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Morocco: (1) Country Assistance Strategy; (2) Information Infrastructure Sector Development Project; and (3) Irrigation Based Community Development Program (APL)

We welcome the discussion on the Morocco CAS, the Information Infrastructure Sector Development Program Loan and the Irrigation Based Community Development Adaptable Program Loan. The OED’s Country Assistance Evaluation and the discussions of the CODE Sub Committee have been particularly helpful in better appreciating the CAS. Management also needs to be congratulated for taking account these deliberations, which is reflected in better focussing of the Bank’s strategy for Morocco.

2. **Consensual Decision-Making:**

   The evolution of participatory decision making in Morocco is obviously impacting on the political economy of the country. Economic stagnation and increased poverty and unemployment form the backdrop under which new governance structures are coming up. The country faces tremendous challenges, both economic and social, and understandably decision making ‘slows’ down. Morocco’s development partners should appreciate these conditions. Therefore the back loading of reforms, whether those relating to the public sector, education, agricultural protection or tariffs, should be expected. What is essential is that consensus emerges within the country so that there is little risk of backsliding. Towards this end, we see several positive developments. The formation of a popularly elected government, with the coming together of seven parties and the evolving of a national consensus on education, drafting of various laws relating to liberalizing the economy, etc. The civil society has acquired a degree of vibrancy and there is greater dialogue among various elements of society on the future vision of the country. This would keep the consensus building. Management seems to have understood this generally.

3. **Macro-economic Situation:**

   The macroeconomic situation makes well wishers of Morocco understandably nervous. The country has obviously to step up public investment in the social sector, particularly for better and equitous access to education, health and to mitigate problems faced by the
vulnerable. At the same time, total public expenditure would have to kept under check, by scaling back other activities and by levying adequate user charges for utilities till they could be privatized. In this context we are left a little confused about what should be best way to deal with windfall gains of privatization? It is suggested (page 7) that Morocco should “use them to 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”. This would imply a step in public expenditures, as it is difficult to visualize too many one-off investments in the social sectors, or even structurally, that would have sustained effects. Paragraph 12 and page 8 rightly cautions that “allocating them ( i.e. windfall gains ) to current expenditure would endanger the sustainability of the already fragile overall fiscal position”. Management may like to clarify as to what they think is a viable option available to the country to use these revenues productively without increasing medium-to-long term risks to the macro regime. In this connection we would also like to have more details of the Hassan II fund, and whether outside budget/sinking funds could be used to promote sustainable social development without adding to recurrent expenditure of the treasury?

Greater accountability over the use of public funds, clearer and simpler rules and greater decentralization are all priorities for the prevailing situation. We are glad to note that the Bank would be devoting considerable resources to study the extant systems and work with the government to carry out the necessary changes. Specifically, the Public Expenditure Review (PER) and related activities like Sources of Growth, Municipal Study, FSAP, Fiduciary Assessment Update etc would help the Government in moving on the right lines. We hope that these studies and analyses would have a significant spin-off by way of capacity building.

4. **Environmentally Sustainable Rural Development:**

Agriculture, rural development and fragility of the natural environment are intimately linked if growth rates are to be stepped up and poverty reduced. The CAS has done admirable analyses of the situation and we are generally in agreement with the strategy proposed. 70% of the poor live in rural areas. Availability of water is a real issue, particularly as about 85% of the water is used in agriculture. Low user charges for irrigation and increased tariff protection have obviously exacerbated the situation in a country whose water availability is only 700 m3/person/year, a figure likely to be halved by 2020. Over grazing and degraded lands limit the potential that agriculture and related activities can do to reduce poverty. The CAS has a pipeline of projects including LILs and analytic work to help address these issues, which are on the right lines. However, it is our view that it is inappropriate for management to rule out stand-alone environment projects (page 31). Restoration of local forests, rivers clean up, development of wastelands – all employment generating - could be potential projects that would seem to fit the needs of the Moroccan society. We would like Management's reactions to this.

5. **Comprehensive Development Framework:**

Morocco is one of the pilot CDF countries and we were looking forward to a detailed
presentation of what is happening in this country. OED's evaluation had shown major shortcomings, implicitly arising from two weaknesses. One, it was supply-driven, i.e. it was the Bank which was pushing the whole process. Two, the Bank saw elements of CDF in the work that the Government was doing or wanted the Bank to do. The series of activities listed in the CAS (paragraph 44 and Box 3 on pages 22-23) confirm this impression. The silver lining as it were, lies in the Government taking a more active role, rather controlling the development process including aid co-ordination. We see donors being asked to commit resources to specific sectors/sub sectors of the national development plans, and all donor assistance flowing to the national budget, similar to Brazil. The latter approach has the advantage of improving the budget process, and increasing transparency as Government's specific commitment of resources to the social sector becomes clear. The issue of fungibility also gets addressed.

6. **CAS lending scenarios:**

We are generally supportive of the lending and non-lending scenarios worked out in the CAS. On the whole it is a cautious one, and inclined towards achieving the base case. The experience of the 1997 CAS, where all projections were turned topsy-turvy and a single-tranche operation, not planned earlier, amounted to one third of all lending, has had a sobering effect. At the same time, we support the flexibility built into the lending scenario. We agree that Morocco may need two sector support loans and it is best not to name the sectors, but rather to judge the efficacy of the sectoral reform process on the basis of criteria mentioned on page 25 and then to proceed with the support loan. On the whole, Bank's support seems selective and strategic, though it could be argued that this is at the cost of forgoing possible opportunity to protect institutional reputation. Management may wish to substantiate the rationale behind the projected lending commitments.

7. **Present Loans:**

Morocco has made a good beginning with the opening up of the telecom sector, and we support the Bank's active support to the country, which should have positive development impact. Besides the value addition that would accrue to the economy by way of increased creation of jobs, reduction in transaction costs and modernization of the government, we also see it as pointing the way to encouraging fundamental reforms in other sectors of the economy. Countries need help to tide over the transitional period and this single tranche operation in conjunction with the efforts of the AfDB, would strengthen the reform impulses in the government and in the economy. Similarly, we support the Irrigation Based APL. At the same time, we caution against any thinking that such operations will fundamentally change the inefficient water usage practices prevailing in the country. These best practices, while empowering communities to utilize their natural resources better, need to be up-scaled and more importantly, matched with significant restructuring of the sector to promote efficient and equitious use.

8. **Conclusion:**

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We support the Bank's lending and non-lending strategy in the CAS, and the two loan proposals before us today. We wish the people of Morocco all the best as they seek to reduce poverty and grow in a sustained manner.