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

JANUARY 8, 1997

Country Operations I
Maghreb and Iran Department
Middle East and North Africa Region

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CURRENCY AND EQUIVALENT UNITS

Currency Unit = Moroccan Dirham (DM)

US\$1.00 = DH 8.777

DH 1.00 = US\$.1139

FISCAL YEAR

July 1 - June 30

GLOSSARY OF PRINCIPAL ABBREVIATIONS AND ACRONYMS

AFDB	African Development Bank
BAJ	<i>Barnamaj al Aoulaouiyat al Ijtimaiya</i> (Social priority program)
BMCE	<i>Banque marocaine du commerce extérieur</i>
BNDE	<i>Banque nationale pour le développement économique</i>
CAS	Country Assistance Strategy
CIH	<i>Crédit immobilier et hôtelier</i>
EDI	Economic Development Institute
EIB	European Investment Bank
EU	European Union
FATIMA	Facilitation of Trade and Investment in the Mediterranean Region
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDR	Global Depository Receipt
GEF	Global Environmental Facility
GOM	Government of Morocco
ICOR	Incremental Capital Output Ratio
ICR	Implementation Completion Report
IDF	Institutional Development Fund
LIBOR	London Interbank Offered Rate
LOF	Loan Option Facility
LSMS	Living Standards Measurement Survey
MEDA	Mediterranean Development Assistance
METAP	Mediterranean Environmental Technical Assistance Program
MFA	Multi-Fiber Agreement
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organization
OED	Operations Evaluation Department
ONCF	<i>Office national des chemins de fer</i>
OPIC	Overseas Private Investment Corporation
PE	Public Enterprise
PHRD	Population and Human Resources Development
PPII	Private Provision of Infrastructure Initiative
PSD	Private Sector Development
RDS	Rural Development Strategy
REER	Real Effective Exchange Rate
SAMIR	<i>Société anonyme marocaine de l'industrie du raffinage</i>

Vice President	:	Mr. Kemal Derviş
Director	:	Mr. Daniel Ritchie
Division Chief	:	Mr. Christian Delvoie
Country Officer	:	Mr. René Vaurs
Country Economist	:	Mr. Luc De Wulf

KINGDOM OF MOROCCO

Country Assistance Strategy

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

Executive Summary

The Challenge: *Accelerating growth and social development through strong reform within a process of political opening.*

The next three years will be fundamental in setting the stage for future development, as Morocco embarks on significant economic, political and social reforms. In the past decade the country has made great strides toward economic transformation, achieving growth and macroeconomic stability. During the mid- to late 1980s, GDP and export growth were among the best in the Middle East and North Africa, and well above the average for comparator countries. Fiscal and balance of payments imbalances, which had reached double-digit levels in the early 1980s, were brought under control, and the overall economic environment was stabilized. By most indicators, Morocco qualified as a "star performer" during this period: all the more remarkable an achievement as Morocco's policy makers in the mid-eighties had inherited a large foreign debt burden and had to stabilize the economy and generate resources for growth without the benefit of an outright debt reduction.

More recently, however, Morocco has lost ground, and economic performance has faltered. GDP growth has been negative in three of the past five years, partly because of repeated and severe droughts. The reform process also slowed. This slowdown has highlighted the persistence of a number of structural weaknesses. Macroeconomic balances are still fragile and the debt overhang remains a serious problem. External competitiveness, strong during the 1980s, has been eroding. The economy is overly susceptible to drought and insufficiently diversified. Growth fundamentals are inadequate, as evidenced by low savings and investment rates. The human resource base is unprepared for the challenges of the twenty-first century. And disparities between urban and rural areas—the two Moroccos—are large and persistent.

Morocco's recent history demonstrates its ability to confront challenges. Now that stability has been restored, the basis for strong, sustainable growth and social development must be strengthened. Morocco can realize 5 to 6 percent sustained growth, provided it moves forward promptly with its broad reform agenda. This is a prerequisite to reduce urban unemployment and rural poverty. But economic growth alone will not be sufficient. It will need to be accompanied by decisive efforts in accelerating social and rural development to reduce the existing social disparities. Medium-term priorities include enhancing competitiveness and fostering a more dynamic, aggressive private sector; deepening fiscal consolidation; paying special attention to human resources, where Morocco lags far behind its competitors; implementing a coherent rural development strategy; improving natural resource management, particularly for water; and, to support this broad agenda, building a more effective and efficient public administration.

Placing the economy on a sustainable high-growth path while simultaneously reducing social disparities is not the only challenge. Morocco is also engaged in political reforms within a new constitutional framework that supports universal suffrage for the lower house of Parliament, decentralization of public authority, and greater legislative involvement in medium-term economic decision-making. Although these developments may slow economic reform in the immediate

future, over the long term they should enhance popular participation in development and help ensure its sustainability.

The Authorities' Response: *Building consensus for the next phase of reform using strong signals and visible initial action.*

The Moroccan authorities recognize these challenges and understand the difficult tradeoffs they may entail. They have already taken several major steps that signal their commitment:

- *the recent free trade agreement with the European Union (Morocco was the second country in the region to sign such an agreement) will "lock in" the process of integration with the global economy;*
- *the reform process is being intensified, especially in the areas of public enterprises, privatization, the financial sector and private sector development; and*
- *major new rural development programs have been designed, focusing on basic education, health care, water supply and rural infrastructure, although most of these programs are still at an early stage of implementation.*

Perhaps most important, widespread public debate over the past eighteen months is building a consensus on future development priorities. Moroccans realize that their economy must become more competitive and their society more cohesive. Action has begun in several important areas, but a medium-term framework has yet to be finalized, particularly in such sensitive areas as budget reallocations, education reform, rural development and public sector reform. This agenda must be addressed in the coming months, even as the country prepares for its constitutional changes and subsequent elections.

The World Bank's Response: *Renewed support for economic reform while strengthening social and rural development and promoting new ways of doing business.*

The World Bank has always enjoyed excellent relations with Morocco, and we have fully participated in the recent public debates in preparing this Country Assistance Strategy. But the new economic environment and the large social agenda facing the country, coupled with the mixed results of our past assistance in this area, call for a new business compact between the Bank and Morocco. This compact includes:

- *a new lending approach, with fewer traditional investment projects and renewed support for policy-based adjustment lending;*
- *stronger social and rural development and poverty alleviation programs, accounting for at least one-third of our investment program and conditioning the volume of all our adjustment lending;*
- *new instruments, such as guarantees, pilot projects, new International Finance Corporation (IFC) products, and a unique "connector" role that helps bring together Morocco's private sector and entrepreneurs from other countries;*
- *outreach efforts, to enhance the public debate and build constituencies for reform;*

-
- *increased partnership, especially with the European Union but also with the African Development Bank, the UN agencies and bilateral partners; and*
 - *establishment of a resident mission.*

The Bank's efforts will focus on four priority areas consistent with the Government's reform agenda: encouraging more rapid growth, supporting increased social and rural development, strengthening environmental management, and reforming the public sector. The allocation of lending and non-lending services in each of these areas will be calibrated to reflect the progress achieved. Progress on social objectives will be the fundamental determinant of Bank support; it will determine the overall volume of Bank support as well as the size of individual adjustment operations.

Conclusion: *Commitment to reform is essential for fulfilling Morocco's promise.*

It has become something of a cliché to talk of countries at the crossroads. Still, Morocco is undergoing a significant economic, political and social transition. Integrating with the global economy, developing greater pluralism in political life, and mitigating social disparities will require persistence, a strong commitment to reform, and continued support from the World Bank.

In this context it seems that Morocco is poised for a qualitative change toward a more open society, politically and economically, ready to take its place in the global economy. This appears to be the direction set by the head of state, with support from a growing modern, dynamic and outward looking segment of society. The transformation faces many obstacles, however. In some cases progress may be blocked by concerns about social stability—yet genuine social stability will come only from social integration and job creation, not from attempts to preserve old structures. Change and movement may involve risks—but given the country's poverty and social disparities, too slow a pace of change will entail even more risk. To improve the lives of its people and realize its economic potential, Morocco needs to move forward without delay.

COUNTRY ASSISTANCE STRATEGY MOROCCO

Country Context

Economic Developments

1.0. Morocco has experienced two phases of economic development over the past ten years. In the first, the late 1980s, Morocco had the potential to become a successful emerging economy based on solid adjustment and stabilization. In the early nineties, however, economic activity slowed considerably, because of three severe droughts and reduced adjustment efforts. As a result Morocco's performance has fallen below that of comparator countries (Table 1). Although significant recovery now appears to be under way, efforts will need to be consolidated to recover lost ground.

	1986-90	1991-95
GDP		
Morocco	4.5	1.2
High-growth comparator countries ^{a/}	8.5	8.3
Lower-middle income country average ^{b/}	3.4	4.7
Exports		
Morocco	9.4	5.0
High-growth comparator countries ^{a/}	13.6	18.2
Lower-middle-income country average ^{b/}	5.8	9.4

^{a/} Malaysia, Thailand, and Chile; weighted average.

^{b/} Excludes Eastern Europe and the republics of the former Soviet Union.

Source: World Bank data.

1.1. In 1983 Morocco initiated an extensive adjustment and stabilization program with support from the World Bank and the IMF. This program had a dramatic effect on macroeconomic balances between 1984-85 and 1991-92: the budget deficit fell from 10.4 percent of GDP to 2.7 percent; the current account deficit dropped from 7.3 percent to 1.7 percent during this time. In addition, stabilization was accompanied by substantial growth in output and rapidly expanding exports. And with rising per capita incomes poverty went from about 23 percent during the mid-1980s to 13 percent in 1991.

1.2. During this period, broad structural reforms also reoriented the economy from one with pervasive state controls to one relying mainly on market mechanisms. Key reforms included:

- overhaul of the tax system including introduction of a value added and general income tax;
- economic liberalization, including major reductions in protection levels as well as rationalization and liberalization of most government-regulated prices;
- financial sector reform and liberalization of interest rates;
- initiation of a successful privatization program; and
- streamlining and reform of the business environment.

1.3. These efforts helped Morocco attract foreign investment once its external debt was rescheduled. Open policies—including current account convertibility for all investors and capital account convertibility for foreigners, a new investment code and the privatization program—boosted direct foreign investment to a high 2.8 percent of GDP in 1994, partly because of the large investment associated with the gas pipeline to Europe.

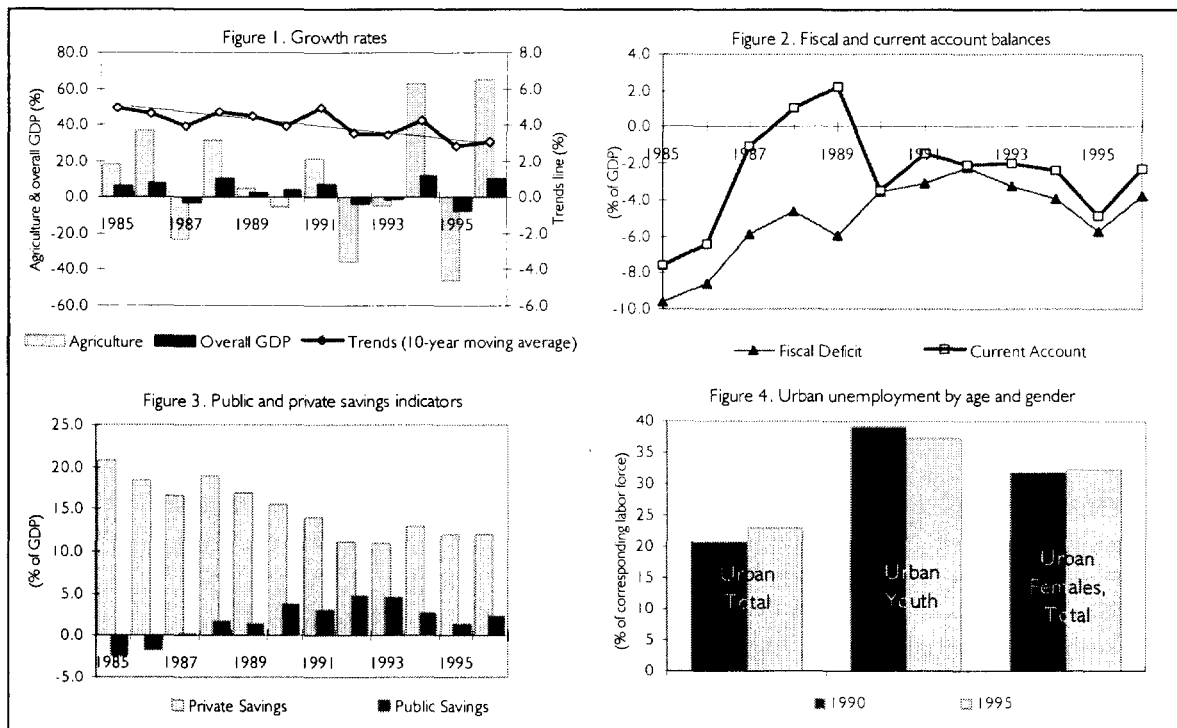
1.4. Since the early 1990s, however, Morocco's economic performance has slowed, mainly because of unfavorable external events including severe droughts as well as sluggishness in Europe, its most important external market. As a result growth has slackened and urban unemployment has increased rapidly, reaching 23 percent in 1995. Meanwhile, poverty has increased significantly, possibly back to its level in the early 1980s. Poverty is essentially a rural phenomenon in Morocco, and the rural poor are particularly vulnerable to droughts.

- GDP growth was negative during the drought years (1992, 1993 and 1995);
- between 1992 and 1995 the fiscal deficit rose from 2.2 percent of GDP to 5.7 percent;
- the current account deficit widened from 1.7 percent of GDP to 4.9 percent, leading to a reduction in the level of reserves; and
- external competitiveness has been eroded, with the real effective exchange rate appreciating by about 15 percent since 1990.

1.5. Throughout this period, however, the Government has continued to pursue prudent monetary policies. Inflation has been kept in check because the Government has resisted financing the mounting budget deficits by printing money; domestic debt financing has been used instead. As a result domestic debt now amounts to 43 percent of GDP.

1.6. A strong recovery is expected for 1996. Thanks to abundant rainfall, GDP is expected to grow by more than 10 percent, led by a strong rebound in agriculture. Recovery has been accompanied by a renewed commitment to holding down the budget deficit (the 1996/97 budget targets a deficit of 4 percent of GDP before privatization; 2.5 percent after privatization proceeds are included), maintaining prudent monetary policies, and increasing foreign reserves to four months of imports, thanks to a recovery in foreign exchange earnings (especially tourism and remittances) and a reduced food import bill.

1.7. This short-term recovery remains vulnerable, however, and will need to be consolidated to form the basis for the sustained higher growth that is needed to ease unemployment and achieve rural and social objectives. Such consolidation will require higher savings and investment rates and improved external competitiveness.



Political Developments

2.0. The slowdown in economic performance, coupled with increasing unemployment, has prompted widespread public debate on economic and development policies. The Government has responded by resuming adjustment efforts, and King Hassan II has launched several broadly based initiatives to strengthen consensus and deepen the process of political opening.

2.1. Four events are worth highlighting:

- in 1995, Morocco concluded negotiations with Europe on a free trade agreement, underscoring its intention to open up the economy to the rest of the world. More than just an economic objective, this agreement signifies a major departure for the entire private sector, until now still relatively protected;
- that same year, the King released confidential policy notes, prepared by the Bank at his request, in an effort to broaden the debate on the development agenda, foster national consensus and provide renewed momentum to the reform effort;
- in September 1996 a constitutional referendum put forward by the King received widespread support. This revised framework has introduced three important changes: a new two-chamber Parliament will be established, made up of a lower house elected by universal suffrage and an upper house elected by representatives of regional and local communities, professional associations and labor unions; regional administrations will be strengthened; and the Government will now set its development agenda in a broad development plan that includes a multiyear public investment program. Elections are scheduled for mid 1997;
- the Government also has introduced measures to curb tax fraud and corruption, and concluded a "gentleman's agreement" with the private sector and a social pact with unions to ensure social stability during this period of renewed adjustment efforts and political opening.

Challenges

3.0. The main challenge for Morocco over the next few years will be to establish a firm basis for sustained improvement in economic and social performance. Doing so will allow growth to eventually double to 6 percent, generate employment for a rapidly expanding labor force, and improve the living standards of the entire population. In this respect Morocco is no different from most developing countries. But to realize this goal, Morocco must come to grips with several unique challenges, including: the coexistence of a prosperous urban population and a rural society—half the population—that is poor, largely uneducated, and ill-prepared for the future; an economy that remains overly dependent on agriculture despite an accelerating cycle of drought; and a private sector that is expected to serve as an engine for modernization, employment generation and increased competitiveness, but that is still relatively conservative.

3.1. Morocco has shown that it can address challenges, undertake reform, and achieve economic progress. But given this new configuration of circumstances—a rapidly changing global environment and growing domestic disparities—the Government will need to articulate and put into action a decisive program of reform to deal with the country's structural weaknesses.

3.2. *Growth fundamentals and competitiveness.* There are several key issues:

Internal constraints

- the budget deficit is still too high. In addition, the structure of its expenditures is not growth-oriented and has become rigid: 24 percent of revenue is used to service interest on the public debt (equally divided between domestic and external debt), and 47 percent goes toward paying

- the wage bill. Public expenditures are inefficient and poorly allocated. Although declining, security-related expenditures still account for more than 6 percent of GDP;
- domestic savings, at 15 percent of GDP, and gross investment, hovering around 20 percent, are far below levels in high-growth emerging economies (above 30 percent). Past investment has been inefficient, with an incremental capital-output ratio of 5.8 during the 1980s;
 - despite progress, the economy is not yet well diversified and remains extremely vulnerable to external shocks, such as droughts. There have been twenty nine droughts since 1911—an average of one every three years. Agriculture fluctuates between 10-20 percent of GDP but accounts for 40 percent of employment, and agro-industries make up about 30 percent of the industrial sector. Despite progress in irrigation, rainfed agriculture still accounts for 75 percent of agricultural value added.

External environment

- although Morocco is a relatively open economy—trade accounts for 60 percent of GDP—protection levels are still high, limiting international competitiveness and maintaining a significant anti-export bias. Tariffs (including a flat surcharge of 15 percent) on manufacturing goods average 40 percent, and imports of strategic agriculture products (wheat, sugar, meat, edible oils) are subject to rates in excess of 100 percent. As a result Morocco is producing agricultural goods in which it has little comparative advantage. Tariffs on manufacturing trade with Europe will, however, be reduced over a twelve-year period as part of the recently signed free trade agreement. Morocco has also agreed on a gradual reduction of trade protection in agriculture as part of its agreements with the World Trade Organization;
- after strong export growth in the late 1980s, export performance has decelerated significantly in the 1990s, and Morocco is losing market share in most of its traditional export segments. In addition, trade integration is slowing (Table 2). Exports are concentrated in low-value products with limited prospects—textiles and processed phosphates—and in slow-growing markets—almost 60 percent of exports go to Europe. Although services such as tourism have untapped potential, recent performance has been disappointing. Morocco has one of the world's lowest return rates of tourists;
- finally, Morocco's external debt, although declining, remains high, at 70 percent of GDP. Some 30 percent of current account revenues goes to servicing debt.

Integration indicator	1986-90	1991-95
<i>Trade growth</i>		
World	6.3	6.4
Morocco	8.9	4.5
<i>Speed of Integration</i>		
World	2.6	3.7
Morocco	4.4	3.2

Source: IMF World Economic Outlook; speed of integration defined as growth rate of trade minus growth rate of output.

3.3. *Social agenda.* Morocco's social development agenda is enormous. Past growth has been concentrated in the Western coastal corridor, leaving rural areas behind in the development process. The resulting disparities have created a dual economy. Particularly worrisome, for both competitiveness and equity reasons, are the low levels of literacy and education (Table 3). Finally, one of the key challenges facing Morocco is its rapidly growing labor force (about 3 percent a year), since migration, which provided a safety valve in the past, has become increasingly constrained in host countries.

	Morocco	Comparator countries
Average years of schooling of the labor force	2.8	6.7 ^a
Primary school enrollment (percent)	62	102 ^b
Adult literacy (percent)	45	71 ^b

^a Countries classified as "strong integrators" in the World Bank Global Economic Prospects, 1996.

^b Low-and middle-income country average.

- although high levels of public spending have been devoted to the social sectors, they have tended to favor urban areas. As a result social indicators in rural areas are comparable to those in Sub-Saharan Africa. A two-tier education and health system has emerged, offering good facilities for the urban middle class and poor or no services in rural areas;
- rural infrastructure is also deficient, particularly water, electricity, and transport. These weaknesses compound the problems of access to such basic services as schools and health centers, markets and job opportunities (Table 4);
- not surprisingly, the Bank's 1994 poverty assessment found a strong concentration of poverty in rural areas and a direct link between poverty and social problems such as low literacy, education and health indicators, and high fertility rates. Rural women suffer the most from these inequities (see also Box 1, later in this paper);
- slow growth, coupled with rural-urban migration, has been the main cause of increased urban unemployment. This situation is exacerbated by rigid labor laws favoring the already employed rather than flexibility and job creation. In addition, the social safety net is poorly targeted and underdeveloped. As a result the informal sector has expanded rapidly.

	Urban	Rural
<i>Population (millions)</i>	13.4	12.6
<i>Number of poor (millions)</i>	1.2	3.8
Percentage of households with drinking water	86	14
Percentage of population with electricity	81	10
Percentage of pregnant women who receive a prenatal home care	65	24
Percentage of pregnant women who gave birth at home	43	84
Female primary enrollment (as percentage of school-age population)	79	26
Overall literacy rate (population aged 10 and older)	63	25
Female literacy rate (population aged 10 and older)	51	11

Sources: World Bank, Kingdom of Morocco, Poverty, Adjustment, and Growth (1995); and Kingdom of Morocco 1994 Census.

3.4. *Natural resources management and the environment.* Morocco is becoming a water-scarce economy, a scarcity aggravated by increasing pollution. Average rainfalls have been declining over the past fifteen years. Yet despite some recent progress—improvements in cost recovery, creation of a Ministry for the Environment and passage of the water law—the issue has not received the attention it deserves.

- based on current resources and consumption, per capita water availability is likely to fall by 50 percent over the next twenty years. With irrigation as the main user (85 percent) in an agriculture sector that benefits from extensive protection, tax advantages, and subsidized water pricing, the country is not using this scarce resource efficiently. Water quality also has become an issue, with pollution increasing in all river basins;

-
- other environmental issues, such as industrial and coastal pollution, are also emerging, and will worsen if not addressed early on. Moreover, the Ministry for the Environment is young; it needs institutional strengthening and improved coordination with other ministries.

3.5. *Role of the state.* Addressing these problems effectively and relaunching the reform effort decisively will require a strong and dynamic response from the Moroccan leadership and the public administration. Yet the central administration is excessively centralized, and local administrations are weak. One major obstacle has also been the segmentation of decision-making on economic matters resulting in long delays in reaching decisions. This fragmentation has been compounded by the absence of an agreed medium-term economic program, as well as the inevitable conflicts among ministries in a constrained budget environment.

- progress has been achieved in reducing the role of the state in productive sectors through privatization, but public enterprises still account for 12 percent of value added, and suffer from weak finances and large arrears;
- despite consistent progress in enhancing the business environment, red tape, bureaucratic delays and a weak judiciary are still highlighted by the private sector as a major hindrance to investment;
- with a wage bill accounting for 10-11 percent of GDP, the sheer size of the civil service is the key issue hampering the efficiency of the central administration. Although many higher-level staff are competent, the overall quality of administration is weak, with outdated budget procedures focusing on a priori controls and short-term objectives;
- efforts to decentralize administrative power have been under way for some time, including sharing arrangements of the value added tax receipts, but local administrations remain underdeveloped. Addressing this issue should be a priority to avoid increasing bureaucratic layers. Implemented efficiently, decentralization could be crucial to the eventual success of rural development programs;
- more importantly, Morocco will require a strong program of coordinated actions to address the above challenges effectively. This will require strong cohesion within the Government and society, along well defined development priorities.

Development Goals and Reform Priorities

4.0. The Government is well aware of the challenges facing Morocco and has initiated actions to address them. Still, the development agenda remains large. Furthermore, the country is entering a new political phase. Thus even though there are signs of an emerging economic turnaround and of stronger commitment to reform, the country is likely to remain in political transition for at least another year, until the new constitutional framework has been implemented and a new Parliament has been elected. The renewed commitment to reform, the clear signal given by the EU free trade agreement and the broad consensus reached on the main objectives should, however, ensure strong support for the development agenda outlined below.

4.1. *Growth agenda and competitiveness.* To resume growth and ensure competitiveness, policymakers must focus on two urgent priorities: deepening macroeconomic stability while strengthening growth fundamentals, and increasing external competitiveness and private sector development. (The third crucial element of the growth and competitiveness agenda, human resources development, is discussed in the next section.)

4.1.1. Deepening macroeconomic stability. Further reducing the budget deficit is the most urgent short-term priority to boost savings and investment.

- as part of the recent Article IV consultations, the Government has discussed with the IMF how to mobilize resources to compensate for the loss of revenue resulting from the

EU free trade agreement (estimated at 0.3 percent of GDP a year for the rest of the decade); contain recurrent expenditures by limiting the wage bill and reducing food subsidies; and compensate for any deviations in expenditures within the budget;

- in addition, the Government has set an ambitious target of balancing the budget (after privatization proceeds are included) by 2000 and is launching a number of programs to achieve that goal. These include tax reform, a broadly based public enterprise reform and privatization program, and a proposal to phase out remaining food subsidies and transfers;
- the next step will be to prepare a medium-term deficit reduction plan based on a multiyear expenditure rationalization program. Three priorities will require careful attention: strengthen the growth orientation of the budget by protecting priority investment programs, an area somewhat neglected in the past; set clear targets for reducing the wage bill within the context of a broad public administration reform; and carefully review the financing of the budget deficit to reduce the stock of domestic arrears, balance internal and external borrowing requirements, and earmark privatization proceeds for debt reduction, public enterprise rationalization, and recapitalization of the pension fund.

4.1.2. Enhancing external competitiveness and private sector development. This is a complex and urgent agenda that will require coordinated efforts in several areas: developing macroeconomic incentives through consistent progress on stabilization and flexible exchange rate management; introducing a broad program to improve the business environment for private investment; deepening reforms to improve infrastructure services and financial markets; and upgrading competitiveness at the enterprise and sector levels. In addition, Morocco must diversify its markets and products by broadening the FTA provisions on a non-discriminatory manner to other countries and by promoting regional trade integration, such as through the Arab Maghreb Union.

- in the past year, the Government has devoted considerable effort to improving the business environment: commercial and company codes were recently approved by Parliament, and various pieces of legislation on labor, prices and competition, and private participation in infrastructure (power, telecommunications and municipal services) are at an advanced stage. Collaboration between the private and public sectors is also improving;
- the Government is committed to opening all infrastructure sectors to private investment and management, and concessions are being studied in sectors such as electricity, water, transport, telecommunications and industrial parks;
- the Government is also reviewing plans to initiate an upgrading program at the enterprise and sector levels, while the private sector has taken the lead in identifying bottlenecks and growth strategies in such key strategic sectors as textiles, tourism, fisheries, and information/electronics. In contrast, little progress has been made in reviewing agriculture incentives, a crucial area for both the overall growth and rural income growth;
- finally, although much has been accomplished in setting up a market-based financial system, additional effort is needed. The next stage of reform should aim at consolidating recent efforts, diversifying enterprises' access to financial services (bonds, the stock exchange), allowing capital account convertibility for residents, and reforming institutional savings to mobilize domestic savings and improve the efficiency of intermediation.

4.2. *Social development agenda.* The Government's social agenda requires action on four fronts: education reform, health sector reform, rural development, and mechanisms to improve the flexibility of the labor market while strengthening the social safety net.

4.2.1. Education reform. Improving the human resources base through comprehensive education reform is a key priority not only for equity and social reasons but also to support future growth and competitiveness.

- the first priority should be to increase access to and improve the quality of basic education, with a focus on rural women and girls. This goal should be achieved primarily through a progressive reallocation of budgetary expenditures from secondary to primary education. In addition, efficiency and cost recovery measures should be introduced, especially through a reform of tertiary education;
- the program should also promote private participation at all levels of education and strengthen the ongoing shift in the provision of vocational training from the public to the private sector, while improving responsiveness to labor markets;
- although there is general consensus on the need for extensive education reform and progress is being made on elements of this program, efforts may be proceeding too slowly to make the qualitative jump required in this crucial area. Speeding up the process will require considerable consensus-building, however, since this is a sensitive and complex undertaking.

4.2.2. Health sector reform. Sector efficiency will be addressed initially by:

- reforming the hospital sub-sector to control hospital costs because of its large impact on the health budget (75%);
- improving resource allocation and utilization, and targeting investments towards underserved areas (a process that has already started with the recently approved social priority *BAJ* project) and priority public health programs (such as maternal care or immunization). Resource utilization will also be improved by modernizing management practices;
- addressing quality of care by several complementary actions (definition of quality assurance standards and personnel policies, revision of basic curricula of medical and nursing schools and rehabilitation of facilities); and
- introducing new health financing schemes to improve the level of resources available to the sector and its equitable distribution.

4.2.3. Rural development and poverty reduction. Reducing disparities between rural and urban areas and easing rural poverty will require reallocating budgetary resources toward the provision of basic services in rural areas and improving agricultural productivity and rural incomes. After slow progress, there recently has been growing recognition of the importance of this issue, in part due to the impact of recent droughts and increasing urban migration.

- the Government recently defined a number of programs aimed at accelerating infrastructure investment in rural areas: master plans have been developed for rural roads, electricity, and potable water, and, with Bank support, an integrated social sectors program is being initiated in the thirteen poorest provinces identified in the 1994 poverty assessment (the *BAJ* project). The challenge now will be to ensure timely implementation and adequate budgets for these programs while broader education and health reform programs are launched;
- overall, however, the Government still needs to develop a coherent action plan to improve rural incomes on a sustainable basis, with the full participation of the

beneficiaries. Such a strategy should focus on three interrelated aspects: reviewing the overall incentive framework in agriculture, implementing priority infrastructure and services support programs, and developing institutional arrangements for implementation based on increased community participation, decentralization, and better coordination among the ministries concerned.

4.2.4. Labor flexibility and safety net. Reducing urban unemployment will depend fundamentally on success in accelerating growth. At the same time the Government must improve flexibility in the labor market and strengthen the social safety net.

- the Government introduced new labor legislation this year, but it was stalled in Parliament. Since then efforts have been devoted to fostering a social pact between employers and unions. In addition, a review of employment and the informal sector is under way. Together these actions should lead to renewed consensus and new proposals over the next year or so;
- in the interim, the Government should strengthen the social safety net to improve targeting and service delivery and to restructure social insurance, in parallel with current efforts aimed at reducing untargeted food subsidies.

4.3. *Natural resources and environmental management.* These efforts must be accompanied by improved environmental management to ensure the sustainability of growth. Environmental priorities include developing a concerted plan for natural resources management, particularly for water; implementing mechanisms for integrated environmental management in the most polluted zones; and institutional strengthening of the newly created Ministry of the Environment. In addition, the Government is reviewing its water pricing policies in agriculture and finalizing its environmental action plan, which should be ready in 1997. River basin authorities are also being established in the largest and most polluted basins. Provided these efforts lead to quick implementation, Morocco could make good progress in addressing this sensitive issue.

4.4. *Public sector modernization.* An efficient public administration will be essential to the success of this broad agenda. Although efforts have been initiated in a number of areas, a comprehensive approach may soon be needed given existing budget constraints, the need to enhance public-private partnerships and the need to reorient fundamentally the way the administration functions. The new institutional framework proposed in the Constitution increases the complexity of this already broad agenda.

- the Government has already made efforts to redefine the role of the state. Cumulative privatization proceeds total nearly US\$1 billion, concessions are being developed in many utilities, and the Government is initiating a comprehensive review of public enterprises to increase financial autonomy and efficiency;
- with regard to the central administration, the 1996/97 budget has imposed constraints on new hiring, and studies are underway to review the role and functions of the central administration. Reform initiatives have also been launched in various ministries, including the ministries of finance, energy, and public works, and in customs administration;
- decentralization has also been on-going for some time; with the new Constitution and elections, movement in this area is likely to accelerate significantly over the next few years;
- while these are all solid initiatives, what may be required now is a comprehensive review focusing on reducing the size of the central administration as part of a civil service reform program, modernizing budget procedures and investment planning, improving procedures for decentralization while strengthening the capacity of local administrations, and ensuring speedy implementation of the public enterprise reform and privatization agenda. Strengthening the judicial system is also of high priority to enhance private investments and operations.

Prospects

5.0. Morocco has demonstrated strong commitment to sound economic management over the last decade, and is well positioned to undertake the reform agenda presented above. Provided it succeeds in implementing it speedily and consistently, it should be able to realize sustainable progress in promoting growth, equity and social cohesion in the next few years. However, realizing Morocco's potential will require decisiveness and increased cohesion along well-defined priorities as Morocco's development agenda is large and complex.

5.1. The projections below (Table 5) illustrate the possible impact of a proactive reform scenario along the lines outlined above. The reform effort would basically seek to repeat Morocco's performance in the late eighties. The projections assume rapid progress in three crucial areas: steady budget deficit reduction, implementation of a broadly-based competitiveness strategy, and an improved business climate leading to increased private investments. Progress on external competitiveness, public sector reform, privatization and concessions, and financial sector reform will be key.

5.2. While setting the stage for more rapid growth, complementary policies will need to be developed to reduce social disparities and strengthen the sustainability of the growth process. This will in particular require increased efforts towards social and rural development. In view of budget constraints, resources will need to come from decisive budget reallocations and improved cost recovery and efficiency measures combined with comprehensive sectoral reforms, especially in education, health and agriculture. At the same time, safety nets will need to be strengthened, based on improved targeting mechanisms.

Table 5. Key Macroeconomic Indicators and Reform Scenario, 1996-2003
(Percent)

	1986-90	1991-95	1996 Prelim.	1997-99 Projected ^{b/}	2000-03 Projected
Rates of Change (% p.a.):					
GDP	4.5	1.2	10.3	4.0	5.6
Agriculture	8.8	-0.3	64.8	2.2	4.4
Industry	3.7	1.8	3.2	5.2	8.1
Exports	9.4	5.0	1.9	6.3	7.3
Ratios of GDP (%)					
Gross investment	22.7	21.7	20.4	23.6	27.0
o/w FDI	0.7	1.9	1.7	2.0	3.1
Domestic savings	18.4	15.6	14.5	17.9	21.3
Current account balance	-1.5	-2.6	-2.3	-1.6	-1.3
Fiscal deficit ^{a/}	-5.7	-3.6	-4.2	-2.5	0.0
Debt outstanding	99.4	75.3	66.6	65.0	52.3
Debt service/exports	53.2	34.5	26.2	24.0	21.9

Source: World Bank

^{a/} Fiscal deficit excludes privatization receipts. The Government's fiscal year changed from a calendar-year basis to a July 1/June 30 basis in mid-1996. Data for 1996 refer to a reconstructed twelve-month calendar year. Data from 1997 onward are based on the new fiscal years.

^{b/} Projections are based on a trend line. In the short term, Morocco's economic performance will continue to fluctuate with climatic conditions.

Bank Group Assistance Strategy

Status of Current Program and Dialogue

6.0. The Bank has always enjoyed excellent relations with Morocco. However, the new environment facing the country, the need to forcefully resume the reform effort on a broad front and the persistence of strong social disparities, combined with our high exposure and the mixed results of our past efforts, clearly call for a new approach.

6.1. Past Bank assistance has been at a high level and wide-ranging, with commitments averaging US\$425 million a year over the past ten years. Together with the IMF, the Bank has been a key partner in the Government's adjustment and stabilization efforts, especially since 1983. As a result the Bank's exposure is now quite high—the debt outstanding and disbursed is US\$3.4 billion, or 21 percent of Morocco's public external debt. Debt service to the Bank amounts to just over 5 percent of exports.

6.2. In the light of this significant involvement, the Bank's Operations Evaluation Department recently completed a Country Assistance Review to assess the impact of the Bank's assistance efforts over the past ten years. The review found that the Bank's efforts had produced mixed results. The main conclusions of the review were that:

- given the high volume of lending and analytical work, including a large proportion of adjustment lending (37 percent), the overall success of the Bank's strategy should be closely correlated with the Government's own success in adjustment and growth. In this respect, the overall effectiveness of the Bank's assistance program has been rated as mixed, since the Government's reform effort has been implemented gradually, major structural weaknesses remain after ten years of adjustment and growth remains too modest and erratic;
- excellent support at the start of the adjustment program (1983) was followed by compromises between stabilization and adjustment objectives and then by over-optimism in the early 1990s. The Bank did help the country achieve a major improvement in its fiscal balance and break from past autarkic policies, but the report questions the sustainability of the reform program;
- sector dialogue and individual project outcomes show much better results, with the exception of agriculture (mixed) and education (poor). Although ratings on project completion objectives and institution building rank above Bankwide averages, project sustainability is rated lower;
- the main recommendations of the review are for the Bank to focus on structural fiscal issues and rekindle the process of public enterprises reform; restore momentum in the reform process; assist in strengthening human and physical infrastructure and in redirecting public spending towards the social sectors; and focus on Morocco's scarce water resources, all objectives in line with the proposed strategy.

6.3. Likewise, the results of the previous Country Assistance Strategy discussed at the Board in November 1993, have been mixed. Key priorities and achievements have been as follows:

- progress has been most notable on the private sector agenda; a new financial sector adjustment operation was approved in July 1995 and considerable effort has been devoted to fostering consensus on private sector development over the past three years;
- progress on the social objectives, however, remained slow. The integrated social sectors program (*BAJ*) was only approved in late FY96 after much delay;
- the last CAS proposed an end to the adjustment effort; such a move was clearly premature. Based on solid portfolio performance in the late 1980s, the previous strategy also proposed a large shift in lending, with increased support for investment projects. This suggestion was also premature. Because of the reappearance of severe budget constraints and poor financial

planning, portfolio performance has deteriorated since 1993. By June 1995 the undisbursed amount had reached US\$1.5 billion, necessitating a major portfolio restructuring effort.

6.4. Faced with these challenges, a new approach was clearly needed. Following the appointment of a new Government in early 1995, the Bank organized a two-day seminar to prepare the new Country Assistance Strategy. The seminar was attended by key senior officials and was followed by discussions in the Fall on the main objectives for future Bank support and in early summer 1996 on the detailed programming of activities. A societywide dialogue on development constraints and priorities also emerged in 1995. The widespread debate that followed the King's release of confidential Bank policy notes was supplemented by increased Bank participation in seminars, conferences, and discussions with the press. During FY96, progress was also made on the following fronts:

- policy dialogue which had stalled, resumed and new projects were accelerated, especially in priority social sectors (the integrated *BAJ* project); and
- the Government undertook a major restructuring of the existing project portfolio, resulting in the cancellation of about US\$260 million in loans and the redimensioning of many projects. At the same time, budget allocations to Bank-financed projects were strengthened, leading to better disbursement performance.

Business Framework

7.0. The key challenge for Bank assistance to Morocco is to increase our impact while carefully managing our exposure. To do so, we must promote new ways of doing business, with a particular focus on partnership, new instruments, outreach efforts to build consensus, and institution building. At the same time we intend to resume policy-based lending to help accelerate the reform program and to strengthen support for social and rural programs. Our proposed business framework, fully discussed and agreed with the Government, is as follows:

7.1. *New lending approach.* Given our high exposure and continued budget constraints, this CAS proposes reducing traditional investment lending to about US\$250-300 million a year. Doing so will provide room for renewed policy-based lending and new instruments, such as guarantees. Moreover, one-third of the investment program will be reserved exclusively for social and rural investments, and adjustment lending will be conditioned on progress towards agreed social objectives. Investment projects will be designed to attract additional cofinancing on concessional terms. Finally, the investment program will focus on local communities and autonomous agencies for implementation.

7.2. *Partnership.* The Bank values its close partnership with the Government achieved through open and candid dialogue. This partnership will continue as efforts are made to reach out to other segments of civil society. Additional efforts at partnership will receive attention:

- first, the European Union has become one of the most important external players in Morocco, both in terms of policy and financing. The Bank is working closely with the EU and both agencies have coordinated their assistance programs to avoid overlap and to strengthen complementarities. For example, a Bank staff member will be located in Brussels to coordinate support to the private sector development agenda. In addition, increased coordination is being initiated with the African Development Bank and strengthened with the UN agencies;
- second, although the Bank has always coordinated its Morocco assistance efforts with the IMF, this partnership will be reinforced given the need for renewed adjustment. Informal coordination is already in place to help the Moroccan authorities prepare a comprehensive medium-term economic program consistent with stabilization and growth objectives; and

-
- third, the Bank is developing its “connector” role, facilitating contacts and exchanges between the Moroccan private sector and counterparts in Spain, Italy and other Mediterranean countries.

7.3. *Institution building and community participation.* Over the past few years a major effort has been launched to expand our dialogue and to build constituencies for reform. In addition, project designs increasingly incorporate beneficiary participation, especially in the rural and social sectors. Coordination with non-governmental organizations (NGOs) and local communities is, however, still at an early stage. Our future program will strengthen outreach efforts, while maintaining our privileged dialogue with the Government. Particular attention will be given to working with NGOs, especially on issues relating to women in development (Box 1 below). To this end, efforts will be made to tap EDI resources for best practice, secure Institutional Development Fund (IDF) and Population and Human Resources Development (PHRD) grants, increase dissemination of analytical work through seminars (such as the recent seminars on globalization and on private provision of infrastructure), develop new approaches relying more on local inputs, and implement pilot projects.

7.4. *Non lending services.* Over the past several years, the Bank has devoted considerable resources to analytical work with mixed results. In the last year our strategy has been to complement fewer and better focused formal studies with informal policy notes and increased dissemination. Non lending services are highly valued in Morocco, and are crucial for building consensus and preparing reform programs. At the same time greater efforts still need to be made in using local expertise such as universities and communities and in improving dissemination. Efforts have also been made to connect Morocco with experts in other countries, including business networks in Spain and Italy and study tours in East Asia and Latin America.

7.5. *Flexibility.* As the Bank’s interventions become more focused, care will be needed to keep our instruments flexible. The Country Assistance Strategy is a living document, and the political environment in Morocco is in transition. Thus we must build on areas where strong consensus exists while preparing the ground in more sensitive ones. In addition, during the next year we will prepare for discussions with the administration that comes into being following the elections.

7.6. *Resident mission.* In view of what is likely to be a massive agenda and a very critical role for the World Bank, the Government and the Bank recently agreed to open a resident mission in Morocco, to complement the IFC’s representative office. The future responsibilities of the mission are currently under discussion with the authorities.

Assistance Priorities

8.0. Priorities for Bank assistance closely reflect the country’s development agenda outlined in Part I. Foremost among these will be focusing on a new growth agenda, based on an acceleration of reforms, as a means of addressing both urban unemployment and rural poverty in a complementary and sustainable way. Economic growth will, however, not be sufficient to correct the existing large social gap between urban and rural areas, and will therefore need to be accompanied by decisive reallocations in public expenditures and increased efforts within a constrained budget environment. For this reason, Bank assistance will seek to complement closely efforts at economic reforms and social development, both in terms of the volume and direction of its support. In addition, Bank assistance will seek to leverage additional concessional resources from other agencies to ease the existing budget constraints. The Bank Group’s proposed assistance program, detailing our objectives, instruments, and monitoring indicators, is detailed in the attached *business compact* (Attachment I).

8.1. *Growth and competitiveness.* Helping Morocco to resume forcefully its reform efforts to achieve strong growth and increase economic competitiveness will be a pivotal objective for the Bank over the next few years. The Bank's macroeconomic dialogue will be closely coordinated with the IMF and will focus on helping to reduce the budget deficit, while improving the budget's growth orientation and its capacity to deliver basic services. Support on the competitiveness agenda will be closely coordinated with the European Union. The joint IFC-World Bank program to strengthen private sector development is included in the proposed business compact.

8.2. *Social and rural development and poverty alleviation.* The second basic objective of the Bank, complementing support for economic reform, will be to strengthen the Government's social and rural development efforts to reduce rapidly the existing social disparities and to strengthen prospects for long-term growth. The Bank's main objectives will be to support concrete actions to reform education and health delivery; develop integrated rural development approaches by increasing rural investment, providing basic services, creating jobs, and fostering dialogue on the agriculture incentive framework; strengthen the social safety net; and stimulate employment generation by small and medium-size enterprises. Various projects are at advanced stages of preparation to support priority rural infrastructure programs. Analytical work and dialogue will be pursued on the most sensitive issues (integrated rural development and education reform) to foster consensus and accelerate implementation of practical approaches. Our proposed program on gender issues is outlined in Box 1 below.

Box 1. Gender Agenda

- A key priority in the Government's social strategy and the proposed CAS will be to address the issue of the gender gap in Morocco. Despite consistent progress, women have been mostly left behind the mainstream of economic development in Morocco, especially in rural areas.
 - only 26 percent of rural girls attend primary school, and 90 percent of rural women are illiterate. Moreover, maternal mortality rates are high (330 per 100,000 live births), reflecting the fact that only 40 percent of births are attended by trained health personnel;
 - while women account for 21 percent of the Moroccan labor force (reflecting a near doubling in participation rates since 1970), they are more vulnerable to changes in the labor market. Urban unemployment for women is nearly 50 percent higher than for men.
- The Authorities recognize this problem, but efforts to address it have been slow and scattered. The Constitution recognizes equality between men and women, but women's participation in politics and positions of responsibility remains low, and women's associations are only now emerging.
- Bank efforts to improve opportunities for women have so far been focusing on three areas: understanding the constraints and priorities facing rural women through participatory analytical work (FY95); emphasizing rural infrastructure projects (such as the provision of rural roads and potable water) because of the immediate impact such projects have on enrollment of girls; and developing integrated approaches in rural areas, such as the social priority (BAJ) project, with a focus on schooling for girls (through, among other things, the provision of special facilities).
- The Government recognizes that a more systematic approach will be needed in the future to make a qualitative difference and has asked for Bank support in this endeavor. To this end, we are proposing the following approach:
 - first, accelerate basic rural investments which impact on girls' education, with particular focus on the provision of potable water;
 - second, incorporate specifically gender issues in all our social and rural development projects, together with new approaches (such as micro-credit and social funds);
 - third, initiate a strategy note on gender issues, developed in a participatory way with women's associations and Government agencies, to help focus Government's efforts and define further avenues for Bank support; and
 - fourth, incorporate analysis and recommendations pertaining to women's integration in all major economic and sector work, in particular in the on-going studies on the rural development strategy and the employment and informal markets.

8.3. *Natural resources and environmental management.* A third priority is to continue to strengthen environmental management and integrated water development. The Bank will help keep this issue high on the Government's agenda through consensus building, institutional strengthening and pricing reform, as well as by strengthening integrated water management in the most important river basins.

8.4. *Public sector modernization.* Finally, our fourth priority will be to support public sector reform, an area that is increasingly recognized as central to Morocco's development agenda. Our efforts will focus on three areas: encouraging privatization and resuming support for public enterprise reform; increasing efficiency of the civil service administration; and supporting decentralization. Our support will, however, depend greatly on the Government's commitment to reform in this area, as well as on the arrangements that emerge under the new constitutional framework. Although there is consensus on the broad agenda for public enterprise reform and privatization, plans to increase public administration efficiency and phase in decentralization are still evolving, and strong analytical work and commitment are still needed.

8.5. In keeping with the breadth of the development agenda, the Bank's assistance program is broadly based. To relaunch the reform process, two quick-disbursing operations have been identified with the Government: a second financial sector reform operation and support for privatization and public enterprise reform. Processing these operations will not only require accelerating the pace of reforms, but also achieving tangible progress in implementing priority rural and social programs.

Instruments

9.0. The Government expects continued strong Bank Group support during this period of renewed reform efforts. Although the financial resources available will be limited by our high exposure, the Government will continue to seek our advice, take advantage of our ability to catalyze financing for priority investments, and depend on our support in the design and implementation of policy-based operations. Demand is growing for non-lending services, including seminars and institution-building in new areas (such as concessions and privatization), pilot projects to foster local participation and to support informal sector activities, and new instruments to support private investment in large infrastructure projects (such as guarantees and IFC participation). The proposed program will draw on all the instruments available to address the priorities agreed with the Government.

Lending program

9.1. Base case lending program. US\$1.0 billion over the next three years.

- investment lending amounting to US\$750 million (about US\$250 million per year) with at least one-third of the investment program earmarked for social and rural development;
- one US\$50-75 million quick-disbursing policy-based operation, in support of public enterprise reform;
- one US\$180 million guarantee operation for the Jorf Lasfar power generation project. This operation is relatively well advanced and would help catalyze more than US\$800 million in commercial bank and Export Credit Agency financing;
- **Triggers.** The base case lending program assumes: (i) continued improvement in macroeconomic indicators and competitiveness monitored in close coordination with the Fund; (ii) consistent progress on the implementation of priority social projects (the *BAJ* in particular); and (iii) strong progress on public enterprise reform, including a significant opening of infrastructure to private investment.

9.2. High case lending program. US\$1.5 billion over the next three years.

- US\$750-900 million (US\$250-300 million a year) toward investment lending, with one-third of the program reserved for social and rural development;
- adjustment lending increased to US\$300-400 million over the three-year period in support of two or three quick-disbursing policy-based operations for financial sector reform, public enterprise reform, and possibly public administration modernization or social sector reform;
- guarantees totaling US\$300 million;
- Triggers. Detailed triggers and monitoring indicators are provided in Box 2 below. The overall volume of lending and the size of each adjustment operation will depend on both the magnitude of the reform effort and progress towards agreed social objectives.

9.3. Low case lending program. US\$780 million over the next three years.

- investment would be cut to US\$600 million over three years, with focus on social and rural programs;
- no guarantees beyond the US\$180 million under discussion for independent electricity production;
- Triggers. Such limited activity would be triggered by: (i) a macroeconomic situation that remains fragile—but not in crisis—with slow progress on implementing policies that are fundamental to growth; and (ii) limited progress on solving structural issues as reflected in delays on concessions, on the legislative agenda and on the liberalization of infrastructure services. Progress on social objectives would be supported by our project pipeline.
- In the unlikely case that the macroeconomic situation were to unravel, the lending program would be reduced to a minimum (\$100 million a year), focusing strictly on the social sectors.

9.4. IFC program.

- in 1992, Morocco became the IFC's tenth-largest client. Since then, however, demand for IFC's services has declined, because of the foreign exchange exposure of its client enterprises. The IFC and the Bank are working with the Government to develop a flexible foreign exchange market, which should alleviate this problem over time;
- technical assistance from IFC has focused on capital market development. In addition, FIAS has provided assistance to improve the environment for foreign direct investment;
- key priorities for the next few years include developing the domestic capital market, opening up infrastructure to private investment, and continued assistance from FIAS on investment promotion, as required.

9.5. MIGA Program.

- although Morocco has been a full member of the Multilateral Investment Guarantee Agency (MIGA) since 1992, investor interest in MIGA's guarantees has been limited. With the increasing focus on private provision of infrastructure, this interest is now growing. MIGA is, for instance, reviewing a guarantee operation for the Jorf Lasfar power generation project to complement the Bank guarantee requested, as well as other projects in the manufacturing sector.

Box 2 - High Case Lending Triggers

<u>Measures</u>	<u>Monitoring Indicators/Expected Outcomes</u>
<p><u>Macroeconomic Management</u></p> <ul style="list-style-type: none"> • Monitoring of key macroeconomic indicators as per table 5, including consistent budget deficit reduction and expenditure reallocation (including reduction in the wage bill); and • Implementation of a comprehensive competitiveness program. 	<ul style="list-style-type: none"> • Budget deficit reduced by about 1% of GDP per year, and amounting to less than 2% of GDP by 2000; • Public wage bill declining by 2% of GDP by 2000 (to below 9% of GDP); • Current account balance reduced to below 2% and debt service to 25% of GDP by 2000; • Export growth increasing from 5% to 7% per year by 2000.
<p><u>Key Economic Reforms</u></p> <ul style="list-style-type: none"> • <i>Public enterprises</i> <ul style="list-style-type: none"> - institutional and legal framework to strengthen financial autonomy; - completion of the on-going privatization program (114 PEs) and launching of new program; and - framework for private provision of infrastructure services and concessions. • <i>Financial Sector</i> <ul style="list-style-type: none"> - reform of the pension system; - restructuring, liberalization and modernization of the insurance sector in line with EU standards; - reform of savings banks and institutions; and - strengthening of capital markets. 	<ul style="list-style-type: none"> • PE value-added reduced from 12% to 8% of GDP by 2000; • Foreign direct investment increasing to 2.5% of GDP by 2000; • Concessions in place in power generation, telecommunication, transport and municipal services (water); • [number of privatization deals and value, and level of transfers to/from PEs being worked out as part of project preparation]. • [specific indicators being developed as this would be a far reaching and phased process]; • Objective would be to increase domestic savings to at least their previous levels (18% of GDP by 2000) while improving the sustainability of the pension system.
<p><u>Rural and Social Development</u></p> <ul style="list-style-type: none"> • Timely implementation of the BAJ project, with annual budget allocation of at least US\$40 million in 97/98 and US\$50 million per year thereafter; • Implementation of a rural water program to increase rural coverage from 14% to 80% of the population in about 10 years; annual financing needs estimated at around US\$75 million per year with budget allocation of US\$30 million per year; • Preparation of a multi-year public expenditures and reform program in education and health by December 31, 1997. 	<ul style="list-style-type: none"> • BAJ: rural girls enrollment to increase from 35 to 70% in the 13 BAJ provinces, and basic health coverage from 47% to 60% of rural population by 2000; • Rural water: new water connections to 250,000 people in 97/98; 500,000 in 98/99, and 750,000 per year thereafter; • Education: enrollment in basic education increasing from 3 to 3.5 million by 2000, with enrollment of rural girls increasing from 450,000 to 700,000; • Health: access to basic health centers increasing from 1/10000 to 1/7000 by 2000 with particular focus on assisted deliveries (from 18 to 30%) and contraceptive prevalence (from 35 to 45%).

Non-lending Services

9.6. Formal economic and sector work will become more focused than in the past, to make room for informal policy and strategy notes, institution building efforts, and dissemination. The Bank will focus on two formal pieces a year: an employment and informal sector study, and an integrated rural development strategy for FY97, to be followed by an environment strategy and action plan, and a new CEM focusing on progress in the reform agenda and the role of the public sector for FY98. A strategy note will also be prepared on issues relating to women in development. Further analytical work will depend on the Government's priorities and progress in our policy dialogue. Action plans for education and health, the social safety net, and decentralization would receive high priority.

9.7. Non-lending activities will also encourage networking with other countries to share successful experiences and strengthen partnerships, as well as promote participation of local experts and hands-on assistance (such as on investment programming) to reinforce local analytical and planning capacities. Finally, efforts to consolidate partnerships with the private sector will continue through the Private Sector Development Committee (PSD) established in Morocco in 1995 and a series of "cluster" studies, as will efforts to extend support to local think tanks, NGOs and women's associations.

9.8. EDI. The EDI program seeks to reinforce our overall policy dialogue in the country and has been developed in close coordination with the Region, along two broad lines: regional efforts to foster a network of local economic institutions; and country-specific seminars based on the priorities outlined in the CAS. Annual regional events will focus on education reform, health care financing, governance and fiscal decentralization, and banking for the poor. Some of these will be grouped as part of Mediterranean Development Fora, the first one to take place in Marrakech in May 1997. In addition, two Morocco-specific seminars will focus on community-based development and financial market reform.

Portfolio Management

9.9. Past operations have generally had a positive impact, thanks to strong implementation capacity in technical ministries and good project design. The sustainability of these operations is less evident, however. Two sectors show consistent problems: education, where results are poor, and agriculture, where they are mixed. This is the general conclusion of the recent OED review of 24 projects out of a portfolio of 57 loans approved over the last ten years. A broad summary of the OED evaluation is given below:

- 89 percent of projects show a satisfactory outcome (above the 70 percent Bank average);
- 49 percent will likely have sustainable benefits (below the 56 percent Bank average);
- 56 percent would support substantial institutional development (above the 39 percent Bank average);
- by contrast, education and health projects had a 22 percent satisfactory outcome, compared with a 66 percent Bankwide average.

9.10. In terms of our active portfolio, after slow deterioration in FY92-95, the Government made a major effort in the course of FY96 to review and restructure its entire Bank portfolio. This effort made considerable progress in several areas:

- about US\$260 million of the portfolio has already been cancelled, and additional cancellation requests are pending. Not surprisingly, most of the cancellations took place in education and agriculture;

- thanks to better budget allocations, disbursements increased steadily, from US\$223 million for investment projects in FY95 to US\$485 million in FY96 (US\$335 million for investment projects). These adjustments raised the disbursement ratio from a low 11 percent of outstanding balances in FY94 and 14 percent in FY95, to 23 percent at the end of FY96 (Table 6);
- the number of projects at risk was reduced from six to four at present (about 15 percent of the portfolio);
- based on actions taken and contemplated for the remainder of FY97, the disbursement ratio is expected to continue to improve to 25 percent of outstanding balances. The number of projects at risk is expected to remain at its current level (see Table 6).

	FY95		FY96		FY97	
	Number	Share (percent)	Number	Share (percent)	Number	Share (percent)
Total projects	28		32		29	
Investment projects	27		30		27	
Development objectives						
Problem projects	2	7	4	13	2	8
Implementation objectives			6			
Problem projects	6	21	6	19	4	15
Projects at risk	6	22		20	4	15
Disbursement ratio (percent)		14		23		25

9.11. Despite this improvement, progress remains fragile. Budget constraints and cumbersome budgetary procedures likely will continue for some time, necessitating constant monitoring. To alleviate the direct burden of Bank borrowing on the budget itself, a larger share of total lending will be channeled to autonomous agencies, while the ongoing review of budgetary procedures should gradually facilitate expenditure management. In addition, there is still ample room for improvement, especially in project sustainability. As a result new project concepts based on participatory approaches and beneficiary assessments have been developed, especially in the social and rural sectors. The *BAJ*, for instance, was developed with regional administrations and seeks integrated approaches to improve sustainability. The Bank also has developed a portfolio improvement plan, shared with the authorities, and will continue to place implementation issues high on its agenda through annual implementation reviews. These reviews will continue at least until the resident mission is fully operative, at which time it will replace Washington-based monitoring.

9.12 The proposed lending program (Attachment I) seeks to balance projects that have an expected high risk/reward ratio with more simple and focused projects with targeted impact. Support for the education and public enterprise reforms belongs to the former group of projects, while support for the railway and the rehabilitation of historic Fez belongs to the latter. Pilot projects will also be developed in new areas (rural development, microenterprises credit) to test new approaches and to facilitate wider scale replication.

9.13. Given recent budget cuts and competing claims on regional resources, a key challenge will be to deliver an expanded program with fewer resources than in the past (about 20-25% reduction compared to FY95-96). This will come from a redirection/reduction in traditional economic and sector work and increased efficiency in delivering new projects while protecting supervision activities. Funding for the resident mission is still under review given its large up-front cost.

Donor coordination

9.14. Although no formal consultative process exists, the Bank closely coordinates with other financing agencies, and most Bank-financed projects are cofinanced. Informal donor coordination will remain an essential element of the Bank's assistance program, both to harmonize support for the Government's reform effort and to secure concessional financing for priority social and rural programs. In addition, Bank efforts will also focus on supporting foreign direct investment flows through specific operations and continued improvements in the business environment (Box 3).

- increased coordination with the European Union will be a key priority, given its increased scope for financing under the Mediterranean Development Assistance (MEDA) initiative and its emerging dialogue on external trade arrangements and support measures, as part of the free trade agreement;
- cooperation is also being strengthened with the African Development Bank. AfDB is expected to cofinance the two policy-based operations under preparation, in addition to various investment projects;
- increased cooperation is also being developed with the UN agencies, especially in the social sectors, where they concentrate most of their activities;
- relations are also excellent with bilateral agencies, based on continued informal contacts. The Government has often sought technical assistance from bilateral agencies to complement policy-based lending by the Bank or to finance priority projects under broad sectoral frameworks, especially in the social sectors, where it places a premium on concessional funding and where the Bank acts as a "gap filler";
- finally, the Bank uses a host of financing sources for project preparation, especially Japan's Population and Human Resources Development grant facility.

Box 3. Foreign Assistance

- Gross borrowing requirements on concessional terms will remain large given Morocco's high debt service and limited access to capital markets. In addition, continued external support will be required for priority Government programs. Gross borrowing requirements have averaged US\$1.6 billion a year since the early 1990s, although net transfers have been marginal.
- Over time, a progressive shift has taken place from bilateral to multilateral support, with the Bank accounting for about 25 percent of gross disbursements.
- In addition to the Bank, the main external donors are: the European Union and European Investment Bank (ECU450 million grant program agreed over the next three years to be matched by soft loans and equity participation from EIB); the African Development Bank (annual program of about US\$150 million); France (US\$200 million annually, with half from the Treasury and half from the Caisse Française de Développement); Japan (recent agreement to increase its annual assistance program to US\$200 million); and Germany (US\$50 million per year). Together, these agencies provide nearly US\$1.2 billion a year in official assistance. In addition, France and Spain recently agreed to debt conversion operations, through debt to equity swaps.
- Given the large growth in private flows to developing countries and the likely continued budgetary pressures in donor countries, Morocco aims to attract much more private foreign investment. Given its high external debt, Morocco's access to capital markets is likely to remain somewhat constrained and expensive until a strong track record has been established on the reform program and on foreign direct investment.

Exposure

10.0. The program described above seeks to stabilize the Bank's exposure while increasing quick-disbursing support. Policy-based lending will, however, be conditioned by strong progress on the fiscal and competitiveness fronts, together with steady progress on social and rural development.

10.1. The financial impact of the proposed program on expected flows and exposure, based on the high-case scenario, is summarized in Tables 7 and 8 below. Morocco's external debt remains high as does the Bank's exposure in that debt. A prudent strategy and careful monitoring of reform are essential. The Bank's exposure is, however, manageable:

- Morocco has long been committed to prudent economic management and appropriate corrective measures; it also has always been current on its debt servicing obligations;
- the EU free trade agreement will provide increased credibility to the Government's reform program, and efforts are under way in many areas to relaunch the reform process;
- although high, the external debt is steadily declining relative to GDP and exports. In addition, Morocco will be relying increasingly on foreign direct investment (and partly on grants from the European Union).

10.2. Our high case program (Table 8) would broadly stabilize our exposure over the next three years; all exposure indicators show continued improvement, even under moderate economic projections. The base case lending program would reduce gross disbursements faster (net disbursements would decline to -US\$60 million in FY98, to-US\$100 million in FY99, and to -US\$140 million FY00).

	Average	Actual			Estim.	Projection		
	1991-93	1994	1995	1996	1997	1998	1999	2000
Commitments :	467	412	58	540	480	500	500	500
Investment	467	412	58	290	300	300	300	300
Guarantees	-	-	-	-	180	50	50	100
Adjustment	170	-	-	250	-	150	150	100 ^{a/}
Gross disbursements	401	311	232	485	360	370	406	380
Repayment	260	292	333	344	372	388	406	408
Additional Repayment ^b	-	-	-	-	18	23	28	38
Net disbursements	140	19	-102	141	-12	-18	0	-28
Interest and charges	248	264	279	275	267	264	262	261
O/W: Guarantees	-	-	-	-	0.3	0.8	1.2	1.5
Net transfers	-108	-245	-381	-134	-279	-282	-262	-289

Table 8. World Bank Exposure, calendar 1994-2000

	1994	1995	1996	1997	1998	1999	2000
Total debt outstanding and disbursed (US\$ billions)	22.5	22.7	22.3	22.7	23.1	23.2	23.2
IBRD	3.7	3.7	3.7	3.8	3.8	3.8	3.9
Guarantees	-	-	-	0.2	0.2	0.3	0.4
Exposure ratios:							
IBRD debt service/exports (5%)	5.9	5.6	5.4	5.2	4.9	4.6	4.2
Incremental IBRD DS/exports ^{b/}	-	-	-	0.1	0.2	0.2	0.2
IBRD DS/public DS (20%) ^{c/}	21.8	19.5	20.9	21.2	22.5	19.2	18.9
Increment. IBRD DS/pub. DS ^{b/}	-	-	-	0.6	0.8	0.8	1.1
Pref. Cred. DS/public DS (35%)	37.7	34.2	35.9	35.4	38.5	33.3	33.3
Share of IBRD portfolio	3.2	3.5	3.2	3.2	3.2	3.1	3.1

^{a/} In FY00, the high case lending program is likely to include either sector lending approaches in the social sectors or continued support for public enterprise and/or administrative reform.

^{b/} Assumes performance or credit guarantees lasting ten years and callable any time, with 0.4 percent fees (if guarantees are called, the face value of the amount covered falls due immediately).

^{c/} Exposure indicators for IBRD and preferred creditors improve substantially from 1999 onward because of large repayment of rescheduled commercial debt principal

Risk Management

11.0. Morocco's development agenda is large and the country is in a stage of political transition. There are three main sources of risks which may affect the effectiveness of our proposed program: delays in undertaking the reforms required to promote high growth—this would increase urban unemployment and further exacerbate social problems; delays in increasing social and rural development efforts in tandem with economic reforms—this would widen the social gap between urban and rural areas; and deterioration in external competitiveness due to policy reversals or slow adjustment—this would prevent the Bank from stabilizing its exposure. These risks should be evaluated against the potential rewards of our proposed strategy.

11.1. The above risks are significant as the country is undergoing a political transition. However, we feel that they are manageable as a national consensus has emerged on Morocco's development agenda. In addition, since the mid-eighties, the Government has shown a solid track record in macroeconomic management. Finally, the EU free trade agreement has locked in the reform program. Nevertheless, over the next few years a strong dialogue will be needed to ensure steady implementation of the reform program.

11.2. The proposed assistance program has been tailored to mitigate these risks. It seeks to balance macro and sector reforms, earmarks specific assistance for social and rural development programs and conditions high case lending to progress on economic reforms and social objectives. Moreover it aims to strengthen consensus in sensitive areas through increased analytical work, dissemination and pilot activities. The proposed program has been developed in close consultations with the Government and discussed widely in Morocco; the Bank's assistance will help consolidate the emerging consensus on development priorities and assist in translating it into a specific program of actions.

11.3 Progress will, however, need to be closely monitored in view of our relatively high exposure and the country's vulnerability to external shocks. Our macroeconomic dialogue will be reinforced through regular joint reviews with the IMF and as part of our proposed policy-based

operations, and our lending program will be adjusted to the pace of reforms and progress toward social objectives as per the specified triggers (see Box 2 above).

Performance Monitoring

12.0. The Bank Group strategy seeks to support accelerated and broadly based reforms during a period of economic and political transition. The strategy should be judged as having been successful if, within three years, substantial progress has been achieved in articulating and implementing a comprehensive economic and social program along the lines identified in this document.

12.1. The next three years will be a transition period toward renewed and sustained growth. Thus success of the Bank's strategy should be judged against policy advances rather than immediate economic outcomes, especially as Morocco's short-term performance is highly dependent on external factors. Specific objectives and performance indicators are included in the attached business compact (Attachment I). Success of the proposed strategy should be measured against:

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

Agenda for Board Discussions

13.0. The Board may wish to focus its discussion on the following issues:

- the CAS's sectoral priorities and the balance between macro and sector approaches in the pursuit of sustainable poverty reduction;
- the risks to the Bank relative to the rewards that the CAS program may bring; and
- the triggers proposed for the alternative lending program, in particular those related to social issues.

James D. Wolfensohn
President

Attachments
Washington, D.C.
January 8, 1997

KINGDOM OF MOROCCO
World Bank Group Business Compact
FY97-99

Contents

1. Overview
2. Growth and Competitiveness
3. Social Agenda
4. Environmental and Natural Resources Management
5. Public Sector Modernization

Attachments

1. Summary World Bank FY97-99 Program
2. IFC Program
3. EDI Program
4. Joint World Bank/IFC PSD Agenda

1. Overview

Key Objective: Reduce poverty through:

- resumed broad-based reform effort to promote growth, reduce unemployment pressures and speed up world integration; and
- major complementary effort to strengthen human resources development and to reduce the social gap between urban and rural areas.

Areas of Intervention:

- growth and competitiveness: deepen macro stabilization, improve budget composition, and accelerate private sector development;
- social agenda: implement programs to improve basic services in poorest provinces; launch major effort in rural infrastructure to reduce existing social gaps; and support dialogue on education reform, coverage of health services, safety net efficiency, integrated rural development, and gender issues;
- environmental management: promote consensus and awareness, and strengthen integrated water management;
- public sector modernization: accelerate public enterprise reform and privatization; reduce wage bill; initiate dialogue on public administration reform, and support decentralization.

Instruments:

- resume policy-based lending;
- reduce traditional investment lending while strengthening our pipeline on rural and social development;
- promote new instruments and new approaches, such as guarantees and pilot projects in new sectors of intervention;
- broaden dialogue and dissemination of analytical work;
- continue active portfolio management;
- increase partnership, especially with EU, AfDB and UN agencies; and
- open a resident mission.

Indicative Programs:

- Base Case: US\$1.0 billion over three years in lending and guarantees;
- High Case: US\$1.5 billion, including increased policy-based lending; high case contingent on progress in economic reforms and social objectives;
- Low Case: US\$780 million, focusing on investment lending and one guarantee;
- IFC: increase in lending and equity participations over US\$100 million per year;
- MIGA: US\$50 million being considered for the Jorf Lasfar electricity generation project.

Monitoring Indicators:

- the country would have emerged from its current transition with a stronger reform program on a broad front with the following overall results: (i) more sustainable macroeconomic balances, characterized by a low overall budget deficit, accompanied by a resumption in economic dynamism (exports and FDIs); (ii) vigorous implementation of priority social development and rural infrastructure programs, with agreement on the main directions of education and health reform; (iii) continued progress on environmental and natural resources management, with establishment of key river basin authorities; and (iv) initiation of a major public sector reform, with accelerated privatization, a more flexible budget structure through a rationalization of the civil service, and continued decentralization.

2. Growth and Competitiveness

Objectives:

- improve internal and external balances, with focus on budget deficit reduction and composition of expenditures;
- improve external competitiveness through the implementation of a broad-based program;
- promote private sector participation in infrastructure services; and
- deepen the financial markets, while reforming institutional savings institutions to promote savings.

Instruments:

- continued dialogue, in close coordination with the IMF, on the macroeconomic program, with hands-on assistance on medium-term planning and programming;
- dialogue on the business environment through a study of unemployment, labor markets and the informal sector, and support of public/private partnership (PSD Committee);
- support for vocational training and for infrastructure improvements, through active promotion of private provision, guarantees and IFC participation, with focus on power, telecommunications, industrial estates and transport, and the establishment of a pilot infrastructure fund;
- joint support with the EU on a broad *mise à niveau* program of enterprises, and with close participation of the private sector (cluster study);
- support for continued financial sector reform, through a possible quick-disbursing loan focusing on institutional savings and continued IFC assistance on capital markets development and mortgages;
- dialogue on agriculture incentive framework as part of an integrated rural development strategy;
- pilot operations to support micro-enterprise promotion and micro-credit;
- the detailed joint IFC/WB program to support private sector development is attached.

Monitoring Indicators:

Outcomes

- near balanced budget -- fiscal deficit below 2 percent of GDP; and public external debt service below 25 percent of exports by 2000;
- exports resuming their growth level of the late eighties (7 percent by 2000);
- increased private investment, with foreign direct investments amounting to 2.5 percent of GDP;
- domestic savings to reach 18 percent of GDP;

Efforts

- consistent progress on macroeconomic management and external competitiveness;
- implementation of commercial and competition legislations, passage of new labor legislation and regulatory frameworks for private participation in place, in power, telecommunications and ports and concessions initiated;
- implementation of reform of the pension system and postal savings, establishment of a market-based municipal finance system, and progress in establishing a fully developed foreign exchange market;
- agreement on framework to reduce trade protection on "strategic" agricultural commodities.

Indicative WB lending program:

- about US\$180-300 million in guarantees; US\$100 million in IFC participations; and US\$175-300 million in lending over the next three years including a possible quick-disbursing policy-based operation to support financial sector reform.

3. Social and Rural Development

Objectives:

- achieve consensus on education reform, including budget shift towards basic education;
- reduce substantially rural/urban and gender gaps through improved access to basic social services, infrastructure and job creation, with increased community participation;
- improve targeting and effectiveness of social safety net and support for the informal sector;
- ensure increased public financing for basic health services and adequate health coverage for poor and rural populations.

Instruments:

- continuing dialogue on education reform through technical preparation of reform options (PHRD and IDF), seminars, and possible lending depending on progress;
- two-track rural development strategy: (i) strong support for infrastructure development in key sectors, such as potable water and rural roads, and for improved delivery of basic social services and employment programs; and (ii) analytical work and dialogue on integrated rural development, including review of the agricultural incentive framework, with pilot projects to test new approaches;
- support for low-income housing approaches to follow on successful past projects and dialogue as part of recently completed sector work;
- initiate reform of the safety net through new approaches (social fund) and programs for the informal sector (microcredit);
- support for systemic reforms in hospital management and health financing;
- preparation of a strategy note to highlight gender policy issues.

Monitoring Indicators:

Outcomes

- implementation of agreed action plans to reach near-universal access to primary education, potable water and basic health care by 2010;
- appropriate programs in place to increase enrollment of rural girls in primary education from 26 percent to 40 percent, and rural access to potable water to 40 percent, by 2000.

Efforts

- adequate budgetary allocations in place for priority programs in potable water and basic social services (see Box 2 in main text);
- in 13 rural *BAJ* provinces, girls' enrollments increase from 35 to 70 percent and basic health care coverage increases from 47 to 60 percent;
- consensus on education reform objectives, with specific efficiency and expenditure measures and programs developed for each level of education;
- consensus on measures to strengthen hospital management and restructure health financing;
- consensus on integrated rural development strategy;
- development of targeted social assistance and income-generating programs for the poor.

Indicative WB lending program.

- about US\$350/400 million for the next three years; US\$100 million per year exclusively reserved for rural and social programs.

4. Environmental and Natural Resources Management

Objectives:

- continue to support institutional strengthening and awareness and assist in completing the national environmental action plan;
- promote integrated water management, especially in key river basins; and
- continue to improve water pricing.

Instruments:

- support for the national environmental action plan, awareness of environmental issues, and water pricing policies through sector work, policy dialogue, seminars and on-going projects;
- support for integrated management of water resources through the establishment of decentralized river basin authorities, starting with Oum-er-R'bia, and pilot projects supporting sustainable watershed management protection;
- support for improved control of the worst polluted zones with emphasis on quality monitoring, stakeholders involvement and financial sustainability, starting with the Sebou river;
- promotion of sustainable fisheries resources through the use of trust funds and IDF grants, and of solar energy and Mediterranean pollution (regional project) through GEF funding;
- continued promotion of sound environmental analysis in all public sector projects; and
- promotion of integrated approaches to urban rehabilitation, focusing on urban poverty, environment and cultural heritage in Fez.

Monitoring Indicators:

- completion of environmental action plan, using participatory approaches;
- regulatory frameworks in place for water and environment;
- establishment of river basin authorities in Oum-er-R'bia and Sebou; and
- continued progress on water pricing, so that water charges cover at least all O&M costs in all irrigated perimeters (from 50-80 percent at present).

Indicative WB lending program:

- About US\$125/150 million over the next three years.

5. Public Sector Modernization

Objectives : refocus and strengthen the role of the public sector, through

- resumption and acceleration of public enterprise reform and privatization;
- dialogue on public administration reform, with focus on sustainable reduction of the salary bill and reorientation of public expenditures towards basic services; and
- support for the on-going movement towards decentralization, while strengthening the capacities of local communities, and promoting community participation.

Instruments:

- preparation for a new public enterprise - PE reform operation, which will focus on: (i) systemic issues, such as pensions, arrears and financial autonomy; (ii) acceleration of the privatization program; and (iii) private provision of infrastructure services;
- lending to the railways and power companies, based on detailed agreements on financial autonomy, revision in statutes to allow private sector participation, and resolution of the pension issue;
- dialogue on public administration reform through sector work, a new CEM, policy dialogue, technical assistance and IDF grants in key ministries, until clear consensus has emerged on the direction, pace and approach in this sensitive area. Budget reform, multi-year programming of expenditures and reduction in the wage bill, are currently under discussion. Pilot IDF projects are also on-going in various ministries; and
- support for decentralization is included in many on-going and new operations throughout our pipeline, such as municipal finance projects, as well as support for greater community participation with EDI support.

Monitoring Indicators:

Outcomes

- completion of privatization program of 114 public enterprises, with PE value added reduced from 12 to 8 percent of GDP;
- wage bill in central administration reduced to below 9 percent of GDP by 2000.

Efforts

- agreement on, and implementation of, a multi-year framework for PE reform and privatization; regulatory frameworks for private sector participation in place in all infrastructure sectors; new legal framework for the remaining PEs, enhancing autonomy, approved;
- initiation of a comprehensive public administration reform program and clarification of new decentralization framework, in line with the new Constitution.

Indicative WB lending program:

- US\$200-350 million over the next three years, including a possible quick-disbursing operation on PE reform.

MOROCCO CAS - SUMMARY INDICATIVE WORLD BANK FY97-99 PROGRAM							
Growth & competitiveness		Social Agenda		Environment/Natural Resources		Public sector modernization	
INDICATIVE LENDING PROGRAM							
	<u>US\$ mln</u>		<u>US\$ mln</u>		<u>US\$ mln</u>		<u>US\$ mln</u>
Investments	125/150	Investments	350/400	Investments	125/150	Investments	150/200
Power sector		Rural Water Supply		Water Resource Management I		Railways I	
Vocational Training		Health Management		Sebou River Protection		Municipal Finance II	
Microenterprise Pilot		Social Priority/Fund II		Fes Medina rehabilitation		Public Administration (FY'00)	
Competitiveness Upgrading (FY'00)		Low Income Housing					
		Rural Infrastructure Pilot					
		Rural Development Pilot					
		Education Reform (FY'00)					
		Rural Development (FY'00)					
Policy-based (quick-disbursing)	50/150					Policy-based (quick-disbursing)	50/150
Financial Market II						Public Enterprise Reform	
Guarantees	180/300						
NON LENDING SERVICES							
Economic & Sector Work							
Employment & Informal sector	FY97	Rural Development Strategy	FY97	Environment action plan review	FY98	CEM/Role of the state	FY98
Informal reports/Technical assistance for FY97-98							
EU cooperation on competitiveness		Strategy note on gender		Support for fisheries strategy		Cooperation with IMF	
Participation in the PSD Committee		Promotion of social funds & NGOs		Participation in METAP-GEF		Support for MT framework	
IDF - Telecom. privatization		IDF - higher education				IDFs to modernize 2 ministries and support legal reform	
		Dissemination and EDI seminars on rural development					
PORTFOLIO MANAGEMENT							
FY96 investment portfolio	10		11		10		1
o/w problem projects	1	o/w problem projects	2	o/w problem projects	3	o/w problem projects	0
Undisbursed (\$ mln)	201	Undisbursed (\$ mln)	311	Undisbursed (\$ mln)	473	Undisbursed (\$ mln)	63
Disbursement Ratio FY96	26%	Disbursement Ratio FY96	15%	Disbursement Ratio FY96	27%	Disbursement Ratio FY96	11%
Target Disburs. Ratio FY99	24%	Target Disburs. Ratio FY99	27%	Target Disburs. Ratio FY99	30%	Target Disburs. Ratio FY99	34%
RESOURCE ALLOCATION *							
Amount in Million US\$	5.60	Amount in Million US\$	6.80	Amount in Million US\$	5.20	Amount in Million US\$	3.80
% of total	26%	% of total	32%	% of total	24%	% of total	18%

IFC's role in private sector development

IFC's investment strategy in Morocco will focus on infrastructure and capital markets projects. Foreign investors in infrastructure projects have approached IFC to (i) mobilize resources, (ii) co-invest and provide them with added comfort; and (iii) intermediate with the Moroccan Government and local investors. The financial sector currently faces a situation of excess liquidity, while local investors are currency-risk averse in the absence of hedging instruments, and the lack of a true yield curve and foreign exchange market. Six IFC loans to Moroccan companies have been prepaid in the last two years for a total of about US\$113 million. Once full Dirham convertibility is in place, IFC should be able to mobilize long-term funds through syndicated loans, to be lent by Moroccan banks to small- and medium-scale enterprises.

Pipeline. The project pipeline is concentrated in capital markets and large infrastructure projects:

- **Securitization:** Following IFC technical assistance that should shortly lead to the enactment of a securitization law, discussions with Crédit Immobilier et Hôtelier on securitizing a portion of its mortgage portfolio will be launched. This should boost local bond and mortgage markets and promote the building of new housing units. Extending the scope of the securitization law to other types of assets is also possible.
- **Credit line to BMCE:** a US\$30 million credit line to BMCE, Morocco's largest private sector bank, in support of small-scale exporters to finance equipment purchases and upgrades of productive capacity.
- **Middle East North Africa Fund:** establishing the first regional direct investment fund of US\$250 million for select countries in the MENA region, invested in equity and quasi-equity investments in companies located in Morocco, Tunisia, Egypt, Jordan, as well as the West Bank and Gaza. This Fund will be leveraged on 1:3 ratio and have an OPIC guarantee.
- **Greater Casablanca Water and Sewage:** a US\$2 billion 30-year concession for the water, sewage and power distribution in Casablanca.
- **Privatization & Upgrading of the SAMIR refinery:** co-invest in the further privatization and in the subsequent upgrading of SAMIR, Morocco's largest refinery.
- **Casablanca-El Jadida Highway Concession:** cofinancing of the first concession of a highway in Morocco for private investment (a US\$200 million project).
- **Advisory on Privatization of Royal Air Maroc:** possible advisory service to the Moroccan Ministry of Privatization on the privatization of the national airline company, based on our experience in the successful privatization of Kenya Airways.
- **Tangiers Port Concession and Construction of a new port:** assist the Government in the award of the concession of the Tangiers port (a US\$300 million project).

Other Possible Projects: assist selected banks in establishing hedging mechanisms and improving asset liability management. High on this list is the Loan Option Facility (LOF) used to effectively neutralize the interest rate and liquidity risks inherent in funding medium-term assets from short-term deposits.

- A 50 MW windmill power plant has been awarded to a French consortium led by Electricité de France who might seek an IFC financing of this \$60 million project.

Advisory Services: if requested, IFC could provide assistance to GOM on establishing a credit rating agency in association with the Inter-Arab Rating Company.

Economic Development Institute (EDI)'s Program

During FY97 EDI plans three Morocco specific events, and at least one regional event in Morocco. In addition Moroccans are invited to various regional events.

Morocco specific seminars

- “Support for Community-based Development and Microenterprise: Policy and Planning Seminar (May 1997) to raise awareness among senior government officials and representatives of the private and NGO community on the institutional and regulatory obstacles facing microentrepreneurs. A workshop on micro-credit is also planned to coincide with this seminar.
- “Financial market reform and economic growth”. EDI will cosponsor this seminar with a local university and an economic newspaper. The target audience is both the academic community and representatives of the private and public sector.
- Workshops on the tax, regulatory and pricing functions in the energy sector, in support of Bank efforts to strengthen the Ministry of Energy through an on-going IDF.

Regional Seminars taking place in Morocco

- Training for managers of grassroots projects of the Maghreb region (February 97); the audience will be trainers and community leaders that are to carry out grassroots activities in their respective countries as part of identified development projects.
- Regional conference on water and agriculture.

Regional events to which Moroccan participants are being invited

- Meeting of the regional network for the Facilitation of Trade and Investment in the Mediterranean Region (FATIMA)
- Meeting of the network on Private Provision of Infrastructure Initiative (PPII)
- Conference on education reform
- Conference on health care finance
- Conference on fiscal decentralization
- Conference on agricultural policy, water and trade
- Conference on banking for the poor

Country Objectives	Performance Indicators	Bank Groups Services	Tasks
<u>Modernization of Infrastructure Services</u>			
* Foster private participation in infrastructure	Design and implement competition and privatization reforms in major utilities and transport	Adjustment lending (on basis of completed ESW)	Privatization Support Loan
* Increase investment and improve quality and cost efficiency of services	Amount of private investment <u>leveraged</u> by Bank services		
◆ Power	Closing of Jorf Lasfar Project: \$800 million	WB Guarantee	Power Guarantee
◆ Telecommunications	Closing of windmill project, \$60 million project New Telecommunications law before end of 96; licensing of operators in selected services in 1997; privatization 1997/98	IFC Investments Technical assistance Possible IFC investment in high value-added areas.	IFC Loan/Equity IDF grant IFC Loan/Equity
◆ Railways	Corporatization and restructuring of ONCF	Investment lending	Railways restructuring
◆ Industrial Parks	Closing of two concessions (Nouaceur, El Jadida)	WB Guarantee; Possible IFC investment	Industrial parks guarantees; IFC loan or equity
◆ Water	Closing of water concession in Casablanca	IFC advice/investment	IFC Loan / Subordinated Loan / or IFC Guarantee
	Possible IFC role in subsequent similar operations.	IFC advice/investment	
◆ Roads	Closing of concession (El Jadida)	IFC investment	IFC loan & equity
◆ Ports	Closing of concession (Tangiers) & construction of new port	Possible IFC investment Supervision/ICRs	Possible IFC loan & equity
* Public provision of essential infrastructure services	Timely implementation of ongoing projects		Power Distribution Port Sector Water supply V Telecoms Restructuring Casablanca Sewerage Second rural electrification Secondary roads Municipal Finance I Municipal Finance II
	Provide basic infrastructure services to about 90 small and medium/size districts	Investment lending	
	Expand power transmission facilities	Investment lending	PSD II / Power project

Country Objectives	Performance Indicators	Bank Groups Services	Tasks
<u>Business Environment</u> <ul style="list-style-type: none"> ◆ Continue reforms to enhance incentive framework and establish level playing field between private sector, public enterprise and administration ◆ Promote macro stability and competitive exchange rate 	<p>Approval of Labor Law and of Price and Competition Law</p> <p>Policy notes and recommendations sent to Prime Minister by private/public PSD committee and follow-up actions</p> <p>Reduced budget deficit and competitive real effective exchange rate</p>	<p>Technical assistance</p> <p>Technical assistance</p> <p>Sustained macroeconomic dialogue in collaboration with IMF</p>	<p>Review of subsequent drafts</p> <p>Continued participation in monthly PSD committee meetings</p> <p>Maintain dialogue</p>
<u>Financial Sector Development</u> <ul style="list-style-type: none"> * Establish a market based financial system * Deepen Capital Markets <ul style="list-style-type: none"> ◆ Continue capital market reform ◆ Promote new financial instruments ◆ Provide long-term domestic finance for private infrastructure projects. 	<p>Interest rate liberalization, establishment of a fully-functioning foreign exchange market, elimination of banks' forced placements in T Bills, bank privatization. Quantitative indicators on financial market development agreed with Government.</p> <p>Provide long-term resources for productive investment and strengthen participating financial institutions.</p> <p>Establish a market-based municipal finance system</p> <p>Implement reform program of institutional investors (insurance companies, pension funds)</p> <p>Develop new private institutions, including central depository, rating agency and creation of a venture capital company targeting SMEs.</p> <p>Develop use of GDRs, CP, LOF and mortgage backed securities; extend the scope of the securitization law.</p> <p>Establish private infrastructure financing facility with Moroccan banks on a cas by case basis.</p>	<p>Supervision and technical assistance</p> <p>IFC credit lines in multiple currencies</p> <p>Supervision/ICRs</p> <p>Investment Lending</p> <p>Adjustment lending</p> <p>IFC advice/investment</p> <p>IFC advice/investment</p> <p>IFC Guarantee/Investment</p>	<p>Financial Markets Development Loan</p> <p>IFC syndicated loans</p> <p>Financial Sector Develop.; Industrial Finance; Municipal Finance I; National Rural Finance; Municipal Finance II</p> <p>Financial Markets Development Loan II</p> <p>IFC equity; maintaining dialogue</p> <p>LOF Transaction under consideration.</p> <p>Private Infrastructure Finance Project.</p>

Country Objectives	Performance Indicators	Bank Groups Services	Tasks
<p><u>Industry Competitiveness</u></p> <p>* Prepare private industry for open environment that will ensue from association agreement with EU</p> <p>◆ Enhance competitiveness of private firms in a selected number of "clusters"</p> <p>◆ Enhance technology development and strengthen industry support institutions</p> <p>* Continue privatization program</p> <p>* Upgrade labor force' skills</p> <p>* Develop micro-enterprise sector</p> <p>* Improve Capital Structure of private sector SMEs</p>	<p>Implement phase 1 of clusters study (completed) and prepare action plan for phase 2 by mid-97</p> <p>Strengthen support agencies providing assistance to the industrial sector</p> <p>Reduce share of PE value added in GDP from 12% to 8%</p> <p>Increase of private firms' in-service training expenditures</p> <p>Identification of key constraints impeding development of sector</p> <p>Improve access to credit; training</p> <p>"Mise à Niveau" or Upgrade Program</p>	<p>Technical assistance</p> <p>Investment lending in cooperation with EU</p> <p>Adjustment Lending IFC advice/ Investment</p> <p>Lending/ Supervision</p> <p>ESW</p> <p>Investment lending</p> <p>possible IFC Investment</p>	<p>Bank executing agency of project funded by Moroccan private sector and EU</p> <p>Industrial Competitiveness project</p> <p>Privatization Support Loan</p> <p>PSD3 - In service training project</p> <p>Employment and informal labor study</p> <p>Micro-Enterprise Development Project</p> <p>Capital Development Fund (OPIC fund)</p>

KINGDOM OF MOROCCO
Country Assistance Strategy
Standard Annexes

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Morocco - Selected Indicators of Bank Portfolio Performance and Management

<i>Indicator</i>	FY94	FY95	FY96	FY97
<i>Portfolio Performance</i>				
Number of projects under implementation	32.00	28.00	32.00	26.00
Average implementation period (years) ^a	3.96	4.54	4.42	4.36
Percent of problem projects rated U or HU ^b (for past years, rated 3 or 4)				
Development objectives ^c	6.25	7.14	12.50	15.38
Implementation progress (or overall status for past years) ^d	21.88	21.43	18.75	15.38
Canceled during FY in USSm	0.37	21.62	197.55	123.17
Disbursement ratio (%) ^e	11.23	13.72	23.00	9.22
Disbursement lag (%) ^f	19.06	28.92	19.28	21.87
Memorandum item: % completed projects rated unsatisfactory by OED	16.67	16.07	16.13	16.13
<i>Portfolio Management</i>				
Supervision resources (total USS thousands)	1501.36	1363.37	1846.55	707.89
Average supervision (USS thousands/project)	46.92	48.69	57.70	27.23
Supervision resources by location (in %)				
Percent headquarters	0.00	0.00	69.28	62.09
Percent resident mission	0.00	0.00	30.72	37.91
Supervision resources by rating category (USS thousands/project)				
Projects rated HS or S	43.86	48.61	57.12	24.35
Projects rated U or HU	57.85	48.99	60.23	43.03
Memorandum item: date of last/next CPPR				

- a. Average age of projects in the Bank's country portfolio.
- b. Rating scale: "HS" denotes "Highly Satisfactory", "S" denotes "Satisfactory", "U" denotes "Unsatisfactory", and "HU" denotes "Highly Unsatisfactory".
- c. Extent to which the project will meet its development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*).
- d. Assessment of overall performance of the project based on the ratings given to individual aspects of project implementation (e.g., management, availability of funds, compliance with legal covenants) and to development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*). The overall status is not given a better rating than that given to project development objectives.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.
- f. For all projects comprising the Bank's country portfolio, the percentage difference between actual cumulative disbursements and the cumulative disbursement estimates as given in the "Original SAR/PR Forecast" or, if the loan amounts have been modified, in the "Revised Forecast." The country portfolio disbursement lag is effectively the weighted average of disbursement lags for projects comprising the Bank's country portfolio, where the weights used are the respective project shares in the total cumulative disbursement estimates.

Note:

Disbursement data is updated at the end of the first week of the month.

Supervision resources include Salaries, Benefits, and Travel for all sources of funds but excludes FAO staff and PCR task costs.

Morocco - Bank Group Fact Sheet FY 1994-2000

IBRD/IDA Lending Program, FY 1994-2000

Category	Past			Current		Planned ^a	
	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Commitments (US\$m)	412.0	57.6	540.0	233.0	385.0	435.0	140.0
Sector (%) ^b							
Agriculture	59.7	0.0	18.5	21.5	1.3	0.0	14.3
Basic Health	0.0	0.0	12.6	0.0	0.0	0.0	0.0
Education	0.0	0.0	10.0	9.9	0.0	41.4	0.0
Environmental Instit	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Finance	0.0	0.0	46.3	0.0	0.0	0.0	42.9
Health	0.0	0.0	0.0	0.0	15.6	0.0	0.0
Industry	0.0	0.0	0.0	0.0	5.2	0.0	0.0
Non-sector	0.0	0.0	0.0	0.0	0.0	13.8	0.0
Other Finance	0.0	0.0	0.0	0.0	26.0	0.0	0.0
Pollution/waste Mgmt	0.0	0.0	0.0	0.0	0.0	0.0	14.3
Power	0.0	0.0	0.0	0.0	23.4	0.0	0.0
Public Sector Manage	0.0	0.0	0.0	68.7	0.0	23.0	28.6
Social Sector	0.0	0.0	5.2	0.0	0.0	0.0	0.0
Transportation	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Urban	0.0	0.0	0.0	0.0	13.0	16.1	0.0
Water Supply & Sewag	38.8	0.0	7.4	0.0	15.6	5.7	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans ^c	0.0	0.0	46.3	0.0	26.0	23.0	0.0
Specific investment loans and others	100.0	100.0	53.7	100.0	74.0	77.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US\$m)							
Adjustment loans ^c	155.0	8.3	153.2	94.1	0.0	0.0	0.0
Specific investment loans and others	155.7	223.2	331.8	124.5	228.6	167.6	119.5
Repayments (US\$m)	291.9	333.2	344.0	166.4	0.0	0.0	0.0
Interest (US\$m)	264.0	279.3	274.9	119.8	0.0	0.0	0.0

a. Ranges that reflect the base-case (i.e., most likely) scenario. For IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

b. For future lending, rounded to nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

c. Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:

Disbursement data is updated at the end of the first week of the month.

Morocco - IFC and MIGA Program, FY94-

<i>Category</i>	<i>Past</i>		
	FY94	FY95	FY96
IFC approvals (US\$m)	18.9	0.6	0.6
Sector (%)			
Cement & Construction	1.0	0.0	0.0
Financial Services	1.0	1.0	1.0
(blank)	0.0	0.0	0.0
TOTAL	2.0	1.0	1.0
Investment instrument (%)			
Loans	54.0	0.0	0.0
Equity	46.0	100.0	100.0
Quasi-equity ¹	0.0	0.0	0.0
Other	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0
MIGA guarantees (US\$m)		9.0	9.0
MIGA commitments (US\$m)		0.0	0.0

¹ Includes quasi-equity types of both loan and equity instruments.

Morocco - Summary of Economic and Sector Work

(US\$ thousands)

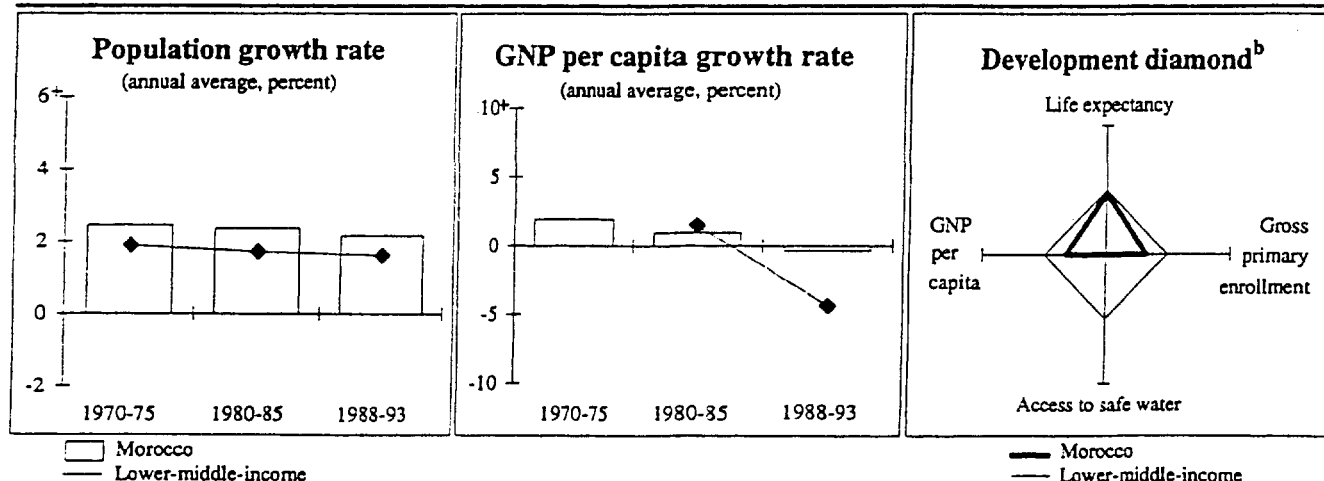
Category	Actual		Planned	
	FY96	FY97	FY98	FY99
Agriculture	633.5	285.4	156.0	0.0
Education	57.6	0.0	0.0	0.0
Environment	8.9	96.7	65.0	0.0
Multi Sector	151.7	0.0	145.6	0.0
Other	79.4	52.3	87.6	73.7
Pop/health/nutrition	91.0	0.2	116.8	0.0
Public Sector Mgmt	214.2	13.8	0.0	0.0
Social Sector	66.6	25.8	0.0	0.0
Urban Development	19.7	1.5	0.0	0.0
Total	1322.6	475.7	571.0	73.7

Morocco

Indicator	Unit of measure	Latest single year		Most recent estimate 1988-93	Same region/income group		Next higher income group
		1970-75	1980-85		Mid-East & North Africa	Lower-middle-income	
Priority Poverty Indicators							
POVERTY							
Upper poverty line	local curr.	..	..	2,568	..	..	..
Headcount index	% of pop.	..	26	13	..	..	..
Lower poverty line	local curr.	..	..	2,070	..	..	..
Headcount index	% of pop.	..	17	7	..	..	..
GNP per capita	US\$	550	600	1,040	1,980	1,590	4,350
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	35	90	136	..	..	..
Lower income	"	..	..	..	..	..	..
Food ^a	"	..	91	125	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	..	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	62	77	69	97	104	105
Male	"	78	94	80	103	..	..
Female	"	45	60	57	90	..	..
Mortality							
Infant mortality	per thou. live births	122.0	97.0	65.6	52.3	39.0	35.8
Under 5 mortality	"	..	..	84.0	69.9	61.5	42.6
Immunization							
Measles	% age group	..	..	76.0	81.3	77.6	82.0
DPT	"	..	44.0	79.0	84.0	82.2	74.2
Child malnutrition (under-5)	"	..	..	9.0	..	..	..
Life expectancy							
Total	years	53	58	64	66	67	69
Female advantage	"	3.1	3.4	3.4	2.3	5.9	5.9
Total fertility rate	births per woman	6.9	5.1	3.6	4.7	2.9	2.9
Maternal mortality rate	per 100,000 live births	..	327	..	..	..	..

Supplementary Poverty Indicators

Expenditures on social security	% of total gov't exp.	..	..	..	..	..	..
Social security coverage	% econ. active pop.	..	..	..	..	..	..
Access to safe water: total	% of pop.	51.0	57.6	72.8	83.5	..	86.7
Urban	"	92.0	100.0	100.0	98.7	..	93.9
Rural	"	28.0	25.0	50.0	69.0	..	66.7
Access to health care	"	..	..	62.4	87.4	..	..



a. See the technical notes, p.387. b. The development diamond, based on four key indicators, shows the average level of development in the country compared with its income group. See the introduction.

Morocco

Annex A4
Page 2 of 2

Indicator	Unit of measure	Latest single year		Most recent estimate 1988-93	Same region/income group		Next higher income group
		1970-75	1980-85		Mid-East & North Africa	Lower-middle-income	
Resources and Expenditures							
HUMAN RESOURCES							
Population (mre=1993)	thousands	17,305	21,816	25,945	261,650	1,096,665	500,507
Age dependency ratio	ratio	1.03	0.83	0.70	0.87	0.69	0.62
Urban	% of pop.	37.7	43.9	47.5	55.2	54.7	71.2
Population growth rate	annual %	2.5	2.4	2.2	2.7	1.6	1.7
Urban	"	4.2	3.7	3.2	3.7	2.9	1.8
Labor force (15-64)	thousands	4,656	6,676	8,567	71,333	459,196	190,136
Agriculture	% of labor force	52	46	..	..	..	..
Industry	"	21	25	..	..	..	..
Female	"	16	20	21	16	31	29
Females per 100 males							
Urban	number	108	100	..	..	..	..
Rural	"	104	107	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	446.55	446.55	446.55	11,021.26	40,682.67	21,848.14
Density	pop. per sq. km	38.75	48.85	56.83	23.10	26.52	22.51
Agricultural land	% of land area	60.31	65.66	68.90	32.10	39.61	41.26
Change in agricultural land	annual %	1.08	0.18	-1.15	0.04	-0.13	0.08
Agricultural land under irrigation	%	3.94	4.25	4.16	30.59	12.66	8.84
Forests and woodland	thou. sq. km	..	0.08	0.09	0.45	5.95	8.04
Deforestation (net)	annual %	..	..	-1.45	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	49	39	46	..	..	..
Share of bottom 40% of households	"	12	23	17	..	..	..
Share of bottom 20% of households	"	4	10	7	..	..	..
EXPENDITURE							
Food	% of GDP	..	30.1	..	..	..	..
Staples	"	..	9.4	..	..	..	..
Meat, fish, milk, cheese, eggs	"	..	8.9	..	..	..	..
Cereal imports	thou. metric tonnes	1,509	2,177	3,653	38,092	66,281	48,947
Food aid in cereals	"	75	518	234	1,249	5,477	544
Food production per capita	1987 = 100	85	91	96	102	101	102
Fertilizer consumption	kg/ha	6.2	10.4	10.4	89.9	48.0	67.8
Share of agriculture in GDP	% of GDP	17.3	16.6	14.3	13.3	15.7	8.0
Housing	% of GDP	..	6.7	..	..	..	..
Average household size	persons per household	6.0	5.9	5.7	..	..	..
Urban	"	5.0	..	5.2	..	..	..
Fixed investment: housing	% of GDP	..	4.1	..	..	..	..
Fuel and power	% of GDP	..	1.4	..	..	..	..
Energy consumption per capita	kg of oil equiv.	198	256	299	1,097	1,595	1,632
Households with electricity							
Urban	% of households	..	..	90.0	..	..	..
Rural	"	..	..	13.0	..	..	..
Transport and communication	% of GDP	..	6.3	..	..	..	..
Fixed investment: transport equipment	"	..	1.5	..	..	..	..
Total road length	thou. km	50	58	59	..	..	..
INVESTMENT IN HUMAN CAPITAL							
Health							
Population per physician	persons	13,100	15,536	4,710	..	3,277	..
Population per nurse	"	..	918	..	..	..	..
Population per hospital bed	"	700	795	785	633	604	395
Oral rehydration therapy (under-5)	% of cases	..	..	14	56	..	51
Education							
Gross enrollment ratio							
Secondary	% of school-age pop.	16	34	28	56	53	53
Female	"	12	27	29	50	..	..
Pupil-teacher ratio: primary	pupils per teacher	42	28	28	26	..	25
Pupil-teacher ratio: secondary	"	24	19	15	21	..	..
Pupils reaching grade 4	% of cohort	85	83	85	95	..	..
Repeater rate: primary	% of total enroll	28	20	15	..	..	..
Illiteracy	% of pop. (age 15+)	79	58	51	45	19	14
Female	% of fem. (age 15+)	..	71	62	57	..	17
Newspaper circulation	per thou. pop.	21	15	13	33	74	125

Morocco - Key Economic Indicators

Indicator	Estimate				Projected			
	1991	1992	1993	1994	1995	1996	1997	1998
National accounts (as % GDP at current market prices)								
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture ^a	20.1	15.7	14.7	18.4	14.3	21.2	20.5	20.3
Industry ^a	30.9	32.3	32.3	31.5	33.2	30.7	31.2	31.5
Services ^a	49.0	52.0	53.0	50.1	52.5	48.1	48.3	48.2
Total Consumption	82.8	83.9	84.5	84.3	86.6	85.5	83.7	82.2
Gross domestic fixed investment	22.2	22.5	22.2	20.5	22.0	20.1	21.9	23.1
Government investment	3.8	4.6	6.1	5.5	5.2	5.0	5.0	5.0
Private investment (includes increase in stocks)	18.9	17.8	14.9	15.7	15.8	15.4	17.2	18.5
Exports (GNFS) ^b	24.1	25.1	26.5	25.3	27.3	27.5	28.9	30.3
Imports (GNFS)	29.7	31.5	32.0	30.9	34.9	33.4	34.8	35.9
Gross domestic savings	17.2	16.1	15.5	15.7	13.4	14.5	16.3	17.8
Gross national savings ^c	21.3	20.3	19.0	18.9	16.1	18.1	20.2	22.0
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	27835	28558	26866	30350	32411	33488	33934	35257
Gross national product per capita (US\$, Atlas method)	1090.0	1080.0	1030.0	1140.0	1030.0	..	..	..
Real annual growth rates (%, calculated from 1980 prices)								
Gross domestic product at market prices	6.9%	-4.1%	-1.1%	11.6%	-7.6%	10.3%	3.3%	4.1%
Gross Domestic Income	7.3%	-2.9%	-1.3%	12.6%	-8.4%	10.6%	3.1%	4.2%
Real annual per capita growth rates (%, calculated from 1980 prices)								
Gross domestic product at market prices	4.7%	-6.0%	-3.1%	9.5%	-9.4%	8.2%	1.4%	2.3%
Total consumption	7.9%	-3.4%	-2.7%	10.6%	-8.0%	7.1%	-0.6%	0.8%
Private consumption	9.9%	-6.1%	-5.0%	14.4%	-8.7%	7.2%	1.3%	1.5%

(continued)

Morocco - Key Economic Indicators (Continued)

Indicator					Estimate		Projected	
	1991	1992	1993	1994	1995	1996	1997	1998
Balance of Payments (US\$m)								
Exports (GNFS) ^b	6715.7	7161.0	7124.2	7688.0	8840.3	9195.7	9796.9	10684.8
Merchandise FOB	5093.5	5009.5	4935.8	5538.1	6675.5	6944.0	7419.7	8138.5
Imports (GNFS) ^b	8270.9	8985.6	8590.3	9367.9	11314.5	11179.6	11795.9	12669.4
Merchandise FOB	6833.8	7451.1	6976.6	7619.0	9936.0	9706.9	10248.4	11022.5
Resource balance	-1555.2	-1824.6	-1466.1	-1679.9	-2474.2	-1983.9	-1998.9	-1984.6
Net current transfers (including official current transfers)	2270.2	2465.1	2149.5	2124.1	2096.4	2240.3	2357.8	2469.3
Current account balance (after official capital grants)	172.7	-579.7	-512.1	-671.8	-1482.1	-633.9	-461.5	-331.0
Net private foreign direct investment	375.5	503.4	522.0	815.2	535.0	535.0	550.0	650.0
Long-term loans (net)	-400.0	-10.5	306.3	-184.4	-12.0	275.8	259.6	286.2
Official	694.0	557.0	-82.0	-227.1	-64.4	-102.7	-200.9	-39.4
Private	-1094.0	-567.5	388.3	42.6	52.4	378.5	460.5	325.6
Other capital (net, including errors and omissions)	805.1	887.3	125.2	554.3	257.6	25.0	133.3	125.0
Change in reserves ^d	-953.2	-800.4	-441.4	-513.3	701.5	-201.8	-481.5	-730.2
<i>Memorandum items</i>								
Resource balance (% of GDP at current market prices)	-5.6%	-6.4%	-5.5%	-5.5%	-7.6%	-5.9%	-5.9%	-5.6%
Real annual growth rates (1980 prices)								
Merchandise exports (FOB)	4.8%	-2.9%	8.2%	0.4%	7.0%	2.4%	6.1%	7.1%
Primary	1.8%	-6.5%	4.9%	-9.9%	0.4%	2.3%	5.1%	6.3%
Manufactures	2.0%	-8.4%	-0.1%	-4.1%	15.5%	2.1%	6.5%	7.2%
Merchandise imports (CIF)	4.2%	9.3%	1.0%	5.2%	3.4%	-2.3%	3.4%	5.0%
Public finance (as % of GDP at current market prices)^e								
Current revenues	22.9	26.1	26.5	24.2	23.9	23.3	23.0	23.3
Current expenditures	19.8	21.3	21.9	21.4	22.5	21.3	20.4	19.6

(Continued)

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

Indicator					Estimate		Projected	
	1991	1992	1993	1994	1995	1996	1997	1998
Current surplus (+) or def. (-)	3.1	4.9	4.6	2.8	1.4	2.0	2.5	3.7
Capital expenditure	6.2	7.1	7.8	6.7	7.1	6.2	6.1	6.0
Fiscal Deficit (-)	-3.1	-2.2	-3.3	-3.9	-5.7	-4.2	-3.5	-2.3
Foreign financing, net	0.2	-1.3	-0.4	-1.6	-0.8	-0.6	-0.7	0.1
Monetary indicators								
M2/GDP (at current market prices)	62.5	68.2	72.5	69.6	74.5	69.4	69.4	69.4
Growth of M2 (%)	16.7	9.7	9.0	7.3	6.2	5.9	6.4	7.0
Private sector credit/total credit (%)	84.4	65.1	48.2	64.5	41.0	65.9	67.2	80.6
Price indices(1980 =100)								
Merchandise export price index	98.7	100.0	91.0	101.7	114.5	116.4	117.1	120.0
Merchandise import price index	94.9	94.5	87.4	90.6	105.4	105.3	107.5	110.1
Merchandise terms of trade index	104.1	105.9	104.2	112.3	108.7	110.5	108.9	108.9
Real effective exchange rate (1980=100 (US\$/LCU) ^f	64.4	65.4	66.5	68.5	71.2	....	..	..
Real interest rates								
Consumer price index (% growth rate)	8.0%	5.7%	5.2%	5.1%	6.1%	---	---	---
GDP deflator (% growth rate)	6.5%	4.9%	3.6%	0.2%	7.2%	3.0%	3.0%	2.8%

- a. If GDP components are estimated at factor cost, a footnote indicating this fact should be added.
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Should indicate the level of the government to which the data refer.
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Morocco - Key Exposure Indicators

Indicator	Estimate				Projected			
	1991	1992	1993	1994	1995	1996	1997	1998
Total debt outstanding and disbursed (TDO) (US\$m) ^a	21566.0	21599.0	21261.0	22513.0	22719.0	22303.8	22740.7	23172.3
Net disbursements (US\$m) ^a	-168.6	996.3	-212.2	-336.4	-109.0	229.8	338.9	336.2
Total debt service (TDS) (US\$m) ^a	3138.6	2076.7	3231.2	3269.8	3415.0	3075.5	3098.0	3023.2
Debt and debt service indicators (%)								
TDO/XGS ^b	242.2	223.5	228.4	231.2	203.1	190.1	182.5	171.7
TDO/GDP	77.5	75.6	79.1	74.2	70.1	66.6	67.0	65.7
TDS/XGS	35.2	21.5	34.7	33.6	30.5	26.2	24.9	22.4
Concessional/TDO	25.5	27.1	27.4	28.5	28.7	29.7	29.5	29.5
IBRD exposure indicators (%)								
IBRD DS/public DS	22.9	24.9	21.6	21.8	19.5	20.9	21.2	22.5
Preferred creditor DS/public DS	44.2	50.6	38.9	37.7	34.2	35.9	35.4	38.5
IBRD DS/XGS	5.3	5.4	5.9	5.9	5.6	5.4	5.2	4.9
Share of IBRD portfolio	3.4	3.3	3.3	3.2	3.5	3.2	3.2	3.2
IFC (US\$m)								
Loans	5.4	135.0	63.8	23.9	6.7	...	...	...
Equity and quasi-equity /c	1.7	0.0	0.0	3.9	4.6	...	...	...
MIGA								
MIGA guarantees (US\$m)	---	---	---	---	---	---	---	---

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Includes equity and quasi-equity types of both loan and equity instruments.

Status of Bank Group Operations in Morocco IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US\$ millions			Undisbursed	Difference between expected and actual disbursements ^a	Last ARIIP ^b Supervision Rating ^b	
					IBRD	IDA	Cancellations			Development Objectives	Implementation Progress
Number of Closed Loans/Credits: 118											
<u>Active Loans</u>											
MA-PE-38978	L40911	1997	GOVERNMENT OF MOROCCO	PSD III-VOC TRG.	11.50			11.67			
MA-PE-38978	L40910	1997	GOVERNMENT OF MOROCCO	PSD III-VOC TRG.	11.50			11.50			
MA-PE-42414	L40260	1996	GOVT OF MOROCCO	COOR/MON SOCIAL PRO	28.00			28.00	0.66	HS	HS
MA-PE-42415	L40250	1996	GOVT OF MOROCCO	SPI - HEALTH	68.00			68.00	0.66	HS	HS
MA-PE-5501	L40240	1996	GOV. OF MOROCCO	SPI - EDUCATION	54.00			54.00	0.66	HS	HS
MA-PE-5503	L40100	1996	KINGDOM OF MOROCCO	SEW. & WATER REUSE II	40.00			40.00	0.35	S	S
MA-PE-41303	L39351	1996	GOVERNMENT OF MOROCCO	EMERG. DROUGHT RECOV	50.00			21.34	-25.87	HS	HS
MA-PE-5489	L39010	1995	KINGDOM OF MOROCCO	SECONDARY ROADS	57.60			57.60	11.75	HS	S
MA-PE-5493	L37650	1994	GOV. OF MOROCCO	ASIL II	121.00		61.00	27.58	13.74	S	S
MA-PE-5499	L36880	1994	GOV. OF MOROCCO	IRR. AREAS AGR. SERV	25.00		5.00	17.98	8.38	S	S
MA-PE-5435	L36650	1994	KINGDOM OF MOROCCO/ONEP	WATER SUPPLY V	32.00			30.13	-1.87	HS	S
MA-PE-5435	L36640	1994	KINGDOM OF MOROCCO/ONEP	WATER SUPPLY V	128.00			116.04	34.96	HS	S
MA-PE-5486	L36620	1994	CNCA	NATIONAL RURAL FINAN	100.00		50.00	28.99	64.99	S	S
MA-PE-5504	L36470	1994	KINGDOM OF MOROCCO	ENVIRONMENT MANAGEME	6.00			5.40	1.99	U	U
MA-PE-5514	L36180	1993	GOV. OF MOROCCO	LAND DEVELOPMENT	66.00			55.29	70.54	HS	S
MA-PE-5517	L36170	1993	GOV. OF MOROCCO/FEC	MUNICIPAL FINANCE I	100.00			32.38	-67.62	HS	S
MA-PE-5462	L35870	1993	GOVERNMENT	SECOND LSI IMPROVEME	215.00		35.00	139.18	21.18	S	U
MA-PE-5438	L35570	1993	KINGDOM OF MOROCCO	TELECOM.RESTRUCTURIN	100.00			56.51	41.86	U	S
MA-PE-5495	L33720	1991	MOROCCAN BANKS	FINANCIAL SECTOR DEV	11.50			3.85	-7.65	S	S
MA-PE-5495	L33710	1991	MOROCCAN BANKS	FINANCIAL SECTOR DEV	9.50		2.31	0.41	-6.78	S	S
MA-PE-5495	L33670	1991	MOROCCAN BANKS	FINANCIAL SECTOR DEV	19.50			1.18	-18.32	S	S
MA-PE-5495	L33660	1991	MOROCCAN BANKS	FINANCIAL SECTOR DEV	29.50			20.05	84.65	S	S
MA-PE-5460	L32950	1991	GOVERNMENT OF MOROCCO	BASIC EDUCATION	145.00		45.00	56.33	83.67	S	U
MA-PE-5433	L32840	1991	GOVT. OF MOROCCO	PORT SECTOR	99.00			14.56	-84.44	HS	HS
MA-PE-5433	L32830	1991	GOVT. OF MOROCCO	PORT SECTOR	33.00		5.00	10.26	15.26	HS	HS
MA-PE-5459	L32620	1991	GOVT. OF MOROCCO	SECOND RURAL ELECTRI	114.00		50.00	40.03	87.37	U	U
MA-PE-5440	L31710	1990	KINGDOM OF MOROCCO	HEALTH SECTOR INVEST	104.00			23.60	23.60	S	S
MA-PE-5437	L31560	1990	GOVERNMENT	FORESTRY II	49.00			12.81	12.81	S	S
MA-PE-5480	L30260	1989	GOVERNMENT OF MOROCCO	RURAL PRIMARY EDUCAT	83.00		8.00	3.69	11.69	S	U
MA-PE-5425	L29540	1988	GOVT OF MOROCCO	S. & M IRRIG.II	23.00			7.99	7.99	S	S
MA-PE-5449	L28260	1987	MINISTRY OF INTERIOR	GREATER CASABLANCA S	60.00			16.99	16.99	S	S

Status of Bank Group Operations in Morocco IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US\$ millions			Undisbursed	Difference between expected and actual disbursements ^a	Last ARPP Supervision Rating ^b	
					IBRD	IDA	Cancellations			Development Objectives	Implementation Progress
TOTAL					1993.60	0.00	261.31	1013.34	403.19		
					Active Loans	Closed Loans		Total			
Total disbursed (IBRD and IDA)					716.34	5250.94	5967.28				
Of which repaid					40.59	2459.48	2500.07				
Total now held by IBRD and IDA					1691.71	2798.77	4490.48				
Amount sold					0.00	20.11	20.11				
Of which repaid					0.00	20.11	20.11				
Total undisbursed					1013.34	0.00	1013.34				

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

b. Following the FY94 Annual Review of Portfolio Performance (ARPP), a letter-based system was introduced (HS - highly satisfactory, S - satisfactory, U - unsatisfactory, HU - highly unsatisfactory); see *Proposed Improvements in Project and Portfolio Performance Rating Methodology* (SecM94-901), August 23, 1994.

Note:

Disbursement data is updated at the end of the first week of the month.

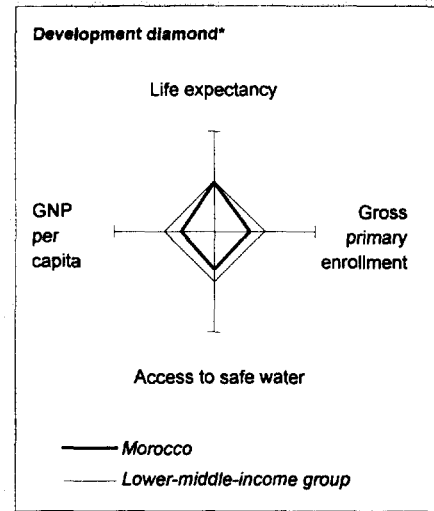
Morocco - Statement of IFC Investments Committed and Disbursed Portfolio

As of 11/30/96
(In US Dollar Millions)

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1963/78/83	BNDE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1980	SOMIFER	0.00	2.35	0.00	0.00	0.00	2.35	0.00	0.00
1985	BNDE	4.54	0.00	0.00	0.00	4.54	0.00	0.00	0.00
1987/90	CIH	38.69	0.00	0.00	3.79	38.69	0.00	0.00	3.79
1987/93	SETAFIL	3.44	1.20	0.00	0.00	3.44	1.20	0.00	0.00
1990	ENNASR	1.17	0.00	0.00	0.00	1.17	0.00	0.00	0.00
1992/96	Banque Exterieur	0.00	7.11	0.00	0.00	0.00	0.00	0.00	0.00
1992/94	Ciments du Maroc	6.83	0.00	0.00	3.16	6.83	0.00	0.00	3.16
1993	INTERFINA	0.00	3.30	0.00	0.00	0.00	2.44	0.00	0.00
1994	Euratlas Capital	0.00	4.00	0.00	0.00	0.00	0.00	0.00	0.00
1994/96	Mediafinance	0.00	1.16	0.00	0.00	0.00	1.16	0.00	0.00
1995	Attijari	0.00	0.52	0.00	0.00	0.00	0.13	0.00	0.00
1995	Fin. Euratlas	0.00	0.09	0.00	0.00	0.00	0.00	0.00	0.00
	Total Portfolio:	54.67	19.73	0.00	6.95	54.67	7.28	0.00	6.95
		Approvals Pending Commitment							
		<i>Loan</i>	<i>Equity</i>	<i>Quasi</i>	<i>Partic</i>				
1991	SOCIETE PALMBAY	0.00	1.83	0.00	0.00				
	Total Pending Commitment:	0.00	1.83	0.00	0.00				

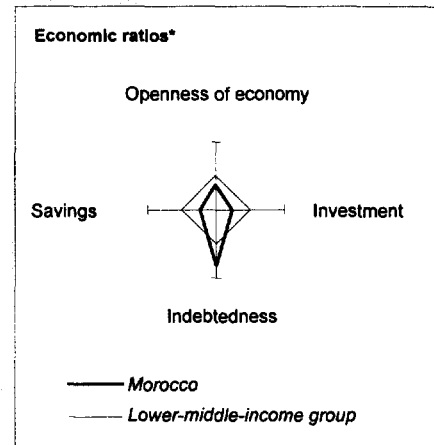
Morocco at a glance

POVERTY and SOCIAL	Morocco	M. East & North Africa	Lower-middle-income
Population mid-1995 (millions)	28.9	273	1,154
GNP per capita 1995 (US\$)	1,130	1,780	1,700
GNP 1995 (billions US\$)	30.4	486	1,961
Average annual growth, 1990-95			
Population (%)	2.0	2.7	1.4
Labor force (%)	2.6	3.3	1.8
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	13	..	..
Urban population (% of total population)	48	56	56
Life expectancy at birth (years)	65	66	67
Infant mortality (per 1,000 live births)	55	49	36
Child malnutrition (% of children under 5)	9	..	..
Access to safe water (% of population)	59	82	78
Illiteracy (% of population age 15+)	58	39	..
Gross primary enrollment (% of school-age population)	73	97	104
Male	85	104	105
Female	60	90	101



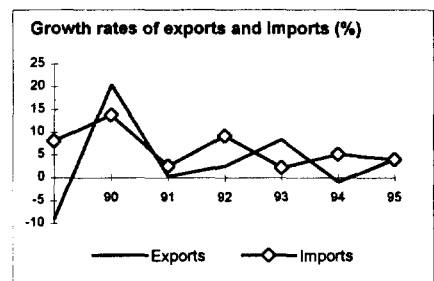
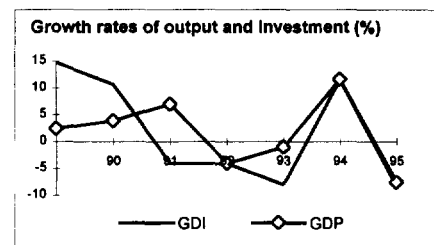
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995	
GDP (billions US\$)	9.0	12.9	30.3	32.4	
Gross domestic investment/GDP	25.2	27.1	21.3	21.0	
Exports of goods and non-factor services/GDP	22.5	25.5	25.3	27.3	
Gross domestic savings/GDP	14.3	18.4	15.7	13.4	
Gross national savings/GDP	13.3	20.7	18.9	16.1	
Current account balance/GDP	-6.1	-6.4	-2.4	-4.9	
Interest payments/GDP	0.7	4.3	4.2	4.2	
Total debt/GDP	26.2	122.4	71.1	88.3	
Total debt service/exports	6.7	33.5	34.3	31.6	
Present value of debt/GDP	..	..	62.3	..
Present value of debt/exports	..	..	194.2	..
(average annual growth)					
GDP	4.4	2.9	11.6	-7.6	5.6
GNP per capita	1.7	0.9	10.2	-9.3	3.8
Exports of goods and nfs	4.2	5.9	-0.9	4.1	6.5



STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	17.3	16.6	18.4	14.3
Industry	34.7	33.4	31.5	33.2
Manufacturing	16.6	18.6	17.6	19.2
Services	48.0	50.0	50.1	52.5
Private consumption	69.4	65.8	67.4	71.2
General government consumption	16.3	15.8	16.9	15.5
Imports of goods and non-factor services	33.4	34.2	30.9	34.9
(average annual growth)				
Agriculture	1.4	-0.1	63.0	-45.9
Industry	3.0	2.8	4.3	3.1
Manufacturing	..	3.5	4.2	2.9
Services	6.4	3.8	3.2	1.2
Private consumption	3.6	4.4	16.6	-6.9
General government consumption	5.7	3.2	1.7	-3.7
Gross domestic investment	0.0	1.1	11.5	-8.5
Imports of goods and non-factor services	-0.6	7.3	5.2	4.0
Gross national product	4.0	3.0	12.4	-7.6

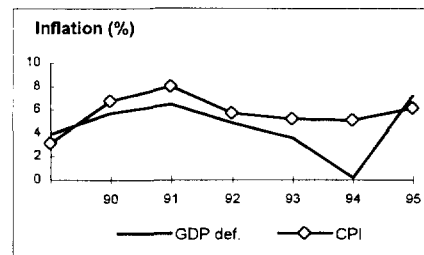


Note: 1995 data are preliminary estimates.

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

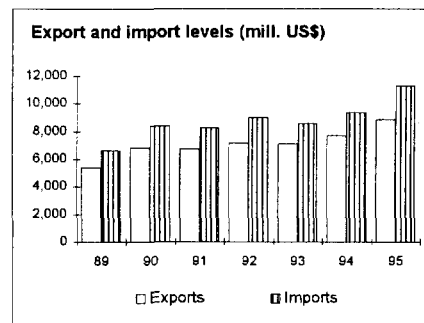
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	7.7	5.1	6.1
Implicit GDP deflator	1.5	8.4	0.2	7.2
Government finance				
(% of GDP)				
Current revenue	..	20.7	24.2	23.9
Current budget balance	..	-2.4	2.8	1.4
Overall surplus/deficit	..	-9.6	-3.2	-5.3



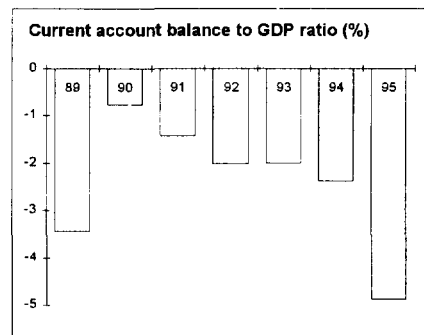
TRADE

	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	2,283	5,538	6,676
Other agriculture	..	603	1,280	1,457
X Phosphorus	..	479	273	291
Manufactures	..	477	1,474	1,600
Total imports (cif)	..	3,921	8,265	9,936
Food	..	507	798	1,332
Fuel and energy	..	1,074	1,113	1,184
Capital goods	..	649	1,845	1,854
Export price index (1987=100)	..	89	122	137
Import price index (1987=100)	..	104	113	131
Terms of trade (1987=100)	..	86	108	104



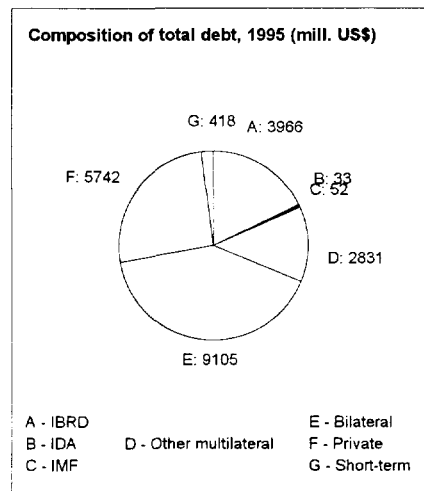
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	1,997	3,278	7,688	8,840
Imports of goods and non-factor services	2,939	4,402	9,368	11,314
Resource balance	-942	-1,124	-1,680	-2,474
Net factor income	-88	-766	-1,170	-1,209
Net current transfers	482	1,031	2,070	2,115
Current account balance, before official transfers	-548	-826	-726	-1,587
Financing items (net)	519	845	1,240	886
Changes in net reserves	28	-19	-513	702
Memo:				
Reserves including gold (mill. US\$)	..	345	4,548	3,613
Conversion rate (local/US\$)	4.1	10.1	9.2	8.5



EXTERNAL DEBT and RESOURCE FLOWS

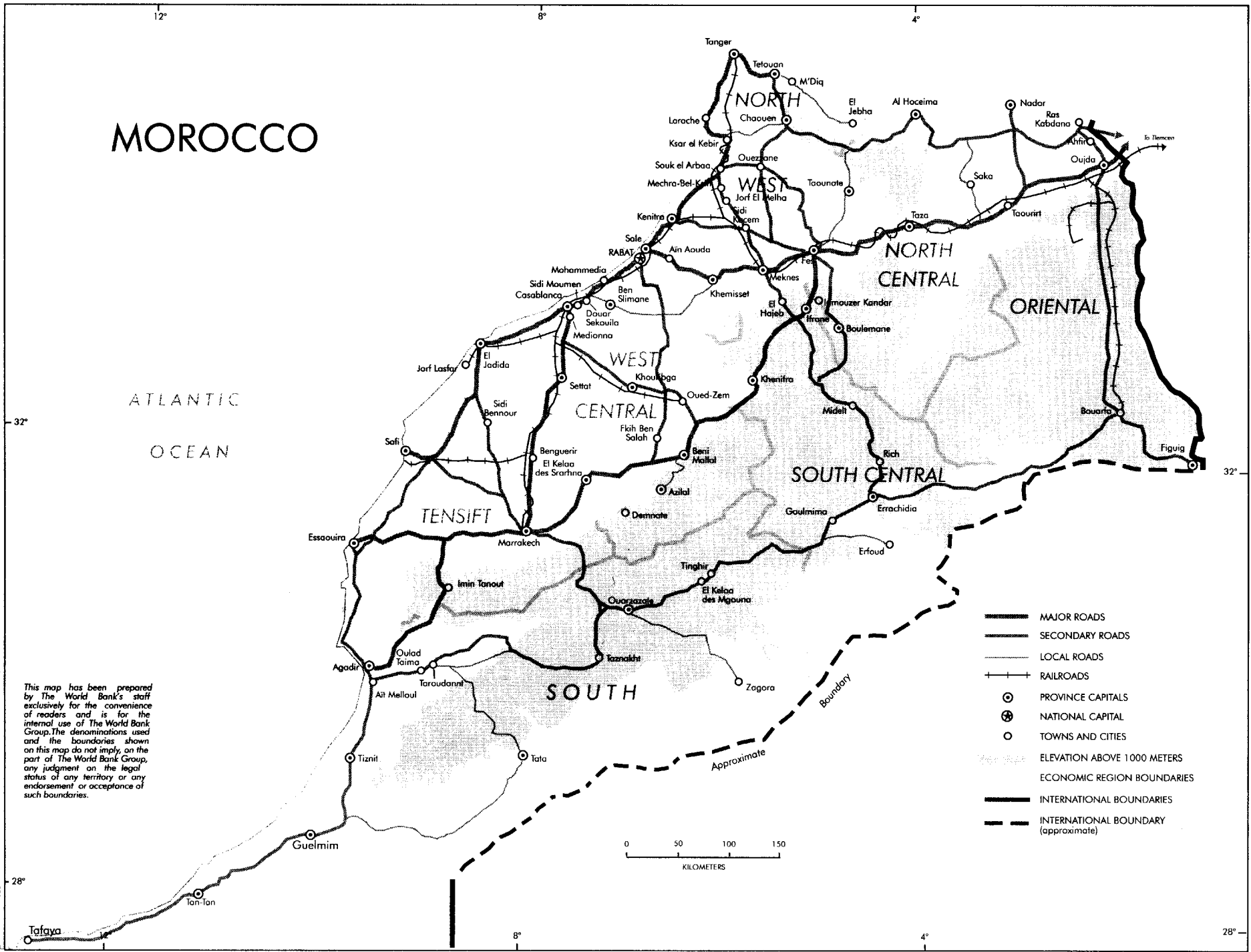
	1975	1985	1994	1995
(millions US\$)				
Total debt outstanding and disbursed	2,353	15,753	21,587	22,147
IBRD	244	1,288	3,746	3,966
IDA	31	43	35	33
Total debt service	172	1,429	3,338	3,541
IBRD	33	167	572	630
IDA	0	1	2	2
Composition of net resource flows				
Official grants	26	416	279	300
Official creditors	253	412	-313	-284
Private creditors	591	195	201	132
Foreign direct investment	0	20	601	818
Portfolio equity	0	0	63	29
World Bank program				
Commitments	33	379	127	433
Disbursements	111	307	246	426
Principal repayments	18	87	302	350
Net flows	93	220	-56	76
Interest payments	15	81	271	282
Net transfers	78	139	-327	-206



MAP SECTION

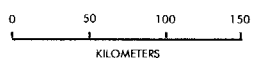
MOROCCO

ATLANTIC
OCEAN



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- MAJOR ROADS
- SECONDARY ROADS
- LOCAL ROADS
- + + RAILROADS
- ⊙ PROVINCE CAPITALS
- ⊗ NATIONAL CAPITAL
- TOWNS AND CITIES
- ELEVATION ABOVE 1000 METERS
- ECONOMIC REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES
- - - INTERNATIONAL BOUNDARY (approximate)



FEBRUARY 1973

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