Statement by Ahmed Sadoudi  
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**Morocco: Country Assistance Strategy**

The Moroccan Authorities would like to express their appreciation to Management and Staff for the development of a well-focused and informative Country Assistance Strategy (CAS). They commend particularly, the Staff in the Field Office in Rabat, for their invaluable assistance.

The document describes with great clarity the achievements made by Morocco under the previous CAS, with respect to political, economic and social developments.

**Political and social transformation**: Morocco is undergoing a fundamental opening of the political process, accompanied by a major transformation of the civil society. The latter is emerging as an important actor, inviting new partners in development to joining in. The Government of Morocco believes that political and social transformation, as well as institution building, participation and partnership are necessary to consolidate the rule of law, and important to enhance the level and the quality of development.

**Economic developments**: Morocco is aggressively pursuing the implementation of the structural reform program, which is at the core of the Government agenda. The Government is encouraging the private sector with special emphasis on SMEs; accelerating privatization; improving business environment; promoting exports; realigning external tariffs; and streamlining procedures for foreign and domestic investment. Other important reforms include facilitating access to land; tax incentives; new laws on competition; labor market policies; the judicial system and the commercial courts; and the financial system.

The Information Infrastructure Sector development Project presented to the Board today is a good example of the Government resolve to consolidate liberalization and transparency of the economy.

Morocco has established a solid track record in economic stabilization. It continues to follow prudent fiscal and monetary policies and to enjoy financial stability. Inflation has been maintained below 3 percent and the current account deficit kept at around 1 percent of GDP. With regard to improving competitiveness, the Government believes that the recent changes on
the currency peg basket and the concomitant 5 percent depreciation, would result in adjusting the
ternational currency, vis-à-vis other foreign currencies. Appropriate monetary and fiscal policies
would help decrease inflation and further adjust the exchange rate. The Government would also
undertake a study on the feasibility of introducing a flexible exchange rate policy.

However, while the Government shares the frustration of not reaching its economic growth and
poverty reduction objectives, blamed to a large extent, on frequent droughts, it believes that the
important role attributed to the exchange rate policy, accelerated liberalization and
discontinuance of foodstuffs subsidy - in boosting growth, generating employment and reducing
poverty - is overstated.

Public sector adjustment: To address excessive centralization and poor accountability in the
public sector, the Government has put the issues of transparency and corruption on the top of its
agenda. The key governance issues include the customs administration reform, a new law on
public procurement, and transparent procedures for privatization. The Government plans to
improve public sector efficiency by implementing measures aimed at extending administrative
decentralization, enhancing autonomy for local governments, simplifying rules and regulations,
and increasing accountability. Following these actions, the public sector is expected to become
more efficient, as local government and local representatives are getting more involved in the
decision-making process.

Over the next fiscal year, the Government intends to contain the fiscal deficit, after privatization,
at 3 percent of GDP. Further progress in reducing the level of expenditures is expected through
restraint on the wage bill, very limited new recruitments and tight control on the operating
expenditures. Additional progress on the foodstuffs subsidy system will also be sought. With
regard to fiscal discipline the Moroccan Authorities believe that there were no recent slippages in
the fiscal policy, as the fiscal situation remained manageable and the debt-creating deficit
sustainable. They also believe that the reduction of fiscal deficit and total public debt neither
resulted in crowding out the financial markets, nor exerted upward pressure on interest rates or
cuts in public investments. In fact, interest rates remained low, financial savings increased and
the projected public investment program was fully carried out.

Social developments: The objectives of equity and inclusion have gained importance in the
Government program. Clear progress in access to basic social services has been made over the
last few years. Public policies and expenditures are increasingly focused on poverty reduction.
The level of public expenditures allocated to social services represented 47 percent of the budget.
As regards education, the National five-year Development Plan 2000-2004 targeted the
generalization of education at entry level by 2002-2003. The share of the budget allocated to the
education sector represented 22 percent of the budget. The reform of education, currently under
way, will be intensified. Public spending for health has also increased in recent years, and the
Government is pondering extending medical insurance, including to the poor, to be financed
through budget resources. With regard to rural development, the Authorities have successfully
mobilized over the past two years, important financial resources to accelerate rural infrastructure
programs with a view to reaching 70 percent of the rural population by 2004. To address the
negative impact of agricultural vulnerability and environmental threats, the Government has
launched a national drought protection program and introduced a set of integrated and participatory rural development actions targeted to the poorest rural areas. The Irrigation Based Community Development Program discussed today, adopting also a decentralized participatory and integrated approach would improve the standards of living in rural areas.

These important results notwithstanding, the Government recognizes that it has started from a low base and that the unfinished agenda remains large. It also recognizes that many of the reforms are of "second generation" nature and require devoting significant efforts to institution and consensus building. It is however, confident that its efforts will build gradually over time.

Morocco's challenges and the CAS

Morocco’s main development objectives over the next few years include achieving higher growth to reduce poverty; improving the access of the poor to social services; enhancing public sector efficiency; and reducing vulnerability, in particular to drought. To help achieve these objectives, the CAS will be focusing on the poverty reduction, structural reforms and partnership, especially with the EU and AfDB.

The Government of Morocco endorses the underlying objectives of the present CAS. There can be no question that the present CAS will be enormously helpful to the Government’s efforts. The Government is in basic agreement with the strategic principles of selectivity, participation and partnership, institutional development and knowledge transfer. The proposed program tracks closely with the National Development Plan, which is based on the critical goal of restoring economic growth while emphasizing poverty reduction and greater equity. The Moroccan Authorities believe that the comprehensive institutional, economic and social reform program they are implementing, based on a holistic approach, covers the CAS objectives for the base-case scenario as well as for the high-case scenario.

They therefore, argue that the base-case scenario for lending proposed at about $250 million per year - ($150 million core program and $100 million sector reform program) - is inadequate to support meaningfully the continuation of the current reform momentum over the medium term. They believe that the high-case scenario at $450 million a year, is more focused and more relevant to the needs of the country. They state that they have demonstrated strong political commitment to reform and adhered to reform measures in the face of difficult trade-offs and they have consistently shown that they can live-up to the expectations of ambitious programs. They confirm their determination to continue meeting the requirements of the high-case scenario.

In parallel with lending, the Moroccan Authorities are seeking from the Bank-Group additional technical advice and intense analytical work. They believe that the strong link between the CAS and the CDF could be more focused on key sector performance assessment and reform design rather than on external financing coordination, which could easily be taken care of at the country level.

In conclusion, this Chair believes that the new environment, in Morocco as well as in the whole MENA region, characterized by sweeping institutional, economic and social changes, entails that
the Bank also adopts a new approach to the issues of development in that region and, to this end, provides the required financial and technical resources.