wage bill as % of total local expenditures</li> <li>- Local governments' share of total revenues</li> </ul> | <ul style="list-style-type: none"> <li>27%</li> <li>24 %</li> <li>34%</li> <li>12.5%</li> <li>3.4%</li> <li>60%</li> <li>12%</li> </ul> | <p><u>Lower Middle Income Countries</u></p> <ul style="list-style-type: none"> <li>16%</li> <li>24%</li> <li>3%</li> <li>50%</li> <li>15-20%</li> </ul> | <ul style="list-style-type: none"> <li>• The State remains heavily involved in the provision of goods and services, and although some competition has been introduced in the telecom, transports, urban water and sewerage sectors, the overall progress on the privatization agenda has been slow. Alternative delivery mechanisms involving private and NGO sectors are still on a very limited scale.</li> <li>• The administration of civil service is centralized and insufficiently performance orientated, resulting in cross-sector coordination problems, insufficient participation of stakeholders, poor public service delivery, a highly constrained/rigid remuneration policy, structural constraints/impediments to address skill-mix as well as mobility and redeployment issues, and an overall cost-efficiency issue.</li> <li>• The budget framework and procedures lack visibility, transparency and efficiency</li> <li>• Lack of accountability together with corruption are perceived as important impediments to economic development.</li> <li>• Local governments have little financial autonomy in revenues and expenditures, and have weak financial and human capacities, especially rural communes.</li> <li>• The Government has, however, opened up the discussion on transparency and corruption with civil society.</li> </ul> | <ul style="list-style-type: none"> <li>• The Policy Reform Support Loan (FY99, US\$250 million) was not successful in engendering civil service reform.</li> <li>• The World Bank has focused on opening up the discussion with civil society, e.g. through a series of seminars and meetings on corruption, including the government, civil society and external partners, and on strengthening the civil society in its role (e.g. an IDF for NGO institutional capacity) These efforts have been successful in terms of engendering debate but have so far had relatively limited impact on the reform agenda.</li> </ul> |

| <b>3B. PUBLIC GOVERNANCE: WORLD BANK PROGRAM</b>   |  |   |   |  |
|--|--|---|---|--|
| <b>Development priority</b>  |  | <b>Development cooperation program</b>  |   |  |
| <b>Government of Morocco</b>   | <b>WBG</b>   | <b>WBG programs</b>   |   | <b>Other partner programs</b>  |
|  |  | <b>Instruments</b>  | <b>Progress Indicators</b>  |  |
| <ul style="list-style-type: none"> <li>• Deepen structural reforms in the areas of:               <ul style="list-style-type: none"> <li>- Privatization and PPI</li> <li>- Improving the business environment, in particular for SMEs</li> <li>- Strengthening of the judicial system, especially including commercial courts and administrative courts.</li> <li>- Across the board simplification of rules and regulations including a reduction of the administration's discretionary powers</li> <li>- Increased accountability through strengthening of the National Cour des Comptes, setting up of Regional Cours des Comptes, modernization of administrative jurisdictions, as well as dialogue with civil society on key accountability and anti-corruption issues</li> <li>- Administrative decentralization (principles laid out in a draft charter.</li> <li>- Enhanced autonomy of local municipalities (legislative reform under preparation)</li> <li>- Renewed 5 year Plan (2000-2004) to serve as reference for the macro-framework/targets and for annual spending programs, with annual evaluation of Plan execution to be done and used as feedback into the annual budget programming.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Support the public governance reform agenda in decentralization , public expenditures management, civil service reform, strengthening of judicial system, accountability and transparency, through the means of :               <ul style="list-style-type: none"> <li>- Supporting consensus building</li> <li>- Providing expertise and technical advice</li> <li>- Preparing reforms</li> <li>- Supporting institutional development of civil society</li> </ul> </li> </ul> | <p><b>IBRD</b></p> <ul style="list-style-type: none"> <li>• <u>Public Expenditure Review</u> (ongoing)</li> <li>• <u>Public Asset Management Project</u></li> <li>• <u>Governance Project</u> (administrative procedures, external controls)</li> <li>• Continued support to <u>Justice modernization</u>, through implementation of the recently approved Judicial project (focused on commercial courts), support to modernization and extension of administrative courts (Governance project, see above)</li> <li>• Follow-up on the recent IDF for <u>NGOs</u> institutional capacity, with other form of support geared toward training, information access and experience sharing.</li> <li>• Support (through lending) to implementation of key structural public sector/governance reforms, provided triggers are met, in the areas of administrative decentralization, civil service reform, budget programming and execution framework and procedures.</li> </ul> | <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>- Public sector share of value added</li> <li>- No. privatized enterprises</li> <li>- Share of staff in general and high level jobs in particular at provincial and regional level</li> <li>- Private sector and NGOs share of basic public service delivery in education, literacy, health.</li> <li>- Net recruitment in civil service</li> <li>- Weight of the wage bill in % of GDP (with a target of at least reducing it from current 12.5% level to 10% in 2003)</li> <li>- Budget Investment realization ratios</li> <li>- Delays to produce budget execution data (lois de réglemant)</li> <li>- Basic indicators on judicial effectiveness: backlog of cases, % of decisions implemented.</li> <li>- Local government wage bill &lt; 50 percent of total local expenditures</li> <li>- Investment &gt; 25 percent of total expenditures</li> <li>- Unobligated investment commitments &lt; 50 percent of total investment</li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>- Key legal and administrative measures implemented to enhance oversight of the administration, increase transparency and reduce discretionary powers;</li> <li>- Regulatory and managerial changes increasing flexibility/autonomy in budget management by state administrative local units,</li> <li>- Reform/streamlining of budget expenditure process and its controls;</li> </ul> | <ul style="list-style-type: none"> <li>• PPI/role of the state: UNDP, EU, AfDB (partnership with the WB)</li> <li>• Budget management: EU, IMF</li> <li>• Civil Service: Arab Fund for Social and Economic Development</li> <li>• Accountability: EU, USAID, UNDP, DFID</li> </ul> |

| Development priority  |     | Development cooperation program |   |                        |
|-----------------------|-----|---------------------------------|---|------------------------|
| Government of Morocco | WBG | WBG programs                    |   | Other partner programs |
|                       |     | Instruments                     | Progress indicators   |                        |
|                       |     |                                 | <ul style="list-style-type: none"> <li>- Revision of budget structure and presentation toward more visibility and comprehensiveness;</li> <li>- Legal and regulatory changes in statutory dispositions of the civil service as well as actual use / implementation of the new legal framework.</li> </ul> |                        |

### Morocco- CAS summary of development priorities

| <i>Network Area</i>   | <i>Country performance<sup>a</sup></i> | <i>Major issue<sup>b</sup></i>                      | <i>Country priority<sup>c</sup></i> | <i>Bank priority<sup>d</sup></i> | <i>Reconciliation of country and Bank priorities<sup>d</sup></i> |
|---|--|---|-------------------------------------|----------------------------------|--|
| <b>Poverty Reduction and Economic Management</b>              |  |   |                                     |                                  |  |
| Poverty Reduction   | Poor                                   | Rural poverty and urban vulnerability               | High                                | High                             |  |
| Economic Policy   | Fair/                                  | Lack of growth                                      | High                                | High                             |  |
| Public Sector   | Fair                                   | Efficiency of public expenditures                   | Moderate                            | High                             | Dialogue/analytical support                                      |
| Gender  | Fair                                   | Women's empowerment in rural areas                  | High/Moderate                       | High/Moderate                    |  |
| <b>Human Development</b>                                      |  |   |                                     |                                  |  |
| Education   | Fair                                   | Rural girls' access, efficiency                     | High                                | High                             |  |
| Health, nutrition and population                              | Fair                                   | Urban-rural gaps, underfunding                      | Moderate                            | High                             | Continuing dialogue  |
| Social protection   | Poor                                   | Insufficient and inefficient coverage of vulnerable | Moderate                            | High                             | Dialogue and alternative mechanisms                              |
| <b>Environmentally &amp; Socially Sustainable Development</b> |  |   |                                     |                                  |  |
| Rural development   | Good                                   | Agricultural pricing                                | Moderate                            | High                             | Continuing dialogue  |
| Environment   | Poor                                   | Lack of EIA regulation                              | Low                                 | High                             | Dialogue at highest level  |
| Social development  | Fair                                   | Vulnerability and exclusion                         | Moderate                            | High                             | Cross-sectoral work at all levels                                |
| <b>Finance, Private Sector &amp; Infrastructure</b>           |  |   |                                     |                                  |  |
| Financial sector  | Good                                   | Competition, savings mobilization                   | High                                | Moderate                         | Strong EU presence<br>Leverage financing                         |
| Private sector  | Fair                                   | SME competitiveness                                 | High                                | High                             |  |
| Energy and mining   | Fair                                   | Legal/regulatory, rural access                      | Low                                 | Moderate                         | Continuing dialogue  |
| Infrastructure  | Fair                                   | Regulatory/PPI, autonomy of public utilities.       | Moderate                            | Moderate                         |  |

a. Indicated as "excellent", "good", "fair", or "poor".

b. Refers to principal country-specific problem(s).

c. Indicated as "low", "moderate", or "high".

d. Gives explanation where Bank and country priorities do not agree.

## **THE WORLD BANK AND CIVIL SOCIETY IN MOROCCO.**

### **I. The World Bank and Civil Society: Achievements, Challenges and Future Program.**

#### **Achievements**

During the past CAS cycle, the Bank focused its nascent civil society liaison efforts on a number of civil society actors: NGOs, research institutes, academics and professional associations. Indeed, the Morocco CMU has led the region's efforts to engage with Civil Society Organizations (CSO).

The most important of these efforts consisted of the following initiatives:

1. Support for women's organizations working under the auspices of the Secretary of State for Social Protection, the Family and Children to craft a National Gender Action Plan.
2. An IDF implemented by NGOs that had two objectives. The first was to create an NGO database, and the second to build the management, administrative and networking capacities of NGOs.
3. An ongoing initiative to support the creation of an economic policy think tank based at Ifran University.
4. An ongoing initiative to set up a Social Fund.
5. Equally important, a seminar was held bringing together prominent Moroccan social scientists to identify and discuss the country's development priorities with a view to creating a network of social scientists whose expertise and knowledge would be solicited in Bank supported programs and projects.
6. An exciting development at the project level consisted of a reorientation of the educational component of the BAJ project to incorporate support for informal schools run by over 100 local NGOs.

Since the establishment of the Morocco field office, consultations with CSOs have been carried out including a seminar on corruption, which was held in partnership with the government. Other contacts with CSOs culminated in a daylong CAS consultation with CSOs in November 2000 which were also attended by government officials. These CAS consultations have not resulted in the hoped for tri-partite meeting (CSOs-Government-WB) because of reservations expressed on the government's part. However, together with the impetus of the IDF grant, they have in fact prompted the Moroccan government to plan a general meeting between CSOs and Government to be presided by the His Majesty the King to craft rules of engagement between Government and CSOs. This is a welcome government initiative as it would facilitate the World Bank's own future engagement with Civil Society, particularly as the message from the Government was supportive of the World Bank's continued outreach to CSOs.

Several factors have contributed to the enhancement of Government-CSO-World Bank engagement. These include a more open socio-political order leading to improved State-Civil Society relations; an increase in the challenges facing government and society; improved CSO capability to participate in policy dialogue and the delivery of social services; and strong leadership by the Morocco CMU.

## **Challenges**

1. One of the challenges expressed by CSOs both during the CAS consultations and at regular meeting between Bank staff and CSOs, is the regulatory framework for CSOs. The present Dhahir of 1958 governing the status of CSOs is being debated in Morocco and reforms to the law are under consideration to align it with the social, political and economic developments that have occurred in Morocco. The objective is to create a more enabling regulatory framework that would permit CSOs to fulfill their development potential.
2. Linked to this is the status of cooperatives. The Government has requested from the WB a study of the current status and legal framework for cooperatives with a view to identifying which existing entities would qualify as cooperatives. This would make it possible to separate them from those cooperatives which would qualify as private businesses.
3. A third challenge is to move forward with and operationalize the Moroccan Social Scientist Network.
4. Systematic evaluation and monitoring of the work of NGOs remains a challenge as expressed by members of Civil Society themselves and by WB staff members, particularly in cases where engagement with CSOs at the project level (such as in the case of informal schools) is underway.
5. Moving forward with CAS consultations raises other pertinent issues ranging from selectivity of CSO partners at the consultation and project level, to creating a platform for dialogue, to building the capacities of CSOs, all of which reflect and encapsulate the challenges mentioned above.
6. While some operational staff have first hand experience in engaging CSOs in their work, many have less experience while others are skeptical about the value added of mainstreaming CSOs in Bank operations and processes. Greater operational mainstreaming therefore requires support of senior management and a collaborative effort among country team members to ensure that all learn from individual experiences.

## **Future Program**

The Bank's future program will on the one hand seek to build on its achievements and on the other to address the challenges cited above. To this end the following activities are planned:

1. Conduct a study in the form of an ESW to take stock of available information on CSOs and their role in the development process in both rural and urban areas. The planned study would be elaborated in close cooperation with relevant CSOs and Moroccan social scientists and would therefore provide a platform for information sharing and exchange of views.
2. Engage Government, Civil Society and legal experts in a dialogue on reforming the legal framework governing civil society organizations with a view to providing technical assistance in this area if requested. This initiative, will build upon an earlier regional Bank initiative with regional and international legal experts which produced a document on the standards and criteria for a legal framework for CSOs. Moroccan legal experts were involved in this initiative. Moreover, preliminary contacts have been established with the relevant officials in the office of the Moroccan Prime Minister dealing with this issue.
3. The formal establishment and operationalization of the Social Fund would be a key institutional activity that would facilitate and enhance engagement with CSOs. In this context, the natural place to house the CSO data-base (compiled as part of the activities of the previous IDF for CSO capacity building) would be the Social Fund which will be responsible for improving and updating the existing data-base.

4. Efforts will be exerted to move beyond the consultation stage with CSOs and to integrate them from the outset in the project cycle. The objective is to involve both CSOs and members of the Network of Social Scientists in direct beneficiary participation as well as the design, implementation, monitoring and evaluation of projects. In this context it is possible to envision a flexible division of labour between CSOs and Social Scientists. The former would be integrated mainly in social sector activities where their experiences provide them with a comparative advantage, while the latter would be better suited to contribute to structural adjustment loans and macro-economic work as well as analytical work.
5. Create a position in the field office for a Civil Society/Gender expert who would act both as a gender focal point and the point person for outreach to CSO as well as be responsible for coordinating with other donors on these issues. The responsibilities of this individual would include:
  - a. help operational staff to understand the value added of engendering projects and of engaging CSOs in their projects;
  - b. bring innovative experiences from inside and outside the Bank to task managers;
  - c. provide technical support and task management to in-country dialogue (e.g. CAS consultations, and participatory approaches to poverty assessments);
  - d. identify possible CSOs as project partners; and,
  - e. initiate dialogue between Government, CSOs, the private sector and donors to discuss key policy issues and foster better coordination and collaboration between actors.
6. A follow up IDF for CSO capacity building will be considered and discussed with the relevant Moroccan counterparts.

## **II. Civil Society – World Bank CAS Consultations.**

A one-day consultation meeting with members of Morocco's civil society was held in Rabat on October 14<sup>th</sup> as part of the preparation for the World Bank's upcoming Country Assistance Strategy, the first such meeting in the MNA region. As part of an ongoing process of constructive contacts with civil society organizations, and in recognition of the important role they play in meeting the challenges of development, the World Bank sought to solicit their views on how to establish a framework for future collaboration, to identify development priorities and challenges as they perceive them, to identify obstacles and implementation problems, and to elicit feedback on how the WB group can help meet some of the priority needs more effectively.

About 70 civil society organizations received invitations to the event. Many of these groups, which ranged from women's organizations to anti-corruption groups, community-based organizations, and capacity building NGOs, had been recipients of training and networking through an Institutional Development Facility grant (IDF) to Morocco. While the group of organizations invited is in no way exhaustive and does not represent Moroccan civil society as a whole, the selection process was geared towards involving groups that were active in diverse sectors, covered rural and urban areas, were geographically diverse, and were involved at the grassroots and advocacy levels. The meeting was well attended, with a total of 55 civil society organization representatives – a number of whom were already familiar with the World Bank and its work in Morocco – present at the consultations. Several government representatives from relevant ministries also attended the meeting.

The consultations were broken down into two plenary sessions, one at the beginning and another one at the end of the day, in between which were held four workshops, each of which covered a priority area for Morocco: rural development, urban development, governance and inclusion. In the first plenary session, the World Bank's regional Vice President Jean-Louis Sarbib and Maghreb Country Director

Christian Delvoie articulated the importance of partnering with Morocco's civil society organizations to combat poverty and attain sustainable development, particularly given their remarkable record at the grassroots level and their positive impact on development in general. On their end, participants expressed – among other things – their frustration with what they perceived as the lack of civil society involvement in Bank operations and priority-setting but at the same time shared their interest in forging a collaborative relationship with the Bank.

Participants were given the choice of selecting the facilitator-led workshop they were interested in attending, which meant that some workshops were better attended than others. The rural development workshop was the one with the largest number of attendees, reflecting both the importance of the issue in the context of Morocco's development as well as the attention given to activities in this area by many of the organizations present. Each of the workshops was divided into two sessions, the first one focusing on gaining a better understanding of the activities and concerns of both Moroccan civil society and the World Bank, and the second to create effective and innovative approaches for collaboration. Prior to the meeting, the World Bank distributed to participants a set of rules of engagement which set out expectations for the meeting and its aftermath in an effort to manage expectations and avoid misunderstandings. Participants also received a background document providing a framework for discussion of the upcoming CAS.

At the end of the workshops, participants attended a closing plenary session during which each of the four facilitators presented the recommendations of their respective workshops. Recommendations consisted of both challenges confronting development in Morocco, areas in which the World Bank could become more active, and suggestions for future WB-civil society engagement. Once completed, workshop reports submitted by each of the facilitators were sent to the attendees for their review and comments. Taking into account these comments, a final summary report of the consultations was prepared. A follow-up meeting, possibly on a tri-partite basis, was suggested by some participants to inform meeting participants as to how the consultations have influenced the definition of the Bank strategy, and in particular, which of their recommendations have and which have not been incorporated into the CAS document. In this regard, and as articulated in the rules of engagement document distributed prior to the meeting, not all of the recommendations proposed by the participants will have necessarily been included in the CAS document.

## RECOMMENDATIONS FROM CIVIL SOCIETY CONSULTATIONS<sup>1</sup>

### I. Summary of recommendations for World Bank- Civil Society engagement.

| Strategy  | Proposed Actions  |
|---|---|
| <b>Forging Partnerships</b>                                 | <ul style="list-style-type: none"> <li>• Promote inclusive partnerships which involve a large spectrum of CS, i.e. NGOs, universities, and professional groups.</li> <li>• Develop mechanisms, techniques, and indicators to better integrate CSOs in needs-assessments and project follow-up.</li> <li>• Support CSOs at the national and local levels, particularly as these maintain close ties and mutual trust with local communities and can assist in helping to identify priorities and to widen community participation.</li> <li>• Promote the role of CSOs in tri-partite projects and elaborate a charter defining the methods of engagement of each of the partners with regards to the project cycle. In addition, support pilot activities on a tri-partite basis.</li> <li>• Enhance the role of beneficiaries and CSOs in promoting good governance.</li> <li>• Support the extension of government grants to CSOs and scaling up of CSO initiatives.</li> <li>• Identify and encourage local experts to assess local conditions and contribute to the project cycle.</li> </ul> |
| <b>Strengthening Technical &amp; Institutional Capacity</b> | <ul style="list-style-type: none"> <li>• Encourage the matching of state administrative and technical know-how and resources with CS expertise so as to produce more efficient interventions.</li> <li>• Support the transfer of expertise through secondment of expertise and trans-sectoral mobility, thereby enabling CSOs to benefit from state resources and vice versa.</li> <li>• Train CS leaders on how to increase their organizations' institutional and technical capacities. Such efforts must differentiate between the different types of CSOs, i.e local grassroots versus national level organizations.</li> <li>• Organize seminars to benefit and strengthen CS expertise and areas of involvement.</li> </ul>   |
| <b>Fostering an Enabling Environment</b>                    | <ul style="list-style-type: none"> <li>• Help activate the process of reforming the current Law of Associations, including the aspect related to CSO funding by private local and international funders, and support the introduction of legal measures to help develop and facilitate CSO work in areas of public interest and the delivery of social services.</li> <li>• Promote greater transparency in public administration.</li> <li>• Ensure good governance by implementing oversight and evaluation mechanisms that secure community participation.</li> </ul>  |
| <b>Networking &amp; Outreach</b>                            | <ul style="list-style-type: none"> <li>• Maintain and update a CSO database.</li> <li>• Taking into account local languages, establish information databases and resources useful to CSOs.</li> <li>• Stress the mutual exchange of experiences and data through such vehicles as publications and seminars and through innovative techniques of information and communication dissemination such as electronic dialogues and the internet.</li> <li>• Foster dialogue through regular meetings between the World Bank at both the national and regional levels on such issues as hygiene, health, unemployment, the environment, and literacy.</li> </ul>  |
| <b>Follow-Up</b>  | <p><i>CAS -WB consultations related:</i></p> <ul style="list-style-type: none"> <li>• Ensure transparency of the entire CAS consultation process including the public disclosure of summary of discussions and materials distributed during the event. Some participants recommended the final report be transmitted by the WB to the GOM with the aim of organizing a tri-partite discussion. If this consultation is not envisaged and if the CAS is not rendered public, some CS members said that they could conclude that governance is not a priority issue between the WB and its clients/partners. In this case, participants would prefer that no mention of CAS CS-WB consultations be made in the CAS.</li> </ul>  |

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|  | <ul style="list-style-type: none"> <li>• <i>Other :</i></li> <li>• Maintain a dialogue through periodic meetings.</li> </ul>                           |
|  | <ul style="list-style-type: none"> <li>• Establish regional focal points to facilitate contact with the population and to monitor projects.</li> </ul> |

## II. Summary of individual workshops on key country issues

| A. Inclusion workshop. |  |  |
|------------------------|--|--|
| Sector                 | Challenge/Issue  | Recommendations/Priorities   |
| <b>Education</b>       | <ul style="list-style-type: none"> <li>• Limited access to education</li> <li>• Poor quality of education</li> <li>• Lack of diversification and choice</li> <li>• Insufficient evaluation system</li> <li>• Illiteracy</li> </ul> | <ul style="list-style-type: none"> <li>• Facilitate access to education to a larger portion of the population by addressing the issue of the physical environment, i.e. transport and school locations.</li> <li>• Revise current structures and educational objectives by putting into practice the principles set forth in the Education and Training Charter.</li> <li>• Encourage and support an open and diverse schooling system, i.e. one that allows for both formal and informal education and provides a choice of diverse pedagogical approaches customized to the needs of the different populations.</li> <li>• Encourage a system which values competition, innovation and performance. To this end, improve and reinforce the quality of the evaluation system by carrying out and institutionalizing both internal and external evaluations at the various stages and kinds of pedagogical and educational – including literacy – projects. These evaluations, which should take into consideration both qualitative and quantitative evaluation indicators, would help assess both the internal efficiency as well as the impact of the different projects on the educational system and the targeted populations. External evaluations should involve the participation of relevant external actors and other interested parties.</li> <li>• Build the capacity of relevant actors and enhance methods of management of literacy projects. Use audio-visual tools, multimedia and new information and communication technologies to optimize results.</li> </ul> |
| <b>Health</b>          | <ul style="list-style-type: none"> <li>• Insufficient access</li> <li>• Lack of partnerships</li> <li>• Dearth of follow-up structures and of formal evaluation mechanisms</li> </ul>  | <ul style="list-style-type: none"> <li>• Promote ambulatory forms of health care such as mobile units, particularly in rural areas.</li> <li>• Reinforce professional partnerships between CSOs and their service-delivery units on the one hand, and health providers and government authorities on the other hand.</li> <li>• Introduce follow-up structures for funded projects and of formal evaluation mechanisms – internal and external – in health establishments to improve management and optimize costs.</li> </ul>   |
|                        | <ul style="list-style-type: none"> <li>• Insufficient investment in human potential and resources to respond to populations' needs</li> </ul>  | <ul style="list-style-type: none"> <li>• Carry out training of paramedical personnel to address their needs and lacunae.</li> <li>• Introduce new procedures and channels to respond to urgent needs, such as those which have already been identified in the fields of psychomotricity and mid-wifery.</li> </ul>   |

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|                                   | <ul style="list-style-type: none"> <li>Lack of sufficient preventive measures</li> <li>Insufficient medical coverage</li> </ul>  | <ul style="list-style-type: none"> <li>Introduce health education in the education system, the family, and socio-economic areas of intervention.</li> <li>Promote State-CS cooperation in carrying out awareness-raising activities on such issues as hygiene, nutrition and the environment. Awareness-raising efforts should also be carried out during pre-natal periods in order to prevent mental and physical handicaps and to significantly reduce the number of deaths linked to childbirth.</li> <li>Strengthen and involve CSOs in family planning initiatives.</li> <li>Use the media to educate the population to health issues, particularly in rural areas.</li> <li>Institute universal medical coverage to expand access of the population to health care.</li> </ul>   |
| <b>Social Protection</b>          | <ul style="list-style-type: none"> <li>Exclusion</li> <li>Entraide Nationale</li> <li>Agence du Developpement Social</li> </ul>  | <ul style="list-style-type: none"> <li>Reach out to and integrate a larger segment of the population into the development process, namely vulnerable populations particularly children at risk and the elderly.</li> <li>The continued existence of this institution is contested. Its is deemed outdated, out of touch and no longer responding to current needs.</li> <li>The composition of the ADS needs to be revised in order to ensure that it meets certain criteria that conform to its social vocation.</li> </ul>  |
| <b>Socio-Economic integration</b> | <ul style="list-style-type: none"> <li>Exclusion</li> <li>Limited access to capital and revenue-generating activities</li> </ul>   | <ul style="list-style-type: none"> <li>Reinforce the training-integration-employment model through mentoring and involving the private sector.</li> <li>Support revenue-generating activities targeting indigent populations or those with limited access to capital (micro-credit) and resources.</li> <li>Help extend bank or other financing to small enterprises whose needs fall between micro-credit and those who qualify for larger commercial loans.</li> </ul>  |
| <b>Gender</b>                     | <ul style="list-style-type: none"> <li>Gender analysis</li> </ul>  | <ul style="list-style-type: none"> <li>As a cross-cutting issue, gender considerations should be integrated in all the above sectors and recommendations.</li> </ul>  |
| <b>B. Governance workshop</b>     |  |   |
| <b>Sector</b>                     | <b>Challenge/Issue</b>   | <b>Recommendations/Priorities</b>   |
| <b>Governance</b>                 | <ul style="list-style-type: none"> <li>Insufficient beneficiary ownership</li> <li>Lack of community participation</li> <li>Insufficient dissemination of information</li> </ul> | <ul style="list-style-type: none"> <li>The success and sustainability of development projects requires beneficiary ownership of relevant projects through participation in the conception, implementation and evaluation of these projects, including oversight.</li> <li>To secure community participation and to involve citizens in assessing project viability, necessary controls and evaluation mechanisms must be implemented.</li> <li>Since communication is key to participatory development, the population must be informed about current projects regularly. This can promote administrative transparency, strengthen citizenship, contribute to the modernization of the state and curb the abuse of power. There is a need to reinforce the information dissemination systems of all public administrations, as well as promote information sharing between international donors and credit and grant recipients.</li> </ul> |
|                                   | <ul style="list-style-type: none"> <li>Partnerships</li> </ul>   | <ul style="list-style-type: none"> <li>While the WB is free to undertake consultations deemed relevant to the CAS, rendering the</li> </ul>   |

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|  | <ul style="list-style-type: none"> <li>• Decentralization</li> <li>• Good governance</li> </ul> | <p>CAS public is subject to government consent. In this setting, the role of CSOs is more one of consultation rather than partnership.</p> <ul style="list-style-type: none"> <li>• The WB's mission to fight poverty does not seem to be in line with its actions. Moreover, CSOs expressed skepticism at the WB's ability to implement its new approach since it is not accepted by its shareholder governments.</li> <li>• Encourage and give technical support to the decentralization process; decentralize the management of public services and strengthen the capacities of local government which cooperate and coordinate efforts with CS.</li> <li>• Institutionalize the inspection and internal evaluations of public services and implement "Cours des Comptes" audits.</li> <li>• Simplify budgetary procedures, improve budget preparation, and follow up on implementation to ensure cost-effectiveness.</li> <li>• Institute a public debate around World Bank financing.</li> <li>• The WB should implement good governance practices in its activities, including in the design and implementation of the CAS.</li> <li>• Sustainable development efforts and participatory governance presuppose a democratic environment, i.e. an independent judiciary, the rule of law, etc.</li> </ul> |
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**C. Rural development workshop.**

| <b>Sector</b>            | <b>Challenge/Issue</b>  | <b>Recommendations/Priorities</b>   |
|--------------------------|---|---|
| <b>Rural Development</b> | <ul style="list-style-type: none"> <li>• Vulnerability of agricultural sectors to climactic unpredictability</li> <li>• Lack of existing infrastructure</li> <li>• Rural-urban gap in basic services and human development</li> <li>• Destruction of the environment contributes to the underdevelopment of rural areas</li> <li>• Insufficient decentralization</li> </ul> | <ul style="list-style-type: none"> <li>• The main priority for any economic and social development strategy in Morocco, where the majority of the population relies on subsistence agriculture which is often subject to climactic unpredictability, should be to increase or at least to stabilize vulnerable populations' incomes.</li> <li>• Support infrastructure development – roads, bridges, electricity – in rural areas.</li> <li>• Development projects need to focus on and enhance human development and ensure access to basic services in rural areas.</li> <li>• Protection measures must be instituted as part of an overall project of human and sustainable rural development.</li> <li>• More autonomy in decision-making, management and fiscal matters needs to be given to local administrations.</li> </ul> |

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|                                       | <ul style="list-style-type: none"> <li>• Corruption, lack of good governance and weak capacity</li> </ul>   | <ul style="list-style-type: none"> <li>• With better resources, capacities, and accountability to constituents, local authorities could guarantee field coordination, and bring together public authorities and development agencies.</li> </ul>   |
|                                       | <ul style="list-style-type: none"> <li>• Agence du Développement Social</li> <li>• Weak capacity of local populations</li> <li>• Lack of WB visibility in rural areas</li> </ul>  | <ul style="list-style-type: none"> <li>• The ADS can be used as a vehicle through which can be incorporated into local development projects and policies.</li> <li>• Local communities are not yet in a position to act as ethical watchdogs and do not dispose of sufficient resources and skills to successfully lead a process of consultation and local development.</li> <li>• In the view of some participants, the Bank seems to be unaware of local conditions and current realities on the ground and the projects it supports take on a top-down rather than a bottom-up approach.</li> </ul>  |
| <b>D. Urban development workshop.</b> |   |  |
| <b>Sector</b>                         | <b>Challenge/Issue</b>  | <b>Recommendations/Priorities</b>  |
| <b>Urban Development</b>              | <ul style="list-style-type: none"> <li>• Lack of beneficiary participation</li> <li>• Lack of private sector (SME and SMI) involvement.</li> <li>• Corruption in public administration and local collectivities impedes efficient CS interventions</li> <li>• Centralized administration</li> </ul> | <ul style="list-style-type: none"> <li>• Promote beneficiary participation and involvement in identifying needs.</li> <li>• Support the setting up of an anti-poverty program in urban areas to highlight the visibility of associations and facilitate their contribution to the field.</li> <li>• Develop partnerships between the private sector, CS, the relevant public administrations and the World Bank on urban development projects.</li> <li>• Anti-corruption efforts targeting the public administration and local actors must be carried out to achieve more efficient CSO interventions and efficient governance.</li> <li>• Help speed up the process of administrative decentralization to better target its actions to meet the needs of vulnerable populations. Commission studies on the current state of affairs to identify reform priority areas in a way that considers the contribution of all relevant actors.</li> <li>• Support training of elected officials to enhance their contribution to urban development.</li> </ul> |

| <b>E. Participants remarks regarding specific World Bank projects.</b> |  |  |
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| <b>Sector</b>  | <i>Project</i>                             | <i>Remarks</i>   |
| <b>Governance</b>  | <i>Modernization of the Justice System</i> | <ul style="list-style-type: none"> <li>• Since reform in this sector must ensure independence and transparency, this project could serve as a good model for partnership and should be carried out in cooperation with universities, professional associations and the public.</li> <li>• Without prejudicing the outcome of the recently initiated project, participants emphasized that the desired reforms cannot be accomplished without administrative decentralization.</li> <li>• CSOs can help assess and provide recommendations on the situation.</li> <li>• The program in itself is proof of the difficulties of existing tri-partite partnerships. For one, the WB's participation in this effort has been delayed and marginal.</li> <li>• CSOs were not implicated in the design and organization of the event the WB organized with the MAG. Little has come out of the follow-up commission due to the limits of its scope, its lack of institutionalization and the ambiguity of MAG's mandate which does not allow it to act as a government representative and to access any government administration.</li> </ul> |
|  | <i>Public Assets Management</i>            |  |
|  | <i>Anti-corruption programs</i>            |  |
| <b>Rural Development</b>   | <i>Tissa Project</i>                       | <ul style="list-style-type: none"> <li>• Participants remarked on the limited success of WB integrated development projects. The example given by participants was the Tissa project, where purportedly very little of what was implemented remains. Apart from the drinking water component – which was apparently successful – the cultivation of trees (arboriculture) failed and the development of rural roads was slow. Moreover, several dozen villages are no longer electrified.</li> <li>• In the Rif areas, many classrooms located in BAJ schools (BAJ 1 project) are now deserted and a number of health establishments remain without equipment. In the education sector, though not in the context of the BAJ, a number of rural schools – some of which are not electrified – have non-functioning cafeterias.</li> </ul>  |
|  | <i>BAJ and Education Projects</i>          |  |

<sup>i</sup> With the exception of the “Summary Recommendations for World Bank-Civil Society Engagement” section, each of the sections in the report are based on the respective workshop report and the inputs and ideas that emanated from participants attending that particular workshop. The “World Bank-Civil Society Engagement” section, on the other hand, regroups the recommendations made by participants in each of the four sessions on this particular issue and hence does not necessarily reflect a consensus among all participants.