



DIRECTIONS IN DEVELOPMENT
Countries and Regions

Morocco 2040

*Emerging by Investing in
Intangible Capital*

Jean-Pierre Chauffour

Overview



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WORLD BANK GROUP

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Foreword

Ten years after the publication of the last World Bank Country Economic Memorandum for Morocco, the 2017 Memorandum entitled “Morocco 2040: Investing in Intangible Capital to Accelerate Economic Emergence” documents the major economic and social strides made by Morocco in recent decades and analyzes the obstacles that it must overcome in order to ensure that the economic catch-up process underway in the country can be accelerated and will pave the way for sustainable economic convergence and the improved well-being of the entire population. With these accomplishments under its belt, Morocco has set its sights on achieving the legitimate goal of accelerating its economic convergence with developed countries in the decades ahead and becoming the first non-oil producing North African country to attain emerging country status.

To examine the possible pathways to achieving this convergence, this Memorandum first assesses Morocco’s economic and social performance over the past 15 years, before looking ahead to 2040, that is, the next generation, and analyzing the economic scenarios that could double Morocco’s current rate of convergence with Southern European countries (France, Italy, Portugal and Spain). A virtuous yet realistic scenario suggests that Morocco’s per capita GDP (in purchasing power parity) could reach almost 45 percent of that of a Southern European country by 2040; the rate currently stands at a mere 22 percent.

The Memorandum then presents the economic policies and political economy conditions that could contribute to this virtuous scenario of accelerated economic convergence. This scenario is based on sustained increased productivity of the Moroccan economy through greater accumulation of intangible capital, which relates to the quality of the institutional, human and social capital of countries. To that end, the Memorandum also seeks to provide ways to address the issue raised by His Majesty, King Mohammed VI, in his Throne Speech of July 2014 regarding the manner in which intangible capital could become the “*fundamental criterion in the development of public policies so that all Moroccans may benefit from their country’s wealth.*”

General Overview

Morocco has made undeniable progress over the past fifteen years not only in the economic and social spheres, but also in the areas of personal freedoms and civil and political rights. These achievements are evident in the country's economic growth performance, increase in wealth, improvements in the population's average standard of living, the eradication of extreme poverty, universal access to primary education, the overall improved access to basic public services, and significant public infrastructure development. These achievements have enabled the Kingdom to launch a process of economic convergence with Southern European countries (France, Italy, Portugal and Spain).

While many economic indicators are on the right track, one continues to lag: the integration of young people into the society. With roughly only one in two young people between the ages of 25 and 35 years employed in a job that is often informal and insecure, youth employment poses a daunting challenge. Morocco must also contend with the need to meet a less immediate demand that is nonetheless as pressing as the demand for jobs: the desire of young people to quickly attain a standard of living similar to that enjoyed in more developed countries. However, the economic convergence process set in motion since the early 2000s has been slow, particularly compared to the process in other emerging countries that have managed to significantly bridge the gap. Although Morocco's political situation has improved since 2011, the aspirations of Morocco's youth for a better future are ever-present.

In this context, what economic and political economy conditions would enable Morocco to improve growth significantly and sustainably, with a view to creating quality jobs for the greatest number of people and converging more rapidly, over the course of a single generation, toward income and wealth levels in the most advanced countries? This is the question that the 2017 Country Economic Memorandum seeks to answer, by beginning with an assessment of Morocco's recent economic performance and its prospects for 2040, and then outlining the economic reforms that could facilitate the achievement of an ambitious, albeit realistic, scenario to double Morocco's current rate of convergence with Southern European countries.

In 2016, the following stylized facts characterize the Moroccan economy:

- The economic and social progress made over the past decade cannot be taken for granted. On the supply side, the major investment effort—primarily made by the central government and state-owned enterprises—has not yet generated significant productivity gains and can hardly be replicated in the coming years without endangering macroeconomic stability. On the demand side, growth has been mainly driven by domestic consumption against a backdrop of increased public, corporate and household debts.
- Morocco's process of structural transformation reveals three basic trends: difficulty allocating unskilled labor owing to weak industrialization dynamics overall, despite resounding successes in a number of emerging sectors (e.g., automotive, aeronautics, and renewable energies); difficulty allocating skilled labor owing to the slow upgrading of productive structures and, in particular, demand for middle and senior management; and difficulty allocating talent resulting in weak entrepreneurial drive. Poorly structured, small and largely domestic in nature, Moroccan businesses are not very enterprising or innovative.

Morocco in 2040. Attaining and maintaining a high level of inclusive economic growth and quality job creation over a 25-year period is one of the major political and economic challenges facing Morocco. A review of possible scenarios raises the following salient points:

- Demographic transition, the urbanization of society in the context of decentralization (“advanced regionalization”) and higher levels of education are three structural trends currently at work in society that provide a unique window of opportunity for catch-up growth. In particular, the low dependency ratio (share of under-15s and over-65s in the total population) projected through 2040 is a real demographic windfall.
- However, these structural trends are not enough to trigger a sustainable upturn in growth. To avoid the “middle-income trap,” Morocco would need to achieve and, more importantly, sustain for at least one generation higher productivity gains than in the past.
- The scenario that extrapolates the trends observed over the 2000-2015 period (strong fixed capital accumulation, modest job creations and low productivity gains) is based on a capital accumulation dynamic that is hard to sustain from a macroeconomic standpoint: the investment rate cannot continue to grow indefinitely. Without an upturn in productivity gains, growth can only slow. The sluggish economic growth in recent years could be interpreted as a harbinger of this slow convergence scenario.
- Productivity gains are the cornerstone of a robust growth that is viable in the long run and able to improve the well-being and prosperity of Moroccans

while strengthening peace and social stability. The accelerated economic convergence scenario assumes a 2 percent increase in total factor productivity per year and an increase in the employment rate of the working age population from 45 percent in 2015 to 55 percent in 2040, driven mainly by an increase in the current persistently and extremely low female employment rate of roughly 23 percent. The cumulative effect of higher productivity and employment rates would be stronger, sustainable trend growth of at least 4.5 percent per year through 2040.

- Doubling productivity gains to 2 percent per year for several decades is a major challenge as it assumes an overhaul of production structures and substantial efficiency gains. Additional productivity gains will not come solely from new produced capital, but from a greater effort to accumulate more intangible assets, that is, human, institutional and social capital. Growth in productivity and intangible capital are largely linked and the Moroccan economy's growth path and the people's increased well-being by 2040 will be determined on the basis of these two key variables.
- In refocusing its public policy priorities on the development of its intangible capital, Morocco would naturally adjust its development strategy and improve the governance of its sectoral policies.

What pathways must Morocco take to achieve economic emergence? A sustainable scale-up of total factor productivity cannot come from a single reform, however ambitious it may be. In other words, building Morocco's intangible capital will necessarily take different forms. It must seek to advance a social contract aimed at strengthening institutions, refocusing government action on its sovereign functions, developing human capital and strengthening social capital with a view to promoting an open society.

Investing in market institutions:

- Allocate capital more competitively. Important efficiency gains could be achieved by the removal of existing economic distortions. Morocco could act in the following three strategic areas to unlock innovative drive: strengthen competition and tackle rent seeking; better inform and further involve economic players, especially local actors, in the decisions that concern them; and promote a culture change in business and innovation.
- Allocate labor more efficiently and inclusively. Estimates suggest that overhauling the labor code would significantly raise economic participation and employment, especially formal employment for young people and women, and reduce unemployment without jeopardizing wages. The reform could seek to significantly relax labor regulations, improve income security for workers and strengthen the effectiveness of active labor market policies.

- Increase integration into the global economy and global value chains. Greater integration of Morocco into the global economy would entail an end to the “anti-export bias” that continues to be endemic to the institutions and policies governing Morocco’s exchange system, including a more flexible exchange rate regime, the liberalization of capital controls, lower tariff and non-tariff barriers to trade, better trade facilitation and an improved investment regime. The prospect of an ambitious Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union and its embedded potential for modernizing Morocco’s rules and regulations constitutes a strategic objective with a strong transformational potential the Moroccan economy.

Investing in public institutions and services:

- Strengthen the rule of law and justice. Morocco should act to implement the new rights enshrined in the 2011 Constitution and the Justice System Reform Charter and introduce the necessary additional relevant provisions to quickly send a strong signal of real change, with a view to improved security of persons and property and improved contract certainty.
- Modernize the civil service. The reform pathways for the civil service generally taken around the world seek to decentralize human resource management responsibilities, empower administrators, increase the flexibility of the recruitment and career development policies, encourage individual and collective performance and, more generally, streamline the administration. Morocco’s priorities would be to decentralize government, reform the civil service by effectively introducing the notions of performance and results into human resources management, reduce the administration’s operating costs through a tighter rein on staffing levels and the wage bill, and engage in more general strategic thinking on the very notion of the civil service in the 21st century.
- Improve public service governance. Strengthening public service governance entails putting the user at the center of the system as beneficiary and regulator and, in particular, giving more voice to users, systematically informing and reporting to the public, simplifying and bringing decisions closer to the users, and testing and evaluating new approaches to public service.

Investing in human capital:

- Place education at the heart of development. For the education reform to be effective, it will have to be realistic and selective. It should tackle major constraints in a “shock therapy” approach designed to trigger an “educational miracle,” that is, a huge improvement in the Moroccan students’ level of education. This would require a complete overhaul of the education system, improved teacher recruitment and training, the adoption of a new brand of public school governance, the development of alternative educational options (charter schools, school vouchers and home schooling), and the promotion of

21st century skills, in particular through greater use of information and communications technologies in schools.

- Invest in health for better economic health. In support of the government's strategy and with a view to strengthening the other key dimension of human capital, the reform's priority areas should seek to extend medical coverage and adapt health care services, mobilize and improve the allocative efficiency of health care spending for primary health care, and, at the same time, significantly improve health system governance to guarantee the efficiency of the new resources by holding all actors more accountable, remobilizing health care staff and introducing an integrated health information and management system.
- Develop early childhood care and education. Whether from the point of view of human rights, equal opportunities or economic efficiency, an effort must be made to ensure that all Moroccan children benefit from improved care and development during early childhood. This calls for major public information activities and awareness-raising campaigns on the importance of early childhood development, improved coordination of government support policies and programs, additional quality investments in pre-primary education, and the provision of more information to parents on responsible parenting, especially with respect to fathers.

Investing in social capital:

- Achieve gender equality. Morocco has a long way to go to improve access to economic opportunities and empowerment for women. Public policies can be designed to both combat gender inequalities and promote economic growth. They could be based on three major pillars: open up economic opportunities for women, encourage women's empowerment, agency and autonomy, and systematically mainstream gender equality into public policies and continue the process of modernizing the law.
- Encourage greater interpersonal trust. A country has a fairly small range of means available to build its social capital as no one can dictate the general level of trust among people, any more than they can dictate the way people live, relate to one another and work together. Social capital is a by-product of perpetual or inherited structural factors that are hard to change (geography, history and culture). Nevertheless, studies have shown that it is possible to raise the level of social capital by ensuring greater respect for and improved application of the rule of law, promoting a sense of civic duty and exemplarity in all decision-making spheres, encouraging engagement in associations and the development of civil society, and supporting a change in attitudes and sociocultural norms, through targeted information campaigns.

In its epilogue, the Memorandum discusses the political economy conditions that could bring about a new, ambitious reform process. The question discussed is no longer “what should be done” but rather “how it should be done.” How can the identified reforms be implemented in ways that significantly improve the social well-being of Moroccans? What are the forces that can foster a superior economic equilibrium and improve social well-being? This generally requires enhancing the understanding and application of “the rules of the game,” or adopting and implementing new rules where necessary:

- The Memorandum speculates that, even in the absence of changes to “the rules of the game” strictly speaking, informing the actors (enterprises, households, and citizens) of the causes and consequences of the public policies adopted, sharing new concepts and ideas, and discussing the existing rules of the game may shift the equilibrium among the various components of the society and thus engender the desired change in the actors’ positions (such as education reform). Increasing the level of knowledge, scaling up accountability and transparency and encouraging policy evaluation are three mechanisms that enable players to constantly revise their positions.
- Where an improved understanding of the rules of the game is not enough to alter the actors’ positions and the equilibrium, the Memorandum speculates that two exceptional circumstances would be able to change the rules of the game and promote Morocco’s accelerated transition toward a more open society: the swift and thorough implementation of the spirit and principles of the 2011 Constitution and the equally swift and thorough implementation of an ambitious Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union.

Table 1 summarizes the main economic and institutional policy areas that could pave the way for Morocco’s economic emergence, based on the analysis in the Memorandum. These policies are separated into short-term policies (those that can be immediately executed) and longer-term policies (those that require more preparation or cannot be immediately executed). These recommendations are generically formulated, in accordance with the Memorandum’s objective, to map out the broad economic policies in the various areas related to intangible capital. To achieve their objectives, the recommendations must also necessarily need to be refined and deepened through adequate sectoral dialogue.

Executive Summary

Morocco has made undeniable progress over the past 15 years not only in the economic and social spheres, but also in the areas of personal freedoms and civil and political rights. Following two decades of relatively weak growth, since the late 1990s, Morocco has stepped up its growth rate virtually doubling its per capita gross domestic product (GDP) and initiating the process of narrowing the standard-of-living gap with southern European countries. The resulting economic growth has also led to an increase in the country's total wealth and to major social achievements, with the eradication of extreme poverty, a sharp decline in the national poverty rate, increased life expectancy, greater access to basic public services, including universal access to primary education and significant public infrastructure development (water, electricity and transport).

Per-capita income increased after the implementation of major institutional reforms aimed at opening up the society. Constitutional amendments in 1992 and 1996 initiated a process to democratize and modernize public institutions through the establishment of more representative institutions, while recognizing new economic freedoms such as freedom of enterprise. Following these constitutional amendments and the fillip given to the reforms by His Majesty King Mohammed VI upon his accession to the throne in 1999, bold reforms and new laws were adopted to gradually liberalize and open up the economy, privatize a number of public enterprises, restructure the financial system, strengthen public governance and the rule of law and guarantee a growing number of fundamental human rights. With the creation of the Equity and Reconciliation Commission in 2004, transitional justice became the instrument for establishing truth and providing redress for past injustices and human rights violations. Women's rights were significantly strengthened with the universally hailed revision of the Family Code (Moudawana) in 2004.

With these accomplishments achieved, Morocco has set its sights on achieving the legitimate goal of upper-middle-income status and accelerating its economic convergence with developed countries. To that end, major infrastructure projects have been and are being executed, including the Tangiers-Med port, the highway

network, and a series of ambitious sectoral strategies covering all sectors of the economy: agriculture and fishing, energy and mining, construction and public works, manufacturing industries, and services, in particular tourism and information and communications technologies. An ecosystem network comprising integrated industrial projects is emerging around the development of phosphate mining, agribusiness, and the pharmaceutical, automotive and aeronautical industries, and other new global businesses. Morocco's automotive industry assembled close to 230,000 cars in 2015 under the Renault Group, with the target set at 400,000 cars. In early 2016, Morocco opened the world's largest thermodynamic solar plant and has set a target of generating more than 52 percent of its energy from renewable sources by 2030. Morocco will open the first high-speed train line on the African continent in 2017 and, in 2018, the Tanger Med port will become the largest maritime transit hub in the Mediterranean and Africa once expansion works have been completed. The ongoing establishment of the Peugeot-Citroën carmaker is expected to result in the production of 90,000 engines and vehicles by 2019 before reaching the ultimate target of 200,000, thereby strengthening Morocco's position in the global automobile manufacturing industry. Morocco's goal is to rank among the world's top 20 tourist destinations with 20 million visitors by 2020. Other examples of impressive success stories and ambitious projects can be cited. In many respects, Morocco has been an outlier over the past 15 years in a region of the world beset by extremely difficult political, economic and social problems.

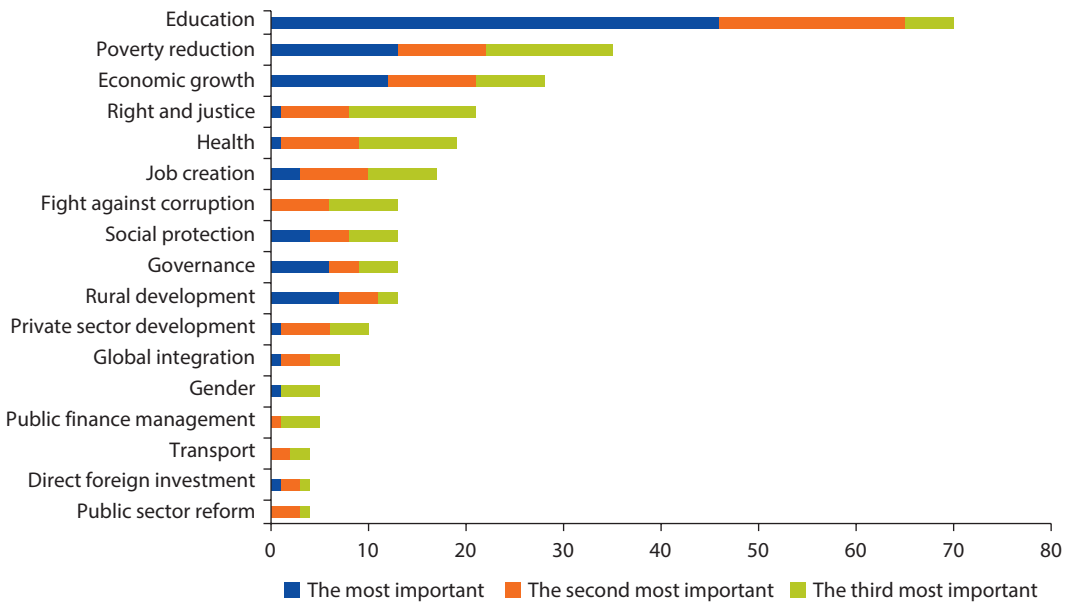
Although many economic indicators are on the right track, the integration of young people into the society is a major challenge for the country. The opportunities provided to young people, as well as their participation in the country's economic and social life, are one of the best indicators for evaluating the level of social cohesion in a country. In Morocco, the issue of youth employment has a quantitative dimension in the short term and a more qualitative dimension in the medium term:¹

- In Morocco where roughly only one in two young persons between the ages of 25 and 35 years has a job that is often informal and insecure, youth employment poses a daunting, short-term challenge to the future of the society (HCP 2015). Indeed, employment conditions the achievement of other essential economic and social goals: reduce poverty and inequalities; boost individual well-being; increase the size of the middle class; promote gender equality; provide sustainable financing of community support mechanisms; and strengthen social peace.
- Morocco must also contend with the need to meet a less immediate demand that is nonetheless as pressing as the demand for jobs: the desire of young people to secure better quality jobs to enable them to attain a standard of living that can more quickly approximate the standard enjoyed in developed countries. Even where their material circumstances have improved, young people at times experience feelings of deprivation and injustice whenever they compare themselves with other reference groups or whenever public policies,

particularly with respect to employment, are not in line with their expectations (Serajuddin and Verme 2012). Although Morocco’s political situation has evolved greatly since 2011, the aspirations of Morocco’s youth for a better future are ever-present.

Beyond these concerns—and the technical reforms needed to address them—lies the core issue of strengthening Morocco’s current social contract. How can the often proactive public policies translate into a much larger number of jobs that are better paying and more equitably distributed? The country’s future lies in the hands of its youth—a youth that is more skilled, more urbanized and better connected to the rest of the world. However, beyond the undeniable progress achieved in Morocco in recent years, in particular relative to the other countries in the region, do Moroccan youth possess the necessary skills, particularly with respect to training, to meet the challenges of the knowledge economy in an increasingly globalized society? Education is generally viewed as the top priority to be addressed for the development of Morocco (see figure ES.1). Some of Morocco’s youth are overcome by a feeling of hopelessness that primarily manifests itself in the desire of many young people to try their luck abroad and join the roughly 4.5 million Moroccans officially residing in other countries. The 2012–14 Arab Barometer showed that more than 28 percent of the Moroccan men and women surveyed are considering emigrating, primarily for economic reasons.

Figure ES.1 Morocco’s General Issues and Development Priorities



Source: Morocco Country Opinion Survey Report, World Bank 2014.

In view of Morocco's economic goals, international experience shows that countries rarely transition from middle-income to high-income country status, and that those that have achieved this goal have done so with tremendous effort and sacrifice.² The report issued by the Commission on Growth and Development noted that only 13 countries have achieved and been able to maintain an annual growth rate of 7 percent or more over a period of more than 25 years since 1950.³ Following a generally encouraging phase of rapid development and modernization of basic infrastructure, growth in scores of developing countries has now hit a "glass ceiling"; in other words, they are contending with development limitations that are largely invisible and relate to intangible assets. Thus, despite often considerable effort, public policies struggle to create adequate conditions conducive to economic convergence. Noteworthy success stories in industry cannot obscure the difficulty of providing greater opportunities for young people. An overly slow structural transformation of the economy is preventing this sector from absorbing the rapid increase in college graduates. The society's institutions and organization are not evolving at a sufficiently rapid pace to create new incentives to drive sustainable development and create wealth. Urbanization is progressing without creating industrial sectors or high value-added services, a phenomenon referred to by renowned American political analyst Francis Fukuyama as "modernization without development." (Fukuyama 2014)

In light of these international experiences, what obstacles must Morocco overcome in order to ensure that the groundwork laid for the economic catch-up process underway in the country paves the way for sustainable accelerated economic convergence? What economic and political economy conditions would enable Morocco to significantly and sustainably increase growth, with a view to creating quality jobs for the greatest number of people and more quickly achieving income and wealth convergence? To examine the possible pathways for this option, the 2017 Country Economic Memorandum is divided into two parts.

Part I assesses Morocco's economic and social performance over the past 15 years before looking ahead to 2040, that is, the next generation, and examines the conditions that could double Morocco's current rate of convergence with southern European (France, Italy, Portugal and Spain) and upper-middle-income countries (mainly the emerging economies in Southeast Asia, Africa and Latin America).⁴ It aims to answer such key questions as the following: Has economic growth in Morocco over the past 15 years created national wealth, or has it occurred to the detriment of the environment? Has it led to a reduction in poverty and inequalities? What has been the rate of convergence with developed countries in terms of economic and social indicators? Is the development model that has been followed over this period viable or is it beginning to sputter? Is it a vehicle for the country's rapid structural transformation to a period marked by external openness, economic liberalization and increased technology transfers? What main economic challenges must be tackled by 2040 to meet the expectations of Moroccan youth, particularly with respect to jobs and well-being? During this process, can Morocco benefit from windfall effects and

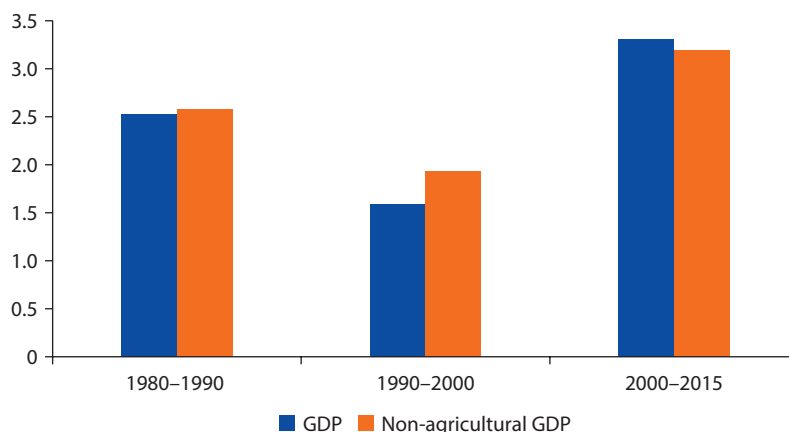
opportunities, owing in particular to its demographic transition? What would be the economic characteristics of an accelerated convergence scenario and the implications of this scenario for the development model currently being followed by Morocco?

Part II seeks to examine the economic policies that would help make the virtuous scenario of accelerated economic convergence by 2040 a reality. As will be discussed later, this scenario is predicated on a sustained increase in productivity through greater accumulation of intangible capital, which relates to the quality of the institutions, the development of human capital and the quality of social capital in countries. World Bank reports on the wealth of nations note that economic growth that is sustainable and environmentally friendly is first and foremost based on intangible capital accumulation (World Bank 2006a, 2011). The “glass ceiling” hindering progress in nations would primarily be composed of intangible assets that are largely invisible and not easily quantifiable, such as governance, knowledge, or trust. Looking at ways to grow Morocco’s intangible capital, the second part of the Memorandum seeks to answer the following questions: What measures should Morocco adopt to enable institutions supporting the market to allocate jobs and capital in a more efficient manner and ensure a more effective integration of the country into the global economy? What conditions are required to ensure that more efficient public institutions and public services will help strengthen justice and the rule of law, boost the government’s productivity and improve access to and the quality of public services? How can the education and health systems and early childhood development be reformed to boost human capital? Last, how can Morocco’s social capital (which underpins progress in all the other areas) be strengthened through greater gender equality, increased interpersonal trust, and a stronger sense of civic duty and the importance of the commons? The Economic Memorandum therefore seeks to provide ways to address the question raised by His Majesty, King Mohamed VI, in his Throne Speech of July 2014, regarding the manner in which intangible capital could become the “fundamental criterion in the development of public policies so that all Moroccans may benefit from their country’s wealth.” (HM King Mohammed VI 2014)

Morocco Today and Tomorrow

Morocco in 2016

Following the “lost” decade of the 1990s, Morocco’s economy started to catch up in the early 2000s, driven by relatively sound macroeconomic management and scaled-up structural reforms. With annual per capita GDP growth of 3.3 percent from 2000 to 2015 (see figure ES.2), Morocco significantly reduced its poverty level and started to share the benefits of growth. The percentage of the population living below the national poverty line (US\$2.15 per day) fell significantly, from 15.3 percent in 2001 to 4.8 percent in 2014, and extreme poverty was eradicated (HCP 2016a). Over the same period, the well-being of the bottom 40 percent of Moroccans grew both in absolute and relative terms

Figure ES.2 Morocco: Per-Capita GDP Growth Rates, 1980–2015, percent

Source: HCP, World Bank calculations 2016.

(the well-being of the poor improved relative to that of the non-poor), pointing to an increase in shared prosperity. Morocco also managed to turn this growth upturn into improved net wealth by accumulating human, institutional and social capital, which is the main source of the populations' income and well-being. Total wealth per capita (in constant dollars) rose nearly 2.8 percent per year on average from 1999 to 2013, increasing from US\$28,663 to US\$43,535.

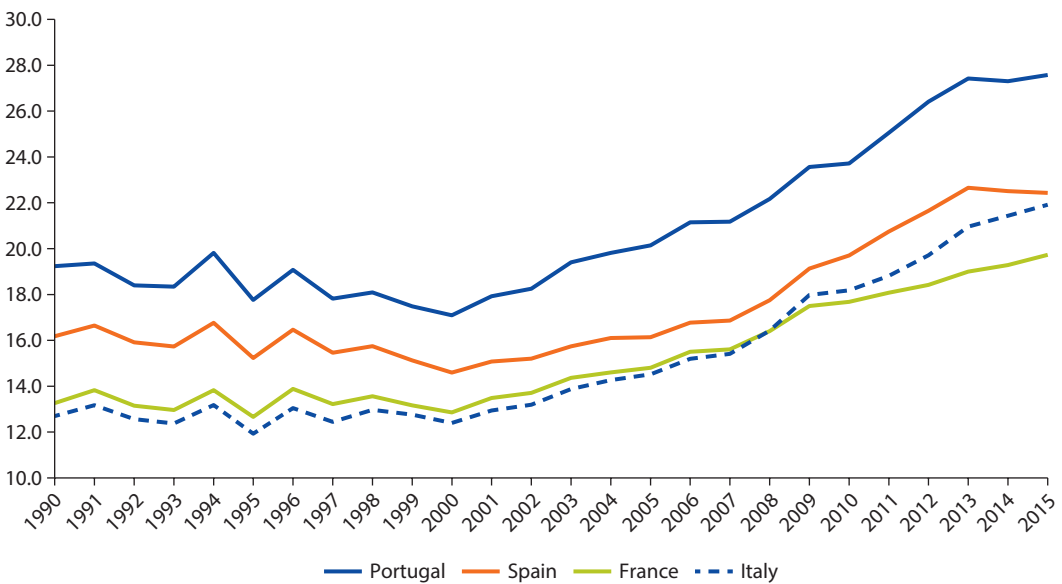
In a changing global environment, Morocco has embarked upon a fast-track modernization process driven by major sectoral infrastructure projects. The strategies implemented in recent years have injected new momentum into strategic sectors such as agriculture, mining, energy and industry (Ministry of Economy and Finance 2015a). The implementation of the Green Morocco Plan has started to have tangible effects on the restructuring and modernization of the Moroccan agricultural sector. The integrated Halieutis strategy has positioned the fisheries sector among the high export-potential sectors. The mining sector development strategy based on the modernization of the national phosphate company (OCP) has placed the company among the world leaders in its sector. Investments in water, solar and wind power are driving the sector forward toward reaching the target of raising the share of renewable energies to 42 percent of total energy capacity by 2020. The firm establishment of the industrial sector in the global value chains has driven the emergence of new, higher value-added industrial specializations such as automobiles, aeronautics and offshoring. For example, the establishment of Renault in Tangier has made Morocco the number two carmaker on the continent behind South Africa, and the country is gearing up for even better performances in the coming years with the impending opening of a Peugeot Citroën plant (Ministry of Economy and Finance 2015b). The establishment of high-performance ecosystems to integrate the value chains and

consolidate local relations between large corporations and small and medium enterprises (SME) is part of the industrial acceleration plan launched in 2014 that is set to create half a million industrial jobs by 2020.

Faster economic growth initiated an economic convergence process toward neighboring Southern European countries (France, Italy, Portugal, and Spain). While the average purchasing power of a Moroccan citizen (measured by per capita purchasing power parity GDP) had tended to stagnate or even regress relative to the rate in Southern European countries during the 1990s, a convergence process got underway during the 2000s (see figure ES.3). As a result, Morocco narrowed its per capita income gap by 8–10 percentage points with Spain and Portugal. The gap with the other Southern European countries was also reduced in a similar manner, suggesting that this performance was due to Morocco’s efforts and not to a poor relative performance of the comparator country.

Thanks to its geographic position in the region and relatively sound infrastructure base, Morocco intends to strategically position itself as an economic and financial hub between Europe and the African continent. Morocco has set in motion a new strategic South-South partnership built on co-development and closer South-South cooperation to make the most of its select geographical location and its historical relations with its European, American, Gulf and Mediterranean trading partners (Ministry of Economy and Finance 2015c). “National champions” have set up operations in many Central and West African

Figure ES.3 Economic Convergence of Morocco with Southern Europe, per-Capita GDP of Morocco Relative to Southern European Countries Measured in PPP, 2011 US\$, as a Percentage

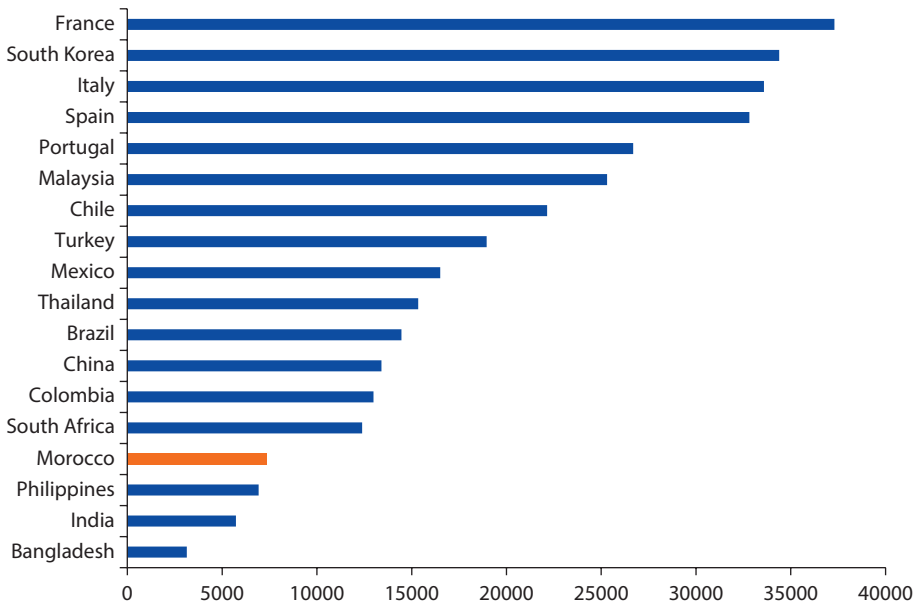


Source: World Development Indicators, World Bank 2016.

countries in the banking sector (Attijariwafa Bank, BMCE, Bank of Africa and Banque Populaire), telecommunications (Morocco Telecom), insurance, energy, the food industry and real estate, as well as in East Africa (Tanzania, Ethiopia and Madagascar) with recently agreed megaprojects. The financial platform Casablanca Finance City Authority is currently designed to attract international investors and provide them with an infrastructure and suitable conditions for their activities in North Africa, West Africa and Central Africa. Trade is booming between Morocco and Sub-Saharan Africa, as is Moroccan foreign direct investment (Amadeus Institute 2015). Approximately 40 percent of the traffic from the Tanger Med port currently continues on to the African continent. Royal Air Maroc has doubled its continental network since 2007, traveling to more than 30 destinations in Africa in 2015.

However, despite Morocco's domestic and regional performance, the Moroccan economy has been slow to converge with advanced economies. The decade of the 2000s has been one of economic convergence for all developing countries. Low income countries and upper middle-income emerging countries (for example, Chile, Malaysia, the Republic of Korea, and Turkey) have on average tended to grow more quickly and thus converge more rapidly toward high income countries than Morocco. All told, although barely 15 kilometers separate the kingdoms of Morocco and Spain, the average Moroccan's purchasing power stood at only 22.5 percent of its immediate European neighbor in 2015 (see figure ES.4).

Figure ES.4 Morocco: Per-Capita GDP in 2015: International Comparison, in U.S. dollars PPP, 2011

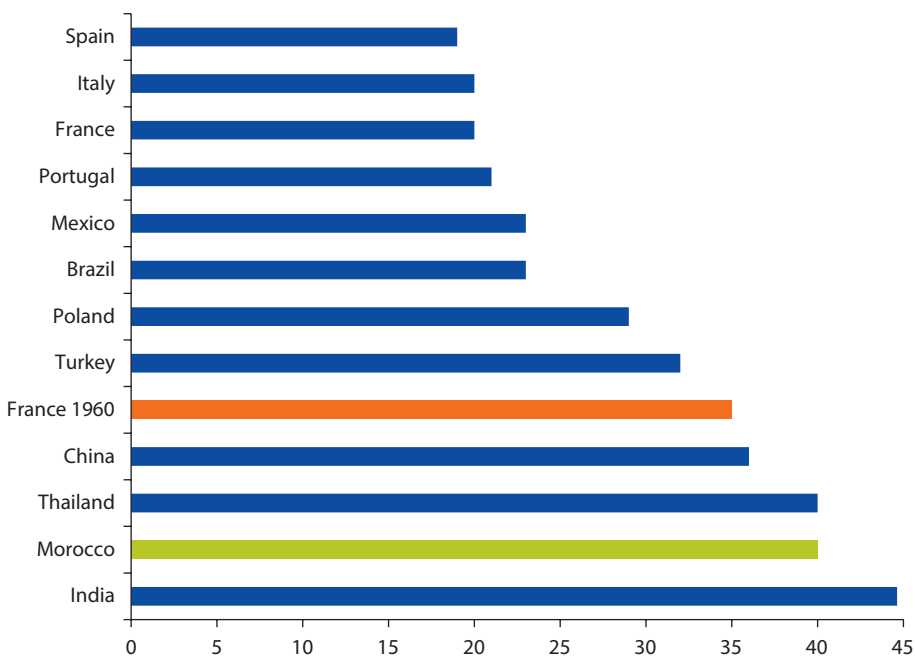


Source: World Development Indicators, World Bank.

Greece, whose economy is in severe crisis, has three times higher per capita income than Morocco. To appreciate the limitations of the Moroccan convergence process, it is worth bearing in mind that the countries with successful economic takeoffs have all managed to maintain a per capita GDP growth rate of more than 4 percent for decades.

The current economic gap between Morocco and Europe stands at about a half century. Historically speaking, the current Moroccan standard of living corresponds to the standard of living posted by the French in 1950, the Italians in 1955, the Spanish in 1960 and the Portuguese in 1965. This gap is also found between Moroccan and European relative living conditions. For example, the current structure of Moroccan households' consumer spending is similar to Europe in the 1950s and 1960s (HCP 2014, 2016a). In particular, the share of food expenditure in the budget remains high (approximately 40 percent), demonstrating families' low purchasing power and the predominance of essential expenditures (see figure ES.5). In health, Morocco's child mortality rate stood at the same level in 2015 as Europe's in 1960, at some 24 deaths per 1,000 births. Morocco also lags behind in mobility and transport. Car ownership in Morocco is lower than the rate observed in certain Southern European countries half a century ago and just 18 percent of Moroccan households own a car today as opposed to 30 percent of French households in 1960.

Figure ES.5 Share of Food in the Household Budget, 2010, Percent

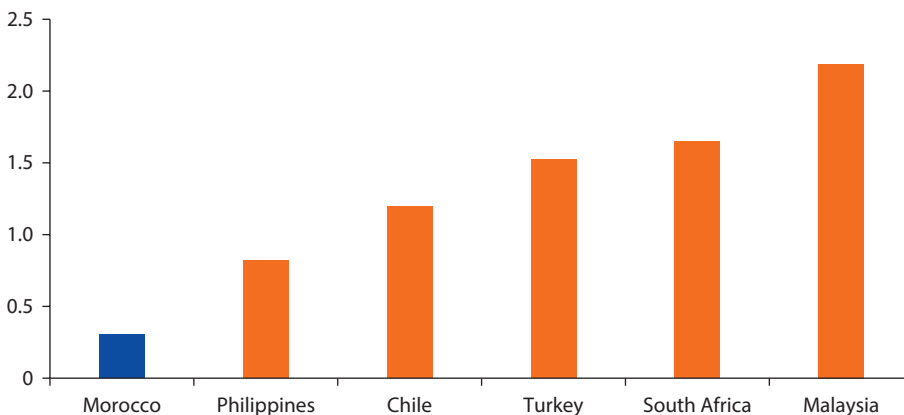


Source: Global Consumption Database 2012, International Finance Corporation World Bank.

This low rate of car ownership has a great impact on the Moroccan population's well-being as it occurs in conjunction with growing urban sprawl and poor public transport systems.

In addition, the country's social and human development and social cohesion outcomes still fail to meet the expectations of the population, which is well aware of a multispeed development process in Morocco. Even though the Gini coefficient for Morocco recently posted a downturn, it still displays high levels of income equality. Disparities in poverty rates between regions point to spatial divides, especially between urban and rural environments. Nearly one quarter of rural households have no direct access to a road and live at least 10 kilometers from basic health services. An average 63 percent of births in rural areas are attended by skilled staff, compared with 92 percent in urban areas. While 90 percent of households in cities are connected to the water supply network (running water inside the dwelling) and to the public sanitation network, rural connection rates do not reach 40 percent in the case of drinking water and 3 percent for sanitation (HCP 2014). Morocco's human capital is struggling to develop in this environment: illiteracy rates and gender disparities in access to secondary education remain high. Both education quality and learning outcomes lag far behind other countries with similar or even lower income levels. The country is ranked 126th worldwide out of 187 countries on the Human Development Index and 91st of 157 countries on the World Happiness Index, a more subjective index measuring well-being, trust in society, solidarity and the feeling of freedom (UN 2015a, 2015b). National surveys on well-being confirm that a large proportion of Moroccans are dissatisfied with their lives: 45 percent say they are not very or not at all satisfied with their living conditions, 24 percent are fairly satisfied and barely 30 percent say they are satisfied (HCP 2012).

The Moroccan economy does not create enough jobs to satisfy the ambitions of increasingly demanding young people. On average, over the last five years (2012–2016), only 26,400 net new jobs were created per year for a working-age population (15–65 years old) that grew by a net 270,000 people on average per year (HCP 2016b). Relative to the size of its population, Morocco created half the jobs created by the Arab Republic of Egypt and one third of those created by Malaysia (see figure ES.6). Young labor market entrants therefore face mass unemployment and underemployment. The unemployment rate for young people ages 15 to 24 years stands at more than 20 percent nationwide and as high as nearly 40 percent in the cities. Even more worrying—and unlike the general observation elsewhere in the world—is the fact that proportionally more young graduates are unemployed. Whereas the unemployment rate for unskilled young people is 4.5 percent, the rate is 21.7 percent for young technical college graduates and 24.6 percent for young university graduates even as growing numbers of young people are entering university. Moreover, approximately 90 percent of young people who do have a job do not have an employment

Figure ES.6 Net Job Creations, 2010–14 Average, Percentage of the Working-Age Population

Source: International Labour Organisation, ILOSTAT.

contract and work in the informal economy, indicative of the insecurity of their employment situation.

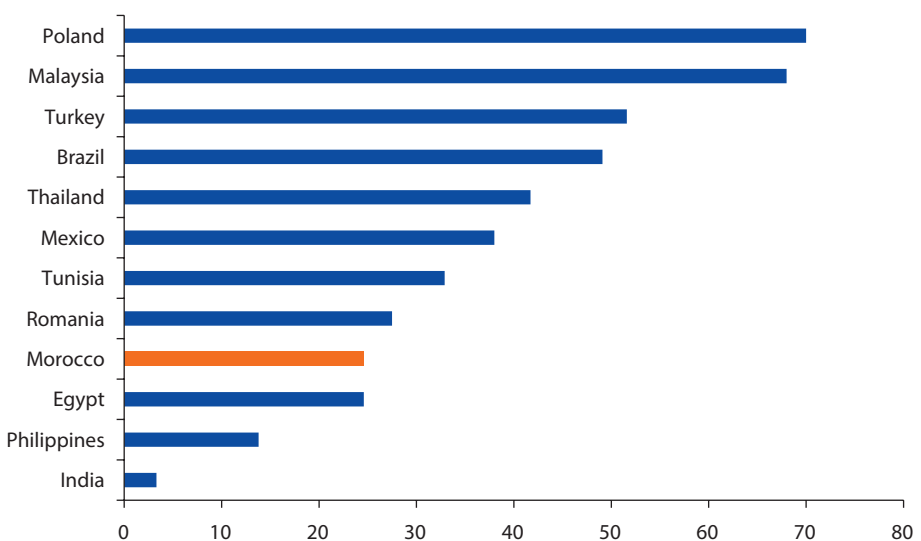
As is the case in other countries facing the same situation, many families are concerned about their children's future. Access to employment is in fact routinely cited in surveys as one of the population's primary needs and the top priority of one in five heads of households (HEM 2016). Families are especially anxious since the situation over the past nearly 20 years has been slow to improve. Despite Morocco's efforts to broaden education, promote employment and curb youth employment, including as an employer of last resort, results have been mixed. Yet, in Morocco, although the social contract has been renewed over time, unlike in other countries in the subregion, ongoing strengthening is required. Over and above the income and individual well-being that a job brings, employment most importantly, has a social value. It is a source of independence, responsibility, self-esteem, personal development, and integration in addition to a guarantee of social status. Without a job, the prospects of finding housing, having a family and being integrated into society in general start to look remote. In Morocco, as is the case in other countries, marginalization, which leads to delinquency and, in certain extreme cases radicalization, looms over some of these unemployed young people (El Difraoui, A. and M. Uhlmann 2015).

The middle class is struggling to emerge owing mainly to the high cost of living and dysfunctional public services. If it is assumed that a middle class household has a minimum income of US\$10 per person per day (PPP 2011), or US\$1,200 per month for a family of four (Pew Research Center 2015), just 25 percent of the Moroccan population is middle class.⁵ This is an unusual situation in view of the size of the middle class in emerging countries (approximately 50 percent in Brazil and Turkey) and in countries that have experienced an

economic takeoff (see figure ES.7). The middle class already accounted for 53 percent of the population of Korea back in the 1980s. Moreover, the middle class threshold is estimated to be much higher than in other emerging countries owing to public policy failings that burden households with large extra costs to pay: urban planning (high cost of property), education policy (expensive private schooling increasingly necessary for children as an alternative to the deficient public system), transport policy (poor quality public transport), health policy (poor quality of the public health system, limited health care coverage and high rate of household contribution to health care expenditure). Once these costs are taken into account, just 15 percent of Moroccan households appear to remain in the middle or upper class, that is, approximately 5 million inhabitants out of a total population of some 34 million.

Morocco's growth model is also showing signs of running out of steam. In particular, Morocco risks quickly finding itself having to contend with the limitations of growth based on produced capital accumulation. Despite positive demographics, the labor factor has contributed little to the recent growth trend. Morocco has one of the lowest employment rates in the world with less than one in two Moroccans employed or seeking work. Growth is heavily penalized by the economy's difficulty in using available human resources, especially young people and women, and in swiftly reallocating labor across sectors for efficiency purposes. Unlike the labor factor, capital accumulation has made a large contribution to growth, mainly owing to one of the highest investment efforts in the

Figure ES.7 Share of the Middle and Upper Classes in the Population, Household Income >US\$1,200 PPP, 2011



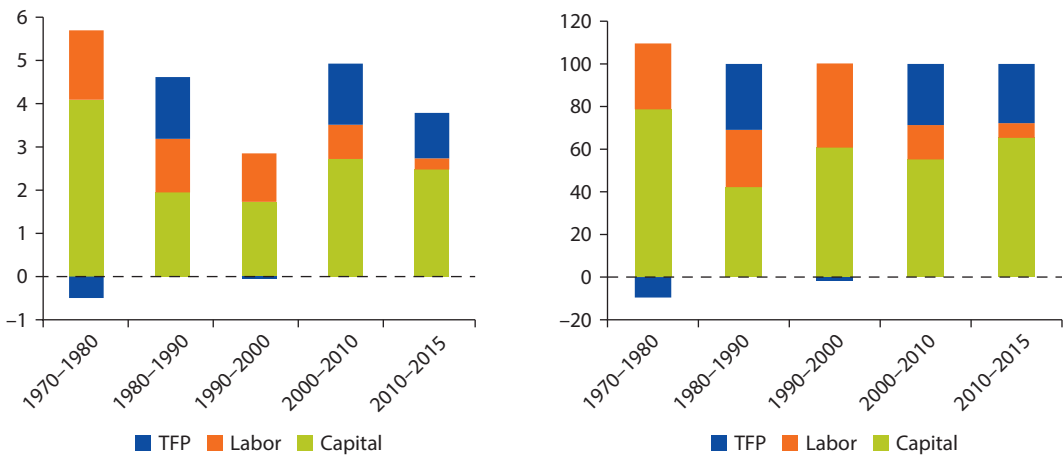
Source: Pew Research Center 2015.

world in the last decade. The rate of investment rose from 25 percent in 2000 to 32 percent in 2016. It now stands at the rate observed in the economic miracle countries.

Yet, the investment effort—made mainly by central government and state-owned enterprises—has not generated any significant productivity gains (see figure ES.8). Job creation has been concentrated in sectors with low productivity gains. From 2000 to 2014, the Moroccan economy generated some 1.1 million jobs excluding the agricultural sector. Over half of these jobs (570,000) were created in just two sectors: construction and hotels and restaurants. Productivity gains have been more substantial in agriculture. Yet, the sector is confronted with a worrying deterioration in the country’s “water capital.” All in all, the Moroccan economy has not managed to make any significant efficiency gains despite its structural reforms, economic openness, improved business environment, imported technologies and increase in school enrolment rates.

Growth has also been accompanied by environmental degradation, resulting in a wide range of costs to the society (World Bank 2016a). Morocco has a predominantly arid to semi-arid climate with limited water resources and extremely high spatio-temporal rainfall variability. As such, it is a high water stress country at risk of water shortages by 2020 or 2030, irrespective of the scenario chosen (Ministry of Water and Environment 2016). Air pollution relates to the accumulation of fine particles suspended in the air indoors and outdoors. Forest areas are also under strong anthropogenic pressure, as the current rate of reforestation is not high enough to reverse the observed degradation trend. The estimated cost of environmental degradation to Moroccan society was approximately 3.3 percent of GDP in 2014 (World Bank 2016). This cost was assessed at three levels: social, through morbidity and mortality caused by air and water pollution; economic, such as forest and rangeland production losses owing to land clearings;

Figure ES.8 Morocco: Contribution of Capital, Labor, and Total Factor Productivity to Growth, Percent

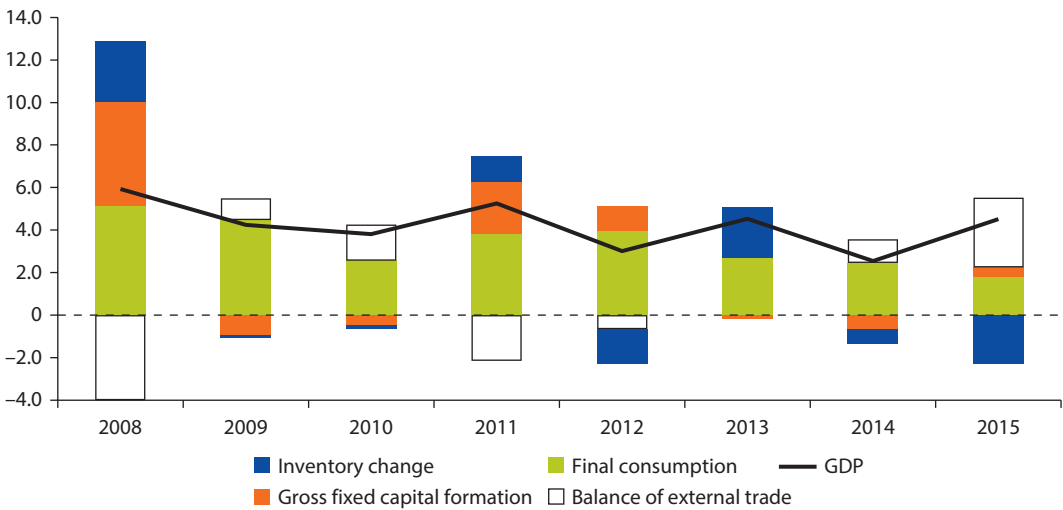


Source: World Bank.

and environmental, such as groundwater depletion and the reduced recreational value of beaches as a result of coastal degradation.

In addition to its supply vulnerabilities, the Moroccan growth model also has substantial demand weaknesses. The recent growth has been driven mainly by domestic consumption (see figure ES.9) against a backdrop of rising public and private debt. In the space of six years (2008–14), the Treasury’s debt has grown 18 percentage points of GDP to 64 percent of GDP. Although it is difficult to determine a critical level of government debt, several indicators suggest that Morocco’s current level of public debt could weigh on long-term growth. It is interesting to note that the countries that have successfully taken off historically had very low levels of debt when they were at Morocco’s current level of development. In the Southern European countries (Italy, Portugal, and Spain), for example, the debt ratio stood at less than 30 percent of GDP from 1960 to 1980. Some European countries (Estonia, Lithuania, Romania, Sweden, and Switzerland) still had a low public debt ratio, at less than 40 percent of GDP in 2015. Growing household and business debt has strongly supported the recent growth, but this source of growth may also have reached its limit. Structural deterioration in the national savings-investment balance created a sharp current account imbalance in the 2008–14 period. Even though the slowdown in growth and plunge in petroleum product prices reduced external and fiscal imbalances in 2014–15, Morocco’s net international investment position (which measures the country’s foreign assets minus its foreign liabilities) deteriorated over the last decade from 38 percent of GDP in 2002 to 61 percent in 2015 (BAM 2016).

Figure ES.9 Morocco: Contribution of the Components of Demand to Annual Growth, 2007–15, Percent



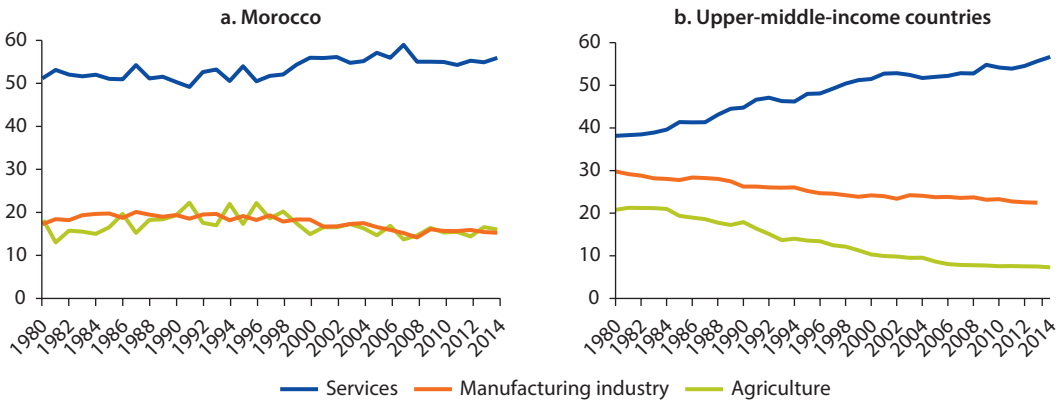
Source: HCP.

Morocco needs a more export-led growth model that generates less debt to guarantee healthier, sustainable development. Given the depressed, uncertain regional and international environment, Morocco cannot reasonably expect a spontaneous increase in foreign demand on its traditional markets. Europe is mired in myriad crises, including managing Brexit. Although the European internal market remains the largest in the world, it will probably not post any strong growth in the coming years (World Bank 2017). Morocco's strategic openness to Sub-Saharan Africa is promising in view of Africa's growth and development prospects. Yet, the African markets, especially in French-speaking Africa, still remain small for the time being. When Cameroon, Côte d'Ivoire and Gabon are taken out of the equation, the cumulative GDP of the 11 other West and Central African CFA franc zone countries together does not top Morocco's GDP. In view of its economic weight, the current openness toward Nigeria offers significant economic opportunities. All things considered, Morocco will essentially have to continue relying on its own strengths to create the conditions for steadier foreign demand, by continuing its strategy of diversifying target markets and promoting exports.

The countries that have overcome the vulnerabilities of a low productivity supply and debt-driven demand are those that have embarked upon an extensive, rapid process of structural change (McMillan and Rodrik 2011). These countries have generated large productivity gains by regularly relocating labor and capital to the most productive sectors and activities. This structurally transforms the economy as some sectors contract while others expand. In the upper-middle-income countries, for example, the share of agriculture in total value added has shrunk on average 20 percentage points of GDP over the past 50 years, dropping to less than 10 percent of GDP in 2014. The share of industry, however, initially rose to approximately 30 percent of GDP in the early 1980s before falling sharply in subsequent decades. Yet, this structural mutation process is less active in Morocco. Unlike the upper-middle-income countries, the share of agriculture in Morocco's GDP has fallen more slowly over the past 35 years and remained high around 15 percent of GDP and 39 percent of employment in 2016. The shares of industry and services have also remained relatively stable compared with the more dynamic trends posted by other comparable countries (see figure ES.10).

The relative intersectoral structural stability of Morocco's economy partly obscures a more dynamic transformation in terms of intrasectoral spatialization and diversification. Under the Green Morocco Plan, for example, Moroccan agriculture has started to modernize and invest in equipment (1.7 times higher in 2014 than in 2008) that have generated real sector buoyancy. The first signs of the sector's structural transformation can be seen from the appreciable upturn in its value added. Similarly, Moroccan industry, highly concentrated in traditional specializations through to the late 1990s, set out on a modernization process in 2005 that revealed a duality between flagging traditional sectors, like the textile-clothing sector seeking to reposition itself, and new emerging

Figure ES.10 Structural Change in Morocco Compared with Upper-Middle-Income Countries, 1980–2014, Sector Share as a Percentage of GDP



Source: World Development Indicators 2015, World Bank.

specializations such as the automotive and aeronautics industries, the food industry, metallurgy and the pharmaceutical industry. However, these positive intrasectoral dynamics that were underpinned by proactive public policies (tax incentives, subsidies, investments and other incentives)—like the Renault project that raised national automotive production to nearly 345,000 vehicles in 2016 and created 7,100 direct jobs and some 30,000 indirect jobs—are not strong or widespread enough to have a macroeconomic impact on growth. Morocco’s economic structural transformation process, over a long period, can be described as slow (El Mokri 2016).

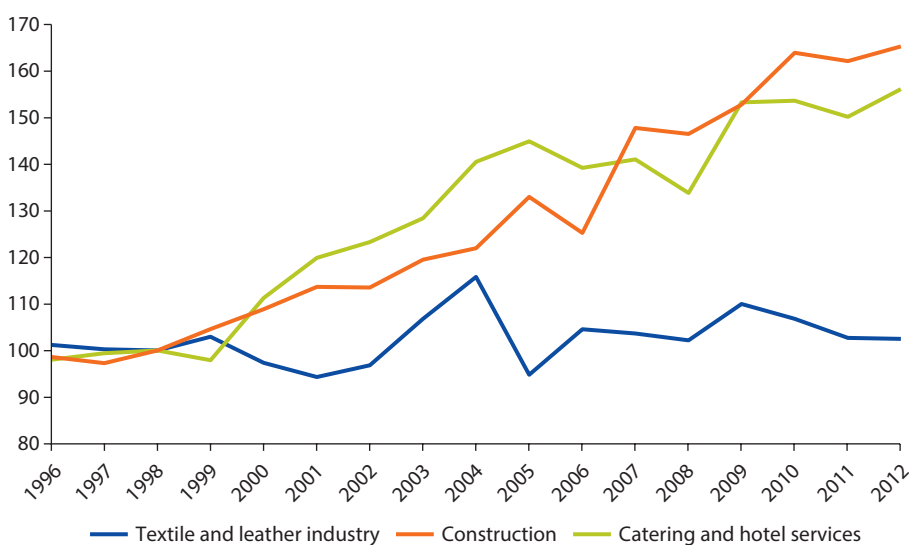
Three key trends emerge when the allocation of resources is used to analyze the structural dynamics of Morocco’s economy: (a) difficulty allocating unskilled labor owing to weak industrialization; (b) difficulty allocating skilled labor owing to the slow upgrading of the economy; and (c) difficulty allocating talent resulting in weak entrepreneurial drive.

First, the industrialization challenges facing Morocco are due in part to the fact that, under the incentives system in place, Moroccan entrepreneurs are of the view that the industrial sector is not sufficiently profitable. Even in the most buoyant sectors, such as the automotive and aeronautics industries, local capital remains thin on the ground and most of the growth is driven by foreign stakeholders. For example, at the Renault plant in Tangier, less than 10 percent of the first-tier suppliers making daily deliveries to the factory are owned by a majority of Moroccan shareholders (Benabdejil, Lung, and Piveteau 2016). The local impacts relate primarily to service enterprises (for example, security, transport and maintenance) and indirect purchases (such as oils and other consumables). However, the involvement of local enterprise is at the heart of the 2014–20 Industrial Acceleration Plan (PAI), with a view to developing local suppliers, in particular second-tier suppliers, and enhance the expertise of industrial firms.

Unlike other emerging countries, Morocco also posts a low (albeit growing) number of joint ventures between local and foreign firms in the industrial sector. Yet, if Moroccan entrepreneurs and large groups shun industry, it is because, despite incentives granted, it is less financially profitable than other sectors—especially those protected from international competition—while the risks in industry are high. In particular, the property, service and trade sectors have raised their profit margins by increasing their prices (see figure ES.11) in a climate of growth in domestic demand, growing credit, discretionary rules and regulations, and exemptions and public subsidies (real property and agriculture). Instead of creating industrial value and innovating, many Moroccan investors are rationally putting their energy into seeking opportunities for rapid gains related to rent seeking.

Second, the economy's slow upgrading is holding back business demand for skilled labor. The explanation often given for unemployment among young Moroccan graduates is the poor quality of the education they receive at school and university. Yet, many young people with a high-quality education are also unemployed or underemployed. Youth graduate unemployment is thus not due solely to an inadequate supply of skills, but to the slow rate of transformation in industry to keep pace with the growth in the number of graduates. The emergence of modern high value-added services (business services, health care and education) is held back by structural constraints, especially a weak industrial base and weak household purchasing power. In particular, the demand for management staff is structurally insufficient to be able to offer opportunities to graduates arriving on the job market. Yet, an increase in management and office staff recruitment is precisely the factor that could provide openings for

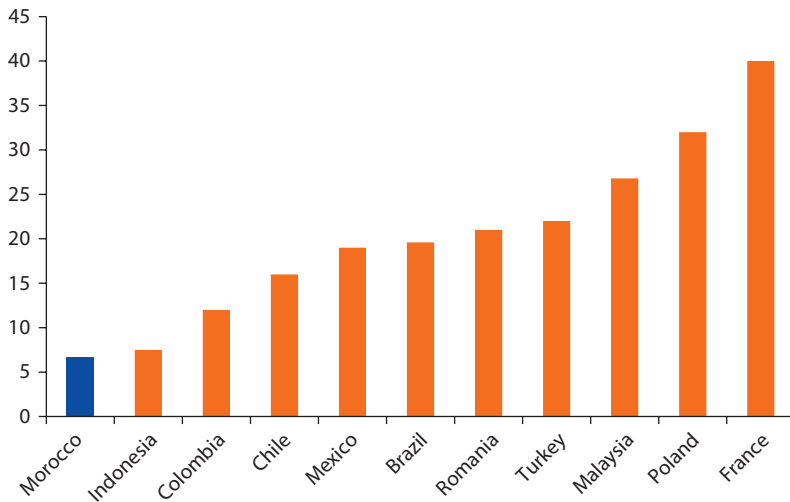
Figure ES.11 Morocco: Sector Deflators, 1996–2012, Index 1998=100



Source: HCP 2013.

increasingly skilled manpower during the development process. Middle and senior management staff accounted for 10 percent of the working population on average in the developed countries in the 1950s. In emerging countries such as Brazil, Poland and Turkey, this share currently stands at around 20 percent and is growing fast. In Morocco, the middle and senior management category accounts for only 7.6 percent of total employment and is stagnating (see figure ES.12).

Figure ES.12 Share of Middle and Senior Management in Total Employment, 2008, Percent

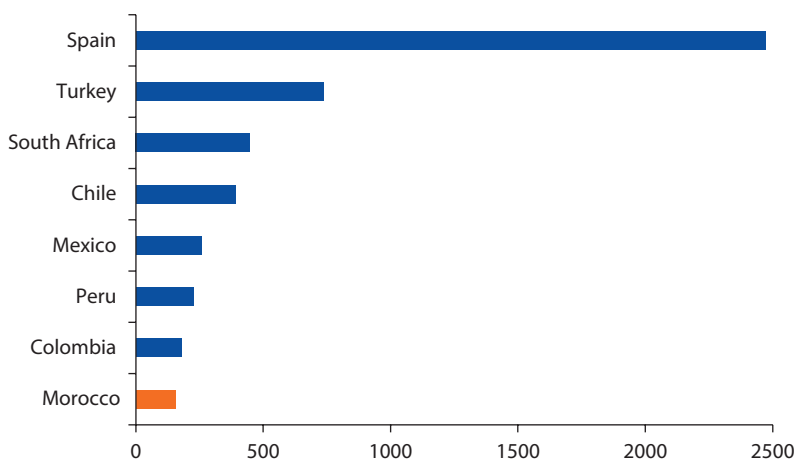


Source: International Labor Organization 2008, ILOSTAT.

Third, the poorly structured, small and largely domestic Moroccan businesses are also not very enterprising or innovative. Why has the number of Moroccan exporters been stagnant at just 5,300 since the early 2000s? Turkey, by comparison, has 58,000 exporting firms today, which is 4.8 times more than Morocco, taking into account the difference in population (see figure ES.13). Moroccan businesses have the means to prosper on the local market without having to contend with the pressure of competition or the demand for innovation and performance. There is limited renewal of the economic elites. Many operators are protected from competition by dissuasive barriers to entry such as administrative authorizations, licenses and approvals. Public procurement is also a potential source of competitive distortion among players, which has been covered in several official reports (Audit Office 2016 or the Competition Council). Moreover, as highlighted during the 2015 national conference on the land tenure policy, land is a sector subject to rent (Ghomija 2015). It is also the first sector to benefit from tax exemptions. Thus, the most talented Moroccans in their generation are not putting as much as they could into their country's growth by sharing

their knowledge or creating value added and productive jobs. In the majority of emerging countries (such as Turkey, Malaysia and Brazil), most of the “best in their generation” are employed in the education and research sector, or in engineering, or start up their own businesses. Yet, the “best Moroccans in their generation,” especially engineers, virtually systematically turn their backs on the education, engineering and research sectors and set their sights on managerial, administrative and financial positions generally in large private corporations or government agencies and public enterprises, which offer much more attractive wage terms than education and research without the inherent risks of entrepreneurship. Difficulties with making use of talent automatically hold back business drive.

Figure ES.13 Number of Exporters, 2013, per Million Inhabitants



Source: Exporter Dynamics database 2013, World Bank.

Morocco in 2040

Attaining and maintaining a higher level of inclusive economic growth and quality job creation is both a goal and a major challenge for Morocco. Over the past 15 years, Morocco has boasted some real success stories, especially with respect to infrastructure and the emergence of a number of promising economic sectors. The kingdom ambition now is to “generate new sources of shared prosperity and well-being that can benefit all the country’s citizens and regions by means of collective dynamics in a new confidence pact” (BAM and CESE 2016). Planning for and implementing this national ambition calls first for an analysis of the possible sources of sustainable and inclusive growth and wealth in the coming decades.

In laying out the prospects of Morocco it is important to first take into account the positive structural trends already at work in Moroccan society,

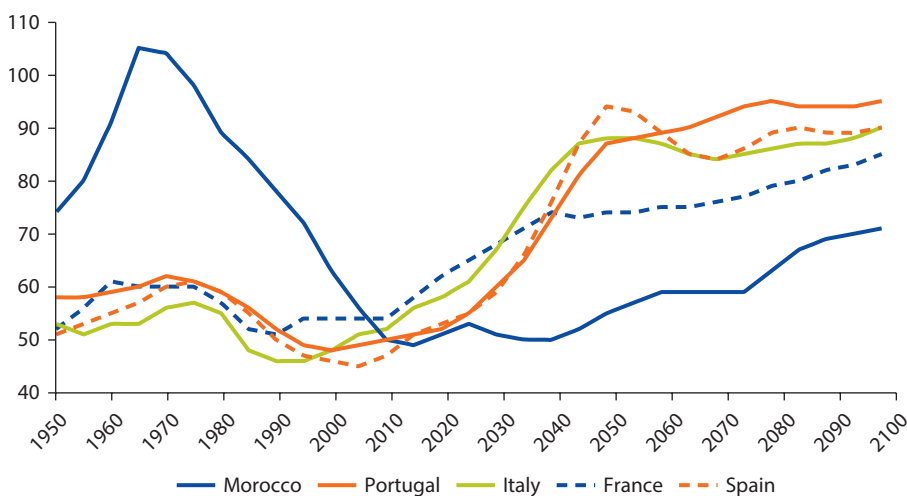
especially the demographic transition, urbanization of society and growing school enrolment. These three trends open a unique window of opportunity in Morocco's history: a combination of the demographic dividend, urbanization and universal education has been observed in all the countries that have achieved a successful economic takeoff in the past half century, both in Southern Europe (Italy, Portugal and Spain) and in Asia (Korea, Taiwan, China, among others). Morocco today has all of the conditions required to achieve its economic and social catching-up process.

However, as conducive as these initial conditions may be, they also bear risks: the risk of not being able to create enough jobs (leading to mass, long-term unemployment for young people in particular); the risk of not being able to generate positive agglomeration effects (potentially with negative urban congestion effects); and the risk of not being able to supply the Moroccan youth a high-quality education (fueling unemployment and social instability). If these risks are not eliminated or at least greatly mitigated by suitable public policies, Morocco could miss out on a unique opportunity. The demographic transition underway has halved the dependency ratio since 1970 to 2010 and it will stay historically low through to 2040 before rising in subsequent decades (see figure ES.14). To prepare a better future for the next generation, it is now that Morocco needs to act, gather its vital strengths and scale up its reforms, before this historical window of opportunity closes.

The current demographic transition, urbanization and education conditions will probably not be enough to trigger a sustainable upturn in growth. International experience shows that sustaining strong economic performance in the long term is considerably more difficult than initiating it. And Morocco is no exception. Like many developing countries, Morocco has successfully made the transition from low-income to middle-income status, but it is struggling to move to upper-middle income.⁶ To avoid the middle-income trap (Eichengreen, Donghyun, and Kwando 2013), Morocco would need to achieve and, more importantly, sustain for two generations higher productivity gains than in the past. The countries that have pulled off such economic "miracles" have generally adopted far reaching structural reforms with similar characteristics. They have by and large taken advantage of particular historical circumstances to alter their economic conditions. They have then made suitable decisions to facilitate structural change, technological upgrading and economic diversification. Last but not least, they have made it through the "glass ceiling" (so named because it is largely invisible) by accumulating largely intangible multifaceted assets that are human, institutional and social in nature and are more commonly known as "intangible capital."

Morocco stands today at a crossroads faced with many challenges. In 2016, the question of Morocco's future is presented in relatively similar terms, albeit with greater urgency, to those that prevailed in 2004 during the work that marked the celebration of the 50th anniversary of the country's independence. As the report published at the time already pointed out, "Morocco is facing a

Figure ES.14 International Comparative Dependency Ratios, 1950–2100, Share of under-15s and over-65s in the Total Population



Source: United Nations 2016.

historic situation of choices and major plans that lead to two fundamental but contrasting options. On the one hand, the country can resolutely embark on a virtuous renewal and development process by seizing opportunities that present themselves and by making the reform process a permanent and structural one. On the other hand, resolving future impediments to development could be postponed to an undetermined date.⁷⁷ Morocco presents a number of possible development scenarios for 2040. They are all largely dependent on how three basic macroeconomic parameters evolve: the investment rate, the employment rate and the productivity gains of the economy as a whole. These trends will themselves depend on the resolution of a number of institutional and societal problems.

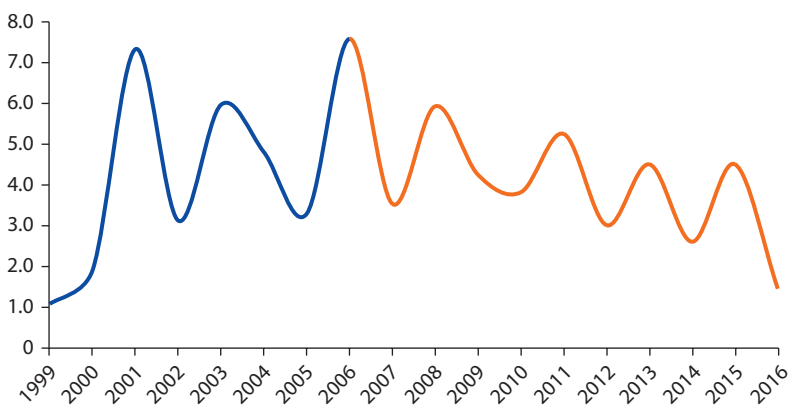
The scenario that extrapolates the trends observed over the 2000–15 period (strong fixed capital accumulation, modest job creations and low productivity gains) is based on a capital accumulation mechanism that is hard to sustain macroeconomically. Without a marked upturn in productivity gains, the most plausible scenario is one of a soft landing whereby Morocco restores its macroeconomic balances, in particular by re-establishing a sustainable current account deficit at around 2–3 percent of GDP. Trend growth of 3 percent may well remain respectable, especially compared with other countries in the subregion, but will fall short of a higher level. This scenario would have significant repercussions on Morocco's rate of convergence, job creation and poverty reduction. The Moroccan standard of living would continue to rise, but would still be only 30 percent of the standard of living in Southern Europe by 2040.

The economic growth trend in recent years could be interpreted as a harbinger of this slow convergence scenario. Indeed, after suffering macroeconomic imbalances in the 2008–12 period, Morocco started gradually restoring its fundamental economic balances in 2013 mainly as a result of a successful reform of subsidies (Verme and El-Massnaoui 2015) and a fiscal adjustment that helped curb growth in imports in an environment of plummeting oil prices. Despite the combination of several favorable internal (historically low interest rates) and external factors, it bears noting that the growth rate has been on a downward trend in recent years (BAM 2016). This recent experience shows that, without larger productivity gains, Morocco appears to be facing a difficult trade-off between macroeconomic imbalance and moderate growth.

Yet, this flagging growth and slow convergence scenario should come as no surprise in light of international experience. Economic history shows that many countries manage to ramp up their economic growth for several years, as was the case with Morocco in the 2000s. However, in most cases, without major structural reforms, these growth gains are generally unsustainable and the growth rates end up reverting to their historical trend (Hausman, Pritchett, and Rodrik 2005). The economic slowdown observed in recent years and the estimated 1 % of GDP growth for 2016 suggest that Morocco is heading for this low-end scenario (see figure ES.15).

However, if Morocco were able to seize the opportunities of its demographic transition, urbanization and growing school enrolment to deepen its structural reforms, it could rebalance its growth model by scaling up its productivity gains and improving the population's rate of employment. The accelerated economic convergence scenario assumes a 2 percent increase in total factor productivity per year (versus 1 percent in the recent period). International experience shows that it is not easy to sustainably double such productivity gains in the long run. Yet, several countries in Southern Europe (1960–1980) and South East Asia

Figure ES.15 Morocco: GDP Growth, 1999–2006 and 2007–16, Percent

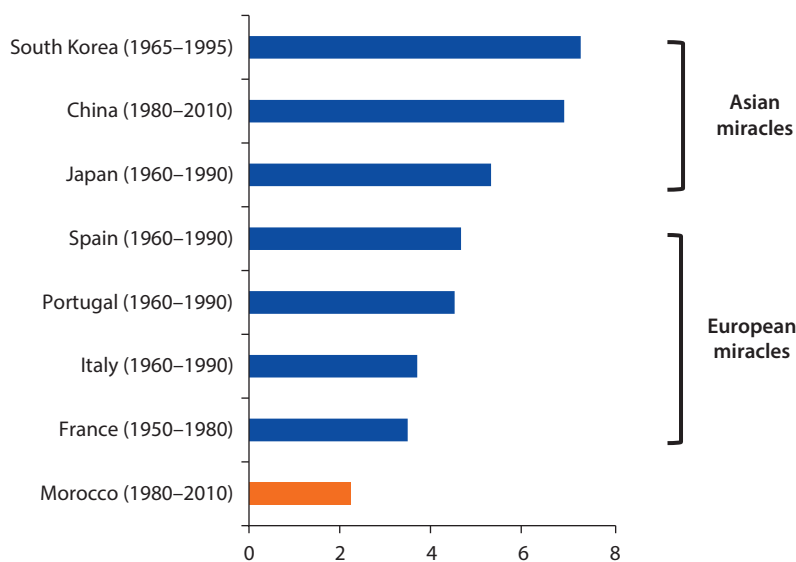


Sources: HCP 2015 and 2016 (estimation).

(1970–1990) have managed to pull off this transformation in the context of a real economic takeoff (see figure ES.16). The assumption of an increase in productivity in the convergence scenario is coupled with an assumption of growth in the working-age population’s employment rate from 45 percent in 2015 to 55 percent in 2040, driven mainly by a doubling of today’s extremely low female employment rate of around 23 percent. The cumulative effect of increases in productivity and the employment rate would translate into stronger, sustainable trend growth of around 4.5 percent per year on average through to 2040. This growth rate would be substantially higher than the trend observed in Morocco in recent years. Yet, unlike the current growth model based on capital and debt accumulation with its abovementioned limitations, this growth model would be based on productivity gains and job creations, which would make it perfectly viable and much more virtuous in the long run. The rate of investment would be held steady to preserve the macroeconomic balances, which would prompt a relative downturn in the contribution of capital to growth. Yet, this relative drop would be more than offset by the upturn in productivity and employment, two fundamental drivers of strong, sustainable, and inclusive growth.

The accelerated economic convergence scenario highlights the key importance of productivity gains: they are the cornerstone of strong growth that is viable in the long run and able to improve the well-being and prosperity of Moroccans. Granted, raising productivity gains by 2 percent per year for several

Figure ES.16 The Economic Miracles’ 30-Year Boom Periods, per-Capita GDP Growth Rate



Source: Maddison database 2015, University of Groningen.⁸

decades is a major challenge as it assumes extensive structural economic change and substantial efficiency gains. International experience has shown that this can be accomplished when the authorities decide on strong, bold reforms and explain the rationale for these reforms to citizens. Several conditions must be present if Morocco is also to take this road. First, all Moroccans must realize that Morocco's current development model has reached its limit. Morocco needs to embark on a genuine overhaul of its development model and push for a series of changes in public policy design and implementation (BAM 2016). If they, and their leaders, fail to heed this message, then the current policies will not substantially change. With the same causes then producing the same effects, the country could get stuck in the slow convergence scenario. Although this scenario is respectable, especially compared with the outlook for other Middle East and North Africa region countries, it will not enable Morocco to quickly converge with the most developed countries over the next generation or meet the youth aspirations.

A sweeping change scenario—wherein Morocco would embark upon the structural transformation of its economic environment and speed up its process of convergence with Southern European countries in the space of a single generation—calls for the country to adjust its public policies and strategies for intangible capital. In this scenario, the additional productivity gains would not come solely from new fixed capital investment—albeit clearly needed—but from a greater effort to accumulate human, institutional and social capital. The challenges Morocco needs to take up to increase its productivity and develop its intangible capital are essentially two sides of the same coin: improve the environment in which factor input accumulation takes place. The innovation, adoption of new technologies and reallocation of production factors needed to stimulate productivity are directly influenced by policies designed to accumulate institutional, human and social capital. In both cases, productivity and intangible capital are “intangible” variables that reflect the quality of the institutional, human and social environment. At the end of the day, gains in productivity and intangible capital are largely linked and Morocco's growth path and growth in well-being by 2040 will be determined on the basis of these two key variables.

By placing more of a priority on intangible capital, Morocco would be taking a road that is partly new, but which is also the logical outcome of many diagnoses and pressing calls for change. During his Throne Speech in July 2014, His Majesty King Mohammed VI stressed that intangible assets could become the “key criterion in the formulation of public policies so as to ensure that all Moroccans can benefit from their country's wealth.” The choice to invest in intangible capital would give the country a real, consistent, crosscutting development strategy, which has been lacking in the past. In so doing, the authorities could also capitalize more on the many in-depth economic studies conducted on Morocco in recent years. Even before the current debate opened on the question of intangible capital, a great many of these studies were pointing up the need for change and the main reform tracks required to improve governance, rethink the

role of government, strengthen competitiveness, promote the private sector, develop human capital and protect the environment. The conditions for such a change have never been as favorable as they are at the present time.

In refocusing its public policy priorities on the development of its intangible capital, Morocco would naturally take its development strategy forward and improve the governance of its sectoral policy. Despite the efforts made and the indisputable results obtained in certain sectors, the sectoral policies conducted for over a decade are struggling to produce systemic results, generate trickle-down effects, and place Morocco on a sustainably higher growth path (BAM 2016). This lack of systemic results is not solely due to inadequate consistency of sectoral policies (CESE 2014). These policies are flagging above all because the strategies underlying them do not do enough to meet the productivity challenges. Taking, for example, the residential property development strategy, the public policies and incentive mechanisms do not encourage investment in productive capital that can generate productivity gains. Even when sectoral policies seek to develop a given productive sector directly, they are only partial, fragmented solutions with uncertain, limited positive effects. The development strategy should therefore be adjusted and the public policies' institutional and crosscutting roots strengthened. On the institutional level, international experience has shown that the promotion of an open society, where myriad economic stakeholders make independent, decentralized decisions, is the most capable of generating large economic dividends (Chauffour 2009).

The Commission on Growth and Development launched by a number of countries with World Bank support in 2006 analyzed the characteristics of 13 economies that had achieved 7 percent growth or more for a period of over 25 years since 1950. It identified the following five conditions for a country to attain and maintain a high level of growth: sound leadership and good governance; active participation in the global economy; high investment and savings levels; flexible resources, especially in terms of jobs; and an inclusive policy designed to share the benefits of globalization, provide the poorest with access to public services and reduce gender inequalities. Hence, many of the stylized facts brought to light by the Commission on Growth and Development—whether in terms of rule of law and good governance, trade openness, trust, open competition, open labor markets or female and youth participation—concern characteristics specific to an open society.

Investing in Intangible Capital

Sustainable scale-up of total factor productivity cannot come from a single reform, however ambitious it may be. In other words, Morocco's building up of its intangible capital will necessarily take a number of different forms. Moreover, not all the reforms can be implemented at the same time, even though the country needs to send a strong signal of change. The reform pathways proposed below are based on the diagnosis of the Moroccan economy's situation in 2016. They are designed to create the conditions for a sustainable increase in growth to

expedite the pace of Morocco's economic catch-up process and promote more shared prosperity. These reform tracks draw on the three main elements of intangible capital discussed above; with the institutional components divided into two sub-components:

- Institutional capital for markets, that is, the institutions that facilitate the most efficient allocation of capital and labor in the economy and facilitate Morocco's integration into the international economy.
- Public institutional capital working to promote the rule of law and justice, the modernize the public administration, including by means of decentralization, and improve public service access and quality.
- Human capital, which implies access for all to better education, health and early childhood development systems.
- Social capital as the intangible asset that underlies progress in all other areas, including increased gender equality and interpersonal trust in society.

Investing in Market Institutions

Effective market support institutions are gauged on the basis of at least three objectives: competitive capital allocation, low structural unemployment and high economic participation, and strong international economic and financial integration.

Competitive Capital Allocation

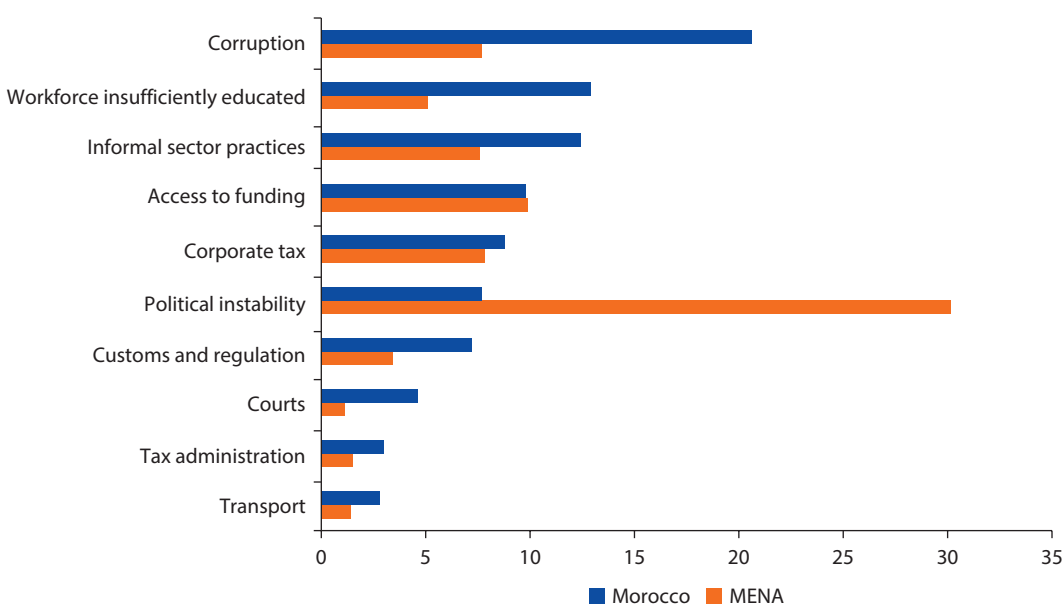
In 2014, only 300 resident patent applications were filed in Morocco, representing less than 10 patents per million inhabitants, barely 50 of which were filed by businesses (WIPO 2014). By way of comparison, Brazil filed 24 patent applications per million inhabitants, Turkey 65 and Poland 124. The Moroccan economy is still lacking in innovation, investment and competitiveness. The poorly structured, small and largely domestic Moroccan businesses are not innovative enough. Despite high levels of investment funded mainly by public monies, the private sector remains relatively small and is not showing any sign of significant rapid growth. SMEs have to contend with many constraints on their growth and many of them remain in the informal sector when they should be driving innovation. Public policies to support and assist SMEs, primarily through SME Morocco initiatives (*Moussanada and Imtiaz*), have had only mixed results to date. Similarly, limited use of integrated industrial platforms (P2i) have only partially solved the issue of access to property to meet business needs. The Moroccan competition and innovation engine largely lacks power. This lack of private sector drive is holding back the economy's structural transformation and the productivity gains generally associated with it, and is ultimately a hindrance to growth and job creation.

An economically inefficient and socially inequitable application of the rules of the game is largely responsible for the lack of market openness and the persistence of a discretionary, inefficient incentive system that is the source of distortions. Specifically, the essence of a modern state is the strict separation of public and private interests (Fukuyama 2014). Despite considerable progress made to

improve the business climate, as reflected in Morocco's significantly improved ranking in the Doing Business indicator, most players still view it as unpredictable, too bureaucratic and inequitable. It does not inspire the level of trust that economic operators need to invest in the medium and long term. The constraints most often mentioned in the business surveys are corruption, competition from the informal sector, the manpower's low level of education and difficulties accessing financing (see figure ES.17). There is still a huge divide between the relatively well-developed banking system and the much less well-developed capital market. This gulf is hampering business financing and development. The Moroccan sectoral strategies have also introduced many economic distortions in taxation, public expenditure and regulations over the years without achieving the intended structural change to the economy. Despite undeniable success stories in various sectors (automotive, aeronautics, and banking), the impact of these sectoral strategies remains low in terms of their systemic ambitions. In particular, the 2004 industrial emergence strategy and the subsequent 2008 national industrial emergence plan designed to create 400,000 jobs by end-2015 failed to have the reindustrialization effects hoped for. There is a risk that the new industrial acceleration plan (2014–2020) designed to drive up the share of manufacturing value added from 14 percent of GDP in 2014 to 23 percent of GDP by 2020 and create 500,000 jobs may face the same constraints.

Morocco needs sound market institutions that promote and guarantee market openness as well as free competition, to allocate productive resources, especially capital, to their more efficient use. Enforcing competition rules and taking action

Figure ES.17 Main Obstacles to Development Perceived by Business, Percentage of Businesses Surveyed



Source: World Bank. Enterprises Surveys: Morocco, 2013.

to prevent rent seeking encourage businesses to innovate and adopt new technologies, reducing their costs and improving their product quality. In the era of the Internet and information and communications technologies, competition is key to the knowledge economy, which is a growing source of wealth creation in all countries (World Bank 2016b). The knowledge economy encompasses an economy's capacity to adapt existing expertise, create new concepts and produce new ideas. Most of the time, innovation in one area triggers the creation of innovation clusters in other areas. The momentum thereby created by the race for new ideas is a factor in the structural transformation and increasing sophistication of the economy. Morocco could take action in the following four priority areas to unlock competitive and innovative drive:

- *Strengthen fair competition and tackle rent seeking.* The winds of change brought by the 2011 Constitution and the many laws passed in recent years to increase competition and transparency between market players must now become a reality. In the main, steps need to be taken to increase the regulatory authorities' autonomy and clarify their powers, and reduce visible rents (for example, land, approvals, licenses and administrative authorizations) and invisible rents (regulatory loopholes). Access to urban and industrial property should be improved by a transparent, facilitating regulation. The role of the different public players operating in the tradable and non-tradable sectors needs to be reviewed to make sure they behave in keeping with the principles of the new business framework. The authorities should put an end to discretionary practices and ensure that the laws and regulations apply equally to all businesses. In particular, customer-supplier payment times need to be significantly reduced, starting with government and public enterprise payment arrears, in respect of the major impact they have on working capital requirements and business survival, especially in the case of SMEs. Likewise, the government needs to speed up the refunds of overcharged value-added tax amounts to businesses to reinstate the economic neutrality of value-added tax.
- *Improve the business environment and implementation of national strategies.* The business climate reforms are politically sensitive and technically complicated. They consequently call for close, efficient coordination among the different public and private players concerned. The strategic management and coordination of the programs and activities of the line ministries also pose a complex challenge, in particular in view of the proliferation of sectoral programs and public and private stakeholders. The success of the public initiatives will in fact hinge in large measure on the government's capacity to coordinate, monitor implementation, and assess public policies at various levels: the government, central administrations, local administrations, autonomous agencies, private sector operators, and active civil society representatives. The establishment of an interministerial committee to monitor the strategy, as recommended by the Economic, Social and Environmental Council (CESE) in its aforementioned report, is one option worth exploring.

- *Use the decentralization process underway (aka “advanced regionalization”) to ensure more effective inclusion of local public and private actors in a regionalized economic development approach.* Government strategies and programs are still broadly based on a centralized “top-down” approach for sectoral strategies, with little consideration being given to local economic specificities and the social inclusion needs of the populations, particularly in a context of advanced regionalization. Although the most active local stakeholders are often decentralized representatives of ministries and central agencies, they are still too few in number and are constrained by statutes and financial management rules that limit their operational effectiveness. The regionalization process underway should help anchor national sectoral policies in a local development process that gives greater consideration to the specific advantages and needs of the territories. However, the actual implementation of this new institutional plan poses a number of governance challenges that need to be addressed in the short term, whether for the identification, financing, implementation or management of development strategies and projects. Last, the process entails the revision of the role and governance of state-owned enterprises (SOEs) and public establishments exercising key roles in local and regional development. These include regional development agencies, local SOEs, and key public financial institutions (for example, CDG and Hassan II Fund), which need to improve their governance and transparency to ensure greater involvement of local players.
- *Scale up the promotion of a business and innovation culture change.* Moroccan youth definitely appear to aspire to change, but these aspirations are still held back by social norms that are slow to evolve. A 2015 survey of high school students found that only 13.4 percent of future high school graduates wanted to enter the private sector, while 60 percent aspired to join the civil service (Ministry of National Education and HEM Business School 2015). It is vital for mindsets to change and a culture of innovation to take root in family structures, schools and the administration for the private sector to develop in a sustained and inclusive manner. Yet, despite awareness-raising campaigns the persistence in Morocco of social constraints owing to the mixed, if not, negative views of innovation and the lack of an entrepreneurial culture, is hampering the development of an innovative, vibrant, sustainable economy. The same survey found that only 37 percent of high school students felt they might be interested in starting up a business, whereas over 44 percent had no opinion on the matter. The institutional players involved in designing and implementing public policies need to gain more credibility, which implies introducing new governance for the private sector, a reform essential to improve the country’s economic performance, especially in innovation.

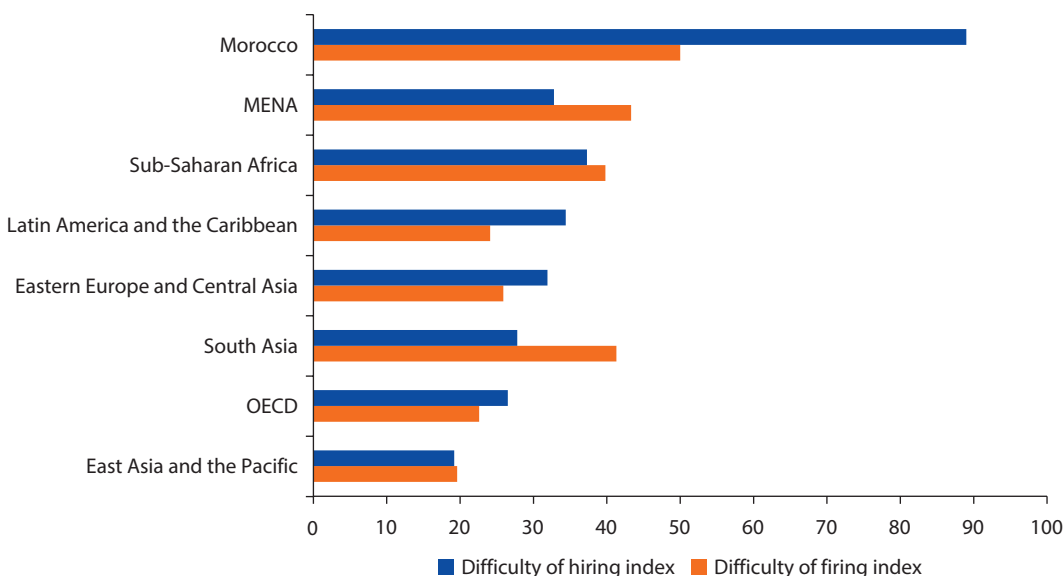
A More Efficient and Inclusive Labor Market

With less than half of the Moroccan working-age population in the labor force, Morocco has one of the lowest labor force participation rates in the

Middle East and North Africa region and the world. Morocco, moreover, has approximately one million unemployed (9–10 percent of the working-age population), the vast majority of whom are young men living in cities with a secondary education at most. These young job seekers are also long-term unemployed, with two thirds of them having been unemployed for more than a year (HCP 2016). This massive youth unemployment is worrying for the authorities: young Moroccan men and women have not sufficiently benefited from the upturn in the country's economic growth in the 2000s. In 2015, the country was estimated to have some 2.7 million economically inactive young people aged 15–29 (especially young women) not in education, employment or training (NEETs). When they are employed, these young people have an 80 percent probability of having an insecure job without an employment contract. In addition, access to “good” jobs is not sufficiently merit-based. Young people feel that it is hard to find a formal job without connections (HEM 2016). This situation fuels a feeling of exclusion and injustice and reinforces the image of a society in which adult male heads of household are those who benefit the most from labor market opportunities. Lastly, there is little prospect of social mobility and climbing the ladder to more productive jobs. Public employment therefore becomes the preferred channel. In Morocco, the labor market is marked by strong exclusion and inequalities of opportunity (World Bank 2013, 2015a).

These poor outcomes are partly due to malfunctioning labor market institutions. The Moroccan Labor Code lays down cumbersome, restrictive regulations unsuited to the country's needs for structural change—especially to the ongoing job reallocation process required for efficiency purposes. Compared with many competitor countries, labor market regulations are particularly restrictive in terms of the use of fixed-term contracts, firing and working hours flexibility (see figure ES.18). The minimum wage is very high compared with the national average and median income, and collective agreements and seniority pay could end up pushing wage levels higher than staff productivity. Lastly, high social security contributions also help drive up the cost of labor and discourage formal employment, particularly for young people. As a result, only a minority of workers are covered by a social security system. All in all, the labor market rules fuel the vicious cycle of informality that accounts for 8 in 10 private jobs. The active labor market policies and employment agencies cannot provide the expected outcomes.

Given the demographic and social challenges, it would be in Morocco's best interest to expand the current vast set of programs designed to place employment at the center of public policy by reshaping its labor market institutions on more sound, inclusive foundations. Estimates suggest that doing so would significantly raise economic participation and employment, especially formal employment for young people and women, and reduce unemployment without jeopardizing wages (Angel-Urdinola, Barry, and Guennouni 2016). Like other reforms conducted in a number of countries, this reform should be guided by the

Figure ES.18 Hiring and Firing Difficulties

Source: World Bank Doing Business database 2013.

principles of flexibility of employment, security for workers and effective active labor market policies.

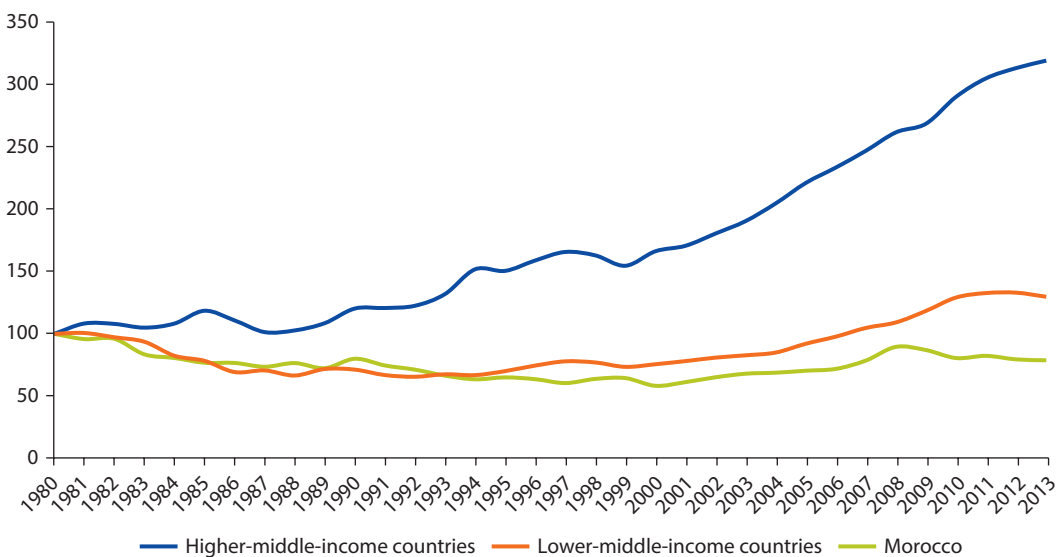
- *Relax the labor regulations.* The Labor Code could be greatly simplified and aligned with international standards and practices—especially those of competitor countries that have attained full employment—in the areas of firing and severance payments, use of fixed-term contracts, flexibility of working hours, remuneration of overtime and other aspects of the Labor Code, including improving supervision of the exercise of the right to strike under a suitable new organic law.
- *Lower the cost and improve security for workers.* Lowering labor costs would help reduce the number of informal jobs and boost worker competitiveness. Different minimum wage schemes could be introduced to attract low productivity workers to the formal sector and provide them with social security coverage. Greater social security financing transparency and efficiency should create fiscal room to finance a universal unemployment insurance system, improve worker protection and facilitate the mobility of labor based on the principle of protecting people rather than jobs.
- *Improve the effectiveness of the active labor market policies.* There is an urgent need to outsource employment and training services under performance-based contracts to better meet the needs of employees and businesses. The labor market policies should also include the unskilled population according to

demand and the current and foreseeable needs of the private sector. Lastly, the governance, effectiveness and efficiency of the public employment agency (ANAPEC) could be improved with the adoption of results-based monitoring and evaluation systems.

Increased Moroccan Integration into the International Economy

With only 5,300 export businesses (a number that has barely changed in 15 years) compared with Turkey’s nearly 60,000, Morocco has not fully embraced the globalization (Fernandes, Freund, and Pierola 2016). Although Morocco has gradually opened up its economy to international trade and foreign investment, it is struggling to take full advantage of its political stability, geographical proximity to Europe and relative attractiveness to foreign investment, and make this openness a decisive competitive advantage driving a rapid, inclusive economic convergence process. Morocco’s share of international trade has been on a downward trend since the early 1980s, while most of its competitors have seen their shares increase substantially (see figure ES.19). Without underrating the positive growth in the technological content of new manufactured exports products (automotive, aeronautics and electronics), Morocco is struggling on the whole to increase its export volume and the level of sophistication and value of its exported products. Nearly 70 percent of Moroccan consumers consider “Made in Morocco” products of mediocre quality compared with the foreign competition (CGEM 2014). To date, and despite encouraging results in Sub-Saharan Africa, Morocco has only managed to penetrate a small segment of its potential markets,

Figure ES.19 Morocco’s Share in World Trade, 1980–2013, Index 100 in 1980



Source: World Development Indicators, World Bank.

especially in Europe. In addition, although Morocco broke new ground when it liberalized certain service industries (air transport) a few years ago, it has tended to specialize in relatively unsophisticated service trades and does not fully exploit the value added to be found in activities upstream and downstream of the global value chains.

The poor penetration of Moroccan exports, both goods and services, highlights the country's sizeable competitiveness problems. These problems concern not only the high costs of inputs, due to protection of the service sectors and domestic price rigidity, but also product quality and the quality of trade-related infrastructure and logistics. Despite the remarkable achievement of the Tanger Med Port and real progress with customs management, Morocco is handicapped by longer lead times and higher costs for its export and import logistics than its main competitors. In 2015, Morocco ranked 86 out of a total of 160 countries on the Logistics Performance Index, down 24 places compared with the average ranking during the period 2007–14 (World Bank 2016c). These problems are exacerbated by a fixed exchange rate system and capital controls conducive to the development of nontradable goods sector, but which form a substantial obstacle to Morocco's price competitiveness, product diversification and regional and global integration. Given the current state of market incentives, the lack of diversification into more sophisticated export products is also partly due to exporter risk aversion. Moroccan export firms are often old, small and less capable of supplying the global value chains than local subsidiaries of multinationals.

It has been clearly established theoretically and empirically that the institutions governing a country's foreign trade serve to capitalize on the benefits of specialization and the international division of labor for greater economic efficiency, faster structural change and higher incomes. Morocco will raise its productivity if its foreign trade sector is able to develop and contribute more to growth. This transition will call for an end to the "anti-export bias" that continues to be endemic of the institutions and policies governing foreign trade (World Bank 2006).

- *Ease exchange arrangements and controls.* A fixed exchange rate system conducive to the nontradable goods sector tends to weaken price competitiveness on third markets. As recommended in analyses conducted by Bank Al-Maghrib (BAM 2016), Morocco should consider swiftly adopting a more flexible exchange rate system to enable the dirham to permanently stand at its market-clearing price. This is especially urgent because Morocco is positioned mainly in low value-added products whose price competitiveness on third markets is decisive and for which foreign competitors are quick to use the exchange rate instrument. For example, the dirham has appreciated around 100 percent against the Brazilian real and the South African rand since 2012, and 50 percent against the Turkish lira since 2013. At the same time, currency control should continue to be relaxed to guarantee the dirham's full convertibility in the medium run and hence increase Morocco's attractiveness to investors and

global trade operators, including with a view to making Casablanca Finance City a regional financial hub.

- *Improve the trade regime and trade facilitation.* Morocco should lower its trade barriers, for example by launching a new plan to reduce and consolidate the most-favored nation tariffs (high at 25 percent), by reducing the number of tariff lines for which the applied rates continue to exceed Morocco's WTO-bound rates and by gradually equalizing customs duties for all its partners (WTO 2015). Similarly, there is huge potential to liberalize agricultural trade, which remains protected behind quotas and high customs duties. Morocco would also benefit from amending and rationalizing its non-tariff measures and their related procedures in terms of time and cost (Cadot, Malouche, and Sáez 2012). Lastly, the trade facilitation and regional connectivity, especially maritime, is an unfinished, but vital agenda for Morocco's integration.
- *Improve the investment regime.* Although Morocco has largely opened up to foreign investment, it still needs to phase out certain restrictions on foreign ownership of capital in some sectors (transport services, insurance, professional services, etc.) while ensuring that the incentives used to attract foreign investors do not prevent local integration and that clear legal provisions on local content are properly enforced. Morocco should also adopt a less expensive, more transparent and more consistent property regime to attract more foreign investors.
- *Negotiate an ambitious Deep and Comprehensive Free Trade Agreement.* The prospect of a Deep and Comprehensive Free Trade Agreement with the European Union and the required improvements to Morocco's rules and regulations in many sectors constitute a strategic objective with unique potential for growth and transformation for the Moroccan economy (Chauffour 2013). The promotion of greater freedom of movement of goods, services, capital and labor between Morocco and the European Union would better position Morocco in worldwide competition, including by means of its integration into the European value chains, hence doing a great deal to increase the country's total factor productivity.

Investing in Public Institutions and Services

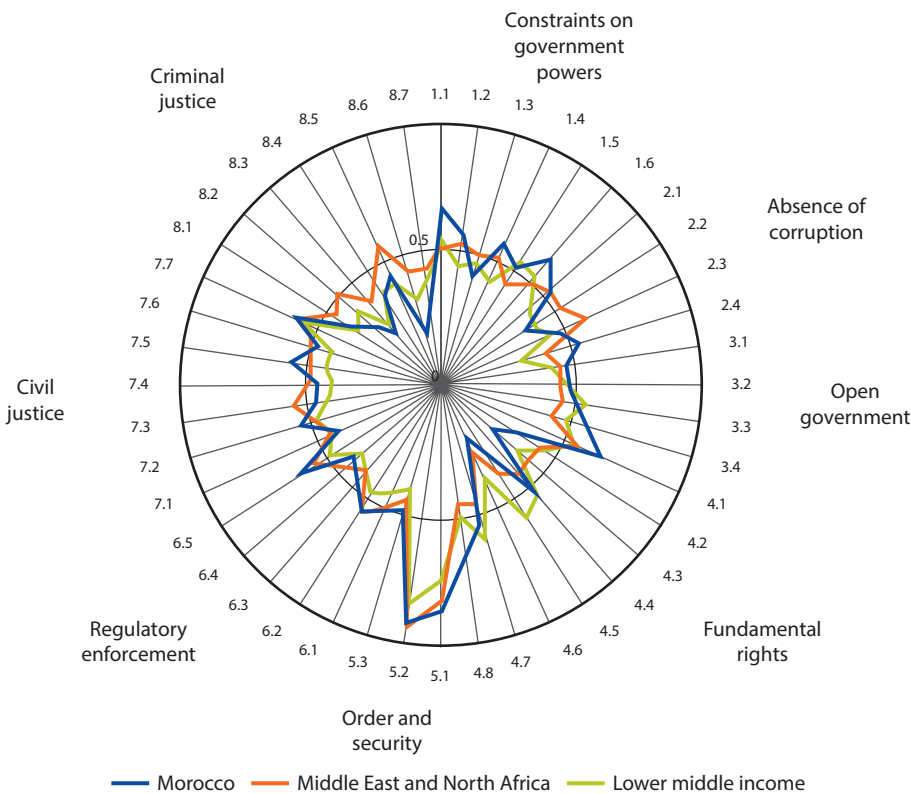
Alongside the market support institutions, the other public institutions also need to take the necessary steps to conduct the government's sovereign functions, starting with justice and respect for the rule of law, establish efficient public administration to carry out these functions at the lowest cost, and provide quality public services for all.

Respect for the Rule of Law and Justice

A full 90 percent of Moroccan residents forego taking action in the event of damages or dysfunctions because they have little confidence in the effectiveness of

the redress and mediation systems (CESE 2013). As shown by different international studies and evaluations, Morocco’s rule of law and justice system suffer from a poor reputation in terms of efficiency, impartiality, independence, corruption, etc. (see figure ES.20). In Transparency International’s Corruption Perceptions Index (2015) Morocco has regressed and is now ranked the same as Algeria (88th), outperformed by 15 Sub-Saharan African countries and nine Middle East and North Africa region countries. Although Morocco has undertaken a number of general policy reforms to strengthen the rule of law, especially citizens’ fundamental rights with the 2011 Constitution, the adoption of a Justice System Reform Charter as well as the adoption of a national anti-corruption strategy, huge challenges remain. The main dysfunctions generally identified as obstacles to the rule of law are ostensibly due less to the legislation than to the institutions and individuals in charge of enforcing the legislation. In particular, Morocco posts poor physical integrity protection and personal security performance. Protection of property also remains a major challenge. Land tenure insecurity and poor land market performance remain major obstacles to property

Figure ES.20 Rule of Law Index for Morocco, the Middle East and North Africa Region and Lower-Middle-Income Countries



Source: World Project Justice, Rule of Law Index 2015.

investment and productivity. Morocco's performance in the area of legal security and protection of contracts is also variable: processing times are fairly good, but the number and cost of proceedings are not, reflecting a wide range of commercial court efficiency levels.

Yet, the rule of law is a basic element of a nation's institutional capital. Since the time of Adam Smith, we have known that economic activity cannot develop "in any state which does not enjoy a regular administration of justice." (Smith 1776) When a country's justice system is not capable of guaranteeing the protection of persons and property or compliance with contracts and dispute settlement accepted by all parties, it cannot also guarantee society's openness and the sound functioning of trade. Morocco needs first to take action to implement the new rights provided for by the Constitution and the Justice System Reform Charter, including any additional provisions deemed necessary to quickly send a strong signal of real change. In particular, the adoption of the right of access to information in keeping with the spirit of the Constitution is a prerequisite to transparency, accountability and good governance. The momentum of the reform of the justice system also needs to be regained. According to Bank Al-Maghrib, "this is key not only for human and social rights but also for improving the business, investment and entrepreneurial environment. Completion of this project within a reasonable timeframe will help change the negative perceptions of justice held by investors and citizens in general." (BAM 2016)

- *Improve the security of persons.* Morocco should considerably improve its justice system, in particular to guarantee procedural fairness (right to life and security of person) and fair criminal justice (impartiality and corruption control) to ensure effective legal protection and security for all. Morocco could send a signal of its desire to improve the security of persons by quickly adopting safeguards, redress measures and monitoring of abuse. Equal access to justice services could be better guaranteed by scaling up the legal aid system and improving the control of the use of pretrial detention.
- *Improve the protection of property.* Given that the status quo hinders the investment and development opportunities for the country as a whole, the land tenure system must be significantly improved to ensure compliance with the principles of equity and equality. This involves making the dual system of land governance (divided into the official land tenure system based on official registration and the traditional customary system) more predictable through the adoption of a single property law, encouraging the registration of land transactions in the land registry, ensuring improved security of property rights, including for wives, and clarifying the expropriation system.
- *Improve the enforcement of contracts.* A detailed review of enforcement procedures and processes would identify bottlenecks along the enforcement process and identify ways of overcoming practical or procedural obstacles to the

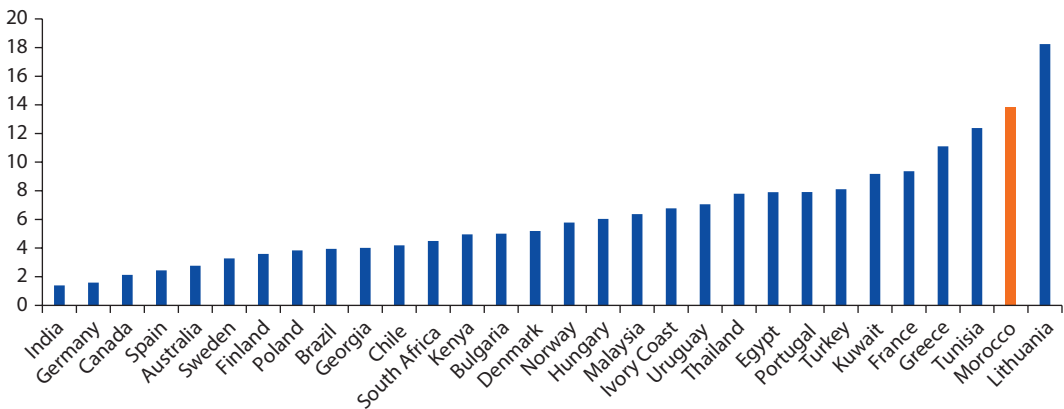
provision and effective enforcement of services nationwide. This review would help further encourage economic activity by standardizing and improving contract practices.

Modernizing the Civil Service

Despite modernization efforts, in particular in the context of Public Administration Reform Development Policy Programs (PARAPs), the General Civil Service Regulations, which date from 1958, remain inadequate to meet the requirements for modern human resources management. The civil service continues to operate on the notion of status and seniority promotion whereas the concepts of position and performance should be the operating principles of this service. The remuneration structure is rigid, incoherent and inequitable. It does not reward individual or collective performance. Disciplinary problems (absenteeism in particular) are not properly sanctioned, despite issuance by the Head of Government in 2012 of a circular to that effect and the introduction in 2014 of a dedicated portal. In addition, the cost of running the Moroccan civil service is high given its service quality. Civil service wages (including in the local administrations) are twice as high as in the private sector and represent 14 percent of GDP. Morocco has one of the highest wage bills of the competitor emerging countries (see figure ES.21). At the same time, however, different official evaluations emphasize the unsatisfactory quality of the public services and their poor image among the people (CESE 2013; Audit Office 2016).

Provided the civil service modernizes, it can contribute directly to raising the country’s productivity. Although traditionally based on the principle of meritocracy, the Moroccan civil service (like others around the world) has tended to generate certain attitudes incompatible with its necessary adaptation to the changing role of government, such as aversion to risk and innovation and a sense of service sometimes transformed into a defense of vested interests.

Figure ES.21 Civil Service Wage Bill, Including Local Governments, 2012, Percentage of GDP



Source: World Development Indicators, World Bank.

Yet, the world over, the modernization of the administration calls for a change to the design of public services and the civil service, in particular in association with government decentralization. The reform pathways generally taken aim to deconcentrate human resources management responsibilities, empower administrators, increase the flexibility of the recruitment and career development policies, encourage individual and collective performance and, more generally, streamline the administration (OECD 2011). Many member countries of the Organisation for Economic Co-operation and Development (OECD) and some emerging countries (New Zealand, Mexico, Korea, and Singapore) have gone further by reforming the public employment framework, essentially by quite simply phasing out civil service status for most government employees.

- *Decentralize government.* Morocco's decentralization process (aka "advanced regionalization") has arrived at just the right time to correct the institutional and central, regional and local governance imperfections and to establish the authority, means and mechanisms to establish a better balance in the distribution of powers between the central government, the regions and the local authorities. For this to happen, Morocco must resolutely embark upon a systemic decentralization and deconcentration process by organizing a gradual genuine transfer of decision-making powers and the corresponding resources and means to the appropriate local and regional levels. The process will need to be particularly careful and diligent to avoid deconcentration resulting in the multiplication of deconcentrated departments, a pure and simple duplication of central government organization charts, or the development of a regional bureaucracy without any real decision-making authority or adequate means and capacities for action.
- *Reform the civil service.* Because adapting the civil service regulations is a delicate matter, Morocco could initially consolidate the reform actions underway by effectively introducing the notion of performance and outcomes into human resources management to more efficiently prevent underperformance and absenteeism. The implementation of advanced regionalization and strengthening of the local civil service also provide a unique opportunity to review the civil service regulations to adjust them to the standards of good modern management and governance practices, and to recognize performance as a key element of the human resources recruitment, management and promotion process. Morocco should strengthen actions initiated to encourage mobilities within the administration, expand the use of fixed-term contracts and promote gender equality. It should also strengthen its civil service's human capital with the full implementation of its training program by means of a consistent, efficient continuing training policy regularly updated following a diagnosis of missing skills and organized into individual training plans integrated into the evaluation process.⁹

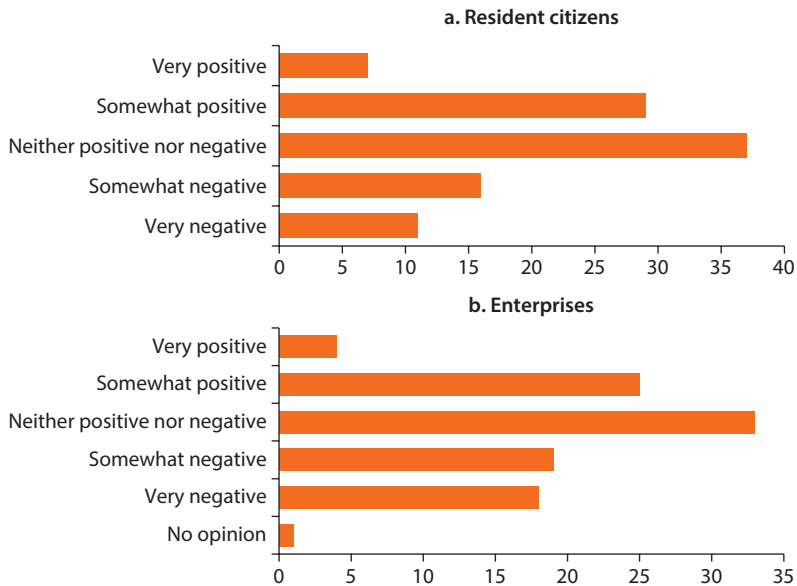
- *Reduce operating costs.* Morocco should seek to control its civil service operating costs with a tighter rein on the wage bill. This implies the diligent implementation of the new Budget Framework Law (LOLF) to cap personnel appropriations and effectively embark upon the advanced regionalization process. Line ministries should also be assigned the management of their remuneration appropriations (ministry program budgets currently exclude remuneration, which sometimes represents over 90 percent of their recurrent costs) and their budget accounting, with oversight to ensure consistency of their actions with the macroeconomic public finance constraints.
- *Envisage a civil service 2.0.* More broadly speaking, Morocco should aim to make its civil service more modern and efficient (by increasing the use of new information and communications technologies), in particular by continuing its program for the automation of citizen and business services,¹⁰ but also more productive and strategic by preparing to make more use of delegated services in partnership with the private sector with a suitable training program and skills upgrading. Likewise, the widespread introduction of shared crosscutting services within the administration would improve efficiency and reduce costs. Lastly, more general, strategic thinking on the very notion of the civil service in the 21st century should be conducted in a transparent and open manner. This should be informed by the reforms conducted in many reforming countries worldwide, where the vast majority of hiring in the civil service is now on fixed-term contracts.

Improving Public Service Governance

A large majority of Moroccans are not satisfied with the quality of public services, whose provision they feel is seen more as a favor than a right (see figure ES.22) (CESE 2013). Many global governance indicators confirm Morocco's inadequate performance, especially in terms of the independence of justice, budgetary control and transparency, and efforts to combat corruption and the use of bribes in the private sector.¹¹ Lack of access to information on the public services remains a major constraint and a source of serious inefficiency. The system's failings are due more to a governance problem, especially the poor relationship between the civil service and general public users, than a problem of means. Equal access to services continues to be held back by many regional and local economic and social inequalities. Absenteeism, rife in public services such as education and health, compromises equality of access for all Moroccans, especially those living in rural areas. The culture of evaluation and accountability is not well established in Morocco. This is true at all levels of public service provision and, more generally, at the level of public policies and the budget programs that finance them.

The quality of public goods and services conditions the development of the private sector and the emergence of the middle class (Bluhm and Szirmai 2011). Quality institutions transparently accessible to all contribute not only to economic performance, but also to collective well-being, trust, civic responsibility

Figure ES.22 Moroccans' Perception of Public Service Governance
 "Your general opinion of public services is...?"



Source: CESE 2013. Report on Public Service Governance, Economic, Social and Environmental Council.

and thus social capital. Users have a key role to play in improving public service governance and strengthening the accountability of the State. Today, it is understood that good public service governance must look at the quality of the services provided instead of focusing on just the inputs or seeking to import models not suited to the local context and problems. Improving public service governance entails placing the user at the center of the system as its beneficiary and regulator.

- *Give the user a voice.* A number of the organic laws resulting from the new Constitution should improve public service governance by strengthening the public's voice and participation in the development and implementation of public services and policies. Several tools are or will soon be available to Morocco to enable citizens to have a direct influence on service delivery and must be fully utilized. These include the right of petition and legislative motion, and public consultations such as the one that Morocco undertook in the health sector (Intidarat).
- *Informing and reporting.* The right to information, for which a related project has been submitted to Parliament, should be duly implemented to guarantee equal access to information for all (citizens and business) and hence significantly reduce opportunities for discretionary acts, injustice and corruption. Accountability would also be improved with the implementation of the

budgetary reform and the performance-based civil service reform, fast-track data automation, the publication of a public service charter and the introduction of a full user grievance filing and management system.

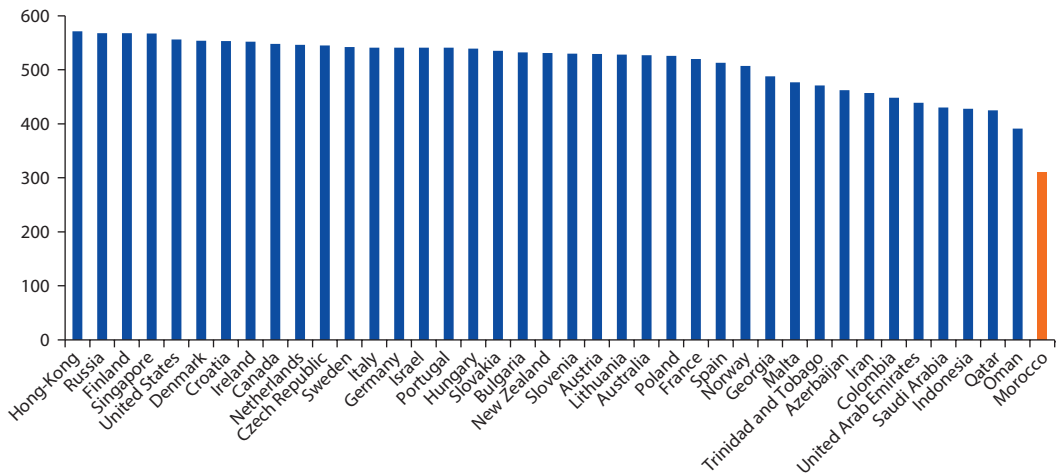
- *Simplify and bring decision making closer to the user.* The decentralization process should be taken forward and deepened by rallying the necessary technical, financial and human resources, improving the governance of local public services, continuing the effort to streamline procedures, simplifying access to services for individuals and business (for example, using identification numbers and one-stop shops), and improving the interconnection between government departments. From this point of view, advanced regionalization is both a challenge and an opportunity in that governance and local capacity need to prove themselves equal to the task and not merely add another layer of inefficiency to the existing multiple administrative layers.
- *Test and evaluate new approaches.* Experimentation and evaluation would test new approaches—especially when up against ingrained habits and special interest groups—and better understand the psychological motivations of users and service providers (World Bank 2015b). Experimentation and evaluation can promote competitive tendering by service providers, the emergence of diagnostics and more inclusive change practices, and the introduction of incentives for innovation, all of which are ways of fostering steady improvements to public policies for users.

Investing in Human Capital

In conjunction with building institutional capital, building human capital is key to greater future prosperity for all Moroccans. Improvement in this area naturally implies making the education and health systems a core element of Morocco's economic convergence process, including greater priority placed on early childhood development.

Placing Education at the Heart of Development

Despite improvements since 2000, close to one third of the Moroccan population is illiterate and only 21 percent of 10-year-olds have basic reading skills as opposed to 87 percent on average in the countries that participated in the Progress in International Reading Literacy Study (PIRLS)¹² (see figure ES.23). The average number of years of education calculated for the population aged 25 and over stood at 4.4 years in 2013, well below the world average of 7.7 years and the average for the Arab countries of 6.3 years, and close to the 4.1 years reported for the low human development countries. International evaluations of Moroccan students' math, reading and science skills rank Morocco among the lowest scorers in the Middle East and North Africa region. Morocco is also one of the only countries in which the quality of education falls steadily and sharply. In addition, the system tends to reproduce inequalities and social determinism, creating a real "educational divide" with parallel educational worlds demarcated by the family's financial means. Moroccan higher education institutions remain absent from the Shanghai Ranking of the 500 best universities in the world.

Figure ES.23 Share of Ten-Year-Old Students Who Can Read a Basic Text (Grade 4), Percent

Source: UNESCO 2014.

If Morocco is to maintain or improve its prospects for long-run growth—let alone converge with Southern European countries—it has no choice but to increase its productivity and hence its population’s level of education. In contrast to measures to scale up resource allocation—as was the case for the emergency program—the absolute priorities need to be the education system’s adaptability and the quality of the education it provides, both of which are vital to building the country’s human capital. The strong messages from the monarch and the mobilization of players since 2013 attest to the importance accorded by Morocco to the problems facing education and pave the way for a long-term strategic vision (2015–30) for the education sector. However, if the education reforms advocated by the strategic vision are to be effective, they will have to be realistic, selective and far-reaching. They must, as a priority, tackle major constraints in a “shock therapy” approach designed to trigger an “educational miracle,” that is, a huge improvement in Moroccan students’ level of education compared with other countries.

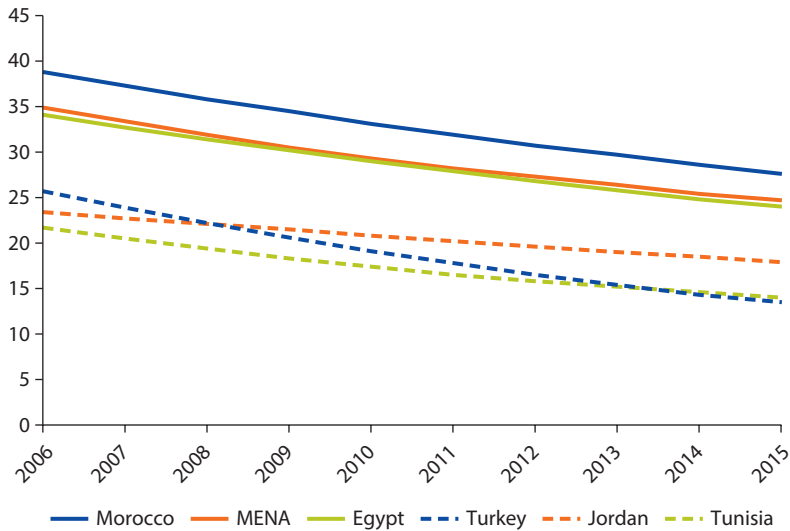
- *Modernize the educational ecosystem.* This entails revising the curriculums and teaching methods for teachers to convey positive values (merit, progress, liberty and responsibility), check and guarantee the learning of basic skills, including by providing remedial assistance, and encourage vocational training for young people with real employment prospects.
- *Improve teacher recruitment and training.* An education system is only as good as its teachers. Improving the quality of education calls for a departure from the current method of teacher recruitment to attract motivated, competent applicants with strong potential to the teaching profession, better prepare them and develop suitable assessment and coaching systems to improve the performance of working teachers. The prospect of a major renewal of the

teaching corps in the coming years is a landmark opportunity to recruit future teachers on the basis of their education, skills and motivation.

- *Adopt a new public school governance.* Governance of the public school system should be refocused on providing better service to students. This extensive reform should address three key actions to make the system more effective, more transparent and more efficient: (a) review the powers and responsibilities of all the players in the educational system, especially principals and teachers to make the organization more efficient and responsive to students' needs; (b) conduct more frequent and more substantive assessments of learning outcomes so as to make stakeholders more accountable and promote quality, which entails revising the status of teachers, their evaluation and compensation; (c) involve parents more to help improve the quality of the system in collaboration with school institutions.
- *Develop alternative educational options.* Morocco could accompany the reform of its traditional public system with an increase in educational emulation by promoting alternative private options entirely consistent with the Government's mission to provide quality education for all Moroccan children while promoting freedom of choice and innovation. The kingdom could draw on experiences worldwide (charter schools, school vouchers, and home schooling), which have often secured positive academic results for both the students enrolled in these systems and students in the surrounding public schools.
- *Promote "21st century skills."* If schools are to benefit from the digital revolution underway, they should teach the necessary skills to prosper in tomorrow's economy: collaboration, communication, social and cultural skills, a sense of civic duty, and of course mastery of information and communications technologies (World Bank 2016b). In addition, given the improvements that information and communications technologies (ICT) can generate (modernization of school management, learning tailored to each student's level, additional training programs for teachers and additional forms of assessment), a complete ICT strategy should be put in place looking beyond their technical aspects to promote their useful, reasonable use, including to guarantee the learning of basic skills and develop creativity, adaptability and critical thinking.

Health for Better Economic Health

Morocco's maternal and infant-child mortality rates are twice as high as in Tunisia (see figure ES.24). Morocco has seen significant improvement in its health outcomes since independence, and in an environment of demographic and epidemiological transition, with today's longer life expectancy of 74 years. Yet, some indicators continue to give cause for concern despite this progress. The results of Morocco's "health status report" are poorer than in any country with a similar level of socioeconomic development. These health results are due to an inadequate, insecure and unequally distributed health care supply.

Figure ES.24 Infant-Child Mortality Ratio: International Comparison

Source: World Development Indicators 2015, World Bank.

Note: For the sake of comparability, the international databases may differ slightly from the national datasets.

The World Health Organization (WHO) ranks Morocco among the 57 countries in the world with insufficient medical coverage (the ratios of the number of doctors or nurses per 10,000 inhabitants are below the critical thresholds). Primary health care is typically underserved relative to hospital care. Public health expenditure is below the levels observed in comparable countries (health accounted for 5.3 percent of the total budget in 2015) and the share of pooled spending in total health expenditure is less than 35 percent (as opposed to 60 percent on average in the region), which contributes to an inequitable health system. Infant mortality is 75 percent higher in rural areas than in urban areas. It is estimated that one quarter of Moroccans do not seek treatment when they are sick.

Like education, investment in healthcare could improve the population's future productivity. Healthy individuals are more capable of learning, being productive and investing in their own (and their children's) human capital, because they have a longer life expectancy and hence a longer return on their investment (Schultz 1960; Becker 1962). Health and economic development are intricately intertwined, with the causal relationship working both ways. An improvement in the health and nutrition of adult and child has multiple repercussions on country and household revenue in view of its effects on cognitive capacities, education, fertility and labor market participation. Health policies reflect societal choices. There is generally a case for government intervention in healthcare based on the fact that life and death are not ordinary "products," but also because of established shortcomings on the healthcare service market and the need to guarantee

equitable care for all. In support of the Government's strategy, the reform's priority tracks should be as follows:

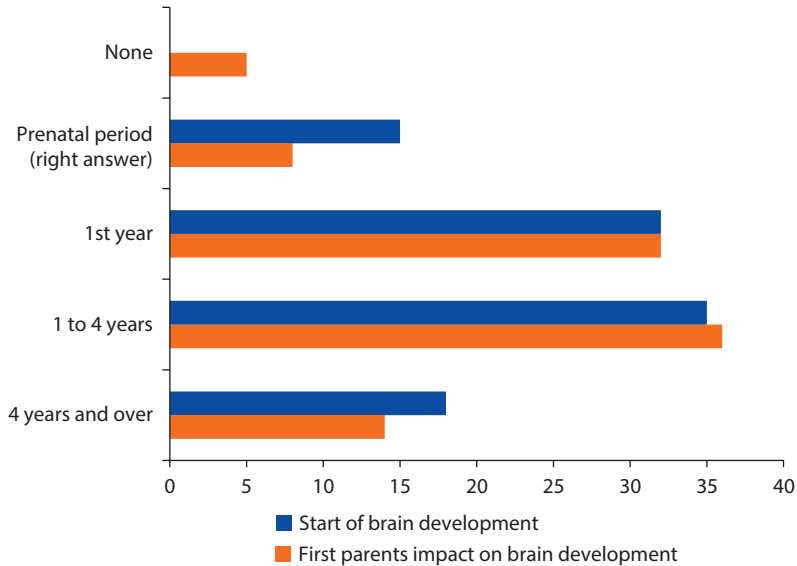
- *Extend medical coverage.* Extending medical coverage (or pooled financing) is a key aspect of the reform of Morocco's health sector and should facilitate access by all to essential health services according to their needs, averting the catastrophic financial consequences of illness. The extension of medical coverage entails the adaptation of healthcare services in the context of a comprehensive and coherent vision aimed at extending and harmonizing coverage plans.
- *Improve allocative efficiency.* To provide universal health coverage, Morocco will have to scale up investments in health. Budgetary appropriations should increase relative to real needs. Specific investments in healthcare establishments and primary care establishments in particular are critical. To enhance the effectiveness of public health spending, the government should complete the reform of results-based programmatic budgeting. The prevention and early detection of noncommunicable diseases provide an indirect method of freeing up budgetary resources over the medium term. The extension of mobile healthcare services is another source of budgetary efficiency and improved healthcare service delivery, particularly for disadvantaged or isolated communities.
- *Improve health system governance.* Morocco should reform the governance of its health system, with a view to providing the necessary incentives to promote the efficiency and effective management of resources, and ensure greater access to health care and improved service quality. Three far-reaching reforms are key to putting patients' needs back at the center of the system. First, all players need to be made more accountable, which requires the introduction of an organizational reform of the Ministry of Health as part of the decentralization process underway (the Ministry needs to "steer rather than row"). There is an urgent need to enforce the rule of law and discipline in health establishments, by making them accountable to the people and curbing in particular absenteeism and corruption. Second, Morocco should remotivate its health personnel with financial and intangible incentives (continuing training, career management and working environment). Last, the creation of an integrated, computerized, accessible health information and management system could generate many positive externalities (better management, rapid data transfers and more effective healthcare) and contribute to quality control.

Early Childhood Development

Whereas reading and playing are essential to early childhood development, only 21 percent of young Moroccan children live in families with at least three books and 34 percent do not have any toys at home (Ministry of Health 2008). Not enough attention is paid to protecting and assisting with the development of young children in Morocco (El-Kogali and Krafft 2015; El-Kogali and others 2016). As mentioned above, infant mortality remains higher and above average for the Middle East and North Africa region, owing to the lack of postnatal care

Figure ES.25 Parent Knowledge of Early Childhood Development, Percent

"When does a child's brain begin to develop and when do parents have their first impact on brain development?"



Source: Zellman, Karam, and Perlman 2014.

and imperfect, uneven immunization coverage. Children under five years old in the poorest segment of the population are three times more likely to die following preventable wounds or childhood illness. Those born out of wedlock are subject to severe physical and mental damage as no care is provided for single mothers. Moreover, a large number of young Moroccan children continue to suffer from malnutrition and micronutrient deficiencies and are consequently more vulnerable to cognitive deficits, serious health problems, and lower productivity and lower earnings in adulthood. There also appears to be little parental stimulation and care, vital factors for the child's physical, social, emotional and cognitive development (see figure ES.25). In particular, fathers have little to do with their children's education (only 58 percent participate in at least one activity with their children). Violent discipline is endemic in Morocco, constituting a further obstacle to early childhood care and proper development.

Providing protection and development support during early childhood—a period during which many irreversible changes take place in the young child's development—should become a national priority as they are the foundation on which to generate future investment returns in education and health. Investment in early childhood care and education is key to raising economic efficiency and productivity, protecting children's rights and reducing the social determinism, exclusion and inequalities that originate in this period of life. Whether from the point of view of human rights, equal opportunities or economic efficiency, ensuring that all Moroccan children can receive better protection and better care

during their early years is of critical importance. This calls for work in the areas of public information, coordination of government programs, improved investment quality and more responsible parenting.

- *Launch public awareness and information campaigns.* Morocco should conduct public awareness and information campaigns, especially to combat misconceptions about early childhood development. A mere 15 percent of parents interviewed correctly identified the prenatal period as marking the start of brain development and only 8 percent of parents understood correctly that their own impact on brain development began during the prenatal period (Zellman, Karam, and Perlman 2014). Once a child is born, it is vital that systematic information campaigns be used to better inform parents about ideal nutritional practices and health and general hygiene matters. The messages designed for families and communities would have greater impact if childhood problems were understood to be an important public health issue.
- *Coordinate programs and public policies.* Morocco should take up the challenge of the intersectoral nature of early childhood development by rethinking the organization of its public policies and improving the coordination of its programs. One option would be to identify a single entity (ministry or high-level interministerial coordinating council) to be tasked with defining the country's vision and objectives for early childhood protection and support, a strategy to achieve these objectives, and a process to evaluate progress.
- *Invest in quality preschooling.* Given the proven importance of early childhood and the high returns generated by early action, a high priority should be placed on public investment (for example, preschooling). The private sector should be involved with the implementation of certain policies (for example, immunization) as service provider, but it is the government's responsibility to improve the management, regulation and control of the effectiveness, equity and quality of early childhood policies.
- *Involve parents and bring them on board.* The role and participation of parents, particularly fathers, must be stepped up with training and targeted information campaigns to more effectively galvanize mothers and fathers to do more for their children's development. Morocco could usefully draw on a number of foreign experiences with nutritional and disciplinary practices (for example, Jordan).

Investing in Social Capital

Whereas institutional capital is based on the relationship between individuals and the state, and human capital mainly lies within individuals themselves, social capital refers to the capital derived from the relationship between individuals in society (Putnam 1993; Fukuyama 1995). It concerns mainly the place of fundamental individual freedoms and the related rules and responsibilities in social relations, which in turn allow each individual to develop critical and self-critical skills, freely question dogma, immutable truths and other commonly held assumptions, and more easily imagine and creatively invent the future.

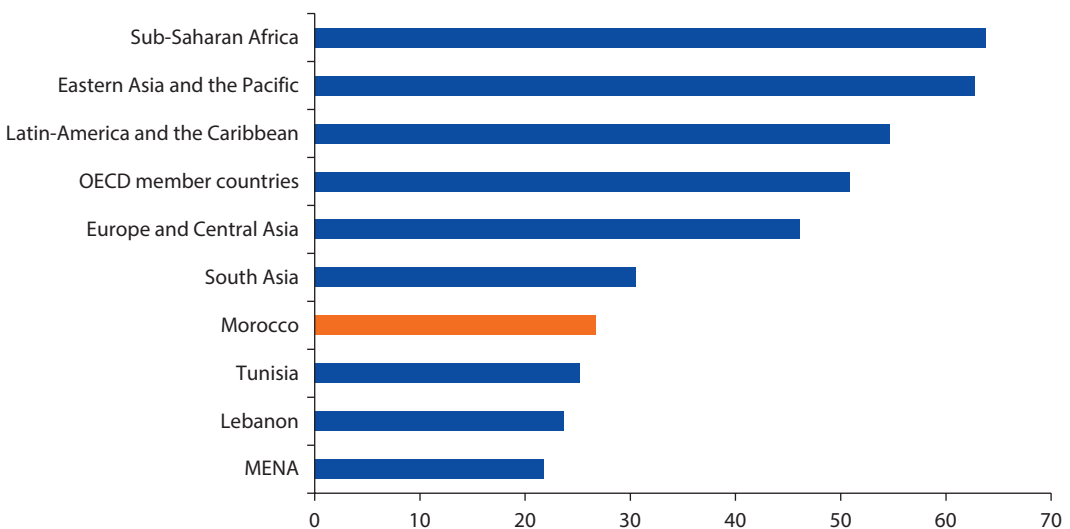
Although social capital is the most intangible of all the intangible assets, it conditions the effectiveness of all the other forms of investment (physical, institutional, and human) and therefore the wealth creation process itself. The Memorandum concludes with a discussion of two important aspects of social capital: the male-female relationship and interpersonal trust in society, including through compliance with rules.

Gender Equality

With less than one quarter of working age women active (in the labor market), Morocco is among the world's lowest 20 percent of countries for female labor market participation (see figure ES.26). Despite progress made, especially with the adoption of a new family code in 2004, Moroccan women are still victims of many inequalities today (World Bank 2015c). The first concerns employment. Although substantial reforms of the legal framework have been adopted to secure and guarantee gender equality, Moroccan women continue to face major discrimination. Not only do women do the vast majority of household tasks, but once employed, women are also the most exposed on average to job insecurity, informal work and lower pay. Moreover, they tend to leave their jobs when they marry, under pressure from social norms. The influence of patriarchal society on female employment is evident from the fact that only one-third of Moroccan women ages 15–49 years make decisions about their employment on their own. Most of the time, the men decide.

Substantial legal gender discrimination also persists (World Bank 2015c). For example, women have fewer rights to economic assets (inheritance), social

Figure ES.26 Rate of Participation by Women in the Labor Force, 2013, Percentage of the Female Population Ages 15 Years and Older



Source: World Development Indicators 2013, World Bank.

security benefits and marital property, marriage to non-Muslims, divorce and transmission of their nationality to their foreign spouses. Divorced women struggle to assert their alimony rights, and single mothers and their children are highly marginalized and are subject to discrimination. No legislation fully and satisfactorily addresses marital and domestic violence even though 60 percent of Moroccan women are victims of domestic violence, totaling just over 6 million women (HCP 2010). The number of marriages involving underage girls is high and rising. Last, even when the law makes real progress for women, it is unequally applied and the public services that are supposed to help women gain access to justice also remain under the influence of social norms.

The relationship between men and women and the status of women within society are among the most visible and important manifestations of a nation's social capital. The notion of gender pertains to the social architecture that accords cultural meaning to sexual identity, thus tending to determine the entire gamut of choices and possibilities available to men and women, respectively. The consequences of the lack of opportunities and freedom of action preventing girls and women from realizing their potential are huge, not just for the women and girls themselves, but for their families and society as a whole. Gender discrimination hampers the development and building of social capital: it undermines trust between the sexes, distorts relationships within the family, limits social networks and weakens social capital and society's ability to work toward common goals (World Bank 2012b). The world over, equal participation and autonomy for women have traditionally come up against obstacles associated more with the societies' sociocultural characteristics than economic reasons. Male-female equality may be important in itself, but it is also advantageous from an economic standpoint. Greater gender equality can increase productivity, improve development outcomes for future generations and make institutions more representative, all goals that are key to Morocco's convergence scenario for 2040. There is still a long way to go to improve access to economic opportunities and empowerment for women. Policies should be based on three major pillars:

- *Increase economic opportunities for women.* Morocco needs first and foremost to increase economic opportunities for women by lifting the obstacles to their labor market participation and developing entrepreneurship. The government should focus on reforms that support the structural transformation of the economy, encourage private sector investment, and stimulate growth to help women shift away from agriculture and other low productivity sectors and occupations. This entails lifting the legal and social barriers that discourage the hiring of women, access to finance and business start-ups.
- *Encourage the emancipation of women.* Morocco should also reduce the gender gap in terms of voice and agency by supporting female participation in political life and protecting women's rights in the household and society at large. The legislative framework should be developed (to do more to protect women against violence) and made more consistent (to better reflect the recently acknowledged equality of responsibility within the household). Measures

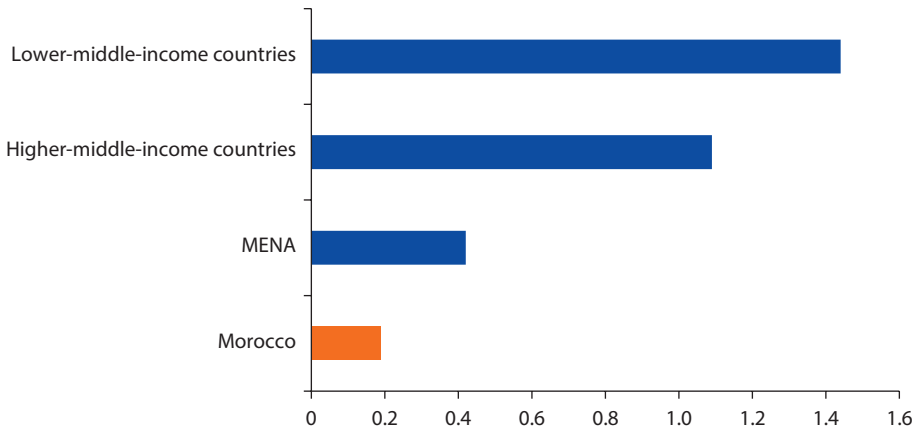
should also be taken to give women more control over their economic assets by correcting prejudice within the service institutions and improving the way the credit markets operate. A better distribution of responsibilities and greater agency for women need to be guaranteed by granting women the same rights as men in matters of divorce, marriage with non-Muslims and access to the family record book (*livret de famille*).

- *Systematically mainstream gender into public policies and continue modernizing the law.* There is considerable scope for improving the situation of Moroccan women, starting with the enforcement and implementation of legislation and existing laws, and the promotion of an egalitarian model within the country's various political, administrative, and professional bodies. Beyond the existing laws, the essence of Islam's spiritual message provides complete freedom to continue modernizing the law, changing mindsets and sociocultural norms and bringing about true social equality between men and women. As Islam is becoming an increasingly relevant sociocultural marker, modernizing the religious approach would boil down to a thorough modernization of the society, and not solely of gender relations.

Greater Interpersonal Trust

A survey by the Royal Institute of Strategic Studies (IRES) reports that less than 10 percent of Moroccans agree with the statement "In general, people can be trusted." (IRES 2012) Although trust is crucial to economic activity, interpersonal trust in Moroccan society is low and below average for lower-middle-income countries. Moreover, World Values Surveys conducted over the past 15 years indicate that the level of trust in the society appears to have declined over time in a downturn typically ascribed to an unraveling of respect for the rule of law, sense of civic duty and solidity of social bonds. More than elsewhere, social bonds in Morocco are confined to closed circles (friends, family, and neighbors) at the expense of more open, detached groups within which contacts could be made. Moroccan society also has a low level of civic engagement compared with both the level worldwide and other developing countries (see figure ES.27). Weak citizen participation also translates into a significant lack of a sense of civic duty and respect for the rules of life in society such as respect for others, respect for nature and respect for public goods. This lack of a sense of civic duty is especially evident and measurable on Moroccan roads where violations of the traffic laws contribute to more than 200 fatal accidents for every 100,000 vehicles on the road each year, compared with, for example, fewer than eight accidents per 100,000 vehicles in France, Italy or Spain (OMS 2015).

It has been established that a lack of interpersonal trust and sense of civic duty throughout society exacts a high economic cost. In the absence of adequate interpersonal trust, cooperation and social cohesion, "honest and respectful" behavior tends to be confined to small circles of related people. Yet, the more a society practices ostracism, the less it will be able to promote economic opportunities in the long run. When individuals lack trust in others and do not

Figure ES.27 Rate of Voluntary Membership of an Association

Source: Sixth World Values Survey Wave 2010–14.

Note: Average membership of each of the following groups: religious organization, sport organization, educational or cultural association, political party, labor union, professional association, environmental association, women's organization, consumer association, or other group.

respect the rule of law, the provision of public goods and services tends to be inadequate and subject to nepotism and corruption. Conversely, in open societies where social relations are governed by interpersonal trust and general rules of good conduct, the climate is more conducive to business, innovation, initiative and individual engagement for the common good (Tirole 2016). Many studies have shown that the quantity and quality of social capital tie in closely with a country's sustainable economic growth, given that this is what enables the country to tap into the full potential of its other forms of physical, human and institutional capital.

By investing more in social capital, Morocco can hope to reap significant tangible economic gains. An econometric study conducted for this Memorandum concludes that the drop in the level of trust in Moroccan society (10 percent over the past 15 years) has engendered a large “shortfall” in growth and wealth (Foa 2015). A country has a fairly small range of means available to build its social capital as it is impossible to mandate the general level of trust among people or the way people live, relate to one another and work together. Social capital is a byproduct of perpetual or inherited structural factors that are hard to change (geography, history, culture, and mindsets). Nevertheless, studies have turned up the possibility of raising the level of social capital by triggering certain drivers and incentives associated with respect for rules, voluntary engagement, and the evolution of customs and attitudes.

- *Promote greater respect for the rule of law, civic responsibility and exemplary behavior.* Morocco could take direct measures for strengthening social capital by ensuring greater compliance with the rule of law at all levels of society and by promoting exemplary conduct in all spheres of power by imposing tougher

sanctions on behavior that is socially deviant, illegal or uncivil. Restoring the values of probity, honesty, justice and openness in society could lead to increased economic growth, through the development of a culture of trust and by allowing all citizens to realize their potential in an equitable, stable, predictable and transparent environment.

- *Encourage (and not discourage) voluntary engagement.* By implementing appropriate public policies, Morocco could also promote all forms of civic and citizen engagement, especially in associations, and refrain from taking measures liable to hinder voluntary engagement in civil society, whether at the level of social networks, civil society (associations) or the media.
- *Support a change in attitudes.* Morocco could initiate awareness campaigns to promote new ways of thinking in relation to the values of cooperation, freedom and mutual respect, citizenship and civic duty. These values should be introduced into school curriculums as a matter of priority. Indeed, it is on the basis of their experiences in the school system and later in university that men and women learn how to set up associations, work in teams, and strive toward collective goals. Recent studies have demonstrated that in countries where school curriculums tended toward a more collaborative approach, community life and the attendant values of civic association and engagement have gained in importance (Algan, Cahuc, and Shleifer 2013).

The Political Economy of Change: An Essential Transition

Morocco's ambition for a society with greater shared prosperity can be achieved. As described in the Memorandum, this will necessitate leveraging the progress made in the past 15 years and making the necessary changes capable of significantly accelerating the rate of growth. The strengthening of the social contract based on the promotion of an open society could become the vehicle for productivity gains and the targeted economic catch-up. As discussed, it should lead the country to improve its national, regional and local institutions, refocus government action on its sovereign functions within the advanced regionalization process, give the education system the "shock therapy" it needs to significantly develop human capital and increase social capital in general, in particular through greater gender equality and increased interpersonal trust in society.

Yet, if this ambition is to stand a real chance of success, all of society needs to recognize and accept a number of important principles representative of a change in paradigm: (a) no imported turnkey miracle solutions: the economic convergence process will be complex, indirect and endogenous (there are no easy, direct, exogenous solutions to most of the economic problems); (b) patience and determination: the economic dividends will only materialize in the medium to long run (institutions, human capital and social capital cannot be built overnight); (c) trust and faith: the quest for efficiency in terms of sectoral administration, production and specialization cannot be planned or steered and the outcomes will remain largely unpredictable (it is impossible to know in advance

the cumulative consequences of free, independent individual decisions); and (d) vision and clarity of principles: the process will not be stable and linear (but unstable and prone to inevitable national and international shocks). However, in contrast to “institutional mimetism,” which has sometimes resulted in rapid reforms without any real impact (Di Maggio and Powell 1983), this change of paradigm would have the huge advantage of facilitating the emergence of endogenous, decentralized systemic solutions to the country’s economic problems by building its institutional, human and social capacities in the context of advanced regionalization.

Nevertheless, although the possibility for a change of paradigm exists, there is no mention of the political economy circumstances that might lead Morocco to embark upon an accelerated economic convergence process (when it has not opted for such choices in the past). This observation touches on the problem of the political economy of change; a problem that concerns less the question of “what” than the question of “how.” How can a strategy designed mainly to improve the way people live, interact and work together be adopted and implemented in ways that significantly improve the social well-being of all Moroccans? In other words, can the equilibrium that characterized the relations between the different players in Moroccan society drive greater momentum for change and modernization or is it constrained by a strong conservative tendency? How can the government, the regions, municipalities and non governmental actors (private sector, trade unions and civil society organizations) become the agents and vehicles of this change? In what circumstances can Moroccan society evolve toward a new equilibrium that is more beneficial for all its components?

If Morocco is not rapidly converging with its Spanish neighbor to the north, for example, this is not due to inadequate potential but to a relatively stable, albeit suboptimal political economy equilibrium. Like most countries in an economic catch-up process, Morocco has considerable growth potential. This Memorandum has presented a realistic scenario in which Morocco could break through its “glass ceiling” by investing more in its intangible capital and achieving sustainable growth of at least 4.5 percent per year on average for 25 years. This potential has not yet been realized owing to numerous deep-seated suboptimal equilibrium that tend to hold back the Moroccan economy. For example, the behavior that hampers free competition and the country’s economic openness by protecting special interests and maintaining nepotism and rent-seeking is often rooted in the players’ history, culture and way of thinking. Those within the system who benefit from its protection find it normal that so many others should be deprived of it. As regards the organization of government, central administrations tend to resist the decentralization processes and hence hold back the effective emergence of local deconcentrated authorities with the potential to give the people more voice. The central administration itself can be “held hostage” by special, well-organized interests capable of bending or enforcing the rules in their favor at the expense of the public interest. The education and health sectors are particularly vulnerable to this behavior. In the long run, the different pressure groups tend to ramp up

their influence, political weight and capacity to capture wealth for their own benefit, hence compromising the chances of attaining a greater and more inclusive equilibrium. Huge economic potential is there, but it cannot be realized. As Fukuyama puts it, “Economics is grounded in social life and cannot be understood separately from the larger question of how modern societies organize themselves.”(Fukuyama 1995)

The political economy of change hence consists of identifying and setting in motion the forces likely to foster a new equilibrium driving more social well-being. Yet, when a an equilibrium is well established, it is by definition hard to identify the conditions that could steer actors toward a new equilibrium when in principle they have no interest in doing so. History, as much as geography, contributes to a form of national economic and growth hysteresis. At the same time, history also appears to show that when players are better informed of “the rules of the game” or when these rules of the game change or are effectively implemented and enforced in times of extensive change, then the players review their strategies and make different choices. The transition to another equilibrium, potentially superior for society, then becomes possible.

Which circumstances might enable Morocco to make the transition to the superior equilibrium of the accelerated economic convergence scenario? This transition would appear to be possible in two types of circumstances: improve the players’ understanding of the existing rules of the game and, where necessary, adopt and implement new rules.

- *Improve understanding of the existing rules of the game.* Three mechanisms that enable players to constantly revise their positions are as follows: increase the level of knowledge, scale up accountability and transparency and encourage decentralization and public policy evaluation (Rodrik 2014; Casey 2015). Yet, these three mechanisms are not fully effective in Morocco. Moroccan public policies are not sufficiently informed by academic research (with the knock-on effect of a relatively poor research sector). Moreover, public policymaking suffers from a lack of dialogue upstream. Morocco has “sectoral roadmaps” in most areas of government intervention designed to share diagnoses, define guidelines and set goals. Yet, the information on these documents remains highly limited, with the published documents generally restricted to describing often-ambitious, quantified goals without any analysis to justify the choices made. The central government often launches public policies on a large scale, bypassing the necessary local pilot test stage. Lastly, the level of information and knowledge supposed to improve the players’ understanding of the rules of the game has barely increased and, as it currently stands, does nothing for a gradual, endogenous shift in the political economy equilibria. Consequently, the players’ positions tend to remain frozen.
- *Adopt and implement new rules of the game.* Informing and enlightening society’s players about public policy choices may not be enough for some players to substantially change their positions. A new equilibrium may call for new rules to be introduced and enforced. Given that Morocco is traditionally

“evolutionary,” the scenario that is most likely to change the rules of the game would be to deepen and speed up the process underway to change the social contract and move toward a more open society. Indeed, according to the 2012–2014 Arab Barometer, almost 80 percent of persons surveyed were in favor of gradual, rather than immediate, political reforms. From this point of view, the implementation of the 2011 Constitution and the prospect of a deep and comprehensive free trade agreement with the European Union constitute two historic opportunities to irreversibly drive forward the Moroccan economy and society to superior outcome. The implementation of the 2011 Constitution, especially the advent of genuine decentralization, and economic integration with the world’s leading economic power, which produces every 2.5 days what Morocco produces in a year, are exceptional opportunities for the development of Morocco’s social capital and thereby the efficiency of its physical, human and institutional capital.

Morocco stands out as an exception in a turbulent Arab world. It has considerable assets to be able to drive up its distinctiveness and become the first non-oil-producing North African country to join the ranks of upper-middle-income countries by the next generation. To achieve this goal, Morocco can take up real drivers for change on both the political level (the stability of its leadership), the institutional level (the values and principles endorsed by the 2011 Constitution), and the economic, social and environmental levels (normative convergence with the European Union) to build its intangible capital, the main source of any future shared prosperity. In this age of the knowledge economy and the digital revolution, the wealth of nations is less the outcome of the mere cumulative volume of labor or physical capital than of the quality of institutions, expertise and knowledge, and collective action standards. Ultimately, these drivers are also the most effective means for strengthening economic and social cohesion in Morocco and ensuring a smooth transition to economic emergence.

As a summary, the matrix below summarizes the main lines of economic and institutional policies likely to lead to the emergence of the Moroccan economy according to the analysis of the Memorandum. These policies are split between short-term policies (those that can be initiated and implemented immediately) and longer-term policies (those that require more preparation or cannot be implemented immediately). The formulation of these recommendations is generic in accordance with the Memorandum’s objective of mapping the broad economic policy orientations in the various areas of intangible capital in a coherent and cross-cutting manner. In order to achieve their objectives, these recommendations must necessarily be refined and further developed through appropriate sectoral dialogues.

The Pathways to Emergence

<i>Short-term policies</i>	<i>Long-term policies</i>
<i>Strengthen market support institutions</i>	
<p>Capital allocation:</p> <ul style="list-style-type: none"> - <i>Eliminate government and public enterprise payment arrears</i> and take the necessary steps to ensure that payment times comply with the legislation to avoid penalizing business cash flow. - <i>Speed up VAT credit refunds</i> to reinstate the economic neutrality of VAT. - <i>Strengthen institutional public policy making, monitoring and evaluation mechanisms</i>, especially for sector policies, for systematic evaluation of the economic relevance of the different incentives, subsidies and other tax expenditure. - <i>Strengthen public-private dialogue to better inform and involve economic players upstream in the decisions that concern them</i> by including local and regional government representatives and the entire private sector (large corporations, SMEs, VSEs and unincorporated entrepreneurs). In particular, use the decentralization process underway to more effectively include local public and private players in a regionalized approach to economic development. - <i>Refocus government actions strictly in the public sphere and reconsider its interventions aimed at promoting investment</i> (investment agreements, tax and other incentives, free zones, etc.), and the role and governance of the key public actors financing the economy (CDG, Hassan II Fund, etc.) 	<p>Capital allocation:</p> <ul style="list-style-type: none"> - <i>Promote and ensure the strict separation of public and private interests</i> to combat conflicts of interest and ensure the good governance of a modern State. - <i>Strengthen fair competition and tackle rent seeking</i> by increasing the regulatory authorities' autonomy and powers and reducing visible rents (land, approvals, licenses, authorizations, etc.) and invisible rents (regulatory loopholes). - <i>Improve the cost of and access to industrial property</i> by clarifying, streamlining and improving the transparency of the regulations and providing a planned, less expensive supply. - <i>Step up promotion of a business culture change by promoting a culture of entrepreneurship</i> and innovation in national education and the administration so that private sector development reforms are understood, sustained and owned. - <i>Encourage the development of the Casablanca stock exchange</i> as an alternative business finance instrument to the banking system. Assist the modernization of business accounting and the development of popular shareholding.

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Strengthen market support institutions

Labor allocation:

- *Improve the governance, effectiveness and efficiency of the employment and skills promotion policies* with the adoption of output-based monitoring and evaluation systems; the outsourcing of employment and training services on program contracts; and the inclusion of the unskilled population in the active labor market policies according to demand and the current and foreseeable needs of the private sector.
- *Introduce minimum wage plans suited to regional and sector particularities* in order to attract low-productivity workers to the formal sector and provide them with social security coverage.

International integration:

- *Adopt a flexible exchange rate system* to enable the dirham to achieve its market-clearing price.
- *Lower tariff and non-tariff trade barriers* by launching a new plan to reduce and bind most-favored nation tariffs, by reducing the number of tariff lines for which the applied rates continue to exceed Morocco's bound rates, and by gradually aligning customs duties for all partners.
- *Facilitate trade* by improving commercial import-export logistics, clarifying and automating procedures, and improving regional connectivity, especially for maritime freight.
- *Reform the investment regime* by phasing out certain restrictions on foreign ownership of capital in some sectors (transport services, insurance, professional services, etc.) while ensuring that the incentives used to attract foreign investors do not prevent local integration.

Strengthen institutions and public services**Rule of law and justice:**

- Fully implement the new rights provided for by the Constitution and the Justice System Reform Charter.
- *Guarantee the protection of contracts*, particularly by streamlining performance procedures and processes, including improving the settlement of disputes with the administration (redress and judgment lead-time and enforcement time) and encouragement to go to arbitration.

Labor allocation:

- *Increase labor market flexibility by adapting the labor code* to the needs of a changing economy, including hiring and firing conditions, working hours, remuneration of overtime, etc.
- *Improve social security financing transparency and efficiency* to free up fiscal space to be able to finance a universal unemployment benefit system, improve worker protection and facilitate the mobility of labor.

International integration:

- *Continue to relax currency controls to guarantee the dirham's full convertibility* and increase Morocco's attractiveness to investors and international operators.
- *Gradually liberalize agricultural trade*, which remains protected behind quotas and high customs duties, and rationalize non-tariff measures and their related procedures.
- *Negotiate an ambitious deep and comprehensive free trade agreement (DCFTA) with the European Union* to promote greater freedom of movement of goods, services, capital and persons and hence better position Morocco on the European Single Market and in worldwide competition, including by means of improving the integration of Morocco into the global value chains.

Rule of law and justice:

- *Improve the justice system*, in particular to guarantee procedural fairness (individuals' fundamental rights and security of person) and fair criminal justice (impartiality and corruption control).
- *Improve security of private property* by passing a single property law, encouraging the registration of land transactions with the land registry, guaranteeing the protection of land rights and clarifying the expropriation system, including its transparency.

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Strengthen market support institutions

Public administration:

- *Reform the administration's human resources management* by effectively introducing the notions of competence, performance and outcomes as core elements in the central and local government employee hiring, management and promotion process.
- *Embark upon the advanced regionalization process* by systematically deconcentrating decisions and organizing a real, gradual transfer of decision-making powers and resources and means corresponding to the appropriate local and regional levels (subsidiary principle).

Public service governance:

- *Improve civil participation in public management* by implementing new constitutional rights (petitions, legislative motions, public consultations, etc.) and introducing a full user grievance filing and management system.
- *Improve the administration's internal and external local and national transparency and accountability*, with the effective implementation of the access to information reform, the new performance-based budgetary reform, the development of the e-administration, and anticorruption measures.

Strengthen human capital**Education:**

- *Revise the curriculums and teaching methods* for the school to convey positive, open values, guarantee the learning of basic skills, and encourage vocational training with real employment prospects.
- *Improve teacher recruitment, training, motivation and assessment* in order to attract competent applicants with strong potential to the teaching profession and develop suitable evaluation and coaching systems to improve the performance of working teachers.
- *Continue to develop the use of information and communications technologies (ICTs)* at school to facilitate and evaluate the learning of basic skills, aid teacher training, and support the sound management of establishments.

Public administration:

- *Reduce operating costs and improve the administration's efficiency* ("value-for-money") with the diligent implementation of the new Budget Framework Law (LOLF) to control staffing levels and the wage bill, assign line ministries the management of their personnel appropriations, and redeploy administrative staff under the advanced regionalization process in keeping with local staffing needs.
- *Adapt the civil service regulations to the standards of good management and governance practices*, in the context of across-the-board modernization of the administration based on advanced regionalization and the redefinition of the different government levels' strategic missions, the development of delegated management services in partnership with the private sector, and shared crosscutting administrative services.

Public service governance:

- *Effectively implement the decentralization/ deconcentration process as part of advanced regionalization*, by transferring new competencies under contract, overhauling the transfer and equalization system, deploying the necessary technical and human resources, and setting up a local service performance monitoring and evaluation system.

Education:

- *Adopt a new brand of public school governance* by refocusing it on providing better service to students, mainly with (i) a review of all the education system players' roles, responsibilities and regulations governing their positions; (ii) learning evaluations and the dissemination of these evaluations for greater player responsibility and the promotion of quality; and (iii) the involvement of students' parents, especially fathers, in school life.
- *Develop alternative educational options* entirely consistent with the government's mission to provide quality education for all children while promoting freedom of choice and innovation (charter schools, school vouchers, etc.).
- *Develop "21st century skills" in education* (collaboration, communication, social and cultural dexterity, a sense of civic duty and ICTs) and develop creativity, critical thinking and adaptability.

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Strengthen market support institutions

Health:

- *Improve health system governance*, and put patient needs back at the heart of the system, by giving responsibilities to all players, ensuring compliance with the rule of law and discipline in health establishments, remotivating health personnel and creating an integrated health information and management system.
- *Extend and harmonize universal medical coverage and adapt health care services* in the context of a coherent overall vision to facilitate access to basic care for all, avoiding having to deal with the catastrophic financial consequences of diseases.

Early childhood:

- *Conduct public information and awareness campaigns on the importance of early childhood development*, and address early childhood care as an important public health issue (post-natal care, immunization, nutrition, etc.).
- *Establish a central body in charge of early childhood development matters*, which will be tasked with defining the country's vision and objectives, developing a strategy to meet these objectives, and evaluating progress made.

Strengthen social capital**Gender equality:**

- *Grant women precisely the same civil rights as men* in matters of inheritance, marriage (with non-Muslims), descent, divorce and other civil code provisions.
- *Systematically mainstream gender* in all public policy making and implementation to effectively achieve gender equality on the ground.

Interpersonal trust:

- *Improve respect for the rule of law and promote a sense of civic duty and exemplary behavior* in all spheres of government, including increasing sanctions for deviant, illegal or uncivil behavior in order to strengthen the values of integrity, honesty and justice in society.
- *Put in place suitable public policies to encourage all forms of civic and civil engagement*, especially in associations, and refrain from taking measures liable to hinder voluntary engagement in civil society (social networks, associations, media).

Health:

- *Improve allocative efficiency* by investing specifically in primary health care establishments, successfully reforming results-based programmatic budgeting, developing prevention and early detection programs for non-communicable diseases and developing mobile health services, in particular for disadvantaged and isolated populations.

Early childhood:

- *Involve parents and families, especially fathers, and raise their awareness of the importance of their active, positive participation in early childhood development and care*, by means of parental stimulation and attention, among others.
- *Scale up quality public early childhood policies and investment* in association with the private sector as service provider for the implementation of certain policies (e.g. preschool education, immunization campaigns, etc.).

Gender equality:

- *Open up economic opportunities for women* by lifting the obstacles to their labor market participation and supporting female entrepreneurship.
- *Encourage women's empowerment and autonomy* with awareness-raising campaigns to reduce the gender gap in terms of voice and agency in the household and society in general and encourage greater political participation by women.
- *Continue modernizing the laws and encouraging a shift in attitudes and sociocultural norms*, with a view to bringing about real gender equality in the society.

Interpersonal trust:

- *Launch awareness-raising campaigns to encourage a shift in attitudes and sociocultural norms* toward values of freedom, collaboration, mutual respect, and a sense of civic and civil duty and teach these values in the school curriculum.
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Notes

1. For an in-depth analysis of the challenges facing young Moroccan men and women in the labor market and in their civic life, see the World Bank report (2012) titled “Promoting Youth Opportunities and Participation.”
2. For example, Landes (1998) believes that one aspect of the edifying success story of Japan’s rapid industrialization in the post-World War II era that has received little attention from historians is the pain and labor that made it possible. The Japanese economic miracle was not primarily due to the efforts of the powerful Ministry of International Trade and Industry (MITI); it was the result of a work ethic, personal values, and collective virtues of a society with abundant social capital.
3. These countries are Botswana, Brazil, China, Hong Kong, China, Indonesia, Japan, the Republic of Korea, Malaysia, Malta, Oman, Singapore, Taiwan, China and Thailand. Two other countries—India and Vietnam—were on track to join this group (World Bank 2008).
4. These two groups of comparator countries will be used throughout the Memorandum.
5. Using a method based on median consumption, a study conducted by HCP in 2007 estimated that the middle class accounted for 53 percent of the population.
6. The definition of an emerging country here is an upper-middle-income country with per capita GDP of between US\$4,126 and US\$12,735.
7. Report commissioned by HM, King Mohammed VI 2006.
8. The Maddison-Project, <http://www.ggdc.net/maddison/maddison-project/home.htm>, 2013 version.
9. A comprehensive review of the training system for civil servants was launched to ensure improved governance of the training system; the introduction of a common, coherent and professional strategy for the sectors; training at the regional level for improved adaptation to the missions and real needs to be met; integration of continuing training as a key element of one’s professional career; and an improved regulatory framework for training.
10. Flagship e-services put in place by Morocco include electronic declarations and payments of many taxes and duties; publication and monitoring online of competitions; publication of leadership and senior positions in the civil service; automation of public procurement; online ordering of criminal records; and online registration on electoral lists.
11. World Bank. Actionable Governance Indicators database.
12. UNESCO 2014.

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Morocco 2040: Emerging by Investing in Intangible Capital documents the major economic and social strides made by Morocco over the past 15 years and analyzes the economic conditions for accelerating the pace of economic catch-up by 2040. A virtuous yet realistic scenario suggests that with higher productivity gains Morocco could double its current pace of convergence with Southern European countries. In one generation, Morocco's standard of living could reach about 45 percent of that of Spain, its immediate Northern neighbor, compared with the current rate of 22 percent.

To lay out the possible pathways for Morocco to become the first North African country to attain upper-middle-income status, *Morocco 2040* then investigates the policies that could bring about such a virtuous scenario of accelerated economic convergence. It shows that sustaining higher productivity gains for 25 years would require greater efforts at building Morocco's institutional, human, and social capital—what is also known as intangible capital. Accumulating such intangible capital necessarily takes a number of different forms, and the book proposes a four-pronged approach. First, by strengthening Morocco's market institutions for a more efficient allocation of capital and labor and international integration. Second, by strengthening Morocco's public institutions to promote the rule of law and justice, modernize the public administration, and improve the quality of public service delivery. Third, by strengthening Morocco's human capital, especially education, health and the development of early childhood. And fourth, by strengthening Morocco's social capital through greater gender parity and increased interpersonal trust and civism in society.

By placing more of a priority on its intangible capital, Morocco would be advancing a social contract based on the promotion of a more open society. It would be taking a route that is partly new but one that is also the logical outcome of many economic and social diagnoses and pressing calls for change.