

Report No. 22212

Morocco Country Assistance Evaluation

May 14, 2001

Operations Evaluation Department



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Abbreviations

AAA	Analytical and Advisory Activities
AFSED	Arab Fund for Social and Economic Development
APPI	Aggregate Project Performance Index
BAJ	<i>Barnamaj al Aoulaouiyat al Ijtimaiya</i> (Social Priorities Program)
CAE	Country Assistance Evaluation
CAR	Country Assistance Review
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Agreement
GSM	Global System for Mobile Communications
IDF	Institutional Development Fund
IPP	Independent Power Producer
MDF	Mediterranean Development Forum
MENA	Middle East and North Africa Region
NGO	Non Governmental Organization
OED	Operations Evaluation Department
QAG	Quality Assurance Group
PE	Public Enterprise
PHRD	Policy and Human Resources Development Fund
PN	Promotion Nationale (labor intensive public works program)
PRSL	Policy Reform Support Loan
PSD	Private Sector Development
SPI	Social Priorities Program I
WBI	World Bank Institute

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Morocco Country Assistance Evaluation

This Country Assistance Evaluation covers the period since the last Country Assistance Review (CAR) and the Country Assistance Strategy (CAS) were issued in January 1997. Major political changes have occurred during this time, including an opening up of society, accompanied by public discussion of a broad range of economic and social issues. However, economic and social indicators show little improvement. A draft of this evaluation was discussed by CODE on April 13, 2001 and a report of that discussion is attached as Attachment 7.

The 1997 CAS, which was fully consistent with the recommendations of the CAR, called for progress towards the resumption of growth and poverty alleviation through reducing the public deficit and reallocating expenditures; broad public sector reform and continued private sector development; implementation of social and rural development programs and progress in reducing the gender gap; and improvement in environmental management. The base case for lending was US\$1 billion over three years, of which US\$750 would be for investment projects, and one-third of that for social and rural development. Adjustment lending was to be limited to one US\$50-75 million loan (an additional US\$180 million was designated for a guarantee).

The actual program differed substantially from that proposed in the CAS, with US\$451 million in adjustment lending and less than US\$300 million in investment lending. The Policy Reform Support Loan, which accounted for one-third of the three year lending program, was a one tranche operation with numerous actions; although some progress has been achieved, change has been slow in a number of crucial areas, including public sector reform, privatization and price liberalization. The private sector response has been disappointing, with the notable exception of telecommunications, where, with support through an adjustment loan, a license for mobile communications was recently awarded for US\$1.1 billion.

Projects at risk have been reduced from 48 to 15 percent of the portfolio in the last three years, and QAG ratings of quality at entry and supervision have been generally satisfactory. The Social Priorities Program has generated some improvements in education, including increases in girls' enrollment, and in public health programs, but additional reforms are needed to increase responsiveness to local needs and reorient expenditures toward basic education and primary health care. Natural resources are not managed sustainably: resources are underpriced, water availability is declining, and pollution costs are not recovered. Subsidized water for large scale irrigation schemes, along with trade protection and consumer subsidies, have encouraged water intensive crops in which Morocco has no comparative advantage. Decentralization of water

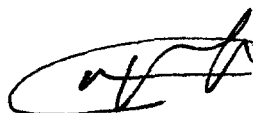
resources management and the establishment of users' associations for small scale irrigation and water supply have, however, improved water management and quality outside of large scale irrigation.

Financial sector lending in the last three years was through a one tranche Contractual Savings Development loan, which initiated needed reforms; without Bank follow up, action on medium term issues has lagged. Private participation has been strong in some infrastructure sectors. Lending for the transport sector has rightly stressed institutional issues, and has resulted in significant improvements in railway management and road maintenance. Urban water supply and sewerage projects suffer from low cost recovery and environmental problems, but some privatization has occurred, and a rural water supply and sanitation project is progressing well.

The Bank's analytical and advisory activities have been of excellent quality; many pieces have been publicly disseminated and used as the basis for workshops and seminars. The Bank's catalytic support of the country's highly participatory preparation of a Gender Plan of Action has been praised as best practice, and regional conferences organized by the Bank have helped get difficult policy issues on the agenda. Work on the Comprehensive Development Framework has so far taken place almost entirely within the Bank, with little government or donor participation.

The program proposed in the 1997 CAS was highly relevant to Morocco's needs, but the program as implemented was much less so, and the objectives set out by the CAS have, on balance, not been met. The program is relatively expensive, for both lending and non-lending activities. Based on OED's evaluation, the outcome of the program is rated marginally unsatisfactory, with modest institutional development. Sustainability of the limited results achieved is likely.

The recommendations of the 1997 CAR are still valid. The Bank should continue to focus on public sector management issues, including the causes of the public deficit; support budget reallocations to basic health and education, to rural areas, and to benefit women and girls; support rainfed farming and small and medium scale irrigation, as well as reductions in agricultural subsidies; help remove obstacles to private sector development; and link future lending to increased capacity for growth and poverty alleviation, with greater selectivity in adjustment lending and measurable performance indicators in all projects. Given that the existing models have not achieved great success, new models should be supported on a trial basis, through ongoing as well as new lending, including support for nonformal schools and greater outreach by health clinics. The base case lending program could be smaller than in the past, with an emphasis on social and rural sectors, and should be based on progress in the key areas. The Bank's contribution in terms of analytical work, dissemination and dialogue on critical issues should continue regardless of the level of the lending program. In particular, the Bank should engage the government on appropriate uses of the windfall proceeds from privatization and continue to support the increasingly open discussions about corruption.

A handwritten signature in black ink, consisting of a stylized, cursive script that appears to be the initials 'M. H.' followed by a flourish.

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Preface

This Country Assistance Evaluation (CAE) examines Bank assistance to Morocco since the last Country Assistance Strategy was issued in January 1997. The CAE is a countrywide evaluation that concentrates on the relevance, efficacy, efficiency, sustainability and institutional development impact of the Bank's program of assistance. It is similar to project evaluations which review the relevance of the project objectives, the degree to which they were achieved (efficacy) and the cost effectiveness of the resources used (efficiency), but it takes the country as the unit of account.

The CAE is issues-oriented, is geared toward current decision-making, and is selective as to time span and issues covered; the focus is on issues which are important today. This review covers all instruments of the Bank's assistance strategy, including lending and analytical and advisory activities. An example of good practice in Bank assistance is highlighted in Box 4.1.

The CAE is based on Bank reports, including the Country Assistance Strategy paper of 1997, economic and sector reports (both formal and informal), Project/Implementation Completion Reports, project and general country files, and interviews with Bank, IMF and IFC staff, in Washington and in the Resident Mission; Annex B lists the staff interviewed. A draft of the report was discussed with government officials, representatives of NGOs and other donors, and members of civil society during a mission to Morocco in October 2000. Annex C contains a list of the government officials and donors met. Their cooperation and assistance is gratefully acknowledged.

Written comments from the government, which were based on an earlier draft of the report, are presented in Attachments 1 (in French) and 2 (in English). They have received full consideration in this final version of the CAE. A number of paragraphs have been amended, and some footnotes added, to reflect the comments, and Attachment 3 presents OED's response. Written comments from Management on the final version are presented in Attachment 4, and OED's response in Attachment 5. In both cases, some differences in judgment remain, which is not unusual in an evaluation of this type. A draft of this evaluation was discussed by CODE on April 13, 2001 and a report of that discussion is attached as Attachment 7.

1. Background

1.1 OED published a Country Assistance Review (CAR) in January 1997; the Country Assistance Strategy (CAS) followed immediately. This Country Assistance Evaluation (CAE) focuses on the subsequent three years, a period marked by major political change. Following the approval of a new constitution by popular vote in 1996 and elections to a bicameral parliament in September 1997, a new government (formerly the opposition) came to power in early 1998. These events were accompanied by a significant opening up of society, with public debate of issues never before freely discussed. Growing poverty, and the contrast between the prosperous urban population and the other half that is rural, poor and largely uneducated, have become topics of widespread debate, with civil society beginning to hold government accountable for results. NGOs are a growing force, particularly in the areas of education, rural development and poverty alleviation. A steering committee with government, private, donor and NGO participants is creating an anti-corruption agenda.¹

1.2 The growth rate of Morocco's GDP fell from an annual average of 4.1 percent during 1986-91 to 1.9 percent during 1991-99 (Annex Table 3).² Agricultural growth fluctuates due to periodic droughts, and stagnated in the 1990s, but growth in non-agricultural GDP also fell, from an annual average of 4.2 percent to 2.9 percent. Most of the gains of the late 1980s were lost in the 1990s, with rising urban unemployment, to 22 percent of the urban labor force, and a growing incidence of poverty, from 13 to 19 percent of the population (Annex Table 2). Twenty-seven percent of rural households are poor, compared to 12 percent in urban areas. Export growth has fallen below 5 percent per year, compared to 14 percent during the second half of the 1980s, due in large part to a steep decline in manufactured exports.³ Competitiveness has deteriorated, as reflected in the appreciation of the real effective exchange rate by around 19 percent between 1990 and 1999.

1.3 Social indicators reveal major gaps in the education and health systems, as well as in basic infrastructure (Annex Table 2). Despite relatively high expenditures on education and recent improvements in rural areas, half the population is illiterate, and primary school gross enrollment at 84 percent is well below the MENA average. Access to safe water has improved considerably in rural areas, but remains at 69 percent, compared to over 80 percent for MENA. A large gender gap is also apparent: the rate of urban unemployment is 50 percent higher for women than for men, and when employed, they earn up to 50 percent less; their rate of illiteracy is 65 percent, compared to

1. Morocco falls roughly in the middle of 99 countries on Transparency International's Corruption Perceptions Index.

2. The government points out that these comparisons can change significantly depending upon the periods chosen, due in part on the impact of droughts, which are becoming more frequent (Attachment 1). However, social indicators show a deterioration in conditions during the 1990s. Taking a longer timeframe, real GDP growth averaged around 4 percent per year during the 1970s and 1980s, while it fell to 2.4 percent per year in the 1990s.

3. The government notes that measured in Euros, the rate of growth of exports remained stable. In volume terms, growth rates in the second half of the 1990s have been below those of earlier periods.

39 percent for men; and their rate of primary school gross enrollment is 71 percent, compared to 95 percent for males.

1.4 The 1997 CAR and the CAS were prepared in parallel, with extensive consultation. The CAS objectives were in line with the CAR recommendations, which identified the most urgent areas for action as: the structural elements of the budget deficit; rationalization of public enterprises and acceleration of privatization; improvements in public sector management and the enabling environment for private sector growth; a more aggressive program of social and rural development; and preservation of scarce water resources. The CAR noted that despite a strong temptation to maintain the net flow of Bank resources, it was becoming increasingly important to ensure that projects contribute measurably to increasing the productive capacity of the economy. Structural adjustment lending should be more selective, with concrete indicators to show how it would improve the growth capacity of the economy and reduce poverty.

2. Country Assistance Strategy: Objectives and Design

2.1 The 1997 CAS stated that progress over the following three years should be judged against policy advances, rather than immediate economic outcomes, given the fact that the period would be one of transition toward renewed growth. It suggested that success of the strategy should be measured against:

- progress in reducing the budget deficit, reallocating expenditures and developing a business environment conducive to economic and export growth;
- success in initiating and implementing a broad public sector reform and maintaining the momentum of private sector development;
- speed of implementation of social programs and rural development and progress in reducing the gender gap; and
- achievements in environmental management, especially in establishing river basin authorities and in water pricing;

2.2 The CAS proposed a base case lending program of US\$1 billion over three years, consisting of US\$750 million of investment lending, at least one-third of which would be earmarked for social and rural development; US\$50-75 million for a quick-disbursing policy-based operation; and a US\$180 million guarantee for a power generation project, already well underway. Triggers for the base case were continued improvement in macroeconomic indicators and competitiveness; consistent progress on implementing priority social projects; and strong progress on public enterprise (PE) reform, including a significant opening of infrastructure to private investment.

2.3 Within the social sectors, educational priorities were to improve the efficiency of primary education, curb the growth of higher education so as to free funds for basic education, increase access to and improve the quality of basic education, and expand and strengthen vocational training. In response to the very low indicators for female literacy and school attendance, the CAS added a focus on access by rural girls to basic education. Health sector priorities included a reallocation of resources, targeting expenditures toward

rural areas and priority programs, such as maternal care and immunization, as well as controlling hospital costs and introducing new health financing schemes. The CAS proposed incorporation of gender issues in all social and rural projects, initiation of a strategy note on gender issues in collaboration with women's groups and government agencies, and inclusion of gender analysis in all major economic and sector work.

3. Program Implementation and Outcome

3.1 The ratings of completed projects in Morocco are not a good measure of the country program performance since the 1997 CAS, as most of these projects were well underway at that time. What the record of these projects does show is the great need for improvement coming into the CAS period. Of the 16 projects that have closed and been rated since FY97, 9 had outcomes rated as satisfactory by OED (Table 3.1).⁴ The record for health and education was particularly poor: all 3 projects were rated unsatisfactory.

Table 3.1: OED Evaluation Findings, FY97-00

<i>Sector</i>	<i>Number of Projects</i>	<i>Satisfactory Outcome</i>	<i>Likely Sustainability</i>	<i>Substantial ID Impact</i>
Health/education	3	0	0	0
Infrastructure	5	4	5	3
Agriculture	5	3	4	1
Finance	3	2	3	2
<i>Total</i>	<i>16</i>	<i>9</i>	<i>12</i>	<i>6</i>

Source. OED

3.2 QAG rated the quality of entry of 5 projects approved during FY98 and 99. All were rated satisfactory, one highly so. Of 20 projects under implementation, 3 are considered to be at risk (15 percent by commitment amount, see Annex Table 7). This number represents a significant turnaround for the portfolio, which had 48 percent of commitments at risk three years earlier. Two ongoing projects in education and health were given excellence in supervision ratings by QAG following major efforts by the Region to improve their implementation. Rapid supervision assessments of 5 other projects rated 4 as satisfactory and 1 marginal, although the assessments did question the realism of the project performance ratings for the 3 projects classified as non risky.

3.3 The ongoing program is substantially different from that proposed in the CAS. Most striking is the distribution between investment and adjustment lending: whereas the CAS base case called for one relatively small adjustment operation, the actual FY97-99 program included three, totaling US\$451 million, or 60 percent of the total. Some projects included in the CAS were dropped or delayed due to low government interest or

4. Despite the relatively poor outcome ratings, the Aggregate Project Performance Index is 6.5, the same as for MENA and only slightly below the Bank as a whole; this is due to relatively high sustainability ratings. The APPI is a composite measure of the ratings on outcome, institutional development impact and sustainability. The score can range from 2 to 10, with higher scores better than lower. The number given here is the average for projects evaluated during FY97-00 (Annex Table 4).

interventions by other donors, and others were reduced in scope. (The average commitment size of investment loans during FY97-99 was US\$33 million, compared to over US\$100 million during FY90-96.) The difference was made up by much larger than planned adjustment lending in the third year of the CAS period, while keeping total lending within the base case.⁵ The President's Report for the Policy Reform Support Loan (PRSL) argued that the base case triggers had been met, and the IMF reluctantly supported the loan; subsequently the macro situation and competitiveness have deteriorated (para. 3.29), and it could be argued that progress on PE reform has not been strong (para. 3.5). The high case lending program included a higher level of adjustment lending, but many of the triggers for the high case—including a declining public wage bill and budget deficit, rising export growth, declining share of PEs in GDP, and doubling of rural girls' enrollment—have not been reached.

Adjustment Lending

3.4 The shift to higher adjustment lending—particularly the one tranche PRSL (FY99), which accounted for one-third of the FY97-99 lending program—was justified by the Region as a way of showing the Bank's strong support for the country's movement toward a more open political system and commitment to reform; the need for a commensurate commitment from the Bank; and the fact that with Bank lending fully integrated into budget strategy, the government and the Bank need simply reach agreement on performance indicators and then design an appropriate mix of lending instruments. The PRSL was seen as the first in a series of one tranche loans. However, while the PRSL may have established a more cohesive program than would otherwise have been the case, it was too unfocused to have a major impact on any of the areas identified in the CAR and CAS as in critical need of reform, and the cohesion has not lasted.⁶ Many of the actions taken prior to Board presentation were first steps, sometimes in the form of studies or plans, and many others have not shown concrete results.⁷ Expanded adjustment lending was questioned by the Board, which noted the absence of an IMF program, and the idea of a second PRSL was shelved. Subsequently, significant inflows from a telecommunications license (para. 3.7) have reduced the need for Bank funds.

3.5 Progress has been made in private participation in infrastructure, financing of rural infrastructure, customs administration, and raising the priority of the social agenda (see below).⁸ In other areas, progress has been slower. Public sector reform—of the civil

5. During the second half of the 1980s and the early 1990s, more than half of lending was for adjustment. The 1993 Country Strategy Paper saw no further need for adjustment lending, and the balance shifted to investment projects. Implementation of the resulting program proved beyond the capacity of the government, and about US\$350 million was cancelled during a major portfolio restructuring in 1995/96. Net transfers from the Bank to Morocco have been negative during the last decade (Annex Table 10).

6. The Letter of Development Policy was 43 pages long, and the matrix of policy objectives and actions listed 53 actions in 14 areas taken prior to Board approval.

7. The government points out that reforms were initiated which will have an important impact in the medium term.

8. The Region also stresses the importance of having encouraged a shift in the way of thinking in Morocco about the serious social gaps.

service, management of public enterprises (PEs), and budgetary processes—remains the area of greatest concern for the Bank. Morocco's civil service wage bill is among the highest in the world as a share of GDP—12.5 percent in the 2001 budget—and the number of civil servants is rising. The volume of privatizations has slowed, and transfers to PEs rose to 22 percent of public investment expenditures in the 1999/00 budget. In the area of trade liberalization, the EU Association Agreement allows 12 years to phase in lower tariffs, with an increase in effective protection over the first three years.⁹ Despite membership in GATT and agreements with a number of African and Arab countries, protection remains high. Tariff protection on agricultural products is particularly high, averaging 62 percent. The competition law providing for price liberalization was passed by Parliament, but with a five-year exemption for thirty commodities. Generalized food subsidies perpetuate market distortions by providing transfers to inefficient producers rather than relief to the poor. The Letter of Development Policy promised gradual reform of the subsidy system; as of November 2000, only edible oil subsidies are slated to be phased out. The long-sought law liberalizing road freight transport was diluted by a two year moratorium. No agreement has been reached on a more flexible labor code, a critical element of the environment for PSD, and few concrete results have emerged in the social sectors. Altogether, the achievements of the PRSL do not justify its prominence in the lending program.

3.6 The Contractual Savings Development loan was also a one tranche operation, designed to help mobilize savings and channel them into private investment. The conditions for Board submission were met, including some substantive actions, but on the whole the achievements were superficial and sometimes short-lived, and the outcome of the loan has been rated marginally satisfactory.¹⁰ Action on medium term issues has lagged, perhaps due to the absence of a concrete commitment for future operations (the expected second loan is now scheduled for FY02).

3.7 A 1996 law opened up ownership in the telecommunications sector to the private sector and established a regulatory commission. The Telecommunications, Post and Information Technology Adjustment Loan supported further steps. Although the state-owned company has not been privatized, a license for mobile communications was awarded to a second operator. The winning bid of US\$1.1 billion was far higher than expected, increasing Morocco's fiscal revenue for 1999 by about 13 percent. Even before the new license was issued, its imminence led to improved service and lower prices. Although more remains to be done, including privatization of the public operator, lending in this sector has clearly attained its goals.

9. During the discussion of the CAS, the Board commented that it relied too heavily on the EU Association Agreement to liberalize trade. The staff said they would continue to push for universal trade liberalization, but progress so far has been limited to a study on the fiscal impact of generalizing the reforms.

10. For example, the requirement of adopting an Insurance Code was technically met when it was approved by the Council of Government, but it was later rejected by the Council of Ministers. Other conditions included creation of committees and preparation of terms of reference. The government notes that this loan led to a number of reforms which will have an impact in the medium term.

Investment Lending

3.8 Investment lending amounted to just under US\$300 million during FY97-99, with about half going to social and rural sectors. While this share exceeded the CAS target of one-third, it was relative to a much smaller total.¹¹

Social Sectors

3.9 The Social Priorities Program (BAJ, FY96), already underway at the time of the CAS, was expected to help increase the access of the poor to basic social services, enhance social protection and create opportunities for the poor to participate in economically productive activities. It comprises three complementary projects designed to improve the quality and quantity of basic health and education, enhance rural infrastructure using labor intensive techniques, and improve the government's capacity to monitor and analyze the socioeconomic status of the population in the 14 poorest provinces, containing over one-quarter of the population.

3.10 The Bank has long been concerned about the poor quality and coverage of *education*. Morocco's indicators compare unfavorably with comparator countries (Annex Table 2), despite a relatively high level of resources devoted to the sector.¹² The main advance in the sector in recent years was the establishment of a Royal Commission, whose report contains many of the main ingredients for reform. However, the government has not yet established clear priorities or an agenda for implementation. Indicators for rural areas lag well behind those for urban, and they are far lower for females than for males. The current system, with highly centralized management, rigidly allocated postings, and inadequate teacher training, does not adequately address the problems. The Rural Primary Education project (FY89) and Rural Basic Education Development project (FY91), both of which closed in recent years, had unsatisfactory outcomes and negligible institutional impact. The BAJ has decentralized school construction and contributed to increases in girls' enrollment,¹³ but suffers from a number of factors that discourage school attendance, particularly by girls: location outside of villages, lack of facilities (toilets, water, canteens), teachers who are not from the same area, or schedules that conflict with girls' household responsibilities. Nonformal community schools are more responsive to local needs and provide an excellent model for investment in the sector, whether through the BAJ or through new projects. The fragmentation of the sector among several ministries makes it particularly difficult to discuss efficiency improvements or

11. The Region and the government point out that Bank lending for social and rural sectors was highly leveraged, attracting substantial cofinancing.

12. Morocco spends 5.5 percent of its GDP on education, compared to 4.5-5 percent in countries of comparable per capita income, but 30 percent of the funds for basic education go for administrative overheads. Expenditures per pupil are three times higher in secondary school than in primary; other countries spend roughly the same, or in a few cases up to twice as much.

13. In one year, for example, government data show that the proportion of girls enrolled in the first year of basic education in the BAJ provinces rose from 41.8 to 44.8 percent, compared to a 0.2 percent increase in non-BAJ provinces (Direction de la Statistique, "Programme de Priorités Sociales: Indicateurs de Suivi," June 1999, p. 12). A recent study of the impact of the BAJ program also found that the majority of BAJ provinces showed significant improvement in girls' enrollment (Jacoby, 2000)

reallocation of spending within the sector. Nonetheless, this is a promising area for continued Bank focus: the government is open to reform and the potential impact is great.

3.11 Public spending on *health* is low both in per capita terms and as a share of the government budget, and disproportionately benefits higher income groups. One-third of ministry recurrent spending is for teaching hospitals, with occupancy rates below 60 percent. Progress has been slow in areas that could have an impact on the poor, such as redeployment of personnel to the poorest provinces, recruitment of more female nurses, greater outreach by clinics to the surrounding villages, access to essential drugs, or development of multi-sectoral approaches to improving health. The Health Sector Investment project (FY90), which closed in FY99, was rated marginally unsatisfactory because of shortcomings in physical objectives, inadequate counterpart funding, and a failure to increase public allocations to the sector; however, the project did help reorient policy toward primary health care and the BAJ continued this emphasis.¹⁴ A Health Management project (FY99) aims to improve the efficiency of hospitals and help introduce new financing mechanisms for public health care.

3.12 The Coordination and Monitoring of Social Programs and Labor Promotion project (part of the BAJ) aims *inter alia* to improve basic infrastructure and generate employment in rural communities through the labor-intensive *public works program*, the Promotion Nationale (PN). This program supports important social infrastructure in rural areas and helps local economies by injecting cash and creating temporary employment. While it has some problems—lack of a participatory approach in identifying and implementing activities, and inadequate coordination to ensure proper operation and maintenance of its facilities—it does a technically good job at a lower unit cost than many line ministries, and with a reasonable administrative cost structure.

Environment, Water Resources and Rural Development

3.13 Morocco is well endowed with natural resources, but they are not managed sustainably: all are underpriced, water availability is declining, and pollution costs are not recovered. A draft OED environmental review of Morocco finds the results of the Bank's assistance to be marginally satisfactory. Water sector work was instrumental in setting priorities and sequencing reforms and investments. Decentralization, users' associations, pricing (other than for large scale irrigation) and privatization have improved water management, distribution and quality, with a favorable impact on health. On the other hand, air pollution, solid waste, and soil degradation continue unabated, problems remain with urban water supply and sewerage (see below), and cost recovery for large scale irrigation remains a key issue. Progress on the Environmental Management project, intended to help the government strengthen its institutional and regulatory framework for environmental protection, has not been satisfactory, due to lack of consensus, as well as

14. Government data show that the population per physician declined by 380 in one year in the BAJ provinces, compared to 80 in the non-BAJ provinces, although it was still 3.5 times higher in the former (Direction de la Statistique, *op cit.*, p. 16). However, a recent evaluation of the BAJ programs found no significant gains in access to health facilities, as measured by clinic visits and medicine acquisition (Jacoby, 2000).

to weak supervision.¹⁵ A project to tackle pollution in the Sebou River watershed was dropped; the Fes-Medina Rehabilitation project (FY99) which included waste management and prevention of pollution by small enterprises was signed after lengthy delays, and for a time was rated "at risk." The Lakhdar Watershed Management Pilot project (FY99) is testing participatory approaches to land use and natural resource management. The OED review concludes that capacity building projects are better carried out by aid agencies with staff in the field and grants available for pilot activities; that policy analysis and advice have often been more useful than lending; that the Bank should expand its contribution to setting environmental priorities, as well as its environmental interventions related to poverty alleviation; and that privatization and decentralization will probably have a greater impact on the environment than any investment project.

3.14 Morocco's rural development strategy calls for decentralized, community-driven, cross-sectoral programs. The changing approach to water management is a good example. Water is Morocco's most pressing environmental problem: about 85 percent of it is used for irrigation, for which the fees collected, in the case of the large scale schemes supported by earlier projects, fall well short of the costs of operation and maintenance. These water subsidies, along with trade protection and consumer subsidies, have encouraged water intensive crops in which Morocco has no comparative advantage; the dialogue with the government on this issue has made little progress. The Bank is now turning to adjustable program loans for small and medium scale irrigation schemes run by water user associations and for rainfed agriculture.

Finance, Infrastructure and Private Sector Development

3.15 The *financial sector* has not been an area of emphasis for the Bank in recent years. The Contractual Savings Development loan (para. 3.6) was the only post-CAS operation in the sector (a microenterprise pilot was dropped from the program due to lack of government interest). Despite weaknesses, it did contribute to improved management of savings. Several other projects closed in recent years. The Financial Sector Development project (FY91) helped remove credit ceilings and reduce the mandatory placement of deposits. The Financial Markets Development project (FY96) increased the use of market mechanisms for Treasury financing and put in place a regulatory and institutional framework for the capital market, but a key condition—the privatization of some public banks—has yet to be met.¹⁶ Development of the capital market, which was spurred by the privatization of public enterprises in the early 1990s, has slowed; the last privatization carried out through the stock market was in 1997. Repeated efforts through Bank projects have not improved the public agricultural bank. Banking services are weak. However, the Bank is still involved in the sector through a PHRD grant for studies and training (some

15. This project, approved in FY94, just closed; its outcome was rated moderately unsatisfactory, and its institutional development impact, modest. The Region notes that the environment has not been a top priority for the Bank in recent years, when the focus has been much more on social programs.

16 The Financial Sector Development project was rated satisfactory, with substantial institutional development impact; the Financial Markets Development project was rated marginally unsatisfactory, with modest institutional development impact.

in association with an ongoing African Development Bank project), and QAG noted the likely positive impact of recent sector work on the banking system (para. 3.21).

3.16 The *transport sector* is relatively well developed in physical terms. The Bank has rightly stressed institutional issues in its lending, delaying the Railway Restructuring and Privatization project (FY97) for nearly 5 years until the government approved tariff adjustments and key managerial measures. Draft laws establishing a new railway organization, appropriate for eventual privatization, have been delayed by the issue of financing the pension deficit. The Secondary Roads project (FY95) was also delayed for two years until the government agreed to eliminate the road freight forwarding monopoly and liberalize trucking, but although the Land Transport Law was approved, its implementation has been delayed. Highway projects have contributed to increasing the priority of maintenance and ensuring its financing under a road fund. Air Maroc is being prepared for sale, and concessions are being considered for the airports. One big port has been offered for a BOT. Thus the sector is moving, if slowly, in the right direction, and Bank projects have encouraged this trend.¹⁷ No new transport projects are planned.

3.17 Two *urban* projects were rated "at risk" in recent years (one has been upgraded) because of institutional problems and lack of internal and management controls. Two *water supply and sewerage* projects were also at risk (one now upgraded), with unmet cost recovery targets. Efficiency is low, with high levels of unaccounted for water and less than 60 percent of domestic and industrial wastewater collected by existing sewerage systems. The Second Sewerage and Water Reuse project is still missing an environmental action plan. Meanwhile, raw sewage discharge pollutes rivers and coastal areas, and use of treated wastewater for irrigation is still only experimental. A Rural Water Supply and Sanitation project is, however, progressing well, with full operation and maintenance costs and one-quarter of investment costs being collected by user associations; eventually the project will provide safe water to about 150,000 people, while reducing the burden on women and girls of carrying water for long distances. Access to safe water in rural areas has already improved dramatically (Annex Table 2).

3.18 *Private participation* has been important in some *infrastructure* sectors, most notably in telecommunications (para. 3.7). The Second Rural Electrification project (FY91), which closed in FY97, was substantially reduced in scope because of inadequate financing and institutional arrangements, but in its last years the project contributed to broad sector reform, including the privatization of Casablanca's distribution company and the undertaking of a major IPP-financed generation project (with a US\$180 million Bank guarantee).¹⁸ Distribution of water supply is also being privatized. Concession agreements for Casablanca and Rabat permitted the cancellation of 44 percent of the commitment for Water Supply V (FY94), and agreements are underway in two additional cities. The Bank continues to press for additional such agreements.

17 All closed projects were rated satisfactory, and those under implementation are progressing satisfactorily.

18. The project was rated marginally unsatisfactory, with modest institutional development impact.

3.19 In the area of *private sector development*, a Private Sector Assessment Update (1999) noted that after a decade of efforts at stabilization, liberalization and deregulation and the launching of the privatization program, the response of the private sector has fallen short of the high expectations generated by the achievements of the 1980s. It concluded that further reforms are needed, of both policies and institutions. One of the suggested reforms, to improve the judicial system, is included in a Legal and Judicial Development Loan (FY00). FIAS has been discussing with the government three possible advisory projects designed to improve the foreign direct investment environment in the country: the development of a strategy and possible establishment of an investment promotion agency; a feasibility study for the establishment of an export processing zone; and a review of the investment incentives system. In the area of vocational training, the PSD III project had a covenant requiring the passage of a critical law by September 1998; this law has still not been approved, and the project is currently "at risk."

3.20 IFC's traditional investment activity in Morocco has been modest for two reasons: IFC's relatively high spreads compared with other international institutions such as the European Investment Bank; and the reluctance of local enterprises to assume the foreign exchange risk on borrowing. In this context, since FY97 prepayments of about US\$18 million were made, and as of end-FY00, the total IFC held portfolio was only US\$32 million in six projects. However, because there is still a need for IFC investment where structuring is complex and the volumes are large, IFC invested US\$94 million for its own account (plus an additional US\$329 million in B-loans) in FY01 in Medi Telecom, the winning cellular consortium for the second telecommunications license. This investment, which was recently committed, brought IFC's portfolio in Morocco up to US\$114 million at the end of October 2000. Other new investments since the last CAS consist of an investment of US\$14 million (both equity and loan) in a textile company; a partial risk guarantee in the MENA Forfeiting Facility to provide trade finance for local companies, of which the exposure in Morocco is expected to be US\$10 million; and a US\$5 million equity stake in a regional investment fund that will provide financing and venture capital to small and medium enterprises. MIGA has issued only one guarantee in Morocco—in 1994. It has received 4 preliminary applications for coverage of prospective investments.

Analytical and Advisory Activities (AAA)

3.21 AAA in Morocco is generally of high quality, but relatively expensive, well above the average for MENA and for the Bank as a whole in recent years. For example, QAG reviewed a Financial Sector Strategy Note (still in draft), finding it "a solid piece, with good analysis...leading to clear recommendations. The study...has a narrow, albeit excellent, focus [and] is likely to have considerable impact on GOM." Although the study was not cheap, QAG concluded that "it was time and money well spent."

3.22 The 1997 CAR found that much of the Bank's excellent *economic and sector work* on Morocco had not been well used and recommended that relatively more resources be spent on dissemination and constituency building. This appears to be taking place, with some recent reports discussed in the local press and used as the basis for workshops and seminars in Morocco (ten seminars during 1999 covered such topics as educational

reform, health financing and corruption). A study of rural development is reflected in the government's just-published rural development strategy, and a PHRD grant funded 10 studies on different aspects of educational reform. Narrowly focused think pieces, often not issued formally, have replaced broader country economic memoranda.¹⁹ For example, one recent piece identifies weaknesses in the economy and sources of growth for the future, and another suggests judicious uses of the fiscal windfall arising from privatization. These pieces should provide a strong analytical backing for future discussions and lending. Given the high costs of AAA in Morocco, and the limited ability to influence government views, future work should focus on key areas where the Bank is most likely to make a difference (e.g., promoting education and health reform or advising on methods of privatization).²⁰ As has been found in other middle income countries (e.g. Mexico), AAA work by the Bank can be highly valued and effective even when not attached to specific lending operations.

3.23 The CAS called for a strategy note on *gender* issues, to be developed through a participatory process. The Bank played a catalytic role by funding consultants and workshops which brought together government institutions and women's associations in public meetings. The result was a Gender Plan of Action, written by the Moroccans, designed to integrate women more fully into development. The process is considered a best practice example in the Region. Programs are underway in health, education, literacy, and basic infrastructure, with a particular focus on rural areas. A national research and training center for gender issues has been created, as well as a national campaign against violence. Draft legislation to improve the legal and political situation of women is strongly opposed by fundamentalist groups in the country, but the existence of open debate in itself is a major advance.

3.24 Morocco has had a number of *IDF grants*, with recent ones concentrating on social sectors and core governance functions (e.g. budget and accounting systems, procurement reform, and economic policy formulation). These grants have helped the Bank enter new areas, with eventual major involvement (e.g., telecommunications), and have addressed private sector activities, such as the modernization of legal information services. They have on the whole been very successful.²¹

3.25 At the *regional* level, the Bank supports the Mediterranean Development Forum, a consortium of think tanks and universities which has helped get difficult policy issues on the agenda. The first two MDF conferences, organized by the WBI, were held in Morocco in 1997/98 and attracted a broad range of Moroccan officials, as well as members of civil society. Coverage included education; economic journalism; telecommunications; empowering poor entrepreneurs; fiscal decentralization; global

19. The last formal economic report (CEM) was in 1995. Economic or sector work is planned or underway in a range of areas, including macroeconomics, public expenditure review, agriculture, environment, industry, financial sector, municipal management, private sector, gender, education and health (see also *Bibliography*).

20. The government suggests that to ensure agreement over the work program, a list of proposed studies be prepared, accompanied by expected contributions from the Moroccan side, and that the final documents be reviewed with the government before publication.

21. Based on a draft consultant review of IDF grants.

integration; poverty reduction; governance; and public-private partnerships. Participants rated these conferences highly, and the WBI evaluation concluded that the MDF partnership provides a good platform for collaboration and policy dialogue in the region.

Comprehensive Development Framework and Donor Coordination

3.26 Morocco is a pilot country for the CDF. A letter from the Bank to the King proposing the effort was never answered, but based on enthusiasm in some parts of the government, the Bank pressed on. Seventeen matrices detail medium and long term sectoral goals, as well as those for cross-cutting areas such as gender, governance, and social protection. Numerous monitoring indicators for each matrix emphasize outcomes; selection of a smaller number of key indicators may be necessary. Governance has become a topic of open discussion in Morocco, and a project to improve the judicial system was approved in late FY00. A process of workshops and commissions, supported by the Bank, is broadening ownership of the development agenda. However, no coordinating document has yet been prepared to pull together the matrices, nor has much been done on cross-sectoral priorities, partnerships or comparative advantage. Morocco has no formal system for donor coordination.²² Substantive discussions with the government and other donors are only beginning: far from being in the driver's seat, the government was not involved in the initial preparation of the matrices. Staff note that the CDF provides a longer term framework for the government's new five-year plan. Not surprisingly, the recent evaluation of the CDF shows Morocco as being at relatively early

Box 3.1: Meetings with Civil Society and Donors

Meetings with members of civil society, including the heads of a number of NGOs, revealed a fair amount of anger against both the government and the Bank, as well as a sense of urgency about the challenges facing Morocco and suggestions for a more effective role for the Bank. The anger stems from several sources. NGOs see the Bank and the government as close partners whose interactions are totally non-transparent to society at large. While the specifics of the Bank's activities are unknown to civil society, it is apparent to them that there has been no economic or social progress, least of all for the poor, even though at the same time the country's indebtedness has increased. Consultations by the Bank with civil society during late October 2000 on the upcoming CAS were seen as lip service and unlikely to have any effect on future Bank strategy. At the same time NGOs had concrete recommendations as to which sectors ought to be the focus of Bank activity—education, health and infrastructure services such as water, electricity and roads—and on how the Bank could improve its poor past performance in the health and education sectors by adopting different strategies which take account of the views and experiences of potential beneficiaries, and which have proven to be successful.

Some of the donors also felt left out from any consultative process. The government points out that since all donor funds are channeled through the budget, no coordination is necessary. However, these donors believe that greater coordination on strategy and on implementation would have a very beneficial impact on what is now largely ineffective external assistance.

22. The Region notes that unlike in many IDA countries, donors do not finance most of the investment budget in Morocco, so the CDF is less critical as a mechanism for coordination. The government points out that since all donor funds are channeled through the budget, no further coordination is necessary.

stages of many CDF elements (World Bank, 2000). It is too early to judge the effectiveness of this approach.

Efficiency of the Morocco Program

3.27 The Morocco country assistance program is relatively expensive (Annex Tables 8a and 8b). Average total administrative costs per project are above both MENA and Bank averages. Costs per dollar of net commitment are close to the MENA average for the 1990s as a whole, but more than 50 percent higher than the average in the last three years—and more than double the bank average. This reflects a relatively high number of dropped projects,²³ but also high costs of operations and relatively small projects. Preparation can be lengthy, and supervision expensive, due to low interest by many ministries in Bank loans,²⁴ slow decision making, and weak incentives for disbursement. Finally, reflecting the high rate of unsatisfactory projects in recent years, as well as dropped projects, Morocco's average costs per satisfactory or non risky project for the last three years are nearly 75 percent higher than for MENA as a whole, and triple the bank average.

Ratings

3.28 The program proposed in the 1997 CAS was highly relevant to Morocco's development needs. However, the program as implemented was much less so. In particular, the shifting of a substantial portion of the lending program from investment to adjustment operations, along with the loose focus of the biggest adjustment loan, the PRSL, reduced the potential for the program to contribute measurably to increasing the productive capacity of the economy and to reducing poverty, the two prime objectives highlighted in the CAR (para. 1.4). With some exceptions, the outcome of the program has been disappointing. In comparison both to the CAS projections and to other countries in the Region, the results in terms of growth and poverty reduction have been weak.

3.29 Measuring the success of the CAS strategy against its own criteria (para. 2.1), the results are at best mixed. In the provinces covered by the social priorities program, first year data indicate progress in reducing the rural education gender gap and improving rural access to health care. Private participation in some infrastructure sectors has expanded. However, the budget deficit has risen (to 8.3 percent of GDP in the 2001 budget); reallocations have not taken place as expected; and the business environment has improved only mildly. Competitiveness is deteriorating (para. 1.2). Broad public sector reform has not taken place, and the momentum for PSD has slowed, except in infrastructure. The critical need for strong growth—a pivotal objective of the CAS—has not been met. Environmental management remains weak, and water pricing is still

23. In a number of cases, the Bank has reportedly brought projects to the point of negotiations only to have them funded by other donors who offer cheaper money and less conditionality.

24. Bank lending to Morocco is fully integrated into the country's budget and expenditure management, and Bank projects do not change the budget envelope for a particular sector.

inadequate. Based on this assessment, the outcome of the CAS program must be judged marginally unsatisfactory, and institutional development impact, modest.

3.30 The Bank has contributed significantly to the growing public debate over economic policy. As noted above, AAA has been of high quality, and although its use is spotty, public dissemination of some studies has served to inform and broaden the debate and foster a consensus. On the lending side, the Region has put forth a major effort to improve the implementation of the investment portfolio. However, the major increase in adjustment lending vis-à-vis the CAS program is hard to justify. In particular, the PRSL was a risk which has not paid off in terms of cementing government ownership for a continuing reform program.²⁵ In terms of the CDF criteria, the record is mixed. The Bank has encouraged country ownership and participation within the country, but has been less active in promoting partnership or coordination with other donors and in identifying inter-sectoral linkages and its own areas of comparative advantage. The matrices identify many indicators of outcomes; these have not yet been narrowed down to a set of key indicators. While both the country, through its five-year plan, and the Bank, through the CDF matrices, are taking a long-term approach, the two exercises were carried out independently, and only now is the government attempting to integrate them.

3.31 Sustainability of the achievements so far is likely, but this assessment should not breed complacency, since the achievements in many areas are limited and are unlikely to have a major impact on the ultimate objectives of growth and poverty reduction.

4. Lessons and Recommendations

4.1 The recommendations in the CAR policy ledger (now called the Management Action Record) are still relevant. In particular:

- The Bank should continue to spotlight public sector management issues, including the causes of the public deficit, such as the excessive public sector wage bill and inefficiencies of public enterprises.
- The Bank should encourage the government to increase the share of the budget allocated to basic health and education, to rural areas, and to benefit women and girls.
- The Bank should continue to focus on increasing cost recovery for irrigation water and eliminating other agricultural subsidies, as well as on promoting rainfed farming and small and medium scale irrigation.
- The Bank should assist the government in removing obstacles to the private sector, including further efforts at trade liberalization (beyond the EU agreement), ensuring a market determined exchange rate,²⁶ and reducing administrative bottlenecks.

25. The government notes that the PRSL permitted the launch of important reforms.

26. The government believes that such an exchange rate policy would cause increased inflation, with negative social consequences.

- Future lending should have a demonstrable link to capacity for growth and poverty reduction, structural adjustment lending should be more selective than in the past, and every operation should include measurable performance indicators.

4.2 Developments since 1997 reinforce and extend some of these recommendations. The Bank should support the growing willingness in the country to discuss corruption issues. The influx of privatization proceeds from infrastructure presents both an opportunity and a danger, and Bank should continue to engage the government on the appropriate use of this windfall. The slow rate of privatization more broadly calls for particular efforts, whether through AAA or lending, to improve the environment for private sector development; the recent Private Sector Assessment Update outlines the many reforms needed to enable the private sector to become the main engine of growth in the Moroccan economy. One tranche lending has proven ineffective, and any future adjustment loans should be smaller in size and conditioned on substantive and irreversible progress on a focused set of key reforms.

4.3 A minimal program would include lending for education, health and rural development, and should be based on progress on the first three areas highlighted above. Given that the existing models have not achieved great success, new models should be supported on a trial basis, through ongoing as well as new lending, including support for nonformal schools and greater outreach by health clinics. It may be difficult to maintain a sizeable lending program, since the government is apparently not eager to borrow from the Bank for programs with a high social content, for which funds on concessional terms are available from other sources, and in view of high inflows from privatization. Therefore, and in light of the implementation difficulties of recent years, the base case lending program could be substantially smaller than in the previous CAS. Beyond the social and rural sectors, lending should be based on evidence of substantive progress in the other areas listed above. The Bank's contribution in terms of analytical work, in collaboration with Moroccan experts, along with dissemination and dialogue on critical issues should continue regardless of the level of the lending program.

Box 4.1: Morocco—Good Practice

The Bank funded consultants and workshops that brought together civil and government institutions to design a Gender Plan of Action. The Bank's role was catalytic—the plan itself was produced by the Moroccans in a highly participatory manner. This process is regarded as best practice in the Region, and is a good example of the strategic use of relatively small sums of money.

Annex Table 1: Morocco at a glance

POVERTY and SOCIAL

1999

Population, mid-year (millions)	28.2	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

Population (%)	1.7	2.1	1.1
Labor force (%)	2.6	3.0	1.2

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

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)	49	45	33
Child malnutrition (% of children under 5)		15	15
Access to improved water source (% of population)	52	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	17.5	17.4	17.8	18.8
Gross domestic savings/GDP	12.9	14.9	14.2	15.3
Gross national savings/GDP	16.9	17.2	17.5	18.2
Current account balance/GDP	-9.6	-3.5	-0.4	-0.8
Interest payments/GDP	3.0	4.8	2.9	3.4
Total debt/GDP	48.6	95.7	58.0	55.2
Total debt service/exports	26.3	30.2	23.0	27.7
Present value of debt/GDP			52.3	
Present value of debt/exports			153.2	

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	4.0	2.3	6.8	-0.7	3.7
GNP per capita	1.5	0.6	5.8	-2.2	2.0
Exports of goods and services	4.3	3.5	2.2	4.8	5.9

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	65.8	69.4	67.7	65.4
General government consumption	21.3	15.7	18.1	19.3
Imports of goods and services	29.0	26.2	26.1	27.7

	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	2.8
Manufacturing	3.9	3.0	2.4	2.5
Services	4.3	2.8	5.1	3.1
Private consumption	4.6	3.0	8.5	-3.2
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	1.3	4.9	21.4	4.7
Gross national product	3.7	2.4	7.6	-0.6

Development diamond*

The Development diamond chart compares Morocco (solid line) and the Lower-middle-income group (dashed line) across four indicators: Life expectancy (top), GNP per capita (left), Gross primary enrollment (right), and Access to safe water (bottom). Morocco generally performs better than the average lower-middle-income country in life expectancy, GNP per capita, and gross primary enrollment, but lags behind in access to safe water.

Economic ratios*

The Economic ratios diamond chart compares Morocco (solid line) and the Lower-middle-income group (dashed line) across four indicators: Trade (top), Domestic Savings (left), Investment (right), and Indebtedness (bottom). Morocco shows higher domestic savings and investment relative to its trade and indebtedness compared to the average lower-middle-income country.

Growth of investment and GDP (%)

This line chart tracks the annual growth rates of Gross Domestic Investment (GDI) and Gross Domestic Product (GDP) from 1994 to 1999. GDP growth (solid line with diamonds) shows a general upward trend, peaking in 1998. GDI growth (dashed line with squares) is more volatile, with a significant dip in 1995 and 1996.

Growth of exports and imports (%)

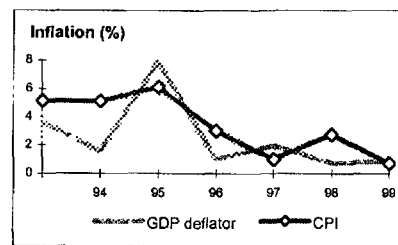
This line chart tracks the annual growth rates of exports and imports from 1994 to 1999. Exports growth (dashed line with squares) shows a strong upward trend, peaking in 1998. Imports growth (solid line with diamonds) is more volatile, with a significant dip in 1995 and 1996.

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.

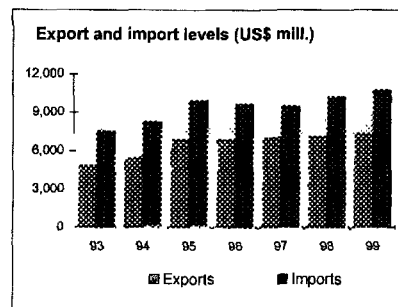
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	8.3	3.1	2.7	0.7
Implicit GDP deflator	7.3	4.0	0.7	0.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	22.2	22.6	27.4	26.9
Current budget balance	2.8	1.4	3.8	2.6
Overall surplus/deficit	-9.4	-6.0	-2.7	-4.7



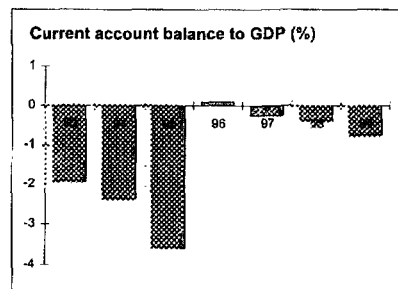
TRADE

	1979	1989	1998	1999
(US\$ millions)				
Total exports (fob)	1,955	3,851	7,144	7,372
Agriculture and 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



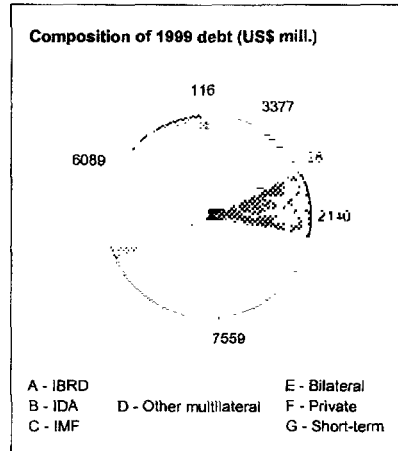
BALANCE of PAYMENTS

	1979	1989	1998	1999
(US\$ millions)				
Exports of goods and services	2,707	5,391	9,970	10,535
Imports of goods and services	4,752	6,641	11,425	11,964
Resource balance	-2,045	-1,249	-1,455	-1,429
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	-269
Financing items (net)	1,499	808	391	1,907
Changes in net reserves	32	-5	-247	-1,638
Memo:				
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	20,687	19,309
IBRD	504	2,686	3,388	3,377
IDA	38	40	29	28
Total debt service	972	2,042	2,797	3,502
IBRD	65	381	505	515
IDA	0	1	2	1
Composition of net resource flows				
Official grants	95	101		
Official creditors	331	688	-377	-176
Private creditors	673	228	469	-265
Foreign direct investment	39	167	313	839
Portfolio equity	0	0		
World Bank program				
Commitments	357	518	130	356
Disbursements	137	364	291	404
Principal repayments	25	182	300	304
Net flows	112	182	-9	100
Interest payments	41	200	207	213
Net transfers	72	-18	-216	-113



Annex Table 2 : Social indicators for Morocco and Comparator Countries¹

Countries	Morocco	Morocco	Morocco	Morocco	Tunisia	Egypt	MENA	Lower-Middle-Income
Year	1990-1993	1994-1997	1998	1999	1994-1997	1994-1997	1994-1997	1994-1997
Population and Labor force								
Population, total (million)	25.4	27.3	27.8	28.2	9.2	60.3	174.1	3,603.0
Population growth (%)	2.0	2.0	1.8	1.7	1.5	1.8	2.7	1.8
Labor force, total (Thous.)	9,348	10,316	10,832	11,295.2	3,501	22,328	160	2,370
Labor force growth (growth rate %)	1.8	1.7	1.8	1.0	2.8	2.6	3.1	2.1
Labor force, female (% of total)	34.6	34.6	34.7	34.7	30.9	29.4	26.0	40.0
Macroeconomic Indicators								
GDP Growth, Real (%)	0.2	3.5	6.8	-0.7	5.4	5.5	2.1	3.1
GNP per capita, Atlas method (growth, %)	-3.0	-3.9	-1.0		9.2	4.5	3.0	1.0
GNP per capita, PPP (current international \$)	3,210	3,200	3,120	3,189.7	3,050	3,080	4,577	4,880
Private consumption (annual % growth)	-5.8	-10.3	1.9		4.3	4.3		4.3
Poverty and Inequality (%)								
Population below national poverty line as a %	13.1		19.0					
Rural	18.0		27.2					
Urban	7.6		12.0					
Labor force, children 10-14 (% of age group)	10.6	5.6	2.6			10.0	5.0	14.0
GINI Coefficient	39.2		39.5	39.5		32.0		
percentage share, Lowest 10%	2.8							
percentage share, Highest 10%	30.5							
Education & Gender								
Illiteracy rate, adult total (% of people 15+)	61	54.1	52.9	52.0	33.0	47.3	38.0	26.0
Illiteracy rate, adult male (% of males 15+)	47.0	40.7	39.7	38.9	21.9	35.3	27.0	19.0
Illiteracy rate, adult female (% of females 15+)	75.0	67.3	66.0	64.9	44.2	59.5	50.0	34.0
School enrollment, primary (% gross)	71.5	83.5			116.5	100.5	96.0	108.0
School enrollment, primary, female (% gross)	58.9	71.4			95.0	88.0		
School enrollment, primary, male (% gross)	83.7	95.2				98.0		
School enrollment, secondary (% gross)	36.2	38.5				63.9	64.0	58.0
School enrollment, secondary, male (% gross)	41.6	43.8			66.0	79.6		
School enrollment, secondary, female (% gross)	30.4	33.0			63.2	69.9		
Public spending on education (% of GNP)	5.6	5.4	5.0		6.7	4.8	5.2	4.3
Health & Gender								
Life expectancy at birth, total (years)	64.5	66.6	66.9		69.5	66.3	67.0	65.0
Life expectancy at birth, female (years)	66.0	69.0	68.8			68.0	68.0	67.0
Life expectancy at birth, male (years)	62.0	65.0	65.1		68.0	65.0	66.0	63.0
Safe water (% of population with access)	58.2			69.0		84.0	81.0	75.0
Safe water, rural (% of rural population with access)	14.0			42.0		74.0		
Safe water, urban (% of urban population with access)	100.0			100.0		95.0		
Sanitation (% of population with access)	63.2	65.0			80.0	70.0		
Sanitation, urban (% of urban population with access)	95.8					95.0		
Mortality rate, infant (per 1,000 live births)	60.0	51.0	49.4		30.0	51.0	49.0	60.0
Mortality rate, under-5 (per 1,000 live births)		67.0	61.0		33.0	66.1	62.0	83.0
Malnutrition prevalence (% of children under 5)	9.5		11.7			15.2		
Contraceptive prevalence (% of women 15-49)	41.5	50.0			60.0	48.0	53.0	61.0
Fertility rate, total (births per woman)	3.8	3.1	3.0		2.8	3.2	4.0	3.0
Mortality ratio, maternal (per 100,000 live births)	34.0	51.0			30.0	51.0	49.0	36.0
Health expenditure, public (% of GDP)	1.3	1.3			6.7	1.6	4.7	4.4

¹ Latest single year when available. \$ = US dollar

Sources: World Development Indicators (World Bank, 2000); draft CAS for Morocco (World Bank, April 11, 2001); Moroccan Government Comprehensive Development Review (6/30/99)

Annex Table 3: Morocco—Macroeconomic Indicators, 1989-1999

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real GDP Growth (%)	2.5	3.9	6.9	-4.0	-1.0	10.4	-6.6	12.2	-2.2	6.8	-0.7
Real Non-Agricultural GDP Growth (%)		6.3	3.6	4.6	-0.4	2.6	2.3	3.6	3.2	3.9	3.0
Real GNP Per Capita (% growth)	0.0	3.1	4.7	-5.7	-3.4	8.6	-8.4	10.2	-3.8	5.3	-1.0
Imports(% of GDP)	26.0	29.0	26.2	27.5	26.9	29.9	33.2	24.9	25.9	26.1	27.7
Exports(% of GDP)	17.0	19.4	18.3	17.4	17.9	20.8	23.6	17.2	18.8	17.8	18.8
Consumer Price Index	69.8	74.6	80.6	85.2	89.6	94.2	100.0	103.0	103.9	106.9	108.0
Foreign Direct Invmt (% of GDP)	0.3	0.7	0.6	1.1	1.5	1.8	1.5	1.4	3.9	1.6	5.4
Budget Deficit (% of GDP)	-5.1	-2.2	-2.1	-1.4	-2.6	-3.2	-4.4	-3.3	-3.4	-2.5	-4.8
BOP Curr Acct Balance(% GDP)	-3.5	-0.8	-1.5	-1.5	-2.0	-2.4	-3.6	0.1	-0.3	0.4	-0.8

Source: World Bank indicators and IMF

Annex Table 4: OED Summary Ratings for Morocco, FY97-00					
EVALUATED PROJECTS					
	Number	Percent	Value \$m	Percent	
Adjustment Loans	3	18%	552	40%	
Non-Adjustment Loans	14	82%	818	60%	
TOTAL	17	100%	1,370	100%	
MENA	58		3,915		
Bankwide	869		71,033		
EVALUATED PROJECTS: OED OUTCOME RATINGS					
	Number	Percent	Value \$m	Percent	
Satisfactory Outcome					
Adjustment Loans	2	67%	302	55%	
Non-Adjustment Loans	7	50%	482	59%	
Total Satisfactory Outcome	9	53%	784	57%	
MENA	40	69%	2,891	74%	
Bankwide	636	73%	57,655	81%	
EVALUATED PROJECTS: OED SUSTAINABILITY RATINGS					
	Number	Percent	Value \$m	Percent	
Likely Sustainability					
Adjustment Loans	3	100%	552	100%	
Non-Adjustment Loans	10	71%	573	70%	
Total Likely Sustainability	13	76%	1,125	82%	
MENA	32	55%	2,236	57%	
Bankwide	469	54%	46,654	66%	
EVALUATED PROJECTS: OED INSTITUTIONAL DEVELOPMENT RATINGS					
	Number	Percent	Value \$m	Percent	
Substantial ID					
Adjustment Loans	1	33%	202	37%	
Non-Adjustment Loans	4	29%	373	46%	
Total Substantial ID	5	29%	575	42%	
MENA	18	32%	1,551	40%	
Bankwide	343	40%	32,062	47%	
ARPP RATINGS OF ONGOING PROJECTS		Number	Percent	Value \$m	Percent
Development Objectives Satisfactory					
Satisfactory	17	85%	763	85%	
Unsatisfactory	3	15%	133	15%	
TOTAL	20	100%	896	100%	
MENA (Sat)	132	91%	6,630	91%	
Bankwide	1,408	93%	99,025	93%	
Implementation Progress Satisfactory					
Satisfactory	18	90%	833	93%	
Unsatisfactory	2	10%	63	7%	
TOTAL	20	100%	896	100%	
MENA (Sat)	129	89%	6,222	85%	
Bankwide	1,353	90%	95,742	90%	
DISCONNECT RATINGS FOR MOROCCO ¹					
Number of projects		ARPP % Sat	OED % Sat	Net disc. at exit	
Morocco		65%	53%	12%	
MENA		72%	68%	4%	
Bankwide		83%	73%	10%	
AGGREGATE PROJECT PERFORMANCE INDICATOR (APPI)					
FY1997-00		Number	APPI	SD	
Morocco		17	6.5	2.1	
MENA		57	6.5	1.9	
Bankwide		861	6.7	1.9	
¹ Comprises projects approved and evaluated by OED as of August, 2000 in the OED Database, updated as of September 2000					
² The ratings of on-going portfolio as of 10/31/2000					
³ The "Disconnect" is the difference between the share of projects rated satisfactory during the last supervision year and the share of projects rated satisfactory after completion. Thus it is an indication of the optimism in supervision ratings.					

Annex Table 5: OED Evaluation Findings, FY97-00

<i>Country</i>	<i>Total Approved Projects / Commitment \$m (*)</i>	<i>On- goingPortfolio***: Projects / Net Commit \$m (*)</i>	<i>OED Rated Projects</i>				
			<i>Number of Projects</i>	<i>Net Commitment, \$m</i>	<i>Satis Outcome (%)**</i>	<i>Likely Sustain (%)**</i>	<i>Subst Inst Devt (%)**</i>
Morocco	15 / 947	21 / 901	17	1,369	53 / 57	76 / 82	29 / 42
MENA	99 / 4,874	151 / 7,493	58	3,915	69 / 74	55 / 57	32 / 40
Bank-wide	1,230 / 93,964	1,614 / 110,012	869	71,033	73 / 81	54 / 66	40 / 47

*As of August 2000

** By number/by value

*** As of October 31, 2000, Not all projects in the portfolio are rated

Annex Table 6: Morocco All Approved Projects, Evaluated and Ongoing as of October 31, 2000

Fiscal year	Proj. ID	Title	IBRD/IDA Amt (\$m)	Outcome	Institutional dev. impact	Sustainability	APPI	Latest DO	Latest IP
Agriculture									
1965	P005350	SIDI SLIMANE IRRIGATION	18						
1966	P005351	AGRICULTURAL CREDIT	10						
1970	P005355	SEBOU IRRIGATION	46	Unsatisfactory	nr	nr			
1972	P005360	AGRIC. CREDIT CNCA II	34	Satisfactory	nr	nr			
1974	P005365	SEBOU II DEVELOPMENT	32	Unsatisfactory	nr	nr			
1975	P005369	MEKNES AGRICULTURE DEVT	14	Satisfactory	nr	nr			
1975	P005370	SOUSS GROUNDWATER	19	Satisfactory	nr	nr			
1976	P005372	DOUKKALA IRRIG	30	Satisfactory	nr	nr			
1977	P005377	AGRICULTURE CREDIT III	35	Satisfactory	nr	nr			
1977	P005378	DOUKKALA IRRIGATION II	41	Satisfactory	nr	nr			
1978	P005381	KARIA-TISSA RAINFED AGR.	65	Marginally Satisfactory	Modest	Uncertain	6		
1979	P005384	CNCA IV	70	Satisfactory	nr	nr			
1980	P005390	RURAL DEVT.LOUKKOS	34	Satisfactory	Substantial	Likely	8.25		
1980	P005391	VEGETABLE PROD. & MKTG.	58	Satisfactory	Modest	Likely	7.25		
1982	P005397	AG. DEV. MIDDLE ATLAS	29	Unsatisfactory	Modest	Unlikely	4.25		
1982	P005398	FORESTRY PLANTATION PROJ.	28	Satisfactory	Modest	Likely	7.25		
1983	P005404	AG.DEV.OULMES	30	Satisfactory	Modest	Uncertain	6.75		
1983	P005405	SMALL&MED.IRRIG.	42	Satisfactory	Substantial	Likely	8.25		
1984	P005410	CNCA-V	115	Satisfactory	Modest	Likely	7.25		
1985	P005412	AGRIC.SEC.I	100	Satisfactory	Modest	Likely	7.25		
1986	P005418	LARGE IRRGN. IMPROVE	46	Unsatisfactory	Modest	Uncertain	4.5		
1986	P005424	CNCA VI	120	Satisfactory	Substantial	Likely	8.25		
1988	P005425	S. & M IRRIG.II	23	Satisfactory	Modest	Likely	7.25		
1988	P005430	AGR.SECTOR II	225	Satisfactory	Substantial	Likely	8.25		
1989	P005468	AGRIC. EXT. & RES.	28	Marginally Satisfactory	Modest	Unlikely	5.75		
1989	P005469	NATIONAL AGRIC. CRED	190	Highly Unsatisfactory	Negligible	Unlikely	2		
1990	P005437	FORESTRY II	49	Satisfactory	Modest	Likely	7.25		
1992	P005441	AG. SEC. INV. LOAN I	50	Unsatisfactory	Modest	Uncertain	4.5		
1993	P005462	SECOND LSI IMPROVEME	215					S	S
1994	P005486	MA-NATIONAL RURAL FINAN	100	Highly Unsatisfactory	Negligible	Unlikely	2		
1994	P005493	ASIL II	121	Marginally Unsatisfactory	Modest	Likely	5.75		
1994	P005499	IRR. AREAS AGR. SERV	25					S	S
1996	P041303	EMERG. DROUGHT RECOV	100	Highly Satisfactory	Substantial	Likely	10		
1998	P005521	WATER RESOURCE MGMT.	20					S	S
1999	P005519	LAKHDAR WATERSHED MG	4					S	S
1999	P052247	PILOT FISHERIES DEV.	5					S	S
Economic Policy									
1992	P005477	SAL II	275	Satisfactory	Modest	Uncertain	6.75		
1999	P058356	POLICY REFORM SUPPOR	250						
Education									
1966	P005353	EDUCATION I	11	Satisfactory	nr	nr			
1972	P005362	EDUCATION II	9	Satisfactory	nr	nr			
1976	P005374	EDUCATION III	25	Satisfactory	nr	nr			
1979	P005386	EDUCATION IV	113	Satisfactory	Negligible	Uncertain	6.25		
1982	P005401	EDUCATION V	50	Unsatisfactory	Negligible	Uncertain	4		
1985	P005415	VOC. TRNG. I	27	Unsatisfactory	Modest	Uncertain	4.5		
1986	P005421	EDUCATION SECTOR I	150	Unsatisfactory	Substantial	Likely	6		
1987	P005426	VOC.TRAINING II	22	Satisfactory	Modest	Likely	7.25		
1989	P005480	RURAL PRIMARY EDUCAT	83	Unsatisfactory	Negligible	Uncertain	4		
1991	P005460	BASIC EDUCATION	145	Unsatisfactory	Negligible	Uncertain	4		
1996	P005501	SPI - EDUCATION	54					S	S
1997	P038978	PSD III-VOC TRG.	23					S	S
Electric Pwr & Engy.									
1974	P005367	POWER	25	Satisfactory	nr	nr			
1976	P005375	SIDI CHEHO MULTIPURPOSE	49	Satisfactory	nr	nr			

Annex Table 6: Morocco All Approved Projects, Evaluated and Ongoing as of October 31, 2000 (continued)

Fiscal year	Proj. ID	Title	IBRD/IDA Amt (\$m)	Outcome	Institutional dev. impact	Sustainability	APPI	Latest DO	Latest IP
Electric Pwr. & Engy. (cont.)									
1979	P005388	VILLAGE ELECTRIFICATION	42	Satisfactory	nr	nr			
1982	P005402	OIL-SHALE ENGINEERING	20	Satisfactory	nr	nr			
1988	P005428	POWER DISTRIBUTION P	90	Marginally Unsatisfactory	Modest	Uncertain	5.25		
1991	P005459	SECOND RURAL ELECTRI	114	Marginally Unsatisfactory	Modest	Likely	5.75		
Environment									
1994	P005504	ENVIRONMENT MANAGEME	6	Moderately Unsatisfactory	Modest	Likely	5.75		
Finance									
1963	P005349	BNDE I (DFC)	15						
1966	P005352	BNDE II (DFC)	18						
1969	P005354	BNDE III (DFC)	15	Satisfactory	nr	nr			
1970	P005356	BNDE IV (DFC)	15	Unsatisfactory	nr	nr			
1971	P005358	BNDE V (DFC)	35	Satisfactory	nr	nr			
1973	P005363	BNDE VI (DFC)	24	nr	nr	nr			
1975	P005371	BNDE VII (DFC)	30	Satisfactory	nr	nr			
1977	P005379	BNDE VIII (DFC)	45	Satisfactory	nr	nr			
1982	P005399	BNDE IX	70	Satisfactory	Substantial	Likely	8.25		
1983	P005406	FEC/MUNICIPALITIES	16	Satisfactory	Modest	Uncertain	6.75		
1987	P005452	IND.EXP FINANCE I	70	Unsatisfactory	Negligible	Unlikely	3.75		
1990	P005458	INDUSTRIAL FINANCE	170	Marginally Satisfactory	Negligible	Uncertain	5.5		
1991	P005495	MA-FINANCIAL SECTOR DEVELOPMENT	235	Satisfactory	Substantial	Likely	8.25		
1996	P005522	FIN.MARKETS DEV.	250	Marginally Unsatisfactory	Modest	Likely	5.75		
Hlth, Nutr & Populn									
1985	P005422	HEALTH DEVELOPMENT	28	Satisfactory	Modest	Likely	7.25		
1990	P005440	HEALTH SECTOR INVEST	104	Marginally Unsatisfactory	Modest	Uncertain	5.25		
1996	P042415	SPI - HEALTH	68					S	S
1999	P005525	HEALTH MANAGEMENT	66					S	S
Industry									
1974	P005366	MAROC PHOSPHORE	50	Satisfactory	nr	nr			
1977	P005380	CIOR CEMENT	45	Satisfactory	nr	nr			
1979	P005385	SMALLSCALE INDUSTRIES	25	Satisfactory	nr	nr			
1982	P005400	SMALL SCALE IND II	70	Satisfactory	Negligible	Likely	6.75		
1985	P005413	ELEC.MECH.IND	25	Unsatisfactory	Modest	Uncertain	4.5		
Mining									
1979	P005387	MAROC PHOSPHORE EXPANSION	50	Satisfactory	nr	nr			
1982	P005403	SMALL SCALE MINING ENG	10	Unsatisfactory	Negligible	Unlikely	3.75		
1985	P005416	JERADA COAL	27	Highly Unsatisfactory	Negligible	Unlikely	2		
Multisector									
1984	P005411	IND.TR.POL(SAP)	150	Satisfactory	Substantial	Uncertain	7.75		
1986	P005414	IND. TR. POL (ADJ. II)	200	Satisfactory	Substantial	Uncertain	7.75		
1989	P005472	SAL I	200	Satisfactory	Modest	Uncertain	6.75		
Oil & Gas									
1980	P005392	PETROLEUM EXPLORATION I	50	Satisfactory	nr	nr			
1983	P005407	PETROLEUM EXPL. II	75	Satisfactory	Modest	Likely	7.25		
Private Sector Devel									
1997	P043725	RAILWAY RESTR & PRIV	85					S	S
1999	P058128	MA-TELECOM, POST AND IT	101					S	S
Public Sector Mgmt.									
1987	P005466	PERL	240	Satisfactory	Substantial	Uncertain	7.75		
1989	P005473	PUBLIC ADMIN. LOAN	23	Satisfactory	Modest	Likely	7.25		
2000	P063918	LEGAL AND JUDICIAL DEVELOPMENT	5						

Annex Table 6: Morocco All Approved Projects, Evaluated and Ongoing as of October 31, 2000 (continued)

<i>Fiscal year</i>	<i>Proj. ID</i>	<i>Title</i>	<i>IBRD/IDA Amt (\$m)</i>	<i>Outcome</i>	<i>Institutional dev. impact</i>	<i>Sustainability</i>	<i>APPI</i>	<i>Latest DO</i>	<i>Latest IP</i>
Social Protection									
1996	P042414	COOR/MON SOCIAL PRO	28					S	S
1998	P047582	MA-CONTRACTUAL SAVINGS	100	Marginally Satisfactory	Modest	Likely	6.5		
Telecommunications									
1987	P005420	TELECOMMUNICATIONS I	125	Satisfactory	Substantial	Likely	8.25		
1993	P005438	TELECOM.RESTRUCTURIN	100	Highly Satisfactory	Substantial	Likely	10		
Transportation									
1970	P005357	ROADS I	15	Satisfactory	nr	nr			
1974	P005368	ROADS II	29	Satisfactory	nr	nr			
1980	P005393	ROADS III	62	Satisfactory	nr	nr			
1983	P005408	HIGHWAYS IV	85	Satisfactory	Modest	Likely	7.25		
1986	P005417	PORT PROJECT	22	Highly Satisfactory	Substantial	Likely	10		
1990	P005481	FIFTH HIGHWAY PROJEC	79	Satisfactory	Modest	Likely	7.25		
1991	P005433	PORT SECTOR	132	Satisfactory	Substantial	Likely	8.25		
1995	P005489	MA-SECONDARY ROADS	58					S	S
Urban Development									
1971	P005359	CHN HOTEL FINANCING	10	Satisfactory	nr	nr			
1972	P005361	CH HOTEL FINANCING II	15	Satisfactory	nr	nr			
1976	P005373	CH HOTEL FINANCING III	25	Satisfactory	nr	nr			
1976	P005376	TOURISM INFRASTRUCTURE	21	Unsatisfactory	nr	nr			
1978	P005382	URBAN DEVELOPMENT I	18	Satisfactory	Negligible	Unlikely	6		
1981	P005394	CH IV	100	Satisfactory	Substantial	Likely	8.25		
1981	P005395	URBAN II	36	Satisfactory	Negligible	Unlikely	6		
1983	P005409	URBAN III	60	Satisfactory	Modest	Likely	7.25		
1990	P005434	HOUSING FINANCE	81	Marginally Satisfactory	Negligible	Likely	6		
1993	P005514	LAND DEVELOPMENT	130						
1993	P005517	MA-MUNICIPAL FINANCE I	104	Satisfactory	Substantial	Likely	8.25		
1998	P005523	MUNICIPAL FINANCE II	70					U	S
1999	P005524	MA-FES/MEDINA REHAB.	14					S	S
2000	P065757	SUSTAINABLE COASTAL TOURISM DEVELOPMENT	2					S	S
Water Supply & Sanitn									
1973	P005364	CASABLANCA WATER SUPPLY	48	Satisfactory	nr	nr			
1978	P005383	CASABLANCA SEW-ENGR	2	Satisfactory	nr	nr			
1979	P005389	WATER SUPPLY II	49	Satisfactory	Substantial	Likely	8.25		
1981	P005396	WATER SUPPLY III	87	Satisfactory	Substantial	Likely	8.25		
1987	P005423	NATL. WATER SUPPLY R	60	Satisfactory	Substantial	Likely	8.25		
1987	P005449	GREATER CASABLANCA S	60	Marginally Satisfactory	Modest	Likely	6.5		
1994	P005435	WATER SUPPLY V	160					S	S
1996	P005503	SEW. & WATER REUSE II	40					U	U
1998	P040566	RURAL W.S. & SANITATN	10					S	S

Annex Table 7: Morocco--Active Loans as of December 1, 2000

<i>Name of Project</i>	<i>Approval FY</i>	<i>Loans</i>	<i>Net Commit (US\$M)</i>	<i>Undisbursed Balance</i>	<i>Last ARPP Supervision Rating</i>		<i>Project at risk</i>
					<i>Dev't Obj.</i>	<i>Imp Prog.</i>	
COOR/MON SOCIAL PRO	1996	40260	28	11.6	S	S	Non risky
HEALTH MANAGEMENT	1999	44240	66	54.6	S	S	Non risky
IRR. AREAS AGR. SERV	1994	36880	15	4.2	S	S	Non risky
LAKHDAR WATERSHED MG	1999	44260	4	3.8	S	S	Non risky
LEGAL AND JUDICIAL DEVELOPMENT	2000	45630	5	5.4	n a	n a	Non risky
MA-FES/MEDINA REHAB	1999	44020	14	11.6	S	S	Non risky
MA-SECONDARY ROADS	1995	39010	58	21.7	S	S	Non risky
MA-TELECOM, POST AND IT	1999	44650	101	50	S	S	Non risky
MUNICIPAL FINANCE II	1998	42310	70	21	U	S	Actual
PILOT FISHERIES DEV.	1999	44640	5	4	S	S	Non risky
PSD III-VOC TRG	1997	40910	23	12.7	U	U	Actual
RAILWAY RESTR & PRIV	1997	41280	85	63.3	S	S	Non risky
RURAL W S & SANITATN	1998	42540	10	5.6	S	S	Non risky
SECOND LSI IMPROVEME	1993	35870	144	28.2	S	S	Non risky
SEW. & WATER REUSE II	1996	40100	40	30.3	U	U	Actual
SPI - EDUCATION	1996	40240	54	30.8	S	S	Non risky
SPI - HEALTH	1996	40250	68	15.9	S	S	Non risky
SUSTAINABLE COASTAL TOURISM DEV	2000	45730	2	2.3	S	S	Non risky
WATER RESOURCE MGMT	1998	42890	20	17.2	S	H S	Non risky
WATER SUPPLY V	1994	36640	89	20.9	S	S	Non risky

Annex Table 8a: Comparative Cost Table for Morocco and MENA, FY97-99

	Total cost (\$m)	No. of projects	Average total cost \$'000 per project	Net commitment \$m	Total costs \$ per \$1000 of net commitment	Net commit. for satisf. and nonrisky projects, \$m	Total costs \$ per \$1000 of net commit. for satisf. & nonrisky projects
Morocco	13.9	12	1,158.3	370.5	37.5	272.2	51.1
MENA	60.8	63	965.1	2,539.0	23.9	2,077.6	29.3
Bank wide	843.1	888	949.4	54,991.4	15.3	48,316.9	17.4

Annex Table 8b: Comparative Cost Table for Morocco and MENA, FY91-99

	Total cost (\$m)	No. of projects	Average total cost \$'000 per project	Net commitment \$m	Total costs \$ per \$1000 of net commitment	Net commit. for satisf. and nonrisky projects, \$m	Total costs \$ per \$1000 of net commit. for satisf. & nonrisky projects
Morocco	37.5	34	1103.0	2,141.0	17.5	1,455.0	25.8
MENA	175.3	170	1031.0	10,324.0	17.0	7,732.0	22.7
Bank wide	2,266.10	2,310	981.0	167,653.0	13.5	141,008.0	16.1

Annex Table 9: Morocco—Development Assistance by Donor: Total Receipts Net in \$m

Donor Countries	<i>1986-1990</i>	<i>1991-1993</i>	<i>1994-1998</i>
IBRD	1,129.3	419.7	-98.6
African Development Bank	571.23	543.9	283.4
EC	117.8	349.9	1292.2
Italy	453.8	313.2	360.5
France	539.4	485.3	1,181.1
Japan	211.2	40.8	-197.8
Spain	222.4	383.0	197.2
UN Agencies	156.9	100.8	65.7
Others	2,322.2	1,181.9	561.2
Total Receipts Net	5,724.3	3,818.4	3,644.9

Source: OECD CD ROM 2000 "International Development Statistics"

Annex Table 10: Morocco—IBRD Flows (\$m)

<i>Year</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
a. Gross Commitments	482.5	626.0	325.0	549.0	412.0	57.6	540.0	108.0	200.0	440.0	7.5
b. Gross Disbursements	372.4	357.5	506.1	347.2	310.7	231.5	485.0	301.7	270.9	411.4	106.8
c. Repayments	183.2	222.4	243.1	289.3	291.9	333.2	344.0	325.7	301.6	298.6	332.0
d. Net flows (b-c)	189.2	135.1	263.0	57.9	18.8	-101.7	141.0	-24.0	-30.7	112.8	-225.2
e. Interest payment and fees	209.3	238.4	241.0	258.5	263.3	278.7	274.4	249.9	218.1	215.8	200.4
f. Net transfers (d-e)	-20.1	-103.3	22.0	-200.6	-244.5	-380.4	-133.4	-273.9	-248.8	-103.0	-425.6

Source: CTR

Annex Table 11
Morocco
STATEMENT OF IFC's
Held and Disbursed Portfolio
As of October 2000

IFC Data Warehouse

(Amounts in US Dollar Millions)

FY Approval	Company	IFC Held				IFC Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1995	Attijari	0.00	0.48	0.00	0.00	0.00	0.48	0.00	0.00
1987/90	CIH	5.30	0.00	0.00	0.00	5.30	0.00	0.00	0.00
1990	ENNASR	0.94	0.00	0.00	0.00	0.94	0.00	0.00	0.00
2000	Maghreb Inv. Mgt.	0.00	0.02	0.00	0.00	0.00	0.02	0.00	0.00
2000	Maghreb Invest P	0.00	5.00	0.00	0.00	0.00	1.25	0.00	0.00
2001	Medi Telecom	66.38	0.00	22.13	296.70	0.00	0.00	0.00	0.00
1994/96	Mediafinance	0.00	1.16	0.00	0.00	0.00	1.16	0.00	0.00
1999	Settavax	3.43	9.00	0.00	0.00	3.43	9.00	0.00	0.00
Total Portfolio:		76.04	15.66	22.13	296.70	9.67	11.91	0.00	0.00

FY Approval	Project Name	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
2000	Tikida	4.45	0.00	2.23	0.00
Total Pending:		4.45	0.00	2.23	0.00

Annex Table 12: Bank Senior Management and Country Team Responsible for Morocco in the Last Ten Years

<i>FY</i>	<i>Vice President</i>	<i>Director</i>	<i>Division Chief</i>	<i>Res. Representative</i>	<i>Country Officer</i>	<i>Country Economist</i>
1991	Willi Wapenhans	Kermal Dervis	Wafik Grais	n.a.	J. Coudol	Isabel Guerrero
1992	Caio Koch-Weser	Pieter Bottellier	Mahmood Ayub	n.a.	J. Coudol	Isabel Guerrero
1993	Caio Koch-Weser	Harinder Kohli	Mahmood Ayub	n.a.	J. Coudol	Ali Khadr
1994	Caio Koch-Weser	Daniel Ritchie	Mahmood Ayub	n.a.	J. Coudol	Ali Khadr
1995	Caio Koch-Weser	Daniel Ritchie	Christian Delvoie	n.a.	Rene Vaurs	Luc De Wulf
1996	Kermal Dervis	Daniel Ritchie	Christian Delvoie	n.a.	Rene Vaurs	Luc De Wulf
1997	Kermal Dervis	Daniel Ritchie	Christian Delvoie	n.a.	Rene Vaurs	Luc De Wulf
1998	Kermal Dervis	Christian Delvoie	n.a.	Olivier Godron	n.a.	Paolo Zacchia
1999	Kermal Dervis	Christian Delvoie	n.a.	Olivier Godron	n.a.	Paolo Zacchia
2000	Jean-Louis Sarbib	Christian Delvoie	n.a.	Olivier Godron	n.a.	Paolo Zacchia

World Bank Group and IMF Staff Interviewed

World Bank Group Staff and Consultants

Laila Al-Hamad
Regina Bendokat
Denis Chaput
Christian Delvoie
Luc De Wulf
Karim El Aynaoui
Leila El-Hafi
Mourad Ezzine
Marisa Fernandez-Palacios
Olivier Godron
Margaret Henderson
Ali Khadr
Amine Khene
Hassan Lamrani
Linda Likar
Douglas Lister
Michel Loir
Karen Mason
Carmen Niethammer
Anne Paugam
Axel Peuker
Christian Rey
Dan Ritchie
Shaha Riza
Eluned Roberts-Schweitzer
Lorenzo Savorelli
Clemencia Torres
Hans Wyss
Paolo Zacchia

IMF

Valeria Fichera
Edward Gardner
Karim Nashashibi

List of People Met: Morocco, October 22-28, 2000

Government

Ministère de l'Agriculture, du Développement Rural et des Pêches Maritimes

M. Mohamed Ait Kadi, Secrétaire Général

Ministère des Affaires Générales du Gouvernement

M. Hassan Benabderrazik, Secrétaire Général

Mme. Sabah Benchekroun, Relations Economiques Internationales

M. M'hamed Hilali, Relations Economiques Internationales

M. Karim Mansouri, Relations Economiques Internationales

M. Younes Zrikem

Ministère du Développement Social, de la Solidarité, de l'Emploi et de la Formation Professionnelle

S.E. Abbas El Fassi, Ministre

M. M'Hamed Karmouni, Secrétaire Général

Mme. Naima Senhadji, Chef de la Division de Coopération Internationale,
Directeur national du Programme pilote de lutte contre la pauvreté en milieu urbain et péri-urbain

M. Guédira Najib, Directeur de la Agence de Développement Social (ADS)

Ministère de l'Economie, des Finances et du Tourisme

M. Nourredine Omary, Secrétaire Général

M. Abdeltif Loudyi, Directeur du Trésor et des Finances Extérieures

M. Fouad Sanir, Chef de la Division des Financements et Relations Multilatéraux,
Direction du Trésor et des Finances Extérieures

M. Abdelouahed Kabbaj, Directeur des Establishments Publics et des Participations

M. Thami El Barki, Directeur des Assurances et de la Prévoyance Social

M. Abdelcif Bennan, Adjoint au Directeur du Budget

M. Mohammed Bougroun, Adjoint au Directeur du Budget

Ministère de l'Education Nationale

M. Ahmed Lamrini, Secrétaire Général

M. Fedouane Belarbi, Directeur de la Stratégie, des Etudes et de la Planification

M. Lahoussine Hajjad, Responsable de l'Unité de Gestion du Projet BAJ

Mme. Latifa El Abida, Directrice de Budget et du Contrôle de Gestion

M. Abdel Iloh Tahri, Chef de Service des Financements Extérieurs

Ministère de la Fonction Publique et de la Réforme Administrative

M. Abdelouahed Ourzik, Directeur de la Reforme Administrative

Ministère de la Prévision Economique et du Plan

M. Mohamed Bijaad, Secrétaire Général,
M. Ahmed Ibrahimi, Directeur de la Programmation

Ministère de la Santé

S.E. Thami El Khyari, Ministre
M. Mohamed Laaziri, Directeur de la Planification et des Ressources Financières
M. Jilali Hazim, Chef de la Division Financière

Donors*United States Agency for International Development (USAID), Morocco*

M. James Bednar, Director
M. Abderrahim Bouazza, Economist

Union Européenne

M. Lucio Guerrato, Directeur
M. Juan Jorge de la Caballeria, Conseiller

Agence Française de Développement (PROPARCO)

M. Rémi Genevey, Directeur

**OBSERVATIONS CONCERNANT LE RAPPORT
D'EVALUATION DE LA STRATEGIE DE COOPERATION
BANQUE MONDIALE / MAROC**

1- Choix des périodes pour l'appréciation du taux de croissance du PIB

Le rapport estime que le taux de croissance du PIB marocain, qui était de 4% en moyenne annuelle pendant la période 86-91, est tombé à 1,9% pendant la période 91-98.

Il convient de signaler que le choix des périodes pour l'appréciation de l'évolution du PIB n'est pas pertinent dans la mesure où entre 1984 et 1990 on recense uniquement une année de sécheresse, alors qu'entre 1990 et 1998 on recense 4 années de sécheresse sévère. Le choix d'autres périodes aurait permis de nuancer le raisonnement sur la croissance, sinon même de l'inverser. Ainsi, en comparant les périodes 86-91 et 92-98, la Banque aboutit au constat que la croissance y est revenue de 4,1% par an à 1,9% par an et tire une série de conclusions sur la base de ce constat.

Or, si par exemple on retenait les deux périodes 88-93 et 93-98, le taux de croissance passerait, alors, de 1,6% par an à 3,8% par an. Avec ce choix, la conclusion qui se serait imposée c'est que le rythme de la croissance a plus que doublé sur les cinq dernières années par rapport aux cinq années précédentes. Ce serait là un constat qui remet en cause toutes les conclusions de l'étude.

2- Choix des indicateurs pour rendre compte de certaines évolutions

Selon ce rapport, la croissance des exportations est tombée sous les 5% par an alors qu'elle atteignait 14% pendant la deuxième moitié des années 80.

Cette tendance est à nuancer dans la mesure où si on exprimait ces mêmes exportations en Euro, ce qui serait plus logique puisque l'essentiel de nos exportations sont destinées à l'Europe, les deux pourcentages seraient respectivement de 9% et 8%. La conclusion qui s'imposerait alors dans ce cas c'est que nos exportations connaissent une certaine stabilité de leur rythme de progression et non plus un fort recul.

3- Exécution et résultats du CAS de 1997

Le rapport d'évaluation souligne la grande différence entre ce qui est prévu et ce qui est réalisé. Il estime en outre que les résultats du CAS de 1997 sont jugés marginalement insatisfaisants et que les objectifs du CAS n'ont pas été atteints.

Les résultats mitigés du CAS de 1997 s'expliquent notamment par :

- une mise en place du CAS en l'absence d'un cadre stratégique de référence défini et précis tel que le plan de développement économique et social. Il faut souligner que pour l'avenir, le gouvernement a élaboré un plan quinquennal couvrant la période 2000-2004, qui définit les priorités et les programmes d'action, ce qui est de nature à mieux orienter, aussi bien les efforts de développement de l'Etat que les actions d'aide et d'appui de la Banque Mondiale.
- Des insuffisances au niveau de la préparation et de l'évaluation des projets en amont.

4- PRES et réformes

Le rapport estime que :

- le programme PRES n'a pas permis la redynamisation des réformes prévues par le CAS.
- Le PRES n'était pas suffisamment ciblé, pour avoir un impact important là où des réformes étaient indispensables et que beaucoup de mesures ne se sont pas traduites par des résultats concrets.
- Les résultats du PRES, à quelques exceptions près, ont été décevants, et ne semblent pas justifier la place centrale qu'il occupait dans le programme de prêt (Page 5 et P. 14)

A cet égard, il convient de souligner que le PRES traduisait avant tout la volonté de la Banque d'appuyer le gouvernement pour entreprendre des réformes dans les domaines économique et social. D'autres prêts similaires devaient suivre pour soutenir la mise en œuvre des principales réformes. Ainsi il faut noter que plusieurs mesures de court terme ont été prises avant la présentation du PRES au Conseil d'Administration de la Banque portant essentiellement sur l'adoption de textes législatifs et d'études en vue de préparer le cadre institutionnel nécessaire au développement économique et social. D'autre part des réformes et des mesures ont été définies dans la

lettre de politique de développement et constituaient de ce fait, les engagements du gouvernement à moyen terme.

A ce titre, d'importantes réformes ont été engagées. Elles s'intègrent parfaitement dans le cadre de la stratégie du Gouvernement avec comme objectif central une croissance forte et durable et la réduction des disparités sociales.

Bien que certaines mesures ne se sont pas encore traduites par des résultats concrets, elles ne manqueront pas d'avoir un impact appréciable à moyen terme.

En conséquence, il s'avère prématuré au stade actuel de réalisation, de porter des jugements sur les résultats du PRES.

- Le rapport note également que plus particulièrement le PRES constituait « un risque qui n'a pas été payant, si le but était de faire adhérer plus résolument les autorités à un programme soutenu de réformes ». Il est proposé de reformuler ce paragraphe en précisant que le PRES a permis le lancement d'importants chantiers de réformes

- En matière de libéralisation des échanges, il faut souligner que le Maroc a fourni des efforts appréciables afin de libéraliser davantage son économie. Le Maroc met en œuvre toutes les clauses du GATT en matière de démantèlement tarifaire ; celles-ci sont appliquées à tous les pays partenaires. En outre, dans le cadre de l'Association avec l'Union européenne, un programme de démantèlement est en cours d'application, qui a pour objectif la libéralisation totale des échanges des produits non agricoles sur une période de 12 ans. Cette expérience a été élargie à beaucoup d'autres pays, notamment africains et arabes, avec lesquels le Maroc a signé des accords d'association similaires, contrairement à ce qui est précisé dans le rapport. (p 5)

- Par ailleurs, le rapport souligne que « la déclaration de politique de développement promettait une réforme progressive du régime des subventions, mais le système est toujours en place ».

A cet égard, il convient de souligner qu'une réforme de la filière oléagineuse est entrée en application à partir du 1^{er} novembre 2000. Cette réforme qui s'accompagne d'une libéralisation des prix des huiles, vise en priorité à faire profiter le consommateur d'une gestion plus dynamique de la caisse de compensation, en lui offrant une gamme variée d'huiles alimentaires à un prix inférieur ou égal à celui en vigueur actuellement, à préserver les revenus des agriculteurs producteurs de tournesol et à assurer, grâce aux possibilités de coupage avec l'huile d'olive, un débouché supplémentaire à la production nationale de cette denrée.

L'aboutissement de cette réforme passe par une baisse au taux minimum de 2,5% des droits à l'importation sur les graines oléagineuses et les huiles brutes afin de permettre aux industriels de s'approvisionner au moindre coût d'approvisionnement sur le marché international et d'instaurer une concurrence saine et loyale entre tritrateurs et raffineurs

Cette réforme sera accompagnée en même temps d'une protection douanière significative de l'huile raffinée et d'une baisse de la protection des tourteaux, ce qui permettra une décrue des prix des aliments de bétail et partant de ceux des protéines animales notamment avicoles.

Parmi les autres mesures d'accompagnement qui garantiront l'aboutissement de cette réforme, il sera procédé au paiement aux agriculteurs de la différence entre le prix actuel et le prix de revient de la graine importée.

Cette réforme de la filière oléagineuse s'ajoute aux mesures déjà prises en 1999 concernant la restitution par les industriels des subventions accordées au sucre granulé utilisé dans l'industrie.

5- Réforme du secteur public

Le rapport juge que le changement a été lent dans plusieurs domaines principaux (réforme du secteur public, privatisations...).

L'idée que le changement dans les domaines principaux s'est caractérisé par la lenteur n'est pas suffisamment argumentée.

A cet effet, les rapports établis sur le secteur des EEP par le Ministère de l'Economie et des Finances à l'occasion de la préparation des projets de lois de finances depuis 1998/1999 à nos jours, fait état d'importantes réalisations en la matière. Copies desdits rapports pourraient être mises à la disposition de la Banque Mondiale pour complément d'information.

6- Prêts à l'ajustement: Projet de développement de l'épargne institutionnelle.

Les résultats de ce projet sont jugés superficiels et parfois éphémères.

Or, il faut noter que ce programme a permis le lancement de réformes structurelles d'envergure dont les acquis s'inscrivent dans le moyen terme. A ce titre, on citera notamment les règlements des sinistres des compagnies d'assurance liquidées, la libéralisation en cours des tarifs d'assurance, la réflexion sur le devenir des systèmes de retraite et sur les missions de la CDG

7- Poids des EEP dans l'économie nationale

Le rapport note que la part du secteur public dans la valeur ajoutée a peu évolué depuis 1990.

La part du secteur public dans la valeur ajoutée a plutôt connu une baisse due notamment à la privatisation d'importantes entreprises (SONASID, SAMIR, SCP, FERTIMA, BCME, RAD, RED...) et au transfert au privé de certaines activités telles que la production de l'électricité, de l'eau.

8- Secteur financier

Le rapport mentionne (p.9) le fait que les services bancaires et la mobilisation de l'épargne restent faibles.

A cet égard, il faut noter que l'épargne a évolué à un rythme soutenu, puisque le taux d'épargne intérieure est passé de 15,8% du PIB en 1996 à 20% en 1999. Les banques commerciales ont joué un grand rôle dans la mobilisation de cette épargne. En outre, les différentes réformes qu'a connu le secteur financier devraient dynamiser davantage l'activité bancaire, essentiellement dans la mobilisation de l'épargne grâce à la création de nouveaux instruments d'épargne. dans ce sens, le Plan prévoit un taux d'épargne intérieure de 24,3% du PIB en 2004.

9- Moratoire de mise en vigueur de la loi sur le transport de marchandises par route

Selon le rapport , un moratoire de 2 ans a été fixé pour la mise en œuvre de la loi sur le transport de marchandises par route.

Effectivement, l'article 6 de la loi n° 16-99 relative au transport routier de marchandises prévoit que celle-ci n'entrera en vigueur qu'à l'expiration d'un délai de 36 mois à compter de la date de sa publication au bulletin officiel (13 mars 2000). Ce moratoire était rendu nécessaire pour la mise à niveau de l'ONT (compression des effectifs, restructuration...) d'autant plus que la même loi fait obligation à cet office de se transformer en Société Anonyme quatre ans à partir de la date de sa promulgation.

10- Régulation du secteur des télécommunications

Il est avancé dans le paragraphe 3.7 qu'une commission indépendante est chargée de la régulation des activités des télécommunications.

En vertu de la loi n° 24-96, la régulation des activités des télécommunications est confiée à l'ANRT et non à une commission indépendante de régulation.

11- Gestion des services de l'eau

Il est avancé dans le paragraphe 3.18 que la plupart des services de l'eau relèvent du secteur public avec comme corollaire une gestion inefficace et peu compétitive.

Ce constat est peu réaliste dans la mesure où les activités de distribution de l'eau ont été concédées au privé dans les grandes villes (Casablanca, Rabat) ou en cours de concession (Tanger, Tétouan). En effet, sur un volume d'eau de 404 millions de m³ distribué par l'ensemble des distributeurs communaux hors ONEP (125 m³), les deux concessionnaires de Rabat et Casablanca contribuent pour 178,8 millions de m³ soit 44% du total.

12- Recours aux prêts de la Banque Mondiale

Le paragraphe 3.28 évoque le peu d'intérêt manifesté par de nombreuses administrations pour la mobilisation des prêts de la Banque Mondiale.

Il est vrai que le recours à la Banque Mondiale a connu un fléchissement ces dernières années pour plusieurs raisons :

- lourdeur dans le processus de préparation, d'évaluation et d'exécution des projets ;
- meilleur ciblage des opérations devant être confiées au financement de la Banque Mondiale (assistance technique, restructuration) ;
- contraintes budgétaires dues au fait que toute opération devant être soumise au financement de la Banque doit être justifiée par un support budgétaire.

Concernant le portefeuille des projets des Entreprises Publiques financés par la Banque Mondiale, il a connu également une régression. Celle-ci s'explique essentiellement par :

- une amélioration de leurs performances financières ;
- une politique de désendettement amorcée par certains Etablissements Publics (ODEP, IAM, Régies de Distribution...) ;

- un meilleur recentrage des bailleurs de fond en fonction de la nature du projet notamment pour les projets à caractère social nécessitant des financements concessionnels plus avantageux.

13- Revenus des privatisations

Le rapport estime que la Banque devrait favoriser la discussion avec les autorités sur le meilleur usage de l'aubaine provenant des revenus des privatisations.

Il a été décidé que le Fonds HASSAN II pour le développement économique et social recouvre 50% du produit des privatisations en vue de concrétiser des projets d'investissement.

14- Recommandations et orientations pour le prochain CAS

- Le rapport indique que les recommandations du CAS de 1997 restent d'actualité. Il propose de mettre l'accent sur les questions liées à la gestion du secteur public, la réaffectation des crédits budgétaires en faveur des secteurs de l'éducation et de la santé et des zones rurales, l'appui à l'agriculture pluviale ainsi qu'à l'aide au développement du secteur privé.

A cet égard, les actions à retenir au titre du prochain CAS devraient s'inscrire dans le cadre du plan quinquennal 2000-2004.

Par ailleurs, il serait approprié que le prochain CAS cible pour ce qui est de la coopération avec la Banque des axes limités et définis de façon précise et hiérarchisée. Ces axes pourraient concerner, le développement agricole (PMH, développement de la culture « bour »), le développement humain, le développement institutionnel à travers le soutien des réformes sectorielles.

- Le rapport recommande l'adoption d'un taux de change fixé par le marché.

Il y a lieu de rappeler que dans le contexte actuel marqué par une relative maîtrise des équilibres macro-économiques, la mesure demandée par la Banque ne semble pas appropriée dans la mesure où elle engendrerait des coûts en termes notamment de hausse d'inflation avec des conséquences sociales.

15- Activités d'Analyse et Conseils (AAC)

Le rapport estime que les AAC au Maroc sont coûteuses.

Par ailleurs, il indique que compte tenu du coût élevé des AAC et de la capacité limitée à influencer sur le point de vue des pouvoirs publics, il conviendrait que les futures études soient consacrées à des domaines essentiels où la Banque a toute les chances de faire évoluer la situation.

Afin d'éviter des divergences de points de vue concernant ces études, il est suggéré :

- d'arrêter d'une manière formelle la liste des travaux analytiques à entreprendre par la Banque ;
- d'associer étroitement la partie marocaine à l'élaboration de ces travaux, notamment aux niveaux de la collecte des données statistiques et des informations requises ainsi que de la démarche à adopter pour lesdits travaux ; et
- de procéder à la revue desdits documents préalablement à leur finalisation et soumettre leur publication à l'approbation des autorités marocaines.

COMMENTS REGARDING COUNTRY ASSISTANCE EVALUATION MOROCCO

1. Choice of periods for assessing GDP growth rate

The report finds that the GDP growth rate in Morocco, which averaged 4% per year for the 1986–91 period, fell to 1.9% during the 1991–98 period.

It is important to note that the periods chosen for assessing the evolution of the GDP are not relevant in that between 1984 and 1990, there was only 1 year of drought, whereas between 1990 and 1998 there were 4 years of severe drought. Choosing other periods would have permitted a more precise understanding of the growth, if not the opposite conclusion. By comparing the periods 1986–91 and 1992–98, the Bank found that growth went from 4.1% per year to 1.9% per year and drew a series of conclusions on the basis of this finding.

However, if for example one used the two periods 1988–93 and 1993–98, the growth rate would go from 1.6% per year to 3.8% per year. With this choice, the conclusion would be that the pace of growth has more than doubled over the last five years compared to the preceding five years, which would make one question all the study's conclusions.

2. Choice of indicators for reporting on certain trends

According to the report, growth in exports has fallen below 5% per year, whereas it reached 14% during the last half of the 1980s.

This trend needs to be nuanced in that if one expressed the same exports in Euros, which would be more logical, since the majority of our exports are meant for Europe, the two percentages would be 9% and 8%, respectively. The conclusion in this case would be that our exports have shown a certain stability rather than a sharp set-back.

3. Implementation and Results of the 1997 CAS

The evaluation report underlines the large difference between what is intended and what is achieved. It finds, among other things, that the results of the 1997 CAS were marginally unsatisfactory and the objectives of the CAS were not achieved.

The modified results of the 1997 CAS can be explained as follows:

- Implementation of the CAS in the absence of a clear and precise strategic framework such as the economic and social development plan. It must be noted that for the future, the government has developed a five-year plan covering the 2000–04 period, which defines the priorities and action plans, in order to better orient the development efforts of the State, as well as the World Bank's aid and support efforts.

- Inadequacies at the levels of project preparation and appraisal.

4. PRSL and reforms

The report finds that:

- The PRSL program did not permit the strengthening of reforms envisioned in the CAS.
- The PRSL was not sufficiently targeted to have a significant impact in areas where reforms were essential and many measures did not translate into concrete results.
- The performance of the PRSL, with few exceptions, was disappointing and does not seem to justify the central role it held in the lending program (pages 5 and 14¹).

In this regard, it must be noted that the PRSL reflected above all the willingness of the Bank to support the government in undertaking economic and social reforms. Other similar loans were to follow to support implementation of the principal reforms. Therefore it must be noted that several short-term measures were taken before presenting the PRSL to the World Bank Board of Directors, mostly concerning adoption of legislative texts and studies, with a view to preparing the necessary institutional framework for economic and social development. In addition, reforms and measures were set out in the development policy letter and thereby constituted the government's medium-term commitments.

In this case, significant reforms were begun. They correspond perfectly to the Government's strategic framework with the central objective of strong and sustainable growth and reduction of social disparities.

Although certain measures have not yet translated into concrete results, they will not fail to have significant medium-term impact.

Consequently, it appears premature at this stage of implementation to judge the performance of the PRSL.

- The report also notes that the PRSL itself constituted a "a risk which has not paid off in terms of cementing government ownership for a continuing reform program." It is proposed to reformulate this paragraph to specify that the PRSL permitted the launch of important reform work.

- In terms of trade liberalization, it must be noted that Morocco has made appreciable efforts to further liberalize its economy. Morocco is implementing all clauses of the GATT in terms of tariff reduction; these are applied to all partner countries. In addition, in the framework of the Association agreement with the European Union, a tariff reduction program is being applied, with the objective of total trade liberalization of non-agricultural products over a period of 12 years. This experiment has been opened to many other countries, mostly African and Arab, with whom

¹ Note that the page references refer to the French translation of the previous version of the report.

Morocco has signed similar association agreements, contrary to what is stated in the report (p. 5).

- Also, the report notes that “the Letter of Development Policy promised gradual reform of the subsidy system, but the program has yet to be modified.”

In this regard, it is important to note that a reform of the edible oil subsector became effective as of November 1, 2000. The primary aim of this reform, which was accompanied by a liberalization of oil prices, is to allow the consumer to profit from a more dynamic management of the compensation fund by offering him a varied line of edible oils at a lower or equal price than is currently offered, while preserving the incomes of sunflower producers, and assuring, thanks to the possibility of diluting olive oil, a supplemental outlet for the national production of this commodity.

The outcome of this reform is a decrease of the import duties to the minimum rate of 2.5% on edible oil and raw oils, to allow manufacturers to purchase them at the lowest prices on the international market and establish healthy competition between grinders and refiners.

This reform will be accompanied by significant tariff protection on refined oil and a decrease in the protection of oil-cake, which will allow a decrease in livestock feed prices and thereby in process of animal proteins, particularly poultry. Among other accompanying measures that will guarantee the outcome of this reform will be a method of paying farmers the difference between the current price and the cost price of the imported grain.

This reform of the edible oil subsector is in addition to the measures already taken in 1999 concerning the return by manufacturers of the subsidies given on granulated sugar used in manufacturing.

5. Public sector reform

The report finds that change has been slow in several main areas (public sector reform, privatization...).

There is insufficient support for the idea that change in the main areas was slow.

In this regard, the reports prepared on the PE sector by the Ministry of the Economy and Finance at the time of preparation of the draft financial laws since 1998/99 make note of important achievements in this area. Copies of said reports could be made available to the World Bank for additional information.

6. Adjustment loans: Contractual savings development project

The results of this project are judged to be superficial and sometimes short-lived. It must be noted, however, that this program permitted the launch of large-scale structural reforms with medium-term benefits. In this regard, one cites notably the claims regulations for liquidated insurance companies, the current liberalization of insurance tariffs, thoughts on the development of retirement systems and the missions of the CDG.

7. Weight of PEs in the national economy

The report notes that the role of the public sector in value added has evolved little since 1990.

To the contrary, the public sector's role in value added has decreased, due notably to privatization of large corporations (SONASID, SAMIR, SCP, FERTIMA, BCME, RAD, RED...) and to the transfer to the private sector of certain activities, such as production of electricity and water.

8. Financial sector

The report mentions the fact that banking services and mobilization of savings remain weak (p. 9).

In this regard, it must be noted that savings has evolved at a sustained pace, because the domestic savings rate went from 15.8% of GDP in 1996 to 20% in 1999. The commercial banks played a significant role in mobilizing this savings. Among others, the various reforms in the financial sector should further energize banking sector activities, mostly in mobilizing savings thanks to the creation of new savings instruments. In this sense, the Plan envisions a domestic savings rate of 24.3% of GDP in 2004.

9. Moratorium on enforcement of the law on road freight transport

According to the report, a two-year moratorium was established for the implementation of the law liberalizing road freight transport.

Actually, Article 6 of Law No. 16-99 relating to road freight transport specifies that it will not be effective until 36 months from the date of its publication in the official bulletin (13 mars 2000). This moratorium became necessary to allow for the reform of the ONT (staff reduction, restructuring...), even more because the same law required this office to convert to a corporation four years from the date of its enactment.

10. Regulation of the telecommunications sector

It is stated in paragraph 3.7 that an independent commission is charged with regulation of telecommunications activities.

Law No. 24-96 states that regulation of telecommunications activities is entrusted to ANRT and not to an independent regulatory commission.

11. Management of water utilities

It is stated in paragraph 3.18 that most water utilities are part of the public sector, and consequently suffer inefficient management and weak competitiveness.

This finding is not very realistic in that water supply was concessioned to the private sector in the large cities (Casablanca, Rabat) or is in the process of being concessioned (Tanger, Tétouan). In fact, of 404 million m³ distributed by the group of community distributors outside ONEP (125 m³), the two concessionaires in Rabat and Casablanca contribute 178.8 million m³, or 44% of the total.

12. Recourse to World Bank loans

Paragraph 3.28 raises the issue of lack of interest shown by many ministries in World Bank loans.

It is true that recourse to the World Bank has declined in recent years for several reasons:

- Burdensome project preparation, appraisal, and implementation processes;
- Better targeting of operations before being submitted for *World Bank financing (technical assistance, restructuring);
- Budget constraints due to the fact that each operation being submitted for Bank financing must be justified by budgetary support.

The portfolio of Public Enterprise projects financed by the World Bank has also declined. This is primarily because of:

- An improvement in their financial results;
- A debt-reduction policy initiated by certain Public Institutions (ODEP, IAM, Régies de Distribution...);
- An improved targeting by donors in terms of the nature of the project, specifically for social projects requiring better concessional financing.

13. Privatization revenues

The report finds that the Bank should encourage discussion with the authorities on better use of the windfall coming from privatization revenues.

It was decided that the HASSAN II Fund for economic and social development will receive 50% of the revenues from privatization with a view to carrying out investment projects.

14. Recommendations and directions for the next CAS

- The report indicates that the recommendations of the 1997 CAS remain timely. It proposes to emphasize the questions linked to public sector management, redistribution of budgetary expenditures toward the education and health sectors and rural areas, support for rain-fed agriculture and support for private sector development.

In this regard, the actions to be adopted in the next CAS should be integrated into the framework of the 2000-04 five-year plan.

In addition, it would be appropriate for the next CAS to target limited, precisely defined and prioritized areas for cooperation with the Bank. These areas could be agricultural development (PMH, development of the "bour" culture), human development, and institutional development through support for sectoral reforms.

- The report recommends adoption of a market-based exchange rate.

It is important to remember that in the current context marked by a relative mastery of macroeconomic balances, the measure called for by the Bank does not seem appropriate in that it would generate costs, notably in terms of increased inflation, with social consequences.

15. Analytic and Advisory Activities (AAA)

- The report finds that AAA in Morocco is costly.

In addition, it indicates that in light of the high cost of AAA and the Bank's limited ability to influence government views, work should focus on key areas where the Bank is most likely to make a difference.

In order to avoid divergent points of view concerning these studies, the following procedures are suggested:

- Draw up a formal list of analytical work to be undertaken by the Bank;
- Closely associate the Moroccans to the development of this work, notably at the level of gathering statistical data and necessary information, as well as the approach to use for the work; and
- Proceed with reviewing said documents prior to their finalization, and submit their publication to the Moroccan authorities for approval.

OED Response to Government Comments

The written comments from the Government were based on an earlier draft of this report. This final version of the CAE reflects some of the comments through revisions to the text or addition of footnotes (for example, in points 4, 7, 8, 10, and 11, the relevant material has been revised or, in some cases, deleted). In some cases, the Government agrees with the CAE, providing additional explanatory material. Some differences in judgement remain, however, which is not unusual in an evaluation of this type. Key comments (in italics) and OED's response are shown below:

Recommendations and directions for the next CAS: OED agrees with the Government that the actions to be adopted in the next CAS should be integrated into the framework of the five-year plan and that the CAS should target specific, well defined areas. However, these should not be limited to the examples provided by the Government. In particular, the reform of public sector management and the elimination of obstacles to private sector development remain essential to increased growth and poverty alleviation.

Choice of periods for assessing GDP growth rate: It is true that these comparisons can change, depending upon the periods chosen. This is due in part to the impact of droughts, which have been occurring with greater frequency in more recent years, causing wide fluctuations in GDP growth. However, social indicators show a deterioration in conditions during the 1990s. Taking a longer timeframe, real GDP growth averaged around 4 percent per year during the 1970s and 1980s, while it fell to 2.4 percent per year in the 1990s. To the extent that this may be due to the higher frequency of droughts, it is more urgent than ever to diversify the economy and use water in the most efficient manner possible.

Choice of indicators for measuring exports: The critical point is that competitiveness has deteriorated, as reflected by the appreciation of the real effective exchange rate. In volume terms, growth rates of exports in the second half of the 1990s have been below those of earlier periods.

PRSL and reforms: OED agrees that a number of reforms were undertaken in the context of the PRSL, and has updated the text based on the Government's comments. While it is true that the impact of some of the reforms will be felt only in the medium term, OED finds that on balance, the evidence of what was accomplished does not support a higher rating: despite efforts at trade liberalization, protection remains relatively high, and while reforms of the food oil subsector have taken place, important subsidies remain on other products.

Reform of the public sector: While reforms have taken place in the public sector, this area is still of greatest concern for the Bank. The civil service wage bill has increased as a share of GDP in the 2001 budget (to 12.5 percent from around 11 percent in 1997 and 1998). Privatizations have taken place, particularly in infrastructure, but the volume has slowed.

THE WORLD BANK/IFC/M I G A.

OFFICE MEMORANDUM

DATE December 20, 2000

TO Mr. Robert Piccioletto, Director General. DGO

THROUGH Mr. Jean-Louis Sarbib, Vice President. MNA

FROM Christian Delvoie, Director, MNCMG

TENSION 38636

SUBJECT **Morocco CAE – Management Response**

1. The CAE has been prepared in tandem, and in close coordination with the new Morocco CAS, at the request of the region, to provide an objective evaluation of the previous CAS period and highlight challenges, shortcomings and priorities. We believe the CAE focuses on the right issues and we support many of its findings and recommendations, although we do not agree with the overall assessment or rating proposed for reasons given below. One cause of concern is that the current CAE is a very limited exercise, carried out with limited resources, much narrower in scope, analysis and time span than the 1997 CAR. Contrary to the last CAR, it takes a very limited view of the *development process* underway in Morocco and thus often fails to acknowledge shifts in the longer term trends. Due to its limited scope, it is also sometimes based on quick and limited judgments rather than on deep analysis and understanding of the issues. Nevertheless, this exercise has been useful in bringing an outside independent evaluation and judgment and on fostering debate on the efficiency of the Bank's efforts.

2. Evaluating a country strategy is, by nature, a very complex undertaking. Development is a broad concept, encompassing many interrelated aspects, often evolving in an uneven way. More importantly, in the development process, the issue is what is being evaluated: actual outcomes or the process of societal changes to bring about those outcomes, and their resulting sustainability; government actions or the process of support from the Bank. In terms of the Bank's inputs, the key questions to be asked are: was the Bank relevant during the period; was the mix of instruments used appropriate and were its interventions efficient; did it adapt to changing country circumstances, while keeping focus on the agreed objectives; and what was its value added during the period under review.

3. The 1997 CAS set clear directions and ambitious objectives: bridging the gap between rural and urban Morocco; supporting Morocco's economic integration in the world economy to boost growth; starting to address the rigidity of public expenditures and redirect social expenditures through public sector reform; and improving environmental management. It set outcome indicators, but stressed that process and reform progress would be more important to assess progress than actual achievements of the indicators, in view of the short timeframe of a CAS.

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4. In terms of outcomes, while we would qualify many of the conclusions of the CAE, we nevertheless broadly agree with the thrust of its assessment: outcomes in terms of growth, poverty alleviation, public sector reform, or environmental management have not met their initial objectives. Indeed, poverty and unemployment have both increased over the last few years, calling for a new approach. We would also concur fully that, despite limited progress, the reform process has not accelerated as initially envisaged, and that a new impetus is needed to bolster growth. We are particularly disappointed by the lack of progress on public sector reform, the lack of decisiveness on the reform program, and the slow decision-making process in many vital areas.

5. But, contrary to the CAE, we would maintain that the Bank has been relevant during the period, and that institutional development, the key to development, has been substantial. While we agree that the expected outcomes may take longer than initially anticipated, we also believe that substantial progress has been achieved in fostering consensus behind them. Finally, we also feel that the perspective of the CAE is biased by one operation, the PRSL, and does not therefore present a fully balanced assessment of the overall thrust of our support.

6. Development is a *process* of societal change. During the period under review, Morocco underwent a major transformation in this respect, which is underestimated in the CAE. Morocco is in the middle of a major transition towards a more open political as well as economic system, at the vanguard in the whole MENA region. This entailed major trade-offs for the country between economic and political reforms, and resulted in a slow down on economic reforms. During the period under review, there was a sea change from a succession of technocratic decision makers to a political government, led by the opposition; civil society exploded; the press became freer; and sensitive issues, such as judicial reform, education reform, gender and corruption issues, emerged in the open. The implications of this major progress are not well reflected in the CAE. We would strongly argue that the effects of these changes are likely to be more sustainable than those resulting from any specific measures we could have supported; that they involved relative trade-offs in terms of economic progress, to which we have to be sensitive; and that they involved a major change in the way we had to do business in the country. We would also argue that the Bank played a critical role in this transition. We had to move from narrow agreements with key technocrats to broad consensus building across a range of different actors. Clearly this process takes time, but we do believe it will bring a deeper and more sustainable impact.

7. Was the Bank relevant and did it adapt to these changes? Ask the Moroccans. The Bank was a catalyst in terms of rural development and education reform, the two most crucial areas identified in the CAS. It actively supported new sensitive emerging areas, in very participative and non-intrusive ways, such as on gender, judicial reform or corruption. It supported open debates with the emerging civil society, boosting its credibility and role. The Bank also sought to strengthen the credibility of the new Government (with the PRSL loan), -- a key to the current move towards democratic governments, and an action going much beyond the specific written measures supported

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by the loan itself. The process of preparing this operation was based on broad consensus building among the large leftist coalition in power (7 political parties) and resulted in a common understanding of the Government platform. And our program did result in marked improvements in social indicators and access to rural infrastructure in a very limited time span, albeit from a very low base, a key objective of the 1997 CAS.

8. Could we have done more ? Should we have been more forceful on reforms ? These are difficult questions to answer. But two things are certain today, which were not true four years ago: (i) Moroccans are now placing poverty reduction and social development at the center of their development agenda, together with increased participation; and (ii) the process of political opening will not be reversed. Those two actions together are likely to have more lasting results than any other measures supported by the Bank. We would also argue that the Bank credibility has been enhanced during the period, and our advice remains highly and widely sought, possibly more so than in many comparable countries. But we also agree that the lack of tangible results in terms of living standards are now becoming more pressing than ever, calling for renewed efforts and increased action. This discussion is at the center of our dialogue with the country as we prepare our new CAS.

9. The CAE stresses the shift between investment and adjustment loans in our lending program. In our view, this is irrelevant in judging our effectiveness. *One*, we never intended to value our interventions by the volume of lending but by their catalytic role. The shift was partly prompted by the increasing access of Morocco to concessional financing. For instance our small financial contribution on the rural water program – a key to our social agenda in rural areas, had a major impact and was highly leveraged by concessional financing. Overall, the design of our investment lending was based on two factors: (i) catalytic role towards program (rather than project) objectives, and/or (ii) support of key institutional objectives. *Two*, the PRSL, supported in the third year of the program, distorts the CAE analysis; yet, even with the PRSL, disbursements remained negative over the period and our overall base case lending program remained below the agreed threshold. Moreover, we cleaned up the portfolio, canceling a substantial portion of undisbursed balances. The result of all these actions was a reduction in our exposure, not increased financial support. *Third*, our actions sought to enhance the complementarity between portfolio management, new lending and AAA activities in reaching our program objectives, or seeking to enhance consensus behind them. Rather than assessing each action individually or the volume of lending, what is important, but clearly more difficult, would be to assess the impact of this broad approach on, say, health reform, education reform or rural infrastructure, both in terms of impact and of consensus building. There is today a consensus on education reform, the elimination of consumer subsidies, and broad debate on health reform, all highly controversial areas only 4 years ago, and rural infrastructure programs have now been launched in all basic services.

10. Finally, the CAE should be a useful guide in terms of *lessons learned* to build our next CAS. While it does bring some useful lessons and recommendations, it takes somewhat of a static approach in terms of lessons with which we do not fully agree. It states that the past objectives remain highly relevant today. While we broadly concur, we

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also feel that the new environment we are now facing, especially the dynamism of the civil society and the availability of external finance, fundamentally change the way we have to do business in the country. Moreover, the lack of growth and the increased poverty over the last decade also raise fundamental questions on economic management issues, which have now to be at the center of our dialogue, more so than in the past. The repeated droughts, likewise, compound the urgency of the environmental and safety net agenda. The broad principles of education reform are now agreed; the issue today is implementation. We have not succeeded in implementing a broad public sector reform, not for lack of trying, but because of large entrenched interests. The scheduled elections in two years, coupled with a delicate social balance, make quick progress along traditional lines unlikely, requiring that we explore more promising new avenues that are opening up, such as decentralization, participation, governance, and simplification of the business environment, especially for small enterprises. All these points advocate for a new approach, rather than continuity with renewed vigor.

11. In summary, we do agree with the CAE assessments on outcomes, and the new CAS under preparation incorporates several of its recommendations. But we also believe that the assessment presented is partial and should be based on a much more comprehensive and long-term approach to development along the now widely agreed CDF principles, which the CAE fails to do. Judging the Bank's role narrowly misses the true nature of Bank involvement in a country.

cc: Mmes\Messrs. Sarbib, El-Rifai (MNAVP); Nabli (MNSED); Koehn (MNSRE);
Graiss (MNSPF); Baudouy (MNSHD); Hammam (MNSID); Galenson (OEDCR);
Fernandez-Palacios, Zacchia (MNCMG); by fax Godron (MNCMA); Morocco files

OED Response to Management Comments

As noted in the Preface, this report was intended to be a limited exercise, covering only the period since the previous country evaluation—the Country Assistance Review or CAR—was issued in January 1997. This is the period covered by the last CAS. In OED's view, much of the CAR diagnosis and agenda remains both relevant and incomplete. For these reasons, this CAE focussed on the issues and operations which were most relevant during the past 4 years.

While a CDF process has begun in Morocco, it is so far difficult to link it to specific concrete results. OED appreciates Management's view that the changes occurring in Moroccan society may enhance the effectiveness of World Bank assistance in the future. However, this influence has yet to be realized. In the end, the assistance must be judged by its impact on growth and poverty reduction; but as acknowledged by Management, the objectives in these and other areas have not been met.

OED shares the view of Management that institutional development and policy reform are at the heart of what is needed to put Morocco on a path of sustainable growth and poverty reduction. Much is happening in Morocco that may strengthen institutions and lead to policy reform in the future. However, many of the reforms supported by the Bank have yet to take hold. The PRSL, which was the major strategic initiative in these areas during the CAS period, did not have a significant impact. For this reason, OED judges the institutional development impact of the World Bank program to have been modest.

The following points respond to some of Management's specific comments:

- The description, in paragraph 2 of Management's comments, of what is being evaluated is consistent with OED methodology.
- Management's response states (paragraph 5) that the CAE perspective is biased by the disappointing outcomes of one operation, the PRSL. The PRSL, which represented one third of the FY97-99 lending program, was a key policy initiative and was presented as a cornerstone in the policy dialogue with the Moroccan authorities. Still, OED also took into account the rest of the program, where, as described in the CAE (e.g., paragraphs 3.9-3.14), the results have been mixed. For example, effectiveness in the critical areas of health and education is still limited: better models are needed for providing primary education and health care in rural areas, and the allocation of public expenditures still does not reflect priorities. Water is a critical environmental problem and yet the pricing of water, along with trade protection and consumer subsidies, encourage the cultivation of water intensive crops.
- OED agrees with Management's views (paragraph 6) that development is a process of societal change. However, political and social change often occurs in tandem with economic reform. Experience in many developing countries suggests that there need not be trade-offs between political and economic reforms.

- The government's response and OED interviews with government officials indicate that they believe that the Bank program was relevant (paragraph 7 of Management's comments). While this is very important, the CAE points out (Box 3.1) that segments of civil society are concerned that the Bank's program has increased the country's indebtedness, with nothing to show in the way of economic or social progress, particularly as the incidence of poverty has increased. Moreover, a number of NGOs and other members of civil society interviewed by OED are unclear about the object and follow-up of Bank consultations with them.
- Management explains (paragraph 9), as the CAE had noted (e.g., paragraphs 3.2-3.3), that disbursements have remained negative and that the portfolio has been cleaned up. It is true that what matters more than any specific project is the ultimate impact on areas such as health reform, education reform or rural infrastructure. But in OED's view, the evidence so far does not support higher ratings. The report of the Royal Commission on Education does contain many of the main ingredients for reform, but these have not yet been reflected in clear priorities or in an agenda or even an agreed model for implementation. Consumer subsidies have not been eliminated, nor has the debate on health reform led to a reorientation of expenditures or to programs more responsive to local needs.
- This CAE, as all other OED evaluations, is based on a comprehensive, long-term approach to development. Consultation and participation, are also an integral part of most OED evaluations. OED welcomes the Bank's efforts to apply these CDF principles, e.g., through its dialogue with stakeholders, including civil society. Looking forward, a strategy more focussed on results, another CDF pillar, would enhance the effectiveness of the Bank's assistance. In fact, results in reducing poverty and in strengthening growth need to be at the center of any evaluation. This is an area where Management and OED agree that progress has been slow to come.
- Finally, OED appreciates Management's agreement with the CAE assessments on outcomes and welcomes the statement (paragraph 11 of Management's comments) that several of its recommendations will be incorporated into the CAS currently under preparation.

Morocco Country Assistance Evaluation

MANAGEMENT ACTION RECORD OF OED RECOMMENDATIONS AND MANAGEMENT RESPONSES

<i>Recommendations</i>	<i>Management Response</i>
(i) In the area of public sector management, the Bank should focus on the structural aspects of the fiscal problem, including the excessive wage bill, inefficient public enterprises and the allocation of public spending.	The structural aspects of fiscal problems were an area of focus under the previous CAS. Progress was made on the elimination of food subsidies, the reorientation of spending towards rural areas, and privatization of public enterprises improved management. Under the next CAS, the Bank will continue its efforts, through: (i) ESW, including a public expenditure review, and (ii) readiness to support public sector reform efforts in a flexible way should consensus emerge. In the meantime, we plan to deepen our support for decentralization, community participation and governance issues, and to reinforce our overall program focus on poverty alleviation and social development.
(ii) The Bank should continue to urge the government to increase budget allocations for basic health and education, for rural areas, and to benefit women and girls and should direct more of its lending to these areas; new models should be supported on a trial basis, including support for nonformal schools and greater outreach by health clinics.	The proposed CAS' 'core program' fully conforms with this recommendation, including a proposal to support informal education and literacy programs through a dedicated operation.
(iii) The Bank should support measures to improve the environment for private sector development, including price and trade liberalization.	The Bank recently conducted analytical work recommending trade and price liberalization, and more generally the elimination of biases in the incentive framework including the exchange rate and agricultural protection. It intends to deepen this work as needed, and use it as a basis for high-level policy dialogue and consensus-building. It will also follow up on, and possibly assist with the implementation of, the recently-adopted competition law which also liberalizes most domestic prices.

April 23, 2001

CODE2001-42

Report from CODE

Committee on Development Effectiveness

Informal Subcommittee's Report on Morocco Country Assistance Evaluation

1. The Informal Subcommittee of the Committee on Development Effectiveness (SC) met on April 13, 2001 to discuss the Country Assistance Evaluation (CAE) for Morocco (CODE2000-109). The U.S. Chair issued written comments in advance of the meeting. OED remarked that the CAE covered the four years since the 1997 CAS. Major political changes had occurred in Morocco during this time, including a substantial opening up of society, but poverty had increased significantly and social indicators showed little improvement. While the 1997 CAS was relevant to the needs of the country, OED stressed that the actual program implemented in this time period was quite different than what had been proposed in the CAS. OED also noted that the single-tranche Policy Reform Support Loan (PRSL), which accounted for one-third of the three year lending program, achieved little in critical areas such as public sector reform, privatization, and price liberalization. OED remarked that the Bank's economic and sector work had been excellent and cited the preparation of the Gender Plan of Action as best practice. Work on the CDF had, however, elicited little Government or donor participation and donor coordination was generally weak. As a whole, OED concluded that the outcome of the Bank's program in Morocco was rated marginally unsatisfactory, with a modest impact on institutional development.

2. Management noted that the Country Assistance Review (CAR) done by OED in 1997 had been very useful in preparing the 1997 CAS and it had been hoped that this CAE would provide similar guidance. However, Management found that the CAE was much more limited in scope than the earlier CAR, and that the analysis in the CAE had not been comprehensive and had been weaker than expected. In particular, Management stressed that the CAE did not sufficiently account for the major political, societal, and demographic changes that had taken place in Morocco nor did it acknowledge the improvements in rural and social indicators which had occurred through the launching of rural infrastructure programs supported by the Bank. Management considered that the CAE focused too much on narrow project outcomes and relied on past project performance and not enough on the current Bank strategy over the period. Management disagreed with the main recommendations of the CAE on stronger implementation of reforms. Instead, it felt that the new environment in the country was much more complex than in the past, and required a rethinking of Bank strategy and positioning. In particular, the current political opening process required much more effort on consensus building and new ways to tap the emerging civil society. The growth agenda was also not simply a matter of stronger reforms but required rethinking the whole economic management strategy of the country.

3. The SC welcomed the CAE and thanked OED for a well-written study. Members particularly welcomed the frank dialogue and exchange between OED and Management. The Chair representing Morocco noted that the CAE was a useful and important report. However, he stressed that Morocco was in the midst of major changes and the sustainability of its reform programs would only be clear in the medium to long term, rather than the shorter-term focus taken by the CAE. He also added that key exogenous risk factors had affected Morocco's

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performance and the CAE had not accounted for these. Finally, he stressed that development tradeoffs were inevitable due to the major political and social transformation taking place in Morocco.

4. Among the specific comments raised by the SC were:

5. **Methodology.** Members questioned the CAE methodology of measuring outcomes of closed projects and wondered how the review of project performance was augmented to produce the overall evaluation in the CAE. Others questioned how to judge the value added of the new approaches (such as participation, empowerment, civil society) promoted by the Bank. Members also noted the comments made by the Chair representing Morocco and wondered whether OED was evaluating adjustment and institutional development reforms too early to truly judge impact and whether a broader approach was needed. Some members agreed with Management's contention that the CAE should have made greater allowance for the fundamental changes taking place in Moroccan society. Others responded that it was necessary to evaluate the Bank's programs regardless of changes in a country though some acknowledgement had to be made for dynamic and changing situations. Overall, the SC noted the tension between outcomes and time frames noting that it was difficult to realistically judge outcomes in the short time frame reviewed in the CAE. Members also stressed that when CAEs are limited low-cost exercises, it may not be possible for them to do justice to dynamic and complex situations in client countries. OED responded that the CAE reviewed ongoing as well as closed projects, and also noted that it had been explicitly stated in the CAE that the evaluation was meant to be an update on the more extensive CAR undertaken in 1997 which had a longer-term focus and time frame. OED further observed that though changes occurring in Moroccan society may enhance the effectiveness of Bank assistance in the future, this influence had yet to be realized. OED stressed that the latest data showed that GDP growth had slowed and poverty had increased by nearly 50 percent since the early 1990s, to 19 percent of the population.

6. **CDF.** Members expressed concern that the CAE indicated that the Government had not been sufficiently involved in the CDF and the CDF process had been Bank-led rather than Government-owned. The SC questioned why Morocco was a CDF pilot if the Government did not seem to own the process and stressed that the lessons from the 1997 CAS experience amplified the importance of country ownership. Overall, the SC expressed concern that the CDF seemed to be a supply-driven process. Management responded that the Government had been very much involved in the CDF through the preparation of their Five-Year Plan, and that they had asked for specific Bank input. It also noted that the current environment, with elections scheduled in about a year, was perhaps not conducive to completing the process and that various alternatives were under study. Management further noted that the Government had taken its own approach to the CDF by building consensus with various groups in society when preparing the Plan, and the Bank was assisting in this regard.

7. **AAA.** The Subcommittee stressed that the Bank's analytical and advisory activity had to be done in consultation with and in line with the priorities of the Government. Management agreed and noted that the Bank's comparative advantage in MNA countries was knowledge and advice rather than lending and the Bank was sensitive to the priorities laid out by clients in this regard.

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8. **Instruments.** The SC noted the poor outcomes of the PRSL and questioned the efficacy of adjustment lending, particularly single tranche programmatic-type operations, in circumstances such as those in Morocco in that time period. Overall, members felt that Management needed to do a better analysis of the appropriate instruments for Morocco and justify these in the upcoming CAS. Management agreed but stressed that the key issue was not single tranching but the need for clear upfront commitment and action from the Government.

9. **Board Review.** Members noted that OED and Management had both pointed to changes on the ground that had required major adjustments to the 1997 CAS. In this regard, members questioned why the 1997 CAS had not predicted these changes and asked why a CAS Progress Report had not been prepared to inform the Board. The SC asked how the Board had been involved given that such fundamental changes had taken place in the Bank's program. Management replied that these changes had indeed been brought to the attention of the Board when presenting the PRSL. It also stressed that CASs were to be viewed as living documents rather than static snapshots.

10. **Next Steps.** The CAS will be discussed at the Board in May 2001 and the SC requested Management to take account of its comments in the upcoming CAS.

Matthias Meyer
Chairman, CODE Subcommittee

Distribution

Executive Directors and Alternates

President

Bank Group Senior Management

Vice Presidents, Bank, IFC and MIGA

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