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**Folder ID:** 1773658

**Series:** Itinerary files

**Dates:** 04/01/1986 - 05/01/1986

**Sub-Fonds:** Records of President A. W. Clausen

**Fonds:** Records of the Office of the President

**ISAD Reference Code:** WB IBRD/IDA EXC-09-3958S

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THE WORLD BANK

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PRESIDENT CLAUSEN  
ITINERARY FILES

Morocco 1986 (D)



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Correspondence 02

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# M O R O C C O

## VISIT OF MESSRS. CLAUSEN AND WAPENHANS

### Daily Schedule

April 21 - 25, 1986

#### MONDAY 21 APRIL 1986

- 16:40: Arrival in Casablanca, from Algiers. Welcome at the airport by S.E. Moulay Zine Zahidi, Minister of Economic Affairs and possibly S. E. Mohammed Berrada, Minister of Finance
- 17:45: Departure for Rabat
- 19:30: Arrival at Rabat Hilton Hotel

#### TUESDAY 22 APRIL

- 09:30: Meeting with H.E. Moulay Zine Zahidi, Minister in Charge of Economic Affairs and H.E. R. Rachidi Ghazouani, Minister in Charge of Plan
- 10:30 Meeting with H.E. Mohammed Berrada, Minister of Finance
- 11:30 Meeting with Mr. Ahmed Bennani, Governor of the Bank of Morocco
- Luncheon hosted by H.E. Lamrani, Prime Minister
- 15:00 Working Session with H.E. Lamrani, Prime Minister and H.E. Laraki, Vice-Prime Minister
- 16:00 Meeting with the Prime Minister and selected Ministers closely concerned with World Bank operations:  
Mr. Tayeb Bencheikh, Minister of Public Health  
Mr. Othmane Demnati, Minister of Agriculture and Agrarian Reform  
Mr. Azeddine Laraki, Vice Prime Minister and Minister of Education  
Mr. Mohammed Kabbaj, Minister of Equipment, and Vocational Training  
Mr. Mohammed Fetah, Minister of Energy and Mines
- Dinner hosted by H.E. Berrada, Minister of Finance

WEDNESDAY 23 APRIL

- 9:30 Meeting with Mr. Tahar Masmoudi, Minister of Commerce and Industry
- 10:30 Field trip to site of Rabat Urban Project, with Ministers Kabbaj (Public Works) and Boufettass (Urban Affairs and Housing)
- 12:15 Meeting with M. Ahmed Osman, President of Parliament
- Luncheon hosted by Mr. OSMAN
- 15:30 Departure for Casablanca
- 16:30 Meeting with Mr. Bensalem Guessous, President of the Confédération Générale Economique Marocaine (CGEM) , and representatives from the banking sector (both public and private)
- 19:30 Cocktail hosted by Mr. Guessous
- Diner hosted by Mr. Guessous
- Return to Rabat Hilton

THURSDAY 24 APRIL

- 9:00 Departure from Casablanca by helicopter to fly over Doukkala Region (agricultural perimeters) <sup>1/</sup>  
Return to Rabat
- 13:00 Luncheon in Rabat (unscheduled)
- 16:00 Press Conference in Rabat
- 19:00 Cocktail party hosted by Mr. and Mrs. Clausen at the Rabat Hilton
- 21:30 Dinner with Bank Staff

FRIDAY 25 APRIL

- 8:30 Departure for Geneva from Casablanca

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1/ We are proposing an audience with the King early in the schedule. This will necessitate a rescheduling of some meetings. If this happens, it is proposed that this field trip be eliminated.



ARRIVAL  
STATEMENT

## MOROCCO: ARRIVAL STATEMENT

1. I am grateful to the Government of Morocco for the invitation to visit your country. I am looking forward to meeting His Majesty King Hassan II and other leaders in the Government.
2. During our visit, my associates and I hope to acquire a deeper understanding of your development efforts and to review the many measures undertaken to stimulate the economic and social progress of the people of Morocco.
3. Since 1983, your Government has been undertaking a major restructuring of the economy, which involves a shift toward more outward looking trade policies which are stimulating exports, far-reaching reforms of price, credit, tax and regulatory policies to remove institutional and other obstacles to efficient mobilization and use of resources in key productive sectors of the economy. The reforms aim at a more rigorous establishment of priorities within the investment program, a better targetting of social programs entail substantial measures to increase its efficiency. These are significant changes, and I am interested in their overall impact and in how the World Bank can best continue to assist your development effort.
4. As you know, the World Bank has participated in financing numerous development projects as well as sector reform programs in Morocco, with total commitments of over \$2.4 billion. The most recent Bank commitment was a loan of \$150 million for a broad ranging reform of the education sector which was approved by the Board of Directors of the Bank only a month ago. The objectives of the World Bank Group in Morocco are to support the Government's investments and policy reforms aimed at enhancing the productivity of Moroccan enterprises, diversifying the economy - particularly export industries - and accelerating growth in a rapidly changing world with increased reliance on appropriate incentives. We applaud the Government's strategy, which is trying to improve income distribution, while effecting the difficult choices necessary to reduce the Government budget and balance of payments deficits and enhance the country's creditworthiness. The fundamental changes that will be induced by this strategy will build on Morocco's considerable human resource potential and promote a more lasting basis for the expansion of opportunity for all its people.
5. Morocco has embarked on a far-reaching program in order to return to a path and pace of economic growth compatible with Morocco's external payments position. We, in the World Bank, strive to assist in whatever way we can.
6. Thank you for your warm welcome.

GENERAL



KINGDOM OF MORROCO

List of Members of Government

Prime Minister	Mohamed Karim Lamrani
Vice Prime Minister and Minister of Education	Azeddine Laraki
Secretary of State	M'Hamed Bahnini
Secretary of State	Moulay Ahmed Alaoui
Permanent Secretary	Abbes Kaissi
Minister of Justice	Moulay Mustapha Belarbi Alaoui
Minister of Internal Affairs	Driss Basri
Minister of Foreign Affairs, Cooperation and Information	Adbellatif Filali
Minister of Public Health	Tayeb Bencheikh
Minister of Finance	Mohammed Berrada
Minister in charge of relations with the EEC	Azeddine Guessous
Minister of Tourism	Moussa Saadi
Minister of Fisheries and Merchant Marine	Bensalem Smili
Minister of Public Works and Vocational Training	Mohamed Kabbaj
Minister of Postal Services and Telecommunications	Mohamed Laenser
Minister of Agriculture and land Reform	Othmane Demnati
Minister of Youth and Sports	Abdellatif Semlali
Minister in charge of Economic Affairs	Moulay Zine Zahidi
Minister of the Habous and Islamic Affairs	Abdelkebir Alaoui M'Daghri
Minister in charge of the Development of the Sahara Provinces	Khalli Hanna Ould Errachid
Minister in charge of Planning	Rachidi Ghazouani
Minister of Artisanat and Social Affairs	Mohamed Labied
Minister of Transportation	Mohamed Bouamoud
Minister of Energy and Mining	Mohamed Fettah
Minister of Commerce and Industry	Tahar Masmoudi
Minister of Cultural Affairs	Mohamed Benaissa
Minister of Housing	Abderrahmane Boufettass
Minister in charge of the Relations with the Parliament	Tahar Afifi
Minister in charge of Administrative Affairs	Abderrahim Ben Abdeljalil
Minister of Labour	Hassan Abbadi

4763B  
04/09/86

# OFFICE MEMORANDUM

DATE: April 10, 1986  
TO: Mr. A. W. Clausen  
FROM: William Ryrie *WR*  
EXTENSION: 60381  
SUBJECT: Morocco - Status of IFC Operations

The following is a summary of IFC activities and a discussion of issues/topics which would serve as a brief for your upcoming visit to Morocco.

## 1. Issues or topics of discussion

(a) IFC's recent activities in Morocco have emphasized the financing of export-oriented projects in line with government priorities. Major sectors are agro-industry, non-phosphate minerals and light manufacturing.

(b) In addition, IFC is playing an important role to mobilize commercial funds for Morocco's industrial sector during a period when Morocco's access to long-term funds remains extremely difficult. IFC has concluded two syndicated loans in the last three years for a total of US\$80 million for BNDE, the local development bank, to be onlent to the private industrial sector.

(c) In coordination with IBRD, IFC is involved in the privatization efforts and reform of the public sector currently being undertaken by the government. IFC is presently considering financing a silver mine (IMITER) and is discussing measures with the government to reduce public ownership progressively over time.

(d) IFC has offered to help the government in broadening the role of the local stock exchange and the introduction of new financial instruments which would be needed to encourage greater private sector involvement in the investment process. Mr. David Gill, Director of IFC's Capital Markets Department will be shortly visiting Morocco in this context.

(e) Details of the existing IFC portfolio in Morocco are provided in the attached annex.

## 2. Project Pipeline

IMITER: A silver mining company jointly owned by O.N.A. (a private holding company) and B.R.P.M. (the Government agency responsible for mineral exploration), plans to triple the volume of its existing operations. Estimated cost of the expansion project is approximately US\$34 million. The project is at present majority Government owned. IFC is presently discussing measures

with the Government which will result in a progressive reduction of government ownership over time. IFC has been asked to provide a loan of about US\$5 million with remaining funds being provided by B.N.D.E., the local development bank and internal cash generation. The project is expected to be presented to IFC's Board in May 1986.

O.D.I., Textile Project: The Office pour le Développement Industriel, a state holding company, is considering establishing a spinning mill to be located at Setlat, for the export market. Total project cost is estimated at US\$16 million and IFC's eventual participation would be in the form of a US\$2-2.5 million loan. IFC is currently reviewing the project's feasibility study.

cc Mr David Gill

VT/sb/nr  
0118f



Annex 1

Outstanding Portfolio (as of February 28, 1986)

<u>Date of Commitment</u>	<u>Company</u>	<u>Business</u>	<u>Original Commitment</u>	<u>Investment Held by the corporation</u>
1962 1978 1983 1985	Banque Nationale pour le Développement Economique (BNDE)	Development Financing	\$80.0 mln	\$46.3 mln <sup>1/</sup>
1966	Compania Industrial del Lukus (CIL)	Agrobusiness	1.4 mln	0.4 mln (equity only)
1976	Marrakech Cement	Cement Production	1.2 mln	1.2 mln (equity only)
1977 1980	Asment de Temara	Cement Production	8.3 mln	5.6 mln <sup>2/</sup>
1980	SOMIFER	Mining	15.3 mln	8.4 mln <sup>3/</sup>
1981 1982	Casablanca Cement	Cement Production	17.8 mln	16.9 mln <sup>4/</sup>
1985	FRUMAT	Agrobusiness	<u>6.2 mln</u>	<u>6.2 mln</u>
		TOTAL	<u>\$130.2 mln</u>	<u>\$85.0 mln</u>

- 
- <sup>1/</sup> Includes equity amount of US\$1.5 million  
<sup>2/</sup> Includes equity amount of US\$3.4 million  
<sup>3/</sup> Includes equity amount of US\$2.3 million  
<sup>4/</sup> Includes equity amount of US\$2.0 million

TUESDAY  
APRIL 22

DEBT  
INT. RATES  
PRICE Reduction

UDURHANS  
10 DURHANS  
1985

ADJUSTMENTS  
Agriculture  
INDUSTRY &  
TRADE

Tuesday, April 22, 1986 - 9:30 a.m.

Meeting with Their Excellencies Zahidi, Minister of Economic Affairs  
and Ghazouani, Minister of Plan.

Meeting Objectives

Employment  
OBJECTIVE

1. Both of the above Ministries are advisory institutions attached to the Prime Minister's office. The Minister of Economic Affairs is effectively the principal co-ordinator of foreign aid programs, including Bank-financed operations in Morocco and nominally our main interlocutor (although most substantive discussions are held with the Minister of Finance on policy adjustment loans). Meeting with these two Ministers will provide an opportunity for a broad overview of the Bank's program in Morocco and of the macro-economic issues confronting the country. The importance of preparing a realistic plan with both a viable medium-term framework and carefully screened set of investment projects consonant with resources availabilities should be stressed as well.

Issues to be Raised by the Bank

Background

2. Total Bank commitments to Morocco stand at US\$2412.95 million<sup>1/</sup> net of cancellations and repayments (total of 69 loans of which 34 are currently active). IFC investments have amounted to US\$104.7 million -- \$59.9 million after cancellations, terminations, repayments and sales. Bank operations have supported investments in all major sectors in the following proportions:

Industry	35%
Agriculture	28%
Education, Health, Urban Development	20%
Energy	10%
Infrastructure and Utilities	7%

World Bank commitments have nearly doubled from an annual average of US \$260 million per annum during FY81-84 to US \$408 million in FY85 and \$433 million (expected) in FY86. During the same period, net disbursements increased from an average of US \$100 million per year to US \$212 million in FY85.

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1/ Of this amount four are policy-based loans totalling \$600 million.



*Austerity Policy.  
Reducing Subsidies  
7.790  
INFLATION RATE*

M.Z. Zahidi  
P. 2

*IMPORTANCE  
JUNE*

*Restructuring  
incls.  
Restructuring*

Issues to be Raised by the Bank

Lending Strategy

3. The Bank's lending strategy is to support the four pillars of the Government structural adjustment effort. Essentially, this has entailed quick-disbursing policy-based operations in the (i) Financial, Industrial and Trade sectors (the so-called ITPA programs - FY84 and 85); (ii) the Agricultural sector in FY85; (iii) the Education sector - FY86. In addition, a loan to rationalize Moroccan Public Enterprises has been appraised as a FY87 operation. We propose to continue supporting the Government's adjustment effort with a relatively large program averaging about US \$400 million per annum with a significant proportion of the program to be in policy-based operations. You should stress, however, that a lending program of this structure is critically dependent on strict adherence to both stabilization and adjustment programs. (A five-year lending program is attached). We believe the program to provide good balance between support to policy adjustment in critical sectors and to financing economically high priority investments. Our strategy has been to build structural adjustment out of sector adjustment operations. This has been successful to date, but it is now appropriate to consolidate our approach to lending through exploring the possibility of introducing Structural Adjustment Loans (SALs) into the lending program. Our aim is to address some of the more critical remaining macro-economic issues, such as reforms of fiscal policy and an enhanced effort to rationalize investment planning and budgeting. The idea of introducing a SAL was recently broached with the former Finance Minister (Mr. Jouahri) who agreed to consider the proposal. This meeting should provide a good opportunity to pursue the question of a SAL and its possible components.

*M*

Issue to be Raised by the Government

Lending Volume and Composition

4. The Ministers are likely to ask for an increase in Bank lending and for more quick-disbursing operations.

5. Proposed Response: The Bank's support of the Government's adjustment programs has been marked not only by rapidly rising commitment levels, but also by an equally significant shift from "traditional" project lending to quick-disbursing policy-based operations as follows:

<u>Fiscal Year</u>	<u>% of lending in form of quick-disbursing operations</u>
FY 83	0
FY 84	57
FY 85	74
FY 86	60
FY 87	55

*4.22.86  
SAL?  
SECTORS?  
STICK TO IT!  
DONOR MEETING  
JUNE  
DEVELOPMENT  
STRATEGY  
3-5 YRS.*

*SAVINGS  
IMPROVEMENT  
- PUBLIC  
SAVINGS*

*EMPHASIZE  
SOCIAL  
SECTOR*

It is, moreover, as high as can be sustained, given the rapidly rising Bank exposure that results from this level and composition of transfers. Should the Ministers press us for an increase in the level of lending, you should respond by saying that we believe the lending program already to be fully responsive to Morocco's own economic strategy and is as much as can prudently be committed given the levels of exposure it implies.

6. The Bank's share of debt outstanding and disbursed was 10% in 1985. On the basis of our current lending program, it will rise to 16% by 1990, and to 20% by 1995, until creditworthiness for voluntary commercial lending is restored. Our share of Morocco's debt service is currently about 20%; it would rise above these levels until new commercial lending is resumed. The Bank therefore is doing all that it prudently can to support Morocco's adjustment strategy. In light of the constraints to increased World Bank lending, Morocco is going to have to make increased efforts to attract commercial lending to finance its investment programs. You should stress to the Ministers the need for the Government to create conditions conducive to additional commercial flows. The willingness of commercial lending institutions to provide new financing will be critically dependent on a strong public commitment to co-ordinated stabilization and adjustment programs.

#### Issue to be Raised by the Bank

##### The Next Plan

7. The last five-year Plan ended in 1985. The economic crisis which has persisted throughout the plan period prevented many of its targets from being achieved. In 1986 the Government concentrated on clearing the backlog of unfounded projects prior to initiating a new Plan. We understand a draft Plan to be under preparation, though we have not heard whether it would cover a three or five-year period, nor how the Government intends to set priorities within it. We suggest you ask the Minister of Plan what the current schedule is for the preparation of a plan and for an indication of what its approach might be. We suggest you stress the need for realism in the assumptions of resource availability which will underlie the Plan. It will be important not to raise expectations about what the economy (and, in particular, the public sector) can achieve during the stabilization and adjustment period. However, it is vitally important for the Government to have and circulate to the international financial community a coherent medium-term framework for its recovery program.

AGRI  
INDUSTRY & TRADE  
EDUCATION



World Bank Lending Program, Morocco

M.Z. Zahidi  
p. 4

USAID

240  
-120  
120  
IBRD EST

FY86

ITPA II  
CNCA VI (Agricultural Credit)  
Large Scale Irrigation Rehabilitation  
Education Sector Loan  
Telecommunications  
Casablanca Port Rehabilitation  
TOTAL<sup>2/</sup>

Million US\$

200 1/  
120  
46  
150  
90  
27  
633

FY87

Water Supply IV  
Agricultural Sector Loan II  
Public Enterprise Rationalization Loan  
Export Development Finance  
Power Sector I  
National Sewerage Project\*  
CIH/Housing & Finance\*  
Agricultural Extension and Research\*  
Urban Upgrading\*  
TOTAL

56  
100  
200  
50  
50  
55  
100  
50  
70  
456

FY88

Small and Medium Irrigation  
Agricultural Extension-Research  
Education Sector Loan II  
CIH/Housing Finance  
Sewerage Sector  
Urban Upgrading  
TOTAL

60  
50  
150  
100  
55  
70  
485

FY89

Public Enterprise Rationalization II  
Transport Sector\*  
Industrial Sector\*  
CNCA VII\*  
Power Sector Loan II  
Forestry II\*  
Health Sector II\*  
Agricultural Sector III\*  
Urban Sector\*  
TOTAL

200  
75  
110  
100  
75  
74  
50  
100  
40  
560

FY90

Health Sector II  
Forestry II  
Water Supply V  
Agricultural Sector  
Urban Sector  
Telecommunications II\*  
Irrigation Rehabilitation\*  
PERL III\*  
Water Sector II\*  
TOTAL

50  
74  
60  
100  
40  
90  
100  
150  
50  
324

\* Standby

1/ Approved in FY86 but allocated for FY85.  
2/ Excludes standbys.



BIOGRAPHY

Moulay Zine ZAHIDI  
Minister at Large, in  
Charge of Economic Affairs

Born: in 1935 in Marakech, Morocco

Education:

- Baccalaureat (Math)
- High School in Toulouse, France (1957,58)
- Ecole Nationale Superieure des Industries Agricoles et Alimentaires (1959)

Diploma:

- Engineer (1962)
- Research Engineer, COSUMAR, then Head of Personnel Department, COSUMAR
- Director-General Sucrierie des Doukkala (1969-73)
- Directorate Generale COSUMAR (1973)
- Delegate member of the Board "Sucrierie de Zemamra" (1977)
- Director General, COSUMAR (since 1982)
- Minister of Labor and National Promotion (1983)
- Member, Federation Arabe du Sucre

Languages: - Arabic, French

BIOGRAPHY

Rachidi GHAZOUANI  
Minister in charge of Plan

Born : on August 7, 1945 at Khourigba, Morocco

- Career :
- Head of a productive unit of the OCP at Khourigba (1963-1964).
  - Professor of mathematics at the Center of Vocational Training of the OCP, at Khourigba (1964-1965).
  - Chief of the Statistics and Surveys Department in a large company in Casablanca (1969).
  - Head of cabinet of the Minister of Labour, Social Affairs, and Sports (1972-1974).
  - Representative of Morocco on the Board of Directors of the BIT
  - Head of cabinet of the high-commissioner of National Development (1974-1975).
  - Government official appointed to the Minister of Interior (1975-1979)
  - Government official appointed to the Prime Minister
  - Head of Local Authorities of the Ministry of Interior (1978)
  - Member of the Board of Directors of the "Fédération mondiale des villes jumelées-cités unies"
  - Director of the "Institution Arabe de l'Emploi" and Director ad interim of the "commission de travail des mines", institutions belonging to the Arab Labour Organization (1983-).
  - Mr. Rachidi has also participated in several national and international congresses on several administrative and technical topics.
  - Professor at the Hassan II University in Casablanca.
  - Under Secretary of State for the Interior, in charge of National Development

Languages: Arabic, French

4593Bcvp.16  
04.01.86

Minister in charge of Plan

BIOGRAPHY

on August 7, 1948 at Khourigga Morocco

Head of a productive unit of the OCP at Khourigga (1963-1964).

Professor of mathematics at the Center of Vocational Training of the OCP at Khourigga (1964-1965).

Chief of the Statistics and Surveys Department in a large company in Morocco (1969).

Head of cabinet of the Minister of Labour, Social Affairs and Sports (1974).

Representative of Morocco on the Board of Directors of the IIT Head of cabinet of the high-commissioner of National Development (1974-1975).

Government official appointed to the Ministry of Interior (1975-1979).

Head of local Authorities of the Ministry of Interior (1979).

Member of the Board of Directors of the "Fédération mondiale des villes jumelées-cités unies".

Director of the "Institution Arabe de l'Emploi" and President of the "Commission de Travail des Mines".

Activities belonging to the Arab Labour Organization (1983-).

Mr. Kachit has also participated in several national and international congresses on several administrative and political fields.

Professor at the Hassan II University in Casablanca.

Under Secretary of State for the Interior, in charge of National Development

*Handwritten notes:*  
~~Minister~~  
 in cabinet

*Handwritten notes:*  
 Interest in  
 to go to

*Handwritten notes:*  
 relied on labor  
 into money  
 high.

4593809.10  
 04.01.88

Arabic, French



Tuesday, April 22, 1986, 4:00 p.m.

Meeting with the Prime Minister and several key ministers closely associated with Bank operations viz

The Minister of Public Health: Tayeb Bencheikh

The Minister of Agriculture and Agricultural Reform: Othmane Demnati

The Minister of Education: Azeddine Laraki

The Minister of Equipment, Professional and Vocational Training:  
Mohamed Kabbaj

The Minister of Energy and Mines: Mohammed Fettah

### Meeting Objectives

1. During this meeting it will be important to communicate both encouragement and concern to the ministers regarding the policies which have been taken to achieve stabilization and adjustment objectives. This group of Ministers is less familiar with our dialogue on macro-economic issues than those you will have met separately, so that we should re-iterate that sustained commitment to the economic strategy already launched will be required until at least the end of the decade if the strategy is to succeed. Each of the Ministers will introduce the major activities in and issues facing the sectors in his portfolio. We shall need to respond by emphasizing the relationship each sector means to the overall adjustment effort. What follows are briefings on the areas of responsibility of these five. Where relevant, we have provided information on the Bank's activities in the sector, the issues facing the sector at this time and the approach we recommend you take in discussing them.

### EDUCATION

2. The Bank has provided seven loans in the education sector since 1965, totalling \$346.5 million. Three of these loans are current. The loans have supported all levels of the education system. In March 1986, the Bank approved a US\$150 million loan to support reform of Morocco's entire education system. The objectives of the reform program are 1) to expand access of primary and secondary age children to basic education; 2) improve the overall efficiency of Morocco's education system and 3) to constrain the growth of higher education costs.

3. Dr. Laraki, the Minister (and newly-appointed vice-Prime Minister), is to be complimented on the timeliness of this reform effort. He has had a high personal stake in promoting the reform which appropriately addresses the issues of equity of education through the expansion of basic education facilities in rural areas where illiteracy rates are high. It also recognizes that Morocco's current economic condition requires restraint in public spending for education. Dr. Laraki met with you in Washington in late November and presented you with the Government's statement of Education policy.

EQUIPMENT, PROFESSIONAL AND VOCATIONAL TRAINING

4. The Minister's portfolio covers a number of sectors, including building civil works for the Government, and vocational training.

5. Mr. Kabbaj, the Minister, has a position of considerable influence among the other ministers because his Ministry handles construction activities for the entire public sector. Mr. Kabbaj is widely respected for his individual skills, knowledge and capabilities. He and his ministry have a reputation for competence and hard work which is exceptional within the Government. Because of this, he is often asked to take on additional responsibilities. The responsibility for vocational training was recently transferred to his Ministry from the Ministry of Plan in order to give it greater dynamism. Similarly, Mr. Kabbaj was placed in charge of a Special Committee in 1984 to address Public Enterprise issues, and in particular to devise solutions to the public enterprises arrears. He is particularly concerned with PERL and may raise questions about it (see attachment to Core Brief).

*4/20  
H. J. J.  
PERL*

ENERGY AND MINING

6. The Bank's portfolio in energy and mining includes 5 loans totalling \$181.7 million.

7. The mining of phosphates has dominated Morocco's export market in recent years, but phosphate prices have not been favorable to alleviating the country's current account deficit. Most of the coal mined in Morocco is used domestically. Domestic coal accounts for 8% of the energy used in Morocco and is supplemented by imports.

8. The pressing need in these sectors now is coherent energy planning for the country. Morocco is highly dependent on petroleum products for energy, particularly on imported oil, and therefore is very vulnerable to the vagaries of the oil market. In the early 1980s the Bank supported Morocco's program for petroleum exploration through its national oil company; ONAREP's efforts to develop national oil and gas reserves have not been particularly successful despite substantial efforts. ONAREP has been much more successful in attracting exploration interest of international oil companies. Wood fuel from the Moroccan forests is also a popular source of energy and the country faces some serious deforestation problems as a result.

9. The Bank is beginning to work with the Government to try to identify more cost-efficient uses of different fuels and the economic feasibility of developing new energy sources among renewables (e.g. solar, wind, biomass). Mr. Fettah, the Minister, should be encouraged to continue this dialogue with the Bank on energy planning and the evolution of appropriate energy pricing so as to reduce the import bill and promote self-sustaining enterprises for production and distribution.



AGRICULTURE AND AGRICULTURAL REFORM

10. The Bank has financed 20 projects in irrigation, agricultural credit, rural development and vegetable production. At present agriculture is also one of the key areas of our economic dialogue and lending to the country to promote policy reform. An agricultural sector adjustment loan for \$100 million was approved in June 1985 and a second phase is being prepared for FY87. The thrust of the reforms is to a) restructure public investment program in agriculture towards quick maturing and high return investments, b) correct the prices and incentives framework to encourage sound shifts in agricultural activities, c) limit and rationalize support services provided by Government, and d) build up institutional capacity for agricultural policy planning and analysis. To a large extent, the relatively successful results of our policy dialogue and lending in this sector are due to the good understanding of the issues by and full support of the reform program from Mr. Demmati, the Minister of Agriculture and Agricultural Reform. The Minister should therefore be complimented for his contribution to that effort.

11. Although there is a wide measure of agreement between the Bank and the Minister of Agriculture as to the direction of the policy shifts required, there are some specific topics where we may face some difficulties in the actual implementation process. Areas of possible conflict are: pace of the reduction of subsidies on flour, oil and sugar consumption; procurement procedures for imported fertilizers; and elimination of compulsory cropping patterns on irrigated land.

12. Regarding consumer subsidies on bread, oil and sugar, the Bank has prepared specific recommendations to eliminate such subsidies in the span of 5 years, coupled with compensatory measures to protect the most disadvantaged layers of affected population. We plan to discuss our recommendations with Government and they should be adopted by the Government shortly thereafter. This issue, given its magnitude, surpasses sectoral interest and has an important bearing on the Government's overall finances and, therefore, on relations with the IMF. Use of negotiated contracts rather than ICB for fertilizers import was an issue during negotiations of the first sector loan. During the preparation and negotiation of the second one, we hope we will be able to persuade Government that ICB is to their benefit in the long term even if apparent short-term advantages (in terms of placing phosphates in the world market) seem possible from negotiated contracts for fertilizer imports. So far the Government has agreed to review its policy of setting cropping patterns in irrigated areas, but it is still reluctant to let the farmers choose their crops, although this would be in line with the spirit of the overall policy change.



PUBLIC HEALTH

13. Bank involvement in the health sector began in the early 1980's with sector work which laid the basis for the Bank's approval in 1985 of the first \$28.4 million loan for a Health Development Project. The basic aim of the project, and our involvement in the sector, is to initiate a shift from an urban-based, hospital-oriented health system to a more cost-effective system of primary care, including family planning. The project is limited to three provinces of the Kingdom. Should it prove successful, it could be replicated in other provinces. Mr. Bencheikh, the Minister of Public Health, was formerly Minister of Economic Affairs and has been a strong supporter of the Bank. His appointment as Health Minister is considered a very positive step to improving management and project execution in what has hitherto been a rather inefficient ministry. The importance of expanding the Health Program should be underscored. It is not only an example of the type of investment that will benefit the less advantaged groups within the society and hence mitigate the social costs of adjustment. It also demonstrates that with the appropriate political will, cost-effective programs can be delivered within a resource-constrained situation; by lowering unit costs, such programs contribute to stabilization efforts. You should also emphasize the importance of such programs in contributing to a reduction in fertility and population growth.

BIOGRAPHY

Tayeb BENCHEIKH  
Minister of Public Health

- Born: 1938, Zoumi, Morocco
- Education: - Diplomas in Economics, Politics & Statistics, France
- Career:
- Government official in charge of statistics & responsible for population census and housing
  - Director of Social & Economic Development Plan (1971)
  - President of the Association of African Statistics
  - Secretary of State for Planning and Regional Development (1974-81)
  - Minister of Economic Affairs (1982)
  - Independent Deputy of Parliament
  - President of Council of Meknes Province
- Languages: - Arabic, French

BIOGRAPHY

Othmane DEMNATI  
Minister of Agriculture and Agrarian Reform

Born: In 1936, Taroudant, Morocco

Education: - High school (Math) in France  
- Degree in Engineering & Metallurgy from the Technical University of Aix La Chapelle (West Germany)

Career: - Member of the Cabinet, Ministry of Industry & Mines (1966-68)  
- Technical Director, National Sugar Company of the Gharb (SUNAG) (1969-70)  
- Representative in the House of Representative (1970-72)  
- Minister of Agricultural and Agrarian Reform (since November 1981)

## BIOGRAPHY

Azzedine LARAKI  
Vice Premier Ministre  
and Minister of Education

Born: 1929, Fez, Morocco

Education: - Medical School in Paris, France (Doctor in 1957)

Career: - Internship in Morocco hospitals  
- Assistant medical officer of the Oujda Province  
- Principal private secretary to the Minister of Education (1958)  
- Principal private secretary to the Minister of Health (1959)  
- Head of the Avicennes Hospital & Head of the Pneumology Department (1960)  
- Professor, Faculty of Medicine (1967)  
- Obtains his tenure (1972)  
- Member of several national and international scientific societies  
- Author of several literary and scientific publications  
- Member of the Moroccan Writers Association  
- Member of the Istiqlal Party (since 1942)  
- Member of the National Council, then member of its Executive Committee in 1960  
- Appointed Minister of Education and Vocational Training in the Ahmed Osman Government (1977)  
- Appointed Minister of Education (1981)  
- Vice President of the 4th session of the UNESCO Conference in Paris (1982)  
- Appointed Minister of National Education (1983)  
- Elected Vice-President of the 23rd UNESCO Conference  
- Appointed Deputy Prime Minister in March 1986



BIOGRAPHY

Mohamed KABBAJ  
Minister of Equipment

Born: in 1946.

Education:

- Ecole Polytechnique of Paris (France) (1967)
- Ecole Nationale des Ponts et Chaussees in Paris (France) (1969)
- Degree in Econometrics from the University of Paris (1969).

Career:

- Head of the Tetouan Public Works district (1969-1972)
- Chief Engineer of the North Sector, Public Works and Telecommunications Ministry.
- Attache to the Royal Cabinet (1980)
- Appointed Minister of Equipment (November 1981 -)

BORN: in 1940 at Beni-Mellat, Morocco

EDUCATION: Primary schooling & high school in Casablanca (Math Baccalaurate in 1959)

- Math studies from 1959-1962
- Ecole Nationale Supérieure des Mines de St. Etienne, France (1962-1965), Degree in Mining Engineering

CAREER: - Office Cherifien des Phosphates (1965-1975) where he was successively Engineer, Division Chief of Underground Mines, and Director of Developpement (1975)

- Also participated in several mining and industrial projects





Tuesday, April 22, 1986

Luncheon and Subsequent Meeting with H.E. Karim Lamrani  
Prime Minister and Dr. Laraki, Vice Prime Minister

### Meeting Objectives

1. The meeting with the Prime Minister is intended to serve as the means both to congratulate the Government on its stabilization and adjustment efforts to date and to emphasize that additional reforms are needed if we are to continue the adjustment program to a successful completion. The Prime Minister is also the chief executive officer of the National Phosphate Company (OCP) Morocco's largest Public Enterprise and the country's principal exporter.

### Issues to be raised by the Bank

#### The External Environment

2. Although 1985 has seen some improvement in a number of key indicators, the imbalances in the external accounts remains unsustainably high. The current account deficit of 7.7% of GDP, while lower than the 11.8% recorded in 1984 has exceeded the IMF target of 7.1%. Export growth is up marginally from 1984 reflecting a substantial increase (20% in dollar terms) of non-traditional exports, but export performance overall has been hurt by the depressed market for phosphates.

3. Morocco will certainly benefit from lower international interest rates and lower oil prices. The reduction of the import bill for 1986 is estimated at about \$300 million. However, the prospects for prices of phosphate are not good. During the phosphate boom of the mid 1970s, phosphate rock prices were around \$65-70 per ton. They are about \$34 per ton at present (which, in real terms, is about one quarter of their levels in the mid 1970s) and are unlikely to rise much above \$40 per ton by 1990. This poor prospect could largely offset the gains obtained from lower oil prices. Therefore Morocco can probably count on a fairly unfavorable external environment in the medium-term. This reinforces the necessity of vigorous policies for domestic stabilization linked to coherent adjustment programs in all major sectors.

#### Stabilization

4. Laying the basis for long-term growth depends on a tight control of fiscal and monetary policy. Judicious management of the exchange rate also has a major impact on the success of the trade liberalization and export promotion process supported by the ITPA programs. Interim measures may be taken to achieve stabilization objectives while waiting for lasting structural reforms to take effect. But it is important to evaluate the merits of specific measures within the context of a medium-term framework, in order to ensure that stabilization and structural adjustment are mutually supporting

rather than working at cross purposes. The urgency of moving forward with a medium-term plan of fiscal reform is underscored by the decision to postpone the reduction of the special import tax (SIT) to 5%. Since a minimum increase in public investment expenditure is needed to maintain the momentum of economic growth, public savings must increase sharply. For a budget equilibrium to be reached by the end of the decade, the fiscal pressure should increase in Morocco by about one percentage point a year from 22% of GDP to over 25%. This could be done by increasing the efficiency of the tax recovery system, eliminating exemptions, increasing tax rates. Current government expenditure should remain stable in real terms. To this end, the wage bill will have to be monitored very closely, in particular employment growth and civil service salaries, since wages and salaries constitute about half of the recurrent budget.

### Structural Adjustment

5. The anti-export bias inherent in the structure of incentives must be removed. Moreover, the private sector will need to be the primary element of an export-led recovery. For this purpose the private sector must have enough room to operate and receive sufficient incentives to accomplish the structural changes towards higher productivity and competitiveness. This implies (i) pursuing trade liberalization and compensated tariff reduction (ii) ensuring an appropriate incentive structure and pricing policies which raise resources for investment and regulate demand (iii) stimulating investments in export capacity within the private sector (iv) ensuring sufficient flexibility in the financial system to provide the necessary amounts and the proper allocation of funds to finance private sector growth. For the private sector to play its part in Morocco's economic recovery, the Government's role in production will need to decrease and it will have to reduce its demand on private savings. Following the example set in the Agricultural Sector reform, the Government's role in manufacturing and the provision of services should center only on those activities which the private sector cannot provide. For public enterprises which cannot be privatized, a sound environment needs to be created to promote autonomy and efficiency through expeditious implementation of public enterprise reform.

6. It will be important for you to emphasize that only through persistent adherence to mutually reinforcing stabilization and adjustment programs can structural economic change take place. The commendable programs to reform the Education and Public Health sectors must be sustained and deepened to promote the human resources development that is vital for a rapidly changing society and economy.

7. You should say to the Prime Minister that we recognize these elements all to be contained in ongoing Government programs. What is required now is a sustained adherence to each program.



## BIOGRAPHY

Karim LAMRANI  
Prime Minister

- Born:** May 1, 1919 in Fez, Morocco
- Education:** - Primary and Secondary education at College Moulay Driss in Fez
- Career:**
- Secretary General - Olive Oil Producers Association
  - Charge de Mission at the Ministry of Economy then Seconded to Office Cherifien des Phosphates (1956)
  - Secretary General of Office Cherifien des Phosphates (1957)
  - Administrator of Compagnie Africaine des Banques, Charbonnages du Maroc, Royal Air Maroc, Banque Marocaine de Commerce Exterieur and Union Marocaine de Banques (1960)
  - Vice President of Casablanca Chamber of Commerce, then President of the Casablanca Chamber of Commerce (1961-1967)
  - Director of Office Cherifien des Phosphates (1967)
  - Appointed Acting Director General for Bureau de Recherches et de Participations Minieres (1971)
  - Minister of Finance (April 1971)
  - Prime Minister in charge of Economic Affairs (August 1971)
  - Director General of O.C.P. (1972)
  - President of World Institute of Phosphate (1973)
  - Appointed Prime Minister November 1983)



## MOROCCO: SUMMARY PAPER AND CORE BRIEF

### Theme of Visit

1. Morocco's adjustment efforts, which began in the early 1980's, have met with uneven success. In consequence, austerity measures will have to be continued in some form or other at least until the end of the decade.
2. Part of the disappointing economic performance is attributable to exogenous factors such as adverse movements in the terms of trade and a debilitating 4-year drought from 1981-1985. However, it is also true that the Government has not always pursued its programs with the vigor and determination necessary. This is particularly true of its obligations under successive IMF arrangements. This is contributing to the fact that the Moroccans still do not have an agreed IMF program for 1986, although a Standby from September 1985 through February 1987 is still nominally in force.
3. In this situation, your visit should provide a good opportunity both to commend the government for its efforts to date, but also to point out that further difficult decisions still need to be taken in the near term to allow the economy to generate the results required to restore growth, repay debt and re-establish commercial creditworthiness.

### The Baker Initiative

4. A recurring theme of the visit will be the potential support that could be mobilized from the international financial community under the rubric of the "Baker Initiative" for help to finance Morocco's economic recovery. The conditions for success of such an initiative are a sustained effort by the Government to pursue both its stabilization and adjustment programs combined with a consensus among official donors, multilateral institutions and commercial banks, on how the large debt burden is to be shared. As of now, no such consensus exists, partly because of the disappointing recent performance of the economy, but partly also because of a prevailing scepticism as to whether the Government will take the necessary actions to ensure the success of its programs. This will require difficult political decisions and choices. Prices of goods and services still subject to control will need to rise. Subsidy payments will need to be re-structured so that only those really in need will receive them. Domestic credit will need to be controlled and use of foreign capital flows severely limited until Morocco's debt service ratio can be brought to manageable levels. Continued active exchange rate policy will have to be pursued. This all means that consumption and investment cannot be expected to grow by much in the near term.
5. The international financial community is likely to be cautious in its stance vis-a-vis Morocco. A clear and sustained will to implement the requisite policies has to be demonstrated before the commercial banks would commit new money in a very difficult environment.



6. A paper outlining a medium-term framework for adjustment which is intended to form the basis for discussions with Morocco's creditors has been prepared by the Bank (see Section III (i)). It has been discussed by the OPSC and approved for distribution to the IMF. Some issues remain to be resolved with the IMF, principally the precise time-frame for achieving fiscal and balance of payments equilibrium (the IMF believes it can be achieved by the late 1980s, while we think a few more years would be required if growth prospects during the stabilization period are not to be impaired). Your visit will serve to emphasize the policies and actions needed by the Government to enhance the confidence in Morocco's program of structural adjustment.

### Background

7. Morocco became independent from France in 1956. The economy was and remains highly dependent on a small number of primary exports: phosphates and derivatives account for over half of exports, and agricultural products one quarter. Industrial strategy was initially inward-looking, and favored import substitution over exports. This has led to high levels of protection and low levels of efficiency. The public sector grew rapidly after independence to provide an increasing array of services and employment opportunities. The Government followed conservative policies in the 1960s and early 1970s, did not borrow extensively abroad, and attempted to build a diversified economic base. Growth was relatively slow at about 4% p.a. Subsequently the Government has borrowed a great deal abroad to finance a very ambitious but not very productive investment program in the late 1970s and early 1980s. As a result the economy has become highly indebted and has been forced to seek debt relief since 1983. In recent years, the Government has also reinforced stabilization and adjustment programs with the IMF and the World Bank. Although GDP growth in 1985 was encouraging (4.2%) - principally as a result of a good harvest - overall GDP growth since the early 1980s has been less than 3% p.a., implying stagnation in per capita income over the period. Current Government expenditures constitute over 20% of GDP. The Government total budget deficit amounts to about 8% of GDP and the current account deficit is 7.8% of GDP. Total external debt is now greater than GDP, and three times export earnings. Population growth is rapid at 2.5% p.a., female employment is low, and while the labor force is only 26% of the total population, employment and under-employment are severe problems.

### Economic Developments

8. The oil price increase of 1973 was offset by a substantial increase in the price of phosphates for a short period, until 1976. During this period, the Government launched an ambitious public investment program which could not be sustained without foreign borrowing and grants after phosphate prices fell. Morocco's efforts to enforce its claim to the former Spanish Sahara since 1975 have added significantly to Government expenditures in defence of that territory. Oil price increases in 1979-80 burdened the economy further. More foreign debt was acquired to support the Government's investment program. An already difficult economic situation was aggravated by severe droughts in the years 1980-84.



### Current Stabilization and Adjustment Programs

9. In recognition of the difficulties facing the economy, an overall program of economic stabilization was agreed between Morocco and the IMF in 1983, followed in 1984 by the Government's initiation of a program of sector policy adjustments with the Bank. The objectives of the stabilization program were to eliminate the Government's current budget deficit in 1985 and the current account deficit by 1988, thereby improving the economy's creditworthiness. The additional objectives of the adjustment program have been to increase the economy's productivity and efficiency, and to increase its export potential. Alleviating these deficits requires that stiff measures be taken to mobilize government revenues (by, for example, increasing rates on the value-added tax and improved revenue collection of existing taxes, reduction of tax exonerations, and increased public enterprises tariffs) and to decrease government expenditures through reducing consumer subsidies, rationalization of budgetary expenditures, and limiting the growth of civil service and public sector salaries. In order to improve productivity in the industrial sector and increase production, which are essential to Morocco's economic recovery, adjustment measures to be taken include liberalizing trade policies, and promoting exports through lifting export controls and continuing a flexible exchange rate regime.

10. Despite the Government's commitment to comprehensive economic reform, particularly at the sectoral level, progress has been mixed overall. The most important disappointment remains that the Government has not been able to generate the public savings needed to eliminate the budget deficit. The budget deficit (on a commitment basis) has remained high, at 7.4% of GDP in 1985. While this is down from levels of 12-13% of GDP earlier in the 1980s, much remains to be done. Despite efforts to meet the IMF program, arrears from the Government to public and private enterprises continue to accumulate, and public saving has deteriorated to -0.7% of GDP in 1985 rather than improving. The current account deficit is also not decreasing as much as planned, due primarily to the Government's failure to control domestic expenditures and public investment programs. It was at 7.7% of GDP in 1985. While imports have decreased and non-phosphate exports have increased (see below), unfavorable phosphate prices have retarded the decrease in the current account deficit.

11. On the positive side, exports have been increasing, particularly non-phosphate manufactured exports, which accelerated from 7.8% p.a. in 1977-80 to 10.8% p.a. in 1984-85 (in real terms), and receipts from tourism have increased sharply inter-alia, as a result of appropriate exchange rate management. Total export growth is projected at 6.8% per annum for the remainder of the decade.

12. The preliminary IMF program for 1986 aims to reduce the current account deficit to 4 percent of GDP. Falling petroleum prices, increased domestic cereal production, and continued budgetary restraint are the major assumptions underlying this target. Policy measures include a freeze on



public wages in real terms, a rationalization of public investment expenditure to reflect realistic levels of available financing, and the expeditious elimination of past payment arrears. The Government intends to maintain domestic energy prices and capture the gain from falling import prices for the Government budget. As a result of these measures the overall Treasury deficit is projected to decline to 46% of GDP. Within the overall constraints imposed by the need for fiscal restraint, care will need to be taken to protect investments and imports at levels which do not jeopardize economic growth prospects.

13. Given that the Moroccans are not in compliance with the IMF program, delays have been experienced in the release of the December and March quarterly tranches. The present IMF stand-by is scheduled to expire in February 1987; however, the current delays might lead to an extension of the closing date. We believe the Fund involvement will continue to be necessary in the future insofar as the public finance problems are likely to persist. In order to avoid a prolonged crisis-dominated stabilization of the economy, however, the rate of adjustment must be determined in the context of a feasible medium-term framework.

14. Over the next several years, Morocco's economic policy focus will have to be on restoring sustainable growth while reducing debt to a manageable level, and improving economic efficiency. Although the Government has argued that it needs considerably more time to meet its stabilization/adjustment objectives, the Bank, the IMF and other international lenders will expect to see the Government continue to take strict measures to discipline the country's internal and external budgetary situation before they extend more financial support.

15. In other words, both the Government's stabilization and its adjustment programs will need to be deepened through the translation of policy prescriptions into detailed action programs if Morocco's recovery effort is to be supported by the international community. An outline of the measures needed in macro-economic management and in each sector follows.

#### Macro-economic Issues

16. Sound macro-economic management will be a critical factor conditioning the success of the adjustment program. The imbalances in public finance must be rapidly eliminated if the Government is to generate positive savings to finance priority investments and reduce the demand for external resources. Most of the adjustment in the recent past has fallen on central government investment which has declined from 14% of GDP in 1982 to 5% in 1985, a critically low level, and on the private sector through accumulated arrears and through severe restrictions on available credit after public demand has been satisfied. The Government should aim at increasing fiscal pressure to 25% of GDP by increasing indirect tax rates (e.g. the VAT), limiting across-the-board exemptions granted by the investment codes, and maintaining the PSN (national participatory tax). Current expenditures should

public wages in real terms, a rationalization of public investment expenditures to reflect realistic levels of available financing, and the excess costs elimination of past government projects. The Government has also maintained domestic energy prices and against the rise from falling labor prices for the government budget. As a result of these measures the overall primary deficit is projected to decline to 4.5% of GDP. While the overall current account surplus by the end of fiscal year 1987, care will need to be taken to ensure investments and imports at levels which do not jeopardize a dynamic growth program.

13. Given that the Moroccan are not in compliance with the IMF program, delays have been experienced in the review of the program and the quarterly tranches. The present IMF program is scheduled to expire in February 1987; however, the current delay in the review of the program is closing date. We believe the IMF investment program should be reviewed in the future in order to meet the public finance problems and to ensure in order to avoid a prolonged period of stagnation and to ensure that the rate of adjustment is consistent with the medium-term framework.

14. Over the next several years Morocco's economic performance will have to be on a restoring sustainable growth while reducing debt to a sustainable level, and improving economic efficiency. Although the government has stated that it needs considerably more time to meet the adjustment objectives, the IMF and other international lenders will expect the government to continue to take active measures to deal with the country's internal and external budgetary situation before they extend more financial support.

15. In other words, both the Government's stabilization and the adjustment programs will need to be designed through the transition of policy prescriptions into overall action programs if Morocco's recovery effort is to be supported by the international community. An outline of the steps needed in macro-economic management and in each sector follows:

Macro-economic issues

16. Sound macro-economic management will be a critical factor conditioning the success of the adjustment program. The main areas in which finance must be rapidly eliminated is the government as in general, savings to finance public investments and reduce the demand for external resources. Most of the adjustment in the recent past has failed to reduce government investment which has declined from 15% of GDP in 1982 to 10% in 1985. A decisionally level, and on the public sector through mobilization of funds through various measures in various areas. The demand has been satisfied. The Government should be at improving the balance of payments through the export of goods and services, and the government budget, and maintaining the 15% external autonomy level. A current account surplus is a...

*How handle the averages?*



be constrained to about 20-22% of GDP by reducing the wage bill through attrition, eliminating consumer subsidies by 1990 with compensatory measures for the poor, and limiting expenditures on materials.

17. It should be emphasized that most of the additional national savings effort should come from the public sector, so as to ensure that private savings are channeled to productive private sector investment. If fiscal deficits persist despite a narrowing of the current account deficit, private savings will necessarily be diverted to finance the budget deficit either through an inflation tax or "crowding-out". This would slacken the expansion of the industrial and export sectors and compromise future prospects for growth.

18. The allocation of scarce budgetary resources to the most productive uses through careful project selection will be essential in order to achieve a minimum acceptable level of growth over the next few years. Priority should be given to those projects which have high economic rates of return, short gestation periods, and alleviate binding supply constraints, particularly in the export and efficient import-substituting sectors. Large infrastructure projects with high import content should be deemphasized in favor of maintaining and/or expanding existing investments where necessary. Budgetary contributions to public enterprise investment should be rationalized so as to eliminate all operating subsidies and limit all transfers to justified infusions of equity.

19. Public sector management and administrative efficiency should be upgraded in order to ensure the expeditious implementation of macro-economic reforms. Streamlining the programming process will enable a minimum level of core investment to be maintained in the event of sudden fluctuations in available budgetary resources. Strengthening economic and financial analysis of public investment projects, including those of public enterprises, is critical in order to ensure a sectoral project mix consonant with overall macroeconomic objectives and to improve the allocation of productive resources. Institutional reforms in planning, programming and budgeting, moreover, will go a long way towards preventing the buildup of payment arrears in the future.

20. At present, the Government's involvement in the overall economy exceeds its institutional capacity to manage these activities in a responsible manner. The Government's intention to attenuate its role in such areas as public enterprise management, marketing of fresh produce (OCE), and agricultural procurement is to be encouraged. This will enable Government to concentrate its efforts on activities which are more clearly within the public sector domain.

21. The exchange rate remains a powerful tool of macro-economic management and trade policy reform. Proper management of this instrument can help to contain domestic demand during the dismantling of quantitative restrictions and the lowering of customs duties, and thereby allow trade



liberalization to proceed while reducing the risk of balance of payments difficulties. At the same time, an aggressive exchange rate policy can provide the necessary incentives for domestic producers to direct output for profitable sale on international markets, thereby earning needed foreign exchange to service external debt. The progressive depreciation of the dirham has had an important impact in fostering growth of manufactured exports other than phosphates and phosphate derivatives and tourism (18.6% and 17.5% respectively in 1985), as well as providing some protection to import-competing domestic industries (imports of goods and non-factor services have fallen by 3.3% p.a. since 1982). The King and many Moroccan officials apparently believe that devaluation is a sign of failure rather than simply another policy instrument. It may be worth noting that in order to combat the widening trade deficit brought on by an overvalued dollar, the U.S. is now pursuing an active devaluation policy. Far from being dishonorable, a flexible exchange rate policy can promote the growth of national output in times of depressed domestic demand.

### Sectoral Adjustment Issues

22. Finance, Trade and Industry: To deepen the reforms already begun, the Government should be encouraged to persist with measures begun under the ITPA programs (see the Annex to this brief for a description of this program) to shift reliance from an inward looking import substitution strategy for an outward orientation more encouraging of exports. Most important will be an active exchange rate policy to assure a constant or even declining real effective exchange rate as circumstances indicate. Tariffs should be reduced so that protection levels are no more than 25%. Export promotion measures should be extended to indirect exporters. To promote increased efficiency of financial intermediation, further liberalization of bank commissions should be encouraged. Interest rates should be adjusted frequently to ensure that they remain substantially positive.

23. Agricultural Sector. The ongoing reform of this sector has two major objectives. First, it will remove institutional and financial bottlenecks to increased production and exports. Second, it will raise the incomes of the rural population, and hence slow migration to the cities. Specific measures needed are a reduction in fertilizer subsidies and increases water charges to promote resource mobilization within the sector. The elimination of agricultural subsidies over a period of five years should be accomplished, while ensuring that the nutrition and incomes of the poorest segments are protected through appropriate targeting of subsidy programs. Agricultural procurement prices need to be raised and procurement procedures strengthened. Finally, the government's role in production and distribution should be restricted to those activities which cannot be undertaken by the private sector.

24. The Education Sector. The Government's reform program is aimed at increasing both the efficiency and equity of the education system. A recently approved Bank loan in support of the reform received high praise in the Board. The Government should be encouraged to implement the reform expeditiously. Education costs have to be controlled, while increasing the



emphasis of vocational training and school programs to improve the employment orientation of the system, and further cost recovery should be sought, particularly for higher education.

25. The Public Enterprise Sector (PE). A Public Enterprise Rationalization Loan (PERL) has been appraised by the Bank. Its aims are to: a) increase financial autonomy through increasing self-financing ratios of PEs thereby decreasing their dependence on the Government budget; b) promote managerial autonomy by creating a clear distinction between policy-making and enterprise management and c) rationalize the role of the State through development of a strategy aimed at divesting the State of uneconomic enterprises and of activities more appropriately handled by the private sector. Major issues to be addressed to give effect to these objectives are: 1) basing pricing policy for PEs on economic criteria; 2) rationalizing the functioning to Board of Directors (of which Ministers are Chairmen) and changing Government control systems from a priori control to a posteriori monitoring and 3) developing a strategy for privatization, liquidation, mergers or leasing of PEs, and building the institutions that would implement the strategy.

26. This operation is very important for Morocco's overall adjustment effort and for the bank's lending program. A description of it appears as pp.3 and 4 of the Annex to this brief.

#### Morocco's Financing Needs

27. Lending from private sources accounted for 58% of total disbursements to Morocco in the late 1970s. In the early 1980's the share from private sources remained high at about 47%. Commercial banks lending amounted to \$830 million annual disbursements on average in 1980-82. Commercial banks and suppliers' credits have accounted for about 30% of total debt in 1985. For the same year, the World Bank's share was 10%.

28. Morocco's debt service increased sharply from \$550 million per year in the late 1970's to \$1330 million per year in 1982. In the following year, in spite of the IMF stabilization program, Morocco could not meet its interest and amortization obligations and rescheduled \$830 million. In 1984 the rescheduling amount increased to \$1280 million dollars, of which about \$390 million was from commercial banks creditors. A second Paris Club rescheduling agreement was reached during the fall 1985, amounting to \$870 million for 1985 and \$1320 million for 1986. A corresponding rescheduling from commercial banks for the same period is being negotiated. It would amount to \$390 million for 1985 and \$440 million for 1986. The banks are meeting in April 1986 to discuss the terms of the rescheduling.

29. Morocco is likely to need further reschedulings beyond February 1987. Assuming that Morocco is prepared to address the objectives of their stabilization/adjustment programs with sustained application of policy measures, further rescheduling of the country's debt would be in order. All

of Morocco's financiers will have to contribute to the country's recovery. New commitments would be needed from private banks and bilateral services, as well as the multilateral institutions. During the implementation of the structural reform program, the Bank's program is expected to continue at \$400-\$450 million in commitments per year. If Morocco does not maintain a program of rigorous economic reform, the Bank's lending will have to decline. After 1986, we are encouraging the IMF to keep its exposure constant (rather than withdrawing resources as is now forecast).

#### Reform Implementation Difficulties and Risks

30. Unfortunately, little margin exists for setbacks in Morocco's program of economic reform without serious consequences. External, political, military or financial variables can, at any time, adversely affect the Government's stabilization/adjustment programs, and thus further aggravate the country's economic situation. The Bank and the IMF will need to continue careful monitoring of the Government's implementation of reform policies to ensure that the objectives of each program are being met.

Note: An Annex is attached which outlines some key operational issues which are likely to be raised during your visit.



KEY OPERATIONAL ISSUES

Second Industrial and Trade Policy Adjustment (ITPA II)<sup>1/</sup>

1. The Government will probably state its disappointment that the (\$80 million) second tranche of this \$200 million policy loan has not yet been released. According to the initial program, a mission to review progress and recommend action on the second tranche was scheduled for end-January 1986. However, the mission has been delayed because of difficulties in resolving certain issues and inadequate progress in some areas.

2. First, the Government had undertaken to reduce the Special Tax on Imports (SIT) from 7.5% to 5.0% prior to the release of the second tranche. The Government has felt itself unable to do this in 1986 because of the revenue loss that it would entail. Before agreeing to tranche release therefore, the Bank is asking for (a) a new date for the reduction of the SIT to 5%; (b) an indication of the measures the Government will take to replace the revenues lost from the SIT; and (c) a report on the progress of the ITPA program to date to permit an evaluation by the Bank aimed at ensuring that the objectives of the program are being met.

Second, we would expect further progress in discussions of PERL, since the ITPA agreements included Government undertakings to control Government arrears and budgetary transfers to public enterprises.

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<sup>1/</sup> A brief description of the objectives and status of this reform program are appended.

Background on the Industrial and Trade Policy Adjustment Program

1. Prior to the recent shift in government policy in 1983, a number of constraints had been identified as limiting the growth of manufacturing, particularly, export production. The most critical of these constraints were in the areas of industrial protection and administrative rigidities.
2. With Bank support, the Government undertook a study to assess protection, pricing and other industrial incentives, and to recommend changes with a view to rationalizing and improving the system. It was later supplemented by an analysis of the financial sector in Morocco which led to a further set of recommendations to improve the efficiency of financial intermediation and strengthen savings mobilization. On the basis of these reports, the ITPA I loan for \$150.4 million was approved by the Bank in January 1984, and the ITPA II loan for \$200.0 million in July, 1985. These loans support a comprehensive, phased program of reforms. Important aspects of the reform include: (a) maintaining a flexible exchange rate policy, (b) lowering the levels and dispersion of import tariffs, (c) liberalizing imports through eliminating import licensing requirements as well as bans and quantitative restrictions (QRs) on imports, (d) freeing prices of manufactured products, (e) undertaking significant reforms of the financial sector aimed at increasing savings and improving the efficiency of resource mobilization (primarily through adjusting interest rate policy, enhancing competition, developing financial markets, and remedying institutional deficiencies), (f) reducing administrative barriers by removing export certificate requirements, as well as reforming and simplifying trade procedures, and (g) improving customs regimes.
3. In view of the structural nature of the ITPA reforms, their impact on national production and efficiency can be fully realized and evaluated only in the medium-term. This is particularly true of the reform of protection policy. Hence, notwithstanding smooth implementation of the program (with the exception noted below), further reduction of tariffs and removal of quantitative restrictions are required in 1987 and 1988 to reach the ITPA program objectives. Continued flexible management of exchange rate policy would also be important for export promotion. So far, the tight budgetary position has had particular relevance to the pace of reform in reducing the Special Import Tax (SIT), leading to delays in arriving at targeted levels both under ITPA I and ITPA II. It is important to note that one of the key thrusts of the reform program would be reduced budgetary reliance on trade taxes (particularly to the extent they act as disincentives to exports or industrial efficiency), and it would be important for the Government to make difficult decisions on expenditure and revenues to maintain budgetary balance while not impairing this thrust. The difficulties the Government has so far encountered in the budgetary area have also been the main reason for continuing accumulation of arrears to public enterprises in 1985, despite assurances under ITPA II to the contrary. A third area in which progress does not seem to have been at an optimal pace is in improving processes and systems for planning and budgeting public investments.



Public Enterprise Rationalization Loan (PERL)

1. The Government is likely to press the Bank for expeditious processing of a loan for PERL.
2. The objectives of PERL are to: a) increase financial autonomy through increasing self-financing ratios of PEs thereby decreasing their dependence on the Government budget; b) promote managerial autonomy by creating a clear distinction between policy-making and enterprise management and c) rationalize the role of the State through development of a strategy aimed at divesting the State of uneconomic enterprises and of activities more appropriately handled by the private sector. Major issues to be addressed to give effect to these objectives are: 1) basing pricing policy for PEs on economic criteria; 2) rationalizing the functioning to Board of Directors (of which Ministers are Chairmen) and changing Government control systems from a priori control to a posteriori monitoring and 3) developing a strategy for privatization, liquidation, mergers or leasing of PEs, and building the institutions that would implement the strategy.

Issues

3. The project was appraised in February 1986. We currently envisage holding negotiations in September, with Board presentation in October. We believe that the appraisal established a good understanding of the objectives and scope of the reform measures and enterprise restructuring envisaged under PERL. However, most public enterprises in Morocco, including all that will be restructured under PERL, suffer from two inter-related problems. Government arrears to these PEs have accumulated as a result of the non-payment of bills for consumption of public enterprise goods and services by Government departments. PEs have become heavily indebted as a result of these arrears. At the same time, rigidities in pricing and the lack of freedom of PEs to raise prices to reflect economic costs have contributed to PE liquidity problems.
4. The appraisal mission has proposed a scheme for settlement of the arrears. Insofar as the scheme involves increasing Government indebtedness to the banking sector it requires IMF approval. The Moroccans have been slow in according their acceptance of the scheme. It would be appropriate for you to stress that launching the arrears settlement by negotiations is essential to demonstrate that the Government is appropriately concerned to see key PEs placed on a sound financial footing.
5. Relatedly, the Government should act expeditiously on the pricing proposals tabled by the mission. Price increases are necessary in electricity, water supply and railroad tariffs for both resource mobilization reasons and because the PEs producing the goods and services are among the



largest in Morocco and suffer from insufficient cash generation and from the over-indebtedness referred to earlier.

6. The Government may argue that they are prepared to keep retail petroleum prices at current levels, thereby capturing the windfall that results from lower crude oil prices, and that this measure will raise sufficient resources to both settle part of the arrears and resolve the financial difficulties of the three petroleum companies to be restructured under PERL. We should commend this intention but stress that price increases for the major public utilities are also needed to assure their own liquidity.

7. PERL is an essential part of our lending strategy. It complements reforms in other key sectors and deepens the adjustment effort. Moreover, it will form the umbrella for other operations which would benefit Moroccan PEs. Given the nature of the mixed economy, a large part of our lending must necessarily benefit PEs in the telecommunications, energy, transportation, and water supply sectors. These PEs face the common problems to be addressed under PERL. Consequently, PERL assumes a high profile in our lending program, and if substantial delays in processing it are experienced some of the remaining operations could be jeopardized.

B Loan Co-financing

1. The Government is also likely to ask why the Bank's policy on arranging a "B" Loan for ITPA has changed. Discussions were initiated in spring 1985 with the Government and Standard Chartered Bank (SCB) on possible B loan co-financing with commercial banks for ITPA II. Initial contacts among that commercial banks produced lukewarm response pending (i) finalization of the IMF stand-by for Morocco, and (ii) agreement for rescheduling commercial debt for 1983-84. By the time these were accomplished, i.e. by early 1986, it had become apparent that Morocco's financial situation indicated the need to continue rescheduling for a further period, and hence the infeasibility of arranging fresh loans on a voluntary basis. As a result, it was decided that a B loan would not be appropriate for Morocco at this time since they are primarily intended, in the case of highly indebted countries, to assist in their return to the international private capital market towards the end of the adjustment process, when voluntary lending again becomes possible. In addition the Board indicated that B Loans should not be linked to policy adjustment loans.

2. Bank exposure in Morocco is rising rapidly as a result of rising commitments and the (current) lack of commercial lending to Morocco. For the present, and until new commercial lending resumes on a voluntary basis, Bank/IMF monitoring of Morocco's adjustment programs should provide adequate comfort to commercial banks for some additional lending to provide the level of financing needed to complete the adjustment process.

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1/ It was 10% in 1985 and is expected to rise to 16% in 1990 and 20% in 1995.

M O R O C C O

VISIT OF MESSRS. CLAUSEN AND WAPENHANS

April 21 - 25, 1986

SECTION I: DAILY SCHEDULE

SECTION II: CORE BRIEF

SECTION III: BACKGROUND DOCUMENTS



Tuesday, April 22, 1986 - 9:30 a.m.

Meeting with Their Excellencies Zahidi, Minister of Economic Affairs  
and Masmoudi, Minister of Commerce and Industry

Meeting Objectives

1. The Ministry of Economic Affairs is an advisory institution attached to the Prime Minister's office. The Minister of Economic Affairs is effectively the principal co-ordinator of foreign aid programs, including Bank-financed operations in Morocco and nominally our main interlocutor (although most substantive discussions are held with the Minister of Finance on policy adjustment loans). Meeting with this Minister will provide an opportunity for a broad overview of the Bank's program in Morocco and of the macro-economic issues confronting the country.

2. The manufacturing sector will play a dominant role in the transformation of the Moroccan economy from its orientation to domestic markets and consequent reliance on import-substituting industrial activity to an outward orientation more encouraging of exports. The sector as a whole has contributed to a disequilibrium in the balance of trade, imports of intermediate and capital goods having risen faster than locally produced substitutes. The Ministry of Commerce and Industry has been in the forefront of the Government's efforts to liberalize trade and improve industrial efficiency and you should use this opportunity to express our gratification for its having persisted with the reforms despite criticisms that have, at times, been strident.

Background

3. Total Bank commitments to Morocco stand at US\$2412.95 million<sup>1/</sup> net of cancellations and repayments (total of 69 loans of which 34 are currently active). IFC investments have amounted to US\$104.7 million -- \$59.9 million after cancellations, terminations, repayments and sales. Bank operations have supported investments in all major sectors in the following proportions:

Industry	35%
Agriculture	28%
Education, Health, Urban Development	20%
Energy	10%
Infrastructure and Utilities	7%

World Bank commitments have nearly doubled from an annual average of US \$260 million per annum during FY81-84 to US \$408 million in FY85 and \$433 million (expected) in FY86. During the same period, net disbursements increased from an average of US \$100 million per year to US \$212 million in FY85.

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1/ Of this amount four are policy-based loans totalling \$600 million.

## Issues to be Raised by the Bank

### Lending Strategy

4. The Bank's lending strategy is to support the four pillars of the Government structural adjustment effort. Essentially, this has entailed quick-disbursing policy-based operations in the (i) Financial, Industrial and Trade sectors (the so-called ITPA programs - FY84 and 85); (ii) the Agricultural sector in FY85; (iii) the Education sector - FY86. In addition, a loan to rationalize Moroccan Public Enterprises has been appraised as a FY87 operation. We propose to continue supporting the Government's adjustment effort with a relatively large program averaging about US \$400 million per annum with a significant proportion of the program to be in policy-based operations. You should stress, however, that a lending program of this structure is critically dependent on strict adherence to both stabilization and adjustment programs. (A five-year lending program is attached). We believe the program to provide good balance between support to policy adjustment in critical sectors and to financing economically high priority investments. Our strategy has been to build structural adjustment out of sector adjustment operations. This has been successful to date, but it is now appropriate to consolidate our approach to lending through exploring the possibility of introducing Structural Adjustment Loans (SALs) into the lending program. Our aim is to address some of the more critical remaining macro-economic issues, such as reforms of fiscal policy and an enhanced effort to rationalize investment planning and budgeting. The idea of introducing a SAL was recently broached with the former Finance Minister (Mr. Jouahri) who agreed to consider the proposal. This meeting should provide a good opportunity to pursue the question of a SAL and its possible components.

### Pursuing Reforms in Trade and Industry

5. In the industrial sector, the process of structural adjustment is well advanced, and has provided the core of the reform program supported by the two Industrial and Trade Policy Adjustment Loans (ITPA) which the Bank has made in 1984 and 1985 (See attachment to Core Brief for summaries of the ITPA programs). You should acknowledge to the Minister, that the Government has shown considerable courage in going ahead with its program in this context, but note that further actions are required in the next 2-3 years to reach the agreed medium-term objectives.

6. Further measures are going to be needed to reduce the overall levels of protection of Moroccan manufacturers to 25% and the Government is going to have to find the optimum balance between reductions in Quantitative restrictions and tariffs. Remaining price controls on domestic monopolies will need to be eliminated as imports are liberalized; and reductions will need to be effected on internal trade and transport such as shipping and licencing requirements.



## Issues to be Raised by the Government

### Lending Volume and Composition

7. The Ministers are likely to ask for an increase in Bank lending and for more quick-disbursing operations.
8. Proposed Response: The Bank's support of the Government's adjustment programs has been marked not only by rapidly rising commitment levels, but also by an equally significant shift from "traditional" project lending to quick-disbursing policy-based operations as follows:

<u>Fiscal Year</u>	<u>% of lending in form of quick-disbursing operations</u>
FY 83	0
FY 84	57
FY 85	74
FY 86	60
FY 87	55

It is, moreover, as high as can be sustained, given the rapidly rising Bank exposure that results from this level and composition of transfers. Should the Ministers press us for an increase in the level of lending, you should respond by saying that we believe the lending program already to be fully responsive to Morocco's own economic strategy and is as much as can prudently be committed given the levels of exposure it implies.

9. The Bank's share of debt outstanding and disbursed was 10% in 1985. On the basis of our current lending program, it will rise to 16% by 1990, and to 20% by 1995, until creditworthiness for voluntary commercial lending is restored. Our share of Morocco's debt service is currently about 20%; it would rise above these levels until new commercial lending is resumed. The Bank therefore is doing all that it prudently can to support Morocco's adjustment strategy. In light of the constraints to increased World Bank lending, Morocco is going to have to make increased efforts to attract commercial lending to finance its investment programs. You should stress to the Ministers the need for the Government to create conditions conducive to additional commercial flows. The willingness of commercial lending institutions to provide new financing will be critically dependent on a strong public commitment to co-ordinated stabilization and adjustment programs.

### The ITPA Program

10. The Minister may reflect some of the criticism of the program namely that it could weaken Moroccan industry through excessive imports. The following points should be made in response:
- i) The inflow of imports can and should be kept to a responsible level by appropriate exchange rate and demand management policies.



- ii) The program's objective is not simply "de-protection" for its own sake, but a strengthening of the industrial sector's capacity to produce efficiently, and compete thereby escaping of the constraints of a limited domestic market. In addition, the general public (consumers) would benefit from liberalization.
  - iii) It is principally the trade and industrial sectors which will attract support provided from other external sources. Without this support, much more severe adjustments would have to be made. Any backtracking in industrial and trade policy could be detrimental to the adjustment effort elsewhere in the economy.
5. Release of the Second tranche of ITPA II (See attachment to Core Brief).

World Bank Lending Program, Morocco

<u>FY86</u>	<u>Million US\$</u>
ITPA II	200 1/
CNCA VI (Agricultural Credit)	120
Large Scale Irrigation Rehabilitation	46
Education Sector Loan	150
Telecommunications	90
Casablanca Port Rehabilitation	<u>27</u>
TOTAL <sup>2/</sup>	633
<u>FY87</u>	
Water Supply IV	56
Agricultural Sector Loan II	100
Public Enterprise Rationalization Loan	200
Export Development Finance	50
Power Sector I	50
National Sewerage Project*	55
CIH/Housing & Finance*	100
Agricultural Extension and Research*	50
Urban Upgrading*	<u>70</u>
TOTAL	456
<u>FY88</u>	
Small and Medium Irrigation	60
Agricultural Extension-Research	50
Education Sector Loan II	150
CIH/Housing Finance	100
Sewerage Sector	55
Urban Upgrading	<u>70</u>
TOTAL	485
<u>FY89</u>	
Public Enterprise Rationalization II	200
Transport Sector*	75
Industrial Sector*	110
CNCA VII*	<u>100</u>
Power Sector Loan II	75
Forestry II*	74
Health Sector II*	50
Agricultural Sector III*	100
Urban Sector*	<u>40</u>
TOTAL	560
<u>FY90</u>	
Health Sector II	50
Forestry II	74
Water Supply V	60
Agricultural Sector	100
Urban Sector	40
Telecommunications II*	90
Irrigation Rehabilitation*	100
PERL III*	150
Water Sector II*	<u>50</u>
TOTAL	324

\* Standby

1/ Approved in FY86 but allocated for FY85.

2/ Excludes standbys.

Tuesday, April 22, 1986, 4:00 p.m.

Meeting with the Prime Minister and several key ministers viz

The Minister of Public Health: Tayeb Bencheikh

The Minister of Agriculture and Agricultural Reform: Othmane Demnati

The Minister of Education: Azeddine Laraki

The Minister of Equipment, Professional and Vocational Training:

Mohamed Kabbaj

The Minister of Energy and Mines: Mohammed Fettah

The Minister of Foreign Affairs, Cooperation and Information:

Mr. Abdellatif Fillali

The Minister of Interior: Mr. Driss Basri

The Minister of Finance: Mr. Mohamed Berrada

The Minister of Commerce and Industry: Mr. Tahar Masmoudi

The Minister of Housing: Mr. Abderrahmane Boufettass

The Minister of Tourism: Mr. Moussa Saadi

### Meeting Objectives

1. During this meeting it will be important to communicate both encouragement and concern to the ministers regarding the policies which have been taken to achieve stabilization and adjustment objectives. Some of the members of this group of Ministers are less familiar with our dialogue on macro-economic issues than those you will have met separately, so that we should re-iterate that sustained commitment to the economic strategy already launched will be required until at least the end of the decade if the strategy is to succeed. Each of the Ministers is expected to introduce the major activities in and issues facing the sectors in his portfolio. We shall need to respond by emphasizing the relationship each sector means to the overall adjustment effort. What follows are briefings on the areas of responsibility of these five. Where relevant, we have provided information on the Bank's activities in the sector, the issues facing the sector at this time and the approach we recommend you take in discussing them.

### EDUCATION

2. The Bank has provided seven loans in the education sector since 1965, totalling \$346.5 million. Three of these loans are current. The loans have supported all levels of the education system. In March 1986, the Bank approved a US\$150 million loan to support reform of Morocco's entire education system. The objectives of the reform program are 1) to expand access of primary and secondary age children to basic education; 2) improve the overall efficiency of Morocco's education system and 3) to constrain the growth of higher education costs.

3. Dr. Laraki, the Minister (and newly-appointed vice-Prime Minister), is to be complimented on the timeliness of this reform effort. He has had a high personal stake in promoting the reform which appropriately addresses the



issues of equity of education through the expansion of basic education facilities in rural areas where illiteracy rates are high. It also recognizes that Morocco's current economic condition requires restraint in public spending for education. Dr. Laraki met with you in Washington in late November and presented you with the Government's statement of Education policy.

EQUIPMENT, PROFESSIONAL AND VOCATIONAL TRAINING

4. The Minister's portfolio covers a number of sectors, including building civil works for the Government, and vocational training.

5. Mr. Kabbaj, the Minister, has a position of considerable influence among the other ministers because his Ministry handles construction activities for the entire public sector. Mr. Kabbaj is widely respected for his individual skills, knowledge and capabilities. He and his ministry have a reputation for competence and hard work which is exceptional within the Government. Because of this, he is often asked to take on additional responsibilities. The responsibility for vocational training was recently transferred to his Ministry from the Ministry of Plan in order to give it greater dynamism. Similarly, Mr. Kabbaj was placed in charge of a Special Committee in 1984 to address Public Enterprise issues, and in particular to devise solutions to the public enterprises arrears. He is particularly concerned with PERL and may raise questions about it (see attachment to Core Brief).

ENERGY AND MINING

6. The Bank's portfolio in energy and mining includes 5 loans totalling \$181.7 million.

7. The mining of phosphates has dominated Morocco's export market in recent years, but phosphate prices have not been favorable to alleviating the country's current account deficit. Most of the coal mined in Morocco is used domestically. Domestic coal accounts for 8% of the energy used in Morocco and is supplemented by imports.

8. The pressing need in these sectors now is coherent energy planning for the country. Morocco is highly dependent on petroleum products for energy, particularly on imported oil, and therefore is very vulnerable to the vagaries of the oil market. In the early 1980s the Bank supported Morocco's program for petroleum exploration through its national oil company; ONAREP's efforts to develop national oil and gas reserves have not been particularly successful despite substantial efforts. ONAREP has been much more successful in attracting exploration interest of international oil companies. Wood fuel from the Moroccan forests is also a popular source of energy and the country faces some serious deforestation problems as a result.

9. The Bank is beginning to work with the Government to try to identify more cost-efficient uses of different fuels and the economic feasibility of developing new energy sources among renewables (e.g. solar, wind, biomass). Mr. Fettah, the Minister, should be encouraged to continue this dialogue with the Bank on energy planning and the evolution of appropriate energy pricing so as to reduce the import bill and promote self-sustaining enterprises for production and distribution.

#### AGRICULTURE AND AGRICULTURAL REFORM

10. The Bank has financed 20 projects in irrigation, agricultural credit, rural development and vegetable production. At present agriculture is also one of the key areas of our economic dialogue and lending to the country to promote policy reform. An agricultural sector adjustment loan for \$100 million was approved in June 1985 and a second phase is being prepared for FY87. The thrust of the reforms is to a) restructure public investment program in agriculture towards quick maturing and high return investments, b) correct the prices and incentives framework to encourage sound shifts in agricultural activities, c) limit and rationalize support services provided by Government, and d) build up institutional capacity for agricultural policy planning and analysis. To a large extent, the relatively successful results of our policy dialogue and lending in this sector are due to the good understanding of the issues by and full support of the reform program from Mr. Demmati, the Minister of Agriculture and Agricultural Reform. The Minister should therefore be complimented for his contribution to that effort.

11. Although there is a wide measure of agreement between the Bank and the Minister of Agriculture as to the direction of the policy shifts required, there are some specific topics where we may face some difficulties in the actual implementation process. Areas of possible conflict are: pace of the reduction of subsidies on flour, oil and sugar consumption; procurement procedures for imported fertilizers; and elimination of compulsory cropping patterns on irrigated land.

12. Regarding consumer subsidies on bread, oil and sugar, the Bank has prepared specific recommendations to eliminate such subsidies in the span of 5 years, coupled with compensatory measures to protect the most disadvantaged layers of affected population. We plan to discuss our recommendations with Government and they should be adopted by the Government shortly thereafter. This issue, given its magnitude, surpasses sectoral interest and has an important bearing on the Government's overall finances and, therefore, on relations with the IMF. Use of negotiated contracts rather than ICB for fertilizers import was an issue during negotiations of the first sector loan. During the preparation and negotiation of the second one, we hope we will be able to persuade Government that ICB is to their benefit in the long term even



if apparent short-term advantages (in terms of placing phosphates in the world market) seem possible from negotiated contracts for fertilizer imports. So far the Government has agreed to review its policy of setting cropping patterns in irrigated areas, but it is still reluctant to let the farmers choose their crops, although this would be in line with the spirit of the overall policy change.

#### PUBLIC HEALTH

13. Bank involvement in the health sector began in the early 1980's with sector work which laid the basis for the Bank's approval in 1985 of the first \$28.4 million loan for a Health Development Project. The basic aim of the project, and our involvement in the sector, is to initiate a shift from an urban-based, hospital-oriented health system to a more cost-effective system of primary care, including family planning. The project is limited to three provinces of the Kingdom. Should it prove successful, it could be replicated in other provinces. Mr. Bencheikh, the Minister of Public Health, was formerly Minister of Economic Affairs and has been a strong supporter of the Bank. His appointment as Health Minister is considered a very positive step to improving management and project execution in what has hitherto been a rather inefficient ministry. The importance of expanding the Health Program should be underscored. It is not only an example of the type of investment that will benefit the less advantaged groups within the society and hence mitigate the social costs of adjustment. It also demonstrates that with the appropriate political will, cost-effective programs can be delivered within a resource-constrained situation; by lowering unit costs, such programs contribute to stabilization efforts. You should also emphasize the importance of such programs in contributing to a reduction in fertility and population growth.

#### URBAN SECTOR

14. Discussions with Minister Boufettass could cover specific issues in the urban sector as well as financial intermediation in the sector. Please refer to the separate brief for your field visit to the Rabat Urban Development Project for a discussion of urban issues and strategy. The main financial intermediary in housing is the Crédit Immobilier et Hôtelier (CIH). CIH was founded in 1920 as a mortgage bank specializing in housing finance. The Bank's on-going Housing Development Project (Ln. 2245-MOR for \$60 million) aims at financing housing units and upgrading appraisal techniques. Project implementation has met with serious difficulties, apparently because of CIH's limited capability and interest in promoting low-cost housing. CIH is also being assisted by the Bank in its efforts to begin to mobilize deposits; it has been recently authorized by the Government to do so, as part of the package of financial reforms.



TOURISM

15. The main issue in tourism is the need for careful investment selection and appraisal, and rationalization of incentives. Hotel overcapacity in some areas reinforces these needs. CIH is also the main financial intermediary in tourism sector, in which it has been active since 1960. The Bank has approved four lines of credit to finance hotel and tourism projects through CIH. The latest, CIH IV (Ln. 1943-MOR for \$100 million) also includes a component for a tourism study, and is currently being drawn down. CIH has a persistent problem of arrears on its public sector hotel portfolio, and has also been slow in starting and carrying out tourism sector studies. We have been requested to assist in further development of the Tourism sector. This is a high priority for Morocco but given policy constraints on Bank lending to Tourism, the nature of our assistance would have to be carefully formulated to avoid Bank financing of activities that could be financed by the private sector. We are closely coordinating our CIH activities with IFC which has also been approached by the Moroccans to finance Tourism investments.

Wednesday, April 23, 1986 - 9:00 a.m.

Rabat Urban Development Project  
Field Visit

Objectives of Field Visit

1. Your visit to the Bank-financed Rabat Urban Development Project should provide an opportunity to view a relatively successful (completed) project which initiated several policy changes in cost recovery, and planning and engineering standards, and has provided some valuable lessons for replicability. A write-up of the project is attached. It will also allow you to raise some important policy issues.

2. Urbanization has been fairly rapid in Morocco, averaging 4.5% per annum, compared to about 3% per annum for population growth overall. This has produced many slums around the major urban agglomerations, particularly Casablanca. While these developments offer the opportunities for significant small-scale industrial and commercial activity on a planned basis, there are problems posed by rapid urbanization. Low-income urban areas are socially very volatile given their large population of unemployed youth. Twice in the very recent past (1981 and 1984), Government reductions in subsidies on basic foodstuffs (flour, edible oils, sugar) have produced explosive street demonstrations against the Government. Concern that violence of this kind will again follow any attempts to raise prices of goods and services consumed by the urban poor are a major factor behind the Government's reticence to adopt resource mobilization measures.

3. In these circumstances, your visit should enable us to make the following points to the Government:

- a) It is important, even during times of economic austerity, for the Government to continue to invest in social overhead in order to mitigate the potential adverse social effects of adjustment.
- b) It is however possible to finance this investment by means other than the Government budget.
- c) To the extent that costly subsidies need to be withdrawn, a planned reduction of subsidies should incorporate support programs to target better those most in need of continued assistance.

4. Further financing of urban investments at a time of macroeconomic and financial difficulties is important to sustain growth for the following reasons:

- (i) about two thirds of GDP is generated in urban areas and urban incomes are at least 30 percent higher than (and have been increasing twice as fast as) those in rural areas;

- (ii) Morocco's urban areas offer a dynamic economy and conditions under which it is less expensive to create new jobs and increase income than in rural areas. Also, services needed for sustaining economic activities can be provided more efficiently in the urban setting.

5. Government policy should therefore attempt to rationalize rather than restrain urban growth. The present economic environment in Morocco dictates stringent controls over public expenditure and increased reliance on institutional and private savings for the financing of social investments previously supported by the state. Although attention to basic human needs and to measures to increase the incomes of the poor remains a fundamental objective for Morocco, the current and prospective budgetary limitations call for greater concern for cost effectiveness, improved targeting of social services and subsidized infrastructure, and for the development of lower unit cost delivery systems.

6. In this context, future Bank assistance in the urban sector would concentrate on the following:

- (a) to assist the government in focusing its urban investment program on increasing the provision of low-cost serviced land for housing construction and the development of economic activities by the private sector, and of basic urban services to a larger share of the population by:
  - (i) streamlining and improving the delivery system for low cost serviced land;
  - (ii) strengthening technical responsibilities and fiscal roles of local governments to manage urban growth and to extend urban services to existing and future low-income households; and
  - (iii) mobilizing private resources to the housing and municipal finance subsectors;
- (b) to help the government develop a plan for restructuring its urban transport companies and improving its urban transport networks.



Rabat Urban Development Project  
(LN 1528-MOR for \$18 million signed on 03.31.78)

Field Visit

Project Description

1. This was the Bank's first shelter related project in EMENA and was instrumental in influencing the government's policy of slum upgrading versus demolition. As the first Bank supported urban project in Morocco, it aimed at demonstrating efficient low-cost solutions to urban development problems in general, and to shelter in particular, thereby setting the stage for the replication of similar operations in the future. To this end, the project had two principal objectives: a) to introduce low-cost urban upgrading, infrastructure, and housing concepts affordable by the lowest income groups and incorporate improved cost recovery, which would enable the initiation of country-wide programs to tackle already serious housing, infrastructure, and social service problems more effectively; b) to deal with structural problems in the housing, infrastructure, social service, and employment sectors of Rabat's seventh Municipal Ward.

2. With these objectives the project was designed to consist of five interrelated components: i) comprehensive squatter upgrading in the three quarters of Douars Doum, Maadid and Hajja. This upgrading included rehabilitation and extension of infrastructure, improvement and expansion of commercial installations and home improvements through self-help; (iii) an employment generation program to create about 2,500 new jobs in the project area; (iv) community services equipment to improve garbage collection, fire fighting and emergency services; and (v) technical assistance to strengthen the institutional arrangements and technical capabilities of the executing agencies. An organization was created for project implementation which was to involve seven ministries and two other agencies under the supervision of a Project Directorate (PD). The project cost at appraisal was DH 165.5 million, of which DH 79.2 million (\$18 million) were to be financed from the Bank loan.

3. The main features of the project, as highlighted in the recent Project Completion Report (June 24, 1985) were that it largely succeeded in meeting its objectives, works were satisfactorily executed with no major procurement issues, and most covenants were fulfilled promptly. It provided solutions to specific shelter problems, demonstrated the feasibility of upgrading sites and services, and set the stage for Bank lending in the sector, which now includes four projects. On the other hand, following the very long identification and preparation period, there were considerable implementation delays (30 months in all beyond appraisal estimates, with actual implementation over 5 1/2 years), because of managerial problems, lack of counterpart funds, and institutional complexity. Although no major revisions took place during implementation, some minor physical works and the technical assistance have not been implemented by the closing of the project (the final

disbursement was on 12/07/84). Despite implementation delays, appraisal cost estimates were exceeded only marginally because of contractors' low prices as a result of the recession. Institutional development did not materialize as expected; however, re-assignment of implementing and coordinating functions as well as for small business promotion helped address the issues encountered.

4. The project has been found to be economically justified, with an Economic Rate of Return of 20%. The project is also affordable to its beneficiaries and recovery for sites and services costs is satisfactory (recovery of upgrading cost has, however, been delayed by delays in land acquisition and delivery of titles).



Wednesday, April 23, 1986 at 11:30 AM

Meeting With Mr. Faris, President of the Banque  
Nationale pour le Développement Economique (BNDE)

Meeting Objectives

1. BNDE is the major source of medium and long-term loans to Morocco's industry, and has had a long relationship with the Bank, spanning nine lines of credit since 1962. Half of BNDE's equity is held by the Government, and about 24% by foreign shareholders, mainly banks, and IFC. BNDE has initiated the process of obtaining a capital increase. In the last decade BNDE's loans have been largely to the private sector. Mr. Faris, the President, is an influential figure in Morocco, and a former Minister of Finance. He returned in August, 1984 to the presidency of BNDE, a post he had earlier held from 1972 to 1977. In his first term, Mr. Faris played a major role in expanding BNDE's lending; however, much of it unfortunately went to public sector projects of dubious economic and financial merit. BNDE still had to exercise utmost vigilance to control and reduce loan arrears (a problem area), and improve supervision and collection. Both IBRD and IFC are assisting in these efforts.

2. In the last 1 1/2 years Mr. Faris has again focused on expanding BNDE's operations from the low level to which they had sunk in 1981-83 (a period of financial and managerial crisis for the institution). He has largely succeeded in this objective.

Issues to be Raised by the Bank

3. Most important in our view is the need for BNDE to play a truly developmental role in supporting the formulation and carrying out the implementation (for instance, in operationalizing in its projects, recent changes in protection policy) of appropriate industrial policies. To do so it requires to strengthen its capability for economic and sector analysis, for strategic conceptualization, and to improve its planning, training, project promotion, appraisal, and supervision functions. Mr. Faris has frequently expressed his commitment to these objectives, but tangible initiatives have been relatively few and slow in coming. Accordingly, you should reiterate the importance we attach to BNDE becoming effective in these areas. }

Issues to be Raised by BNDE

4. Mr. Faris is likely to ask you for your views on future IBRD assistance to BNDE. Our current ninth line of credit is expected to be fully disbursed only by end - 1987. A recent IFC loan has also helped increase BNDE's short-term liquidity to levels that are currently adequate. We have programmed an Export Industries Development Project for FY87, which BNDE could help to prepare. To the extent BNDE's liquidity indicates further financial needs, it could on-lend a portion of the eventual loan proceeds for this project along with other intermediaries-commercial banks. We believe that by



now, Mr. Faris has come to appreciate the Bank's viewpoint that its support for industrial development in Morocco cannot rely exclusively on lending to BNDE, but must give due attention to promoting policy change, and the efficiency of financial intermediation more generally, in the context of broader economic objectives and constraints.

5. For a fuller brief, on financial sector issues, please see brief for meeting with Governor of Central Bank, Mr. Bennani.

Wednesday, April 23, 1986 12:00 PM

Meeting and luncheon with Mr. Ahmed Osman  
President of the Parliament

Meeting Objectives

1. Mr. Osman is an extremely influential person in Morocco, widely rumoured to be high on the list for nomination as the next Prime Minister after Mr. Lamrani retires, which is expected in the near future. The country's adjustment effort prospects for the Baker Plan and overall Bank/Government relations should be discussed, with emphasis on the parliamentary support needed for the Government's adjustment program.

A Topic for Discussion

2. The Moroccan Government has often argued that with the recent re-activation of the Parliamentary process, the pace and scope of economic adjustment are necessarily constrained by the difficulty and delays inherent in persuading elected representatives of diverse interest groups of the merits of each program. It is evident that the economic rationale for policy reform does not always weigh very heavily with these representatives, some of whom would prefer to strike nationalistic and populist (and sometimes anti-Bank, and anti-IMF) postures, particularly where the issues involved are politically and socially sensitive -- e.g. reduction of subsidies, increasing revenues through taxation, import liberalization, and closure of uneconomic public enterprises or their privatization of others. All the measures cited are, however, important elements of Morocco's adjustment.

3. You may wish to stress to the President of the Parliament that the adjustment effort supported by the Bank should be seen not as a set of policies recommended by an international agency, but as consensus-determined and economically feasible options to enable Morocco to emerge from its long-standing and structural constraints, and from its current crisis, within a reasonable period. Neither the parliamentary opposition nor any other cohesive constituency in Morocco appears to offer structured, coherent alternatives to the ongoing adjustment effort. You may wish to add that the Bank considers the Parliament's and its President's role very important in helping to evolve a national approach which surmounts other possible more short-term and fragmented perspectives to effectively address Morocco's problems.

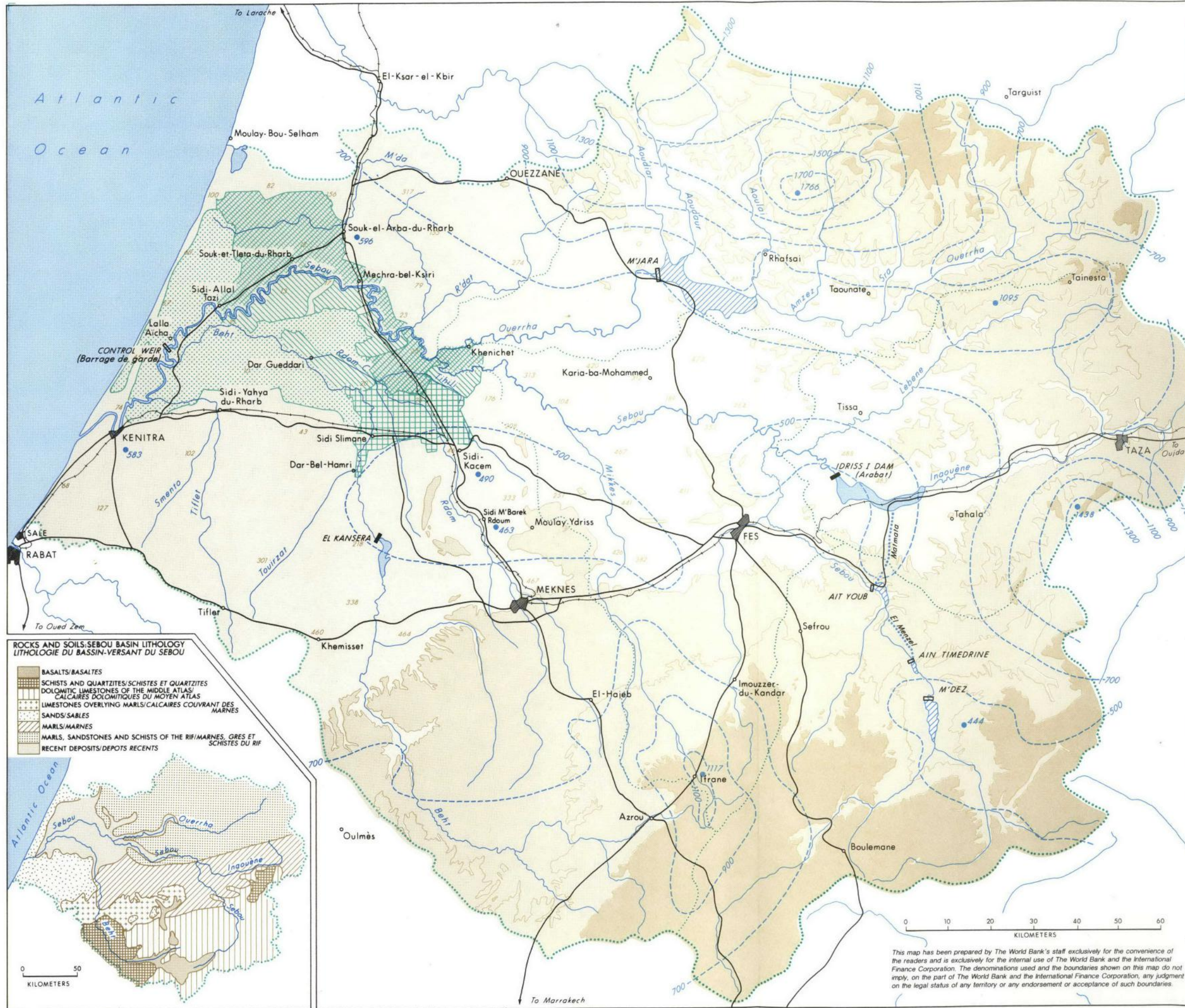
Wednesday, April 24, 1986

Helicopter Tour

1. Attached are maps of the Doukkala and Gharb regions. Mr. Rory O'Sullivan, Agriculture Projects Division Chief, EMENA, will accompany you on this trip and provide you briefings on the areas.



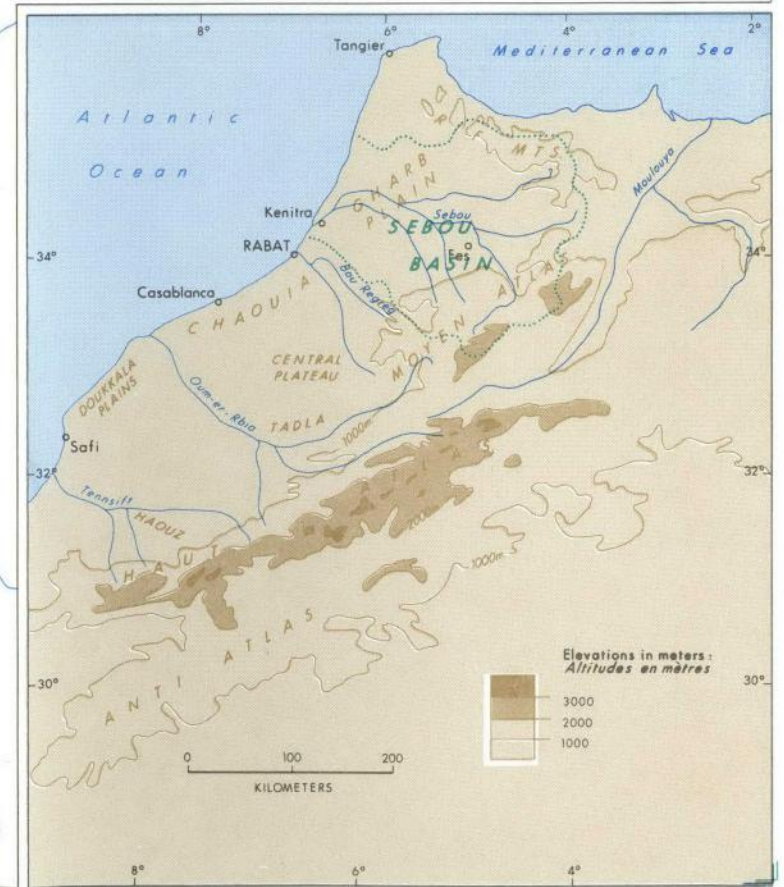
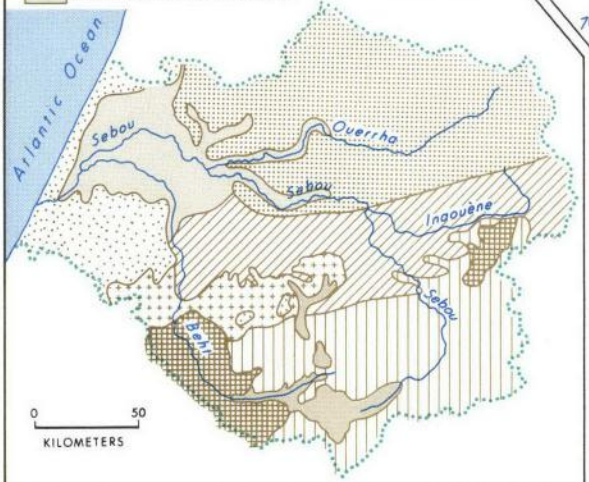
MOROCCO  
SEBOU II DEVELOPMENT PROJECT  
PROJET DU DEVELOPEMENT DU SEBOU II  
GEOGRAPHY AND WATER RESOURCE DEVELOPMENT  
OF THE SEBOU RIVER BASIN  
LA GEOGRAPHIE ET LE DEVELOPEMENT HYDRAULIQUE  
DU BASSIN-VERSANT DE LA RIVIERE SEBOU



- ..... Sebou River Basin Boundary  
Limite du bassin-versant de la Rivière Sebou
- ..... Sub-basin Boundaries  
Limites des sous-bassins
- Rivers  
Rivières
- Rainfall: contours in mm. (1932-1963)  
Pluviométrie: courbes isohyètes en mm. (1932-1963)
- Maximum and Minimum Rainfall Points  
Points de pluviométrie maxima et minima
- Elevations in meters:  
Altitudes en mètres
- 1500
- 1000
- 500
- 467 Point Elevations under 500 meters  
Altitudes en dessous des 500 mètres
- Irrigation Development Areas:  
Zones d'équipement en irrigation:
- Sidi Slimane (El Kansera Dam)  
Sidi Slimane (Barrage d'El Kansera)
- Gharb Irrigation Development Program (Idriss I Dam):  
Programme d'équipement en irrigation du Gharb  
(Barrage Idriss I<sup>er</sup> (Arabat))
- First Phase (Sebou I)  
Première tranche (Sebou I)
- Second Phase  
Seconde tranche
- Third Phase  
Troisième tranche
- Existing Dams and Reservoirs  
Barrages et retenues existants
- Future Dams and Reservoirs  
Barrages et retenues futurs
- Future Supply Channels  
Canaux adducteurs futurs
- Selected Towns and Villages  
Villes et villages sélectionnés
- Primary Roads  
Routes principales
- Railroads  
Voies ferrées

**ROCKS AND SOILS: SEBOU BASIN LITHOLOGY**  
**LITHOLOGIE DU BASSIN-VERSANT DU SEBOU**

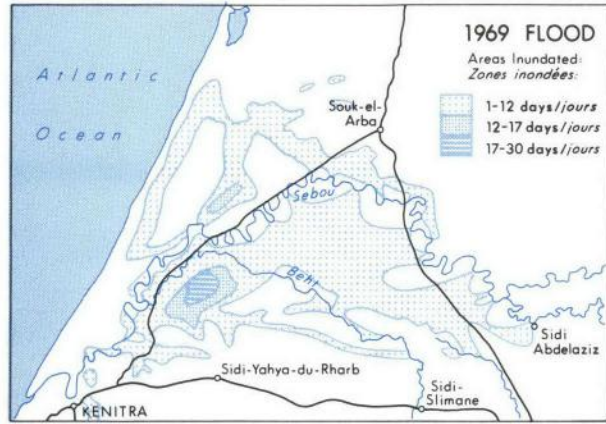
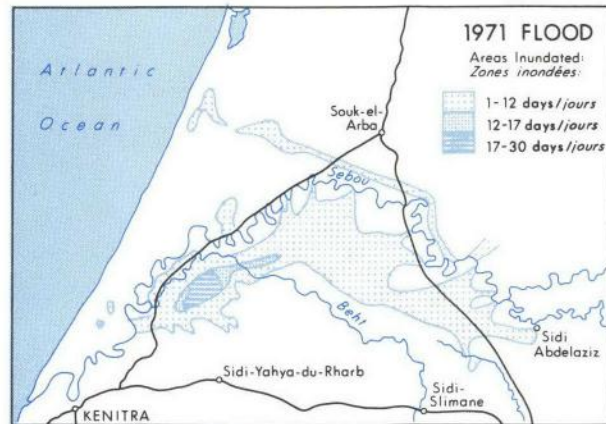
- BASALTS/BASALTES
- SCHISTS AND QUARTZITES/SCHISTES ET QUARTZITES
- DOLOMITIC LIMESTONES OF THE MIDDLE ATLAS/  
CALCAIRES DOLOMITIQUES DU MOYEN ATLAS
- LIMESTONES OVERLYING MARLS/CALCAIRES COUVRANT DES MARNES
- SANDS/SABLES
- MARLS/MARNES
- MARLS, SANDSTONES AND SCHISTS OF THE RIF/MARNES, GRES ET SCHISTES DU RIF
- RECENT DEPOSITS/DEPOTS RECENTS



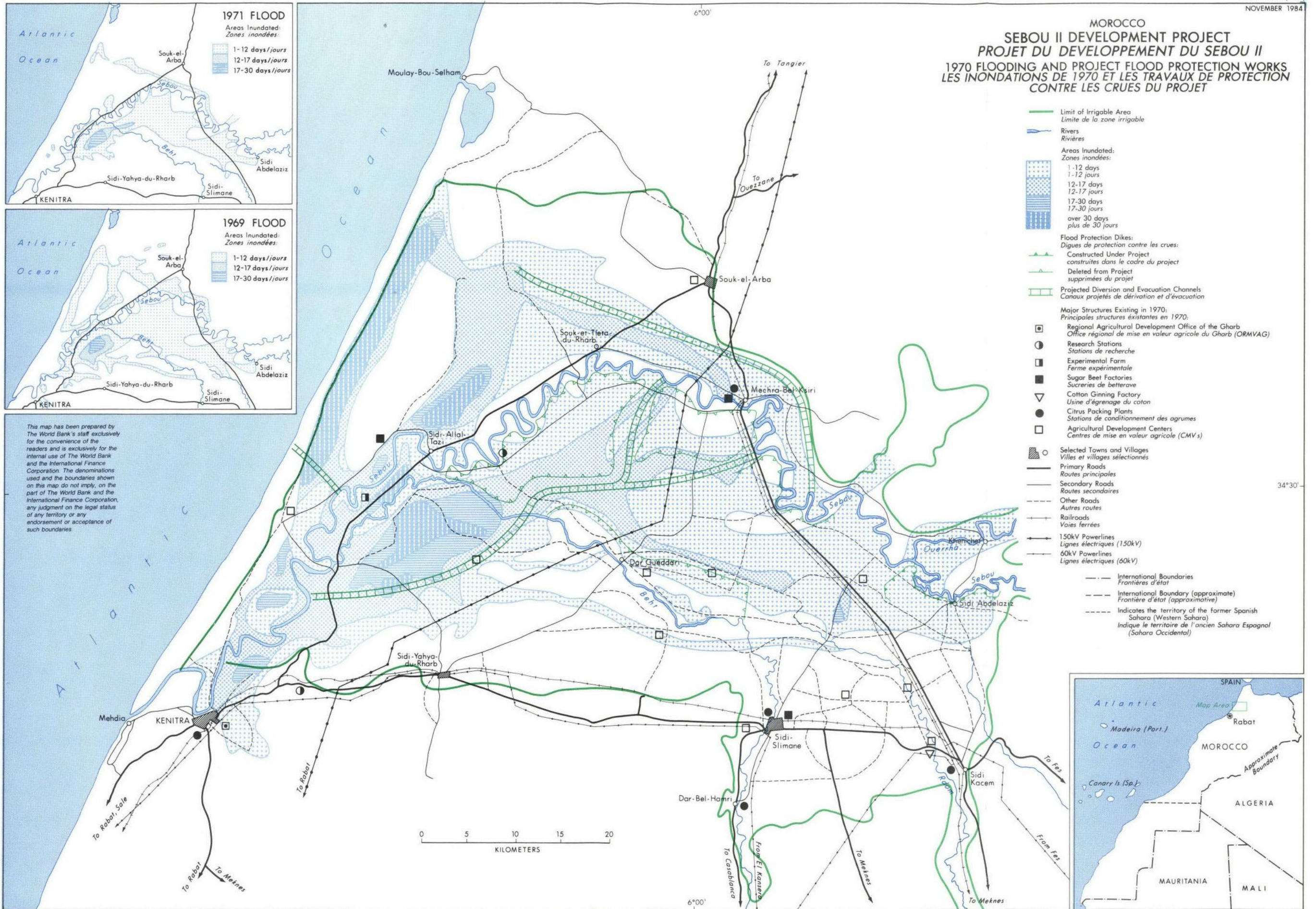
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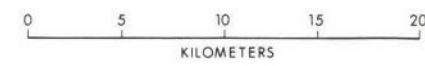
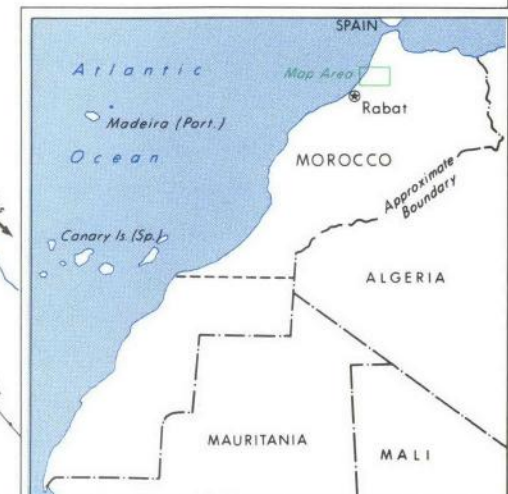
MOROCCO  
**SEBOU II DEVELOPMENT PROJECT**  
**PROJET DU DEVELOPPEMENT DU SEBOU II**  
1970 FLOODING AND PROJECT FLOOD PROTECTION WORKS  
LES INONDATIONS DE 1970 ET LES TRAVAUX DE PROTECTION  
CONTRE LES CRUES DU PROJET



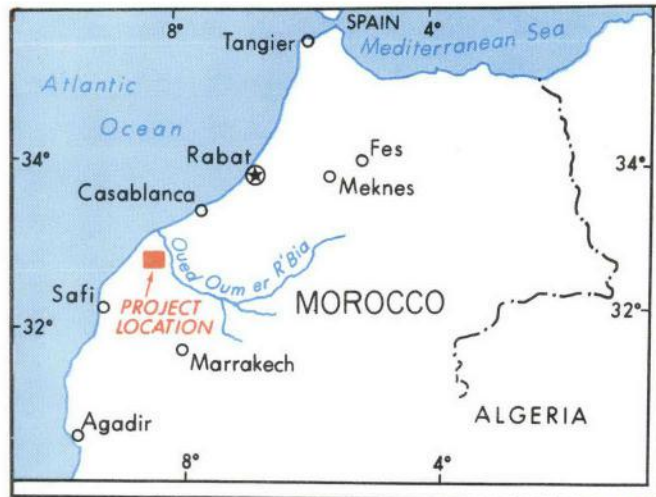
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- Limit of Irrigable Area  
Limite de la zone irrigable
- Rivers  
Rivières
- Areas Inundated:  
Zones inondées:
  - 1-12 days
  - 12-17 days
  - 17-30 days
  - over 30 days
  - plus de 30 jours
- Flood Protection Dikes:  
Digues de protection contre les crues:
  - Constructed Under Project  
construites dans le cadre du projet
  - Deleted from Project  
supprimées du projet
  - Projected Diversion and Evacuation Channels  
Canaux projetés de dérivation et d'évacuation
- Major Structures Existing in 1970:  
Principales structures existantes en 1970:
  - Regional Agricultural Development Office of the Gharb  
Office régional de mise en valeur agricole du Gharb (ORMVAG)
  - Research Stations  
Stations de recherche
  - Experimental Farm  
Ferme expérimentale
  - Sugar Beet Factories  
Sucreries de betterave
  - Cotton Ginning Factory  
Usine d'égrenage du coton
  - Citrus Packing Plants  
Stations de conditionnement des agrumes
  - Agricultural Development Centers  
Centres de mise en valeur agricole (CMVs)
- Selected Towns and Villages  
Villes et villages sélectionnés
- Primary Roads  
Routes principales
- Secondary Roads  
Routes secondaires
- Other Roads  
Autres routes
- Railroads  
Voies ferrées
- 150kV Powerlines  
Lignes électriques (150kV)
- 60kV Powerlines  
Lignes électriques (60kV)
- International Boundaries  
Frontières d'état
- International Boundary (approximate)  
Frontière d'état (approximative)
- Indicates the territory of the former Spanish Sahara (Western Sahara)  
Indique le territoire de l'ancien Sahara Espagnol (Sahara Occidental)



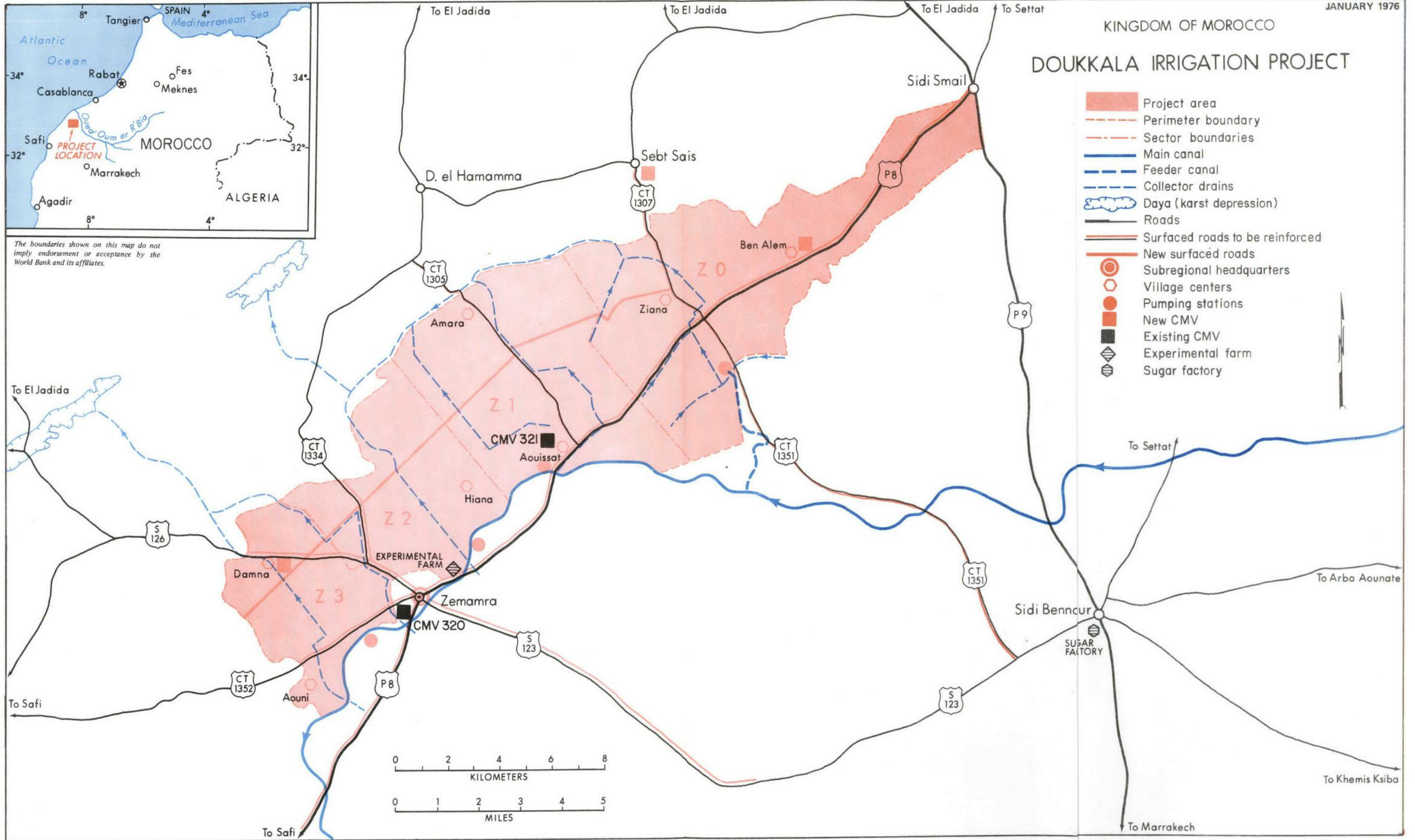




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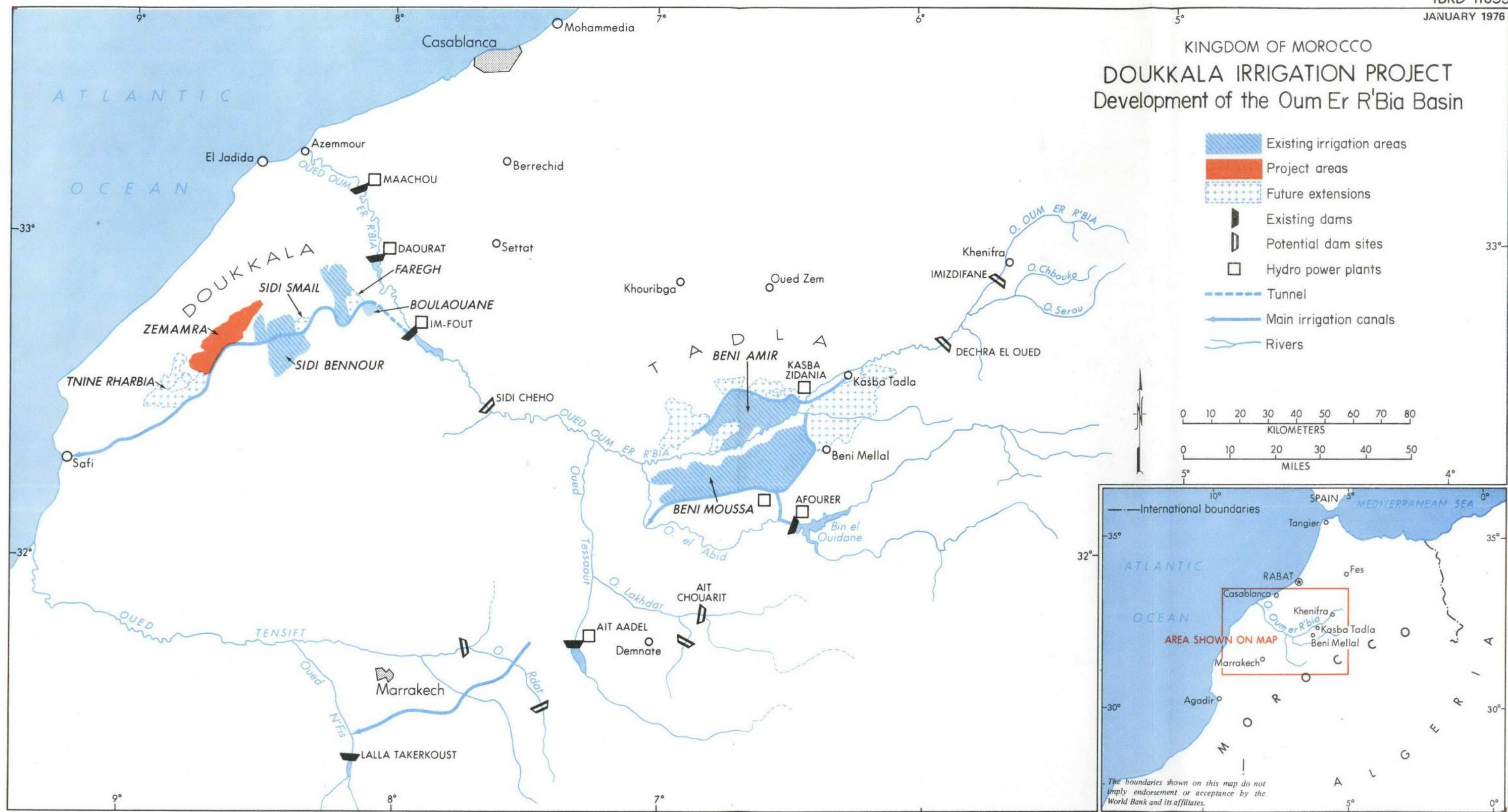
# KINGDOM OF MOROCCO DOUKKALA IRRIGATION PROJECT

- Project area
- Perimeter boundary
- Sector boundaries
- Main canal
- Feeder canal
- Collector drains
- Daya (karst depression)
- Roads
- Surfaced roads to be reinforced
- New surfaced roads
- Subregional headquarters
- Village centers
- Pumping stations
- New CMV
- Existing CMV
- Experimental farm
- Sugar factory





KINGDOM OF MOROCCO  
**DOUKKALA IRRIGATION PROJECT**  
 Development of the Oum Er R'Bia Basin



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.



Thursday April 24, 1986

Background documentation for Luncheon  
organized by Office Cherifien des Phosphates (OCP)

General

Morocco has the world's largest known deposits of phosphate rock of which it is the largest exporter and the third largest producer. The Office Cherifien des Phosphates (OCP), a wholly-owned state organization, was formed in 1920 for the exploitation and sale of phosphate rock. It is Morocco's most important public enterprise and is headed by the Prime Minister. Overall, OCP has, over the past few years, been a net contributor to the Government budget. However, its financial prospects for the next several years (see paragraph below), could change this situation.

Financial Situation

Over the last 5 years or so the OCP Group has invested 1.5-2.0 billion DH each year in new mines, phosphate processing facilities, and infrastructure. It has done this efficiently and on time with a minimum of outside assistance. The annual turnover of the Group is more than 8 billion DH and until 1983 the overall financial situation was favorable. Since then, OCP, like all other phosphate producers, has been under severe financial pressure. Current phosphate prices are very low but the price of imported sulphur, which accounts for 60% of the raw materials costs is high, and OCP is barely covering cash costs in its processing operations. With a projected world phosphate surplus and low prices for several years to come, OCP may have to delay or reduce its future investment program of 1-15 billion DH per year through 1990, and its ability to continue contributing to the Government budget may come into question.

Mining Operations of OCP

OCP currently operates 12 mines. Rock production in million tons is compared with other major world producers as follows:

<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>(% World Total 1984)</u>
USA	38.6	41.9	47.4	(32)
USSR	32.2	32.4	32.9	(22)
Morocco	17.7	20.1	21.2	(14)

Phosphate Processing in Morocco

OCP has a long-term program of investment in capacity for producing phosphate fertilizers and intermediates for export. In the mid-1960s Maroc Chimie, which is controlled by OCP, began operations at Safi. In 1976 another project, Maroc - Phosphore 1, came on stream. The World Bank made two loans each of US \$50 million to help finance this project. In 1981 a further project, Maroc - Phosphore 2 was completed. Two further phosphate projects, Maroc - Phosphore 3 and 4 and a major port are now being commissioned at Jorf Lasfar. When the eight new units in these two complexes are all commissioned at end of 1987, the phosphoric acid capacity of OCP will be as follows:



	<u>Million Tons</u>
Maroc Chimie (Safi)	0.33
Maroc Phosphore 1 and 2 (Safi)	1.15
Maroc Phosphore 3 and 4 (Jorf Lasfar)	<u>1.32</u>
Total	2.80

### Phosphate Trade from Morocco


Phosphate rock trade from Morocco declined sharply in 1982 as a result of world fall in phosphate fertilizer demand. Processed phosphate sales have increased steadily as new capacity has come on stream.

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>(% of World Trade 1984)</u>
Rock (mill. tons product)	15.63	13.98	14.65	14.97	(31)
Phosphoric Acid (million tons P <sub>2</sub> O <sub>5</sub> )	0.55	0.65	0.86	1.08	(30)
Phosphate Fertilizers (million tons P <sub>2</sub> O <sub>5</sub> )	0.12	0.21	0.39	0.41	(07)



# Office Memorandum

TO: Mr. Wapenhans, Vice President, EMENA      DATE: April 14, 1986

FROM: A. D. Ouattara 

SUBJECT: Morocco: Medium-term Framework of Adjustment

We agree fully with the need, expressed in your memorandum of April 3, 1986, for agreement between the Fund and Bank staff on a viable and feasible medium-term framework for the adjustment of the Moroccan economy. This issue assumes critical importance in view of Mr. Clausen's forthcoming visit to Rabat and the appointment of a new Moroccan Minister of Finance. Furthermore, as you noted, important negotiations are pending with the Bank on a number of structural adjustment loans, while we wish to resume negotiations with the Moroccans on a financial program for 1986 under the current stand-by arrangement.

Most of the technical problems with the respective scenarios have been extensively discussed at the working level between the two staffs and, as you noted, the Fund's parameters and assumptions have been run through the Bank's model. However, we are still concerned by the discrepancies between the Fund and Bank's debt data, in particular on the terms and conditions of debt relief in 1986-87 1/; we hope the situation will be clarified when the 1985 DRS data are available.

The IMF scenario referred to in your memorandum has now been revised to take account of both the latest Fund WEO assumptions for oil 2/ and other prices and more up-to-date information obtained by the recent IMF mission to Morocco (Tables 1 and 2: details have been communicated to your staff). We believe that a rerun of the World Bank scenario with similar oil price assumptions would give figures for the current account deficit and financing requirements less than US\$200 million greater than ours over the 1986-88 period. 3/ On this basis, a balanced current account should also be reached much earlier than 1991 in the World Bank scenario. These results are, of course, premised on the assumption that import volumes in the World Bank scenario would remain unchanged and that the further decline in oil prices that is assumed would generate a corresponding improvement in the current account balance.

The remaining major differences between the two scenarios concern the growth rates of GDP, exports, and imports which are to some extent a matter of judgment. It needs to be noted first that the higher

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1/ Another source for discrepancies is the fact that the Bank's data exclude military debt.

2/ US\$16 per barrel in 1986, US\$15 per barrel in 1987, thereafter increasing by 4.5 percent per annum.

3/ It is also my understanding that there is broad agreement on the balance of payments projections for 1986.



growth rate of imports in the World Bank scenario is in large part a reflection of the higher export growth rate that is assumed. Overall, our preference would be to take a relatively prudent view of both exports and possible net capital inflows of the needed concessionality and to allow imports to be adjusted upwards year by year, should actual developments in exports and capital flows prove to be more favorable. As far as the relationship between imports and GDP is concerned, the structural adjustment measures being proposed will by definition change pre-existing propensities and elasticities, indeed it is largely for this reason that they are being introduced. Therefore, we do not believe that the link between imports and production should be regarded as being as rigid as the World Bank model leads one to believe. In this connection, we would certainly agree with your assessment that the Fund scenario calls for an active exchange rate policy. It is my understanding that the even higher export growth rates assumed in the Bank scenario will also call for such an exchange rate policy.

Aside from statistical and technical issues, we believe that there is a fundamental difference between the Fund and Bank's approaches to the medium-term strategy for the Moroccan economy, which needs to be underscored. The starting point for the Fund in developing its scenario for Morocco is the amount of external financing which can reasonably be mobilized and serviced. Of particular relevance in this context is the need that we see for reducing the debt service ratio from the expected 1986 level of about 75 percent of exports of goods, services (before debt relief), and private transfers to about half that level by the early nineties. We consider it crucial that the adjustment path for the balance of payments be a function of the country's foreign financing constraint and, furthermore, that we not overestimate the external resources of the required degree of concessionality which could be available to Morocco through 1993. The task thereafter would be to put together the best package of stabilization and structural adjustment policies that would simultaneously optimize income growth. We would note in this context that our scenario analysis generates an average annual growth rate of 3.5 percent during 1985-90 as compared to 4.1 percent in the World Bank high growth scenario. Moreover, under the Fund scenario even with current account balance achieved by 1988, exceptional financing (including debt relief) of US\$4.4 billion will be required over the next three years, in addition to US\$2.9 billion of normal borrowing. We must emphasize here that Morocco is already experiencing difficulties in persuading the commercial banks to provide new money due partly to inadequate adjustment in the past and that there are still uncertainties regarding the availability of official grants. Over the whole 1986-93 period, the Fund scenario will require US\$7.3 billion in exceptional financing, including 1986-87 debt relief, in addition to normal borrowing of US\$8.6 billion.<sup>1/</sup>

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<sup>1/</sup> Given the uncertainties inevitable in such long-term projections, these figures are cited for illustration only.



In contrast, in your memorandum, paragraph 8, it is implied that the Bank's approach is to define a desirable growth pace (and its balance of payments consequences) and thus determine a financing need which will somehow be covered within the context of the Baker initiative. Financing needs in the World Bank's scenarios are significantly higher even after adjusting for lower oil prices. However, as mentioned above most of the difference arises after 1988 given the now more favorable outlook for the immediate term and the backloading of adjustment in the World Bank's scenario. We would anticipate serious difficulties in persuading the Moroccan authorities to take the tough structural adjustment measures which we both agree are necessary if they were given unrealistically high expectations regarding likely capital inflows and growth of exports. This has already in the past led to inappropriately expansionary policies and delayed the implementation of structural reforms. As noted earlier, in the Fund's approach, once the path of adjustment of the balance of payments has been established as a function of the availability of external financing, then, in an iterative process, all other policies, fiscal, monetary, structural, and exchange rate, will have to be formulated to achieve the highest possible levels of savings, investment, productivity and growth. Obviously, the balance of payments targets as well as the policy package will have to be reviewed periodically to obtain the best mix of external adjustment and growth. As noted earlier, if the availability of external resources should improve, the investment and growth targets could be stepped up. On the other hand, we would consider it inadvisable to build in unrealistically high resource flows from the beginning.

We agree that it is important that fiscal policy be such as to increase public sector savings and to allow the private sector adequate room to invest and expand production and exports, and that rapid progress in these areas is crucial to the realization of the balance of payments targets. Fund staff are currently working on the fiscal scenario to assess the impact of the oil price changes and details of the fiscal strategy and the resulting fiscal program will be discussed later with the appropriate Bank staff. A basic element in the strategy would be that the decline in world oil prices would not be passed on to consumers. This is indeed the approach of the authorities. With regard to public investment 1/, however, the Fund staff understand that it still contains a number of nonessential projects. Thus an appropriate redirecting of available resources, even if total public investment must decline somewhat, should prevent any adverse impact on production and exports of the productive sectors, especially as the private sector is expected to assume a more important role in investment as a result of

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1/ Concerning the problem of the definition of public investment (see page 1, footnote 1/ of your memo), our Fiscal Affairs Department will provide an explanation for the treatment of Treasury special accounts to the appropriate Bank staff. Adding the net amount of special accounts to government savings would merely double-count unexpended investment appropriations as revenue.



the structural measures and tax incentives. We would urge the Bank to increase its resources devoted to analyzing and monitoring the Moroccan public investment budget, and to identifying those investment outlays which could be pruned without damage to the productive sectors. As you are aware, no expertise for this job and no substantial work is being done in this area by the Moroccan authorities themselves. For example, a detailed investment budget for 1986, broken down by project and sector, and on both a cash and commitment basis, is still not yet available.

We of course share your concern about any slowdown by the Moroccan authorities in the implementation of structural reforms. It is our view that regardless of the amount of financing available, and the resulting adjustment path of the balance of payments, all these measures should be implemented as soon as possible. Indeed, the lower estimate of external resource flows in our scenario would make this even more crucial. It is our feeling that the expeditious implementation of these policies will help to narrow the differences between the Fund and Bank scenarios. In our negotiations with the authorities, therefore, care will be taken to ensure that the agreed measures, and any further measures which appear necessary, are implemented expeditiously and efficiently, however tight the overall fiscal and monetary policy must be. It is our view that the necessary liberalization of foreign trade must proceed apace, and loss of revenue from adjustments in tariff policy must be compensated by other revenue and/or expenditure measures and not lead to a relaxation of the fiscal adjustment effort. I would mention in this context that our forthcoming mission will be focusing on the adjustment program for 1986, in respect of which there is already broad agreement between the two staffs on the balance of payments projections.

May I propose that we meet this week to discuss these questions and reach an agreed joint position in order to resume negotiations with the Moroccan authorities on the 1986 financial program and the various Bank structural adjustment loans. ?

Attachments

cc: Mr. Tanzi  
Mr. Bhatia  
Mr. Kanesa-Thasan  
Mr. Yandle

Table 1. Morocco: IMF Medium-Term Scenario, Main Indicators

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1985-90	1990-95
	(Actual)												
	(Average growth rates)												
Real GDP	4.2	4.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.5	3.0
Exports: Values (in US\$)	0.3	9.8	12.3	11.9	9.8	9.1	8.7	6.3	6.3	6.3	6.3	8.9	6.3
Volumes	2.2	6.5	7.3	6.5	4.6	4.0	3.8	3.7	3.7	3.7	3.7	6.7	3.8
Of which: phosphates	-1.9	5.2	6.6	4.8	3.4	3.3	3.1	3.0	3.0	3.0	3.0	3.6	3.1
other exports	5.7	7.6	7.6	7.6	5.4	4.5	4.3	4.2	4.2	4.2	4.2	6.4	4.3
Imports: Values (in US\$)	2.3	-4.5	4.8	7.0	8.6	8.8	8.8	6.5	6.5	6.5	6.5	4.5	6.5
Volumes	-0.3	2.0	2.2	2.3	3.9	4.0	3.9	3.9	3.9	3.9	3.9	2.4	3.9
Terms of trade (+ = improvement)	0.1	10.1	2.1	0.4	0.4	0.2	—	—	—	—	—	2.2	—
	(Millions of dollars)												
Current account balance <sup>1/</sup>	-965	-453	-252	—	213	352	248	536	667	782	915		
Disbursements	843	954	965	1009	1051	1034	1140	1163	1191	1215	1240		
Debt relief <sup>2/</sup>	1116	1807	1383	—	—	—	—	—	—	—	—		
Reserve accumulation	55	171	156	33	138	141	125	125	125	125	125		
Financing GAP	—	459	33	711	795	594	988	489	—	-141	-539		
	(Ratios)												
Current account/GDP (in %)	-8.1	-3.2	-1.6	—	1.2	1.7	1.1	2.2	2.5	2.7	2.9	-1.7	2.2
Import elasticity	-0.07	0.44	0.73	0.77	1.30	1.33	1.30	1.30	1.30	1.30	1.30	0.75	1.31
Share of capital goods in total imports (1980 prices, in %)	15.9	16.1	16.3	16.5	16.6	16.7	16.8	16.9	17.0	17.1	17.2	16.4	17.0
Debt service ratio (in %) <sup>1/</sup>	63.6	74.2	63.0	51.3	49.5	45.1	49.0	41.4	34.7	32.4	27.6	47.4	38.4
Outstanding debt/GDP	109.1	107.1	101.5	94.6	87.7	80.7	73.1	65.1	57.4	50.1	43.2	96.8	61.6
	(US dollars)												
Phosphate rock price (US/ton)	32.7	33.4	34.9	36.5	38.2	40.0	41.9	43.8	45.9	48.0	50.3	36.0	45.0
Petroleum price (US\$/barrel)	26.4	16.0	15.0	15.7	16.4	17.1	17.9	18.7	19.6	20.5	21.5	17.8	19.2
	(Growth rates)												
Prices of manufactures	1.0	14.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	5.5	4.5
Phosphoric acid price	-0.3	2.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.1	4.0

<sup>1/</sup> Before debt relief.<sup>2/</sup> Debt relief for 1987 not yet obtained.





Abdellatif FILALI  
Minister of Foreign Affairs, Cooperation and Information

Born: January 26, 1928 in Fez, Morocco

Education: High school in Fez  
PhD in Law, University of Paris, France

Career:

- Minister of Foreign Affairs (1957)
- Charge d'Affaires at the United Nations (1958-1959)
- Director of the Royal Cabinet (1959-1960)
- Charge d'Affaires, Moroccan Embassy to France (1961-1962)
- Ambassador to the BENELUX nations (1962-1963)
- Ambassador to China (1965)
- Ambassador to Algeria (1967)
- Minister of Higher Education (1968)
- Ambassador to Spain (1970)
- Minister of Foreign Affairs (1971-1972)
- Ambassador to Spain (1974)
- Representative to the United Nations
- Ambassador to Great Britain
- Permanent Secretary of the Academy of the Kingdom of Morocco (1981)
- Minister of Information (1982)



Moussa SAADI  
Minister of Tourism

Born: December 13, 1937 in Oujda, Morocco

Education:

- Geologist/Mining Engineer (Nancy, France)
- License in Sciences (Grenoble, France)

Career:

- Director of Mining, Geology and Energy (until 1974)
- Secretary of State for Commerce, Industry & Mining
- Minister of Energy & Mining (1977-1984)
- Has published several papers and been awarded the scientific award of Morocco in 1970

Wednesday, April 23, 1986 - 4:30 p.m.

Meeting with Mr. Bensalem Guessous,  
President of the Confédération Générale Economique Marocaine (CGEM)  
and with representatives of the Moroccan banking sector

Meeting Objectives

1. Mr. Guessous is a former Finance Minister and ambassador to the European Economic Community (EEC). As head of a private association of Moroccan industrialists and former Government official, Mr. Guessous will be well-placed to comment on the impact of Morocco's adjustment programs on business prospects. The meeting will also be with key representatives of the Moroccan banking sector (both private and public).

Issues to be raised by the Bank

2. An appropriate growth strategy. The CGEM has, at times, been fairly vocal in its criticism of the Government's economic management, arguing that continued restraint and austerity will harm the investment climate, and that the Government's principle role in economic management should be simply to ensure that adequate credit is available so as to enable private industry to expand.
3. You should explain to the group that the Bank supports the Government's development strategy which emphasizes export development. We believe also that the private sector should play a major role in the evolution of that strategy. In the past the private sector's role was essentially to supply a domestic market from behind very high tariff walls. That strategy is no longer viable. With increasing liberalization, its role will be to sell competitive products abroad, diversifying away from the EEC towards both North American and Middle East markets. You should seek the views of the meeting participants on the prospects from a private sector-led export thrust, and find out what the policy, financial and institutional constraints are to such a development.
4. Privatization. The public enterprise sector in Morocco is large. In addition to placing a financial burden on the Treasury, it drains scarce administrative and managerial talent from a Government bureaucracy which is already strained by the need to implement all the Government's reform programs. To alleviate this burden, the Government has publicly announced that privatization of some enterprises will be considered, and has begun privatizing certain public holdings in the fisheries sector, the sugar sector, and the hotel industry. The Government's efforts could be hindered by the lack of depth of the Moroccan capital market. Thus potential buyers could well consist of a few large families.



5. We suggest that you explore with Mr. Guessous and the group prospects for accelerating the Government's divestiture program and the structural factors constraining privatization. For discussions of those issues please see brief for meeting with the governor of the Central Bank. In summary, the strengths of current financial intermediation are: sound public financial intermediaries for medium term financing; and sound private financial intermediaries for medium and short-term financing. Weaknesses of the current intermediation process of (a) too much market segmentation, leading to high intermediation costs, (b) too many distortions in credit allocation due to interest rate rebates (c) still too little competition among financial intermediaries (d) interest rate policy still too rigid (e) insufficient incentives for large numbers of small private savers to hold securities.

BIOGRAPHY

Bensalem GUESSOUS  
President, General Confederation of Moroccan Exporters (CGEM)

Born: In December 24, 1919 in Fes, Morocco.

Education: Diploma of Chemistry and Pharmacy at the University of Strasbourg (France).

Career:

- Private pharmacy practice (1947-56)
- Municipal representative of Fes
- Member of the Chamber of Commerce & Industry (1947-50)
- Manager of a pharmaceutical laboratory in Casablanca
- President of the Economic Committee at the National Consular Assembly (1956-60)
- Member of the Plan Commission
- President of the National Pharmacy Council
- Government representative to the Chemins de Fer du Maroc and to the Energie Electrique du Maroc
- Governor of the Fes Province (1960-61)
- Governor of the Tanger Province (1962)
- Minister of Public Works (1963)
- Ambassador to the Kingdom of Belgium, Netherlands and Luxemburg (1963-71)
- Head of the Moroccan delegation to the EEC
- Minister of Finance (1972-74)
- General Director of the Société Nationale d'Industrie (1974-78)
- President of the Caisse Interprofessionnelle Marocaine de Retraite

Languages - Arabic, French



TALKING NOTES FOR MEETING WITH  
HIS MAJESTY, HASSAN II  
APRIL 23, 1986

MOROCCO HAS BEEN INDEPENDENT FOR 30 YEARS.

IN MARCH, 1986, HASSAN II CELEBRATED HIS 25th YEAR ON THE THRONE.

He can be congratulated for the substantial progress the country has made under his guidance in: developing infrastructure, roads, dams, ports etc.

expanding education and creating a class of highly competent  
business and political leaders  
improving health and social conditions  
developing a domestic industrial capacity.

All of these factors are major structural changes in the Moroccan economy.

This structural change must continue if the economy is to grow and develop further.

Recent adverse factors have forced more extensive adjustments.

The adjustment is only half finished and the action program must continue.

The ability of the government and country to continue and complete the adjustment will be the measure of its resolve, courage, and success.

The favorable developments of this year do not signal the end of the crisis and adjustment period, but offer the opportunity to continue the adjustment process with somewhat less pain.

Continued determined action is required in the areas of:

Resource Mobilization and improving public saving

i.e. Raising taxes and/or controlling expenditures

Public enterprise reform (PERL, appropriate price policy, etc)

Defining medium term strategy and action program

Continuing to promote exports. (*liberalization, exchange rate*)  
*privatization*

If this round of structural change can be successfully completed, then the country will justly deserve full recognition for a great achievement.

Note that the Bank has and will continue to provide what assistance it can and will try to encourage help from others, but only to the extent that the Moroccan's own efforts justify such help.

Our program has nearly doubled to \$425 million per year with \$600 million in policy based lending in past two years and more to come.

Should the King raise the issue of the burdens of the war in the Sahara, you should respond that while you recognize the importance of this issue to Him, it is not an issue than Bank can be involved with. However to the extent that it is a burden, that increases the importance of continuing the structural change and increasing efficiency.

, April , 1986 - Hrs.

Audience with His Majesty King Hassan II

Objectives of the Audience

1. Given the structure of decision-making in Morocco, the King's pronouncements on economic policy vitally affect all aspects of economic management. (For example, the King recently inveighed against devaluation as a manifestation of weakness. If this message holds within the Government, it will be hard for the country to sustain the noteworthy strides it has already made towards structural adjustment)<sup>1/</sup>. Your audience with the King will help convey to Moroccan decision-makers that adjustment is not merely meeting annual targets; nor can it be achieved through "one-shot" changes in some economic variables (such as the current temporary dip in international energy prices). It requires sustained commitment to a cohesive set of policies. To be credible to the population and to the international financial community, the policies must be consistently applied and visibly backed by the country's leadership.

Issues to be Raised with the King

2. Morocco needs to stabilize its internal and external finances as soon as practicable, if it is to re-establish commercial creditworthiness. Moreover, if the Moroccan economy is to change its inward-looking orientation based on import-substitution in a protected environment to a more active participation in international trade, the following key areas of economic policy will need sustained attention. Morocco's comparative advantage needs to be optimized through, inter-alia, constant vigilance on the exchange rate to ensure that the real effective exchange rate remains constant or declines so as to facilitate the necessary growth in exports. Resource mobilization efforts will be required in all sectors - particularly the public sector - by a judicious mixture of measures to raise revenues and cut expenditures. An export-led growth strategy backed by strong incentives for expansion in the private sector must be supported. Supplementary notes on these issues are attached.

3. The King and, through him, his Ministers should be sensitized to the skepticism of the perception of Morocco's prospects currently prevailing in the international financial community. On the one hand, it is recognized that the Government has moved courageously to correct its domestic and external imbalances. On the other hand, the Government is still quite some way from being able to demonstrate that there is a sustained commitment to the policies that will generate the resources required to repay debt and enhance long-term creditworthiness.

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<sup>1/</sup> The Minister of Finance however has tried to continue the decline in the dirham through technical manipulations.



### Exchange Rate Management

1. The dirham was generally considered to be overvalued in the early 1980s. It was depreciated in September 1983, but began to appreciate immediately thereafter. Further devaluations occurred in early 1984 followed by another rise and then a sharp fall in mid-1985. Exports responded positively to the devaluations and negatively to revaluation. For example, export growth of manufactures was limited in 1983 to 5.3% as a result of the appreciation of the dirham. With the devaluations occurring in 1984 and 1985, manufactured export growth rose by 8.4% and 18.6% respectively. Devaluation has also had a significant impact on tourism receipts which rose by 17% in real terms in 1985, a record year for Moroccan tourism. Overall the dirham has devalued 15% since 1983 vis-à-vis the basket of currencies defined by the Central Bank. However, Moroccans are particularly sensitive to the rate with the French franc.

2. We must emphasize that an active exchange rate policy is necessary to promote export growth and restrain domestic demand. The impressive results in export growth registered over the last two years provide the necessary evidence. Also devaluation contributes to limiting imports. In 1984, imports of goods other than food, fuel, and capital goods (which enjoy a special status) did not grow in volume terms, in part as a result of the depreciation of the dirham. In addition, flexible management of the exchange rate has enabled trade liberalization to proceed without major balance of payments difficulties.

3. Some key Moroccan decision-makers are likely to argue that the exchange rate has little impact on trade. Rather, they feel that devaluation is an admission of economic failure and thus is undesirable for political reasons. We disagree with this interpretation. Recent movements in key economic indicators appear to support our view. For this reason, elsewhere in the world devaluation is viewed less and less as a sign of policy failure and more as an effective policy tool. We may cite the example of the United States which is presently pursuing an active devaluation policy in order to combat its large trade deficit. In sum, you should state that the exchange rate is an important policy instrument to support structural change, and devaluation should be pursued if circumstances so warrant.

### Resource Mobilization

1. Resource mobilization needs to be pursued in all economic sectors, in particular the public sector. The Government is spending beyond its means. Despite several years of stabilization, the overall budget deficit was nearly 8% of GDP at the end of 1985. If the \$2.3 billion of Government payment arrears are included, the deficit rises to over 10% of GDP.
2. Enhanced resource mobilization should come about through a major effort to increase public savings to the level needed to finance core levels of public investment. Revenues can be increased through: (a) small (one percent yearly) increases in fiscal pressure, to raise it from its current level of 22% of GDP to over 25% by 1990 and (b) zero growth in constant terms of current expenditures. Government tax revenues could be increased by raising the efficiency of tax recovery, eliminating exemptions, and increasing value added tax rates. Some of the measures are needed to offset the revenue losses from the trade liberalization programs, which is reducing trade taxes.
3. In order to ensure that adequate funding is available for maintenance and public services provided by Government and public enterprises, wages, salaries and employment policies will have to be monitored, since wages and salaries account for over half of current expenditures.
4. On the basis of a January 1986 mission, Bank staff are preparing detailed proposals in each of these areas. The Bank's report is expected to provide the basis for the next Consultative Group meeting, scheduled for June 1986.



MOROCCO

TUESDAY, APRIL 22

- 09.30 Meeting with H.E. Moulay Zine Zahidi, Minister in Charge of Economic Affairs and H.E. R. Rachidi Ghazouani, Minister in Charge of Plan
- 10.30 Meeting with H.E. Abdellatif Jouahri, Minister of Finance
- 11.30 Meeting with Mr. Ahmed Bennani, Governor of the Bank of Morocco

Luncheon hosted by H.E. Lamrani, Prime Minister

<sup>3:00</sup>  
~~15.00~~ Working Session with H.E. Lamrani, Prime Minister and H.E. Laraki, Vice-Prime Minister

<sup>4:00</sup>  
~~16.00~~ Meeting with the Prime Minister and selected Ministers closely concerned with World Bank operations:

Dinner hosted by H. E. Jouahri, Minister of Finance

MOBCCO

TUESDAY, APRIL 22

09:30 Meeting with H.E. Hossain Elina Sahid, Minister in Charge of Economic Affairs and H.E. R. Rashid Osman, Minister in Charge of Plan

10:30 Meeting with H.E. Abdelatif Ibrahim, Minister of Finance

11:30 Meeting with H.E. Mohamed Elmaghrabi, Governor of the Bank of Egypt

Lunch hosted by H.E. Elmaghrabi, Vice-Minister

12:00 Working Session with H.E. Elmaghrabi, Vice-Minister and H.E. Elmaghrabi, Vice-Minister

14:00 Meeting with the Prime Minister and selected Ministers concerning the operations of the Bank of Egypt

15:00 Meeting hosted by H.E. Elmaghrabi, Minister of Finance

*Handwritten:*  
TODAY  
YOU CAN HELP  
ME BY  
IDEAS & QUESTIONS  
ON THE P  
YOURSELF



Tuesday, April 22, 1986 - 10:30 a.m.

Meeting with H.E. Mohammed Berrada  
Minister of Finance and Governor for the Bank

*Public Savings*  
*Tariff - cover*  
*operation + maintenance*  
*Development Strategy*  
*June*  
*Down group*

### Meeting Objectives

1. The Finance Minister was appointed in early April to replace Mr. Jouahri who had spearheaded most of the economic reforms introduced since 1983. The Minister of Finance heads the Government's negotiations with the IMF and is the principal spokesman for the Government in all substantive discussions with the Bank on economic policy. The meeting will be an opportunity to discuss the conditions which must be fulfilled by the Government, if a co-ordinated international approach to lending to Morocco under the Baker Plan is to be pursued. The Minister should be commended for the progress achieved to date in the adjustment program, but it should be stressed that a continued, sustained adherence to both the stabilization and the adjustment programs will be required.

*Sector*  
*Structural*

### Issues to be Raised by the Bank

#### Growth Strategy

2. The principal elements of a growth strategy designed to restore creditworthiness should be reviewed with the Finance Minister. They are to increase the economy's productivity and efficiency while raising its export potential. Increased production will, over the medium term, enhance the potential for public resource mobilization, for expanding exports and reducing and eliminating the current account deficit; and for satisfying popular demands for improving the standard of living. The accompanying liberalization measures will help encourage greater reliance on the private sector, which must be a dynamic factor in increasing production and productivity.

#### Investment Planning and Budgeting

3. Constraints on available budgetary resources to finance public investment make rationalizing the planning program and budgetary process urgent. Morocco's budgeting practices are inadequate in that they have been unable to adjust commitments to resource availabilities. Parliamentary authorizations are not based on detailed estimates of need, and therefore regularly exceed the amounts that can be spent in any one year. In the past, the ratio of total authorizations to actual resources available for disbursements has been about 2:1. This has led to a build-up of Government arrears to both public and private industry.

4. The Government, with Bank assistance, has begun to computerize its budgeting system and to streamline procedures. However, the entire planning and budgeting system needs to be overhauled. It should be based on close co-ordination between the Ministers of Plan and Finance to ensure that only those projects of high priority and for which resources are available should be included in the budget.

5. You should impress on the Finance Minister the need for a comprehensive reform of the planning and budgeting system. Investment planning must be intimately limited to realistic budget forecasts with the institutional framework programming revisions in the face of variations in resource availabilities.

#### Aid-Coordination

6. The Government has, at times, been reluctant to discuss Morocco's economic prospects and financing needs in an organized forum - such as the Consultative Group - preferring to deal with lenders bilaterally.

7. You should stress to the Finance Minister that a successful funding of their adjustment effort through both the mustering of new resources and through debt relief will require a co-ordinated approach by lenders. If the Baker Initiative is to be pursued, each partner in the adjustment effort - commercial and bilateral lenders and the Bank and IMF - will need to be fully informed of the objectives of each others' programs and be systematically informed of progress under each. In these circumstances, the profile of Government actions under these programs is bound to rise. The Government should be persuaded that its severe macro-financial constraint and the diminishing margin for maneuver in economic management accentuate the need for co-ordination of aid policies and practices.

#### Issues to be raised by the Government

##### Bank/Government Relations

8. In the course of discussions with Bank staff, various senior Government officials, including the former Finance Minister, have pointed to what they term a recent toughening of conditionality attached to Bank programs. Their concern is that Bank requirements are becoming difficult to handle politically and that they are placing increasing strains on a Government bureaucracy which is already heavily burdened by the implementation of the country's stabilization and adjustment programs. They fear that for the Bank to substantially increase its conditionality under each operation will result in delays in negotiating as well as in implementing them, such that the success of the programs themselves may be jeopardized.

9. Proposed Response: You should stress that the Bank's objective is not conditionality for its own sake, but the selection and phasing of key actions considered fundamental for the success of each program. Monitoring is needed not only to ensure that timely actions and decisions are taken. It is also to provide the necessary basis for taking corrective action if objective conditions change.



BIOGRAPHY

Mohammed BERRADA  
Minister of Finance

Born: On November 3, 1944 in Casablanca, Morocco

Education

- Primary and Secondary school in Casablanca
- College in Bordeaux, France (1960-1968) (Laureate)
- Obtained the following diplomas:
  - . Degree from Ecole Supérieur de Commerce et d'Administration des entreprises
  - . License and D.E.S in Economic Sciences
  - . Certificate in demographic sciences and social psychology
  - . Degree in political sciences
  - . License in literature
  - . D.E.S.. in Law
  - . PhD in Economic Sciences (1968)

Career:

- Professor at the faculties of Law, Economic and social sciences of the University of Rabat in 1969 and Casablanca in 1971 where he taught economic history; enterprise management; introduction to accounting; demographic science; analytical accounting; national accounting; economic theory and financial management.
- Participated in several national and international seminars.
- Is a CPA and an Executive Director of several private enterprises.

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PUBLIC SAVINGS

External Factors

oil prices  
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External Factors

IMPORTANT TO  
MAINTAIN - MAKE WORK  
MOVE QUICKLY.

changing

SAL

agrees  
6-22-86  
PACIS

agriculture  
Industry  
Trade  
Administration

Growth  
GDP - 4.2% 1985  
consumption

Search for Balance between  
Public - Private Sectors  
" Public Tends To Overvalue Private Sectors  
Emphasize Private Sectors!  
Emphasize the Social Sectors - Human Resource Development.  
Productivity gains! - Incentives for performance!

Quality of program  
will determine.



*Medium Term  
Framework  
Strategy*

Tuesday, April 22, 1986, 11:30 a.m.

*Too much  
Borrowing  
for consumption  
not enough for  
production*

Meeting with Mr. Ahmed Bennani,  
Governor of the Central Bank (Bank of Morocco)  
and Governor for the IMF

### Meeting Objectives

1. Mr. Bennani has been closely associated with the reforms to the financial sector introduced under ITPA II. Mr. Bennani is not convinced of the need for flexible exchange rate management. In fact, he has opposed any move to devalue the dirham. The meeting will therefore provide a good occasion on which to discuss the role of exchange rate management in an export-led strategy. We suggest you also review financial sector issues with the Governor.

### Issues to be Raised by the Bank

#### Exchange Rate Management

2. (For brief, please see appendix to the brief for the audience with the King).

#### The Financial Sector

3. The role of the financial sector is expected to change under Morocco's adjustment programs as it shifts priorities from financing the Treasury deficit to supporting growth of the private sector. The financial sector should evolve into an effective vehicle for this structural change. A good start has been made.

4. The efficiency of financial intermediation has improved recently in the sense that financial intermediaries have more diversified possibilities to raise resources and make loans. Since early 1985 private banks can develop medium term lending and public sector development banks can raise certain categories of deposits. However, there is much scope to improve this through a progressive removal of the grid of interest rates as well as detailed category-wise credit ceilings. Of course, it is recognized that the stabilization agreements with the IMF will dictate the need to maintain overall ceilings on credit. Interest rate levels have been raised and some obligatory placements with the Treasury have been suppressed in the framework of the financial sector reforms. Consequently, term deposits have substantially increased. Since the overall domestic economic activity was low in 1983 and 1984, and investment demand was not buoyant, the liquidity level in the banking system increased substantially. In 1985, GDP growth was 4.2 percent in real terms and is expected to remain at 4% in 1986. This should activate investment demand.

5. Further measures need to be taken to promote private sector savings and investment: private savings have recently averaged 11% of GDP and should rise to 14%, while private investment should grow from 10% to 13%. The

measures needed are to (i) increase competition among financial intermediaries; (ii) liberalize interest rate further; (iii) progressively remove interest rate subsidies; (iv) monitor the efficiency of the new foreign exchange risk sharing scheme; (v) develop the capital market; and (vi) develop export production and investment financing.

6. During the meeting you should ask the Governor for his view of the results to date of the financial reforms and ask what more the Government intends to do to promote increased efficiency of financial intermediation in Morocco.

#### Privatization and the Capital Market

7. The Moroccan Government has begun a program of privatizing enterprises that were previously owned by the Government. Sales of Government assets have been taking place in the fisheries, tourism and sugar sectors. Notwithstanding the Government's policy commitment to privatization, constraints to a more rapid implementation of the policy have appeared. The lack of depth of the capital market has provoked fears that, in such circumstances, Government assets can be sold only to existing large (usually family-owned companies), thereby effectively replacing a Government monopoly with a private one. The capital market should therefore be developed to attract small private savers to the Government divestiture process.

8. While a basic capital market structure exists in Morocco, including a stock exchange, the structure is hardly used in Morocco, essentially because capital market participants are not numerous enough, and transactions are limited. To increase the number of transactions, not only Government but also public and private enterprises should have enough incentives to issue bonds and shares. These should be negotiated in the capital market through intervention of a large number of agents. These agents should be supported by a large number of private participants who should find it profitable to hold securities. The money market is already developing fast in Morocco. Transactions reached \$700 million in 1985. This development should help develop the financial market, through the intervention of banks, who would act as intermediaries in the same way they now do on the money market.

9. We suggest you ask the Governor for his views on the measures needed to stimulate the development of new financial instruments and what methods and procedures are contemplated to be used in the transfer of State assets to the private sector. You may also wish to say that the Bank and IFC would like to assist in Government efforts to extend and deepen the capital market.

#### Issues to be Raised by the Governor

10. We do not expect the Governor to raise any particular issues, though he may challenge our views on the importance of exchange rate policy.



## BIOGRAPHY

Ahmed BENNANI  
Governor, Bank of Morocco

Born: December 12, 1926

Education:

- Diploma of Higher commercial instruction
- License of Law, Faculty of Paris (France)

Career:

- Director General, Department of Funds and Administration
- Secretary General, Ministry of Finance (1963)
- Secretary of State, Ministry of Commerce, Industry, Mining and Merchant Marine (1964)
- General Director, Caisse de Dépôt et de Gestion (1965-66)
- Secretary of State for Economic Affairs to the Prime Minister (1967-68)
- Vice Governor, Bank of Morocco (1968)
- Vice President, Union des Banques Arabes et Francaises (since 1980)
- Vice President, Banque Nationale de Développement Economique (BNDE)
- Vice President, Banque Marocaine du Commerce Extérieur (BMCE)
- Administrator, UBAF Bank Limited, London
- Administrator, UBAAB, UBAE Arab American Bank, New York
- Administrator UBAE, Rome
- Member of the Board, National Bank of Economic Development, Moroccan Bank of Foreign Commerce, Moroccan Market Funds, Union of French & Arab Banks, Moroccan Navigation Company

Awards: - Officer, Order of the Throne (1970)

Languages: - Arabic, French

1959  
27 years  

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1986

Government, Bank of Morocco

Born: December 12, 1928  
 Education: - Diplôme de l'Institut National de l'Enseignement Supérieur (1951)  
 - Licence de l'Université de Paris (France)  
 Career: - Director General, Department of Finance and Administration  
 - Secretary General, Ministry of Finance (1961)  
 - Secretary of State, Ministry of Commerce, Industry, Mining  
 - Secretary of State, Ministry of Finance (1967-68)  
 - Secretary of State, Ministry of Finance (1968-69)  
 - Secretary of State, Ministry of Finance (1969-70)  
 - Vice Governor, Bank of Morocco (1970)  
 - Vice President, Union des Banques Arabes et Financières (1970)  
 - Vice President, Banque Nationale de Développement Économique  
 - Vice President, Banque Nationale de Commerce International  
 - Administrator, USAE Bank Limited, London  
 - Administrator, USAE Bank, New York  
 - Administrator, USAE Bank  
 - Director, Office of the Director of the Bank of Morocco (1970)

Harold  
Exelint  
Rote

Investment  
should not be as  
high as in the past  
Develop the private  
Sector.

James  
Anthony  
Sturley

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WEDNESDAY  
APRIL, 23

MOROCCO

WEDNESDAY, April 23

- 09.30 Meeting with Mr. Tahar Masmoudi, Minister of Commerce and Industry
- 10.30 Field trip to site of Rabat Urban Project, with Ministers Kabbaj (Public Works) and Boufettass (Urban Affairs and Housing)
- 12.15 Meeting with M. Ahmed Osman, President of Parliament

Luncheon hosted by Mr. Osman

<sup>3:30</sup>  
~~15.30~~ Departure for Casablanca

<sup>4:30</sup>  
~~16.30~~ Meeting with Mr. Bensalem Guessous, President of the General Confederation of Moroccan Exporters (CGEM), and representatives from the banking sector (both public and private)

<sup>7:30</sup>  
~~19.30~~ Cocktails hosted by Mr. Guessous

Dinner hosted by Mr. Guessous

Return to Rabat Hilton



Wednesday, April 23, 1986 - 9:30 a.m.

Meeting with H. E. Tahar Masmoudi,  
Minister of Commerce and Industry

### Meeting Objectives

1. The manufacturing sector will play a dominant role in the transformation of the Moroccan economy from its orientation to domestic markets and consequent reliance on import-substituting industrial activity to an outward orientation more encouraging of exports. The sector as a whole has contributed to a disequilibrium in the balance of trade, imports of intermediate and capital goods having risen faster than locally produced substitutes. The Ministry of Commerce and Industry has been in the forefront of the Government's efforts to liberalize trade and improve industrial efficiency and you should use this opportunity to express our gratification for its having persisted with the reforms despite criticisms that have, at times, been strident.

### Issues to be raised by the Bank

#### Pursuing Reforms in Trade and Industry

2. In the industrial sector, the process of structural adjustment is well advanced, and has provided the core of the reform program supported by the two Industrial and Trade Policy Adjustment Loans (ITPA) which the Bank has made in 1984 and 1985 (See attachment to Core Brief for summaries of the ITPA programs). You should acknowledge to the Minister, that the Government has shown considerable courage in going ahead with its program in this context, but note that further actions are required in the next 2-3 years to reach the agreed medium-term objectives.

3. Further measures are going to be needed to reduce the overall levels of protection of Moroccan manufacturers to 25% and the Government is going to have to find the optimum balance between reductions in Quantitative restrictions and tariffs. Remaining price controls on domestic monopolies will need to be eliminated as imports are liberalized; and reductions will need to be effected on internal trade and transport such as shipping and licencing requirements.

### Issues to be Raised by the Government

4. The Minister may reflect some of the criticism of the program namely that it could weaken Moroccan industry through excessive imports. The following points should be made in response:

- i) The inflow of imports can and should be kept to a responsible level by appropriate exchange rate and demand management policies.

- ii) The program's objective is not simply "de-protection" for its own sake, but a strengthening of the industrial sector's capacity to produce efficiently, and compete thereby escaping of the constraints of a limited domestic market. In addition, the general public (consumers) would benefit from liberalization.
  - iii) It is principally the trade and industrial sectors which will attract support provided from other external sources. Without this support, much more severe adjustments would have to be made. Any backtracking in industrial and trade policy could be detrimental to the adjustment effort elsewhere in the economy.
5. Release of the Second tranche of ITPA II (See attachment to Core Brief).



BIOGRAPHY

Tahar MASMOUDI  
Minister of Commerce and Industry

Born: in 1942, in El-Jadida, Morocco.

Education PhD in Law (1983)

Career: Inspector, Caisse Nationale de Crédit Agricole (1965)  
Director of Commerce and Industry, Ministry of Commerce and  
Industry (1984)  
Member of Parliament  
President of the Council of El-Jadida.  
Appointed Minister of Commerce and Industry

4593B  
04/03/86

Wednesday, April 23, 1986 - 10:30 a.m.

Rabat Urban Development Project  
Field Visit

Objectives of Field Visit

1. Your visit to the Bank-financed Rabat Urban Development Project should provide an opportunity to view a relatively successful (completed) project which initiated several policy changes in cost recovery, and planning and engineering standards, and has provided some valuable lessons for replicability. A write-up of the project is attached. It will also allow you to raise some important policy issues.
2. Urbanization has been fairly rapid in Morocco, averaging 4.5% per annum, compared to about 3% per annum for population growth overall. This has produced many slums around the major urban agglomerations, particularly Casablanca. While these developments offer the opportunities for significant small-scale industrial and commercial activity on a planned basis, there are problems posed by rapid urbanization. Low-income urban areas are socially very volatile given their large population of unemployed youth. Twice in the very recent past (1981 and 1984), Government reductions in subsidies on basic foodstuffs (flour, edible oils, sugar) have produced explosive street demonstrations against the Government. Concern that violence of this kind will again follow any attempts to raise prices of goods and services consumed by the urban poor are a major factor behind the Government's reticence to adopt resource mobilization measures.
3. In these circumstances, your visit should enable us to make the following points to the Government:
  - a) It is important, even during times of economic austerity, for the Government to continue to invest in social overhead in order to mitigate the potential adverse social effects of adjustment.
  - b) It is however possible to finance this investment by means other than the Government budget.
  - c) To the extent that costly subsidies need to be withdrawn, a planned reduction of subsidies should incorporate support programs to target better those most in need of continued assistance.
4. Further financing of urban investments at a time of macroeconomic and financial difficulties is important to sustain growth for the following reasons:
  - (i) about two thirds of GDP is generated in urban areas and urban incomes are at least 30 percent higher than (and have been increasing twice as fast as) those in rural areas;



- (ii) Morocco's urban areas offer a dynamic economy and conditions under which it is less expensive to create new jobs and increase income than in rural areas. Also, services needed for sustaining economic activities can be provided more efficiently in the urban setting.

5. Government policy should therefore attempt to rationalize rather than restrain urban growth. The present economic environment in Morocco dictates stringent controls over public expenditure and increased reliance on institutional and private savings for the financing of social investments previously supported by the state. Although attention to basic human needs and to measures to increase the incomes of the poor remains a fundamental objective for Morocco, the current and prospective budgetary limitations call for greater concern for cost effectiveness, improved targeting of social services and subsidized infrastructure, and for the development of lower unit cost delivery systems.

6. In this context, future Bank assistance in the urban sector would concentrate on the following:

- (a) to assist the government in focusing its urban investment program on increasing the provision of low-cost serviced land for housing construction and the development of economic activities by the private sector, and of basic urban services to a larger share of the population by:
  - (i) streamlining and improving the delivery system for low cost serviced land;
  - (ii) strengthening technical responsibilities and fiscal roles of local governments to manage urban growth and to extend urban services to existing and future low-income households; and
  - (iii) mobilizing private resources to the housing and municipal finance subsectors;
- (b) to help the government develop a plan for restructuring its urban transport companies and improving its urban transport networks.

Rabat Urban Development Project  
(LN 1528-MOR for \$18 million signed on 03.31.78)

Field Visit

Project Description

1. This was the Bank's first shelter related project in EMENA and was instrumental in influencing the government's policy of slum upgrading versus demolition. As the first Bank supported urban project in Morocco, it aimed at demonstrating efficient low-cost solutions to urban development problems in general, and to shelter in particular, thereby setting the stage for the replication of similar operations in the future. To this end, the project had two principal objectives: a) to introduce low-cost urban upgrading, infrastructure, and housing concepts affordable by the lowest income groups and incorporate improved cost recovery, which would enable the initiation of country-wide programs to tackle already serious housing, infrastructure, and social service problems more effectively; b) to deal with structural problems in the housing, infrastructure, social service, and employment sectors of Rabat's seventh Municipal Ward.

2. With these objectives the project was designed to consist of five interrelated components: i) comprehensive squatter upgrading in the three quarters of Douars Doum, Maadid and Hajja. This upgrading included rehabilitation and extension of infrastructure, improvement and expansion of commercial installations and home improvements through self-help; (iii) an employment generation program to create about 2,500 new jobs in the project area; (iv) community services equipment to improve garbage collection, fire fighting and emergency services; and (v) technical assistance to strengthen the institutional arrangements and technical capabilities of the executing agencies. An organization was created for project implementation which was to involve seven ministries and two other agencies under the supervision of a Project Directorate (PD). The project cost at appraisal was DH 165.5 million, of which DH 79.2 million (\$18 million) were to be financed from the Bank loan.

3. The main features of the project, as highlighted in the recent Project Completion Report (June 24, 1985) were that it largely succeeded in meeting its objectives, works were satisfactorily executed with no major procurement issues, and most covenants were fulfilled promptly. It provided solutions to specific shelter problems, demonstrated the feasibility of upgrading sites and services, and set the stage for Bank lending in the sector, which now includes four projects. On the other hand, following the very long identification and preparation period, there were considerable implementation delays (30 months in all beyond appraisal estimates, with actual implementation over 5 1/2 years), because of managerial problems, lack of counterpart funds, and institutional complexity. Although no major revisions took place during implementation, some minor physical works and the technical assistance have not been implemented by the closing of the project (the final

disbursement was on 12/07/84). Despite implementation delays, appraisal cost estimates were exceeded only marginally because of contractors' low prices as a result of the recession. Institutional development did not materialize as expected; however, re-assignment of implementing and coordinating functions as well as for small business promotion helped address the issues encountered.

4. The project has been found to be economically justified, with an Economic Rate of Return of 20%. The project is also affordable to its beneficiaries and recovery for sites and services costs is satisfactory (recovery of upgrading cost has, however, been delayed by delays in land acquisition and delivery of titles).



Wednesday, April 23, 1986 12:15 PM

Meeting and luncheon with Mr. Ahmed Osman  
President of the Parliament

Meeting Objectives

1. Mr. Osman is an extremely influential person in Morocco, widely rumoured to be high on the list for nomination as the next Prime Minister after Mr. Lamrani retires, which is expected in the near future. The country's adjustment effort prospects for the Baker Plan and overall Bank/Government relations should be discussed, with emphasis on the parliamentary support needed for the Government's adjustment program.

A Topic for Discussion

2. The Moroccan Government has often argued that with the recent re-activation of the Parliamentary process, the pace and scope of economic adjustment are necessarily constrained by the difficulty and delays inherent in persuading elected representatives of diverse interest groups of the merits of each program. It is evident that the economic rationale for policy reform does not always weigh very heavily with these representatives, some of whom would prefer to strike nationalistic and populist (and sometimes anti-Bank, and anti-IMF) postures, particularly where the issues involved are politically and socially sensitive -- e.g. reduction of subsidies, increasing revenues through taxation, import liberalization, and closure of uneconomic public enterprises or their privatization of others. All the measures cited are, however, important elements of Morocco's adjustment.

3. You may wish to stress to the President of the Parliament that the adjustment effort supported by the Bank should be seen not as a set of policies recommended by an international agency, but as consensus-determined and economically feasible options to enable Morocco to emerge from its long-standing and structural constraints, and from its current crisis, within a reasonable period. Neither the parliamentary opposition nor any other cohesive constituency in Morocco appears to offer structured, coherent alternatives to the ongoing adjustment effort. You may wish to add that the Bank considers the Parliament's and its President's role very important in helping to evolve a national approach which surmounts other possible more short-term and fragmented perspectives to effectively address Morocco's problems.

BIOGRAPHY

M. Ahmed OSMAN  
President of Parliament

Born: in January 1930 in Oujda, Morocco

Education:

- High school diploma from the Imperial Lycee in Rabat where he was a classmate of King Hassan II.
- BA in public and private law

Career:

- Member of the Royal Cabinet in charge of legal matters immediately after the return of King Muhammed from exile.
- Member of the National Consultative Assembly (1955)
- Director of the American Division, Foreign Affairs Ministry.
- Participated in several international conferences and UN sessions
- Took part in several negotiations with Spain and France.
- General Secretary of the Defense Ministry in 1959.
- Ambassador of Morocco to the Federal Republic of Germany from 1961 to 1962
- Secretary of State responsible for Industry and Mining; President of the Moroccan Navigation Company (COMANAV) from 1964 to 1969
- Ambassador to the USA from 1968 to 1970
- Director of the Royal Cabinet in August 1971
- Prime Minister (1972)
- Deputy of Oudja (1977)
- President of the Rassemblement National des Independants (1978)
- Member of the National Security Council (1979)

THURSDAY  
APRIL 24



MOROCCO

THURSDAY, APRIL 24

- ? Possible audience with King
- 9:00 a.m. Departure from Casablanca by helicopter to fly over  
Doukkala and Safi R egions (agricultural perimeters,  
Chemical Industries, Jorf Lasfar Port)
- Return to Rabat
- 1:00 p.m. Luncheon in Rabat (unscheduled)
- 4:00 p.m. Press Conference in Rabat
- 7:00 p.m. Cocktail party for Diplomatic Corps in Rabat Hilton
- 9:30 p.m. Dinner with Bank staff

BIOGRAPHY

Driss BASRI  
Minister of Interior

Born: on November 8, 1938, in Settat, Morocco

Education:

- Licence in Public Law
- Diploma of Higher Studies (Political Sciences)
- Thesis of Doctorate (3rd cycle) (1975).

Career:

- Chief of Police, Rabat Regional Security
- Member, Cabinet of General Director, National Security
- Administrator-Director of General Affairs and Authority Personnel, Ministry of Interior
- Assistant Professor, Faculties of Law of Rabat and Casablanca
- Head, General Direction of the Territory Surveillance attached to the Ministry of Interior (January 1973)
- Secretary of State for the Interior (April 1974 and 1977-79)
- Minister of Interior (March 1979)

Languages: Arabic, French

BIOGRAPHY

Mustafa FARIS  
President  
Banque Nationale de Developpment Economique (BNDE)

Born: December 17, 1933, in Morocco

Education: - National School of Roads & Bridges (Paris, France)  
- BSc.(Civil Engineering)

Career: - Civil Engineer, Department of Public Works (1956-61)  
- Director of Supply, National Irrigation Office (1961-65)  
- Director General, Hydraulic Engineering (1965-69)  
- Secretary of State for Planning, attached to Prime Minister's Office (1969-71)  
- Minister of Finance (1971-72)  
- President, Director General, Banque Nationale pour le Developpement Economique (1972)  
- Vice President, International Commission of Large Dams  
- Governor, IBRD and ADB

Languages: - Arabic, French



BIOGRAPHY

Abdallah LAHLOU  
Director General  
Office of Commercialisation and Exportation (OCE)

- Born: in 1943, Fes, Morocco
- Education:
- Agronomical Engineering, National Institute of Agronomy, Paris, France
  - Rural Engineering of Waters and Forests, Paris, France
- Career:
- Director of Office of Agricultural Valuation of Ouarzazte (1969-72)
  - Director General, National Society of Agricultural Development, SODEA (1972-77)
  - Director, OCE (1977-)
  - Vice-President of the Franco-Arab Chamber of Commerce
- Languages: Arabic, French, English

BIOGRAPHY

Othman SLIMANI  
Director General, Crédit Immobilier Hotelier

- Born: - 1941, Fez, Morocco
- Education: - Degrees in Law & Economic Sciences
- Career:
- Inspecteur des Finances
  - Secretary General, Ministry of Finance
  - Several assignments abroad, in particular with the IMF, Washington
  - Secretary of State for Economic Affairs in Prime Minister's Office (1977)
  - Director General, Credit Immobilier Hotelier (CIH) (since 1980)
- Languages: - Arabic, French

Section III

AGRICULTURE  
EXPORT PROMOTION  
EDUCATION SECTION  
Tourism 11/1290  
increase  
6 Billion Dollars  
(600,000 mil  
for each)

General Reference Section



## MOROCCO: MEDIA BACKGROUNDER

There are ten daily newspapers (five in Arabic and five in French) and scores of periodicals, Although privately owned, most of these papers tend to either represent the views of one political party (Morocco has 14 political parties) or, in certain instances, are owned by it. The most prominent newspapers are: Al Anba (independent), Al Alam and L'Opinion (Parti Istiqlal); Maroc Soir and Le Matin du Sahara (independent pro-government); Al Maghrib (Rally of Independents RNI); Al Mithaq Al Watani (Union Constitutionnelle UC) and Al Bayane (pro-communist party daily). The average circulation for these dailies is about 40,000 copies.

The Moroccan News Agency (MAP), is a public institution and has several bureaus overseas including an important one in Washington. It provides news, reports and photos on domestic and world events to the Moroccan press, radio and television. Moroccan radio and TV system (RTM) is also a public institution operated by the Ministry of Information. The broadcasts are in Arabic and French. RTM comprises eight regional radio stations and two television channels.

An interesting experiment in the broadcasting field is Radio Mediterranee Internationale (RMI), a joint Morocco-French venture with headquarters in Tangiers. RMI, which broadcasts in both Arabic and French, has powerful antennas and reaches millions of listeners in the western part of the Mediterranean.

IPA has developed good working relationship with the media. It is also organizing a ten-day press tour (April 13-22, 1986) of development projects in Morocco as well as briefings with government and Bank officials for a group of 12 journalists from donor and recipient countries.

Information and Public Affairs  
April 1986

M O R O C C O

VISIT OF MESSRS. CLAUSEN AND WAPENHANS

April 21 - 25, 1986

SECTION I. SUMMARY PAPER AND CORE BRIEF

SECTION II DAILY BRIEFINGS, INCLUDING BIO-DATA AND  
APPROPRIATE SECTORAL BACKGROUND FOR EACH  
MEETING

SECTION III GENERAL REFERENCE SECTION



SECTION I

Section I

Summary Paper and Core Brief

## MOROCCO: SUMMARY PAPER AND CORE BRIEF

### Theme of Visit

1. Morocco's adjustment efforts, which began in the early 1980's, have met with uneven success. In consequence, austerity measures will have to be continued in some form or other at least until the end of the decade.
2. Part of the disappointing economic performance is attributable to exogenous factors such as adverse movements in the terms of trade and a debilitating 4-year drought from 1981-1985. However, it is also true that the Government has not always pursued its programs with the vigor and determination necessary. This is particularly true of its obligations under successive IMF arrangements. This is contributing to the fact that the Moroccans still do not have an agreed IMF program for 1986, although a Standby from September 1985 through February 1987 is still nominally in force.
3. In this situation, your visit should provide a good opportunity both to commend the government for its efforts to date, but also to point out that further difficult decisions still need to be taken in the near term to allow the economy to generate the results required to restore growth, repay debt and re-establish commercial creditworthiness.

### The Baker Initiative

4. A recurring theme of the visit will be the potential support that could be mobilized from the international financial community under the rubric of the "Baker Initiative" for help finance Morocco's economic recovery. The conditions for success of such an initiative are a sustained effort by the Government to pursue both its stabilization and adjustment programs combined with a consensus among official donors, multilateral institutions and commercial banks, on how the large debt burden is to be shared. As of now, no such consensus exists, partly because of the disappointing recent performance of the economy but partly also because of a prevailing scepticism as to whether the Government will take the necessary actions to ensure the success of their programs. This will require difficult political decision and choices. Prices of goods and services still subject to control will need to rise. Subsidy payments will need to be re-structured so that only those really in need will receive them. Domestic credit will need to be controlled and use of foreign capital flows severely limited until Morocco's debt service rates can be brought to manageable levels. Continued active exchange rate policy will have to be pursued. This all means that consumption and investment cannot be expected to grow by much in the near term.
5. The international financial community is likely to be cautious in its stance vis-a-vis Morocco. A clear and sustained will to implement the requisite policies has to be demonstrated before the commercial banks would commit new money in a very difficult environment.



6. A paper outlining a medium-term framework for adjustment which is intended to form the basis for discussions with Morocco's creditors has been prepared by the Bank (see Section III (i)). It has been discussed by the OPSC and approved for distribution to the IMF. Some issues remain to be resolved with the IMF, principally the precise time-frame for achieving fiscal and balance of payments equilibrium (the IMF believes it can be achieved by the late 1980s, while we think a few more years would be required if growth prospects during the stabilization period are not to be impaired). Your visit will serve to emphasize the policies and actions needed by the Government to enhance the confidence in Morocco's program of structural adjustment.

### Background

7. Morocco became independent from France in 1956. The economy was and remains highly dependent on a small number of primary exports: phosphates and derivatives account for over half of exports, and agricultural products one quarter. Industrial strategy was initially inward-looking, and favored import substitution over exports. This has led to high levels of protection and low levels of efficiency. The public sector grew rapidly after independence to provide an increasing array of services and employment opportunities. The Government followed conservative policies in the 1960's and early 1970's, did not borrow extensively abroad, and attempted to build a diversified economic base. Growth was relatively slow at about 4% p.a. Subsequently the Government has borrowed a great deal abroad to finance a very ambitious but not very productive investment program in the late 1970's and early 1980's. As a result the economy has become highly indebted and has been forced to seek debt relief since 1983. It also reinforced stabilization and adjustment programs with the IMF and the World Bank. Although GDP growth in 1985 was encouraging (4.2%) - principally as a result of a good harvest - overall GDP growth since the early 1980s has been less than 3% p.a., implying stagnation in per capita income over the period. Current Government expenditures constitute over 20% of GDP. The Government total budget deficit amounts to about 8% of GDP and the current account deficit is 7.8% of GDP. Total external debt is now greater than GDP, and three times export earnings. Population growth is rapid at 2.5% p.a., female employment is low, and while the labor force is only 26% of the total population, employment and under-employment is a severe problem.

### Economic Developments

8. The oil price increase of 1973 was offset by a substantial increase in the price of phosphates for a short period, until 1976. During this period, the Government launched an ambitious public investment program which could not be sustained without foreign borrowing and grants after phosphate prices fell. Morocco's efforts to enforce its claim to the Spanish Sahara in 1975 has added significantly to government expenditures in defence of that territory. Oil price increases in 1979-80 burdened the economy further. More foreign debt was acquired to support the Government's investment program. An already difficult economic situation was aggravated by severe droughts in the years 1980-84.



### Current Stabilization and Adjustment Programs

9. In recognition of the difficulties facing the economy, an overall program of economic stabilization was agreed between Morocco and the IMF in 1983, followed in 1984 by the Government's initiation of a program of sector policy adjustments with the Bank. The objectives of the stabilization program were to eliminate the Government's current budget deficit in 1985 and the current account deficit by 1988, thereby improving the economy's creditworthiness. The additional objectives of the adjustment program have been to increase the economy's productivity and efficiency, and to increase its export potential. Alleviating these deficits requires that stiff measures be taken to mobilize government revenues (by, for example, increasing rates on the value-added tax and improved revenue collection of existing taxes, reduction of tax exonerations, and increased public enterprises tariffs) and to decrease government expenditures through reducing consumer subsidies, rationalization of budgetary expenditures, and limiting the growth of civil service and public sector salaries. In order to improve productivity in the industrial sector and increase production, which are essential to Morocco's economic recovery, adjustment measures to be taken include liberalizing trade policies, and promoting exports through lifting export controls and continuing a flexible exchange rate regime.

10. Despite the Government's commitment to comprehensive economic reform, particularly at the sectoral level, progress has been mixed overall. The most important disappointment remains that the Government has not been able to generate the public savings needed to eliminate the budget deficit. The budget deficit (on a commitment basis) has remained high, at 7.4% of GDP in 1985. While this is down from levels of 12-13% of GDP earlier in the 1980s, much remains to be done. Despite efforts to meet the IMF program, payments of arrears from the Government to public and private enterprises continue to accumulate, and public saving has deteriorated to -0.7% of GDP in 1985 rather than improving. The current account deficit is also not decreasing as much as planned, due primarily to the Government's failure to control domestic expenditures and public investment programs. It was at 7.7% of GDP in 1985. While imports have decreased and non-phosphate exports have increased (see below), unfavorable phosphate prices have retarded the decrease in the current account deficit.

11. On the positive side, exports have been increasing, particularly non-phosphate manufactured exports, which accelerated from 7.8% p.a. in 1977-80 to 10.8% p.a. in 1984-85 (in real terms), and receipts from tourism have increased sharply inter-alia, as a result of appropriate exchange rate management. Total export growth is projected at 6.8% per annum for the remainder of the decade.

12. The preliminary IMF program for 1986 aims to reduce the current account deficit to 4 percent of GDP. Falling petroleum prices, increased domestic cereal production, and continued budgetary restraint are the major assumptions underlying this target. Policy measures include a freeze on



public wages in real terms, a rationalization of public investment expenditure to reflect realistic levels of available financing, and the expeditious elimination of past payment arrears. The Government intends to maintain domestic energy prices and capture the gain from falling import prices for the Government budget. As a result of these measures the overall Treasury deficit is projected to decline to 2.6% of GDP. Within the overall constraints imposed by the need for fiscal restraint, care will need to be taken to protect investments and imports at levels which do not jeopardize economic growth prospects.

13. As of end 1985, the Moroccans were not in compliance with the IMF program, which has resulted in delays in the release of the December and March quarterly tranches. The present IMF stand-by is scheduled to expire in February 1987; however, the current delays might lead to an extension of the closing date. We believe the Fund involvement will continue to be necessary in the future insofar as the public finance problems are likely to persist. In order to avoid a prolonged crisis-dominated stabilization of the economy, however, the rate of adjustment must be determined in the context of a feasible medium-term framework.

14. Over the next several years, Morocco's economic policy focus will have to be on restoring sustainable growth while reducing debt to a manageable level, and improving economic efficiency. Although the Government has argued that it needs considerably more time to meet its stabilization/adjustment objectives, the Bank, the IMF and other international lenders will expect to see the Government continue to take strict measures to discipline the country's internal and external budgetary situation before they extend more financial support.

15. In other words, both the Government's stabilization and its adjustment programs will need to be deepened through the translation of policy prescriptions into detailed action programs if Morocco's recovery effort is to be supported by the international community. An outline of the measures needed in macro-economic management and in each sector follows.

#### Macro-economic Issues

16. Sound macro-economic management will be a critical factor conditioning the success of the adjustment program. The imbalances in public finance must be rapidly eliminated if the Government is to generate positive savings to finance priority investments and reduce the demand for external resources. Most of the adjustment in the recent past has fallen on central government investment which has declined from 14% of GDP in 1982 to 5% in 1985, a critically low level, and on the private sector through cumulated arrears and through severe restrictions on available credit after public demand has been satisfied. The Government should aim at increasing fiscal pressure to 25% of GDP by increasing indirect tax rates (e.g. the VAT), limiting across-the-board exemptions granted by the investment codes, and maintaining the PSN (national participatory tax). Current expenditures should



be constrained to about 20-22% of GDP by reducing the wage bill through attrition, eliminating consumer subsidies by 1990 with compensatory measures for the poor, and limiting expenditures on materials.

17. It should be emphasized that most of the additional national savings effort should come from the public sector, so as to ensure that private savings are channeled to productive private sector investment. If fiscal deficits persist despite a narrowing of the current account deficit, private savings will necessarily be diverted to finance the budget deficit either through an inflation tax or "crowding-out". This would slacken the expansion of the industrial and export sectors and compromise future prospects for growth.

18. The allocation of scarce budgetary resources to the most productive uses through careful project selection will be essential in order to achieve a minimum acceptable level of growth over the next few years. Priority should be given to those industrial projects which have high economic rates of return, short gestation periods, and alleviate binding supply constraints, particularly in the export and efficient import-substituting sectors. Large infrastructure projects with high import content should be deemphasized in favor of maintaining and/or expanding existing investments where necessary. Budgetary contributions to public enterprise investment should be rationalized so as to constitute periodic equity injections rather than annual capital subsidies.

19. Public sector management and administrative efficiency should be upgraded in order to ensure the expeditious implementation of macro-economic reforms. Streamlining the programming process will enable a minimum level of core investment to be maintained in the event of sudden fluctuations in available budgetary resources. Strengthening economic and financial analysis of public investment projects, including those of public enterprises, is critical in order to ensure a sectoral project mix consonant with overall macroeconomic objectives and to improve the allocation of productive resources. Institutional reforms in planning, programming and budgeting, moreover, will go a long way towards preventing the buildup of payment arrears in the future.

20. At present, the Government's involvement in the overall economy exceeds its institutional capacity to manage these activities in a responsible manner. The Government's intention to attenuate its role in such areas as public enterprise management, marketing of fresh produce (OCE), and agricultural procurement is to be encouraged. This will enable Government to concentrate its efforts on activities which are more clearly within the public sector domain.

21. The exchange rate remains a powerful tool of macro-economic management and trade policy reform. Proper management of this instrument can help to contain domestic demand during the dismantling of quantitative restrictions and the lowering of customs duties, and thereby allow trade



liberalization to proceed while reducing the risk of balance of payments difficulties. At the same time, an aggressive exchange rate policy can provide the necessary incentives for domestic producers to direct output for profitable sale on international markets, thereby earning needed foreign exchange to service external debt. The progressive depreciation of the dirham has had an important impact in fostering growth of manufactured exports and tourism (18.6% and 17.5% respectively in 1985), as well as providing some protection to import-competing domestic industries (imports of goods and non-factor services have fallen by 3.3% p.a. since 1982). Many Moroccan senior officials believe that devaluation is a sign of failure rather than just another policy instrument. It may be worth noting that in order to combat the widening trade deficit brought on by an overvalued dollar, the U.S. is now pursuing an active devaluation policy. Far from being dishonorable, a flexible exchange rate policy can promote the growth of national output in times of depressed domestic demand.

### Sectoral Adjustment Issues

22. Finance, Trade and Industry: To deepen the reforms already begun, the Government should be encouraged to persist with measures begun under the ITPA programs to shift reliance from an in-ward looking import substitution strategy for an outward orientation more encouraging of exports. Most important will be an active exchange rate policy to assure a constant or even declining real effective exchange rate as circumstances indicate. Tariffs should be reduced so that effective protection levels are no more than 25%. Export promotion measures should be extended to indirect exporters. To promote increased efficiency of financial intermediation, a further liberalization of bank commissions should be encouraged. Interest rates should be constantly adjusted to ensure that they remain constant in real terms.

23. Agricultural Sector. The ongoing reform of this sector has two major objectives. First, it will remove institutional and financial bottlenecks to increased production and exports. Second, it will raise the incomes of the rural population, and hence slow migration to the cities. Specific measures needed are a reduction in fertilizer subsidies and increases water charges to promote resource mobilization within the sector. The elimination of agricultural subsidies over a period of five years should be accomplished, while ensuring that the nutrition and incomes of the poorest segments are protected through appropriate targeting of subsidy programs. Agricultural procurement prices need to be raised and procurement procedures strengthened. Finally, the government's role in production and distribution should be restricted to those activities which cannot be undertaken by the private sector.

24. The Education Sector. The Government's reform program is aimed at increasing both the efficiency and equity of the education system. A recently approved Bank loan in support of the reform received high praise in the Board. The Government should be encouraged to implement the reform expeditiously. Education costs have to be controlled, while increasing the



emphasis of vocational training and school programs to improve the employment orientation of the system, and further cost recovery should be sought, particularly for higher education.

25. The Public Enterprise Sector (PE). A Public Enterprise Rationalization Loan (PERL) has been appraised by the Bank. Its aims are to: a) increase financial autonomy through increasing self-financing ratios of PEs thereby decreasing their dependence on the Government budget; b) promote managerial autonomy by creating a clear distinction between policy-making and enterprise management and c) rationalize the role of the State through development of a strategy aimed at divesting the State of uneconomic enterprises and of activities more appropriately handled by the private sector. Major issues to be addressed to give effect to these objectives are: 1) basing pricing policy for PEs on economic criteria; 2) rationalizing the functioning to Board of Directors (of which Ministers are Chairmen) and changing Government control systems from a priori control to a posteriori monitoring and 3) developing a strategy for privatization, liquidation, mergers or leasing of PEs, and building the institutions that would implement the strategy.

26. This operation is very important for Morocco's overall adjustment effort and for the bank's lending program.

#### Morocco's Financing Needs

27. Lending from private sources accounted for 58% of total disbursements to Morocco in the late 1970s. In the early 1980's the share from private sources remained high at about 47%. Commercial banks lending amounted to \$830 million disbursements on average per year in 1980-82. Commercial banks and suppliers' credits have accounted for about 30% of total debt in 1985. For the same year, the World Bank's share was 10%.

28. Morocco's debt service increased sharply from \$550 million per year in the late 1970's to \$1330 million per year in 1982. In the following year, in spite of the IMF stabilization program, Morocco could not meet its interest and amortization obligations and rescheduled \$830 million. In 1984 the rescheduling amount increased to \$1280 million dollars, of which about \$390 million was from commercial banks creditors. A second Paris Club rescheduling agreement was reached during the fall 1985, amounting to \$870 million for 1985 and \$1320 million for 1986. A corresponding rescheduling from commercial banks for the same period is being negotiated. It would amount to \$390 million for 1985 and \$440 million for 1986. The Banks are meeting in April 1986 to discuss the terms of the rescheduling.

29. Morocco is likely to need further reschedulings beyond February 1987. Assuming that Morocco is prepared to address the objectives of their stabilization/adjustment programs with sustained application of policy measures, further rescheduling of the country's debt would be in order. All



of Morocco's financiers will have to contribute to the country's recovery. New commitments would be needed from private banks and bilateral services, as well as the multilateral institutions. During the implementation of the structural reform program, the Bank's program is expected to continue at \$400-\$450 million in commitments per year. If Morocco does not maintain a program of rigorous economic reform, the Bank's lending will have to decline. After 1986, we are encouraging the IMF to keep its exposure constant (rather than withdrawing resources as is now forecast).

### Reform Implementation Difficulties and Risks

30. Unfortunately, little margin exists for setbacks in Morocco's program of economic reform without serious consequences. External, political, military or financial variables can, at any time, adversely affect the Government's stabilization/adjustment programs, and thus further aggravate the country's economic situation. The Bank and the IMF will need to continue careful monitoring of the Government's implementation of reform policies to ensure that the objectives of each program are being met.

Note: An Annex is attached which outlines some key operational issues which are likely to be raised during your visit.

KEY OPERATIONAL ISSUES

Second Industrial and Trade Policy Adjustment (ITPA II)<sup>1/</sup>

1. The Government will probably state its disappointment that the (\$80 million) second tranche of this \$200 million policy loan has not yet been released. According to the initial program, a mission to review progress and recommend action on the second tranche was scheduled for end-January 1986. However, the mission has been delayed because of difficulties in resolving certain issues.

2. First, the Government had undertaken to reduce the Special Tax on Imports (SIT) from 7.5% to 5.0% prior to the release of the second tranche. The Government has felt itself unable to do this in 1986 because of the revenue loss that it would entail. Before agreeing to tranche release therefore, the Bank is asking for (a) a new date for the reduction of the SIT to 5%; (b) an indication of the measures the Government will take to replace the revenues lost from the SIT; and (c) a report on the progress of the ITPA program to date to permit an evaluation by the Bank aimed at ensuring that the objectives of the program are being met.

Second, we would expect further progress in discussions of PERL, since the ITPA agreements included Government undertakings to control Government arrears and budgetary transfers to public enterprises.

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<sup>1/</sup> A brief description of the objectives and status of this reform program are appended.



Background on the Industrial and Trade Policy Adjustment Program

1. Prior to the recent shift in government policy in 1983, a number of constraints had been identified as limiting the growth of manufacturing, particularly, export production. The most critical of these constraints were in the areas of industrial protection and administrative rigidities.
2. With Bank support, the Government undertook a study to assess protection, pricing and other industrial incentives, and to recommend changes with a view to rationalizing and improving the system. It was later supplemented by an analysis of the financial sector in Morocco which led to a further set of recommendations to improve the efficiency of financial intermediation and strengthen savings mobilization. On the basis of these reports, the ITPA I loan for \$150.4 million was approved by the Bank in January 1984, and the ITPA II loan for \$200.0 million in July, 1985. These loans support a comprehensive, phased program of reforms. Important aspects of the reform include: (a) maintaining a flexible exchange rate policy, (b) lowering the levels and dispersion of import tariffs, (c) liberalizing imports through eliminating import licensing requirements as well as bans and quantitative restrictions (QRs) on imports, (d) freeing prices of manufactured products, (e) undertaking significant reforms of the financial sector aimed at increasing savings and improving the efficiency of resource mobilization (primarily through adjusting interest rate policy, enhancing competition, developing financial markets, and remedying institutional deficiencies), (f) reducing administrative barriers by removing export certificate requirements, as well as reforming and simplifying trade procedures, and (g) improving customs regimes.
3. In view of the structural nature of the ITPA reforms, their impact on national production and efficiency can be fully realized and evaluated only in the medium-term. This is particularly true of the reform of protection policy. Hence, notwithstanding smooth implementation of the program (with the exception noted below), further reduction of tariffs and removal of quantitative restrictions are required in 1987 and 1988 to reach the ITPA program objectives. Continued flexible management of exchange rate policy would also be important for export promotion. So far, the tight budgetary position has had particular relevance to the pace of reform in reducing the Special Import Tax (SIT), leading to delays in arriving at targeted levels both under ITPA I and ITPA II. It is important to note that one of the key thrusts of the reform program would be reduced budgetary reliance on trade taxes (particularly to the extent they act as disincentives to exports or industrial efficiency), and it would be important for the Government to make difficult decisions on expenditure and revenues to maintain budgetary balance while not impairing this thrust. The difficulties the Government has so far encountered in the budgetary area have also been the main reason for continuing accumulation of arrears to public enterprises in 1985, despite assurances under ITPA II to the contrary. A third area in which progress does not seem to have been at an optimal pace is in improving processes and systems for planning and budgeting public investments.



Public Enterprise Rationalization Loan (PERL)

1. The Government is likely to press the Bank for expeditious processing of a loan for PERL.
2. The objectives of PERL are to: a) increase financial autonomy through increasing self-financing ratios of PEs thereby decreasing their dependence on the Government budget; b) promote managerial autonomy by creating a clear distinction between policy-making and enterprise management and c) rationalize the role of the State through development of a strategy aimed at divesting the State of uneconomic enterprises and of activities more appropriately handled by the private sector. Major issues to be addressed to give effect to these objectives are: 1) basing pricing policy for PEs on economic criteria; 2) rationalizing the functioning to Board of Directors (of which Ministers are Chairmen) and changing Government control systems from a priori control to a posteriori monitoring and 3) developing a strategy for privatization, liquidation, mergers or leasing of PEs, and building the institutions that would implement the strategy.

Issues

3. The project was appraised in February 1986. We currently envisage holding negotiations in September, with Board presentation in October. We believe that the appraisal established a good understanding of the objectives and scope of the reform measures and enterprise restructuring envisaged under PERL. However, most public enterprises in Morocco, including all that will be restructured under PERL, suffer from two inter-related problems. Government arrears to these PEs have accumulated as a result of the non-payment of bills for consumption of public enterprise goods and services by Government departments. PEs have become heavily indebted as a result of these arrears. At the same time, rigidities in pricing and the lack of freedom of PEs to raise prices to reflect economic costs have contributed to PE liquidity problems.
4. The appraisal mission has proposed a scheme for settlement of the arrears. Insofar as the scheme involves increasing Government indebtedness to the banking sector it requires IMF approval. The Moroccans have been slow in according their acceptance of the scheme. It would be appropriate for you to stress that launching the arrears settlement by negotiations is essential to demonstrate that the Government is appropriately concerned to see key PEs placed on a sound financial footing.
5. Relatedly, the Government should act expeditiously on the pricing proposals tabled by the mission. Price increases are necessary in electricity, water supply and railroad tariffs for both resource mobilization reasons and because the PEs producing the goods and services are among the

largest in Morocco and suffer from insufficient cash generation and from the over-indebtedness referred to earlier.

6. The Government may argue that they are prepared to keep retail petroleum prices at current levels, thereby capturing the windfall that results from lower crude oil prices, and that this measure will raise sufficient resources to both settle part of the arrears and resolve the financial difficulties of the three petroleum companies to be restructured under PERL. We should commend this intention but stress that price increases for the major public utilities are also needed to assure their own liquidity.

7. PERL is an essential part of our lending strategy. It complements reforms in other key sectors and deepens the adjustment effort. Moreover, it will form the umbrella for other operations which would benefit Moroccan PEs. Given the nature of the mixed economy, a large part of our lending must necessarily benefit PEs in the telecommunications, energy, transportation, and water supply sectors. These PEs face the common problems to be addressed under PERL. Consequently, PERL assumes a high profile in our lending program, and if substantial delays in processing it are experienced some of the remaining operations could be jeopardized.

B Loan Co-financing

1. The Government is also likely to ask why the Bank's policy on arranging a "B" Loan for ITPA has changed. Discussions were initiated in spring 1985 with the Government and Standard Chartered Bank (SCB) on possible B loan co-financing with commercial banks for ITPA II. Initial contacts among that commercial banks produced lukewarm response pending (i) finalization of the IMF stand-by for Morocco, and (ii) agreement for rescheduling commercial debt for 1983-84. By the time these were accomplished, i.e. by early 1986, it had become apparent that Morocco's financial situation indicated the need to continue rescheduling for a further period, and hence the infeasibility of arranging fresh loans on a voluntary basis. As a result, it was decided that a B loan would not be appropriate for Morocco at this time since they are primarily intended, in the case of highly indebted countries, to assist in their return to the international private capital market towards the end of the adjustment process, when voluntary lending again becomes possible. In addition the Board indicated that B Loans should not be linked to policy adjustment loans.

2. Bank exposure in Morocco is rising rapidly as a result of rising commitments and the (current) lack of commercial lending to Morocco. For the present, and until new commercial lending resumes on a voluntary basis, Bank/IMF monitoring of Morocco's adjustment programs should provide adequate comfort to commercial banks for some additional lending to provide the level of financing needed to complete the adjustment process.

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1/ It was 10% in 1985 and is expected to rise to 16% in 1990 and 20% in 1995.



SECTION II

## Section II

Daily briefings, including bio-data  
and appropriate sectoral background  
for each meeting

M O R O C C O

VISIT OF MESSRS. CLAUSEN AND WAPENHANS

Daily Schedule

April 21 - 25, 1986

MONDAY 21 APRIL 1986

- 16:40: Arrival in Casablanca, from Algiers  
17:45: Departure for Rabat  
19:30: Arrival at Rabat Hilton Hotel

TUESDAY 22 APRIL

- 09:30: Meeting with H.E. Moulay Zine Zahidi, Minister in Charge of Economic Affairs and H.E. R. Rachidi Ghazouani, Minister in Charge of Plan  
10:30 Meeting with H.E. Abdellatif Jouahri, Minister of Finance  
11:30 Meeting with Mr. Ahmed Bennani, Governor of the Bank of Morocco  
Luncheon hosted by H.E. Lamrani, Prime Minister  
15:00 Working Session with H.E. Lamrani, Prime Minister and H.E. Laraki, Vice-Prime Minister  
16:00 Meeting with the Prime Minister and selected Ministers closely concerned with World Bank operations:  
Mr. Tayeb Bencheikh, Minister of Public Health  
Mr. Othmane Demnati, Minister of Agriculture and Agrarian Reform  
Mr. Azeddine Laraki, Vice Prime Minister and Minister of Education  
Mr. Mohammed Kabbaj, Minister of Equipment, and Vocational Training  
Mr. Mohammed Fetah, Minister of Energy and Mines

Dinner hosted by H.E. Jouahri, Minister of Finance



WEDNESDAY 23 APRIL

- 9:30 Meeting with Mr. Tahar Masmoudi, Minister of Commerce and Industry
- 10:30 Field trip to site of Rabat Urban Project, with Ministers Kabbaï (Public Works) and Boufettass (Urban Affairs and Housing)
- 12:15 Meeting with M. Ahmed Osman, President of Parliament
- Luncheon hosted by Mr. OSMAN
- 15:30 Departure for Casablanca
- 16:30 Meeting with Mr. Bensalem Guessous, President of the General Confederation of Moroccan Exporters (CGEM), and representatives from the banking sector (both public and private)
- 19:30 Cocktail hosted by Mr. Guessous
- Diner hosted by Mr. Guessous
- Return to Rabat Hilton

THURSDAY 24 APRIL

- 9:00 Departure from Casablanca by helicopter to fly over Doukkala Region (agricultural perimeters) <sup>1/</sup>  
Return to Rabat
- 13:00 Luncheon in Rabat (unscheduled)
- 16:00 Press Conference in Rabat
- 19:00 Cocktail party hosted by Mr. and Mrs. Clausen at the Rabat Hilton
- 21:30 Dinner with Bank Staff

FRIDAY 25 APRIL

- 8:30 Departure for Geneva from Casablanca

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<sup>1/</sup> We are proposing an audience with the King early in the schedule. This will necessitate a rescheduling of some meetings. If this happens, it is proposed that this field trip be eliminated.

## MOROCCO: ARRIVAL STATEMENT

1. I am grateful to the Government of Morocco for the invitation to visit your country. I am looking forward to meeting His Majesty King Hassan II and other leaders in the Government.

2. During our visit, my associates and I hope to acquire a deeper understanding of your development efforts and to review the many measures undertaken to stimulate the economic and social progress of the people of Morocco.

3. Since 1983, your Government has been undertaking a major restructuring of the economy, which involves a shift toward more outward looking trade policies which are stimulating exports, far-reaching reforms of price, credit, tax and regulatory policies to remove institutional and other obstacles to efficient mobilization and use of resources in key productive sectors of the economy. The reforms aim at a more rigorous establishment of priorities within the investment program, a better targetting of social programs entail substantial measures to increase its efficiency. These are significant changes, and I am interested in their overall impact and in how the World Bank can best continue to assist your development effort.

4. As you know, the World Bank has participated in financing numerous development projects as well as sector reform programs in Morocco, with total commitments of over \$2.7 billion. The most recent Bank commitment was a loan of \$150 million for a broad ranging reform of the education sector which was approved by the Board of Directors of the Bank only a month ago. The objectives of the World Bank Group in Morocco are to support the Government's investments and policy reforms aimed at enhancing the productivity of Moroccan enterprises, diversifying the economy - particularly export industries - and accelerating growth in a rapidly changing world with increased reliance on appropriate incentives. We applaud the Government's strategy, which is trying to minimize the impact on poverty and improve income distribution, while effecting the difficult choices necessary to reduce the Government budget and balance of payments deficits and enhance the country's creditworthiness. The fundamental changes that will be induced by this strategy will build on Morocco's considerable human resource potential and promote a more lasting basis for the expansion of opportunity for all its people.

5. Morocco has embarked on a far-reaching program in order to return to a path and pace of economic growth compatible with Morocco's external payments position. We, in the World Bank, strive to assist in whatever way we can.

6. Thank you for your warm welcome.

BIOS



April 22

Tuesday, April 22, 1986 - 9:30 a.m.

Meeting with their Excellencies Zahidi, Minister of Economic Affairs  
and Ghazouani, Minister of Plan.

### Meeting Objectives

1. Both of the above Ministries are advisory institutions attached to the Prime Minister's office. The Minister of Economic Affairs is effectively the principal co-ordinator of foreign aid programs, including Bank-financed operations in Morocco and nominally our main interlocutor (although most substantive discussions are held with the Minister of Finance on policy adjustment loans). Meeting with these two Ministers will provide an opportunity for a broad overview of the Bank's program in Morocco and of the macro-economic issues confronting the country. The importance of preparing a realistic plan with both a viable medium-term framework and carefully screened set of investment projects consonant with resources availabilities should be stressed as well.

### Issues to be Raised by the Bank

#### Background

2. Total Bank commitments to Morocco stand at US\$2412.95 million<sup>1/</sup> net of cancellations and repayments (total of 69 loans of which 34 are currently active). IFC investments have amounted to US\$104.7 million -- \$59.9 million after cancellations, terminations, repayments and sales. Bank operations have supported investments in all major sectors in the following proportions:

Industry	35%
Agriculture	28%
Education, Health, Urban Development	20%
Energy	10%
Infrastructure and Utilities	7%

World Bank commitments have nearly doubled from an annual average of US \$260 million per annum during FY81-81 to US \$408 million in FY85 and \$433 million are expected in FY86. During the same period, net disbursements increased from an average of US \$100 million per year to US \$212 million in FY85.

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<sup>1/</sup> Of this amount four are policy-based loans totalling \$600 million.

Issues to be Raised by the BankLending Strategy

3. The Bank's lending strategy is to support the four pillars of the Government structural adjustment effort. Essentially, this has entailed quick-disbursing policy-based operations in the (i) Financial, Industrial and Trade sectors (the so-called ITPA programs - FY84 and 85); (ii) the Agricultural sector in FY85; (iii) the Education sector - FY86. In addition, a loan to rationalize Moroccan Public Enterprises has been appraised as a FY87 operation. We propose to continue supporting the Government's adjustment effort with a relatively large program averaging about US \$450 million per annum with a significant proportion of the program to be in policy-based operations. You should stress, however, that a lending program of this structure is critically dependent on strict adherence to both stabilization and adjustment programs. (A five-year lending program is attached). We believe the program to provide good balance between support to policy adjustment in critical sectors and to financing economically high priority investments. Our strategy has been to build structural adjustment out of sector adjustment operations. This has been successful to date, but it is now appropriate to consolidate our approach to lending through exploring the possibility of introducing Structural Adjustment Loans (SALs) into the lending program. Our aim is to address some of the more critical remaining macro-economic issues, such as reforms of fiscal policy and an enhanced effort to rationalize investment planning and budgeting. The idea of introducing a SAL was recently broached with the Finance Minister who agreed to consider the proposal. This meeting should provide a good opportunity to pursue the question of a SAL and its possible components.

Issue to be Raised by the GovernmentLending Volume and Composition

4. The Ministers are likely to ask for an increase in Bank lending and for more quick-disbursing operations.

5. Proposed Response: The Bank's support of the Government's adjustment programs has been marked not only by rapidly rising commitment levels, but also by an equally significant shift from "traditional" project lending to quick-disbursing policy-based operations as follows:

<u>Fiscal Year</u>	<u>% of lending in form of</u>	<u>quick-disbursing</u>
	<u>operations</u>	
FY 83		0
FY 84		57
FY 85		74
FY 86		60
FY 87		55



It is, moreover, as high as can be sustained, given the rapidly rising Bank exposure that results from this level and composition of transfers. Should the Ministers press us for an increase in the level of lending, you should respond by saying that we believe the lending program already to be fully responsive to Morocco's own economic strategy and is as much as can prudently be committed given the levels of exposure it implies.

6. The Bank's share of debt outstanding and disbursed was 10% in 1985. On the basis of our current lending program, it will rise to 16% by 1990, and to 20% by 1995, until creditworthiness for voluntary commercial lending is restored. Our share of Morocco's debt service is currently about 20%; it would rise above these levels until new commercial lending is resumed. The Bank therefore is doing all that it prudently can to support Morocco's adjustment strategy. In light of the constraints to increased World Bank lending, Morocco is going to have to make increased efforts to attract commercial lending to finance its investment programs. You should stress to the Ministers the need for the Government to create conditions conducive to additional commercial flows. The willingness of commercial lending institutions to provide new financing will be critically dependant on a strong public committment to co-ordinated stabilization and adjustment programs.

#### Issue to be Raised by the Bank

##### The Next Plan

7. The last five-year Plan ended in 1985. The economic crisis which has persisted throughout the plan period prevented many of its targets from being achieved. In 1986 the Government concentrated on clearing the backlog of unfunded projects prior to initiating a new Plan. We understand a draft Plan is under preparation, though we have not heard how the Government intends to set priorities within it. We suggest you ask the Minister of Plan what the current schedule is for the preparation of a plan and for an indication of what its approach might be. We suggest you stress the need for realism in the assumptions of resource availability which will underly the Plan. It will be important not to raise expectations about what the economy (and, in particular, the public sector) can achieve during the stabilization and adjustment period. However, it is vitally important for the Government to have and circulate a coherent medium-term framework for its recovery program.

World Bank Lending Program, MoroccoFY86

Million US\$

ITPA II	200	1/
CNCA VI (Agricultural Credit)	120	
Large Scale Irrigation Rehabilitation	46	
Education Sector Loan	150	
Telecommunications	90	
Casablanca Port Rehabilitation	27	
TOTAL <sup>2/</sup>	633	

FY87

Water Supply IV	56
Agricultural Sector Loan II	100
Public Enterprise Rationalization Loan	200
Export Development Finance	50
Power Sector I	50
National Sewerage Project*	55
CIH/Housing & Finance*	100
Agricultural Extension and Research*	50
Urban Upgrading*	70
TOTAL	456

FY88

Small and Medium Irrigation	60
Agricultural Extension-Research	50
Education Sector Loan II	150
CIH/Housing Finance	100
Sewerage Sector	55
Urban Upgrading	70
TOTAL	485

FY89

Public Enterprise Rationalization II	200
Transport Sector*	75
Industrial Sector*	110
CNCA VII*	100
Power Sector Loan II	75
Forestry II*	74
Health Sector II*	50
Agricultural Sector III*	100
Urban Sector*	40
TOTAL	560

FY90

Health Sector II	50
Forestry II	74
Water Supply V	60
Agricultural Sector	100
Urban Sector	40
Telecommunications II*	90
Irrigation Rehabilitation*	100
PERL III*	150
Water Sector II*	50
TOTAL	324

\* Standby

1/ Approved in FY86 but allocated for FY85.

2/ Excludes standbys.



Tuesday, April 22, 1986 - 10:30 a.m.

Meeting with H.E. Abdellatif Jouahri  
Minister of Finance and Governor for the Bank

### Meeting Objectives

1. The Finance Minister has effectively spearheaded most of the economic reforms introduced since 1983. He heads the Government's negotiations with the IMF and is the principal spokesman for the Government in all substantive discussions with the Bank on economic policy. The meeting will be an opportunity to discuss the conditions which must be fulfilled by the Government, if a co-ordinated international approach to lending to Morocco under the Baker Plan is to be pursued. The Minister should be commended for the progress achieved to date in the adjustment program, but that a continued, sustained adherence to both the stabilization and the adjustment programs will be required.

### Issues to be Raised by the Bank

#### Growth Strategy

2. The principal elements of growth strategy designed to restore creditworthiness should be reviewed with the Finance Minister. They are to increase the economy's productivity and efficiency while raising its export potential. Increased production will, over the medium term, enhance the potential for public resource mobilization, for expanding exports and reducing and eliminating the current account deficit; and for satisfying popular demands for improving the standard of living. The accompanying liberalization measures will help encourage greater reliance on the private sector, which must be a dynamic factor in increasing production and productivity.

#### Investment Planning and Budgeting

3. Constraints on available budgetary resources to finance public investment make rationalizing the planning program and budgetary process urgent. Morocco's budgeting practices are inadequate in that they have been unable to adjust commitments to resource availabilities. Parliamentary authorizations are not based on detailed estimates of need, and therefore regularly exceed the amounts that may be spent in any one year. In the past, the ratio of total authorizations to actual resources available for disbursements has been about 2:1. This has led to a build-up of Government arrears to both public and private industry.

4. The Government, with Bank assistance, has begun to computerize its budgeting system and to streamline procedures. However, the entire planning and budgeting system needs to be overhauled. It should be based on close co-ordination between the Ministers of Plan and Finance to ensure that only those projects of high priority and for which resources are available should be included in the budget.



5. You should impress on the Finance Minister the need for a comprehensive reform of the planning and budgeting system. Investment planning must be intimately limited to realistic budget forecasts with the institutional framework programming revisions in the face of variations in resource availabilities.

#### Aid-Coordination

6. The Finance Minister has, at times, been reluctant to discuss Morocco's economic prospects and financing needs in an organized forum - such as the Consultative Group - preferring to deal with lenders bilaterally.

7. You should stress to the Finance Minister that a successful funding of their adjustment effort through both the mustering of new resources and through debt relief will require a co-ordinated approach by lenders. If the Baker Initiative is to be pursued, each partner in the adjustment effort - commercial and bilateral lenders and the Bank and IMF - will need to be fully informed of the objectives of each other's programs and be systematically informed of progress under each. In these circumstances, the profile of Government actions under these programs is bound to rise. The Government should be persuaded that its severe macro-financial constraint and the diminishing margin for maneuver in economic management accentuate the need for co-ordination of aid policies and practices.

#### Issues to be raised by the Government

##### Bank/Government Relations

8. In the course of discussions with Bank staff, various senior Government officials, including the Finance Minister, have pointed to what they term a recent toughening of conditionality attached to Bank programs. Their concern is that Bank requirements are becoming difficult to handle politically and that they are placing increasing strains on a Government bureaucracy which is already heavily burdened by the implementation of the country's, stabilization and adjustment programs. They fear that for the Bank to substantially increase its conditionality under each operation will result in delays in negotiating as well as in implementing them, such that the success of the programs themselves may be jeopardized.

9. Proposed Response: You should stress that the Bank's objective is not conditionality for its own sake, but the selection and phasing of key actions considered fundamental for the success of each program. Monitoring is needed not only to ensure that timely actions and decisions are taken. It is also to provide the necessary basis for taking corrective action if objective conditions change.

Tuesday, April 22, 1986, 11:30 a.m.

Meeting with Mr. Ahmed Bennani,  
Governor of the Central Bank (Bank of Morocco)  
and Governor for the IMF

### Meeting Objectives

1. Mr. Bennani has been closely associated with the reforms to the financial sector introduced under ITPA II. Mr. Bennani is not convinced of the need for flexible exchange rate management. In fact, he has opposed any move to devalue the dirham. The meeting will therefore provide a good occasion on which to discuss the role of exchange rate management in an export-led strategy. We suggest you also review financial sector issues with the Governor.

### Issues to be Raised by the Bank

#### Exchange Rate Management

2. (For brief, please see appendix to the brief for the Prime Minister's meeting).

#### The Financial Sector

3. The role of the financial sector is expected to change under Morocco's adjustment programs as it shifts priorities from financing the Treasury deficit to supporting growth of the private sector. The financial sector should evolve into an effective vehicle for this structural change. A good start has been made.

4. The efficiency of financial intermediation has improved recently in the sense that financial intermediaries have more diversified possibilities to raise resources and make loans. Since early 1985 private banks can develop medium term lending and public sector development banks can raise certain categories of deposits. However, there is much scope to improve this through a progressive removal of the grid of interest rates as well as detailed category-wise credit ceilings. Of course, it is recognized that the stabilization agreements with the IMF will dictate the need to maintain overall ceilings on credit. Interest rate levels have been raised and some obligatory placements with the Treasury have been suppressed in the framework of the financial sector reforms. Consequently, term deposits have substantially increased. Since the overall domestic economic activity was low in 1983 and 1984, investment demand was not buoyant, the liquidity level in the banking system increased substantially. In 1985, GDP growth was 4.2 percent in real terms and is expected to remain at 4% in 1986. This should activate investment demand.

5. Further measures need to be taken to promote private sector savings and investment: private savings have recently averaged 11% of GDP and should rise to 14%, while private investment should grow from 10% to 13%. The



measures needed are to (i) increase competition among financial intermediaries; (ii) liberalize interest rate further; (iii) progressively remove interest rate subsidies; (iv) monitor the efficiency of the new foreign exchange risk sharing scheme; (v) develop the capital market; and (vi) develop export production and investment financing.

6. During the meeting you should ask the Governor for his view of the results to date of the financial reforms and ask what more the Government intends to do to promote increased efficiency of financial intermediation in Morocco.

#### Privatization and the Capital Market

7. The Moroccan Government has begun a program of privatizing enterprises that were previously owned by the Government. Sales of Government assets have been taking place in the fisheries, tourism and sugar sectors. Notwithstanding the Government's policy commitment to privatization, constraints to a more rapid implementation of the policy have appeared. The lack of depth of the Capital Market has provoked fears that, in such circumstances, Government assets can be sold only to existing large (usually family-owned companies), thereby effectively replacing a Government monopoly with a private one. The Capital Market should therefore be developed to attract small private savers to the Government divestiture process.

8. While a basic capital market structure exists in Morocco, including a stock exchange, the structure is hardly used in Morocco, essentially because capital market participants are not numerous enough, and transactions are limited. To increase the number of transactions, not only Government but also public and private enterprises should have enough incentives to issue bonds and shares. These should be negotiated in the capital market through intervention of a large number of agents. These agents should be supported by a large number of private participants who should find profitable to hold securities. The money market is already developing fast in Morocco. Transactions reached \$700 million in 1985. This development should help develop the financial market, through the intervention of banks, who would act as intermediaries in the same way they do on the money market now.

9. We suggest you ask the Governor for his views on the measures needed to stimulate the development of new financial instruments and what methods and procedures are contemplated to be used in the transfer of State assets to the private sector. You may also wish to say that the Bank and IFC would like to assist in Government efforts to extend the capital market.

#### Issues to be Raised by the Governor

10. We do not expect the Governor to raise any particular issues, though he may challenge our views on the importance of exchange rate policy.



Tuesday, April 22, 1986

Luncheon and Subsequent Meeting with H.E. Karim Lamrani  
Prime Minister and Dr. Laraki, Vice Prime Minister

Meeting Objectives

1. The meeting with the Prime Minister is intended to serve as the means both to congratulate the Government on its stabilization and adjustment efforts to date and to emphasize that additional reforms are needed if we are to continue the adjustment program to a successful completion. The Prime Minister is also the chief executive officer of the National Phosphate Company (OCP) Morocco's largest Public Enterprise and the country's principal exporter.

Issues to be raised by the Bank

The External Environment

2. Although 1985 has seen some improvement in a number of key indicators, the imbalances in the external accounts remains unsustainably high. The current account deficit of 8% of GDP, while lower than the 11.8% recorded in 1984 has exceeded the IMF target of 7.1%. Export growth is up marginally from 1984 reflecting a substantial increase (20% in dollar terms) of non-traditional exports, but export performance overall has been hurt by the depressed market for phosphates.

3. Morocco will certainly benefit from lower international interest rates and lower oil prices. The reduction of the import bill for 1986 is estimated at about \$300 million. However, the prospects for prices of phosphate are not good. During the phosphate boom of the mid 1970s, phosphate rock prices were around \$65-70 per ton. They are about \$34 per ton at present (which, in real terms, is about one quarter of their levels in the mid 1970s) and are unlikely to rise much above \$40 per ton by 1990. This poor prospect could largely offset the gains obtained from lower oil prices. Therefore Morocco can probably count on a fairly unfavorable external environment in the medium-term. This reinforces the necessity of vigorous policies for domestic stabilization linked to coherent adjustment programs in all major sectors.

Stabilization

4. Laying the basis for long-term growth depends on a tight control of fiscal and monetary policy. Judicious management of the exchange rate also have a major impact on the success of the trade liberalization and export promotion process supported by the ITPA programs. Interim measures may be taken to achieve stabilization objectives while waiting for lasting structural reforms to take effect. But it is important to evaluate the merits of specific measures within the context of a medium-term framework, in order to ensure that stabilization and structural adjustment are mutually supporting

rather than working at cross purposes. The urgency of moving forward with a medium-term plan of fiscal reform is underscored by the decision to postpone the reduction of the special import tax (SIT) to 5%. Since a minimum increase in public investment expenditure is needed to maintain the momentum of economic growth, public savings must increase sharply. For a budget equilibrium to be reached by the end of the decade, the fiscal pressure should increase in Morocco by about one percentage point a year from 22% of GDP to about 26%. This could be done by increasing the efficiency of the tax recovery system, eliminating exemptions, increasing tax rates. Current government expenditure should remain stable in real terms. To this end, the wage bill will have to be monitored very closely, in particular employment growth and allocation of civil service and its salary structure since wages and salaries constitute about half of the recurrent budget.

### Structural Adjustment

5. The anti-export bias inherent in the current structure of incentives must be removed. Moreover, the private sector will need to be the primary element of an export-led recovery. For this purpose the private sector must have enough room to operate and receive sufficient incentives to accomplish the structural changes towards higher productivity and competitiveness. This implies (i) pursuing trade liberalization and compensated tariff reduction (ii) ensuring an appropriate incentive structure and pricing policies which raise resources for investment and regulate demand (iii) stimulating investments in export capacity within the private sector (iv) ensuring sufficient flexibility in the financial system to provide the necessary amounts and the proper allocation of funds to finance private sector growth. For the private sector to play its part in Morocco's economic recovery the Government role in production will need to decrease and it will have to reduce its demand on private saving. Following the example set in the Agricultural Sector reform, the Government's role in manufacturing and the provision of services should center only on those activities which the private sector cannot provide. For public enterprises which cannot be privatized, a sound environment needs to be created to promote autonomy and efficiency through expeditious implementation of public enterprise reform.

6. It will be important for you to emphasize that only through persistent adherence to mutually reinforcing stabilization and adjustment programs can structural economic change take place. The commendable programs to reform the Education and Public Health sectors must be sustained and deepened to promote the human resources development that is vital for a rapidly changing society and economy.

7. You should say to the Prime Minister that we recognize these elements all to be contained in ongoing Government programs. What is required now is a sustained adherence to each program.



Tuesday, April 22, 1986, 4:00 p.m.

Meeting with the Prime Minister and several key ministers closely associated with Bank operations viz

The Minister of Public Health: Tayeb Bencheikh

The Minister of Agriculture and Agricultural Reform: Othmane Demnati

The Minister of Education: Azeddine Laraki

The Minister of Equipment, Professional and Vocational Training:

Mohamed Kabbaj

The Minister of Energy and Mines: Mohammed Fettah

### Meeting Objectives

1. During this meeting it will be important to communicate both encouragement and concern to the ministers regarding the policies which have been taken to achieve stabilization and adjustment objectives. This group of Ministers is less familiar with our dialogue on macro-economic issues than those you will have met separately, so that we should re-iterate that sustained commitment to the economic strategy already launched will be required until at least the end of the decade if the strategy is to succeed. Each of the Ministers will introduce the major activities in and issues facing the sectors in his portfolio. We shall need to respond by emphasizing the relationship each sector means to the overall adjustment effort. What follows are briefings on the areas of responsibility of these five. Where relevant, we have provided information on the Bank's activities in the sector, the issues facing the sector at this time and the approach we recommend you take in discussing them.

### EDUCATION

2. The Bank has provided seven loans in the education sector since 1965, totalling \$346.5 million. Three of these loans are current. The loans have supported all levels of the education system. In March 1986, the Bank approved a US\$150 million loan to support reform of Morocco's entire education system. The objectives of the reform program are 1) to expand access of primary and secondary age children to basic education; 2) improve the overall efficiency of Morocco's education system and 3) to constrain the growth of higher education costs.

3. Dr. Laraki, the Minister (and newly-appointed vice-Prime Minister), is to be complimented on the timeliness of this reform effort. He has had a high personal stake in promoting the reform which appropriately addresses the issues of equity of education through the expansion of basic education facilities in rural areas where illiteracy rates are high. It also recognizes that Morocco's current economic condition requires restraint in public spending for education. Dr. Laraki met with you in Washington in late November and presented you with the Government's statement of Education policy.



EQUIPMENT, PROFESSIONAL AND VOCATIONAL TRAINING

4. The Minister's portfolio covers a number of sectors, including building civil works for the Government, and vocational training.

5. Mr. Kabbaj, the Minister, has a position of considerable influence among the other ministers because his Ministry handles construction activities for the entire public sector. Mr. Kabbaj is widely respected for his individual skills, knowledge and capabilities. He and his ministry have a reputation for competence and hard work which is exceptional within the Government. Because of this, he is often asked to take on additional responsibilities. The responsibility for vocational training was recently transferred to his Ministry from the Ministry of Plan in order to give it greater dynamism. Similarly, Mr. Kabbaj was placed in charge of a Special Committee in 1984 to address Public Enterprise issues, and in particular to devise solutions to the public enterprises arrears. He is particularly concerned with PERL and may raise questions about it (see attachment to Core Brief).

ENERGY AND MINING

6. The Bank's portfolio in energy and mining includes 5 loans totalling \$181.7 million.

7. The mining of phosphates has dominated Morocco's export market in recent years, but phosphate prices have not been favorable to alleviating the country's current account deficit. Most of the coal mined in Morocco is used domestically. Domestic coal accounts for 8% of the energy used in Morocco and is supplemented by imports.

8. The pressing need in these sectors now is coherent energy planning for the country. Morocco is highly dependent on petroleum products for energy, particularly on imported oil, and therefore is very vulnerable to the vagaries of the oil market. In the early 1980s the Bank supported Morocco's program for petroleum exploration through its national oil company; ONAREP's efforts to develop national oil and gas reserves have not been particularly successful despite substantial efforts. ONAREP has been much more successful in attracting exploration interest of international oil companies. Wood fuel from the Moroccan forests is also a popular source of energy and the country faces some serious deforestation problems as a result.

9. The Bank is beginning to work with the Government to try to identify more cost-efficient uses of different fuels and the economic feasibility of developing new energy sources among renewables (e.g. solar, wind, biomass). Mr. Fettah, the Minister, should be encouraged to continue this dialogue with the Bank on energy planning and the evolution of appropriate energy pricing so as to reduce the import bill and promote self-sustaining enterprises for production and distribution.

AGRICULTURE AND AGRICULTURAL REFORM

10. The Bank has financed 20 projects in irrigation, agricultural credit, rural development and vegetable production. At present agriculture is also one of the key areas of our economic dialogue and lending to the country to promote policy reform. An agricultural sector adjustment loan for \$100 million was approved in June 1985 and a second phase is being prepared for FY87. The thrust of the reforms is to a) restructure public investment program in agriculture towards quick maturing and high return investments, b) correct the prices and incentives framework to encourage sound shifts in agricultural activities, c) limit and rationalize support services provided by Government, and d) build up institutional capacity for agricultural policy planning and analysis. To a large extent, the relatively successful results of our policy dialogue and lending in this sector are due to the good understanding of the issues by and full support of the reform program from Mr. Demmati, the Minister of Agriculture and Agricultural Reform. The Minister should therefore be complimented for his contribution to that effort.

11. Although there is a wide measure of agreement between the Bank and the Minister of Agriculture as to the direction of the policy shifts required, there are some specific topics where we may face some difficulties in the actual implementation process. Areas of possible conflict are: pace of the reduction of subsidies on flour, oil and sugar consumption; procurement procedures for imported fertilizers; and elimination of compulsory cropping patterns on irrigated land.

12. Regarding consumer subsidies on bread, oil and sugar, the Bank has prepared specific recommendations to eliminate such subsidies in the span of 5 years, coupled with compensatory measures to protect the most disadvantaged layers of affected population. We plan to discuss our recommendations with Government and they should be adopted by the Government shortly thereafter. This issue, given its magnitude, surpasses sectoral interest and has an important bearing on the Government's overall finances and, therefore, on relations with the IMF. Use of negotiated contracts rather than ICB for fertilizers import was an issue during negotiations of the first sector loan. During the preparation and negotiation of the second one, we hope we will be able to persuade Government that ICB is to their benefit in the long term even if apparent short-term advantages (in terms of placing phosphates in the world market) seem possible from negotiated contracts for fertilizer imports. So far the Government has agreed to review its policy of setting cropping patterns in irrigated areas, but it is still reluctant to let the farmers choose their crops, although this would be in line with the spirit of the overall policy change.



PUBLIC HEALTH

13. Bank involvement in the health sector began in the early 1980's with sector work which laid the basis for the Bank's approval in 1985 of the first \$28.4 million loan for a Health Development Project. The basic aim of the project, and our involvement in the sector, is to initiate a shift from an urban-based, hospital-oriented health system to a more cost-effective system of primary care, including family planning. The project is limited to three provinces of the Kingdom. Should it prove successful, it could be replicated in other provinces. Mr. Bencheikh, the Minister of Public Health, was formerly Minister of Economic Affairs and has been a strong supporter of the Bank. His appointment as Health Minister is considered a very positive step to improving management and project execution in what has hitherto been a rather inefficient ministry. The importance of expanding the Health Program should be underscored. It is not only an example of the type of investment that will benefit the less advantaged groups within the society and hence mitigate the social costs of adjustment. It also demonstrates that with the appropriate political will, cost-effective programs can be delivered within a resource-constrained situation; by lowering unit costs, such programs contribute to stabilization efforts. You should also emphasize the importance of such programs in contributing to a reduction in fertility and population growth.



April 23

Wednesday, April 23, 1986 - 9:30 a.m.

Meeting with H. E. Tahar Masmoudi,  
Minister of Commerce and Industry

### Meeting Objectives

1. The manufacturing sector will play a dominant role in the transformation of the Moroccan economy from its orientation to domestic markets and consequent reliance on import-substituting industrial activity to an outward orientation more encouraging of exports. The sector as a whole has contributed to a disequilibrium in the balance of trade, imports of intermediate and capital goods having risen faster than locally produced substitutes. The Ministry of Commerce and Industry has been in the forefront of the Government's efforts to liberalize trade and improve industrial efficiency and you should use this opportunity to express our gratification for its having persisted with the reforms despite criticisms that have, at times, been strident.

### Issues to be raised by the Bank

#### Pursuing Reforms in Trade and Industry

2. In the industrial sector, the process of structural adjustment is well advanced, and has provided the core of the reform program supported by the two Industrial and Trade Policy Adjustment Loans (ITPA) which the Bank has made in 1984 and 1985 (See attachment to Core Brief for summaries of the ITPA programs). You should acknowledge to the Minister, that the Government has shown considerable courage in going ahead with its program in this context, but note that further actions are required in the next 2-3 years to reach the agreed medium-term objectives.

3. Further measures are going to be needed to reduce the overall levels of protection of Moroccan manufacturers to 25% and the Government is going to have to find the optimum balance between reductions in Quantitative restrictions and tariffs. Remaining price controls on domestic monopolies will need to be eliminated as imports are liberalized; and reductions will need to be effected on internal trade and transport such as shipping and licencing requirements.

### Issues to be Raised by the Government

4. The Minister may reflect some of the criticism of the program that it could weaken Moroccan industry through excessive imports. The following points should be made in response:

- i) The inflow of imports can and should be kept to a responsible level by appropriate exchange rate and demand management policies.

- ii) The program's objective is not simply "de-protection" for its own sake, but a strengthening of the industrial sector's capacity to produce efficiently, compete and thereby escape of the constraints of a limited domestic market. In addition, the general public (consumers) would benefit from liberalization.
  - iii) It is principally the trade and industrial sector which will attract support provided from other external sources. Without this support, much more severe adjustments would have to be made. Any backtracking in industrial and trade policy could be detrimental to the adjustment effort elsewhere in the economy.
5. Release of the Second tranche of ITPA II (See attachment to Core Brief).



Wednesday, April 23, 1986 - 10:30 a.m.

Rabat Urban Development Project  
Field Visit

Objectives of Field Visit

1. Your visit to the Bank-financed Rabat Urban Development Project should provide an opportunity to view a relatively successful (completed) project which initiated several policy changes in cost recovery, and planning and engineering standards, and has provided some valuable lessons for replicability. A write-up of the project is attached. It will also allow you to raise some important policy issues.
2. Urbanization has been fairly rapid in Morocco, averaging 4.5% per annum, compared to about 3% per annum for population growth overall. This has produced many slums around the major urban agglomerations, particularly Casablanca. While these developments offer the opportunities for significant small-scale industrial and commercial activity on a planned basis, there are problems posed by rapid urbanization. Low-income urban areas are socially very volatile given their large population of unemployed youth. Twice in the very recent past (1981 and 1984), Government reductions in subsidies on basic foodstuffs (flour, edible oils, sugar) have produced explosive street demonstrations against the Government. Concern that violence of this kind will again follow any attempts to raise prices of goods and services consumed by the urban poor are a major factor behind the Government's reticence to adopt resource mobilization measures.
3. In these circumstances, your visit should enable us to make the following points to the Government:
  - a) It is important even during times of economic austerity, for the Government to continue to invest in social overhead in order to mitigate the potential adverse social effects of adjustment.
  - b) It is however possible to finance this investment by means other than the Government budget.
  - c) To the extent that costly subsidies need to be withdrawn, a planned reduction of subsidies should incorporate support programs to target better those most in need of continued assistance.
4. Within the broad policy context indicated above, Bank strategy in the urban sector would be driven by the following consideration. Further financing of urban investments at a time of macroeconomic and financial difficulties is important to sustain growth for the following reasons:

- (i) about two thirds of GDP is generated in urban areas and urban incomes are at least 30 percent higher than (and have been increasing twice as fast as) those in rural areas;
  - (ii) Morocco's urban areas offer a dynamic economy and conditions under which it is less expensive to create new jobs and increase income than in rural areas. Also, services needed for sustaining economic activities can be provided more efficiently in the urban setting.
5. Government policy should therefore attempt to rationalize rather than restrain urban growth. The present economic environment in Morocco dictates stringent controls over public expenditure and increased reliance on institutional and private savings for the financing of social investments previously supported by the state. Although attention to basic human needs and to measures to increase the incomes of the poor remains a fundamental objective for Morocco, the current and prospective budgetary limitations call for greater concern for cost effectiveness, improved targeting of social services and subsidized infrastructure, and for the development of lower unit cost delivery systems.
6. In this context, future Bank assistance in the urban sector would concentrate on the following:
- (a) to assist the government in focusing its urban investment program on increasing the provision of low-cost serviced land for housing construction and the development of economic activities by the private sector, and of basic urban services to a larger share of the population by:
    - (i) streamlining and improving the delivery system for low cost serviced land;
    - (ii) strengthening technical responsibilities and fiscal roles of local governments to manage urban growth and to extend urban services to existing and future low-income households; and
    - (iii) mobilizing private resources to the housing and municipal finance subsectors;
  - (b) to help the government develop a plan for restructuring its urban transport companies and improving its urban transport networks.



Rabat Urban Development Project  
(LN 1528-MOR for \$18 million signed on 03.31.78)

Field Visit

Project Description

1. This was the Bank's first shelter related project in EMENA and was instrumental in influencing the government's policy of slum upgrading versus demolition. As the first Bank supported urban project in Morocco, it aimed at demonstrating efficient low-cost solutions to urban development problems in general, and to shelter in particular, thereby setting the stage for the replication of similar operations in the future. To this end, the project had two principal objectives: a) to introduce low-cost urban upgrading, infrastructure, and housing concepts affordable by the lowest income groups and incorporate improved cost recovery, which would enable the initiation of country-wide programs to tackle already serious housing, infrastructure, and social service problems more effectively; b) to deal with structural problems in the housing, infrastructure, social service, and employment sectors of Rabat's seventh Municipal Ward.
2. With these objectives the project was designed to consist of five interrelated components: i) comprehensive squatter upgrading in the three quarters of Douars Doum, Maadid and Hajja. This upgrading included rehabilitation and extension of infrastructure, improvement and expansion of commercial installations and home improvements through self-help; (ii) an employment generation program to create about 2,500 new jobs in the project area; (iii) community services equipment to improve garbage collection, fire fighting and emergency services; and (iv) technical assistance to strengthen the institutional arrangements and technical capabilities of the executing agencies. An organization was created for project implementation which was to involve seven ministries and two other agencies under the supervision of a Project Directorate (PD). The project cost at appraisal was DH 165.5 million, of which DH 79.2 million (\$18 million) were to be financed from the Bank loan.
3. The main features of the project, as highlighted in the recent Project Completion Report (June 24, 1985) were that it largely succeeded in meeting its objectives, works were satisfactorily executed with no major procurement issues, and most covenants were fulfilled promptly. It provided solutions to specific shelter problems, demonstrated the feasibility of upgrading sites and services, and set the stage for Bank lending in the sector, which now includes four projects. On the other hand, following the very long identification and preparation period, there were considerable implementation delays (30 months in all beyond appraisal estimates, with actual implementation over 5 1/2 years), because of managerial problems, lack of



counterpart funds, and institutional complexity. Although no major revisions took place during implementation, some minor physical works and the technical assistance have not been implemented by the closing of the project (the final disbursement was on 12/07/84). Despite implementation delays, appraisal cost estimates were exceeded only marginally because of contractors' low prices as a result of the recession. Institutional development did not materialize as expected; however, re-assignment of implementing and coordinating functions as well as for small business promotion helped address the issues encountered.

4. The project has been found to be economically justified, with an Economic Rate of Return of 20%. The project is also affordable to its beneficiaries and recovery for sites and services costs is satisfactory (recovery of upgrading cost has, however, been delayed by delays in land acquisition and delivery of titles).

Wednesday, April 23, 1986 12:15 PM

Meeting and luncheon with Mr. Ahmed Osman  
President of the Parliament

Meeting Objectives

1. Mr. Osman is an extremely influential person in Morocco, widely rumoured to be high on the list for nomination as the next Prime Minister after Mr. Lamrani retires, which is expected in the near future. The country's adjustment effort, prospects for the Baker Plan and overall Bank/Government relations, should be discussed, with emphasis on the parliamentary support needed for the Government's adjustment program.

A Topic for Discussion

2. The Moroccan Government has often argued that with the recent re-activation of the Parliamentary process, the pace and scope of economic adjustment are necessarily constrained by the difficulty and delays inherent in persuading elected representatives of diverse interest groups. It is evident that the economic rationale for policy reform does not always weigh very heavily with these representatives, some of whom would prefer to strike nationalistic and populist (and sometimes anti-Bank, and anti-IMF) postures, particularly where the issues involved are politically and socially sensitive -- e.g. reduction of subsidies, increasing revenues through taxation, import liberalization, and closure of uneconomic public enterprises or their privatization. All the measures cited are, however, important elements of Morocco's adjustment.

3. You may wish to stress to the President of the Parliament that the adjustment effort supported by the Bank should be seen not as a set of policies recommended by an international agency, but as consensus-determined and economically feasible options to enable Morocco to emerge from its long-standing and structural constraints, and from its current crisis, within a reasonable period. Neither the parliamentary opposition nor any other cohesive constituency in Morocco appears to offer structured, coherent alternatives to the ongoing adjustment effort. You may wish to add that the Bank considers the Parliament's and its President's role very important in helping to evolve a national approach which surmounts other possible more short-term and fragmented perspectives to effectively address Morocco's problems.



Wednesday, April 23, 1986 - 4:30 p.m.

Meeting with Mr. Bensalem Guessous,  
President of the General Confederation of Moroccan Exporters (CGEM)  
and with representatives of the Moroccan banking sector

### Meeting Objectives

1. Mr. Guessous is a former Cabinet Minister who implemented the first phase of the ITPA reforms as Minister of Commerce and Industry. His latest official responsibility is to try to negotiate a special status for Morocco within an expanded European Economic Community (EEC). Morocco's principal trading competitors (particularly for agricultural products) are Spain and Portugal. With the latter's entry into the EEC, Morocco has given a period of seven years during which its exports will be treated on a par with those of Spain and Portugal. After that Morocco will face marketing difficulties. As president of CGEM, Mr. Guessous will be well placed to see export questions both as policy issues and as practical business matters. The encounter will provide an occasion to explore whether any divergence exists between these perceptions. The meeting will also be with key representatives of the Moroccan banking sector (both private and public).

### Issues to be raised by the Bank

2. Export prospects and problems. Presently the EEC imposes floor prices at entry into the EEC for citrus fruit and tomatoes. Moreover, Morocco has accepted "voluntary export restraints" of textiles exports to ECC. Even if Morocco succeeds in overcoming part of these limitations through appropriate marketing strategies (timing and quality of exported goods), the EEC does not appear as a growing potential market, at least for these products which have been traditionally sold to Europe. Exports of carpets meet increased competition of South Asian products in Europe as well. Diversifying markets is not a simple task. For example, on North American markets, Moroccan garments are about 10% more expensive than East Asian products. However, Morocco has in the long run a relative advantage in exporting manufactured goods in world markets, mainly because of low long run labor costs. Investment strategies must take this element into account; and must not be excessively capital intensive.

3. You should reiterate our view that an export-led investment strategy is an important element of Morocco's adjustment prospects. The private sector is expected to play a major role in that development. In the past the private sector's role was essentially to supply a domestic market from behind very high tariff walls. That strategy is no longer viable. With increasing liberalization, its role will be to see competitive products abroad, diversifying away from the EEC towards both North American and Middle East markets. You should seek the views of the meeting participants on the prospects from a private sector-led export thrust, and find out what the policy, financial and institutional constraints are to such a development.



4. Privatization. The public enterprise sector in Morocco is large. In addition to placing a financial burden on the Treasury, it drains scarce administrative and managerial talent from a Government bureaucracy which is already strained by the need to implement all the Government's reform programs. To alleviate this burden, the Government has publicly announced that privatization of some enterprises will be considered, and has begun privatizing certain public holdings in the fisheries sector, the sugar sector, and the hotel industry. The Government's efforts could be hindered by the lack of depth of the Moroccan capital market. Thus potential buyers could well consist of a few large families.

5. We suggest that you explore with Mr. Guessous and the Group prospects for accelerating the Government's divestiture program and the structural factors constraining privatization. For discussions of those issues please see brief for meeting with the governor of the Central Bank. In summary, the strengths of current financial intermediation are: sound public financial intermediaries for medium term financing; and sound private financial intermediaries for medium and short-term financing. Weaknesses of the current intermediation process of (a) too much market segmentation, leading to high intermediation costs, (b) too many distortions in credit allocation due to interest rate rebates (c) still too little competition among financial intermediaries (d) interest rate policy still too rigid (e) insufficient incentives for large numbers of small private savers to hold securities.

April 24





Exchange Rate Management

1. The dirham was generally considered to be overvalued in the early 1980s. It was depreciated in September 1983, but began to appreciate immediately thereafter. Further devaluations occurred in early 1984 followed by another rise and then a sharp fall in mid-1985. Exports responded positively to the devaluations and negatively to revaluation. For example, export growth of manufactures was limited in 1983 to 5.3% as a result of the appreciation of the dirham. With the devaluations occurring in 1984 and 1985, manufactured export growth rose to 8.4% and 18.6% respectively. Devaluation has also had a significant impact on tourism receipts which rose by 17% in real terms in 1985, a record year for Moroccan tourism. Overall the dirham has devalued 15% since 1983 vis-à-vis the basket of currencies defined by the Central Bank. However, Moroccans are particularly sensitive to the rate with the French franc.

2. We must emphasize that an active exchange rate policy is necessary to promote export growth and restrain domestic demand. The impressive results in export growth registered over the last two years provide the necessary evidence. Also devaluation contributes to limiting imports. In 1984, imports of goods other than food, fuel, and capital goods (which enjoy a special status) did not grow in volume terms, in part as a result of the depreciation of the dirham. In addition, flexible management of the exchange rate has enabled trade liberalization to proceed without major balance of payments difficulties.

3. Some key Moroccan decision-makers are likely to argue that the exchange rate has little impact on trade. Rather, they feel that devaluation is an admission of economic failure and thus is undesirable for political reasons. We disagree with this interpretation. Recent movements in key economic indicators appear to support our view. For this reason, elsewhere in the world devaluation is viewed less and less as a sign of policy failure and more as an effective policy tool. We may cite the example of the United States which is presently pursuing an active devaluation policy in order to combat its large trade deficit. In sum, you should state that the exchange rate is an important policy instrument to support structural change, and devaluation should be pursued if circumstances so warrant.

Resource Mobilization

1. Resource mobilization needs to be pursued in all economic sectors, in particular the public sector. The Government is spending beyond its means. Despite several years of stabilization, the overall budget deficit was 8% of GDP at the end of 1985. If the \$2.3 billion of Government payment arrears are included, the deficit rises to over 10% of GDP.

2. Enhanced resource mobilization should come about through a major effort to increase public savings to the level needed to finance core levels of public investment. Revenues can be increased through: (a) small (one percent yearly) increases in fiscal pressure, to raise it from its current level of 22% of GDP to about 26% by 1990 and (b) zero growth in constant terms of current expenditures. Government tax revenues could be increased by raising the efficiency of tax recovery, eliminating exemptions, and increasing value added tax rates. Some of the measures are needed to offset the revenue losses from the trade liberalization programs, which is reducing trade taxes.

3. In order to ensure that adequate funding is available for maintenance and public services provided by Government and public enterprises, wages, salaries and employment policies will have to be monitored, since wages and salaries account for over half of current expenditures.

4. On the basis of a January 1986 mission, Bank staff are preparing detailed proposals in each of these areas. The Bank's report is expected to provide the basis for the next Consultative Group meeting, scheduled for June 1986.

SECTION III