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**Folder ID:** 1773657

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**Dates:** 03/01/1986 - 05/31/1986

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THE WORLD BANK

Washington, D.C.

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PRESIDENT CLAUSEN  
ITINERARY FILES

Morocco

1986 ①



The World Bank Group  
**Archives**



**1773657**

President A. W. Clausen Itinerary / Briefing files: Morocco, April 1986 -  
Correspondence 01

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THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

May 6, 1986

Dear Helene:

I'm enclosing a copy of a memo I sent to Robin Woollatt following our Morocco trip. In looking over it again, I realize that I did not say what I meant! You're just not great, you're fantastic!


It has been a real pleasure working with you these past five years and I wish you continued success. Many thanks.

Sincerely,

A handwritten signature consisting of a stylized capital letter 'A' with a horizontal line extending to the right.

Mrs. Helene Bruns-Thepaut  
The World Bank  
Room L-3115

OFFICE MEMORANDUM

DATE: April 30, 1986  
TO: Mr. Robin F. Woollatt, Division Chief, ADMLS  
FROM: A. W. Clausen, President   
EXT: 72001  
SUBJECT: Mrs. Bruns-Thepaut

Mrs. Bruns-Thepaut recently served as interpreter on my visit to Morocco. It was a very difficult assignment which included interpreting for high level discussions with government officials, for an audience with the King of Morocco, and for several public addresses. The schedule was long and arduous. Throughout, Mrs. Bruns-Thepaut maintained her usual very high standards of interpretation in both directions. This was confirmed to me by other staff members who understand French. In addition, she was a cheerful and congenial colleague despite the rigors of the mission. Please assure her of my gratitude and commend her for a job very well done.

cc: Ms. Carmen Venturini (Unit Chief), Mrs. Bruns-Thepaut  
Mr. Hughes (Personnel Officer)  
Messrs. W. Wapenhans, J. Shilling

THE WORLD BANK  
Washington, D. C. 20433  
U.S.A.

A.W. CLAUSEN  
President

May 7, 1986

Dear Jed:

Just a word of thanks for all your assistance during our Moroccan adventure. Our schedule was well planned and made the best use of our time. The exchanges we had with the government representatives and the King were worthwhile and, hopefully, will show some positive results down the line.

I appreciated having the written briefings which you and your staff prepared so well and also those you gave me "on the spot." It was good having you along and Peggy and I both thank you for your kindnesses.

Sincerely,

<sup>T</sup>  
A

Mr. John D. Shilling  
Division Chief  
EMENA Regional Office  
Room H-8003

TRANSMITTED  
5/5/86

WDIAL  
.EM2DB  
OINFO

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-SUBJECT: MOROCCO: Thank you note to Mr. Faris, BNDE  
-DRAFTED BY: CVOLTAIRE EXT: 3-2217  
-AUTHORIZED BY: J.D. SHILLING, DIVISION CHIEF, EM2B  
-CC: Messrs. Clausen, Wapenhans  
-4956B  
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933 31066 =  
- M. FARIS  
- PRESIDENT  
- BNDE  
- RABAT, MAROC

BT

WASHINGTON DC 5 MAI 86

JE VOUS SUIS INFINIEMENT RECONNAISSANT DE VOTRE TRES AIMABLE  
ASSISTANCE POUR FAIRE TRANSPORTER LES CADEAUX OFFERTS A M. & MME  
CLAUSEN ET M.MME WAPENHANS QUI, GRACE A L'AIDE DE VOTRE CONSULAT A  
NEW YORK, SONT DEJA PARVENUS A NOS BUREAUX. AVEC MES REMERCIEMENTS  
REITERES, SALUTATIONS DISTINGUEES. J.D. SHILLING

This is a thank you note to M. Faris, President, BNDE, Morocco,  
who was kind enough to take care of shipping the vases and carpets  
offered to you, in Morocco.

A. W. CLAUSEN  
President

Monsieur Ahmed Bennani  
Gouverneur de la Banque du Maroc  
Banque du Maroc  
B.P. 445  
227 avenue Mohammed  
Rabat,  
Royaume du Maroc

Le 15 mai 1986

Monsieur le Gouverneur,

J'ai été très heureux des discussions franches et ouvertes que j'ai eu l'occasion d'avoir avec vous lors de mon récent séjour au Maroc. Elles m'ont permis de mieux comprendre les efforts déployés sous vos auspices par la Banque du Maroc afin de contribuer au développement économique de votre pays, particulièrement au cours de la période de crise économique actuelle. J'ai été particulièrement impressionné par l'importance que vous accordez à la politique monétaire, de crédit et de taux de change dans le cadre du programme d'ajustement macro-économique actuellement mis en oeuvre, ainsi qu'à l'efficacité accrue de l'intermédiation financière. De plus amples efforts devront être effectués dans cette voie afin de consolider et d'étendre les réalisations de ce programme. Mais comme nous en avons discuté, ils doivent s'accompagner d'efforts similaires dans le domaine de la mobilisation des ressources, d'une épargne publique accrue et d'une amélioration de l'affectation des ressources dans le secteur public, en vue de créer les conditions nécessaires à une croissance économique stable et soutenue.

La Banque Mondiale est consciente des graves problèmes de liquidité auxquels se trouve confrontée l'économie. Nous espérons qu'ils seront résolus au plus vite et de manière à préserver les efforts d'ajustement déjà réalisés, particulièrement dans le domaine de la libéralisation des échanges commerciaux. Je voudrais reconfirmer l'engagement de la Banque à apporter tout son soutien aux efforts d'ajustement et de développement entrepris par le Gouvernement marocain, à la fois par de l'aide financière et une collaboration en matière d'analyse économique et sectorielle. Comme nous en avons discuté, il est évident que les décisions essentielles à la réalisation et au maintien d'un équilibre économique demeurent, de par leur nature, la responsabilité du Gouvernement. Au cours de ma visite, nous avons souligné à plusieurs reprises à l'attention des membres du Gouvernement l'importance de formuler lesdites décisions, tant pour résoudre les problèmes à court-terme que pour formuler une stratégie cohérente à moyen terme.

Je voudrais réitérer mes remerciements pour les discussions cordiales et substantielles que nous avons eues, qui ont contribué à rendre mon séjour très productif. Je vous souhaite tout le succès possible dans l'accomplissement de votre lourde tâche. J'aimerais également vous remercier de votre très aimable présent. J'ai été très sensible à votre geste.

Je vous prie de croire, Monsieur le Gouverneur, à l'assurance de ma haute considération.

A handwritten signature in black ink, appearing to read 'A. W. Clausen'. The signature is fluid and cursive, with a large initial 'A'.

A. W. Clausen  
Président



UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

Mr. Ahmed Bennani  
Governor  
Bank of Morocco  
B.P. 445  
277, avenue Mohammed  
Rabat, Morocco


The Governor,

I greatly appreciated the opportunity for full and open discussions with you during my recent visit to Morocco. I came away with a far better and more comprehensive understanding of the efforts of the Bank of Morocco under your guidance to support the economic recovery of Morocco, particularly under the current difficult and pressing circumstances. I was particularly impressed by your insistence at placing monetary, credit, and exchange rate policies in the context of the on-going macro-economic adjustment program as well as by the emphasis you gave to improved efficiency of financial sector intermediation. Further efforts in these areas are needed to consolidate and widen the program accomplishments to date, but, as we discussed, they need to be concerted with similar efforts in the area of resource mobilisation, public savings and improved resource allocation in the public sector, to create the conditions for sustainable growth with stability.

We, at the World Bank, are aware of the immediate and urgent liquidity problems confronting the economy. We hope that they can be resolved early and in a manner so as to preserve the element of adjustment already achieved, particularly in the area of trade liberalization. I want to reaffirm the World Bank's commitment to supporting Morocco's adjustment and development efforts, both through financial assistance and collaboration in economic and sector analysis. Of course, as we discussed, the critical decisions to achieve and preserve economic balance will, by their nature, remain the Government's responsibility. During my visit, the importance of reaching such decisions, both to solve the short-term issues and to formulate a coherent medium-term strategy, was repeatedly emphasized to members of the Government.

Once again, let me thank you for the cordiality of our discussions, whose substantive content contributed to my visit being as productive as it was. I wish you continued success in the discharge of your heavy responsibilities. I would also like to thank you for your very kind present.

Yours sincerely,



A. W. Clausen

4952B  
05/15/86  
HPRASAD/cv

A. W. CLAUSEN  
President

S.E. Dr. Azeddine Laraki  
Vice Premier Ministre et  
Ministre de l'Education  
Rabat,  
Royaume du Maroc

Le 14 mai 1986

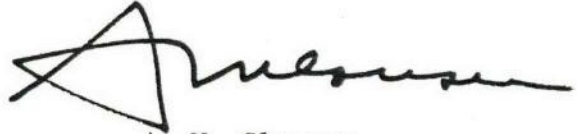
Monsieur le Vice Premier Ministre,

Permettez-moi de vous remercier pour votre chaleureuse hospitalité lors de mon récent séjour au Maroc. J'ai été très heureux d'avoir eu l'occasion de mieux faire votre connaissance lors de l'agréable dîner dont vous avez été l'hôte à mon arrivée. Croyez que ce geste m'a beaucoup touché. J'ai pu me rendre compte, lors de ma visite, combien le Maroc avait amorcé avec succès les ajustements structurels nécessaires au redressement de son économie. Toutefois, comme nous en avons parlé, un ensemble de nouvelles mesures importantes est nécessaire, si l'on veut restaurer une croissance économique soutenable à moyen terme. Je pense que le programme de réforme du secteur éducatif entrepris avec l'assistance de la Banque démontre la capacité du Gouvernement de mettre en oeuvre des mesures pratiques et cohérentes dans la poursuite de ces objectifs, tout en tenant compte des besoins à long terme de la population marocaine. Ce genre d'initiative est également très nécessaire dans d'autres domaines. Nous sommes heureux de participer à ces efforts.

Nous estimons qu'il est essentiel de gérer le redressement économique du Maroc au moyen d'une stratégie d'ajustement cohérente à moyen terme, qui se préoccupe à la fois avec insistance de résoudre les problèmes à court terme. Comme je l'ai souligné au cours de ma visite, la Banque est disposée à apporter tout son soutien à l'élaboration d'un tel programme; toutefois, les orientations et les décisions y afférant demeurent, de par leur nature, la responsabilité du Gouvernement. Nous ne doutons pas que les autorités marocaines seront à même de prendre les décisions appropriées en temps opportun. La réunion prévue pour le mois de juin avec les bailleurs de fonds bilatéraux et les banques commerciales constitue une excellente occasion de présenter la stratégie de redressement du Gouvernement. Celle-ci sera supportée, nous le pensons, par la démonstration des progrès réalisés dans le cadre des programmes d'ajustement et de stabilisation entrepris en accord avec la Banque et le FMI. Ma réunion avec les membres du cabinet économique s'est avérée des plus utiles et j'ai été vivement intéressé par les opinions exprimées par plusieurs ministres et leurs représentants. Je ne doute pas qu'ils sont conscients de la situation difficile que traverse actuellement le Maroc ainsi que des mesures énergiques qui seront nécessaires pour trouver des solutions dans des domaines spécifiques.

Madame Clausen, Monsieur et Madame Wapenhans ainsi que les autres membres de la délégation se joignent à moi pour vous remercier encore une fois ainsi que Madame Laraki pour l'excellente soirée que nous avons passée chez vous. Elle a été un prélude fort agréable à la suite de notre séjour et nous a permis de goûter à l'excellente cuisine marocaine. Nous avons été très touchés également par le somptueux tapis qui nous a été offert par votre Gouvernement et vous en remercions.

Je vous prie de croire, Monsieur le Vice Premier Ministre, à l'assurance de ma haute considération.

A handwritten signature in black ink, appearing to read 'A. W. Clausen', written in a cursive style.

A. W. Clausen  
Président

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH


H. E. Dr. Azeddine Laraki  
Vice Prime Minister and  
Minister of Education  
Rabat, Morocco

Your Excellency,

I would like to thank you for your hospitality during my recent visit to Morocco. I greatly appreciated the privilege of getting better acquainted at the informal dinner you offered in your beautiful home on my arrival. That was a most thoughtful gesture. Following this visit, I am even more confident that Morocco has made a promising start in effecting the structural adjustments necessary for its economic recovery. However, as we discussed, significant and concerted further steps are needed to restore the Moroccan economy to a sustainable growth path over the medium-term. I believe the reform program in the Education Sector, developed with Bank assistance, provides a good example of the way in which the Government can take practical and consistent steps towards this goal without sacrificing basic long-term needs of the people of Morocco. This kind of leadership and determination is required in other areas as well. We are proud to be associated with these efforts.

We believe it is essential to manage Morocco's economic recovery within a coherent medium-term strategy of adjustment within which pressing short-term issues are addressed in an insistent manner. Growth with stability, dependent on concerted and continuing external support, requires nothing less. As I emphasized during my visit, the Bank stands ready to help in designing and carrying out such a medium-term recovery program, but the key directions and decisions must, by their very nature, remain those of your Government. We are confident that Moroccan authorities will make appropriate and timely decisions. The proposed meeting in Paris in June with bilateral donors and commercial banks should provide an excellent opportunity for presentation of the Government's strategy for recovery, a presentation which would be supported, we expect, by the demonstrated progress in the adjustment and stabilization programs carried out in agreement with the Bank and the IMF. I found it very useful to meet with the economic cabinet, and appreciated the opportunity to listen to the views of various ministers or their representatives. I am confident that they are all fully aware of the current difficult situation and the need for strong measures to deal with it successfully in their particular areas.

Mrs. Clausen, Mr. and Mrs. Wapenhans, the other members of our team and I would again like to thank Mme. Laraki and you for the delightful evening at your residence. It set a very positive tone for the rest of the visit, and introduced us to exquisite Moroccan cuisine. We have also been very touched to receive the beautiful carpet offered by your Government and would like to thank you.

  
Yours sincerely,  
W. A. Clausen

4945B  
HPRASAD/rs  
05/01/86

A. W. CLAUSEN  
President

S.E. Rachidi Ghazouani  
Ministre du Plan  
Rabat,  
Royaume du Maroc

Le 14 mai 1986

Monsieur le Ministre,

Permettez-moi de vous dire combien j'ai apprécié mon récent séjour au Maroc ainsi que notre entretien au cours de la réception. Bien que brève, notre discussion s'est révélée des plus utiles et intéressantes.

Vu la situation financière précaire à laquelle le Maroc est actuellement confronté, je voudrais souligner à nouveau combien le Ministère du Plan contribue de façon significative à l'élaboration d'un plan et de priorités économiques à moyen terme ainsi qu'à assurer que le programme d'investissement et ses projets individuels répondent aux priorités et aux critères d'ordre économique. J'apprécie vos préoccupations à cet égard et formule le vœu que votre Ministère poursuivra son effort dans cette direction. La Banque est disposée à apporter tout son soutien à la réalisation de cet objectif.

Pour conclure, permettez-moi de rappeler que la présentation de la stratégie à moyen-terme mise en oeuvre par le Gouvernement lors de la réunion du mois de juin aura un effet déterminant sur la capacité du Maroc à s'assurer le support soutenu des milieux internationaux. Je ne doute pas que vous contribuerez pour beaucoup à sa bonne préparation.

Je vous prie de croire, Monsieur le Ministre, à l'assurance de ma haute considération.



UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

His Excellency Rachidi Ghazouani  
Minister of Plan  
Rabat, Morocco

Your Excellency,

Let me take this opportunity to tell you how much I enjoyed my visit to Morocco and our encounter at the reception. Though brief, I found our discussions most engaging.

Given Morocco's currently weak financial situation, I would like to reemphasize that the Planning Ministry has an important role to play in helping to determine the medium-term economic framework and priorities and in ensuring that the investment program and its individual projects satisfy economic priorities and criteria. I am appreciative of your concerns in this regard and would hope that your Ministry continues to work in this direction. The Bank stands ready to help you in this matter.

Lastly, let me mention again that the June presentation in Paris of the Government's medium term strategy will be vital to Morocco's efforts to assure continued international support. I am confident that you will play a major role in assuring its proper preparation.

Sincerely yours,



A. W. Clausen

4946B  
May 12, 1986

THE WORLD BANK  
Washington, D. C. 20433  
U.S.A.

A. W. CLAUSEN  
President

Mr. Joseph Schutzenberger  
Resident Representative  
United Nations Development Program  
Immeuble de l'ONU  
Angle av. Moulay Hassan & Rue Assafi  
Casier ONU  
Rabat-Chellah  
Morocco

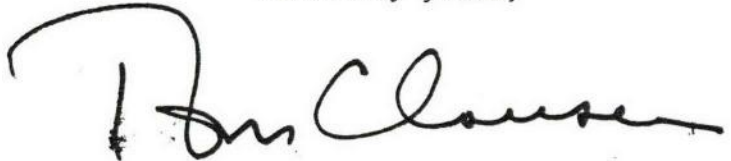
May 14, 1986

Mr. Schutzenberger,

Let me take this opportunity to tell you how much I enjoyed my recent visit to Morocco. Our discussions with the Government were constructive and fruitful. I very much appreciate your coming to greet me at the airport and assuring that appropriate security measures were taken.

I appreciate the cooperation between the World Bank and UNDP staff in Morocco and would hope that our mutually supportive efforts will have a significant impact on Morocco's development. Let me wish you a successful and enjoyable tenure as UNDP's Representative in Morocco.

Sincerely yours,

A handwritten signature in black ink, appearing to read "A. W. Clausen". The signature is fluid and cursive, with a large initial "A" and "W" that are connected to the rest of the name.

P.S. Many thanks, too, for helping me find a dentist! Everything has turned out very well!

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

Monsieur Bensalem Guessous  
Directeur Général de la Confédération  
Générale Economique Marocaine  
Casablanca,  
Royaume du Maroc.

Le 14 mai 1986

Monsieur le Directeur,

Je saisis cette occasion pour vous dire une fois encore combien Madame Clausen et moi-même avons apprécié notre récent séjour au Maroc ainsi que le dîner dont vous fûtes l'hôte.

Je regrette vivement de ne pas avoir eu l'occasion de m'entretenir plus longuement avec les dirigeants du secteur privé marocain. Je vous prie d'accepter mes excuses pour notre retard, qui comme vous le savez, n'a pas pu être évité. Cependant, j'ai été favorablement impressionné par les représentants du secteur privé que j'ai eu l'occasion de rencontrer et je ne doute pas qu'ils joueront un rôle essentiel dans le processus de redressement de l'économie marocaine.

Je voudrais réitérer mes remerciements ainsi que ceux de Madame Clausen et de toute la délégation de la Banque pour votre superbe réception et l'excellent dîner que vous nous avez offerts.

Je vous prie d'agréer, Monsieur le Directeur, l'expression de ma considération distinguée.





UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

Mr. Guessous  
Director General, CGEM  
Casablanca, Morocco

Mr. Guessous,

Let me take this opportunity to tell you how much Mrs. Clausen and I enjoyed our recent visit to Morocco, and the dinner you offered.

I regret not having been able to meet at greater length with the leaders of the Moroccan private sector. I apologize for our late arrival, but as you know, it was unavoidable. Nevertheless, I was impressed with those private sector managers I did meet and am confident that they will play an essential part in Morocco's recovery.

Let me thank you again on behalf of Mrs. Clausen and the others of the World Bank delegation for the lovely reception and dinner.

Sincerely yours,

  
A. W. Clausen

4946B  
May 12, 1986

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

Monsieur Faris  
Président de la Banque Nationale  
de Développement Economique  
Rabat,  
Royaume du Maroc.

Le 14 mai 1986

Monsieur le Président,

Permettez-moi par la présente de vous dire combien j'ai apprécié mon récent séjour au Maroc ainsi que les brefs entretiens que nous avons eus.

J'apprécie vivement vos efforts et votre succès en tant que Président de la BNDE ainsi que le rôle accru joué par celle-ci dans le développement et la promotion des exportations. Vu les capacités et le degré de développement de la BNDE, je suis plus enclin à considérer désormais votre organisation parmi les partenaires de la Banque plutôt que parmi ses clients.

Pour conclure, je voudrais vous exprimer ma plus vive reconnaissance pour votre aide dans l'expédition des vases et du tapis qui nous ont été offerts au cours de notre visite. Ils sont arrivés à destination quasiment avant nous.

Je vous prie d'agréer, Monsieur le Président, l'expression de ma considération distinguée.

A handwritten signature in black ink, appearing to read 'A. W. Clausen'. The signature is stylized, with a large, angular initial 'A' followed by a cursive-style name.

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

Mr. Faris  
Director General  
BNDE  
Rabat, Morocco

Mr. Faris,

Let me take this opportunity to tell you how much I enjoyed my recent visit to Morocco and our brief discussions.

I am appreciative of your efforts and successes in managing BNDE and expanding its role in the development and promotion of exports. Given BNDE's maturity and abilities, I would like to think of your organization, in the future, more as a partner rather than as a client of the World Bank.

Lastly, Mrs. Clausen joins me in expressing our deep appreciation for your assistance in expediting the rug and vases that were presented to us during our visit. They managed to arrive almost before we did.

Sincerely yours,

  
A. W. Clausen

4946B  
May 12, 1986

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

S.E. Driss Basri  
Ministre de l'Intérieur  
Ministère de l'Intérieur  
Rabat,  
Royaume du Maroc

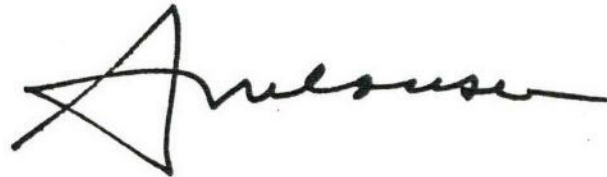
Le 14 mai 1986

Monsieur le Ministre,

Je saisis cette occasion pour vous remercier vivement ainsi que votre personnel pour les excellentes mesures de sécurité et l'organisation de tout premier ordre de nos déplacements lors de mon récent séjour au Maroc. J'ai beaucoup apprécié ma visite, laquelle fut, je crois, un franc succès.

Je regrette vivement de ne pas avoir eu l'occasion de vous rencontrer personnellement durant mon séjour car j'aurais aimé m'entretenir avec vous de certains projets actuellement mis en oeuvre et qui sont importants pour votre Ministère; je pense notamment aux projets concernant l'infrastructure urbaine. Je formule cependant le voeu que la collaboration déjà établie entre votre Ministère et la Banque Mondiale se poursuivra à l'avenir dans les meilleures conditions.

Je vous prie de croire, Monsieur le Ministre, à l'assurance de ma haute considération.

A handwritten signature in black ink, appearing to read 'A. W. Clausen'. The signature is stylized with a large, angular initial 'A' and a long, horizontal stroke extending to the right.

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

His Excellency Driss Basri  
Minister of Interior  
Rabat, Morocco

Your Excellency,

Let me take this opportunity to thank you and your staff for your outstanding security and travel arrangements during my recent visit to Morocco. The visit was quite successful and I thoroughly enjoyed it.

It is unfortunate that we did not meet personally on this occasion since I would have liked to discuss with you some of our projects being executed under your Ministry's responsibility -- especially those dealing with urban infrastructure. Nevertheless, I would hope that the excellent relationship between your Ministry and the Bank will continue to develop in a most satisfactory manner.

Sincerely yours,

  
A. W. Clausen

4946B  
May 12, 1986

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

Monsieur Serghini Ahmed  
Maître Céramiste  
7, Souk de Poteries  
Safi  
Royaume du Maroc

Le 14 mai 1986

Cher Monsieur Ahmed,

Lors de notre récent séjour au Maroc, Madame Clausen et moi-même avons reçu une paire de somptueux vases en céramique bleue finement ornés. Nous avons été très sensibles à ce geste et aimerions vous dire combien nous avons apprécié le travail de qualité que vous avez investi dans ces superbes pièces. Vos vases évoqueront toujours pour nous la chaleureuse hospitalité qui nous a été prodiguée lors de notre séjour au Maroc et dont nous garderons un excellent souvenir.

Je vous prie de croire, cher Monsieur Ahmed, en mes sentiments les meilleurs.

A handwritten signature in black ink, appearing to read 'A. W. Clausen'. The signature is stylized, with a large, angular initial 'A' followed by a cursive-style name.

THANK YOU NOTE TO POTTER.

Monsieur Serghini Ahmed  
Maître Céramiste  
7, Souk de Poteries  
Safi  
Royaume du Maroc

Dear Mr Ahmed,

During our recent trip to Morocco, Mrs Clausen and myself were offered a beautiful pair of delicately ornated blue ceramic vases. We have been very touched by this gift and wish to tell you how much we have appreciated the fine craftsmanship you have invested in these truly superb examples of traditional Moroccan art. Your vases will always remind us of the warm hospitality we have received during our visit to Morocco.

Sincerely yours,  
A. W. Clausen

4969B



A. W. CLAUSEN  
President

S.E. Moulay Zine Zahidi  
Ministre des Affaires Economiques  
Ministère des Affaires Economiques  
23, avenue Moulay Hassan  
B.P. 412  
Rabat,  
Royaume du Maroc

Le 14 mai 1986

Monsieur le Ministre,

Permettez-moi de vous dire combien j'ai été sensible à l'accueil chaleureux que vous m'avez réservé lors de mon récent séjour au Maroc. L'organisation pratique de ma visite a été remarquablement mise au point par les services de votre Ministère et je vous en remercie. Croyez qu'elle a contribué pour beaucoup à rendre mon séjour aussi utile qu'agréable. J'ai été tout aussi impressionné par l'étroite collaboration que j'ai constatée dans les relations de travail entre les représentants de votre Ministère et ceux de la Banque Mondiale. Je ne doute pas qu'il s'agit là d'un des éléments-clé du succès des opérations entreprises conjointement par le Royaume du Maroc et la Banque.

Comme je l'ai mentionné avant mon départ du Maroc, j'ai été impressionné par les efforts sensibles qui ont été déployés jusqu'à présent par votre Gouvernement à l'égard du programme d'ajustement. Notre évaluation de la situation économique actuelle et des perspectives futures semble indiquer qu'une mise en oeuvre soutenue et renforcée des mesures d'ajustement est essentielle à la restauration d'une croissance économique viable pour le Maroc, qui réponde aux aspirations nationales et rétablisse un équilibre budgétaire et extérieur à moyen terme. Les mesures principales incluraient la mobilisation des ressources intérieures, y compris l'augmentation de l'épargne publique grâce à un effort de fiscalité accrue et une diminution des dépenses, la réforme des entreprises publiques, (particulièrement en ce qui concerne la politique de prix), la libéralisation des échanges commerciaux accompagnée d'une politique active de taux de change afin d'assurer la compétitivité, protéger la balance des paiements et renforcer les systèmes budgétaires et de planification. La mise en oeuvre, simultanément, de toutes ces mesures permettrait une plus grande efficacité dans l'ensemble de l'économie, et par conséquent, un essor de l'économie. Simultanément, il serait capital de répondre le plus efficacement possible aux besoins essentiels tels que la distribution d'eau potable, la santé, l'éducation et la formation professionnelle.

Fort heureusement, certains facteurs extérieurs (tels qu'une production agricole accrue, une baisse des prix de l'énergie au niveau mondial, une diminution des taux d'intérêts et la perspective d'une

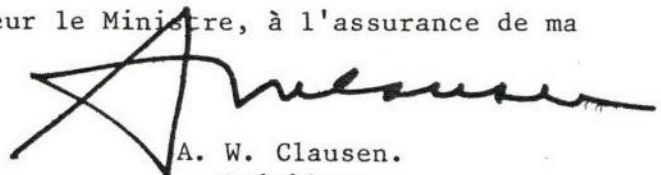


excellente récolte) ainsi que les résultats favorables obtenus tant sur le plan de l'exportation des produits non-traditionnels que sur le plan du tourisme, offrent la possibilité d'accélérer la mise en place de la plupart des mesures d'ajustement importantes dans le cadre de cet environnement favorable. Nous estimons qu'il est essentiel de tirer profit de cette situation propice le plus rapidement possible à la fois pour éviter les risques de répercussions défavorables sur l'économie et renforcer la crédibilité du pays au niveau de la communauté internationale. La Banque est disposée à soutenir cet effort, tant par de l'aide financière que par une coopération d'ordre économique et technique; cependant, de par leur nature, la formulation d'une stratégie à moyen terme et l'élaboration de mesures spécifiques demeurent principalement la responsabilité du Gouvernement.

Dans ce contexte, nous espérons vivement trouver une prompte solution aux problèmes soulevés dans le cadre de ITPA II et du programme de réforme des entreprises publiques, et espérons également que le Gouvernement arrivera sous peu à un accord avec le FMI sur le programme 1986 dans le cadre du stand-by. Nous estimons qu'une démonstration des progrès réalisés en vue d'atteindre un accord dans le cadre de ces programmes et une présentation d'une stratégie claire et précise à moyen-terme contribueront largement au succès de la réunion du mois de juin à Paris avec les bailleurs de fonds bilatéraux et les banques commerciales. Comme nous l'avons mentionné au cours de nos discussions, la réalisation des objectifs d'une croissance économique stable nécessitera un effort conjoint de la part de tous les partenaires du Maroc.

Madame Clausen se joint à moi pour remercier tout spécialement Madame Zahidi pour son hospitalité et la soirée très réussie qu'elle a eu le plaisir de passer chez vous. La délégation tout entière se joint également à moi pour vous remercier infiniment de votre coopération et de l'excellente préparation de notre visite, ainsi que de l'accueil chaleureux qui nous a été réservé tout au long de notre séjour. Je vous prie de bien vouloir transmettre nos sincères remerciements à vos collaborateurs.

Je vous prie de croire, Monsieur le Ministre, à l'assurance de ma haute considération.



A. W. Clausen.  
Président

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

S. E. Moulay Zine Zahidi  
Minister of Economic Affairs  
23, avenue Moulay Hassan, B. P. 412  
Rabat, Morocco

Your Excellency,

I greatly appreciated the warmth of your welcome during my recent visit to Morocco. Thank you for the excellent arrangements by your Ministry's staff. These contributed very much to make the visit useful and enjoyable. I was impressed equally by the obvious closeness of the working relationship between your Ministry and World Bank staff; I am sure this is an important factor in the success of Morocco-Bank cooperation.

As I indicated before I left Morocco, I am impressed by the Government's substantive efforts in its adjustment program so far. From our review of the current economic situation and of prospects for the future, it is clear that continued and reinforced application of adjustment measures will be essential to put Morocco on a viable growth path which can meet national aspirations and restore external and budgetary balance in the medium-term. Critical measures would concern the mobilization of domestic resources including increasing public savings through greater fiscal effort, expenditure reduction, reform of public enterprises (particularly pricing policy), trade liberalization coupled with continued active exchange rate policy to assure competitiveness and protect the balance of payments, and to strengthen planning and budgeting systems. In combination, such actions offer prospects of increasing efficiencies throughout the economy of Morocco which in turn is expected to be a major source of growth. At the same time, it would remain essential to meet basic needs with maximum efficiency and replicability in areas such as water supply, health, education and vocational training.

Fortunately, recent external factors (increased agricultural production, fall in world energy prices, interest rates, and the prospects of an excellent harvest) as well as your success in stimulating non-traditional exports and attracting tourism, present a window of opportunity for accelerating some of the most important adjustment measures within a favorable environment. We believe that it is vital to capitalize on this opportunity straightaway, both because of the risk of adverse impact on the economy if this is not done, and to demonstrate Morocco's determination to the international community. The Bank stands ready to provide all the support it

can, both in financial assistance and through economic and technical advice, but by their nature, the formulation of a medium-term strategy and the definition of specific measures will remain primarily the responsibility of the Government.

We look forward in this context to reaching early resolution of the remaining issues under the ITPA II agreement as well as for the proposed public enterprise reform program. We also hope that the Government will reach agreement early with the IMF on the 1986 stand-by program. We believe that demonstrated progress towards agreement under these programs and the presentation of a clear and concise medium-term strategy will be very important to ensure the success of the June meetings with members of the Consultative Group and representatives of the commercial banks in Paris.

Mrs. Clausen joins me in conveying her special thanks to Mrs. Zahidi for her hospitality and the lovely evening at your home. My entire delegation has asked me to express our appreciation for the excellent preparation of the visit, the cordial welcome and the gracious hospitality we enjoyed throughout. Please thank your staff on my behalf.

Yours Sincerely

A handwritten signature in black ink, consisting of a stylized capital letter 'A' followed by a horizontal line extending to the right.

A. W. Clausen

4951B  
HPRASAD:cv  
05/12/86

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

Sa Majesté le Roi Hassan II  
Rabat  
Royaume du Maroc

Le 14 mai 1986

Sire,

J'ai l'honneur, par la présente, de Vous remercier ainsi que les membres de Votre Gouvernement de l'accueil chaleureux que Vous avez bien voulu réserver à mes collaborateurs et moi-même au cours de notre récent séjour au Maroc.

J'ai été très honoré que Vous ayiez bien voulu me recevoir ainsi que ma délégation et ai été très heureux d'avoir eu l'occasion de discuter avec Vous de la situation économique actuelle, du programme d'ajustement de Votre Gouvernement ainsi que des perspectives futures du Royaume du Maroc. Les discussions cordiales et fructueuses que nous avons eues ainsi que les visites sur le terrain des principaux projets de développement m'ont permis d'apprécier une fois encore les progrès substantiels qui ont été réalisés, sous Vos auspices, au cours de ces vingt-cinq dernières années dans les domaines économiques et sociaux. Parmi ces réalisations importantes, on peut citer le développement de l'infrastructure, la diffusion de l'éducation et le renforcement des ressources humaines, l'amélioration du système de santé et le développement du potentiel agricole et de la capacité industrielle du pays. Ces améliorations fondamentales ont été d'une importance capitale dans le développement du Maroc.

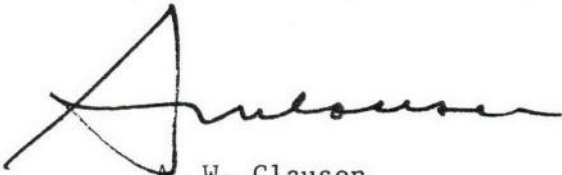
Comme nous Vous en avons déjà fait part, le programme d'ajustement économique de Votre Gouvernement, actuellement en cours, nous semble la seule solution qui permettra de faire face aux conditions difficiles de ces dernières années et d'assurer le développement et la modernisation soutenue du Maroc. L'important soutien que Vous avez accordé à des domaines essentiels tels que l'éducation et la promotion des exportations et Votre appui ouvert et continu au processus d'ajustement constituera, nous en sommes convaincus, l'un des éléments-clé de sa réussite. La conjoncture économique favorable de cette dernière année (amélioration des exportations non-traditionnelles, diminution du prix de l'énergie, baisse des taux d'intérêts et perspective d'une excellente récolte) permettra de poursuivre et de renforcer le processus d'ajustement. Elle facilitera également la mise en place de certaines mesures importantes qui, à notre avis, si elles ne réduisent pas la nécessité de poursuivre le processus d'ajustement, permettront néanmoins d'en accélérer le rythme. Je ne doute pas que, sous Vos auspices, Votre Gouvernement poursuivra cet effort dans le cadre d'un programme de réformes structurelles et de

de développement économique à moyen terme approprié. Nous estimons que ce programme d'action à moyen terme doit se concentrer plus particulièrement sur certains aspects fondamentaux : l'amélioration de l'épargne publique grâce à un effort accru de mobilisation des ressources, la réforme des entreprises publiques (en particulier en matière de politique des prix), ainsi que la libéralisation des échanges commerciaux accompagnée d'une politique de taux de change appropriée. La poursuite de ces objectifs nous paraît vitale si l'on veut restaurer une croissance économique stable.

Nous partageons également Vos préoccupations en ce qui concerne certains aspects du développement à plus long terme, comme la nécessité de développer et de gérer les ressources en eau insuffisantes, y compris d'assurer à la population un système adéquat d'approvisionnement en eau potable, et la rationalisation de la croissance urbaine. La Banque a déjà apporté son soutien à trois projets de distribution d'eau potable et à sept projets d'irrigation. Comme Vous le savez, le personnel de la Banque Mondiale participe, avec Votre Gouvernement, à l'élaboration d'un plan directeur dans le cadre du troisième projet de distribution d'eau potable. Je puis Vous assurer que la Banque Mondiale accorde la plus haute priorité à la poursuite d'une coopération continue dans ce secteur. La Banque mondiale a également participé à plusieurs projets de développement urbain et en prépare actuellement d'autres.

Pour conclure, je voudrais reconfirmer l'engagement de la Banque à apporter tout son soutien au Royaume du Maroc au cours de cette période difficile. Je partage Votre optimisme concernant la réalisation du potentiel économique et social du Royaume du Maroc.

Je prie Votre Majesté d'agréer les assurances de mon profond respect.



A. W. Clausen  
Président

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

His Majesty Hassan II  
Rabat, Morocco

Your Highness,

I would like to thank You and the members of Your Government for the warm welcome which my staff and I received during our recent visit to Morocco. I was honored that You received me with my delegation and gave me the opportunity to review the current economic situation, the adjustment program of Your Government, and Morocco's prospects for the future. The range of cordial and fruitful discussions and the visits to major developments projects have deepened and confirmed my appreciation of the substantial progress achieved in social and economic areas under Your guidance. Among these significant accomplishments are the development of infrastructure, the expansion of education and strengthening of human resources, the improvement of health, and the development of Morocco's agricultural potential and industrial capacity. These fundamental developments have been vital to Morocco's social and economic growth. As we discussed, we are also convinced that Your Government's on-going program of economic adjustment is the only response to the difficult environment of the last several years that will assure Morocco's continued development and modernization. We appreciate the significant support that You have provided in important areas such as education and export promotion and believe Your continued open support of the adjustment process is vital to its success. The favorable economic developments of this year (success in stimulating improvement in non-traditional exports, falling energy prices, lower interest rates and prospects for an excellent harvest) offer the opportunity to continue and reinforce the adjustment process. These favorable developments should facilitate implementation of the important adjustment measures; indeed in the view of the World Bank, they do not reduce the necessity of continuing the adjustment program, but offer possibilities of accelerating its pace. I am confident that under Your guidance Your Government will indeed continue the program with determination, in the context of an appropriate medium-term framework for structural change and economic development. We believe that the action program for such a medium-term strategy must focus in particular on critical issues such as the improvement of public savings within greater efforts at resource mobilization, the reform of public enterprises (especially pricing policy), and trade liberalization with appropriate exchange rate policy. We consider such a focus vital for the achievement of growth with stability.

We also share Your concern on some aspects of longer-term development such as the need to develop and manage scarce water resources including adequate potable water supply to the population and the rational management of urban growth. The World Bank has already supported four water supply projects and several water supply components in agricultural projects. As you may know, our staff are working with Your Government to elaborate a water master plan as part of the fourth water supply project. I can assure You that the World Bank places a very high priority on further cooperation in this sector. The World Bank has also participated in several projects supporting urban development and is preparing others.

In closing, I would like to reaffirm the Bank's commitment to assisting Morocco during this difficult period. I am pleased to join my optimism to Yours in looking towards the realization of Morocco's social and economic potential.

Yours respectfully,

  
A. W. Clausen

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05/12/86

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

S. E. Mohammed Berrada  
Ministre des Finances  
Ministère des Finances  
Rabat,  
Royaume du Maroc

Le 14 mai 1986

Monsieur le Ministre,

Je suis très heureux d'avoir eu l'occasion de vous rencontrer à deux reprises successives depuis votre nomination en tant que Ministre des Finances, d'abord à Washington et ensuite au cours de ma récente visite au Maroc. J'aimerais vous remercier pour votre chaleureuse hospitalité ainsi que pour les discussions fructueuses et cordiales que nous avons eues. J'espère qu'elles se sont avérées aussi utiles pour vous que pour moi. Permettez-moi à cette occasion de vous souhaiter une fois encore tout le succès possible dans vos nouvelles et importantes fonctions.

Comme je l'ai mentionné avant mon départ du Maroc, j'ai été impressionné par les efforts sensibles qui ont été déployés jusqu'à présent par votre Gouvernement à l'égard du programme d'ajustement. Notre évaluation de la situation économique actuelle et des perspectives futures semble indiquer qu'une mise en oeuvre soutenue et renforcée des mesures d'ajustement est essentielle à la restauration d'une croissance économique viable pour le Maroc, qui réponde aux aspirations nationales et rétablisse un équilibre budgétaire et extérieur à moyen terme. Les mesures principales incluraient la mobilisation des ressources intérieures, y compris l'augmentation de l'épargne publique grâce à un effort de fiscalité accrue et une diminution des dépenses, la réforme des entreprises publiques, (particulièrement en ce qui concerne la politique de prix), la libéralisation des échanges commerciaux accompagnée d'une politique active de taux de change afin d'assurer la compétitivité, protéger la balance des paiements et renforcer les systèmes budgétaires et de planification. La mise en oeuvre, simultanément, de toutes ces mesures permettrait une plus grande efficacité dans l'ensemble de l'économie, et par conséquent, un essor de l'économie. En même temps, il serait capital de répondre le plus efficacement possible aux besoins essentiels tels que la distribution d'eau potable, la santé, l'éducation et la formation professionnelle.

Fort heureusement, certains facteurs extérieurs (tels qu'une production agricole accrue, une baisse des prix de l'énergie au niveau mondial, une diminution des taux d'intérêts et la perspective d'une

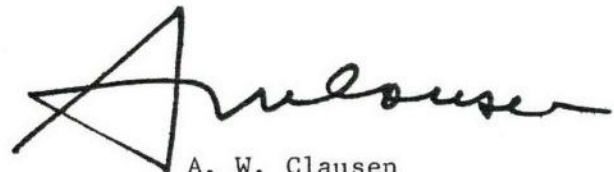


excellente récolte) ainsi que les résultats favorables obtenus tant sur le plan de l'exportation des produits non-traditionnels que sur le plan du tourisme, offrent la possibilité d'accélérer la mise en place de la plupart des mesures d'ajustement importantes dans le cadre de cet environnement favorable. Nous estimons qu'il est essentiel de tirer profit de cette situation propice le plus rapidement possible à la fois pour éviter les risques de répercussions défavorables sur l'économie et renforcer la crédibilité du pays au niveau de la communauté internationale. La Banque est disposée à soutenir cet effort, tant par de l'aide financière que par une coopération d'ordre économique et technique; cependant, de par leur nature, la formulation d'une stratégie à moyen terme et l'élaboration de mesures spécifiques demeurent principalement la responsabilité du Gouvernement.

Dans ce contexte, nous espérons vivement trouver une prompte solution aux problèmes soulevés dans le cadre de ITPA II et du programme de réforme des entreprises publiques, et espérons également que le Gouvernement arrivera sous peu à un accord avec le FMI sur le programme 1986 dans le cadre du stand-by. Nous estimons qu'une démonstration des progrès réalisés en vue d'atteindre un accord dans le cadre de ces programmes et une présentation d'une stratégie claire et précise à moyen-terme contribueront largement au succès de la réunion du mois de juin à Paris avec les bailleurs de fonds bilatéraux et les banques commerciales. Comme nous l'avons mentionné au cours de nos discussions, la réalisation des objectifs d'une croissance économique stable nécessitera un effort conjoint de la part de tous les partenaires du Maroc.

Je voudrais réitérer mes remerciements ainsi que ceux de la délégation de la Banque pour tout ce que vous avez fait afin de rendre notre séjour au Maroc le plus agréable et productif possible.

Je vous prie de croire, Monsieur le Ministre, à l'assurance de ma haute considération.



A. W. Clausen  
President

UNOFFICIAL TRANSLATION  
ORIGINAL SENT IN FRENCH

H. E. Mohammed Berrada  
Minister of Finance  
Rabat, Morocco

Your Excellency,

It was a great pleasure indeed to meet you twice in quick succession so soon after your appointment as Minister of Finance - first, in Washington, and subsequently during my recent visit to Morocco. Thank you for your warm welcome, and for the cordial and fruitful discussions that we held. I trust they were as useful to you as they were to me. Let me take this opportunity to once again wish you success in your new and critically important responsibilities.

As I indicated before I left Morocco, I am impressed by the Government's substantive efforts in its adjustment program so far. From our review of the current economic situation and of prospects for the future, it is clear that continued and reinforced application of adjustment measures will be essential to put Morocco on a viable growth path which can meet national aspirations and restore external and budgetary balance in the medium-term. Critical measures would concern the mobilization of domestic resources including increasing public savings through greater fiscal effort, expenditure reduction, reform of public enterprises (particularly pricing policy), trade liberalization coupled with continued active exchange rate policy to assure competitiveness and protect the balance of payments, and to strengthen planning and budgeting systems. In combination, such actions offer prospects of increasing efficiencies throughout the economy of Morocco which in turn is expected to be a major source of growth. At the same time, it would remain essential to meet basic needs with maximum efficiency and replicability in areas such as water supply, health, education and vocational training.

Fortunately, recent external factors (increased agricultural production, fall in world energy prices, interest rates, and the prospects of an excellent harvest) as well as your success in stimulating non-traditional exports and attracting tourism, present a window of opportunity for accelerating some of the most important adjustment measures within a favorable environment. We believe that it is vital to capitalize on this opportunity straightaway, both because of the risk of adverse impact on the economy if this is not done, and to demonstrate Morocco's determination to the international community. The Bank stands ready to provide all the support it

can, both in financial assistance and through economic and technical advice, but by their nature, the formulation of a medium-term strategy and the definition of specific measures will remain primarily the responsibility of the Government.

We look forward in this context to reaching early resolution of the remaining issues under the ITPA II agreement as well as for the proposed public enterprise reform program. We also hope that the Government will reach agreement early with the IMF on the 1986 stand-by program. We believe that demonstrated progress towards agreement under these programs and the presentation of a clear and concise medium-term strategy will be very important to ensure the success of the June meetings with members of the Consultative Group and representatives of the commercial banks in Paris. As we have pointed out during our discussions in Morocco, achievement of the objective of growth with stability will require the joint support of all the partners of Morocco.

Once again, on behalf of all the members of the Bank delegation, and speaking for myself, I would like to thank you for helping to make my recent visit so pleasant and productive.

Yours sincerely,



A. W. Clausen

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HPRASAD:cv  
05/12/86

THE WORLD BANK  
Washington, D. C. 20433  
U.S.A.

A. W. CLAUSEN  
President

Son Excellence Monsieur Karim Lamrani  
Premier Ministre  
Rabat  
Royaume du Maroc

Le 14 mai 1986

Monsieur le Premier Ministre,

De retour à Washington, j'aimerais vous remercier vivement ainsi que les autres membres du Gouvernement de Sa Majesté, pour l'accueil chaleureux que vous avez réservé à Madame Clausen, Monsieur et Madame Wapenhans, à d'autres membres de la Banque et à moi-même lors de notre récent séjour au Maroc. J'ai particulièrement apprécié les discussions franches et ouvertes que nous avons eues lors de l'excellent déjeuner dont vous avez été l'hôte à l'Hotel de Fes à l'issue de l'audience que nous a accordé Sa Majesté. Je vous suis particulièrement reconnaissant de vous être joint à nous alors que vous étiez encore en convalescence. L'ensemble de ma visite m'a permis de constater et d'apprécier une fois encore les progrès réalisés par le Royaume du Maroc ainsi que son potentiel considérable dans les domaines économiques et sociaux.

Comme nous l'avons mentionné au cours de nos entretiens, nous sommes convaincus de l'importance de poursuivre et de renforcer le programme d'ajustement économique et de changement structurel actuellement mis en oeuvre par le Gouvernement dans le cadre d'une stratégie adéquate à moyen terme. Les problèmes à court-terme auxquels se trouve confrontée l'économie devront être résolus tout en respectant les contraintes d'une stratégie à moyen-terme. Cette tâche n'est certes pas aisée mais je ne doute pas que votre Gouvernement sera à même de la réaliser. La Banque Mondiale est convaincue que le programme d'ajustement actuellement mis en oeuvre par votre Gouvernement est le seul moyen possible de restaurer la viabilité économique du Maroc. La conjoncture favorable de cette dernière année (diminution du prix de l'énergie, baisse des taux d'intérêts et la perspective d'une excellente récolte) ainsi que les résultats favorables que vous avez obtenus tant sur le plan de l'exportation des produits non-traditionnels que sur le plan du tourisme, permettront de poursuivre et d'accélérer le processus d'ajustement et faciliteront la mise en place de certaines mesures d'ajustement difficiles. Toutefois, la poursuite soutenue du processus d'ajustement reste, à notre avis, absolument essentielle.

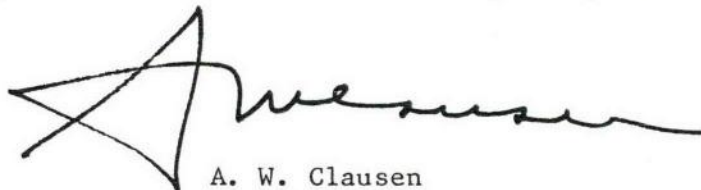
Je voudrais reconfirmer la détermination de la Banque Mondiale à apporter tout son soutien au Royaume du Maroc au cours de cette période difficile tant par de l'aide financière que par une collaboration d'ordre

économique et technique. Comme nous l'avons mentionné au cours de nos discussions, un tel appui continu au niveau approprié doit s'accompagner en même temps d'une stratégie de redressement à moyen terme et d'efforts semblables de la part des autres partenaires du Maroc. Une fois que nous nous serons accordés sur une stratégie d'ajustement à moyen terme, nous serions également prêts à encourager toute aide supplémentaire de la part d'autres institutions ou agences internationales. A cet égard, je me réjouis de nos entretiens avec les bailleurs de fonds bilatéraux et les banques commerciales en juin prochain. Nous pensons que la présentation, lors de cette réunion, d'une stratégie claire et précise d'ajustement à moyen terme par votre Gouvernement, élaborée avec la collaboration de la Banque Mondiale et du FMI, sera vitale à la réalisation de nos objectifs respectifs. Il sera tout aussi important de démontrer à cette occasion la mise en place de politiques visant la réalisation des programmes d'ajustement sectoriel supportés par la Banque ainsi que des programmes de stabilisation en accord avec le FMI. Ces efforts communs renforcent la détermination du Gouvernement de parvenir à une utilisation et une affectation plus efficace des ressources existantes dans l'économie et offrent de réelles perspectives de croissance économique durable.

J'aimerais également vous remercier de m'avoir donné l'occasion de visiter les installations de l'OCP à Jorf Lasfar et Safi. J'ai été très sensible à l'accueil qui m'a été réservé par les représentants de l'OCP. La visite et la présentation organisée par le personnel ont été très utiles et m'ont permis de me faire une idée plus précise du travail effectué par cette importante entreprise. Je vous prierai d'avoir l'obligeance de transmettre mes plus vifs remerciements aux membres du personnel concernés. Les vases qui ont été offerts à Madame Clausen et à moi-même représentent des exemplaires superbes de l'artisanat marocain et le tapis offert par le Gouvernement est également un véritable chef-d'oeuvre. Permettez-moi de vous en remercier très sincèrement.

Je regrette vivement que nous n'ayions pas eu l'occasion de nous revoir lors de la réception du jeudi soir. J'aimerais vous redire combien notre délégation et moi-même avons apprécié notre visite ainsi que son excellente organisation. Mais le plus important a été notre similitude de vues concernant l'importance de la poursuite du programme d'ajustement marocain, lors de nos discussions qui ont été ouvertes et fructueuses. J'espère que nous aurons très bientôt l'occasion de nous revoir.

Je vous prie d'agréer, Monsieur le Premier Ministre, l'expression de ma très haute considération.

A handwritten signature in black ink, appearing to read 'A. W. Clausen', written over a large, stylized star-shaped graphic.

A. W. Clausen  
Président

UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

His Excellency Karim Lamrani  
Prime Minister  
Rabat, Morocco

Your Excellency,

I would like to thank you and the other members of His Majesty's Government for the warm welcome which Mrs. Clausen, Mr. and Mrs. Wapenhans, other Bank staff, and I received during our recent visit to Morocco. I especially appreciated the full and open discussions at the delightful lunch hosted by you at the Hotel de Fes following my audience with His Majesty. I am especially grateful that you took the time to be with us even though you were technically still in convalescence. My visit as a whole has deepened and confirmed my appreciation of the significant progress achieved by Morocco and its considerable potential for future economic and social development.

As we discussed, we are convinced of the importance of continuing and reinforcing the Government's on-going program of economic adjustment and structural change in the context of an appropriate medium-term strategy. Shorter-term issues facing the economy must be resolved in a manner consistent with the medium-term strategy. This is no easy task, but one I am confident your Government will be able to accomplish. The World Bank is convinced that the adjustment program being implemented by your Government is the only feasible way to restore Morocco's economic viability. The favorable economic developments of this year (falling energy prices, lower interest rates and excellent harvest) as well as your success in stimulating non-traditional exports and attracting additional tourism, offer the opportunity to continue and accelerate the adjustment process. These favorable developments should facilitate implementing some of the difficult adjustment measures, but in our view, they do not reduce the necessity of continuing the adjustment program with utmost determination.

I would like to reaffirm the Bank's resolve to assist Morocco during this difficult period with both financial support and economic and technical advice. As we pointed out during our discussion, such continuing support at the requisite level needs to be deployed against an agreed medium-term recovery strategy and similar efforts on the part of other partners of Morocco. Once we have reached a meeting of the minds on a medium-term adjustment strategy, We would be willing to promote additional financial support from other international agencies and institutions. We look forward, in this context, to the meeting with bilateral donors and commercial banks this coming June. We believe that the Government's presentation at this meeting, of a clear and concise medium-term adjustment strategy developed with the support of the Bank and the IMF, will be vital to achieving our shared

objectives. Equally important will be the demonstrated performance in implementing policies to carry out the sectoral programs of adjustment supported by the World Bank and the stabilization programs agreed with the IMF. Such joint efforts in support of the Government's resolve to improve efficiency in resource use and resource allocations throughout the economy will offer genuine prospects of achieving growth with stability.

I would also like to thank you for the opportunity to visit the OCP installations at Jorf Lasfar and Safi. I greatly appreciated the hospitality of OCP. The tour and the presentation by the staff helped give me a valuable insight into the working of this important enterprise. I would request you to be so kind as to convey my appreciation to the staff involved. The vases presented to Mrs. Clausen and me are superb examples of Moroccan handicraft, and the carpet presented by the Government is equally a masterpiece. Please accept my heartfelt appreciation.

I am sorry that we were unable to see each other again at the reception Thursday evening. I would like to repeat how much our delegation enjoyed the visit and the excellent arrangements. Most important of course was the meeting of the minds on the future of Morocco's adjustment program that was present in our most fruitful and constructive discussions. I look forward to seeing you again, as early as circumstances permit.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized capital letter 'A' with a horizontal line extending to the right from the top right of the 'A'.

A. W. Clausen

4948B  
HPRASAD:cv  
05.12.86

THE WORLD BANK  
Washington, D. C. 20433  
U. S. A.

A. W. CLAUSEN  
President

S. E. Tahar Masmoudi  
Ministre du Commerce et de l'Industrie  
Rabat, Maroc

Le 14 mai 1986

Monsieur le Ministre,

J'aimerais vous redire combien j'ai été heureux d'avoir pu vous rencontrer au cours de ma visite récente au Maroc. Nos discussions cordiales et fructueuses lors de l'entretien avec S.E. Moulay Zine Zahidi m'ont permis de mieux apprécier l'ampleur et l'importance du programme de réforme de l'industrie et du commerce extérieur en cours de réalisation. Cette réforme ainsi que l'ajustement important de la structure des incitations devraient permettre à l'industrie marocaine d'améliorer son efficacité sur le plan de la concurrence accrue, de réduire les coûts de fabrication, et d'encourager la production à l'exportation.

La Banque Mondiale est très satisfaite d'avoir pu soutenir ce programme de réforme à travers les deux prêts ITPA, et nous ne doutons pas que sous vos auspices et grâce aux efforts continus de votre ministère, les objectifs globaux seraient atteints dans les délais prévus.

Nous anticipons avec plaisir la poursuite de notre coopération dans ce domaine.

Je vous prie d'agréer, Monsieur le Ministre l'expression de ma haute considération.

A handwritten signature in black ink, appearing to read 'A. W. Clausen'. The signature is stylized with a large, prominent initial 'A' that loops around the first few letters of the name.



UNOFFICIAL TRANSLATION  
ORIGINAL SIGNED IN FRENCH

H.E. Tahar Masmoudi  
Minister of Commerce and Industry  
Rabat,  
Morocco

Your Excellency,

I would like to mention how much I appreciated meeting with you during my recent visit to Morocco. Our cordial and useful discussions during the meeting with H.E. Moulay Zine Zahidi contributed to my fuller appreciation of the important on-going reforms of industry and extended trade. This reform and the far-reaching adjustment of the incentive structure should permit Moroccan industry to improve its competitive efficiency, lower manufacturing costs, and expand export production.

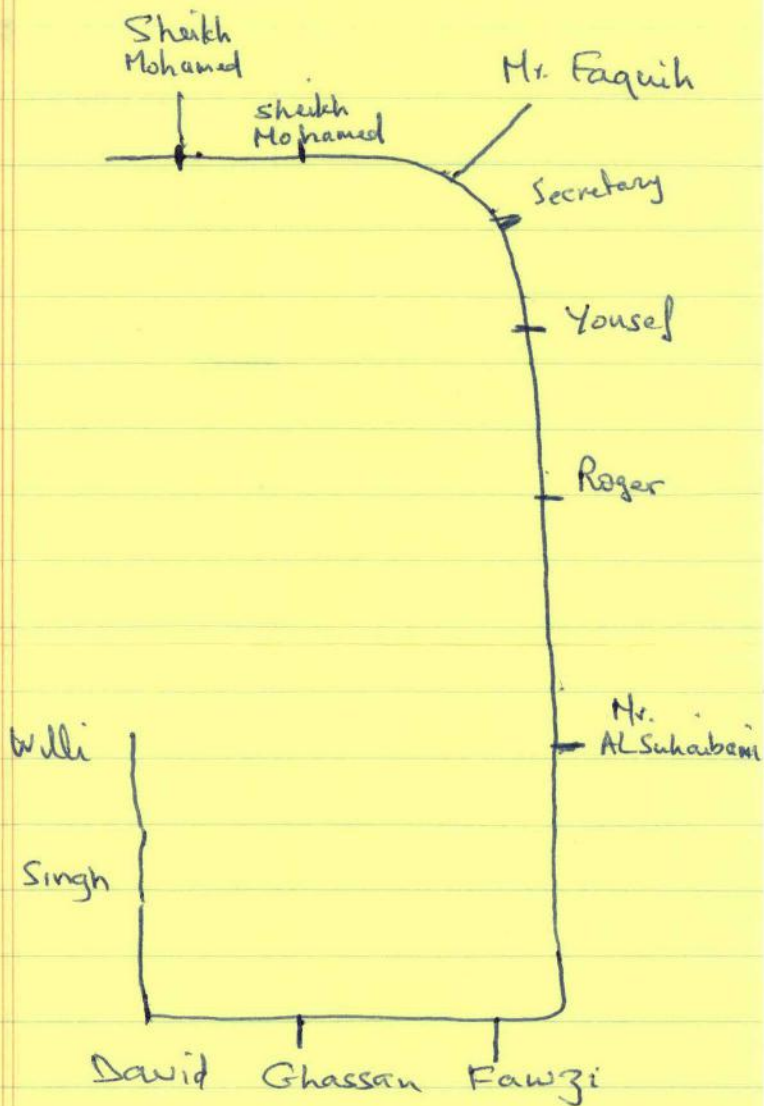
We at the World Bank have been happy to support this reform program through the two ITPA loans, and are confident that with the continuing efforts of your ministry under your guidance the overall objectives will be reached in the agreed time-frame. We look forward to further collaboration in this area in the future.

Yours sincerely,



A. W. Clausen

HPRASAD:cv  
5/12/86  
5019B



In conclusion

perhaps one word

on our program of tech. cooperation

In view of Mr. Sultan's presence, one should be careful as to how we raise the issue of Kuwait and UAE's position on IDA, if it is ever raised!

You may wish to inform the Minister of the status on the Saudi Chair on the Board.

I have been asked again on the subject before coming to the meeting.

## Discussion Points

For

Luncheon Statement

### 1) Relationship

The relationship between the Government of Saudi Arabia and the Bank has been very cordial and long lasting. We value the support that the Kingdom has provided <sup>THROUGHOUT</sup> ~~through~~ the years through its participation in: IDA, Special facility for Sub-Saharan Africa, River blindness program, Borrowing and last but not least an extensive cooperation in co-financing with the Saudi Fund ~~for~~ with the Fund participating in \$ 1.3 billion for 47 projects.

Chilton

## 2) Dialogue

The dialogue is characterized by seriousness and commitment on issues dealing with economic and social development in less blessed countries. The recent joining of Saudi Arabia in MIGA marks another important milestone in <sup>and overcoming</sup> addressing an important obstacle (financial/political security) limiting the growth and expansion of international ~~exp~~ investments.

-- There are other serious issues that we will continue to exchange views on -- most importantly -- the debt problem (You can use parts of your recent speech on the subject).

3,

### 3) Technical Cooperation

We are glad in the confidence that the Saudi Government has placed in the Bank for carrying out important activities in the field of technical cooperation.

We will continue to do our best in serving the Government of Saudi Arabia in this field and in areas where we have comparative advantage.

### 4) CONCLUSION

In concluding, I wish to say that I know many faces around this table long

before I came to the Bank. I always felt that I was with good friends then. I must say that this friendship has grown and developed even further during the past few years.

I want to thank you ~~at~~ <sup>but</sup> most of all your excellency Sheikh Mohamed for giving me this nice luncheon and for all the support you have provided to the Bank and for ~~your~~ <sup>the</sup> generosity that your Government has always shown to ~~our~~ ~~country~~ the cause of economic and social development.



# Policies

SPECIAL ASSISTANCE

FOCUS ON AFRICA

FOCUS ON POVERTY

FOCUS ON ENVIRONMENT

FOCUS ON PROGRAM

KEEPING IN MIND

CONSTITANCY -

EXTERNAL -

NOT INTERNAL

Biographic Note:

Josef SCHUTZENBERGER, UNDP Resident Representative, Morocco

Mr. Schutzenberger is an Austrian who has been with the UN for 28 years.

Prior to being named to Rabat, he was UNDP Resident Representative in  
Lebanon, 1983-85  
Argentina  
Guyana and Caribbean  
Costa Rica

He has been on duty in Morocco for about 4 months.

The UNDP is preparing its next five year program for Morocco to begin in 1987. We are cooperating closely with Mr. Schutzenbergr and his staff to assure maximum coordination between the UNDP program and our own. UNDP has offered to provide TA and studies to support our program, and we will identify where this can best be done. There is currently one joint program underway in Morocco, the PNAP, which is part of our Vocational Training project agreed in FY85. This is a program to train officials in government ministries and eventually public enterprises in project evaluation. EDI has provided initial training for Moroccan trainers, and then the government, with UNDP assistance, has set up a program for expanded training programs for other officials in Morocco. USAID has subsequently agreed to provide equipment and some consultant support. The program ran into several problems getting started, but now seems to be on track.



*Le Ministre des Finances*

*prie* ..... Monsieur A. W. CLAUSEN.....

---

*de lui faire l'honneur d'assister au*  
Déjeuner offert en son honneur et.....

*qui aura lieu le* ..... Mardi 22 avril 1986 à .....  
13H au Golf Royal Dar Es-salam à Rabat.

*En l'honneur de Monsieur le Président de la BIRD  
et Madame CLAUSEN,  
de Monsieur le Vice-Président Régional Europe  
Moyen-Orient et Afrique du Nord et Madame WAPENHANS,  
et de Monsieur SHILLING, Chef de la Division du  
Département Programmes,  
Le Président de la C. G. E. M. et Madame  
Bensalem GUESSOUS  
prient Monsieur et Madame CLAUSEN*

---

*de vouloir bien prendre part au dîner qu'ils offrent à l'hôtel  
Hyatt Regency, le Mercredi 23 Avril 1986 à 20 heures 45*

*R. S. V. P.  
Tél. : 25-96-07*

MONSIEUR ALDEN CLAUSEN

*Le Premier Ministre*

*Prie* Monsieur Alden CLAUSEN.....

*de lui faire l'honneur de venir au dîner*.....

*qu'il donne le* 22 Avril 1986..... *à* 20 h 30

*à l'hôtel "Tour Hassan"*

*Tenue :* sombre

*R. S. V. P.* 654-69

TALKING NOTES FOR MEETING WITH PRIVATE SECTOR LEADERS  
CASABLANCA, APRIL 23, 1986

As Morocco becomes more developed, the private sector will have to play an increasingly important role.

It has already demonstrated considerable strength, even during this difficult period, which is by no means over.

The Bank has supported the government in a number of measures to encourage the expansion of the role of the private sector and particularly to expand exports.

The Bank expects to continue supporting government policy in the direction, further liberalizing trade and reducing the interventions of the government in commercial activity.

We believe that Moroccan industry is strong enough to flourish with greater competition and more liberalization (without going to extremes), and the initial results of the policy are very encouraging.

We are interested in the reaction of private sector to:  
the measures toward liberalization taken so far,  
additional measures that should be taken,  
potential problems that may be encountered.

We would also be interested in private sector's expectations about growth and export expansion in the near future. *and potential for more privatization*

GROWTH | ADJUSTMENT  
to  
significant  
role

EXPORT EXPANSION

JOB EMPLOYMENT

INVESTMENT

PRIVATIZATION

FINANCIAL

MEASURES

MEET NEEDS?

CAPITAL MARKETS

WHAT NEEDS TO

BE DONE?

COMPETITION

INVESTMENTS

SEE D.

BE MATTABLE

BUT LAND ORIENTATION

will take time!

Restore credit  
with #

TAKING NOTES FOR MEETING WITH PRIVATE SECTOR LEADERS  
CASABLANCA, APRIL 23, 1998

The bank has supported the government in a number of measures to encourage the expansion of the role of the private sector and participation in the direction of further liberalizing trade and reducing the intervention of the government in commercial activity.

The bank expects to continue supporting government policy in the direction of further liberalizing trade and reducing the intervention of the government in commercial activity.

We believe that Moroccan industry is strong enough to flourish with greater competition and more liberalization (without going to extremes), and the initial results of the policy are very encouraging.

We are interested in the reaction of private sector for additional measures that should be taken. The measures toward liberalization seem so far, additional problems that may be encountered.

We would also be interested in private sector's expectations about growth and export expansion in the near future. Some expectations for more liberalization.



**\* IMPORTANT**

THE WORLD BANK

Office of the President

April 8, 1986

Re Morocco -- I spoke to Ronald Brigish, Loan Officer for Morocco (Jed Shilling has already left for Morocco), who said that the only cabinet change seems to be in the Ministry of Finance. In addition, there appears to be no single, outstanding reason which would explain why Mr. Jouahri has left that post other than the fact that he has been Minister for 3-1/2 years under difficult circumstances, and the King may have felt that it was time for someone new.

Mr. Brigish did say that the King is opposed to devaluation, while Mr. Jouahri was seen to be leaning towards it. But, since neither the Fund nor the Bank has insisted on devaluation, it has not really become an issue -- or, at least not one that Mr. Jouahri would have been dismissed over.

As for the new Minister of Finance, Mr. Berrada, the region knows very little about him except that he was a professor of Business Administration at Rabat University. They are trying to find out more and will include the information in their briefing note prior to the meeting (Thursday, April 10 at 11 a.m.)

MH

OK  
J

Helen

3-20-86

78 my

~~knows~~  
~~help~~





### KINGDOM OF MOROCCO

- Main roads
- Secondary roads
- Tracks
- Railways
- Airports
- Ports
- Rivers
- Salt lakes
- Major irrigation perimeters
- 400 millimeter rainfall line
- Elevations above 1,000 meters
- International boundaries
- Indicates the territory of the former Spanish Sahara (Western Sahara)



KILOMETERS 0 100 200 300 400

This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

# International Bank for Reconstruction and Development

E1227c

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FOR EXECUTIVE DIRECTORS' MEETING

DECLASSIFIED

FEB 09 2021

WBG ARCHIVES

For consideration on March 20, 1986

R86-46

FROM: Vice President and Secretary

March 3, 1986

## MOROCCO: Education Sector Reform Program

1. Attached is the President's Report and Recommendation (P-4240-MOR) on a proposed loan to the Kingdom of Morocco in support of an Education Sector Reform Program.
2. A report entitled "Morocco: Priorities for Public Sector Investment (1981-85)" (4156-MOR) was distributed on July 11, 1983.
3. A detailed report entitled "Kingdom of Morocco: Education Sector Reform Program - Staff Appraisal Report" is being distributed separately.
4. A draft Loan Agreement between the Kingdom of Morocco and the Bank is available on request from the Secretary's Department Documents Office (X76236).
5. Questions on these documents should be referred to Ms. Pierce (X32323).

*Compliment the staff - Ms. Pierce*

*over the next comprehensive Reform program the Bank has been involved in*

*Belman lead on Bollen in progress*

### Distribution:

- Executive Directors and Alternates
- President
- Senior Vice Presidents
- Senior Management Council
- Vice Presidents, IFC
- Directors and Department Heads, Bank and IFC

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**FEB 09 2021**  
**WBG ARCHIVES**

**Report No. P-4240-MOR**

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A PROPOSED LOAN  
IN AN AMOUNT EQUIVALENT TO US\$150 MILLION  
TO THE KINGDOM OF MOROCCO  
IN SUPPORT OF AN  
EDUCATION SECTOR REFORM PROGRAM

February 25, 1986

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## CURRENCY EQUIVALENTS

	<u>Average Calendar 1985</u>	<u>January 15, 1986</u>
Currency Unit	- Dirhams (DH)	
1 Dirham (DH)	= US\$	0.1053
1 US Dollar (US\$)	= DH	9.5

## FISCAL YEAR

January 1 - December 31

## GLOSSARY OF ABBREVIATIONS

MEA	-	Ministry of Economic Affairs
MOE	-	Ministry of Education
MOF	-	Ministry of Finance
MOL	-	Ministry of Labor
MOP	-	Ministry of Planning
MPW	-	Ministry of Public Works and Vocational Training

FEB 09 2021

WBG ARCHIVES

- i -

KINGDOM OF MOROCCOEDUCATION SECTOR REFORM PROGRAMLOAN AND PROJECT SUMMARY

**Borrower:** Kingdom of Morocco.

**Amount:** US\$150 million equivalent.

**Terms:** 20 years including 5 years of grace, at the standard variable interest rate.

**Project Description:** The proposed project would form part of a two-year phase of implementation of the Government's education sector reform program. The objectives of the reform program are to make the provision of education more equitable, more cost-effective, and more consistent with the country's medium-term development needs. At the same time, the Government is developing and implementing a number of pedagogical measures to ensure that the quality of education is maintained or improved and that the coverage of the system is extended, even as unit costs of education are reduced. More specifically, the project would assist the Borrower in improving: a) equity of education by devoting a larger share of education resources to primary and lower secondary education, with a major increase in the number of students entering and completing basic schooling (grades 1 through 9); b) the efficiency of Morocco's education system; and c) containing the growth of public expenditures on education. The Project includes a program of construction and equipping of schools, teacher training, foreign fellowships and studies in support of new educational activities. Implementation risks relate to uncertainties of public acceptance of reform program measures, and to the risk of incomplete implementation. These risks have been reduced by Government efforts to situate the reform in the context of restructuring in other areas, to put in place an appropriate structure for overseeing initial reform implementation, to plan implementation of subsequent reform actions and to take key actions in the reform program prior to negotiating the loan.



Estimated Project Costs:

<u>Category of Expenditure</u>	<u>Millions of Current US\$</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
<u>Investment *</u>			
School Construction	241	155	396
Equipment and Furniture	15	45	60
Subtotal	256	200	456
<u>Recurrent</u>			
Salaries and Benefits	1,123	--	1,123
Fellowships	133	32	165
Educational Materials	42	18	60
School Maintenance	25	--	25
Subtotal	1,323	50	1,373
<b>TOTAL PHASE I COSTS</b>	<b>1,579</b>	<b>250</b>	<b>1,829</b>

<u>Financing Plan:</u>	<u>Financing Source</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	Government	1,579	86	1,665
	IBRD	0	164	164
	of which:			
	proposed reform loan	(0)	(150)	(150)
	4th, 5th education projects	(0)	(14)	(14)
	<b>TOTAL</b>	<b>1,579</b>	<b>250</b>	<b>1,829</b>

<u>Estimated Disbursements:</u>	<u>Bank Fiscal Year</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	Annual	36.5	64.5	44.0	5.0
	Cumulative	36.5	101.0	145.0	150.0

Staff Appraisal Report: Report no. 5923-MOR dated February 25, 1986.

Map: Kingdom of Morocco IBRD 15252R2.

Economic Rate of Return: Not applicable

\* Includes an inseparable element of indirect taxes amounting to approximately 15% of civil work costs, and approximately 15% of local component of equipment and furniture.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN  
IN AN AMOUNT EQUIVALENT TO US\$150 MILLION  
TO THE KINGDOM OF MOROCCO  
IN SUPPORT OF AN EDUCATION SECTOR REFORM PROGRAM

1. I submit the following report and recommendation on a proposed loan to the Kingdom of Morocco for the equivalent of US\$150.0 million, to support a two-year phase of implementation of an education sector reform program and help finance certain activities under the program. The loan would have a term of 20 years, including 5 years of grace, at the standard variable interest rate.

PART I - THE ECONOMY<sup>1/</sup>

2. An economic report, entitled "Morocco: Priorities for Public Sector Investment (1981-85)" (No. 4156-MOR), was issued on June 15, 1983. Another economic report entitled "Morocco: Industrial Incentives and Export Promotion" (No. 4893-MOR) was distributed to the Board on January 11, 1984. An economic mission on financial intermediation was in Morocco in September 1983 and its report (No. 4957-MOR) was issued on December 12, 1984. The following section reflects the findings of an economic updating mission that went to Morocco in July 1984 to prepare a paper, entitled "Morocco: Medium-term Adjustment Policies and Prospects", for presentation to a meeting of the Consultative Group for Morocco in Paris on January 9-11, 1985. Data and analysis have been updated to reflect the findings of the ITPA II appraisal mission that visited Morocco in March 1985. Country data are given in Annex I.

Introduction

3. During nearly two decades after Independence in 1956, Morocco followed relatively conservative economic policies. Cautious external borrowings supplemented a weak savings effort to permit only a slow rise in investment, so that the economy grew only at about 4 percent per annum. Primary products - principally phosphates - accounted for 90 percent of merchandise exports. During the mid-1970s, after a sudden increase in phosphate prices, Morocco launched an ambitious public investment program which boosted GDP growth to 7.5 percent annually during the period 1973-77. The phosphate boom, however, began subsiding as early as mid-1975. Meanwhile, the petroleum import bill, which had quadrupled in 1974, continued to place considerable pressure on the balance of payments, and the current account deficit reached 16.5 percent of GDP in 1977. Domestically, the large public investment program and increased defense expenditures in the Western Sahara caused the treasury deficit to rise to 15.8 percent of GDP in 1977. Morocco resorted to considerable foreign borrowings to finance these deficits.

<sup>1/</sup> Part I is essentially the same as Part I in the Casablanca Port Project (Report No. P-4226-MOR of February 3, 1986)

4. To redress the rapidly deteriorating financial situation, the Moroccan Government introduced a three-year stabilization program in 1978 centered on reductions in public sector outlays and stricter import controls. These reforms were only partially successful. They did little to stimulate exports. The exchange rate was kept overvalued and trade barriers were raised. They did not adequately tackle the excessive budgetary exposure and made inadequate attempts to increase the efficiency of resource use. The agricultural sector failed to grow, while value-added in manufacturing declined. Meanwhile, public investment was not restrained; a number of costly, poorly-targeted social programs were expanded and investment in infrastructure was undertaken often well ahead of need. Efforts to stabilize the economy were compromised by severe external shocks - most notably the 1979 oil price increase, the rise in international interest rates, the international recession which reduced phosphate earnings and workers' remittances, and the prolonged drought. Continued internal pressure to provide social services and affordable basic foodstuffs to a rapidly growing population put considerable strains on a budget already stretched by the need to finance expenditures in the Sahara. The 1981-85 Development Plan aimed at an ambitious 6.5 percent per annum growth rate in GDP. Notwithstanding the difficulties confronting the economy, Morocco did not appear willing to introduce a comprehensive program of policy measures which could have confronted the economic crisis. The shortcomings in the adjustment performance caused the IMF to convert a three-year EFF into a one-year Stand By Arrangement in 1982 and prevented the Bank from proceeding with a SAL at that time.

#### Recent Economic Developments

5. By 1983 it had become clear that the Government's room to maneuver was becoming very restricted by debt service payment requirements. In 1982 external public long-term debt (excluding military debt) had risen to about two-thirds of GDP and 235 percent of exports of goods and services while the debt service ratio reached 35 percent. Morocco was confronted with the prospect of a very large external payments gap for 1983. With exchange reserves virtually depleted and debt service rising, the Government imposed emergency import controls and budgetary cutbacks in early 1983. In November 1983 the Government entered into an 18-month standby agreement with the IMF (SDR 300 million, or 98 percent of quota) supporting a stabilization program which included fiscal and credit restraints and a flexible exchange rate policy. Shortly thereafter, official creditors agreed to reschedule external debt interest and principal payments coming due between September 1, 1983 and December 1984, as well as arrears as of August 31, 1983. Commercial bank creditors agreed in principle to provide comparable relief on amortization. The total amount of debt relief obtained in 1983-84 under these agreements was estimated at more than \$2 billion (including \$575 million of relief on military debt). In November 1983, a Donors' meeting sponsored by the IMF, generated pledges of about \$500 million of exceptional balance-of-payments assistance for 1983-84. To meet its fiscal targets the Government restricted public service recruitment and salary increases, raised the prices of electricity, water, petroleum products and subsidized foodstuffs (by between

17 percent and 60 percent), and cut capital outlays by one third. At the same time, it began a significant adjustment effort supported by the Bank program, along with the January 1984 ITPA I (No. P-3707-MOR), to improve its balance of payments situation with a package of measures to restructure its trade regime. This included a reduction in import taxation, an easing of quantitative restrictions, and a reduction in export licensing. Following a Financial Sector Study conducted by the Bank in 1984 (No. 4957-MOR), the Government extended these reforms to the Financial Sector with the objective of raising domestic resources and improving resource allocation. Greater flexibility was introduced in setting interest rates, measures were designed to increase competition among banks, and taxation reforms to benefit the financial sector were implemented.

6. As a result of the policies adopted since 1983, macroeconomic balances improved. The economy's resource gap shrank from 13 percent of GDP in 1982 to 8 percent in 1984 (at constant 1980 prices). This was achieved through a significant decline in the GDP share of consumption and investment relative to their high levels earlier in the 1980s. Meanwhile, import growth has been restrained by appropriate demand management and by the depreciation of the exchange rate, while the share of exports and gross domestic savings increased substantially. The Government budget deficit was reduced from 12 percent of GDP in 1982 to about 7 percent in 1984 (8 percent before taking into account the impact of external debt rescheduling on interest payments). Although the improvement stemmed chiefly from a sharp reduction in investment outlays, there was also a significant slowing down in the rate of growth of current expenditures. As was to be expected, the rate of GDP growth has been low (a little over 2 percent p.a.), reflecting the impact of stabilization policies on consumption and investment demand, along with the effect of drought on agricultural sector incomes in both 1983 and 1984. A good harvest is expected to help boost the growth rate to about 4 percent in 1985.

7. The current account of the balance of payments improved considerably, reflecting both the better resource balance of the economy and the impact of the debt relief obtained by Morocco from its official creditors on interest and military debt service payments. In 1983, the external current account deficit was reduced by half, from \$1.9 billion and 12.7 percent of GDP in 1982 to \$873 million and 6.6 percent of GDP. The balance subsequently worsened in 1984, particularly in relation to GDP, but still remained under \$1 billion. In both 1983 and 1984, about half of the roughly \$1 billion improvement in the current account in relation to 1982 was attributable to debt relief.<sup>1/</sup> The net inflow of public medium and long-term capital (including grants) has declined sharply from about \$1.5 billion in 1982 to an average of only \$400 million during 1983-1984. In 1985, the net inflow rose to about \$1 billion, including an exceptional \$300 million grant from Saudi Arabia. Nevertheless, these inflows had to be supplemented by continued debt relief along the lines of the 1983-84 debt rescheduling, and demand management policies to keep import growth under control.

1/ Over \$200 million in interest payments were rescheduled in each of the two years. In addition, the current account balance benefitted from military debt relief in the amount of \$325 million in 1983 and \$250 million in 1984.

8. Further progress in reducing both external and fiscal imbalances is envisaged under a new stand-by arrangement with the IMF approved on September 13, 1985. Preliminary data indicate some slippage in fiscal performance in the first half of 1985 and disappointing results on external trade, attributed essentially to weak demand in the phosphate market. These suggest that stronger corrective measures would be needed to keep the stabilization program on course including, in particular, restraining current expenditures and reducing subsidies on foodstuffs and public services. A formal debt rescheduling through the Paris Club covering maturities from September 1985 to February 1987 was agreed on September 17, 1985. Ninety-five percent of the total debt due were rescheduled along lines similar to those obtained under the 1983-84 debt relief arrangement. The 1983-84 rescheduling agreement between Morocco and the commercial banks was signed, after long delays, on October 21, 1985. These recent developments should help Morocco reach a balance in its external accounts for the next two years.

### Medium Term Policies and Prospects

9. Since 1983, the Government's objective of achieving viable external and fiscal positions along with satisfactory growth has been translated into a coherent medium-term strategy to restrain domestic absorption and increase the efficiency of resource throughout the economy. The principal elements of Morocco's medium-term adjustment program involve a shift to outward-looking trade and exchange rate policies; 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; considerable improvements in the efficiency of government investment; more cost-effective methods and better targetting of social programs; and a thorough overhaul of the public enterprise sector.

10. The shift to an outward-oriented development strategy is the cornerstone of Morocco's medium-term adjustment program. Continued adjustments in trade and exchange rate policies will be made to complete the reform of the overall incentive framework designed to accelerate export growth and reduce and rationalize import protection. Key instruments are to be a flexible exchange rate, the elimination of the special import tax (expected by January 1987); a general reform of the tariff level and structure, with the objective of reducing the overall level of protection to 25 percent through decreasing maximum duty rates and evening out the spread in tariff rates within and between sectors; and finally, a phasing out of quantitative restrictions on imports. Domestic price controls, which were already removed in 1983-84 on many manufactured products, are planned to be fully eliminated, in parallel with progress in import liberalization. Remaining export licensing requirements will be abolished, with exporters to be entitled to import all inputs on a duty-free basis.

11. At the same time, appropriate sector strategies for the key productive sectors, particularly agriculture and industry, will be promoted. In industry, although the development of Morocco's potential for export of phosphate fertilizers will continue to be an important objective, the

contribution of this highly capital-intensive sector to employment and to the establishment of a broader industrial base through forward and backward linkages will remain limited. Moreover, a high degree of dependence on phosphate and phosphate fertilizer exports has made Morocco extremely vulnerable to cyclical fluctuations in the volatile world phosphate market. For this reason, the industrial strategy must be based on the diversification of manufactured exports, including processed foods and nontraditional manufactures where Morocco may have a comparative advantage on world markets. In agriculture, Morocco needs to continue developing an appropriate package of policies designed to overcome existing constraints to rational land use patterns, to ensure that farmers have adequate incentives to improve farming techniques and use modern inputs, and to provide the support services needed to bring about these changes. A first Agricultural Sector Adjustment Loan (No. P-4032-MOR) in line with such policy direction was extended by the Bank in June 1985.

12. The low productivity of investment has been one of the major factors in the poor performance of the Moroccan economy in the past ten years. The allocation of capital and the efficiency of investment need to be improved considerably both in the public and in the private sector. In the private sector, the reform of the protection framework described above should go a long way towards removing distortions in investment patterns. However, it will also be necessary to review the bias in favor of capital-intensive activities inherent in the current investment incentive system, including tax exemptions and interest rate subsidies which artificially depress the cost of capital. In the public sector, increasing the efficiency of investment will require a considerable improvement of existing planning and budgeting mechanisms, including better procedures for setting investment priorities, strengthening of project preparation and monitoring capability, and placing more emphasis on the economic evaluation of projects before they receive Government sanction. Policy actions to improve the public investment and enterprise framework as well as continuing reform of trade policy and a comprehensive approach to financial sector reform are supported by the Bank's second Industrial and Trade Policy Adjustment loan approved in July 1985.

13. An exceptionally strong savings effort will be essential for the success of Morocco's adjustment process. In the private sector financial savings have been repressed in the past due to inadequate financial policies and negative real interest rates. Savings are now being encouraged through increases in deposit rates and a program of financial sector reforms to improve financial intermediation and develop the domestic money and capital markets. But the most intense savings efforts in the next few years will have to take place in the public sector, which continues to be a major source of dissaving, particularly through the Government budget. In the medium term, sustained improvement in the mobilization and utilization of resources by the public sector will require fundamental reforms in a number of key areas, including social expenditure policies, taxation, and cost recovery and efficiency in the public enterprise sector. In the social sectors, where coverage of the population is still inadequate, Government activities need to be restructured so that basic services (particularly education and health) can

be delivered more effectively but at substantially lower cost. More cost-effective methods and better targeting will be prerequisites to a further broadening of access to these services in the future. Food and other subsidies also need to be targeted to the groups most in need rather than directed to the general population.

14. Macroeconomic projections based on the Government's reform programs indicate that it may take the better part of the next ten years for Morocco to complete its adjustment process and become fully creditworthy. The growth of the economy is likely to be severely constrained in the early years of the adjustment process. However, as the restructuring measures designed to promote exports, improve resource use and increase domestic savings begin to work their effects through the economy, the external imbalance should lessen, and restraints on domestic demand could gradually be relaxed. Moreover, the growth of external demand expected to result from the trade liberalization and export promotion policies, and the switch in the composition of domestic demand from imported to domestic goods, fostered by the adjustment of relative prices, should help mitigate the temporary negative impact of slower public expenditure growth on incomes and employment.

15. The projections suggest that GDP growth is likely to remain low (below 3 percent p.a.) until 1990, accelerating thereafter. Domestic demand is expected to grow very slowly until 1990, reflecting the impact of stabilization policies on both investment and consumption. Investment, which has been declining since 1978, should continue to fall in real terms and in relation to GDP until about 1987, then rise somewhat until 1990, recovering strongly thereafter. Assuming that central government investment expenditures would remain constant in real terms in the medium term, the adjustments would occur primarily in the public enterprises and private sectors. Government consumption, which had grown very rapidly until recently, is projected to decline marginally in real terms and to drop by 3 percentage points in relation to GDP between 1985 and 1990. The growth of private consumption, which already slowed significantly in the early 1980s, would remain just below that of GDP in 1985-90, and accelerate only slightly in the 1990s. Restructuring policies should bring about an acceleration in the growth of exports of goods and nonfactor services. The acceleration of export growth would help sustain a modest recovery of imports, the overall trend of which has been downward since 1978. Imports, however, should rise much more slowly than exports between 1985 and 1990, as a result of the demand restraint and expenditure switching policies.

16. As a result of the drop in the GDP share of both investment and consumption, there should be a steady decline in the economy's resource gap, with a small surplus projected for 1990. Gross domestic savings are expected to rise much faster than GDP throughout the period, initially as a result of improved savings mobilization by the public sector, and later reflecting continued substantial improvements in private savings as well. The marginal savings rate with respect to GNP will need to be very high (about 50 percent) in 1985-90, as a necessary concomitant to reducing the external deficit; it should slacken slightly thereafter. High domestic savings should enable the

economy to finance the recovery of investment without recourse to external savings in the early 1990s. This will be essential, since, throughout the remainder of the 1980s, the balance of payments will remain under considerable pressure because of continuing high debt service payments. By the end of the decade, reforms of the overall economic incentive framework and increased efficiency of public investment should have raised the productivity of new investment considerably, and the ICOR should drop substantially from the high levels prevailing in the early 1980s.

17. ~~It is important to recognize that the implementation of the stabilization policies and measures for structural adjustment envisaged in this scenario will entail some transitional social costs.~~ With population growth at about 2.5 percent p.a., GNP and consumption per capita, which have been essentially stagnant since 1980, are not likely to show much improvement in real terms until the end of the present decade. Stabilization policies and measures to increase efficiency will initially be reflected to some extent in depressed domestic demand, increased unemployment, and some decline in real incomes, particularly the real income of urban populations, Government employees, and workers in less competitive industries. On the other hand, the real income of farmers, who constitute by far the poorest segment of the population, should rise as a result of increases in agricultural producer prices and improvements in support services and marketing institutions and infrastructure. This will be particularly true of farmers in rainfed areas. The political and social implications of these welfare shifts are likely to be significant, and to keep them manageable will be a major concern of the Government in the next few years. While the cost of not undertaking the required economic adjustments would in any case be greater in the long run, it will be important to minimize the negative short-term impact of these adjustments on the poorest groups. After 1990, as a result of the reforms undertaken in the 1980s, the economy could return gradually to a higher growth path without endangering external equilibrium. Per capita levels of income and consumption could begin to rise again, and the restoration of economic dynamism would greatly improve Morocco's ability to deal with its serious unemployment problem.

18. A steady improvement in Morocco's external payments position should result from the acceleration of export growth relative to import growth anticipated in 1985-90. ~~The economy's negative resource balance, which averaged more than \$2 billion in 1980-82, and dropped to \$1.2-1.3 billion in 1983-84, is projected to decline steadily, and virtually disappear by 1989.~~ Assuming that the growth of workers' remittances can be sustained at a modest pace, the current account should improve roughly in parallel with the overall resource balance and could reach approximate equilibrium around 1989. However, the overall balance of payments can be expected to continue to show large deficits because of the heavy principal repayments coming due on the external debt, including ~~substantial repayments to the IMF.~~ Because of mounting debt service obligations, gross public long-term capital requirements are projected to average close to US\$2.5 billion annually during the period 1985-90.



19. It is clear, under these circumstances, that Morocco will continue to require debt relief for several more years. The projections include the effects of the recently concluded 1985-87 debt rescheduling agreement through the Paris Club, and assume debt relief from private creditors during 1985-87, essentially along the lines of the debt reschedulings obtained in 1983-84.<sup>1/</sup> Normal public long-term capital inflows could then be approximately sufficient to cover the remaining financing requirements in 1985-87 (about US\$1.2 billion annually), assuming that new loan commitments from Morocco's official lenders can be maintained at their current rate (about US\$800 million a year). Recourse to commercial bank financing, outside of these guaranteed programs, is likely to remain constrained and overall private capital flows are expected to remain sporadic, at US\$100-300 million per annum, probably strongly conditioned on, if not directly tied to, specific adjustment programs.

20. For the years 1988-1991, Morocco is going to need around US\$2 billion annually to meet its capital requirements. Providing that US\$800-900 million a year are forthcoming from official creditors; and assuming a reasonable recovery of private source financing of about US\$700 million a year, around US\$400 million still remain to be generated each year to cover the gap. With Bank and IMF transfers stretched to the limit, Morocco's remaining financing requirements will have to come in the form of further debt relief, grants, or some concessional assistance. Only beginning in 1992, with debt repayments from past borrowings and successive reschedulings starting to level off, could equilibrium in the overall balance of payments appear assured on the basis of normal official capital inflows and a sustainable recourse to private financing. If the envisaged external capital flows do not materialize, the Government will have to resort to severe corrective measures to finance its resource gap.

21. In view of the continuing large capital inflows required in the next few years, the long-term external debt outstanding and disbursed would continue to rise rapidly until 1988, but would begin to stabilize thereafter. The ratio of debt outstanding and disbursed to exports of goods and services, which had risen to 260 percent in 1984, would start to decline, progressively dropping to 175 percent by 1990 and 114 percent by 1995. In the absence of debt rescheduling, the long-term debt service ratio would have risen above 50 percent of exports of goods and services in 1985 and 1986. With debt relief obtained for the period 1985-87, on the other hand, the debt service ratio could be kept manageable at 24-25 percent during the next few years. Assuming no further debt relief, it would rise sharply in 1988, with repayments on the 1983-84 rescheduled maturities (including military debt) falling due, but would then start declining gradually in the 1990s. Given this difficult debt situation, Morocco's commitment to an aggressive program of structural adjustment is essential for the country to be considered creditworthy for continued Bank lending. Bank exposure amounted to 11% of total debt outstanding in 1985, and would increase to about 17% at the end of the decade, with the current lending program.

<sup>1/</sup> About US\$230 million of military debt service payments coming due each year until 1988 are assumed to be rescheduled along the same lines as other obligations.

PART II - OTHER BANK GROUP OPERATIONS IN MOROCCO<sup>1/</sup>

22. Bank lending to Morocco has supported 65 projects, financing a total of \$2,675.5 million (net of cancellations), of which \$25 million from a Third window loan. IDA credits, totalling \$45.2 million, have been made available for five projects. IFC investments have amounted to \$104.7 million (\$59.9 million after cancellations, terminations, repayments and sales). Annex II contains a summary statement of Bank loans and IDA credits, and of IFC investments, as of September 30, 1985.

23. Until recently, performance in project execution has been satisfactory overall, although in some cases management problems have caused delays in project implementation, and in others insufficient tariff adjustments have affected project entities' financial performance. However, during 1983, as budgetary constraints became more severe, projects relying on the Government budget for a substantial part of financing have been seriously delayed because of inadequate budgetary allocations. The appreciation of the dollar vis-à-vis the dirham in recent years has reduced considerably reimbursable expenses in dollar terms, thus lowering disbursements vis-à-vis appraisal estimates. The ratio of disbursements to appraisal estimates averaged 43 percent as of September 30, 1985, low in comparison to other countries in the region.

24. The objectives of Bank Group activities in Morocco are to support (a) investments and policy reforms aimed at structural adjustment and strengthening the balance-of-payments; (b) measures to reduce the Treasury deficit; and (c) efforts to redress poverty and improve income distribution, particularly through lowering the unit costs for the delivery of basic services, in order to increase access by lower-income groups. Important structural reforms must be undertaken in the coming years, in order to return to a path of reasonable economic growth compatible with a sustainable external payments position. A major objective of Bank economic and sector work is to provide the analytical basis for the development of specific proposals for structural reform, which in several cases is being supported by Bank lending. At Government's request, in addition to ongoing work on the public investment program, the Bank is assisting in developing reform proposals relating to the public enterprises. Because severe budgetary constraints are likely to persist over the medium-term, projects now under preparation or consideration, like the proposed project, are timed and designed to be consistent with the investment strategy which aims to minimize their reliance on incremental budgetary funds and, if applicable, support Morocco's efforts to reform its public enterprises.

1/ Part II is essentially the same as Part II in the Casablanca Port Project (Report No. P-4226-MOR of February 3, 1986).

25. Agriculture continues to represent an important sector in Bank lending for Morocco. Past Bank lending has primarily supported rural development and irrigation projects focusing on particular geographical regions, in parallel with successful series of agricultural credit projects. There are no major covenants in default. Bank's operations in those fields will continue at a pace consistent with the country's investment capacity while paying special attention to maximizing non-budgetary financing and improving cost recovery. At present increased attention is being given to agricultural support services at the national level, which are essential for backstopping regional development projects. In parallel, the Bank has helped the Moroccan authorities to review the sector policy framework and to formulate its medium-term adjustment program covering investment strategy, pricing and incentive policy and role of the public sector. The recently approved Agricultural Sector loan was in support of a first phase of such a sector adjustment program and is expected to be followed by similar operations, as further specific measures to adjust the prices and incentives framework are developed.

26. Energy and mining. The Government has given high priority to reducing the oil import bill, a major factor in the current account deficit, through development of domestic energy supplies. The Bank has supported this effort through loans for the exploration and appraisal of petroleum (primarily natural gas) and oil shale resources as well as for power generation and transmission and coal mining modernization and expansion. Future projects would assist in the development of domestic energy supplies, including gas, and hydropower. Through these projects as well as in our sectoral policy dialogue, efficiency in energy development and use would be promoted through attention to pricing, cost recovery and management issues.

27. Bank lending for infrastructure and utilities has helped to build a number of technically competent agencies in the fields of road transportation, electricity, water supply, housing finance, and community infrastructure finance, as well as to expand the provision of essential services. Projects like the recently approved Port project will place greater emphasis on improving the productivity and efficiency of existing infrastructure through improved financial and management performance. Mobilization of private and non-budgetary financing as well as improved cost recovery in these subsectors through tariffs should also help reduce the Treasury deficit. In addition to continuing support for the above-mentioned subsectors, projects are under preparation for railways, sewerage and telecommunications.

28. Industrial development in Morocco has been supported in the past through strengthening the financial and institutional resources of the Banque Nationale de Développement Economique (BNDE), the major source of industrial medium-term credit. In addition, policy changes were introduced to widen access to credit by small-scale labor-intensive industries. Other projects focused on phosphate processing and cement production. The Bank's efforts are now focused on the development and implementation of medium-term policy reforms aimed at encouraging exports and improving incentives to domestic production. The first phase of such reforms was supported by the Industrial

and Trade Policy Adjustment (ITPA) loan of 1984 and was successfully implemented. Further stages of reform of trade policy, as well as a comprehensive reform of the financial sector, and policy actions on public investments and public enterprises are supported by the on-going Second Industrial and Trade Policy Adjustment Loan.

29. Education, health and urban development projects will increasingly concentrate on lowering unit costs in order to widen the access by low-income groups. Policy dialogue in these sectors continues to encourage the shift away from capital-intensive investments benefitting limited clientele and the development of more cost-effective delivery systems for basic services. While previous Bank-financed projects have supported technical education, rural primary education and improved teacher training, these are proposed to be complemented by efforts to expand basic education and skill training, as well as restructuring of the formal education system, which has represented a major drain on the recurrent budget. The recently approved first health development project will test new health care delivery systems in order to improve basic health services in rural areas. Finally, the experience of projects in urban upgrading will be continued and expanded, with increased efforts to mobilize private financing in order to reduce budgetary costs.

### PART III - THE EDUCATION SECTOR

#### Background

30. Since Independence in 1956, the Moroccan Government has focused on expanding the nation's educational capacity beyond what was essentially only primary level (student ages 7 through 11) schooling. This effort has included expanding physical capacity, increasing the proportion of Moroccan teachers, and developing new curricula. The results of these efforts have been, initially (1957-1966), an expansion of secondary education enrollments (student ages 12 through 18), followed later by significant increases (15% per year) in higher education enrollments between 1974 and 1984. Although in the past the Government had neglected support of vocational training, since 1984 it has launched a program to emphasize and allocate adequate resources to vocational training activities (for students over the age of 16) in order to address skill shortages in the country's labor market. ~~The core of this vocational training program is the 22 new vocational training centers and mobile training units being financed under the Bank's Vocational Training project which was approved in November, 1984.~~

#### The Current Education System

31. Morocco's education system is almost entirely funded by the national Government. Private schools only accommodate less than 4% of Morocco's students, at primary and secondary levels of education. The Ministry of Education (MOE) controls the policies and practices of general public education in the country, and regulates the performance of private educational institutions. The National Office of Vocational Training, created under the Ministry of Labor, has become the major central vocational training agency. It is now operating under the Ministry of Public Works and Vocational Training (MPW).

32. The Moroccan education system is designed to provide general education from primary through university levels, and the opportunity for vocational training for those students not seeking university education. General education is mandatory from age 7 through age 15 for all Moroccan children, although as will be discussed in the next section, enrollments are far from 100% of eligible children at the primary and secondary levels.

### Enrollments in Primary and Secondary Schools

33. As a percentage of the school-age population at each level, Moroccan children for the school year 1983-84, are only enrolled at 57.3%, 18.4% and 8.1% at the primary, lower secondary and upper secondary levels, respectively, as presented in the table below:

Table 1  
**NET ENROLLMENT RATIOS BY LEVEL OF SCHOOLING**  
(1983/84)

(Public and Private School Enrollments,  
Excluding Over-Age and Under-Age Students,  
as a Percentage of School-Age Population at Each Level)

	<u>Male</u>	<u>Female</u>	<u>Total</u>
Primary (grades 1-5, ages 7-11)	69.0%	45.3%	57.3%
Lower Secondary (grades 6-9, ages 12-15)	21.4%	15.3%	18.4%
Upper Secondary (grades 10-12, ages 16-18)	9.4%	6.7%	8.1%

SOURCE: Calculated from MOE enrollment data and IBRD population estimates.

NOTE: These are the latest figures from MOE. Annex I has not been updated as yet to reflect these enrollment ratios.

As Table 1 illustrates, significant student dropout occurs between the primary and lower secondary levels. Also, noteworthy disparities exist between male and female enrollment at all levels. At the primary level, where fewer than half primary school-age girls attend school, a further disparity exists between girls in urban and rural environments. In rural areas girls account for less than 29% of primary school enrollments.

34. One cumulative result of Morocco's low enrollment levels in primary and secondary schools is that 65% of the population over 10 years old was reported illiterate in the country's 1982 census. Noteworthy also is the high rate of illiteracy among adult females (78%) relative to males (51%).

### Current Issues in Morocco's Education Sector

35. The major sector issue is the need to improve the performance of the sector in providing accessible education, while preserving the quality of



education programs and while minimizing use of scarce budgetary resources. Access of school-age children to the system is limited and the system is relatively inefficient. Overall, Government expenditures in education have increased at a rapid pace, while inefficiency of the system in terms of student flows and resource use has persisted. The MOE budget has quadrupled during the past ten years, and increased from 12.5% of the central government budget in 1975 to 21.5% in 1985.

36. Inadequate school resources. Inadequate school facility capacity has restricted significantly the access of school-age children to primary and secondary education, resulting in low enrollment levels. In addition, a lack of female teachers in rural schools has aggravated the already considerable reluctance of parents in these areas to send their girls to school, particularly after the age of puberty. Although enough female teachers are in training to address this need, a lack of suitable teacher housing in communities surrounding rural schools has constrained the placement of female teachers in such schools.

37. Inefficient schools. Morocco has a serious problem of high drop out rates and class repetition at all levels of schooling. The problem is particularly acute at the primary level where only 24% of students complete the five year primary cycle in five years; 21% drop out before the fifth year, and of those students who remain, most repeat at least three classes before completing primary school. An average 8.6 years of schooling is required for each graduate of the five year primary cycle. The highest repetition occurs at the fifth primary year which 50% of students repeat (with an additional drop out rate of 12%). This is the highest reported incidence of inefficiency due to class repetition of any public school system.

38. High repetition rates in primary school are attributable principally to limited enrollment capacity in secondary schools, which restricts entry at the secondary level to those students who score highest on the test administered at the end of the fifth primary class year. To increase the likelihood that their children will score well on the test, parental influences encourage holding children back in primary school, causing them to repeat grades. Excessive repetition also occurs at the secondary school level, particularly in grade 12 where the repetition rate is almost 30%.

39. Class repetition and dropout rates are also seriously high in institutions of higher education. These phenomena at the university level are more costly than similar inefficiencies at the primary and secondary levels because unit recurrent and investment costs are much higher at the university level than at primary and secondary levels. The high incidence of class repetition and dropout at the university level results principally from the absence of failure sanctions. Since students have historically been permitted to repeat classes with full fellowships without restriction, motives for improved student performance have been absent. University entrance policies and curricula also contribute to the problem by admitting baccalaureat level students without restriction but requiring proficiencies beyond the skill levels of incoming students.

40. Inappropriate expansion of higher education. The past rapid expansion of capacity in higher education is no longer justified. Morocco can no longer absorb a high percentage of university graduates (particularly in liberal arts and law, which constitute 75% of university enrollments) in its employment market. In the past, the upper levels of the Government's civil service were able to absorb university graduates, but currently, the Government's foreseeable recruitment needs are largely met for the medium-term.

41. Other parts of the economy have needs for employees with specific skill training. The current expansion of vocational training capacity which is being supported by the Vocational Training Project (Ln. 2479-MOR, approved in November 1984) is designed to meet the most conspicuous of these needs particularly in industrial specializations. A study of medium-term manpower needs is being carried out by the Ministry of Planning to identify priority areas for future expansion of vocational training capacity. The micro-level counterpart of this identification of aggregate manpower needs is the process of feedback from employers to vocational training programs as to the relevance and the quality of training programs from the users' perspective. This process works effectively under the training programs of the National Office of Vocational Training.

42. The Government cannot afford the cost of a higher education system growing at the pace it has in the past five years (19% per year for recurrent expenditures). Given the high cost of university education relative to lower levels of education (e.g. unit recurrent costs are 10 times as high as in primary education), the Government, in the context of economic austerity, must reduce the inefficiencies at this level of education and must restrict access to higher education, which at present, is open to any secondary level graduate. No student fees are collected to help cover the costs of the public higher education system.

#### The Bank's Involvement in the Sector

43. ~~Bank group lending to Morocco's education sector has totalled \$207.5 million, in the form of two credits and three loans since 1965.~~ Over the years Bank financing has supported parts of the sector the Government agreed needed priority attention, from initial support of general education at primary and secondary levels, to current support of the country's vocational training activities. In recent years the policy dialogue in the sector has focussed on assisting the Government in developing a coherent and comprehensive program of structural reforms to improve the efficiency, financial viability and employment orientation of education at all levels.

44. The First Education Project (Cr. 79-MOR) provided for the construction and equipping of 21 MOE secondary schools. Except for three schools which were deleted from the project as a result of the Government's decision not to maintain MOE vocational education, the project was completed in June 1975. The Second Education Project (Cr. 266-MOR) provided strong support for teacher training through the establishment of 7 teacher training institutes and a national pedagogical institute, and the qualitative improvement of science and technical teaching through the provision of science

laboratories for 6 general secondary schools, and equipment for 23 technical secondary schools. Construction and equipment were also provided for two vocational training centers and for extensions to both a forestry and an agronomy training institute. Except for the two vocational training centers and the extension to the forestry training institute, which were subsequently deleted from the project at the Government's request, the project was completed in 1979. The Third Education Project (Ln.1220-T-MOR) supported basic education by providing 47 innovative rural primary schools, 5 general secondary schools, 1 secondary teacher training institute, and assistance to the MOE in developing a more practical curriculum for primary and secondary schools. It also supported manpower training in priority areas by financing four hotel training centers under the Ministry of Tourism, one rural development center under the Ministry of Agriculture, and four paramedical training centers under the Ministry of Health. The Loan account closed in 1983. Although some of the components implemented by ministries other than the MOE were deleted because of implementation delays, all but two of the project institutions were completed. The Fourth Education Project (Ln. 1681-MOR) provides major support to the MOE in strengthening secondary and post-secondary technical education. The project is financing the construction and equipping of 11 technical secondary schools and 5 post-secondary technical institutions: 2 Higher Institutes of Technology, a College of Applied Engineering, a Technical Teacher Training College, and an extension to the Mohammedia School of Engineering. The project loan account is scheduled to close at the end of 1985, but the Government has requested a one-year extension to permit project completion under Loan financing \*. The Fifth Education Project (Ln. 2149-MOR) is supporting the expansion and qualitative improvement of primary and secondary education by financing the construction and equipping of 40 primary schools, 4 secondary teacher colleges, and a package of basic educational aids for 700 existing primary schools. The project is ongoing; the Loan Closing Date is March 31, 1988.

45. As noted by the PPAR for the First Education Project, early project implementation suffered delays due to inadequate management capacity within the MOE. Implementation by the MOE steadily improved following the creation of a separate, permanently staffed MOE project unit under the Second Education Project, and the progressive reinforcement of its staff to meet its increasing responsibilities under the subsequent three projects. The PPARs for the first and the second projects noted implementation delays, but concluded that the projects achieved their educational objectives. Implementation of project components outside the MOE, under the Second and Third Education Projects, however, experienced significant delays and, ultimately, deletion of some project components due to less developed implementation capacity in the ministries concerned--a problem which supervision could not entirely overcome. The lack of continuity in lending to these other ministries also meant that it was not possible to address implementation deficiencies in the design of subsequent projects as had been done in the MOE. In spite of significant delays in implementation of non-MOE components, the Third Project achieved its educational objectives-- including introduction of innovative curricula in the MOE project primary schools and secondary schools; based on satisfactory results in the project schools the Government is now generalizing these programs. The ongoing Fourth and Fifth Projects, which involve only the

\* The request is currently being processed.



MOE, are being implemented vigorously and effectively by the MOE. Some delays in implementation arose from delays in payments to contractors as a result of the Government's financial situation, but this situation has improved following the rationalization of the investment portfolio which occurred under the joint Public Investment Review. The proposed program reflects the lessons of past project experience in that it includes a suitable structure for coordination of the interministerial aspects of the reform.

## PART IV: THE EDUCATION SECTOR REFORM PROGRAM AND THE BANK PROJECT

### A. The Reform Program

#### Program Objectives

46. As indicated in Part I, Morocco is implementing a program of medium-term economic adjustment across the major sectors of its economy. A stabilization program constraining expenditure is in place. By the year 1989, education expenditures are projected to have dropped to approximately \$790 million from approximately \$860 million in 1984-85, or from 22% of the Government budget in 1984-85 to 18% in 1989, which will contribute significantly to the stabilization program. The education reform program represents an important initiative for Morocco, particularly in light of the Government's overall program of economic adjustment. The country can no longer afford, nor should it support for other reasons mentioned in Part III, the educational system as it is currently structured.

47. The education reform program is designed to increase literacy among Moroccan children of school age by improving the equity of access to basic education, to improve the efficiency of the education system, and to meet more effectively the country's employment needs through the redirection of a greater proportion of students into vocational training instead of general, higher education. Controlling education costs is a vital part of the country's efforts to restore fiscal balance and will be an important result of the education reform program. The overall objective of the reform program, therefore, is to establish and maintain adequate standards of educational quality, while restraining the growth of overall costs and decreasing the unit costs of education.

#### Elements of the Program

48. The MOE has started to undertake broad efficiency measures to reduce the financial burden of the sector on the economy, while changing the substance of and student access to, education at various levels of the system. Specifically, the Government's objective is to make available to all children basic schooling through grade 9, followed by a rigorous selection of students for subsequent studies. Included in the Government's strategy are actions which are designed to make educational activities more cost-effective.

#### Expand Access to Basic Schooling and Improve Basic Education Efficiency

49. At the primary and secondary levels, an initiative is underway to address problems of poor access to schools, particularly in rural areas. The

Government has set intake and enrollment targets to measure the success of its efforts in this area, as part of its policy to achieve full enrollment in primary education by the end of the century. Measures to improve student flows throughout the system are also being instituted.

50. The program includes efforts by the Government to foster the development of private schools at the primary and secondary levels. Specifically, the MOE has begun to improve its support of private schooling in the areas of certification, quality control and pedagogical services. At this point, the reform program does not have a specific quantitative goal for private school expansion.

51. ~~Currently the Government is conducting a building program to expand primary and lower secondary school classroom capacity.~~ Schooling investments at higher levels are planned to be sharply curtailed.

52. The Government has initiated a policy of restricting class repetitions at the primary and secondary levels and intends to establish mandatory promotion rates to ensure that qualified students are not kept from entering the appropriate grade levels. ~~Students who have repeated more than four years would be barred from continuing in public schooling.~~

53. Under the reform program, the basic schooling network will be extended to ~~promote primary and secondary education in rural areas, particularly among female students.~~ The school construction program will locate schools appropriately to help meet this objective, and the Government will undertake studies to develop programs of multigrade teaching and other pedagogical activities to help meet this objective. Other measures will be initiated to strengthen the schooling network, particularly the provision of ~~basic teaching aids and teacher housing facilities in remote areas to facilitate the placement of female teachers at schools in these areas.~~ ~~Assigning more female teachers to rural schools is expected to encourage female school attendance.~~

54. New pedagogical programs are being developed under the reform program to facilitate flows in basic schooling: a program in remedial instruction for students with learning problems, a program in continuous evaluation by teachers of student performance, and a program in use of standardized testing.

Restrain Growth of Upper Secondary and Higher Education and Improve Efficiency



55. The reform program will require more selectivity in student entry into higher levels of education after basic schooling. Within the education system, the options for basic education graduates will be to compete for upper secondary schooling or for vocational training to equip them with skills needed in the Moroccan employment market. Vocational training opportunities are expected to be considerably expanded under the reform program. Admissions into upper secondary schools and universities are to be restricted through enforcement of more rigorous standards of entry. Progression rates from lower to upper secondary are expected to fall from 56% to 40% by the start of the second phase of the program. University entry is expected to be reduced from 13% to 2% annual growth rates.

56. Class and course repetition rates in upper secondary schools and universities respectively would be limited to a maximum of two years each, as a matter of policy under the reform program. In addition, for the first time, university fellowships would be conditioned upon satisfactory performance and financial need.

Control Education Costs

57. The MOE will adopt numerous actions under the reform program to control capital and recurrent costs of education and to introduce cost recovery for education. Cost control actions include adopting a more cost-effective formula for teacher training (more intensive classroom training over a shorter period of time, plus increased in-service training), using educational resources more intensively, adopting more economical norms for construction of primary school facilities and involving the private sector in the financing of education. Following are the Government's planned cost control measures:

- Increased minimum teaching hours by an average of 20% over the 1984-85 year in university faculties;
- strengthened private sector presence in the education sector as an alternative to public education, through the introduction of incentives for private investment in education;
- adoption of a more cost-effective program of teacher training;
- lower teacher training stipends;
- restriction of eligibility for foreign university fellowships to specialization not available in Morocco;
- reduced boarding in university facilities to lower recurrent costs of maintaining these facilities;
- reduced unit costs of school construction by an average of 13% by adoption of least-cost construction norms;
- development of a school maintenance program to extend the useful life of educational facilities;
- improved efficiency of school administration, measured by administrative/teaching staff coefficients;
- already partial cost recovery occurs through the collection of student boarding fees. Over the medium-term of the program, the Government is committed to introducing student registration fees in higher education.

58. The result of these measures, coupled with the implementation of the enrollment policies cited earlier, is expected to be a major increase in the

number of students entering and completing basic education. In the school year 1989/90, it is projected that 75,000 more students would complete basic schooling under the reform than without it. This enrollment benefit of the reform program would rapidly grow thereafter as reform program measures affecting student flows were progressively implemented and as the higher number of students admitted to basic schooling pass from initial grades to the final grades of basic schooling. These measures are also expected to lead to a \$160 million decrease in education costs overall by 1989/1990, compared to a projection of activity in the sector without the reform program, over the same time period. The projection of sector costs without the reform program is based on a disaggregated extrapolation of enrollments which, although probably not feasible under current financial constraints, indicates the consequences of maintaining current education policies. The projection illustrates well therefore, the need for a reform program. Primary education costs are expected to increase during this time period, while secondary and higher education costs are projected to decrease enough to lower total education costs.

### Program Implementation

59. The reform program as a whole will be implemented over approximately fifteen years. Implementation of the reform program is the responsibility of the MOE under the supervision of the MOE's Commission de la Réforme Educative. The Commission, which was established under the authority of the Minister of Education during preparation of the proposed project, is chaired by the MOE Secretary General for Primary and Secondary Education and comprises the Secretary General for Higher Education and the Directors of the key MOE departments involved in the reform: the departments of planning for primary/secondary education and higher education, the line departments for primary education, secondary education, technical education, higher education, and teacher training, and the infrastructure departments for administration and personnel.

60. Coordination of reform implementation covering the various ministries involved in the reform is to be assured by the existing and active Interministerial Steering Committee. The Committee, which was established under the authority of the Prime Minister in December 1984, is chaired by the Minister of Economic Affairs and comprises the Ministers of Education, Finance (MOF), Public Works and Vocational Training, and Planning (MOP). The Interministerial Steering Committee has established the respective roles of the ministries involved--namely, implementation of the policy reforms and the primary school building program by the MOE, provision of the necessary budgetary resources by the MOF, vocational training coordination and implementation of the secondary school building program by the MPW, and elaboration of the development planning context of the reform by the MOP. The Committee would continue to meet periodically during reform implementation to resolve questions of interministerial coordination as they arise. Working-level contact among the ministries involved in the reform would be assured through technical working groups which have been established in the MPW, under the coordination of the MOE's Reform Implementation Task Force. The MOE Reform Implementation Task Force has been created to assist the MOE's Commission de La Réforme Educative in supervising implementation of the

reform. The Task Force is also to report to the Interministerial Steering Committee and to the Bank on implementation of the reform. Assurances were obtained from the Borrower that the Committee, the Commission and the Task Force would all be maintained with membership and terms-of-reference satisfactory to the Bank.

## B. The Bank Project

### Background

61. The project was appraised in April-May, 1985. Negotiations were held in Washington D.C. in January, 1986. The Moroccan delegation was headed by Mr. Hassan Belkoura of the Ministry of Economic Affairs and included representatives from the Ministries of Education, Finance, Equipment and Planning. A summary of the proposed project is provided at the beginning of this report and Annex III contains supplementary project data.

### Rationale for Bank Involvement

62. The Bank has been involved in discussions with the Government on the education sector reform program since 1981. Discussions were held initially with the MOE on technical aspects of the reform, and were later broadened to involve other ministries and other levels of Government in a re-examination of the ultimate objectives of education in a medium-term perspective. The reform program which emerged from this process, and which the Government is committed to implement, fully embodies the recommendations made by the Bank throughout these discussions. The purpose of the proposed loan is to support the overall reform program. Thus, the objectives of the proposed loan are the objectives of the reform--namely, to make the provision of education in the country more equitable, more cost-effective, and more consistent with the country's development needs. In order to promote rapid implementation of the reform program a Bank loan of US\$150 million is proposed to support two to three years of the initial phase of program implementation.

63. During this first phase, to be supported by the proposed loan, the structure of the education reform would be put into place: the reorientation of the school system would be clearly established and supported by reallocated shares of education resources; cost recovery measures would be introduced for university studies; the recently introduced fellowship eligibility restrictions would be generalized; and a series of measures would be put into effect to improve the efficiency of use of teacher and classroom resources at each level of schooling. Programs would also be developed during this first phase for vital new pedagogical activities (including remedial instruction, career counseling, multi-grade teaching, and teacher upgrading) and for further cost efficiency measures which would be put into effect during the subsequent phase of the reform program. These measures would lead to continued improvements in quality, efficiency, and enrollments during the second phase of the reform program.

64. The reform actions to be taken under Phase II of the program consist of introducing several new pedagogical actions which are to be developed under Phase I; and continuing and reinforcing the measures to improve enrollments, student flows, and cost control which are to be introduced under Phase I. The

Phase II reform actions would thus complement and complete the reform measures which are to be introduced earlier. At the same time, the Phase I reform measures are meritorious in their own right.

65. The Bank's substantive support has been and continues to be critical to maintaining the momentum for reform and giving it visible legitimacy in the overall development program of the country. The Bank's financial support is also vital to assure timely implementation of a coherent reform program. The Bank's role in the development program and history of involvement in the education sector gives it a unique role in supporting this reform that cannot be assumed by other financiers.

### Project Costs and Financing

66. The project consists of the following activities to be carried out during Phase I of the reform program, which covers the period January 1986 through December 1988: (i) carrying out the Borrower's 1986-1987 primary and secondary school construction and expansion program; (ii) provision of educational materials to primary and secondary schools; (iii) carrying out of teacher training programs for primary and secondary school teachers; (iv) provision of overseas university fellowships; and (v) studies on pedagogical reforms, school efficiency, maintenance, construction norms and private education. The proposed Bank loan would finance part of the costs of these activities. Specific results expected during the project period, which are tied to Bank financing, are listed in paragraph 78. The major elements of the reform program are described in paragraphs 48-58 above and covered in detail in Chapter 3 of the SAR and its annexes. Because of its extensive nature, the reform affects in some way or another all activities of the Ministry of Education and reshapes the expenditure program of the Ministry. Total education expenditures for this period are estimated at DH 17,377 million, or US\$1,829 million of which the foreign costs are estimated at US\$250 million. The composition of estimated Ministry expenditures by sub-program and by category of expenditure are summarized below in Tables 2 and 3:

Table 2  
PHASE I - COSTS BY SUB-PROGRAM

Expenditure Item	Millions of Current DH			Millions of Current US\$		
	Local	Foreign	Total	Local	Foreign	Total
Basic Education	9,630	1,656	11,286	1,014	174	1,188
Upper Secondary Education	1,923	64	1,987	202	7	209
Teacher Training	1,181	3	1,184	124	-	124
University Education	1,800	405	2,205	189	43	232
MOE Administration	426	111	537	45	12	57
IBRD Fourth and Fifth Projects *	45	133	178	5	14	19
<b>TOTAL PHASE I COSTS</b>	<b>15,005</b>	<b>2,372</b>	<b>17,377</b>	<b>1,579</b>	<b>250</b>	<b>1,829</b>

\* The IBRD Fourth and Fifth projects will provide funds for Basic Education, Upper Secondary Education, Teacher Training and University Education.

Table 3  
PHASE I - COSTS BY CATEGORY OF EXPENDITURE

Category of Expenditure	Millions of Current DH			Millions of Current US\$		
	Local	Foreign	Total	Local	Foreign	Total
<b>Investment</b>						
Primary and Secondary School Construction	2,296	1,467	3,763	241	155	396
Equipment and Furniture:						
Primary & Secondary	66	200	266	7	21	28
IBRD 4th, 5th Ed Proj.	45	133	178	5	14	19
Other	32	98	130	3	10	13
Subtotal	2,439	1,898	4,337	256	200	456
<b>Recurrent</b>						
Salaries and Benefits:						
Teacher Training	520	--	520	54	--	54
Other <sup>1/</sup>	10,149	--	10,149	1,069	--	1,069
Fellowships and Stipends:						
University Fellowships	395	303	698	41	32	73
Teacher Training Stipends	655	--	655	69	--	69
Secondary Fellowships <sup>2/</sup>	211	--	211	23	--	23
Educational Materials:						
Primary & Secondary	125	54	179	13	6	19
Teacher Training	6	3	9	1	--	1
Other <sup>3/</sup>	268	114	382	28	12	40
School Maintenance	237	--	237	25	--	25
Subtotal	12,566	474	13,040	1,323	50	1,373
<b>TOTAL PHASE I COSTS</b>	<b>15,005</b>	<b>2,372</b>	<b>17,377</b>	<b>1,579</b>	<b>250</b>	<b>1,829</b>

- 1/ Consists of salaries and benefits for the staff of primary, secondary and higher education institutions, and for MOE Administration staff.  
 2/ For boarding students, to offset boarding fees.  
 3/ University and MOE Administration.

67. The proposed Bank loan would finance US\$150 million of the estimated US\$250 million foreign exchange cost of capital and recurrent expenditures in the sector during Phase I reform program implementation. This would support the key elements of the reform program to extend primary education in rural areas, improve the efficiency and relevancy of basic education, and rationalize use of upper secondary and university education. In addition, US\$14 million in financing are available under the Fourth and Fifth Education Projects to cover part of the foreign costs of new school construction and equipment<sup>1/</sup>, and of studies to develop new educational programs<sup>2/</sup>. The remaining costs during this period, amounting to an estimated US\$86 million of foreign costs and US\$1.6 billion of local costs, would be borne by the Government.

### Phase I Implementation

68. During Phase I of the program, the structure of the education reform would be put into place: the reorientation of the school system would be clearly established and supported by reallocated shares of education resources; the recently introduced fellowship eligibility restrictions would be generalized to apply to all incoming students; and a series of measures would be put into effect to improve the efficiency of use of teacher and classroom resources at each level of schooling<sup>3/</sup>. Programs would also be developed under the Project during this first phase for vital new pedagogical activities (including remedial instruction, career counseling, multi-grade teaching, and teacher upgrading) and for further cost efficiency measures which would be put into effect during the subsequent phase of the reform program. These measures would lead to continued improvements in quality, efficiency, and enrollments during the second phase of the reform program. Thus, the main impact of the reform during the first phase of implementation would be on enrollments and costs; new pedagogical programs developed during the first phase would be introduced during the second phase of implementation.

### Status of Phase I Preparation

69. The following reform actions have already been taken:

- (a) The Government has sent the Bank a policy letter documenting its commitment to the reform program, with a Program Implementation Matrix. The education sector policy presented in the letter and the attached Matrix appear as Annex IV to this report;

- 1/ These schools, most of which are now in operation, are for basic education, teacher training and technical education. Most of the outstanding \$14 million of reimbursable expenditures represent the cost of the final complement of workshop equipment for the technical institutions financed under these projects.
- 2/ The Staff Appraisal Report (Annex C) details the objectives, duration and inputs of the studies to be undertaken.
- 3/ By the end of the project period the Government is expected to have achieved the targets set forth in the Attachment to Annex IV, in addition to the conditions of second tranche release, and the completion of studies to develop new pedagogical programs.



- (b) the Government has made 1986 budgetary allocations which are adequate to support timely implementation of the Phase I school building program and the program of improved supply of educational materials in basic schooling;
- (c) student flows to lower secondary schools for the 1985/86 school year were improved in June 1985 in conformity with the target promotion rate for grade 5 (from about 38% to about 49%);
- (d) the growth of upper secondary schooling was slowed in June 1985 in conformity with the target promotion rate for grade 9 (from about 57% to about 52% of the students enrolled in grade 9 in 1984-1985);
- (e) the growth of university education was slowed in October 1985 in conformity with the targeted 2% ceiling for annual growth of total new intakes to the university faculties;
- (f) teaching hours have been increased an average of 20% since the 1984-85 school year for upper secondary and university education;
- (g) fellowship restrictions for university studies as set forth in the attachment to the policy letter were applied in the 1985-86 year, resulting in an annual cost saving of about \$10 million.

70. To assist the Borrower in carrying out the studies to develop new educational programs, it would be assisted as appropriate by consultant experts in the individual specializations being addressed by the respective studies. Qualifications, experience and terms of reference of these consultants would be to the satisfaction of the Bank and their selection would be in accordance with the Bank's guidelines. It was decided at negotiations that consultant services may be funded by technical assistance funds available under the Bank's Fifth Education Project (closing date, March 31, 1988). These services are expected to be provided beginning in April 1986.

71. In addition, the terms of reference and implementation plan for studies to develop new educational programs have been confirmed. Terms of reference for the program of studies to develop new educational programs have been prepared by the MOE and have been finalized. Assurances were obtained from the Borrower that all studies would be completed by December 1988 (except for the study on private education incentives which would be completed by the end of 1986) and that the Borrower would, on the basis of an exchange of views with the Bank, carry out the recommendations based on the studies' findings.

#### Allocation of Loan Proceeds

72. Procurement. The procurement of goods and services to be financed with Bank funds would be procured as follows:

Table 4  
PROPOSED PROCUREMENT PROCEDURES

(Total reimbursable costs, in millions of current US\$;  
figures in parentheses are amounts to be financed by the proposed loan)

Reform Program Category of Expenditures	Procurement Procedure			Total Cost
	ICB <sup>1/</sup>	LCB <sup>2/</sup>	Other	
Primary and Secondary School Construction and Related Services	--	396 (26)	--	396 (26)
Primary and Secondary School Equipment, Furniture and Educational Materials	24 (6)	23	--	47 (6)
University Fellowships	--	--	73 (32)	73 (32)
Teacher Training (Salaries, Benefits, Stipends and Educational Materials)	--	--	124 (86)	124 (86)
Other Program Costs <sup>3/</sup>	--	--	1,189 (0)	1,189 (0)
<b>TOTAL</b>	24 (6)	419 (26)	1,386 (118)	1,829 (150)

1/ International Competitive Bidding and bidding through UNICEF.

2/ Local Competitive Bidding.

3/ Consisting predominantly of salaries and benefits for the staff of primary, secondary and higher education institutions, and for MOE Administration staff.

73. Contracts for civil works to be reimbursed under the proposed loan would be awarded on the basis of competitive bidding advertised locally in accordance with procedures acceptable to the Bank. The bidding would be open to foreign firms. LCB is justified in light of: (a) the wide geographic dispersion of schools to be constructed; (b) the small average contract value of each school (about US\$200,000); and, subsequently, (c) the demonstrated lack of interest by foreign firms, as experienced in other ongoing IBRD projects, among small, widely distributed projects. Prevailing local competitive bidding procedures are consistent with the need for economy and efficiency in the execution of the project. There are, however, a few procedures which require modifications to be acceptable to the Bank. Agreement was reached with the Government on the LCB procedures to be used for procurement under the proposed loan. Goods financed under the loan would be procured according to the Bank's ICB procedures (except for educational materials which may be procured through UNICEF) and consultant services would be procured according to Bank guidelines. Prior Bank review of procurement decisions would be required for all contracts for goods and each contract for works estimated to cost \$500,000 or more.

74. Disbursements. Disbursements under the proposed loan would be made as follows:

- (a) 65% of total expenditures on civil works and associated professional services for primary and secondary school construction;
- (b) 100% of foreign expenditures and 75% of local expenditures on equipment, furniture, and educational materials for primary and secondary schooling and teacher training;
- (c) 100% of foreign expenditures on university fellowships (including retroactive financing from September 1, 1985);
- (d) 80% of recurrent expenditures on teacher training: salaries, stipends, travel and accommodation allowances in MOE teacher training institutions where payment is made before January 1, 1987 (including retroactive financing from September 1, 1985);
- (e) 60% of recurrent expenditures on teacher training occurring on or after January 1, 1987; and
- (f) 65% of total expenditures on consultant services.

A Special Account of \$20 million would be established at the Borrower's Central Bank.

75. The recurrent expenditures on teacher training are deemed incremental costs to cover the training of new teachers and the retraining of teachers for new curricula under the reform program. The disbursement against these incremental costs would be made on a declining scale under phase I of program implementation.

76. In order to expedite implementation of the reform program, up to US\$20 million of retroactive financing is recommended to finance expenditures on teacher training and overseas fellowships occurring between September 1, 1985 and signature of the proposed loan. A first tranche of up to US\$75 million would be available for disbursement upon effectiveness, estimated at June 1, 1986. Retroactive financing is just over half of the disbursements expected to be made by June 30, 1986. Also to expedite program implementation and loan disbursement, advance contracting related to school construction (estimated at \$27 million) is proposed to cover payments made after loan signature for contracts awarded after January 1, 1983 (this date represents when appraisal of the school construction program began) in conformity with current Bank guidelines. The second tranche of US\$75 million would become available upon Bank satisfaction of progress in carrying out the reform program and the actions cited in paragraph 78. The Bank would conduct an interim performance review no later than December 31, 1986 to establish whether reform implementation warranted release of the second tranche.

77. Disbursements of fellowships, training and civil works under \$500,000 would be made on the basis of statements of expenditures. Full documentation on eligible expenditures would be made available to the Bank on request. Disbursement is thus scheduled to be completed by the proposed Closing Date of December 31, 1988.

#### Conditions of Second Tranche Release

78. Based in part on the implementation reports to be prepared by the MOE Reform Implementation Task Force, the Bank would conduct an interim performance review in December 1986 in order to assess whether reform program implementation progress during the first year of Phase I warranted release of the second tranche. Implementation performance in relation to all reform program targets as set forth in the policy letter and the attached Matrix, would be monitored; second tranche release would be conditioned on the Bank being satisfied with the overall progress in carrying out the reform program and that the following actions were taken:

- (a) construction and equipping of about 2,900 new primary school classrooms to be operational by September 1986;
- (b) carrying out of a program for the distribution, in accordance with guidelines satisfactory to the Bank, of educational materials to primary and secondary schools;
- (c) initiation of the studies included in the Project;
- (d) increase of the rate of promotion of students from primary to lower secondary schools such that the number of students so promoted at the end of the academic year ending in June 1986, shall be equal to about 54% of the total number of students attending the fifth grade of primary school during such academic year (up from 49% in May 1985);
- (e) reduction of the rate of promotion of students from lower secondary to upper secondary schools such that the number of students so promoted at the end of the academic year ending in June 1986, shall be equal to about 45% of the total number of students attending the final grade of lower secondary school during such academic year (down from 52% in June 1985);
- (f) limitation of the number of students admitted in each academic year to the first year of university, to a level equal to about 102% of the total number of students admitted to the first year of university during the preceding academic year;
- (g) application of eligibility criteria satisfactory to the Bank in the award of fellowships to university students;

- (h) maintenance of the average number of hours of instruction required to be provided by all university teachers at a level of 120% of the hours required during the academic year ending in June 1985; and
- (i) preparation of a proposed system of incentives designed to encourage the development of quality private schools.

### Accounting and Audit

79. Agreements were obtained that the borrower will maintain accounts to record project expenditures. These would be audited annually by independent auditors acceptable to the Bank, and audit reports would be provided to the Bank within six months of the end of each fiscal year.

### Benefits and Risks

80. The education sector reform program is expected to yield very significant development benefits for the country. It would make the provision of education more equitable, more cost-effective, and more consistent with the country's medium-term needs and resources. Some of the prospective benefits of the reform are quantifiable, as are the improved enrollment prospects and the reduced education costs. There are also a number of important potential benefits which are not quantifiable. They include the improved equity which would result from the provision of basic schooling where none existed in the past, the more practical orientation of education to employment needs, and the psychological benefit to students of reduced class failure and repetition.

81. The reform program also entails some risks. The most important of these is the risk of rejection by key participants in the reform--teachers, students, parents, and school administrators. The reform involves a significant change in the objectives of the education system, and will require a corresponding adjustment in public expectations of the system. By articulating Bank support for the reform program, the Government expects to facilitate public acceptance of the sensitive elements of the reform such as increased teaching hours and slower growth of university intakes. Although the reform has been well received by many groups, it could face rejection by groups who view the reform as threatening accustomed prerogatives or expectations. The Government is fully aware of this risk, and has very conscientiously sought to minimize it by situating the reform in the context of restructuring in other sectors, by involving key interest groups (including teachers' unions and political parties) in early deliberations on the reform, and by testing public receptiveness on a number of key reforms before committing itself to the full reform program. Although the reform program inevitably entails some risk of public rejection, these efforts by the Government to build public acceptance of the reform have reduced that risk.

82. A second risk is that the ultimate objectives of the reform could be compromised by incomplete implementation--particularly during the second phase of the reform when a number of new educational activities are to be introduced. The reform program is complex in terms of the number, size, and inter-relationship of program actions. A number of these complementary

actions are essential to the success of the Phase I policy initiatives. The improved promotion rates introduced in Phase I, for example, would ultimately lead to an undesirable situation of automatic promotion unless the programs in student performance assessment and remedial instruction are successfully developed and implemented. Successful follow-up on the initial reform program actions will require sustained monitoring by the Government and by the Bank of actions to develop and implement new educational activities. To reduce this implementation risk, an appropriate composition of the Reform Implementation Task Force was confirmed at negotiations.

**PART V - RECOMMENDATION**

83. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed Loan.

February 20, 1986  
Washington, D.C.

A. W. Clausen  
President

TABLE 3A

MOROCCO MOROCCO	- SOCIAL INDICATORS DATA SHEET				
	REFERENCE GROUPS (WEIGHTED AVERAGES) /a				
	MOST RECENT ESTIMATE /b			(MOST RECENT ESTIMATE) /b	
1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME N. AFRICA & MID EAST	MIDDLE INCOME LAT. AMERICA & CAR	
<b>AREA (THOUSAND SQ. KM)</b>					
TOTAL	446.6 /c	446.6 /c	446.6 /c	.	.
AGRICULTURAL	192.7	200.1	209.2	.	.
<b>GDP PER CAPITA (US\$)</b>					
	..	..	760.0	1134.9	1875.9
<b>ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF OIL EQUIVALENT)</b>					
	118.0	174.0	284.0	623.9	993.6
<b>POPULATION AND VITAL STATISTICS</b>					
POPULATION, MID-YEAR (THOUSANDS)	11626.0	14968.0	20801.0	.	.
URBAN POPULATION (% OF TOTAL)	29.3	34.6	42.6	49.0	67.7
<b>POPULATION PROJECTIONS</b>					
POPULATION IN YEAR 2000 (MILL)			31.2	.	.
STATIONARY POPULATION (MILL)			70.0	.	.
POPULATION MOMENTUM			2.0	.	.
<b>POPULATION DENSITY</b>					
PER SQ. KM.	26.0	33.5	46.6	37.8	48.0
PER SQ. KM. AGRI. LAND	60.3	74.8	96.9	470.1	91.1
<b>POPULATION AGE STRUCTURE (%)</b>					
0-14 YRS	44.8	47.5	44.9	43.5	38.5
15-64 YRS	52.5	48.2	52.0	53.0	57.1
65 AND ABOVE	2.7	4.1	3.0	3.3	4.2
<b>POPULATION GROWTH RATE (%)</b>					
TOTAL	2.6	2.5	2.5	2.8	2.4
URBAN	3.7	4.2	4.1	4.4	3.6
<b>CRUDE BIRTH RATE (PER THOUS)</b>					
	50.3	47.5	39.7	40.0	30.9
<b>CRUDE DEATH RATE (PER THOUS)</b>					
	21.2	16.9	14.3	11.5	8.0
<b>GROSS REPRODUCTION RATE</b>					
	3.5	3.5	2.8	2.8	2.0
<b>FAMILY PLANNING</b>					
ACCEPTORS, ANNUAL (THOUS)	..	25.1	78.0 /d	.	.
USERS (% OF MARRIED WOMEN)	..	..	26.0	21.4	45.3
<b>FOOD AND NUTRITION</b>					
<b>INDEX OF FOOD PROD. PER CAPITA (1969-71=100)</b>					
	99.0	98.0	75.0	95.1	109.6
<b>PER CAPITA SUPPLY OF</b>					
<b>CALORIES (% OF REQUIREMENTS)</b>					
	95.0	103.0	118.0	118.2	113.2
<b>PROTEINS (GRAMS PER DAY)</b>					
	60.0	65.0	79.0	77.8	69.4
<b>OF WHICH ANIMAL AND PULSE</b>					
	14.0	13.0	14.0 /e	17.8	34.2
<b>CHILD (AGES 1-4) DEATH RATE</b>					
	37.6	26.4	12.0	12.8	4.8
<b>HEALTH</b>					
<b>LIFE EXPECT. AT BIRTH (YEARS)</b>					
	46.7	50.6	52.2	57.8	64.8
<b>INFANT MORT. RATE (PER THOUS)</b>					
	160.5	136.5	98.0	96.8	59.7
<b>ACCESS TO SAFE WATER (%POP)</b>					
TOTAL	30.6	51.0	55.0 /d	67.2	65.3
URBAN	58.7	92.0	100.0 /d	93.4	76.5
RURAL	19.0	28.0	25.0 /d	45.8	44.2
<b>ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)</b>					
TOTAL	..	29.0	..	45.9	56.3
URBAN	..	75.0	..	63.0	73.4
RURAL	..	4.0	..	28.6	25.5
<b>POPULATION PER PHYSICIAN</b>					
	9410.0	12790.0	10750.0 /f	4331.0	1909.7
<b>POP. PER NURSING PERSON</b>					
	..	2740.0	1830.0 /e	1845.0	808.2
<b>POP. PER HOSPITAL BED</b>					
TOTAL	630.0	660.0	750.0 /e	621.8	362.0
URBAN	..	450.0	610.0 /e	545.0	422.0
RURAL	..	5810.0	3010.0 /e	2511.3	2716.7
<b>ADMISSIONS PER HOSPITAL BED</b>					
	..	15.5	17.9 /e	25.7	27.5
<b>HOUSING</b>					
<b>AVERAGE SIZE OF HOUSEHOLD</b>					
TOTAL	4.8	5.5	..	..	..
URBAN	4.3	4.9	..	..	..
RURAL	5.1	5.8	..	..	..
<b>AVERAGE NO. OF PERSONS/ROOM</b>					
TOTAL	2.2	2.4	..	..	..
URBAN	2.1	2.1	..	..	..
RURAL	2.3	2.6	..	..	..
<b>PERCENTAGE OF DWELLINGS WITH ELECT.</b>					
TOTAL	..	..	..	..	..
URBAN	..	68.4	65.0 /e	..	..
RURAL	..	..	..	..	..

TABLE 3A

MOROCCO		- SOCIAL INDICATORS DATA SHEET				
MOROCCO		REFERENCE GROUPS (WEIGHTED AVERAGES) /a				
		MOST RECENT ESTIMATE /b			(MOST RECENT ESTIMATE) /b	
		1960/b	1970/b	ESTIMATE/b	MIDDLE INCOME N. AFRICA & MID EAST	MIDDLE INCOME LAT. AMERICA & CAR
<b>EDUCATION</b>						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL		47.0	52.0	80.0	89.8	106.7
MALE		67.0	67.0	98.0	103.7	108.5
FEMALE		27.0	36.0	62.0	75.2	104.6
SECONDARY: TOTAL		5.0	13.0	28.0	42.9	44.2
MALE		7.0	18.0	33.0	50.9	42.7
FEMALE		2.0	7.0	22.0	34.6	44.9
VOCATIONAL (% OF SECONDARY)		0.0	0.0	1.8	10.0	13.3
PUPIL-TEACHER RATIO						
PRIMARY		42.0	34.0	36.0	29.7	29.9
SECONDARY		6.0	20.0	21.0	18.8	16.7
<b>CONSUMPTION</b>						
PASSENGER CARS/THOUSAND POP		10.7	14.9	21.5 /g	17.8	46.0
RADIO RECEIVERS/THOUSAND POP		45.8	62.5	167.7	175.9	328.3
TV RECEIVERS/THOUSAND POP		0.4	11.6	41.7	51.2	112.4
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION		22.1	16.2	12.6	37.2	81.1
CINEMA ANNUAL ATTENDANCE/CAPITA		1.5	1.5 /h	2.0 /a	2.4	2.4
<b>LABOR FORCE</b>						
TOTAL LABOR FORCE (THOUS)		3389.0	3939.0	5544.0	.	.
FEMALE (PERCENT)		10.0	14.2	16.2	11.0	23.6
AGRICULTURE (PERCENT)		62.0	57.0	52.0 /i	42.4	31.4
INDUSTRY (PERCENT)		14.0	17.0	21.0 /i	27.9	24.3
PARTICIPATION RATE (PERCENT)						
TOTAL		29.1	26.3	26.7	26.2	33.5
MALE		52.1	45.2	44.5	46.2	51.3
FEMALE		5.9	7.5	8.5	5.8	15.9
ECONOMIC DEPENDENCY RATIO		1.6	2.0	1.8	1.8	1.3
<b>INCOME DISTRIBUTION</b>						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5% OF HOUSEHOLDS		18.0 /j	20.0 /j	..	..	..
HIGHEST 20% OF HOUSEHOLDS		43.3 /j	49.0 /j	..	..	..
LOWEST 20% OF HOUSEHOLDS		7.0 /j	4.0 /j	..	..	..
LOWEST 40% OF HOUSEHOLDS		18.0 /j	12.0 /j	..	..	..
<b>POVERTY TARGET GROUPS</b>						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN		107.0	157.0	389.0 /f	226.3	288.3
RURAL		66.0	101.0	238.0 /f	134.0	185.3
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN		..	..	242.0 /f	431.5	519.8
RURAL		..	..	157.0 /f	326.0	359.7
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)						
URBAN		51.0	38.0	28.0 /f	..	..
RURAL		49.0	45.0	45.0 /f	29.0	..
.. NOT AVAILABLE						
. NOT APPLICABLE						

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1981 and 1983.

/c Excludes the ex-Spanish Sahara; /d 1976; /e 1977; /f 1979; /g 1978; /h 1972; /i 1980; /j Consumption expenditure of households.



## DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

**AREA** (thousand sq.km.)

**Total**—Total surface area comprising land area and inland waters; 1960, 1970 and 1983 data.

**Agricultural**—Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow, 1960, 1970 and 1982 data.

**GNP PER CAPITA (US\$)**—GNP per capita estimates at current market prices, calculated by same conversion method as *World Bank Atlas* (1981-83 basis); 1983 data.

**ENERGY CONSUMPTION PER CAPITA**—Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1982 data.

**POPULATION AND VITAL STATISTICS**

**Total Population, Mid-Year (thousands)**—As of July 1; 1960, 1970, and 1983 data.

**Urban Population (percent of total)**—Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1983 data.

**Population Projections**

**Population in year 2000**—The projection of population for 2000, made for each economy separately. Starting with information on total population by age and sex, fertility rates, mortality rates, and international migration in the base year 1980, these parameters were projected at five-year intervals on the basis of generalized assumptions until the population became stationary.

**Stationary population**—Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate = 1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

**Population Momentum**—Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year  $t$  is measured as a ratio of the ultimate stationary population to the population in the year  $t$ , given the assumption that fertility remains at replacement level from year  $t$  onward, 1985 data.

**Population Density**

**Per sq.km.**—Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1983 data.

**Per sq.km. agricultural land**—Computed as above for agricultural land only, 1960, 1970, and 1982 data.

**Population Age Structure (percent)**—Children (0-14 years), working age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1983 data.

**Population Growth Rate (percent)—total**—Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-83.

**Population Growth Rate (percent)—urban**—Annual growth rates of urban population for 1950-60, 1960-70, and 1970-83 data.

**Crude Birth Rate (per thousand)**—Number of live births in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

**Crude Death Rate (per thousand)**—Number of deaths in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

**Gross Reproduction Rate**—Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1983.

**Family Planning—Acceptors, Annual (thousands)**—Annual number of acceptors of birth-control devices under auspices of national family planning program.

**Family Planning—Users (percent of married women)**—The percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

**FOOD AND NUTRITION**

**Index of Food Production Per Capita (1969-71 = 100)**—Index of per capita annual production of all food commodities. Production excludes animal feed and seed for agriculture. Food commodities include primary commodities (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded); they comprise cereals, root crops, pulses, oil seeds, vegetables, fruits, nuts, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

**Per Capita Supply of Calories (percent of requirements)**—Computed from calorie equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961, 1970 and 1982 data.

**Per Capita Supply of Protein (grams per day)**—Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961, 1970 and 1982 data.

**Per Capita Protein Supply From Animal and Pulse**—Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

**Child (ages 1-4) Death Rate (per thousand)**—Number of deaths of children aged 1-4 years per thousand children in the same age group in a given year. For most developing countries data derived from life tables; 1960, 1970 and 1983 data.

**HEALTH**

**Life Expectancy at Birth (years)**—Number of years a newborn infant would live if prevailing patterns of mortality for all people

at the time of its birth were to stay the same throughout its life; 1960, 1970 and 1983 data.

**Infant Mortality Rate (per thousand)**—Number of infants who die before reaching one year of age per thousand live births in a given year; 1960, 1970 and 1983 data.

**Access to Safe Water (percent of population)—total, urban, and rural**—Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

**Access to Excreta Disposal (percent of population)—total, urban, and rural**—Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

**Population per Physician**—Population divided by number of practicing physicians qualified from a medical school at university level.

**Population per Nursing Person**—Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

**Population per Hospital Bed—total, urban, and rural**—Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private, general and specialized hospitals and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

**Admissions per Hospital Bed**—Total number of admissions to or discharges from hospitals divided by the number of beds.

## HOUSING

**Average Size of Household (persons per household)—total, urban, and rural**—A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

**Average Number of Persons per Room—total, urban, and rural**—Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

**Percentage of Dwellings with Electricity—total, urban, and rural**—Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

## EDUCATION

### Adjusted Enrollment Ratios

**Primary school - total, male and female**—Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations. While many countries consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of school are reflected in the ratios given. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are below or above the country's standard primary-school age.

**Secondary school - total, male and female**—Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

**Vocational Enrollment (percent of secondary)**—Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

**Pupil-teacher Ratio - primary, and secondary**—Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

## CONSUMPTION

**Passenger Cars (per thousand population)**—Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

**Radio Receivers (per thousand population)**—All types of receivers for radio broadcasts to general public per thousand of population; excludes un-licensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

**TV Receivers (per thousand population)**—TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

**Newspaper Circulation (per thousand population)**—Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

**Cinema Annual Attendance per Capita per Year**—Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

## LABOR FORCE

**Total Labor Force (thousands)**—Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1983 data.

**Female (percent)**—Female labor force as percentage of total labor force.

**Agriculture (percent)**—Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

**Industry (percent)**—Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

**Participation Rate (percent)—total, male, and female**—Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1983 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

**Economic Dependency Ratio**—Ratio of population under 15, and 65 and over, to the working age population (those aged 15-64).

## INCOME DISTRIBUTION

**Percentage of Total Disposable Income (both in cash and kind)**—Accruing to percentile groups of households ranked by total household income.

## POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

**Estimated Absolute Poverty Income Level (US\$ per capita)—urban and rural**—Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

**Estimated Relative Poverty Income Level (US\$ per capita)—urban and rural**—Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

**Estimated Population Below Absolute Poverty Income Level (percent)—urban and rural**—Percent of population (urban and rural) who are "absolute poor."

Population : 20.8 million (mid-1983)  
 GNP Per Capita: US\$ 750 (1983)

ANNEX I  
 Page 5 of 7

MOROCCO - ECONOMIC INDICATORS

Indicator	Amount (million US\$ at current prices) 1984	Annual Growth Rates (%)									
		Actual					Projected				
		1981	1982	1983	1984 p/	1985 e/	1986	1987	1988	1989	1990
<b>NATIONAL ACCOUNTS</b>											
Gross domestic product a/	12145	-1.3	6.8	2.2	2.4	4.3	2.4	2.5	2.8	2.8	2.9
Agriculture	2023	-22.9	19.9	-4.6	2.0	6.0	2.0	2.0	2.5	2.5	2.5
Industry	3932	-0.1	2.2	3.1	0.8	3.0	1.5	2.0	2.5	2.5	3.0
Services	6189	5.8	6.1	3.8	3.4	4.7	3.0	3.0	3.0	3.0	3.0
Consumption	10647	1.5	6.0	0.3	1.2	3.4	2.3	1.8	1.6	1.6	2.2
Gross investment	2792	-9.4	7.1	-14.0	8.1	-5.0	-4.6	-0.6	2.9	2.8	3.0
Exports of GNFS	3055	0.2	5.5	7.3	3.6	6.1	8.1	7.8	8.2	7.5	5.6
Imports of GNFS	4349	2.0	3.7	-11.9	3.2	-4.2	2.0	2.3	3.4	3.3	3.0
Gross national savings	1828	-32.2	4.5	21.2	7.9	1.7	3.4	7.4	8.3	12.5	11.0

PRICES

GDP deflator (1980 = 100)	85.4	91.7	100.0	110.8	121.8	125.0	136.4	152.8
Exchange rate (US\$ per DM)	.240	.256	.254	.193	.166	.141	.114	.10

Indicator	Share of GDP at Market Prices (%) (at current prices) c/						Average Annual Increase (%)				
	1970	1975	1980	1985	1990	1995	(at constant 1969 prices)		(at constant 1980 prices)		
							1970-75	1975-80	1980-85	1985-90	1990-95
Gross domestic product	19.9	17.9	18.1	15.0	14.7	13.5	4.9	5.5	3.1	2.7	4.9
Agriculture	19.9	17.9	18.1	15.0	14.7	13.5	-1.4	4.4	0.5	2.3	3.0
Industry	27.0	35.2	32.3	30.6	30.1	31.2	7.4	4.2	1.9	2.3	5.7
Services b/	53.1	46.9	49.6	54.4	55.2	55.3	5.6	6.4	4.7	3.0	4.9
Consumption	85.5	85.5	88.5	86.8	83.5	79.6	5.0	6.1	2.4	1.8	3.9
Gross investment	18.5	25.4	22.6	16.8	15.2	20.4	13.0	-1.1	-2.6	1.0	11.2
Exports GNFS	17.6	22.5	18.4	19.9	24.9	25.5	0.0	4.9	4.8	7.6	5.3
Imports GNFS	21.6	33.4	29.4	23.5	23.7	25.5	8.3	1.7	-2.0	2.9	6.4
Gross national savings	14.8	19.3	14.6	12.0	15.8	20.6	15.3	-4.4	-1.2	8.5	10.6

Indicator	As % of GDP					
	1970	1975	1980	1982	1983	1984
<b>PUBLIC FINANCE</b>						
Current revenues	16.1	23.3	21.6	22.7	22.3	21.9
Current expenditures	14.5	20.2	21.8	22.7	22.8	21.9
Surplus (+) or deficit (-)	1.6	3.1	-0.2	0.0	-0.5	0.0
Capital expenditure	5.7	12.2	12.2	13.8	8.4	6.6
Foreign financing	1.3	3.7	5.6	7.2	3.6	5.0

Indicator	1970-75	1975-80	1980-85	1985-90	1990-95
	<b>OTHER INDICATORS</b>				
GNP growth rate (%)	6.0	4.9	2.9	2.4	5.1
GNP per capita growth rate (%)	3.1	1.8	0.4	-0.1	2.6
Energy consumption growth rate (%)	6.7	5.6	3.4	3.0	4.9
ICOR	3.0	4.1	6.9	5.8	3.5
Marginal savings rate	3.08	-0.15	0.14	0.48	0.36
Import elasticity	1.84	0.13	-0.65	1.08	1.32

- a/ At market prices.
- b/ Import taxes included in services.
- c/ Projected years at constant 1980 prices.
- d/ Estimate.

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MOROCCO - EXTERNAL TRADE

Indicator	Amount (million US\$ at current prices) 1984	Annual Growth Rates (%) (at constant 1980 prices)									
		Actual					Projected				
		1981	1982	1983	1984 p/	1985 e/	1986	1987	1988	1989	1990
<b>EXTERNAL TRADE</b>											
Merchandise exports (FOB)	2169	2.9	1.1	10.3	5.1	5.8	8.1	7.8	8.2	7.4	5.3
Primary products	1250	-3.6	-11.4	5.6	3.7	5.3	4.3	3.0	3.0	3.0	3.0
Phosphate rock	524	-5.6	-10.1	5.4	2.7	3.0	3.0	3.0	3.0	3.0	3.0
Others	726	-2.2	-12.4	5.7	4.4	6.9	5.2	3.0	3.0	3.0	3.0
Intermediate & manufactures	919	21.9	30.0	17.7	7.0	6.5	13.3	13.7	14.0	11.9	7.4
Merchandise imports (CIF)	3904	2.9	5.8	-8.4	7.1	-4.3	2.5	2.9	3.6	3.5	3.2
Food	660	23.1	-18.8	-4.9	26.6	-8.0	3.0	3.1	3.2	3.3	3.3
Fuels	1021	10.6	-1.8	1.1	4.8	-2.0	2.4	2.5	2.8	2.8	2.9
Machinery and equipment	733	-7.7	31.4	-27.2	8.5	-15.1	-2.0	-0.7	2.5	2.5	2.9
Others	1490	-5.0	12.7	-5.5	0.5	0.7	4.1	4.2	4.8	4.3	3.3
<b>PRICES (1980 = 100)</b>											
Export price index	.	120.7	124.4	135.9	166.7	173.7	206.1	249.3	276.7	307.3	341.0
Import price index	.	130.0	142.2	153.4	191.0	211.1	239.0	281.2	304.6	330.5	358.3
Terms of trade index	.	92.8	87.5	88.6	87.3	82.3	86.2	88.7	90.8	93.0	95.2

	Composition of Merchandise Trade (%) (at current prices)					Average Annual Increase (Constant 1969 prices)				
	1975	1980	1985	1990	1995	(Constant 1969 prices)		(Constant 1980 prices)		
						1970-75	1975-80	1980-85	1985-90	1990-95
<b>Exports</b>										
Primary products	86.9	74.4	57.3	47.2	42.6	-1.3	7.0	5.3	7.5	5.2
Intermediates & manufactures	13.1	25.6	42.7	52.8	57.4	-2.8	5.4	-0.3	3.2	3.1
<b>Imports</b>										
Food	25.0	16.9	18.3	18.3	16.0	9.0	0.7	0.4	3.2	6.6
Petroleum	10.8	23.6	26.0	25.4	24.3	14.0	2.9	1.1	3.2	3.7
Machinery and equipment	24.0	18.9	15.0	13.5	18.5	9.6	5.2	2.1	2.7	5.6
Others	40.2	40.6	40.7	42.8	41.2	12.8	-7.3	-3.5	1.2	13.5
						5.3	2.8	0.7	4.2	5.7

	Share of Trade with Industrial Countries (%)			Share of Trade with Developing Countries (%)			Share of Trade with Capital Surplus Oil Exporters (%)		
	1960	1970	1980	1960	1970	1980	1960	1970	1980
<b>DIRECTION OF TRADE</b>									
Exports	72.3	73.7	76.5	27.7	25.4	21.6	..	0.9	1.9
Imports	76.7	74.9	72.9	23.3	25.1	8.3	..	..	18.8

e/ Estimate

Population : 20.8 million (mid-1983)  
 GNP Per Capita: US\$ 750 (1983)

**MOROCCO - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT**  
 (million US\$ at current prices)

Indicator	Actual						Projected				
	1980	1981	1982	1983	1984 e/	1985 e/	1986	1987	1988	1989	1990
<b>BALANCE OF PAYMENTS</b>											
Exports of goods and services	4364	4132	3843	3921	3975	3988	4528	5209	6036	6978	7977
Of which: Merchandise f.o.b.	2414	2283	2043	2086	2169	2106	2457	2935	3525	4205	4912
Imports of goods and services	5912	6095	5912	4888	5000	4787	5111	5648	6393	7060	7753
Of which: Merchandise f.o.b.	4284	4363	4335	3627	3904	3637	3839	4258	4781	5368	6005
Net current transfers	128	102	170	94	61	64	69	75	81	87	94
Current account balance	-1420	-1861	-1899	-873	-964	-735	-514	-364	-277	6	318
Net Direct Foreign Investment	109	73	102	47	51	56	62	68	75	82	91
Official Grants	97	313	124	142	16	300	-	-	-	-	-
MLT loans (net)	1036	1103	1354	230	442	781	656	564	328	182	-121
Official	722	1033	740	340	372	595	648	560	58	-386	-699
Private	314	70	614	-110	70	186	8	4	270	568	578
Other capital (net)	22	336	395	297	468	-212	-135	-232	-154	-179	-152
Change in reserves	156	36	-76	157	-13	-191	-69	-36	28	-91	-136
International reserves	814	510	540	376	266	457	526	562	534	625	761
Of which: Gold	415	280	322	269	217	217	217	217	217	217	217
Reserves as months imports	1.7	1.0	1.1	0.9	0.6	1.1	1.2	1.2	1.0	1.1	1.2
<b>EXTERNAL CAPITAL AND DEBT</b>											
Gross disbursements	1711	2047	2230	982	1105	1565					
Official Grants	97	313	124	142	16	300					
Concessional loans	761	889	557	209	274	378					
DAC	100	126	125	49	134	177					
OPEC	584	746	401	115	79	124					
IDA	1	1	1	1	3	2					
Other	76	16	30	43	58	74					
Non-concessional loans	854	845	1549	631	815	887					
Official export credits	12	54	103	50	135	85					
IBRD	64	99	134	174	240	402					
Other multilateral	13	123	70	23	24	47					
Private	765	570	1243	383	416	354					
Suppliers credits	8	26	52	8	16	19					
Financial credits & bonds	758	543	1191	375	400	335					
External Debt											
Debt outstanding and disbursed	7109	7983	9054	9445	10347	11513					
Official	3496	4373	5004	5894	6579	7450					
Private	3612	3610	4049	3552	3768	4062					
Undisbursed debt	2154	3146	2487	3658	3093	2359					
Debt service											
Total service payments 1/	1193	1266	1334	1120	1196	990					
Interest	614	634	581	510	548	506					
Payments as % exports of G+S 2/	27.3	30.6	34.7	28.6	30.1	24.8					
Average interest rate on new loans (%)											
Official	8.2	8.4	10.1	7.4	7.4	8.4					
Private	3.8	3.7	6.9	5.5	6.7	n.a.					
Average maturity of new loans (years)	13.4	13.7	11.8	10.5	11.8	n.a.					
Average maturity of new loans (years)											
Official	13.7	9.5	11.0	15.9	17.5	12.6					
Private	18.6	11.6	19.7	21.1	20.3	n.a.					
Private	7.9	7.1	6.3	7.6	6.1	n.a.					

As % of Debt Outstanding at End of Most Recent Year (1983)

Maturity structure of debt outstanding	
Maturities due within 5 years	49.4
Maturities due within 10 years	80.6
Interest structure of debt outstanding	
Interest due within first year	5.8

e/ Estimate  
 1/ After rescheduling  
 2/ Services include workers' remittances

III Morocco

STATUS OF BANK OPERATIONS

A. STATEMENT OF BANK LOANS AND IDA CREDITS  
(As of September 30, 1985)

Loan or Credit Number	Year	Borrower	Purpose	Amount (less cancellations) US\$ Million		
				Bank	IDA	Undisbursed
Thirty five Loans fully disbursed				1,047.47		
Five Credits fully disbursed					45.16	
1416	1977	Kingdom of Morocco	Agriculture	41.0		14.00
1602	1978	Kingdom of Morocco	Agriculture	50.0		34.96
1681	1979	Kingdom of Morocco	Education	88.0		58.75
1695	1979	Kingdom of Morocco	Power	42.0		19.66
1724	1979	Kingdom of Morocco	Water Supply	49.0		12.13
1757	1980	Kingdom of Morocco	Agriculture	44.0		15.55
1830	1980	Kingdom of Morocco	Highways	62.0		12.38
1848	1980	Kingdom of Morocco	Agriculture	24.0		16.85
1943	1981	CIH	Tourism	100.0		37.39
1944	1981	Kingdom of Morocco	Urban Development	25.0		19.16
2006	1982	Kingdom of Morocco	Water Supply	87.0		64.69
2037	1982	BNDE	DFC	70.0		41.44
2038	1982	Kingdom of Morocco	DFC (SSI)	40.0		37.37
2082	1982	Kingdom of Morocco	Agriculture	24.0		21.97
2109	1982	Kingdom of Morocco	Mining	9.5		7.63
2110	1982	Kingdom of Morocco	Forestry	20.5		17.26
2114	1982	ONAREP	Oil Shale	11.2		4.16
2149	1982	Kingdom of Morocco	Education	38.0		30.84
2217	1983	Kingdom of Morocco	Agriculture	30.0		28.79
2245	1983	CIH	Housing Devt.	60.0		56.81
2253	1983	Kingdom of Morocco	Agriculture	42.0		40.89
2254	1983	Kingdom of Morocco	Highways	85.0		81.79
2271	1983	ONAREP	Oil Exploration	75.2		38.33
2272	1983	Kingdom of Morocco	Village Infrastr.	16.0		15.30
2367	1984	CNCA	Agric. Credit	115.4		56.99
2477	1985	Kingdom of Morocco	Voc. Training	27.1		27.03
2487	1985	Kingdom of Morocco	Elec. & Mec. Ind.*	25.1		
2508	1985	Kingdom of Morocco	Jerada Coal Min.**	27.0		
2590	1986	Kingdom of Morocco	Agr. Sec. Adj.**	100.0		
2604	1986	Kingdom of Morocco	2nd Ind. & Trade**	200.0		
Total				2675.47	45.16	
of which has been repaid				448.28	2.37	
Total now outstanding				2227.19	42.79	
Amount Sold				20.11		
of which has been repaid				20.11	0.0	0.0
Total now held by Bank and IDA				2227.19	42.79	
Total undisbursed						812.12

B. STATEMENT OF IFC INVESTMENTS  
(As of September 30, 1985)

Fiscal Year			US\$ Million		
			Loan	Equity	Total
1986	Frumat	Food & Food Processing	5.7		5.7
1963/1978/1984	BNDE	Development Bank	37.6	2.7	40.3
1966	CIL	Canning Factory	0.9	0.5	1.4
1976	Marrakech Cement	Cement Factory	-	1.2	1.3
1977/1980	Temara Cement	Cement Factory	4.7	3.6	8.3
1979	Agadir Cement ***	Cement Factory	12.5	2.2	14.7
1980	SOMIFER	Copper Mining	13.0	2.3	15.3
1981/1983	Casablanca Cement	Cement Factory	15.8	2.0	17.8
Total Gross Commitments			90.2	14.5	104.7
Less cancellation, terminations, repayments and sales			41.4	3.4	44.8
Total commitments now held by IFC			48.8	11.1	59.9
Total Undisbursed			5.7	0.3	6.0

\* Became effective January, 1986.  
\*\* Became effective October, 1985  
\*\*\* Agadir Cement has been cancelled.

KINGDOM OF MOROCCO

EDUCATION SECTOR REFORM PROGRAM

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

- (a) Time taken to prepare project: Four years
- (b) Project preparation responsibility: The Moroccan Government and the Bank
- (c) Project first identified by the Bank: October 1983
- (d) Bank appraisal mission: April-May, 1985
- (e) Negotiations: January, 1986
- (f) Board presentation: March, 1986
- (g) Planned date of effectiveness: June, 1986

Section II: Special Bank Implementation Actions

None

Section III: Special Conditions and Program Actions

- (a) Conditions of disbursement of the second tranche (US\$75 million) are summarized in paragraph 78.
- (b) Other program actions are documented in the attachment to the policy letter.

KINGDOM OF MOROCCO

STATEMENT OF EDUCATION SECTOR POLICY

Since Independence, government efforts in the education sector have focussed principally on expanding schooling capacity, on Moroccanizing teaching staff, and on developing new course offerings consistent with the needs of an expanding economy.

As a result of these efforts, the education system experienced rapid expansion throughout the 1970s--particularly in the area of higher education, where enrollments increased at an average annual rate of over 19% between 1965 and 1978. This policy was appropriate in view of the growing demand for higher-level administrative staff in the economy and in the civil service.

This significant expansion and diversification of enrollments, intended in part to meet the needs of expanding civil-service recruitment, where accompanied by a major increase in Government investment and recurrent expenditures. Whereas the Ministry of Education (MOE) budget in 1975 constituted 12.5% of the total central Government budget, it had risen to 22.9% in 1984. The MOE recurrent budget during the same period increased from 14.9% to 28.5% of total Government recurrent budget (excluding caisse de compensation and debt service payments).

Mindful of the difficulty of maintaining such rapid growth of education expenditures in the context of Morocco's recent economic and financial constraints, as well as of significant efforts of adjustment in other sectors, the Government in 1980 convened the Colloque d'Ifrane in order to start the process of defining a new education strategy and to establish a National Commission which would establish priorities for future development of the education sector. Following this initiative, the MOE adopted a series of measures designed to limit the growth of expenditures and to improve the efficiency of the education system. These measures figure among the policy changes negotiated with the IMF under the April 1983 Standby Credit Agreement. That accord stipulated that the Government was to establish with the World Bank a set of policy measures to limit education expenditures while at the same time maintaining essential programs and improving the efficiency of the education system at all levels.

Consistent with these objectives, the MOE has introduced a number of significant reforms since 1982. The most important of those reform measures are summarized as follows:



- At the university level, several restrictions limiting fellowship eligibility were put into operation in October 1982 in order to reduce the budgetary burden of these expenditures and to promote improved student performance. Fellowship amounts were reduced by 50% for students attending faculties in their town of residence. Fellowships were also reduced by 50% (or suspended altogether for resident students) for students whose inadequate performance obliged them to repeat a year of classes. Fellowships for studies abroad were limited to courses of study not available in Morocco, and were suspended for class failures of more than one year. During the 1983/84 school year alone, these measures yielded savings of 60 million dirhams in fellowship payments, all in foreign exchange.
- As of 1983, the pré-salaires of 1,030 dirhams per month formerly paid to students in training to be secondary teachers were replaced with stipends of 547 dirhams per month. This measure led to savings of more than 20 million dirhams in 1983/84, and about 120 million dirhams in subsequent years.
- Two important measures to improve primary and secondary student flows were introduced in 1983: Class repetition was limited to a total of two years in primary schooling and two years in secondary schooling, and a maximum age limit of 15 years was imposed for primary schooling. These measures are having a salutary effect on teaching quality by bringing about more homogeneous classes. By helping relieve the congestion at the end of primary schooling, they are also improving the flow of students into lower secondary schooling.

Although these initiatives are very welcome, they constitute only the first steps toward a necessary general reform of the education system. High unit costs of schooling reflect in large part the continued excessive repetition and dropout rates at all levels. Inefficiency in use of educational resources is a cause of concern not only for its own sake, but also because it implies that available teaching resources are providing schooling to fewer school age children than might be served under more optimal use.

Following an education sector survey carried out jointly by the MOE and the World Bank in 1981, the Government has committed itself to implement a reform program to improve the quality and efficiency of the education system, while at the same time limiting the growth of education expenditures. The objectives of the reform at each level are as follows:

#### Primary and Secondary Schooling

- Generalization of a nine-year program of basic schooling, involving a significant expansion of capacity at the current lower-secondary level (grades 6-9); and

- Improvement of student flows at all levels through adoption of new promotion criteria, revision of curricula, improved teacher training, measures to promote enrollments in rural areas, and provision of basic teaching materials.

#### Higher Education

- Rationalization of investment and recurrent expenditures;
- Adaptation of university education to priority national needs;
- Improvement of internal efficiency through introduction of a credit-hour system and improved teacher quality; and
- Further restriction of fellowship eligibility based on academic performance and student needs.

The attainment of these objectives implies a reallocation of education resources from higher education to basic education, and revision of school construction norms designed to bring about reduced unit costs.

#### The Reform Program

The proposed program of adjustment, elaborated in collaboration with the World Bank, describes the framework of the education reform. The basic objectives of the reform are to make the education system more responsive to the needs of the economy and to control the growth of education costs. These goals are to be accomplished through expanded and reinforced basic schooling and vocational training, and through stabilized enrollments in upper secondary and university education. More specifically, the reform program would introduce: (a) generalized schooling in a nine-year compulsory program of basic education; (b) improved student flows at all levels; (c) modifications in basic schooling content consistent with the objectives of basic education; (d) reduction of dropout and repetition rates in basic schooling, to be achieved in part through introduction of remedial instruction; (e) limited access to upper secondary schooling; (f) limited access to higher education; (g) stronger measures to improve student performance in higher education; (h) more efficient use of teaching staff in secondary and higher education; (i) control of construction costs for primary and secondary schools; (j) reduction of the proportion of non-teaching staff in secondary schooling; (k) increased teaching hours in secondary and higher education; (l) reduced need for new school construction via improved maintenance of existing schools; and (m) more intensive use of primary and secondary classrooms.

In order to carry out the program of reform, the Government commits itself to make available on a timely basis the necessary budgetary credits. The specific measures comprising the reform program are described in greater detail in the attached Description of Reform Measures and Implementation Schedule (Attachment 1 to Annex A). The Government has already begun to implement a number of the most important reform measures.

KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

I. REALLOCATION

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program Actions Taken	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
<b>A. Expand Access to Basic Education</b>			
<b>1. Expand primary and lower secondary school intakes as per MOE program presented in Annex A, Attachment 2.</b>			
a. Expand number of students admitted to grade 1 of primary school from 405,600 in 1984 to 447,770 in 1985 and 475,000 in 1986.	Government has provided adequate FY86 financing to support school building program for 2,900 classrooms per year average over period 1986/87.	*Implement 2,900 classroom building program according to criteria satisfactory to the Bank. Confirm availability of adequate FY87 financing to maintain building program.	Develop school map and building program for remotest areas.
b. Expand lower secondary school intakes (grade 6) as per MOE program presented in Annex A, Attachment 2.	MOE raised grade 5 promotion rate from 37.9% in June 1984 to 49.0% in June 1985 to achieve 219,500 grade 6 new intakes in October 1985.	*MOE to further increase grade 5 promotion rate to 54% in June 1986 so as to achieve grade 6 new enrollment target for October 1986 (233,000).	Maintain progress in improving grade 5 promotion rates in subsequent years to achieve grade 6 intake growth targets as per MOE program presented in Annex A, Appendix 2.
c. Promote basic schooling in rural areas, with particular attention to encouraging female enrollments.		i. Carry out program for construction of primary schools equipped with teacher housing and student cafeterias in remote rural areas, in accordance with criteria acceptable to the Bank.  ii. Carry out the study to develop program of multi-grade teaching.  iii. Give preference to female teachers in assigning teachers to rural primary schools with teacher housing facilities.	i. Maintain the program. MOE to evaluate impact on enrollments in rural areas.  ii. Implement and monitor multigrade teaching program in remote rural areas.  iii. Maintain policy of preferential assignment of female teachers.

KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

I. REALLOCATION

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program Actions Taken	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
d. Improve student flows in primary and secondary schooling according to Annex A, Attachment 2 schedule, through measures listed in item II, below.	See item II	See item II	See item II
<b>B. Restrain Growth of Upper Secondary, Higher Education</b>			
1. Restrain growth of upper secondary school intakes as per schedule presented in Annex A, Attachment 2.			
a. Reduce grade 9 promotion rate according to schedule presented in Annex A, Attachment 2.	MOE reduced grade 9 promotion rate from 56.3% in June 1984 to 52.0% in June 1985 so as not to exceed 89,500 new enrollments in grade 10 in 1985/86 school year.	*MOE to reduce grade 9 promotion rate from 52.0% in June 1985 to 45% in June 1986 so as not to exceed 90,100 new enrollments in grade 10 in 1986/87 school year.	Establish grade 9 promotion rates for subsequent years to maintain grade 10 intake growth as per schedule presented in Annex A, Attachment 2.
b. Establish new diploma for satisfactory completion of basic education (grade 9) for those students not progressing to upper secondary level.		MOE to introduce the new diploma in June 1986.	MOE to maintain award of new terminal diploma.
c. Develop program of career guidance in lower secondary schooling.		*Initiate study to develop new program.	Complete plan for program; Implement program.

KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

I. REALLOCATION

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
2. Restrain growth of higher education intakes and enrollments as per schedule presented in Annex A, Attachment 2.			
a. Institute control of admission to university faculties	MOE limited growth of new intakes in university faculties in 1985/86 school year below 2% ceiling.	*MOE to limit overall growth of new intakes in university faculties so as not to exceed 2% growth ceiling for 1986/87 school year.	MOE to maintain 2% limit on annual growth of new intakes to university faculties.
b. Cancel second-phase investment program for <u>structures de formation post-secondaire</u>	Government has cancelled corresponding budget credits, equivalent to US\$100 million.	No new credits to be made available for university investments.	Evaluate needs in higher education.
c. Develop an end-of-secondary certification to be distinct from passing baccalaureat exam.		MOE to implement in June 1986.	MOE to maintain award of new certification.
d. Diversify university courses		*Initiate study to prepare credit hour system and program of short courses.	Complement study and implement program.
e. Restrain growth of recurrent expenditures on higher education through measures proposed under category IIIA, below.	See item IIIA.	See item IIIA.	See item IIIA.

KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

II. EDUCATION EFFICIENCY

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
<b>A. Progressively Reduce Repetition and Dropout Rates in Primary and Secondary Schooling</b>			
1. Expand intakes to lower secondary schooling.	Section IA1b.	See Item IA1b.	See Item IA1b.
2. Limit total number of class repetitions to 2 years in primary cycle (grades 1-5), 2 years in secondary cycle (grades 6-12).	MOE is applying these new class repetition restrictions.	MOE to maintain new restrictions on class repetition.	MOE to maintain restrictions on class repetition.
3. Develop remedial instruction for students with learning problems.		*Initiate study to develop program of remedial instruction.	Finalize and implement program of remedial instruction in teacher training and in basic schooling.
4. Improve supply of basic educational materials in primary and secondary schooling	Government has increased per-student budget appropriations for basic educational materials to 10 dirhams at primary level and 45 dirhams at the upper secondary level, and has developed a satisfactory list of basic educational materials to be provided to all primary schools.	*Distribute improved supply of basic teaching materials to all primary schools in accordance with guidelines satisfactory to the Bank.	Maintain improved supply of basic teaching materials to all primary and secondary schools.

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KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

II. EDUCATION EFFICIENCY

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
<b>B. Strengthen Student Performance Incentives in Higher Education</b>			
1. Reduce fellowships by 50% for first-time repeat students pursuing university studies in Morocco in a city other than their place of residence; suspend fellowship for subsequent class repetitions. Reduce fellowships by 50% for all students pursuing university studies in Morocco in their city of residence; suspend fellowships for any repeated classes.	Implemented.	*Maintain policy.	Maintain policy.
2. Suspend foreign fellowships for all students repeating more than one year of studies.	MOE has issued directive on implementation.	*MOE to implement policy.	Maintain policy.
3. Develop and implement credit hour system.	MOE has initiated study to develop credit-hour program.	MOE to complete study to develop credit-hour program.	Implement credit-hour program.

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KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

III. COST REDUCTION/COST RECOVERY

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
<b>A. Restrain Growth of Recurrent Expenditures on Higher Education</b>			
1. Impose registration fees in all institutions of higher education.	MOE has prepared legal statute for introduction of registration fees.		MOE to implement fee policy and monitor cost recovery performance. MOE to progressively raise fees to improve cost recovery.
2. Raise teaching hours.	MOE issued instruction to deans of faculties to raise average required teaching hours by 20%. Measure implemented in 1985/86 academic year.	*Maintain policy.	Maintain policy.
3. Restore <u>ancienne formule</u> for teacher training of upper secondary teachers ( <u>licence</u> plus one year pedagogical training) and lower secondary teachers (two years university plus one-year pedagogical training).	MOE has issued circular on policy to directors of teacher training institutions. Government has cancelled budgetary credits for new teacher training institutions.	MOE to institute <u>ancienne formule</u> for teacher training as per MOE proposal. Review draft program of inservice teacher training; reallocate surplus teacher training staff and facilities for inservice training for existing teaching staff.	MOE to progressively restore <u>ancienne formule</u> for secondary teacher training, reallocate facilities and staff to in-service teacher training.
4. Replace teacher training <u>pre salaires</u> with stipends for all levels of teacher training equivalent to university fellowship for graduate studies.	Government has implemented policy.	Maintain policy.	Maintain policy.
5. Reduce fellowships by 50% for first-time, non-resident repeat students in Morocco and students attending a faculty in their place of residence; suspend fellowship upon first class repetition by resident students and second class repetition by non-resident students.	Policy implemented.	*Maintain policy.	Maintain policy.

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KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR REFORM PROGRAM  
SUMMARY OF MEASURES AND IMPLEMENTATION SCHEDULE

III. COST REDUCTION/COST RECOVERY

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*=Condition of 2nd Tranche Release)	Medium-Term Program
6. Reduce boarding in university facilities; strengthen cost recovery	Government has cancelled US\$45 million budgetary credit for new dormitory construction.	Government to undertake no new boarding facilities.	Progressively reduce boarding, and increase fees to improve cost recovery, reallocating facilities and staff to higher priority uses.
7. Tighten fellowship eligibility criteria for overseas students.	MOE is limiting eligibility for foreign fellowships according to <u>liste limitative</u> of specializations qualifying for foreign study fellowships.	*MOE to maintain policy.	MOE to maintain policy.
8. Impose income criterion for fellowship eligibility upon financial need.	MOE has established matrix of income ceilings to be applied, in determining eligibility for university fellowships.	*MOE to implement income criterion.	MOE to maintain policy.
<b>B. Contain Primary and Secondary School Construction Costs</b>			
1. Reduce unit costs of primary and secondary school construction.	MOE has adopted revised primary school construction norms satisfactory to the Bank.	MOE to implement revised norms in context of new school construction program, and to complete study on further cost reduction measures.	MOE to implement new cost-reduction measures.
2. Reduce school replacement requirements through improved school maintenance.		*Carry out study to develop maintenance program for educational facilities at all levels.	Implement school maintenance program.

KINGDOM OF MOROCCO  
PROPOSED EDUCATION SECTOR ADJUSTMENT PROGRAM  
SUMMARY OF MEASURES AND REFORM SCHEDULE

III. COST REDUCTION/COST RECOVERY

Policy Measures	IMPLEMENTATION SCHEDULE		
	First-Year Program (Actions Taken)	Second-Year Program (*Condition of 2nd Tranche Release)	Medium-Term Program
<u>C. Improve Productivity of Education Personnel</u>			
1. Reduce ratio of administrative to teaching staff at secondary level.	MOE has begun to reduce ratio of administrative/teaching staff in secondary schooling as per indicators in schedule presented in Annex A, Attachment 2.	i) MOE to continue to reduce ratio of secondary administrative to teaching staff as per schedule presented in Annex A, Attachment 2.  ii) *MOE to initiate study to identify additional measures to streamline secondary school administration (See Item IIIA2).	MOE to continue to reduce ratio of administrative to teaching staff. Implement recommended measures to streamline secondary school administration.
2. Raise university teaching hours	(See Item IIIA2)	(See Item IIIA2)	(See Item IIIA2)
3. Raise secondary teacher productivity.	MOE achieved in 1985/86 school year lower ratio of teachers per class as per schedule presented in Annex A, Attachment 2 through increased teaching hours and improved planning of teacher allocation.	MOE to maintain policy in order to achieve performance targets as per schedule presented in Annex A, Attachment 2.	MOE to maintain and monitor measures for improved teacher productivity.
<u>D. Strengthen private sector participation in education.</u>	MOE has prepared draft legislation on private investment incentives.	*MOE to undertake study to develop improved MOE support of private schooling.	MOE to implement policy of strengthened MOE support for private schooling.

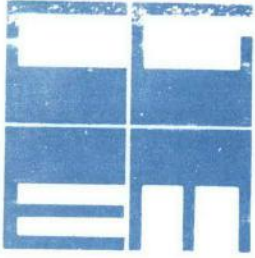
# MOROCCO

- Main roads
- Secondary roads
- Tracks
- Railways
- Airports
- Ports
- Rivers
- Salt lakes
- Major irrigation perimeters
- 400 millimeter rainfall line
- Elevations above 1,000 meters
- International boundaries
- International boundaries (approximate)
- Indicates the territory of the former Spanish Sahara (Western Sahara)



This map has been prepared by The World Bank's staff exclusively for the convenience of the readers and is exclusively for the internal use of The World Bank and the International Finance Corporation. The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank and the International Finance Corporation, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.





الاتحاد العام للجامعات  
الاقتصادية المغربية  
confédération générale  
économique marocaine

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Casablanca, ..... 19 April 1986, ..... انذار البيضاء في

ADDRESS BY CHAIRMAN GUESSOUS

ON THE OCCASION OF THE VISIT OF MR CLAUSEN, CHAIRMAN OF THE WORLD BANK

23 APRIL 1986.

Mr Chairman,

Firstly, in my name and on behalf of the members of our Bureau and the important people present here, I would like to welcome you and wish you a pleasant stay in Morocco. We are very pleased to receive you today at our Organization of Employers, which the World Bank is familiar with, since your visit constitutes the 6th meeting between the World Bank and the "C.G.E.M." since September 1982.

Allow me, Mr Chairman, to present to you briefly our Organization.

Created in 1948, the CONFEDERATION GENERALE ECONOMIQUE MAROCAINE (C.G.E.M.) (moroccan economic general confederation) is a non-profit-making Employers Organization open to all business chief executives. At present, it regroups more than 40 professional associations, and a considerable number of firms.

We like to think that we represent some 4 000 companies employing more than 400 000 wage-earners.

.../...

Our structure consists of the following 4 federations which are in charge of their respective sectors of activities :

- the Industry Federation
- the Trade and Services Federation
- the Mining Federation
- the Public Works and Building-Trade Federation

The C.G.E.M. also has 4 standing committees which deal with the problems encountered by our firms, by our economy and by our trade:

- the first is devoted to economic, financial and business matters,
- the second is in charge of tax issues,
- the third deals with social aspects, such as the wages situation, vocational training, working conditions, etc ...
- finally, the external relations Committee, which deals with external relations and information matters.

The Confederation also has a Centre for Studies and Economic and Social Information which publishes a weekly report, apparently highly valued by the economic operators.

.../...

In this connection, and in order to develop our means of information, we anticipate to start forthwith an economic newspaper.

Moreover, the Confederation contributes to the development of external relations, by assisting foreign businessmen and organizations to open up business connections with moroccan businessmen and by providing them with all necessary informations. In fact, we are in the process of setting up within our Organization a Reception Centre for Investors.

The C.G.E.M. is furthermore a privileged partner of the Government authorities which consult our Organization on all economic, financial and social questions. This permanent consulting and this dialogue enable us to constantly convey to the authorities the concerns and desiderata of business executives ; our opinions have always been guided by the objective of promoting the private sector so as to make it play a role in development. The C.G.E.M. is aware of the mission it must assume, that mission is to make the private sector strong, imaginative, wealth making and responsible.

.../...

Prompted by a liberal philosophy, our constant motive is to insure that the private enterprise continues to play its economic and social roles in a rational manner.

This is why our action is less prompted by the only material aspects as in an association than by the care to enhance and to promote the private enterprise so as to enrich and to develop on a large scale the long experience it has acquired.

This ideal therefore imposes upon us to be totally independent towards the Government Authorities.

Mr Chairman,

Gentlemen,

As you know, Morocco has initiated since August 1983 a programme called "Stabilization Programme" based on I.M.F. and World Bank recommendations.

The extent of deficits shown by our external finance and public finance which lead to the rescheduling of external debt, has made it necessary to initiate this severity programme which aims at :

- reducing public expenditure and generally speaking domestic demand in order to limit the budget and commercial balance deficits to compatible levels;



- setting up a prices truth;
- liberalizing foreign trade;
- curbing the State's involvement in the economic activities;
- bringing about a number of reforms in the fields of taxes, customs regulations, finance mediation, insurance and administrative procedures.

This programme has already shown the first positive results, particularly as concerns certain basic balances. As already underlined to you yesterday, during your conversations with government members, by the end of the year 1985, the global treasury deficit was brought down to 6 % only of the DGP compared with 12 % in the previous year, and the deficit of the external current account was down to 7.6 % compared with 8.4 % in 1984 and 13 % in 1982. These results , however, have not been achieved without sacrifices to the disadvantage of growth, in spite of the fact that 1985 showed a 4 % growth rate and that the following year would be promising.

In fact, it is as concerns the constraints of this stabilization programme on the growth of national economy that the C.G.E.M. has always expressed some reservations. We are indeed convinced that without an extreme vigilance with respect to social indicators, the stabilization programme underway might bring about social tensions of deep consequences if certain aspects are not made flexible.

The C.G.E.M. is for privatization and deregulation. The private sector is striving to hold on and to see to it that it can relay the State in the best conditions; however, the blunt withdrawal of the State -- which was expressed in a drop in public investments during three consecutive years -- lead to a drop in the activity which many firms couldn't easily bear, and therefore a drop in job creation, not to mention the fact that job creations anticipated under the 1981/85 plan which were to hold down the 1980 unemployment rate -- estimated at 12 % of the active population -- are far from being achieved.

The C.G.E.M. is also in favour of free competition both as concerns foreign trade and home market . However :

- as to foreign trade, the blunt liberalization of importation can lead to two evil effects :

. the first being the risk of worsening the trade deficit, as whilst our imports will ineluctably increase, we are not sure of the opening of foreign markets to our products; protectionism is a reality and so are dumping practices;

.../...

. the second being that the development of our industry might suffer from the shrinking of its market, already small by nature; our industrial structure is indeed at an early stage of development, and is basically made up of small and medium-size firms that manufacture at a small scale and for a small market. Therefore, equal opportunity for competition is not available.

For these reasons, liberalization of importation should be in our opinion progressive, selective and supported by appropriate protection mechanisms, so as to give our industry the means to continue its growth and by the same token to develop job creation and boost home demand.

- as to home market, free competition must take into account the limited scope of this home demand which is in line with the purchasing power. This is why the prices truth must be looked at with caution for social as well as economic reasons. If the prices truth is a necessary objective, it must be supported by a number of measures aiming at backing national production and developing the home demand. In this connection, one of the mechanisms to be reviewed would be the tax system at large. The weight of indirect taxes on consumption and income tax curb the demand considerably, whilst the corporate tax also reduces the firms capability to self-financing.

.../...

Finally, we feel that at the present stage of our growth, and in the light of the international context development, the stabilization programme underway requires some alleviations and some support measures.

. alleviations as to the policy of liberalization of importation, as to the policy of true prices, and as to the austerity imposed upon the State budget.

. support measures are required to meet the restructuring effort of our economy. In this connection, it seems to us necessary to set up a restructuring and assistance fund that would provide assistance to firms.

The intervention of the World Bank and the international banks, which we take this opportunity to thank for their support and assistance to Morocco, is highly desirable.

Relations between international financial institutions, particularly the World Bank, and the countries in debt, should in our opinion be conceived from a new angle. To continue with austerity would not enable these countries to secure the necessary resources to repay their debts. We feel that

.../...

a minimal growth is absolutely necessary . As concerns Morocco, it has considerable potentials ; an extra effort by the World Bank aiming at making use of these potentials and reactivating our growth , will certainly enable us to solve our financial difficulties.

Certainly, we will have to develop at the same time our export sales. That is why we have always called for a self-willed export promotion policy to be set up, based upon a homogeneous and standard tax exemption for all exporting firms, and also backed by improved means of funding for exports, and by the energy policy, by export insurance and by an exchange risk coverage.

Of course, the administrative red tape will need to be cleared out where necessary. The reforms underway in terms of structure, will certainly be beneficent if they converge to the sought objectives, that is to say: efficiency, alleviation, rationalization of administrative procedures, and limitation of the Administration's omnipotent power.

.../...

The vocation for privatization of certain activities, and the deregulation prospects of certain circuits, can only please the private sector which remains prepared to play a major role in economic growth, as it did and it succeeded in the past .

Thank you for your attention.

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Biographic Note:

Josef SCHUTZENBERGER, UNDP Resident Representative, Morocco

Mr. Schutzenberger is an Austrian who has been with the UN for 28 years.

Prior to being named to Rabat, he was UNDP Resident Representative in  
Lebanon, 1983-85

Argentina

Guyana and Caribbean

Costa Rica

He has been on duty in Morocco for about 4 months.

The UNDP is preparing its next five year program for Morocco to begin in 1987. We are cooperating closely with Mr. Schutzenberger and his staff to assure maximum coordination between the UNDP program and our own. UNDP has offered to provide TA and studies to support our program, and we will identify where this can best be done. There is currently one joint program underway in Morocco, the PNAP. This is a program to train officials in government ministries and eventually public enterprises in project evaluation. EDI has provided initial training for Moroccan trainers, and then the government, with UNDP assistance, has set up a program for expanded training programs for other officials in Morocco. USAID has subsequently agreed to provide equipment and some consultant support. The program ran into several problems getting started, but now seems to be on track.



MEMORANDUM

Date: April 21, 1986  
To: Mr. A. W. Clausen, President  
From: John D. Shilling ~~4~~ Division Chief, EMIIB  
Subject: MOROCCO: Press Interviews

The Bank and the Government of Morocco have jointly sponsored a one-week Press Visit to Morocco that will be ending today. About ten journalists have participated, including reporters from the Financial Times, Le Monde, The New York Times, Reuters, Al Mostarkel, and two Moroccan publications, L'Opinion and MAP. I joined the tour for several days. It has been successful, and the journalists are planning to write articles on the World Bank and Morocco as a result of their visit.

At least two journalists are planning to stay through this week for further interviews with senior government officials in order to write more comprehensive articles. In view of the coincidence of your visit, they have also requested an interview with you to complete their stories. The two are Mr. Francis Ghillis of the Financial Times and Mr. Assaad Haidar of Al Mostarkel.

Mr. Ghillis has covered North Africa for several years and is quite knowledgeable about the countries and the Bank. He is well connected and will be meeting many of the same ministers that you are meeting. He may also see the King. He is planning a large article on the World Bank in Morocco and will be focussing on the Bank's programs in Agriculture, Education, and trade policy reform. He would like to use the interview to complete his article with the Bank's views on progress in these reforms.

Mr. Haidar's journal is the leading Arabic language Lebanese weekly based in Paris. The journal has both a political as well as economic interest and is concerned about the impact of various reform programs on the well-being of the people. He is particularly interested in the education reform. He is also interested in the role the Bank would eventually play in Lebanon's reconstruction. I explained that the Bank would be ready to provide reconstruction financing as soon as the political and security situation permitted, and he fully understood the position.

I would recommend granting these interviews if time can be arranged in your schedule. These are serious reporters who have a good understanding of the Bank's role in Morocco and who can help improve the image of the Bank and Morocco. In addition the Moroccan reporters who participated in the Press Tour should also be invited to participate in the interview. Given the overlap of the Press Tour and your visit, it would support our country relations.

cc: Mr. Wapenhans



MEMORANDUM

Date: April 21, 1986

To: Mr. A. W. Clausen, President

From: John D. Shilling ~~Division~~ Chief, EMIIB

Subject: MOROCCO: Recent Developments since Briefing Book

Mr. Stoutjesdijk and I met with the Vice Prime Minister and the Ministers of Economic Affairs and Plan to discuss the Bank's program and the possibilities for attracting additional financing in view of Bank's efforts to help highly indebted countries following Baker's statements in Seoul. We gave them each a copy of a summary of the paper on Morocco prepared by the Bank. (The whole paper is annexed to your briefing.) We confirmed that the Bank would be willing to help mobilize additional external financing from commercial banks and encourage more rescheduling from the Paris Club if there were a strong commitment by the government to the overall program described in the document. Most of that program is a restatement of policies and measures already adopted by the government, though continued action is required to complete the programs already begun. We emphasized, moreover, that strengthened measures in the area of fiscal policy were required to raise government savings to a satisfactory level (about 4% of GDP by 1990 to finance government investment) in order to reduce the external deficit and still leave sufficient private savings to finance private investment. Raising taxes and controlling current expenditures have been the weakest part of the adjustment so far, and that must be rectified. We also noted that continued exchange rate adjustments were essential to supporting the adjustment and export promotion policies. The most recent posting of Dirham exchange rates showed a revaluation against both the dollar and to a lesser extent against the French Franc, which is a potentially worrisome indicator.

We expect a more formal response to our paper during your visit, although the government will not have had time to review it fully in detail. It is important to get some agreement in principle as a measure of the government's commitment to continuing the reform program and in order to continue to encourage the commercial banks and official donors to maintain or increase their exposure in Morocco. The details of the action plan can be discussed later at a staff level after the government has signaled its agreement with the overall medium term objectives, framework, and program. These details will figure in the IMF program for 1986 (see below) and the Bank program for Public Enterprises and other adjustment operations being discussed.

It is important to emphasize that while Morocco is enjoying a number of favorable external developments this year (excellent rains, declining oil price, lower interest rates, lower dollar), these by no means solve the fundamental problem. They only give the country a little more breathing room to implement the necessary reforms without resorting to draconian measures. If it had not been for the favorable factors, 1986 would have been an unmanageable year for Morocco. There is a feeling in the country, fortunately not shared by our primary counterparts, that things are now going well for Morocco and austerity measures can be set aside. The reality is that continued restraint

and reform measures will be necessary until the end of the decade. Any easing up now will only add to the adjustment problems later and further damage Morocco's already tarnished credibility. It is worth noting that part of the gain from lower oil prices will be offset by a lower than expected grant from Saudi Arabia (perhaps \$150 Million rather than \$300 Million, and this is still to be confirmed) and lower phosphate prices for the rest of the decade. Last year we had expected phosphate prices to rise to around \$50-55 a ton by 1990, now forecasts are in the \$40-42 per ton range. There is no room for complacency at this time.

Mr. Francois of the IMF is in Morocco till Thursday morning to participate in a Seminar organized by Moroccan economists about the role of international institutions in developing countries in the current crisis. The Bank also received a invitation (addressed to you), and I will make a brief presentation Monday morning. Mr. Francois will also try to discuss the IMF program for 1986 with the new Minister of Finance. The current IMF position is that the purchases allowed this year will be less than originally planned because of the government's failure to meet targets so far and delays in agreeing on a program. Thus the IMF would put in about \$80 million rather than the \$140 initially planned under the standby signed in September 1985. However they would allow the standby to run beyond February 1987, so Morocco could draw the agreed \$200 million, but over a longer period of time. Alternatively, if the government requests, they could end the current standby and negotiate a whole new agreement. That would take more time and might open new issues. The key issues to be resolved under the current standby are the size of the budget deficit and related issues on the composition of expenditures, respecting the credit limits on the economy, and continued adjustment of the exchange rate.

Agreement with the IMF will be critical for reaching agreement with the commercial banks for the 1985-86 rescheduling and for new money. The banks might be convinced to put in an additional \$100-150 million if they were sure Morocco had a serious adjustment program in place. We consider this additional capital vital to maintaining growth and the reform programs in Morocco. We have worked closely with the IMF in our short and medium term analysis of the situation in Morocco. We are largely in agreement on the necessary measures for 1986. There remain some minor differences on the allocation of the Investment budget and the treatment of arrears reduction, but as far as the government is concerned, they should understand that the Bank and the IMF stand together on the key measures to be put in place for 1986. I have emphasized to the IMF that even if they only have annual programs, they should be presented as part of a medium term adjustment strategy so the government can see that delays in implementing specific measures in one year only make the adjustments more difficult in the future. We should emphasize this theme as well.

Just before I left Washington, the government report on progress under ITPA II was received, along with a request to field a supervision mission to review conditions for tranche release. My staff reviewed the report and noted where conditions remain to be met. I have had preliminary discussions with the government, but the key issues must be discussed with the Minister of Finance, who has only just returned. The most important issue concerns the delay in reducing the Special Import Tax from 7.5% to 5%. The government requested a delay because they couldn't afford the loss in revenue it would entail, and the Fund supported this request. The Bank provisionally agreed, subject to a proposal of alternate measures to help achieve the objectives of the program and a definitive date for lowering the Special Import Tax. The Moroccan proposals are being reviewed and will need to be strengthened on this point. It is not important to go into the details, but it needs to be emphasized that the

Bank expects the government to live up to its commitments in substance, and more effort is needed before we can complete the review of ITPA II.

Mr. Stoutjesdijk and I discussed the proposed meeting in Paris in June. The Moroccan authorities confirmed that they would not have a Plan before the end of the year. There is physically not enough time to go through the process. In view of the fact that they realize they do not have the resources to start any significant new projects, it would be politically difficult to try to do a Plan. Thus they cannot accept a formal Consultative Group. We urged that they still have the meeting at a less formal level to discuss their strategy and resource needs with the bilateral donors. This is important to maintain their relations and to encourage donors to review their programs with an eye to increasing them. We would not seek commitments then, but would schedule a full Consultative Group meeting in November or January where we would expect firmer commitments. We would also use the occasion of this meeting to try to involve the Paris Club representative and, in a separate meeting, the commercial banks. The Vice Prime Minister and the Ministers of Economic Affairs and Plan were agreeable, but we need final agreement from the Minister of Finance, which we should seek during your meeting.

As you know, the Minister of Finance is completely new to government. As far as we know, his general liberal orientation and economics background is favorable to our program. He is reputed to be quite open, intelligent, and capable of managing. However, he has no experience with the ministry itself or with the complex issues he must deal with on a daily basis, including the background and details of the ongoing discussions and negotiations with the Bank and Fund. This is temporarily a drawback as it will take some time for him to become sufficiently informed on the issues and the political balances within the government to be able to make the necessary commitments and assure implementation of the measures agreed. While it is important for the Bank to be understanding on this issue and be willing to accept some delays in reaching agreement or in implementing parts of our program, it should be made clear that the Bank won't soften its position and that the Minister has to take responsibility for completing ongoing discussions and for implementing programs as expeditiously as possible.

cc: Mr. Wapenhans

Wednesday, April 24, 1986

Helicopter Tour

1. Morocco has some twenty ports along its Atlantic and Mediterranean coasts. However, three major ports in Morocco handle over 90% of the total import/export traffic: Casablanca and Mohammedia located within 20 km of each other and administered as one unit, and Safi, 240 km to the southwest. The other ports, scattered along the coastline, handle the remaining 10% of the international traffic. In addition, there are numerous small fishing and coastal traffic ports.

The Office d'Exploitation des Ports (ODEP) operates in the following nine major ports: Casablanca and Mohammedia, Agadir, Safi, Kenitra, Tangiers, Nador, Jorf Lasfar and in the Saharan port of Tan-Tan. Though financially autonomous, ODEP is a public enterprise under the tutelage of and subject to the financial control of the Government.

## THE DOUKKALA IRRIGATION PROJECT

### Sectoral Background

The total irrigated area in Morocco has more than doubled over the last twenty years and presently covers some 900,000 ha. This represents less than 70% of the country's potential for irrigation. The Large Scale Irrigation (LSI) schemes cover 400,000 ha or 45% of the total area and are concentrated in nine large schemes each controlled by one Regional Agricultural Development Authority (ORMVA). Water is provided in these schemes from twelve major storage reservoirs or from tubewells. At present surface irrigation covers 80% of the LSI area and sprinkler irrigation 20%.

The Regional Agricultural Development Authorities (ORMVAs) are state-owned enterprises with separate legal identity and financial autonomy responsible for the development of irrigation, operational and maintenance of irrigation schemes and promotion of crop and livestock production.

The government introduced substantial changes in its irrigation development under the 1981-85 Plan. The previous expansionist and interventionist policy has gradually shifted towards: (a) ensuring optimal use of water through rehabilitation of existing schemes and more efficient operation and maintenance; (b) allocating a larger share of investments for the development of small- and medium-scale schemes because of their lower development cost per hectare and their more rapid build-up of benefits; (c) favoring investments in those LSI areas which are served by existing dams; (d) increasing farmers' contribution to water management; and (e) establishing more effective extension services to promote more appropriate cropping patterns, agricultural farming practices and water saving technologies.

### World Bank Assistance

The first Doukkala Irrigation Project (\$30 million approved in February 1976) forms part of overall development efforts towards effectively using water drawn from the Oum-er-Rbia river. This project together with the second Doukkala Project (\$41 million approved in 1977) is the last investment package intended to fully utilize all water resources diverted into an existing "low-service" canal from the Im-Fout reservoir. The two projects combined were designed to irrigate 32,000 hectares. The Doukkala I Project provided: (a) the installation of a sprinkler irrigation system for 15,400 hectares; (b) the construction of farm feeder roads and the improvement of major classified roads; (c) the construction of infrastructure for agricultural support services and village centers; (d) the construction of electric power lines and telephonic communication facilities; and (e) assistance to a land consolidation program.

The principal objective was a substantial increase in crop production; to double wheat production, achieve a seven times increase in maize output, to introduce and grow substantial quantities of sugar beet, cotton, vegetables and fodder crops. The wheat and beet production, in particular were to substitute for imported cereals and sugar.

The project is part of the Doukkala Perimeter which lies just South-West of the Oum-er-Rbia river basin. The Oum-er-Rbia is the second largest river in Morocco and has long served as the source of the development of modern irrigation in the regions of Doukkala near El Jadida, and Tadla near Beni Mellal. Six multipurpose dams have been constructed on this river and its tributaries. Among them, the Im-Fout dam, constructed in 1944, and the El Massira dam, completed in 1980, provide for irrigation of the Doukkala Perimeter. The project was successfully completed and actual production and cropping intensity exceeded appraisal targets.

The Doukkala II project consists of a second extension of irrigation in the lower part of the Doukkala perimeter located in the Province of El Jadida. It completes the development of these perimeters and also the first phase of the Water Master Plan by fully utilizing waters from existing diversion structures. The primary executing agency is the Regional Agricultural Development Office for the Doukkala (ORMVAD), which is responsible for the agricultural development of 389,000 ha of land in the Province of El Jadida. ORMVAD is well managed and adequately staffed.

The project area is located 70 km south of El Jadida and extends about 4 km along the main road (RP 8) to Safi. The climate is semi-arid, characterized by hot, dry summers and relatively short, cool winters. The rainfall shows great variation from year to year and averages 360 mm, limits dry farming to wheat, maize and legumes and results in very low yields. Before the project, farms were small and highly fragmented and farmers lived in small traditional villages ("Douars") scattered over the countryside. The project area was densely populated (95 inhabitants per km<sup>2</sup>) and most of the population underemployed. Soils are suitable for a large variety of irrigated crops; however, they are too shallow to permit the land levelling necessary for gravity irrigation. Sprinkler irrigation was thus retained for this area. Wind velocity is sufficiently low (often less than 4 m/s) to permit this type of irrigation. The Doukkala II, to be completed in 1986, is expected to achieve similar performance to the first project.

Performance under these irrigation projects has been good once initial problems of land distribution and organizational delays in construction and procurement of irrigation equipment were overcome. Inadequate cost recovery was a major issue in the seventies, but improvements in cost recovery legislation and sizeable increases in irrigation water and pumping charges since 1980 are contributing to a satisfactory resolution.

March 5, 1986

## MOROCCO: A FRAMEWORK FOR MEDIUM TERM ADJUSTMENT

### I. INITIAL CONDITIONS

#### Economic Structure

1. Morocco is a lower middle income country with a per capita income of \$670 in 1984. The economy remains dependent on primary production for subsistence and exports. Phosphates and derivatives account for over half of exports, and agricultural products one fourth. 57% of the population is in the rural sector, and 44 % of the work force is in agriculture, which generates 17% of value added. The country is highly indebted; as of end 1984, total external debt (including short term, recorded military, and IMF) was 97% of GDP; and it is now greater than GDP.<sup>1/</sup> Total debt is about four times the value of exports of goods and services. Population growth is now about 2.5% per annum. Substantial total growth is required just to maintain per capita consumption, and added public expenditures are required to provide infrastructure, education, and other services for the expanding population. As a result of rapid population growth and low female participation rates, the labor force constitutes a relatively low share of the total population, 26%.
2. On independence in 1956, Morocco was relatively well endowed with physical infrastructure, but weak in human capital and entrepreneurial experience. The Protectorate had developed a colonial economic structure that remained dominated by the close association with France. The new Government set out to develop a more balanced and industrialized economy. The key elements of the economic development strategy were the Moroccanization of the ownership of economic wealth, the development of a significant industrial base, and the creation of Moroccan professional and managerial classes. The interventionist role played by the state followed the colonial heritage and the reassertion of the monarchy after independence.
3. Economic development strategy was primarily based on an import substitution industrialization in a protected domestic market. There were few incentives to increase productivity or compete internationally, and little efficient upstream import substitution occurred. The economy remained dependent on complementary intermediate imports. The inward oriented strategy was made possible by substantial foreign exchange earnings from the export of phosphates and agricultural crops. However, dependence on a few primary exports left the economy vulnerable to external price and demand fluctuations, and to European agricultural policy for agricultural exports.

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<sup>1/</sup> For comparison, in Argentina, debt is about 67% of GDP.

4. The Government sector grew rapidly after independence and was expected to provide an increasing array of services and employment opportunities. Current expenditures of the Government rose from 14% of GDP in 1970 to over 22% in 1982-84. Government capital expenditures rose from 6% of GDP to about 20% of GDP in 1979, then declined as resources available to the Government became more scarce. Public enterprises were created to achieve a variety of objectives, but few effective systems of controls were instituted to assure their efficiency. Public Enterprises now number about 600 in a variety of functional forms and account for about 20% of domestic value added. GDP growth was slow during the 1960s and early 1970s, about 4% p.a. Economic management was conservative and external borrowing was limited.

#### Recent Economic Performance

5. The oil price increase of 1973 was accompanied by a sharp increase in the price of phosphates, and Morocco enjoyed substantial terms of trade gains. A decision was made to accelerate growth, and the Government embarked on an ambitious investment program, financed initially by phosphate revenues. Growth increased to 7.6% p.a. in 1974-79, led by Government investment. The phosphate boom ended in 1975-76, and terms of trade gains disappeared. But the investment program was continued and financed by increasing foreign borrowing and by grants. In 1975, Morocco also asserted its claim to the then Spanish Sahara, which has since saddled the economy with heavy expenditures for defending that territory and for equipping it with economic infrastructure to reinforce Morocco's claim.

6. The Government undertook intermittent programs of stabilization in 1978 and 1980, but without lasting success, as it was not able to sustain efforts to control expenditures for more than a year. The economy was highly vulnerable to the second round of oil price increases in 1979-80 and suffered further losses in terms of trade. Nevertheless, another ambitious round of public investments was begun in 1981, with once again extensive reliance on foreign borrowing and grants. The relatively easy and unconditional availability of foreign borrowing on what appeared to be attractive terms (given the high rate of inflation) encouraged Morocco to pursue expansionary policies and avoid making the necessary adjustments to the changing external environment.<sup>2/</sup> The ensuing economic deterioration was compounded by severe drought conditions during 1980-84. Economic efficiency declined as indicated by the increase in the ICOR from 3.2 in 1975 to 9.3 in 1983.

7. By 1982, the Government deficit had grown to 12.3% of GDP, and the current account deficit had reached 13.3% of GDP. Medium and long term foreign debt had grown from \$1.8 billion in 1975 (19.6% of GDP) to \$9.4 billion in 1983 (71.0% of GDP), and the structure had changed. About 40% of Morocco's debt was due to commercial banks compared to nil a decade earlier, and over 60% was at non-concessional rates. The economic situation became untenable, and the government requested and received debt rescheduling from official and commercial creditors in mid-1983 and assistance from the IMF and World Bank. A new Government was appointed to deal with the economic crisis,

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2/ Discussion on a SAL with the Bank broke down at this time.



and efforts were made to constrain the public investment program and curb growing consumption subsidies. Extraordinary foreign assistance was obtained in late 1983 from official donors to meet short term needs. Average terms had hardened to 11 years maturity and 10% interest in 1982, and debt service became a larger real burden as inflation fell. The debt service to exports of goods and services ratio (DSR) would have been 58% in 1985 without rescheduling and the interest service to exports ratio 19%; these fell to 31% and 23% after rescheduling. Interest payments alone (after rescheduling) represent 6% of GDP.

#### Stabilization Efforts

8. The objectives of the stabilization program agreed with the IMF in 1983 were to eliminate the Government's current budget deficit in 1985 and the external current account deficit by 1988, thereby improving the economy's creditworthiness. This program was supported by a \$200 million IMF Stand-by for the period June 1983 - June 1985, and was the basis for reschedulings of \$1,200 million by the Paris club for 1983-84 and of \$530 million by the London club in the same period.

9. Key elements in the stabilization program were the institution of a fiscal reform to introduce a value added tax and improved revenue collection of existing taxes, limits on the growth of the civil service and public sector salaries, a halving of the Government investment program, reduction of consumer subsidies (prices on subsidized goods were raised 20-40%), increases in public enterprise tariffs of 10-25%, limits on credit to the economy, annual limits on external borrowing, and devaluation of the dirham. The stabilization program sought to reduce the Government deficit to 6.1% of GDP in 1985, and the current account deficit to 7.1% of GDP.

10. However, despite the successful implementation of a number of difficult policy measures, the outcome in several key areas falls considerably below the expectations of the program as initially agreed. The Government has not been able to raise public savings as much as needed to achieve the programs objectives, and the accumulation of current payments arrears to public utilities and other suppliers indicates that actual government consumption has adjusted even more slowly than cash expenditures. Public saving has deteriorated from virtually nil in 1983 to about -0.7% of GDP in 1985 rather than improving.

11. Performance on reducing the current account deficit of the balance of payments was also less than planned, partly due to unfavorable movements in phosphate prices, and more importantly due to insufficient control of domestic expenditures and the investment programs of public enterprises. On the other hand, encouraging achievements were realized in promoting exports in consequence of the devaluation, trade liberalization, and tariff reduction program. Imports in real terms have declined by 3.2% p.a. since 1982, while exports have grown by 4.7% p.a. in real terms. GDP has grown at less than 3% p.a., implying stagnation in per capita income.

### Adjustment Efforts

12. In 1984, the Government began a program of sector policy adjustments in conjunction with its stabilization efforts. The objective of the adjustment program has been to increase the economy's productivity and efficiency and to increase its export potential. This emphasis was missing in earlier stabilization programs in Morocco and contributed to their lack of success. 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 some improvement in 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. In Morocco's case, recovery and return to creditworthiness is not possible without basic structural change to transform the economy into an efficient producer of goods and services for both domestic use and export. The country has the potential to effect this transformation, but it will require time, external support, and persistent courageous actions by the government.

13. The adjustment program initially concentrated on industrial and trade policy reforms to improve economic efficiency and export growth. The Bank granted industry and trade policy sector adjustment loans in 1984 and 1985, and an agricultural sector loan in 1985 to support reforms jointly prepared by the Government and the Bank. Performance on much of the adjustment program has been satisfactory, and substantial progress was made in trade liberalization and export promotion (tariffs were reduced to a maximum of 60%, licensing controls were removed from nearly all exports and from a quarter of imports so that about 70% of imports are not subject to QR's, and temporary admission of imports was expanded); agricultural reform (subsidies were reduced 30%, water charges increased, procurement prices increased); and financial sector reform (interest rates were raised 2 percentage points, public bond issues begun, and the opportunity for competition among financial institutions increased). Public enterprise and education sector reforms are being initiated with active support from the Bank. These policy reforms are closely coordinated with the stabilization program and the exchange rate reductions (the dirham devalued 18% in real terms between 1983 and 1985). Initial results in trade have been positive, and non phosphate manufactured exports growth has accelerated from 7.8% p.a. in 1977-80 to 13.5% p.a. in 1984-85.

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### Growth Prospects

14. Following the initial actions in response to the crisis in 1983-84, a Consultative Group meeting was held in January, 1985, and a recovery strategy and medium-term projection was presented by the Government. It aimed at current account balance in 1989 and received the support of the Bank, the Fund, and the donor community. This projection has been updated to take into account developments in 1985. It now indicates a 2.7% p.a. rate of GDP growth, essentially stagnation per capita, for the rest of the decade. It assumes rescheduling of 90-95% of Paris and London Club debts through 1987,

continued availability of bilateral programs at their current levels, continued substantial grants (\$300 million per year through 1986), expansion of multilateral development institution lending, and a decline in net IMF exposure. This base case also assumes the policy program presented to the Consultative Group and current assumptions on external factors.<sup>3/</sup> Total export growth can reach 5.6% p.a. for the rest of the decade on the basis of current and proposed exchange rate policies, external market conditions and the export promotion measures. Import growth will have to be held to about 1.2% p.a. to meet fuel, capital and intermediate goods requirements<sup>4/</sup>. The public investment program is restrained and Government savings rise to 3-4% of GDP. Public investment remains at about 5% of GDP and total investment falls from 17% of GDP in 1985 to 15% in 1990, and rises thereafter. Consumption also falls from 87% to 84% of GDP between 1985 and 1990 as domestic absorption must be reduced to eliminate the current account deficit.

15. The Government's policy program to achieve these objectives includes further action on trade and industrial liberalization and promotion, active exchange rate policy, agricultural policy reform, public enterprise reform, education sector reform, financial sector reforms, and significant improvements in resource mobilization. The program was supported by a new standby from the IMF and continued sector adjustment lending from the Bank. The implied rate of adjustment is rapid. The marginal savings rate would have to be at least 50% over the period, implying slight declines in per capita consumption. Substantial additional capital inflows would still be required in 1988-90 to service the hump of rescheduled debt falling due in that period.

16. Despite successful implementation of a substantial part of the adjustment program in 1985, major shortfalls in mobilization of public resources and foreign assistance and the declines in the terms of trade and phosphate exports have kept the economy below the target adjustment path. No public savings were generated in 1985, and the already constrained public investment budget was further reduced. The current account deficit declined little from the 1984 level of \$1 billion (11% of 1984 GDP) to about \$904 million and registered 7.7% of GDP rather than 7.1% originally targetted for 1985. The government budget deficit on a payment order basis was 8.5% of GDP compared to an original target of 6.2% before debt relief, but counting accumulated arrears, it was 2-3 percentage points higher on a national accounts basis. Foreign reserves were completely exhausted. In light of this performance, it will be increasingly difficult to meet the targets established for 1989 in the Government's presentation. It would now take a marginal savings rate of over 70% in 1986-87 and essentially no real import growth to reach current account equilibrium in 1989, and greater capital inflows than initially foreseen.

3/ Excluding the impact of the recent drop in oil prices, the implications of which for Morocco that are not yet known.

4/ These are about 2 percentage points lower than presented to the Consultative Group as a result of lowered expectations on phosphate exports and the resulting constraint on import capacity, and of 1985 performance. GDP growth was somewhat reduced as a result of these changes.

MOROCCO: LOW GROWTH SCENARIO

National Accounts	(Ave. Gr. Rates at '80 DH Prices)		% Share of GDP		
	1985-1990	1990-1995	1985	1990	1995
GDP	2.7	4.9	100.0%	100.0%	100.0%
Agriculture	2.3	3.0	15.0%	14.7%	13.5%
Industry	2.3	5.7	30.6%	30.1%	31.2%
Services	3.0	4.9	54.4%	55.2%	55.3%
Consumption	2.0	3.8	86.8%	83.6%	79.6%
Investment	1.8	11.2	16.8%	15.2%	20.4%
Exports (Goods & NFS)	5.6	5.3	19.9%	24.9%	25.5%
Imports (Goods & NFS)	1.2	6.4	23.5%	23.7%	25.5%

Balance of Payments	(In Millions of US Dollars)									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1995
Current Account Balance	-735	-513	-364	-276	6	318	474	592	598	252
Debt Service Ratio (%)	30.8	33.4	31.8	44.3	43.4	39.3	38.8	33.9	28.4	20.5



17. The dilemma is that to reach the 1989 current account balance target, the constraints on imports and expenditure (primarily private consumption and public investment as events turn out) cast great doubt on the ability of the economy to meet the GDP and export growth targets. Domestic constraints on credit and imports will make export expansion more difficult. Under current estimates, government resources are insufficient to fund even the core investment program agreed between the Bank and the Government. Insufficient investment activity will retard growth in the short run. If the target growth rates cannot be maintained, it is quite unlikely that the large commercial capital inflows in 1989-91 implicitly assumed in the Consultative Group and concurrent IMF projections would be forthcoming. Some mitigation from this dilemma can be expected from the recent decline in oil prices. On preliminary estimates, Morocco may realize a net benefit of \$100-200 million savings on current account, although there may be some loss in grant assistance from oil exporting states. If all this windfall gain can be captured by the Government in the form of increased public savings and directed to the essential public investment program, much of the shortfall from 1985 can be made up. However, the base case scenario would still be difficult to sustain and the adjustment period too short to be consistent with the growth target of 4-5% p.a. in the medium term, especially in view of the large capital inflows that would be required in 1989-91 to meet service payments and the continued low growth rate in the early years of the program.

## II. OBJECTIVES OF A HIGHER GROWTH MEDIUM-TERM PROGRAM

18. The primary objectives of the medium term strategy are to restore sustainable growth rates while reducing debt to a manageable level and improving economic efficiency. To these ends, a number of more concrete objectives should be specified: (i) to maintain per capita consumption at least constant in real term and provide some growth in the 1990s; (ii) to raise resource mobilization and public saving to a level sufficient to fund essential public expenditure and investment programs and to service debt; (iii) to improve the mechanisms for allocation and monitoring of public sector resources to assure their efficient use, particularly concerning the public investment program; (iv) to eliminate the current account deficit and any further need for exceptional aid to mitigate the burden of debt and debt service; (v) to maintain political stability and continuity of policy reform. To achieve these objectives, programs will be required to (vi) transform the economy into an efficient producer of goods and services that is open and competitive in the world market; (vii) develop a more modern and flexible administrative and institutional structure that responds effectively to the needs of the rapidly evolving modern economy with more reliance on decentralized decision-making and the private sector; (viii) provide appropriate educational and health services to assure a trained and productive labor force while reducing population growth; and (ix) assure an adequate distribution of benefits and income so that the situation of the poorest classes improves.

19. These objectives are not all mutually complementary in the short run. Rapid increases in public saving and reductions in the current account deficit through reduced imports are detrimental to achieving the GDP and

export growth targets. In the medium term, the objectives become more complementary as increased saving, public and private, will support a larger investment program, which is essential to sustained growth and expanding exports. The availability of foreign savings has been the key constraining factor in determining the size of an acceptable current account deficit year by year, and through that, the targets for domestic demand management. The dilemma faced in the short run is that if growth is slowed too much because of insufficient resources and severe constraints on investment, structural changes will be retarded and the medium term viability of the economy eroded.

20. The strategy to achieve these objectives therefore must address issues on a number of fronts more or less simultaneously and still retain sufficient support within the Government, the Palace, the larger business community, and the public. It must also be based on a reform program robust and creditable enough to receive the continued support of the international financial community over a prolonged period of time.

### III. IMPLICATIONS OF THE OBJECTIVES OF THE HIGHER GROWTH ADJUSTMENT PROGRAM

21. The adjustment process in Morocco is complicated by a number of structural factors: the low level of per capita income, the weak and import dependent industrial sector, high dependence on primary product exports (phosphates, agriculture), rapid population growth, and a level of total outstanding debt currently larger than GDP. In these circumstances, determined and continuous action by the government is indispensable to achieving the objectives. The shortfalls in meeting stabilization and adjustment targets to date have been due to limits on institutional capacity, to vacillating determination of the government to implement the policy changes, to limits on the absorptive capacity of the economy, and to unexpectedly adverse external factors. These constraints must be reduced in order to implement an effective adjustment program which also permits growth. The rate at which structural reform can occur is in part a function of the growth and new investment that takes place and in part a function of the willingness of the government and the public to make sacrifices in the short run to give scope to adjustment policies to promote medium term improvements. Finding the appropriate balance among the policies is difficult and delicate, and hard choices will have to be made.

22. Public resource mobilization is key to the success of the medium term strategy. The government has to generate enough savings to support a core investment program of priority projects without crowding out private investment by absorbing too much private savings. The principal shortfall in the adjustment program to date has been the failure of the government to generate positive savings to finance its priority investment program and contribute to a reduction in demand for external resources. Revenues as a share of GDP have declined since the mid 1970s from over 23% of GDP to about 22% in 1982-84, while current expenditures have increased from about 20% of GDP to over 22% in 1982-84. Government savings have been slightly negative in recent years on a cash basis. Measured on a goods consumed basis, they have been even more negative because of the accumulation of arrears. Most of the adjustment in 1983-85 has fallen on central government investment, which has

fallen from 14% of GDP in 1982 to 5% in 1985, a critically low level, and on the private sector through accumulated arrears and severe restrictions on credit available after public demand had been satisfied. This has further dampened growth. The Government should aim at raising 25% of GDP in revenues while limiting current expenditures to 20-21%. The institutional structures have to be modified to assure efficient allocation and management of public investment and to encourage an increase in private investment in productive activities, particularly those oriented toward exports or efficient import substitution.

23. Public Enterprise reform will have to be accelerated with two objectives. The efficiency of enterprises will have to be increased by measures to improve management autonomy, by clearly defining the roles of enterprises that perform public services, and by defining a policy of privatization where appropriate for commercial enterprises. The financial burden of the public enterprises on the government will have to be eliminated to ease budget resource mobilization requirements. Such measures should be designed to assure the financial autonomy of the public enterprises and prevent any further accumulation of arrears. Existing arrears must be eliminated.

24. Private sector savings and investment will have to be encouraged through appropriate interest rate policy and efficient financial intermediation and through an appropriate economic environment to make investment profitable and attractive. The Government can no longer assume as large a role as in the past in productive economic activities. That has proved to be costly and inefficient. The Government has recognized that the private sector will have to play a leading role in growth and exports; and this will require continued liberalization of trade and prices, privatization of some public enterprise activity, and reduction of administrative interference in the economy. Private savings have averaged about 11% of GDP and should rise to 14%, while private investment should grow from 10% to 13%.

25. The promotion of exports is a major component of the recovery strategy. More exports are needed to earn additional foreign exchange to pay for imports, to service debt, to reduce the need for borrowing and eventually to be in a position to repay some debt. The basis of growth will shift from inward looking import substitution to an outward looking strategy that is export oriented and flexible. The government has begun to reduce the biases against exports and must not relent in these policy reforms. The attitudes of a number of government agencies dealing with exporters and exports will have to be reoriented toward reducing rather than creating bureaucratic impediments. Total export growth will have to rise to over 7% p.a. in real terms to enable the economy to enjoy positive growth and arrest the increase in external debt. These rates are feasible with active policy promotion and a reasonably favorable external environment.

26. Trade and Price liberalization is a key adjunct to the strategy of expanding the export sector. It will subject domestic producers to more

competition from imports and bring about greater efficiency.<sup>5/</sup> Adequate financial provisions should be made to allow potentially profitable firms to adjust over a 3-year period, and the measures of liberalization and decontrol should reshape the structure of industry in Morocco in economically efficient ways rather than in administratively determined ones. Reforms will have to be undertaken to allow the efficient expansion of agricultural production as well. The exchange rate will have to be managed to keep exports competitive, tariffs should be reduced to 25% and harmonized, and quotas be eliminated from essentially all imports by 1990.

27. Increasing production and productivity should result from improvements in trade policy, decentralization and privatization of public enterprises, and institutional reform of public sector planning and interventions (e.g. price and subsidy reform). Greater public resource saving generation, financial sector reform, and whatever increase in external savings that can be attracted to support the reform program should raise investment (not consumption as in the past), and thereby contribute to increasing the growth rate. Government investment should stabilize at around one-third of total fixed capital formation and be concentrated in providing supporting infrastructure for productive private investment, particularly export oriented investment. As the economy is liberalized, the Government will have to rely increasingly on creating an economic environment and incentive structure that stimulates efficient economic activity, while foregoing the policies of protection and direct intervention it has used in the past.

28. Reforms in the social sectors will also be called for to support the economic transformation that is implied by the medium term objectives. Of vital importance is reinforcing the family planning program to reduce the high rate of population growth, which is a burden to any program of growth and recovery. Although the impact of any such program, however effective, will be significant only in the longer term, reducing population growth is crucial for the economy and must be a component of any credible adjustment program. Reforms are also needed in the education system; currently only 28% of the adult population is literate and only 58% of the primary age children are in school. Basic education must be extended to all school age children, and more vocational education introduced to better prepare the work force for the needs of a modern, industrializing economy. Despite overall un- and underemployment, there are already shortages of certain key skill categories that are important for industrial and export expansion. These must be relieved through expanded vocational training in both the public and private sectors.

29. Because of the exceedingly large external debt burden already faced by Morocco in relation to GDP, Morocco's ability to shoulder much more debt during the adjustment period is severely limited, particularly debt on commercial terms. Serious consideration must be given to re-negotiating the repayment terms and to obtaining more favorable terms on any new debt. As a

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5/ Some inefficient enterprises (including public enterprises) may have to be liquidated. Any losses from such failures are less costly to the economy than the continued protection of inefficiency, and a program to deal with liquidation or privatization in those cases is needed.



lower middle income country, Morocco should qualify for more official lending on more concessional terms. Morocco's constrained public investment program will allow few new projects over the next several years, which limits its capacity to absorb additional project aid, so a significant portion of future capital inflows will have to be independent of new projects starts.

#### IV. SCENARIO FOR HIGHER GROWTH ADJUSTMENT:

30. If the objectives stated in Section II are to be realized, then the return to current account balance must be spread over a longer time period. This would allow the pace of current account adjustment to be consistent with the rate of structural change and policy reform that the economy can absorb while raising investment by enough to achieve higher growth of exports and domestic production. An alternative scenario has been developed which outlines a feasible adjustment path along these lines. It will require more support from Morocco's official and private creditors and would be justified by a stronger program of reform. It would result in a stronger and more creditworthy economy in the 1990s. Such a high case scenario is described below, the policies and actions necessary in the following sections, and then the financing requirements.

31. In contrast to the base case, GDP would grow at 3.8% p.a. through 1990 (1% per capita) and 5% p.a. (2-3% per capita) thereafter in the higher growth scenario. Investment would be higher in 1990 at about 16% of GDP and about the same level in 1995. Exports would grow faster at 7.6% p.a. (compared to 5.6% p.a. in the base case), and there would be more import capacity to support a larger investment program and faster growth of GDP than in the base case. Currently manufactured exports account for 20.0% of total exports, up from 16.0% in 1980. They would expand to about 22% by 1990 and 26% by 1995. The marginal savings rate would be about 40% for the rest of the decade, which is as high as Morocco has been able to sustain in the past. This would lead to an increase in savings, particularly Government saving. Gross domestic savings rises from 9.6% of GDP in 1985 to 15% in 1990 and 19% in 1995. There is a significant shift in the composition of savings and investment, with the private sector generating 12% of GDP in saving and investing 11% in 1990. The Government contribution to savings and investment become 3% and 5% of GDP respectively. Achieving the growth target will also require a substantial improvement in productivity. This will be achieved through better use of existing excess capacity, greater reliance on the private sector, greater exposure of the economy to external competition, and rapid reduction of administrative constraints internally.

32. In the adjustment with growth case, current account balance is achieved in about 1991 and surpluses can be generated thereafter. Reaching equilibrium later will require more capital inflows during the adjustment period and further rescheduling. About \$1.5 billion of additional capital inflows over the next five years,<sup>6/</sup> and a roughly equivalent amount of rescheduling. Possible means of financing are discussed in Section VIII

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6/ The oil price decline might reduce this by up to \$500 million depending on its duration and amount.

below. An extended adjustment period would permit a more balanced adjustment process to occur with significantly greater chance of lasting success, more fundamental structural reform, and more robust creditworthiness in the future. This case will require stringent and far reaching policy reforms and dynamic action programs over the next several years, most critically prompt and effective action to improve public resource mobilization and constrain expenditures as detailed below. In contrast, the more abrupt return to current account balance at lower rates of growth implied in the base case above carries a much higher risk of failure, greater chances of default, prospects for prolonged economic disruption, and possibly political repercussions.

33. Because of the shortfalls in reducing the current account deficit in 1985, 1986 will be a difficult year. If the windfall from the oil price decline were captured by the government as suggested above, the adjustment required for 1986 could be achieved, and some additional inflow can start the economy on the higher growth path. Without full capture of the windfall, further austerity measures will be required in the future, and the higher rate of recovery would again be put into question.

#### V. POLICIES, INSTITUTIONS, AND PRIORITIES

34. The government has already begun to introduce reforms for industry and trade policy, the agricultural sector, the educational sector, and public enterprises. Actions are also underway to improve public sector resource mobilization, the selection of public investments, and the monitoring of expenditures. The Bank and Fund have worked with the government in refining these reform programs and are supporting them with sectoral adjustment loans and a Standby. In order to justify the additional resources that would be needed to support the higher growth scenario, reinforced policy and institutional reforms will have to be undertaken and strict priorities set on policy implementation and expenditure allocation.

35. The Government should give highest priority to fiscal sector reform, particularly increasing public saving. The government has just passed a major fiscal reform measures introducing a Value Added Tax (to be implemented in April 1986). However, further reforms of the tax system are needed to increase substantially the share of direct taxes in revenue generation (by ten percentage points), increase tax bases, reduce the scope and variety of revenue expenditures (tax exonerations, exemptions, credits, etc.), and reduce the dependence on trade taxes for revenue purposes in order to support the trade liberalization and export promotion policies. Public enterprise tariff structures will have to be adjusted to eliminate their dependence on budget transfers and to generate some surpluses to remit to the government. Such a fiscal reform will have to be supplemented by continued efforts to control and rationalize expenditures, including reduction or removal of subsidies to public enterprises, agricultural inputs, energy, and foodstuffs (attendant on the implementation of a food security program); greater efficiency of social expenditures, particularly in the education and health sectors; and greater control over the wage bill of the Government, which should not be allowed to grow in real terms through the adjustment period. In addition, payment arrears will have to be eliminated and measures instituted to prevent their

MOROCCO: HIGH GROWTH SCENARIO

National Accounts	(Ave. Gr. Rates at '80 DH Prices)		% Share of GDP		
	1985-1990	1990-1995	1985	1990	1995
GDP	4.6	5.6	100.0%	100.0%	100.0%
Agriculture	2.5	3.3	15.0%	14.7%	13.5%
Industry	6.6	7.7	30.6%	30.1%	31.2%
Services	3.9	4.8	54.4%	55.2%	55.3%
Consumption	3.7	4.6	87.8%	83.9%	79.5%
Investment	3.7	9.4	17.3%	16.3%	19.4%
Exports (Goods & NFS)	7.6	6.8	19.4%	23.2%	25.3%
Imports (Goods & NFS)	3.6	6.0	24.5%	23.4%	24.2%

Balance of Payments	(In Millions of US Dollars)									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1995
Current Account Balance	-989	-648	-620	-439	-280	30	63	93	214	297
Debt Service Ratio (%)	30.1	35.7	33.5	36.1	34.5	36.1	39.9	34.7	31.6	24.6

recurrence. Increasing government savings will ease the constraint on government investment, reduce its borrowing requirements, and help the economy generate the savings and trade surpluses that will be required to reduce external debt to a sustainable level.

36. The success of the adjustment with growth program is intimately linked to reforms in industry-and-trade policy, exchange rate policies, and the incentive structure. In order to reduce the structural imbalance on international accounts, the bias against exports in the economy must be further reduced by maintaining a flexible exchange rate policy, by intensifying efforts to liberalize the trade regime, by lowering customs duties, by rationalizing the tariff structure to reducing dispersion, and by rapidly eliminating all quantitative restrictions. Export promotion measures to increase the efficiency of the customs regime, streamline administrative procedures, abolish export taxes, and improve prospects for agricultural exports by dismantling distribution and export monopolies and intensifying marketing efforts should be expeditiously implemented. Morocco's competitive stance and productive efficiency can also be enhanced by eliminating price controls and improving producer price policy in agriculture. Persistent implementation of these policies in tandem with active exchange rate policy is necessary to achieve a the total export growth needed to support the higher growth scenario. Some subsectors of manufactured exports have already reached volume growth rates in excess of 20% p.a. despite a mediocre world economy, so further acceleration is possible, as Morocco is still a small player in most export markets.<sup>7/</sup>

37. The Government has recognized the need to redefine its role in the economy by actively supporting a program of public enterprise reform. The Government is identifying those public service activities which are properly the domain of the State, and ensuring that the necessary financing is available for them, primarily through their own revenues except where they are performing a non-commercial public service or where legitimate capital increases are needed. Subsequently, a strategy for the overall restructuring of the public enterprise sector must be formulated, including such options as privatization and liquidation of holdings. The institutional control of Government over the public enterprises should also be rationalized by enhancing the managerial autonomy of the enterprises and improving monitoring, planning and internal audits to increase the flow of information to the government and reduce external controls by the administration.

38. The need to achieve a minimum acceptable level of growth over the next few years will require concerted efforts to improve the allocation and efficiency of public investment expenditures. Multi-year programs will have to be formulated in function of realistic assessments of available budgetary

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7/ Despite the recent expansion of the common Market, Morocco has managed to preserve its current level of access for 7 to 10 years, and recent studies have shown that that potential has not been fully exploited.

resources, sectoral objectives, employment, and export needs. Core investment projects should be selected and evaluated on the basis of criteria used in the recent investment reviews (e.g. binding supply constraints, economic returns, lead-time to realize project benefits). Once identified, the government must assure sufficient resources are available for their timely implementation. Large infrastructure projects with high import content should be de-emphasized in favor of maintaining and/or expanding where necessary existing investments. The ability of the Government to plan, implement, monitor, and evaluate public investment programs must be strengthened. These reforms will assure the most effective use of government investment resources and provide maximum infrastructure support for the growing private and export oriented economy.

39. The ongoing agricultural sector reform will achieve two major objectives. First it will remove a number of institutional and financial bottlenecks to increased production and exports. Higher production will reduce the need for food imports and produce greater surpluses for expanding agricultural exports. Removal of the government controls on processed food exports through the OCE has already permitted a rapid expansion in those exports, and similar results are expected when fresh fruit and vegetable exports are liberalized. Second, it will raise incomes for a large portion of the rural population which cultivates cereals in rainfed conditions. These are among the poorest segments of the society. Increasing rural incomes and employment will slow the rapid migration to the cities that is placing growing pressure on urban facilities and demanding expensive extensions of infrastructure.

40. Finally the ongoing programs in Education and Human resource sector are important for the sustainability of the adjustment program. The impacts of expanded primary and secondary education and of health and family planning programs will be felt over a longer time span. In the medium term, these programs will improve the productivity of the workforce, which will enhance economic efficiency. The vocational training program will have the most immediate impact by helping lift bottlenecks of skilled workers and thereby helping the export expansion program and thus contributing to growth.

41. Since the stabilization program will lead to the reduction of a number of consumer subsidies, primarily on food, and raise a number of other prices of basic goods, it will have an adverse impact on the standard of living of the poorest. To offset these losses, alternate programs of nutrition and income maintenance will have to be designed to target the poorest groups. These can be achieved at a considerably lower cost than the current subsidy program<sup>8/</sup>. In the longer term, more growth and exports will provide more employment opportunities and reduce the need for the support programs.

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8/ We have estimated that only 15% of current food subsidies reach the poor target groups. An adequate targeted nutrition program would cost less than 500 MDh compared to 2800 MDh for food subsidies in 1985.

VI. ACTION PROGRAM 1986-87

42. The government has already outlined specific 1986 and 1987 action programs consistent with the adjustment program presented to the Consultative Group. In order to achieve the objectives of the higher growth strategy and to mobilize needed additional external financing, some additional measures will have to be introduced, as described below, and additional external resources mobilized.
43. In the area of resource mobilization, the current efforts to improve revenue collection, raise public enterprise tariffs, restrain public expenditures, and improve financial intermediation will have to be extended. The 1986-87 action program already includes (a) introduction of a fiscal reform replacing sales taxes with a Value Added Tax and other measures, (b) about 30% further consumer subsidy reductions, (c) 10-20% increases in Public Enterprise tariffs, (d) reduction and elimination of Government and public enterprise arrears, (e) increased user charges for water in irrigated perimeters, (f) 35% reduction in fertilizer subsidies, (g) elimination of some interest rate rebates, (h) introduction of improvements in planning and budgeting procedures to improve public investment project selection, (i) revision of interest rates to assure they remain positive in real terms, and (j) extension of access to the bond market to public enterprises. This set of measures should be sufficient to eliminate the government's current budget deficit in 1986 and 1987.
44. However given the need to generate enough resources for the core investment program and for maintaining essential activities and given the continued paucity of resources, more efforts in resource mobilization are required and additional measures should be implemented. These include, (a) reform of the direct tax structure to increase its contribution to revenues (now about 20%) (immediate measure should include an increase in the PSN,<sup>9/</sup> enlarging of the existing tax bases, increases in zero and low tariffs and an increase in VAT rates of 1 percentage point); (b) faster elimination of the consumer subsidies, (c) elimination of agricultural subsidies (by 1989), (d) limiting of growth of the government wage bill to zero in real terms, and (e) capturing the gains from falling oil prices in government revenues.
45. In the area of production sector and trade reform, the actions taken to lower tariffs, decontrol prices, liberalize imports, introduce flexible exchange rate policies, and facilitate production for export will have to be strengthened and extended. Measures already in the 1986-87 action program include (a) reducing the maximum tariff to 45% and the SIT to 5%, (b) liberalizing most of the remaining controls on imports, (c) extending some export promotion measures to indirect exporters, (d) eliminating more price controls as domestic monopolies are countered by liberalized imports, (e) improving allocation of agricultural inputs and beginning rationalization of the sugar sector, (f) raising agricultural procurement prices by 30% and improving procurement procedures, and (g) continuing an active exchange rate policy to assure a constant real effective exchange rate.

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9/ National Solidarity Levy, which has a wider base than current income taxes.

46. However, some additional measures should be introduced to secure the more rapid growth envisaged in the adjustment with growth scenario. This includes (a) consolidation of the various levies imposed on imports into a single duty, supplemented by the VAT as appropriate; (b) further harmonization of the tariff structure toward the objective of total 25% nominal rate for all taxes imposed on imports, including the increase of some zero or low tariff rates (this would improve resource mobilization as well); (c) modest real effective devaluation to further increase the competitiveness of Moroccan exports; (d) reduction of internal restraints on trade and transport such as licensing and "fair trade" practices; (e) elimination of administered fees and rates in the financial sector; (f) rationalization of price structures in agriculture to encourage efficient production, and (g) reorientation of public investments to support directly productive activities in agriculture and export industries. These measures should be sufficient to assure the competitiveness of Moroccan exports over the next couple of years on the basis of the response to the first round of these measures implemented in 1984-85.

47. The government has already begun to improve public sector management and administrative efficiency through a series of ad hoc reforms of public enterprise problems, improvements in some commercial procedures, more open foreign investment codes, elimination of some export monopolies (OCE for processed foods), divestiture of some public enterprises in fishing and tourism, and reorganization of other public enterprises to increase efficiency. The action program for 1986-87 includes (a) introduction of new planning and budgeting processes to assure the economic viability of projects prior to their inclusion in the Budget and Plan; (b) initiation of a 2 year program to eliminate arrears from the government to PE's, and from both to the private sector, through cross cancelling of offsetting debts (bilaterally and multilaterally) and repayment of remaining arrears with funds from grants, bond issue, and other source funds; (c) application of policies to prevent recurrence of arrears, such as cutting service to delinquent agencies; (d) streamlining supervision of public enterprises with greater delegation of responsibility to the public enterprises themselves and elimination of prior financial controls; (e) introduction of improved management tools in selected public enterprises (e.g. standard accounting and audits, MIS, etc); (f) elimination of the monopoly of OCE in exports of fresh fruits and vegetables; (g) restructuring of key public enterprises; (h) implementation of measures to streamline port transit time; (i) further privatization of commercial public enterprises; and (j) transfer of agricultural procurement to private sector.

48. These measures will improve the efficiency of the public sector and reduce the weight of the government on economic activity. Many of the measures cited above will be applied to the most important PE's initially and subsequently extended to others. However, close attention will have to be paid to assure that the dependence of public enterprises on the public budget is reduced and that opportunities for divestiture are exploited. The arrears reduction program will also have to be followed closely and strengthened if current actions to limit the growth of arrears by the government are not effective.

49. The government's program to institute reforms in human resource development has also begun with the announcement of the educational reform program beginning in fall 1985 and the changes being introduced to provide decentralized health care. The action program for 1986-87 includes (a) a major shift toward basic education (particularly in rural areas and for females) with a target of extension of basic education from 58% to 95% of primary age children by 1995; (b) restructuring of secondary and higher education to place more emphasis on vocational training; (c) restricting entry into free public university education, so that enrollment growth rates decline from 6.9% in 1984/85 to 0.3% in 1995/96, and the introduction of registration fees; (d) creation of specialized training courses and certificates for high priority areas, e.g. accountants; (e) increasing teacher hours; (f) increasing provision of rural health centers and family planning programs; and (g) institution of food security measures through Promotion Nationale, Entreaide Nationale and other programs.

50. As discussed above, these measures will only have their effects over a longer period of time, but action is essential from now in order to begin providing the training and health support needed to transform the labor force as needed by the evolving economy. Additional measures that need to be undertaken by the government in the near term include (a) establishment of a coherent manpower plan to guide the reforms in higher education and vocational training; (b) implementation of specific measures to assure food security; and (c) extension of rural health and family planning services nationwide.

51. This is an ambitious action plan for the government. The government will have to demonstrate its commitment to this action plan to justify the continuation of high levels of external assistance and their possible increase. A considerable amount of technical assistance will also be required. A major constraint will remain in the implementation capacity of the government to enact and monitor the proposed reforms. This will affect primarily the speed with which the policies can be implemented.

## VII. STABILIZATION AND THE ROLE OF THE IMF

52. The Moroccan government has negotiated a Stand-by arrangement in September 1985 with the IMF to support a stabilization program through early 1987. The details of the 1986 program have not yet been fully elaborated, but it is essential that a program be agreed which provides necessary macro economic stabilization to permit the adjustment policies to work, without being so stringent as to stifle development. Current estimates of capital availability for 1986 and 1987, and the initial IMF target of reaching current account equilibrium in 1988 will require substantial further demand management in the next two years. By 1988, the current account deficit will have to be reduced by 8% of GDP. The proposed program now calls for eliminating the Government budget deficit over a longer period until 1991, but it would also have to be reduced by at least 8% of GDP including repayment of about 5 billion (3.5% of GDP) in government arrears. It is not clear how this differential rate of adjustment can be managed in light of the trade liberalization that is also going on. The final program remains to be agreed with the Moroccans.



53. These constraints lead the IMF to propose a decline in the overall budget deficit to around 6.8% on a cash basis (3.1% on a payments order basis) of GDP in 1986 before debt relief, and a current account deficit of about 4% of GDP. The overall growth of the money stock and bank credit to the Government will be limited accordingly. Given that export potential is relatively fixed in the short term, this implies imports will have to register no growth in the next two years and the marginal savings rate will have to rise to 75% from 1985 to 1987 as domestic savings rise from 12.8% of GDP to 16.2%. Public investment would be reduced to or below a critical level, private activity would be constrained especially given the implied transfer of private saving to the government of 1-2% of GDP. Growth would be slowed to at or below population growth to meet the stabilization targets. This adjustment is more severe than that of the base scenario presented in Section IV, and suffers a fortiori from the dilemma posed by that rate of adjustment. It is unlikely that the IMF's projected 3% p.a. growth rate can be sustained in these circumstances, and per capita consumption will certainly fall, casting severe doubt on the medium term feasibility of the stabilization program unless modifications are made after 1986. The recent oil price decline and resulting terms of trade gain may allow the IMF program to proceed without such severe consequence in 1986, provided the government can capture the benefits to increase savings and investment. But thereafter, to avoid extended stabilization dominated crisis management, the rate of adjustment must be determined in the context of a feasible medium term framework.

#### VIII. FINANCING REQUIREMENTS

54. The base case assumed net capital inflow requirements of \$1.3 billion through 1991 (including \$400 million of reserve build up) and \$3.2 billion of rescheduling in 1986-88. Much larger gross capital inflows would be needed to repay debt thereafter. Interest payments average \$1 billion per year in 1988-91 and amortization nearly \$2 billion per year in that period. Specific sources of those flows have not been identified, but will presumably come from commercial sources. The financing requirements for the higher growth with adjustment scenario are further rescheduling of about \$1.5 billion in 1988-90 and net additional inflows of about \$1.5 billion through 1991<sup>10/</sup>. This is not all additional to the base scenario as described by the Government or the IMF. Both those scenarios had financing gaps of about \$500 million per year in 1989-91 in excess of identified inflows. So the net additional financing requirement of the higher case is about \$1.5 billion. The mix of net inflows and rescheduling is necessary to relieve the very large debt repayment burden faced by Morocco and also to provide financing for current account deficits for the rest of the decade. Assuming that the Moroccan government can sustain the stabilization and adjustment programs described above, then the official donors, international institutions, and commercial banks will have to reach a consensus on sharing the burden and the risk of supporting the government's efforts. In view of the large debt burden and its composition, additional aid will have to be as concessional as possible and care will have to be exercised in constructing the package to assure that it leaves Morocco with a reasonable profile of debt payments in the future.

10/ This may be reduced by \$500 million as a result of the oil price decline.

55. Most of the additional rescheduling will have to come through the Paris Club, as the majority of unrescheduled maturities falling due in that period are from the bilateral donors. However, rescheduling of rescheduled commercial debt cannot be excluded, although some form of roll over would be preferable. Paris club rescheduling will reduce the exposure of commercial banks to the extent that guaranteed export credits are assumed by the guaranteeing governments. Rescheduling terms will have to be softer than in the past, at least 12 years maturity with 5 years grace. The further rescheduling will relieve the economy of repayment obligations, but will not contribute to financing the current account deficits and reserve build up until 1991. For that, net new inflows of about \$300 million per year will be needed through 1991.

56. Overall, equity would suggest that none of the major participants should withdraw funds until the crisis is past, and each should contribute as appropriate to the additional funding needs. Unless new commitments are made, the IMF will be withdrawing resources from Morocco at the rate of \$100-200 million per year for the rest of the decade, even if the current Stand-by is fully disbursed. At a time when the World Bank, other IFI's, and the commercial Banks are expected to increase their exposure and bilateral donors are extending their reschedulings, it is essential that the IMF's position be reviewed to establish an appropriate financial, as well as monitoring, role in relation to the medium term macro economic recovery program. After 1986, the IMF exposure should remain constant at about \$900 million until 1990, down from its current level of about \$1.1 billion. The multilateral institutions have already increased their programs in Morocco. World Bank commitments have nearly doubled from an annual average in FY81-83 of \$260 million to \$408 million in FY86<sup>11/</sup>, and net disbursements increased from an average of \$100 million per year in FY81-83 to \$212 million in 1985. The increased use of fast disbursing policy lending has raised the net inflow substantially. Provided the government's commitment to the adjustment process remains ongoing, the Bank will continue to lend about \$450 million per year in the context of a concerted program supporting reinforced adjustment efforts. If policy reform is not sustained, however, then there would follow a significant impairment of the economy's creditworthiness and a reduction of World Bank lending would become inevitable. Official bilateral donors should provide the bulk of the additional rescheduling in 1989-91 on more favorable terms. Additional net new inflows of about \$100 million per year on concessional terms should also be forthcoming. The concessional aid is vital in view of the level of debt in Morocco and its low per capita income level. This increased flow will not likely become available immediately due to the time it takes for decisions to be made. Therefore, in the short term, the bulk of the additional financing will have to come from commercial banks, initially about \$300<sup>12/</sup> million in 1986, and declining amounts thereafter as ODA increases.

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11/ Including the second Industry and Trade policy loan actually passed in July 1985.

12/ Or lower, depending on the effect of the oil price decline.

57. In the high growth scenario, total MLT debt outstanding will rise from \$11.1 billion at end CY1985 to \$14.2 billion in 1990 and decline to \$13.6 billion in 1995, compared to \$14.1 billion and \$11.4 billion respectively in the base scenario. The debt service ratio would fall to 36% in 1990 (40% before rescheduling) and 25% in 1995 in the high scenario, compared to 39% and 21% respectively in the base. Interest service ratios would also decline to 13% in 1990 and 6% in 1995 in the high alternative, and MLT debt would fall to 74% of GDP in 1990 and 43% in 1995. Not only would this be a more sustainable debt profile, but it would also be consistent with sustained growth. The specific figures would vary depending on the composition of the new inflows and terms of the rescheduling and new inflows.

58. In the base case, assuming the government were able to carry out the basic adjustment package and adjust rapidly, total debt outstanding would rise from \$11 billion in 1985 to \$14.2 billion in 1990 and decline thereafter. The World Bank share would rise from 10% to 16% of debt outstanding and disbursed by 1990, and the Bank would have financed \$1.2 billion of the \$2.0 billion of debt increase. Commercial bank would have financed \$1.5 billion increase in debt<sup>13/</sup> while the IMF would reduce its exposure by about \$0.9 billion. By 1995, the World Bank share would rise to 23% of a by then lower debt outstanding, and net World Bank exposure would increase by another \$200 million. Other official and private exposure would decline in absolute terms. In the higher growth scenario, total debt would increase to \$14.2 billion in 1990 and then decline to \$13.6 in 1995. In this case, the World Bank would fund about one third of the increase to 1990, official sources and banks would fund the rest, and the IMF exposure would decline only to \$900 million. The Bank's share by 1995 would rise to 20%. The absolute volume of other exposures would drop by 1995, as some rescheduled debt would be repaid but by less than in the base case. The debt burden then would represent about 43% of GDP and the debt service ratio would be 25%, a sustainable level.

#### IX. POTENTIAL DIFFICULTIES AND RISKS IN IMPLEMENTING THE REFORMS

59. No adjustment program carried out over a number of years is without serious risks. There is as yet no full agreement with (or consensus within) the government on key measures, including those to raise public saving. And even when that is obtained, there is very little buffer in the program. Any serious deterioration in the external environment or setback on policy reform would adversely affect the recovery. Further short-term adjustments and constraint would be required, as the economy simply cannot afford more debt than assumed, except on highly concessional terms. But any significant additional austerity might exceed the limits of domestic political acceptability and erode support for the medium-term reform program, so continued monitoring and review will be necessary. Even without adverse external developments, vested interests backing political opposition to adjustment policies may succeed in slowing or reversing parts or all of the program. If serious enough, this might lead to a reduction of capital inflows, which could further weaken the adjustment. The opposition, however,

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13/ Assuming they financed the gaps identified in 1988-90.

does not have a viable economic alternative, particularly if large capital inflows are not available, and a considerable economic crisis could result from a rejection of the adjustment program. Fortunately, the commitment of the Government and its stability give reason to believe that the opposition can be contained. Ultimately, once the King senses a danger to the economy from a loss of international support, he would act to give more support to the adjustment program. Some delays in implementation of some policies and measures are likely, and the program should make allowances for such possibilities.

60. As is widely known, Morocco has been engaged in a military action in the Western Sahara to retain territories claimed for historical reasons. Without commitment to any viewpoint, it is clear that the action is highly political, and a precipitously unfavorable outcome would be a fundamental political blow to the stability of the regime and through that, probably to the prospects for coherent economic policy in the short term. Therefore, a major reduction or outright cessation of expenditures on military activities or supporting economic infrastructure in the Sahara is not considered an acceptable policy option by the Government. Unfortunately, those expenditures are a major weight on the Government budget and have seriously aggravated resource mobilization problems. The government should make a commensurate effort to generate sufficient additional revenues to pay the added cost of these activities. Any recovery program would also have to take the expenditures in the Sahara into account and be assured that they are held under control.

#### X. MONITORING

61. Monitoring of the stabilization and adjustment program will require continued supervision by the IMF and Bank. This work will have to be shared in function of the respective programs, with appropriate sensitivity to the interests of each institution. Monitoring should focus on the implementation of the action programs in the various areas and on reviewing the investment program and plan execution. Such monitoring is carried on frequently for our sector adjustment loans and by the IMF for its Stand by. This monitoring can be strengthened if needs be. Results would also have to be monitored to be sure that policies are having their desired impacts. Where this is not the case, analysis would have to determine whether there were other mitigating factors, or whether the intended policies were not as effective as supposed. In the latter case, other policies would have to be defined and agreed with the Government. This may delay achieving some objectives, and provisions will have to be made either to adjust targets, or identify additional resources. Because of the continued involvement of the Paris and London Clubs, they also would have to be apprised of the results of the supervision, and would have to concur in the results to continue their rescheduling and new financing operations.

62. To the extent additional funds are provided from commercial sources, it is likely that they would seek some additional assurances from the Bank to support their increased exposure. The Bank could formalize the reporting of its supervision of policy lending and provide regular reports to the Government on its progress, which could be used to inform the London and Paris Clubs on the status of the adjustment programs in Morocco and on progress toward the medium term objectives. The role of the Consultative Group should be increased as a forum for review and evaluation of the adjustment program and as a means of increasing ODA.

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MOROCCO - TABLE A2: KEY INDICATORS  
(In Billions of DM Unless Otherwise Indicated)

		1980	1981	1982	1983	1984	/	1985	1986	1987	1988	1989	1990	/	1991	1992	1993	1994	1995
GDP Growth Rate (Target)	B							4.2%	2.4%	2.5%	2.8%	2.8%	2.9%		3.6%	4.2%	5.0%	5.7%	5.7%
	H	7.6%	-1.3%	6.8%	2.2%	2.4%		4.2%	4.2%	4.5%	4.6%	4.6%	5.0%		5.2%	5.5%	5.5%	6.0%	6.0%
GNP/Capita	B							1.5%	-0.5%	-0.3%	-0.4%	0.2%	0.5%		1.4%	1.9%	2.7%	3.4%	3.3%
	H		-4.7%	3.5%	0.2%	0.1%		1.5%	1.2%	1.3%	2.1%	2.0%	2.2%		2.7%	3.2%	3.2%	3.6%	3.5%
DOD/IGS (Target)	B							276.1%	276.8%	258.0%	231.9%	202.4%	175.5%		155.6%	134.3%	111.5%	99.8%	87.4%
	H	162.9%	193.2%	235.6%	240.9%	260.3%		276.1%	291.9%	274.3%	249.5%	223.2%	198.3%		179.3%	160.6%	142.1%	124.4%	115.3%
Total DOD (Mn US\$) 1/	B							11146	12533	13440	13998	14179	14058		13699	13043	12355	11802	11439
	H	7109	7983	9054	9445	10347		11146	11992	12865	13491	13868	14205		14203	14033	13712	13287	13644
DOD/GDP	B							90.4%	97.5%	101.1%	93.2%	83.6%	73.1%		64.5%	55.5%	47.4%	40.7%	35.5%
	H	39.9%	53.8%	60.5%	86.3%	97.9%		90.4%	93.3%	95.8%	89.8%	81.8%	73.9%		66.9%	59.7%	52.7%	45.9%	42.3%
Int Payments/GDP 2/	B							5.5%	4.9%	6.0%	6.8%	6.4%	5.8%		5.1%	4.5%	3.8%	3.1%	2.6%
	H	3.7%	4.8%	4.7%	5.1%	5.9%		5.5%	5.9%	6.9%	6.1%	5.5%	5.3%		5.2%	4.7%	4.1%	3.6%	3.1%
DS/IGS	B							30.1%	33.4%	31.8%	44.3%	43.4%	39.3%		38.8%	33.9%	28.5%	24.0%	20.5%
	H	31.1%	33.0%	37.3%	31.5%	33.5%		30.1%	35.7%	33.5%	36.1%	34.5%	36.1%		39.9%	34.7%	31.6%	27.7%	24.6%
Gross Investment	B							13.7	12.8	12.7	13.1	13.4	13.8		15.3	16.4	18.3	21.0	23.4
	H	14.8	14.1	15.5	14.1	13.4		13.7	13.5	14.1	14.7	15.4	16.1		17.5	19.6	21.2	23.1	25.2
Gross Investment/GDP	B							17.0%	15.5%	15.0%	15.0%	15.0%	15.0%		16.0%	16.5%	17.5%	19.0%	20.0%
	H	21.1%	20.4%	20.9%	18.6%	17.3%		17.0%	16.0%	16.0%	16.0%	16.0%	16.0%		16.5%	17.5%	18.0%	18.5%	19.0%
Public Investment	B							4.4	3.9	3.9	3.8	3.8	4.0		4.4	5.0	5.6	6.4	7.3
	H	8.6	8.7	10.2	6.4	5.2		4.4	3.9	4.1	4.2	4.3	4.5		4.9	5.5	6.2	6.9	7.7
Public Investment/GDP	B							5.4%	4.6%	4.6%	4.4%	4.2%	4.3%		4.6%	5.0%	5.4%	5.8%	6.2%
	H	12.2%	12.5%	13.8%	8.4%	6.7%		5.4%	4.7%	4.6%	4.6%	4.5%	4.5%		4.6%	4.9%	5.2%	5.5%	5.8%
Private Investment	B							9.3	8.6	8.5	8.9	9.0	9.3		10.9	12.0	13.1	13.8	15.0
	H	6.2	5.4	5.2	7.7	8.2		9.3	9.5	10.0	10.5	11.0	11.6		12.6	14.1	15.1	16.2	17.5
Private Investment/GDP	B							11.6%	10.4%	10.0%	10.2%	10.0%	10.1%		11.4%	12.1%	12.5%	12.5%	12.8%
	H	8.9%	7.8%	7.1%	10.2%	10.6%		11.6%	11.3%	11.4%	11.4%	11.5%	11.5%		11.9%	12.6%	12.8%	13.0%	13.2%
Public Savings	B							-0.5	0.7	1.4	1.8	2.2	2.9		3.5	4.0	4.3	4.7	4.8
	H	1.1	-1.1	.0	-0.5	-1.5		-0.5	0.5	1.1	1.6	2.0	2.5		3.0	3.5	4.1	5.0	5.7
Public Savings/GDP	B							-0.6%	0.8%	1.6%	2.1%	2.5%	3.1%		3.7%	4.0%	4.1%	4.3%	4.1%
	H	1.5%	-1.4%	0.0%	-0.5%	-1.9%		-0.6%	0.6%	1.3%	1.8%	2.1%	2.5%		2.8%	3.1%	3.5%	4.0%	4.2%
Private Savings	B							9.6	7.3	7.5	8.7	9.5	9.3		11.1	11.9	12.8	13.6	15.5
	H	7.0	6.6	5.9	7.8	9.6		9.6	8.3	9.3	10.2	11.2	12.3		13.4	14.9	16.0	17.1	18.4
Private Savings/GDP	B							11.8%	8.8%	8.8%	10.0%	10.6%	10.1%		11.6%	12.0%	12.2%	12.0%	12.5%
	H	10.0%	8.6%	6.6%	8.2%	12.4%		11.8%	9.9%	10.5%	11.1%	11.6%	12.2%		12.6%	13.3%	13.6%	13.7%	14.9%
Exports Growth Rate	B							2.0%	5.7%	6.2%	6.2%	5.6%	5.6%		5.2%	5.2%	5.3%	5.4%	5.4%
	H	3.6%	0.2%	5.5%	7.3%	3.6%		2.0%	8.2%	7.5%	7.9%	7.3%	7.3%		7.0%	6.7%	6.8%	6.9%	7.0%
Exports/GDP	B							19.1%	19.7%	20.4%	21.1%	21.7%	22.3%		25.3%	25.6%	25.7%	25.6%	26.5%
	H	18.4%	18.6%	18.4%	19.3%	19.6%		19.1%	19.9%	20.5%	21.1%	21.6%	22.1%		22.5%	22.7%	23.0%	23.2%	23.4%
Imports Growth Rate	B							-4.9%	0.3%	1.9%	3.4%	3.3%	3.0%		4.6%	5.0%	6.5%	8.0%	7.9%
	H	-9.8%	2.0%	3.7%	-11.9%	3.2%		-4.9%	0.8%	3.5%	4.1%	4.1%	4.4%		5.5%	6.3%	5.6%	6.4%	6.5%
Imports/GDP	B							23.4%	23.4%	23.4%	23.6%	23.7%	23.7%		23.9%	24.1%	24.5%	25.0%	25.5%
	H	29.4%	30.4%	29.5%	25.4%	25.6%		23.4%	22.6%	22.4%	22.3%	22.2%	22.1%		22.2%	22.4%	22.4%	22.5%	22.6%
Consumption/Capita Growth Rate	B							1.1%	-0.2%	-0.7%	-1.0%	-0.9%	-0.4%		-0.4%	0.9%	1.5%	2.0%	2.7%
	H		-1.1%	3.3%	-2.2%	1.1%		1.1%	1.0%	1.0%	1.1%	1.2%	1.6%		1.7%	1.6%	2.0%	2.6%	2.7%
GNP Growth Rate	B							3.9%	2.0%	2.2%	2.1%	2.8%	3.1%		3.9%	4.3%	5.2%	5.9%	5.9%
	H	3.1%	-2.2%	6.2%	2.8%	2.4%		3.9%	3.8%	3.9%	4.7%	4.6%	4.8%		5.2%	5.9%	5.7%	6.1%	6.0%

1/ Excludes IMF liabilities (see Table C1)

2/ s int on s/t, IMF, Gapfil

February 25, 1986

Table B Financing Requirements and Sources

	1985	1986	1987	1988	1989	1990	HIGH 1984	1985	1986	1987	1988	1989	1990
<b>BASE</b>													
World Bank													
Commitments	405	380	325	350	400	275	266	405	380	325	350	550	425
Disbursements	244	376	442	390	362	291	243	244	376	367	360	383	420
Amortization	-105	-123	-145	-151	-168	-187	-81	-105	-123	-145	-151	-168	-187
Net Flows	138	253	297	239	194	104	162	138	253	222	209	215	233
Multilateral (OPEC, DAC)													
Commitments	200	208	224	241	259	279	236	200	208	224	241	259	279
Disbursements	302	305	290	238	232	247	213	302	305	290	238	232	247
Amortization	-67	-83	-91	-163	-217	-215	-35	-67	-83	-91	-163	-217	-215
Net Flows	235	222	200	75	15	32	178	235	222	200	75	15	32
IMF													
Commitments			35	0	0	0							
Disbursements			35	0	0	0							
Amortization			-244	-169	-216	-205							
Net Flows	-49	0	-209	-169	-216	-205	-188	-49	0	0	0	0	0
Bilateral													
Commitments	135	142	149	156	164	172	224	135	142	149	156	164	172
Disbursements	121	136	143	154	161	172	82	121	136	143	154	161	172
Amortization	-46	-49	-50	-131	-448	-699	-159	-46	-49	-50	-53	-232	-513
Net Flows	75	88	93	23	-286	-528	-78	75	88	93	101	-71	-342
Official Exp Credit													
Commitments	60	63	67	70	75	79	43	60	63	67	70	75	79
Disbursements	85	82	72	70	68	72	135	85	82	72	70	68	72
Amortization	-98	-97	-101	-349	-376	-380	-26	-98	-97	-101	-349	-376	-380
Net Flows	-13	-15	-30	-279	-308	-308	109	-13	-15	-30	-279	-308	-308
Suppliers' Credit													
Commitments	15	16	17	18	20	22	17	15	16	17	18	20	22
Disbursements	19	18	17	18	19	21	16	19	18	17	18	19	21
Amortization	-37	-36	-34	-34	-32	-34	-13	-37	-36	-34	-34	-32	-34
Net Flows	-17	-18	-17	-17	-12	-12	4	-17	-18	-17	-17	-12	-12
Commercial Banks													
Commitments	100	92	266	983	1182	1123	198	100	92	266	289	315	343
Disbursements	335	101	204	986	1159	1090	400	335	101	204	292	292	310
Amortization	-115	-132	-183	-700	-636	-504	-334	-115	-132	-109	-322	-269	-402
Net Flows	220	-31	21	286	523	586	66	220	-31	95	-30	23	-92
Net Direct Foreign Inv													
Net Flows	56	62	68	75	82	91	51	56	62	68	75	82	91
Other													
Commitments	20	0	28	0	57	5	0	20	0	121	271	469	677
Disbursements	20	0	28	0	57	5	0	20	0	121	271	469	677
Amortization	0	0	0	0	0	0	0	0	0	0	-4	9	-15
Net Flows	20	0	28	0	57	5	0	20	0	121	267	477	662
<b>TOTAL NET FLOWS</b>	<b>664</b>	<b>561</b>	<b>451</b>	<b>234</b>	<b>48</b>	<b>-235</b>	<b>305</b>	<b>664</b>	<b>561</b>	<b>751</b>	<b>402</b>	<b>421</b>	<b>264</b>
1/ Of which quick disbursing	145	275	225	158	102	52	75	145	291	321	240	168	145

TABLE C1: MOROCCO - DEBT OUTSTANDING AND DISBURSED BY SOURCE  
(In Millions of US Dollars)

	1985	1990	1995	% Share of Total		
				1985	1990	1995
<hr/>						
<i>Official (Multilateral &amp; Bilateral)</i>						
Base	7548	8454	6634	61.6%	59.4%	57.2%
High	7548	11832	10746	61.6%	78.3%	77.8%
Of which:						
World Bank						
Base	1230	2464	2682	10.0%	17.3%	23.1%
High	1230	2427	2765	10.0%	16.1%	20.0%
Rescheduled Exp./Bank Credits						
Base	369	840	0	3.0%	5.9%	0.0%
High	369	2932	861	3.0%	19.4%	6.2%
<i>Private (Supp. Credits, Fin. Inst.)</i>						
Base	3598	5604	4805	29.4%	39.4%	41.4%
High	3598	2373	2898	29.4%	15.7%	21.0%
<i>Total MLT (1)</i>						
Base	11146	14058	11439	91.0%	98.8%	98.6%
High	11146	14205	13644	91.0%	94.0%	98.8%
Add:						
IMF						
Base	1098	165	165	9.0%	1.2%	1.4%
High	1098	900	165	9.0%	6.0%	1.2%
<i>Grand Total</i>						
Base	12244	14223	11604	100.0%	100.0%	100.0%
High	12244	15105	13809	100.0%	100.0%	100.0%
<hr/>						
<i>Pour Memoire: Preferred Creditors</i>						
Base	2864	2977	3025	23.4%	20.9%	26.1%
High	2864	4451	4258	23.4%	29.5%	30.8%

(1) Includes Gapfil



TABLE C2: MOROCCO - DEBT OUTSTANDING AND DISBURSED BY SOURCE  
(In Millions of US Dollars)

HIGH SCENARIO	1985	1990	1995	% Share of Total		
				1985	1990	1990
Official (Multilateral & Bilateral)	7548	11832	10746	61.6%	78.3%	77.8%
Concessional	3417	4213	5022	27.9%	27.9%	36.4%
Non-Concessional	2532	2260	2098	20.7%	15.0%	15.2%
World Bank	1230	2427	2765	10.0%	16.1%	20.0%
Rescheduled Exp./Bank Credits	369	2932	861	3.0%	19.4%	6.2%
Private (Supp. Credits, Fin. Inst.)	3598	2373	2898	29.4%	15.7%	21.0%
Total MLT (1)	11146	14205	13644	91.0%	94.0%	98.8%
Add: IMF	1098	900	165	9.0%	6.0%	1.2%
Grand Total	12244	15105	13809	100.0%	100.0%	100.0%

(1) Includes Gapfil

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MOROCCO: POLICY MATRIX AND FIVE-YEAR ACTION PROGRAM

Area	Policy objectives	Actions Taken by Government	Further Measures Recommended	Proposed Timing					
				1986	87	88	89	90	
<b>A. Trade &amp; Exchange Policies</b>									
1. Exchange Rate Policy	Maintain in agreement with IMF, a flexible exchange rate policy	Adopted a more flexible foreign exchange rate policy which has so far resulted in a devaluation of 13% since January 1984 (real effective rate) (IMF)							
2. Reform of the System of Protection	Progressively reduce distortions in the prices and incentives structure to foster competition, improve the efficiency of investment and raise labor productivity	Reduced the maximum nominal tariff rate to 60% and the Special Import Tax to 7.5% (ITPA I, II) Liberalized about 50% of the imports and nearly all exports subject to controls (ITPA I, II, ASL)	Reducing the maximum tariff to 45% and the SIT to 5%	*	*				
			Improving allocation of agricultural inputs and beginning rationalization of the sugar sector (Large Irrigation Project, ASL) Liberalizing most of the remaining controls on imports (ITPA II) Reduction of total tariff protection to 25%	*	*				
3. Price Liberalization	Improve resource allocation by eliminating all price controls, setting prices of public utilities and/or monopolies to reflect costs of production, and liberalizing producer prices in agriculture	Eliminated price controls on many goods previously subject to such controls (ITPA I, II, ASL) Reduced subsidies to agricultural inputs (ASL) Raised agricultural procurement prices (ASL)	Introduction of automatic adjustment of prices in the public sector by national economic criteria			*	*		
			Reducing food and agricultural subsidies another 20-30% and implementing a program to eliminate them entirely before 1990 (IMF, ASL) Further raising agricultural procurement prices and improving procurement procedures (ASL) Eliminating more price controls as domestic monopolies are countered by liberalized imports (ITPA II) Rationalization of price structures in agriculture	*	*	*	*	*	



Area	Policy objectives	Actions Taken by Government	Further Measures Recommended	Proposed Timing 1986 87 88 89 90					
<b>B. Banking &amp; Financial Sector</b>									
1. Interest Rate Policy	Increase domestic resource mobilization and ensure that the cost of capital reflects its true scarcity value	Raised interest rates about 2% points to a positive real level (IMF, ITPA II)	Continued monitoring of interest rates to assure they are generating sufficient private savings (ITPA II, IMF) Elimination of interest rebates (ITPA II) Development of capital and financial markets to facilitate privatization of larger public enterprises Extension of access to the Bond market to public enterprises (ITPA II)	* *					
2. Selective Credit Policies and Sectoral Financial Reform	Reduce distortions in the financial sector and enhance efficiency of financial intermediation		Reducing the role of government in setting rates in the financial sector and encouraging greater competition from specialized institutions in collecting deposits (ITPA II) Elimination of Government administration of interest rates and bank fees	* *					
3. Financial Instruments	Develop the workings of capital markets and improve the allocation of financial resources	Begun development of a functioning money market (ITPA II)							
4. Regulatory Policy	Further competition in the sector by liberalizing regulatory framework and rationalizing government intervention	Introduced reforms to increase incentives for financial institutions to collect deposits (ITPA II, IMF)							

Area	Policy objectives	Actions Taken by Government	Further Measures Recommended	Proposed Timing					
				1986	87	88	89	90	
<b>C. Public Sector</b>									
1. Public Finance	Rationalize the structure of the Government budget and augment public savings	Strengthened its tax collection effort and raised some new taxes (IMF, ASL) Reduced overall consumer subsidies by 20-30% (IMF, ITPA II) Raised tariffs for electricity, water, transport, petroleum products, communications etc. (IMF, ITPA I, II, PERL) Increased irrigation water charges (ASL) Reduced capital subsidies to Public Enterprises (IMF, ITPA II)	Introduction of a fiscal reform replacing sales tax with Value Added Tax and other measures (IMF) Further consumer subsidy reductions and increased Public Enterprise self-financing (IMF, PERL, sector loans) Reduction and elimination of Government and public enterprise arrears (PERL, IMF) Reform of the direct tax structure to increase its contribution to revenues (now 10%); an interim measure could be to increase the PSN Completion of consumer subsidy elimination program	*	*				
2. Public Investment	Improve the efficiency of resource utilization in the public sector by rationalizing public investment and increasing their return	Eliminated past investment budget overhangs and reevaluated remaining projects (Investment Review) Improved project evaluation capacity (ITPA II, Vocational Training, ASL) Elimination of interest rebates (ITPA II) Begun a program to computerize investment budget monitoring	Further reorganization and improvement of planning and budgeting (ITPA II) Introduction of more improvements in planning and budgeting procedures and systematic evaluation of public investment by economic criteria prior to being included in the Plan (ITPA II) Reduction in bureaucratic delays relating to investment approvals, particularly for foreign investors	*	*				
3. Public Enterprises	Raise the performance efficiency of public enterprises and ensure adequate enterprise autonomy by limiting the extent of Government intervention in productive sectors of the economy	Established a ministerial committee to reduce inefficiencies in the public enterprises (PERL) Begun clarification and rationalization of agricultural offices and transfer to private sector of commercial activities (ASL) Begun creation of autonomous market oriented enterprises to replace Government agencies in telecommunications and ports (Telecom.I, Ports I) Rationalized agricultural research, extension and procurement (ASL)	Price increases to cover costs in a number of public enterprises (PERL, ASAL) Streamlining supervision of public enterprises with greater delegation of responsibility to the public enterprises themselves (PERL) Introduction of improved management tools in public enterprises (e.g. standard accounting and audits, MIS, etc) (PERL, ASL) Development of restructuring financial mechanism for industries affected by liberalization or export promotion measures (ITPA II, export promotion) Restructuring of key public enterprises	*	*				

Area	Policy objectives	Actions Taken by Government	Further Measures Recommended	Proposed Timing				
				1986	87	88	89	90
			Further privatization of commercial public enterprises (PERL)	*	*			
			Continued reform of agricultural offices (ASL)	*	*			
			Transfer of agricultural procurement to private sector (ASL)	*	*			
			Reform of structure of Regies to increase efficiency				*	*
			Reformulation of Public Enterprise objectives and changes in government control systems to promote efficient management and divestiture of some enterprises				*	*
			Reform of controls on domestic transport and elimination of ONT monopoly				*	*

Area	Policy objectives	Actions Taken by Government	Further Measures Recommended	Proposed Timing					
				1986	87	88	89	90	
<b>D. Human Resource Development</b>									
1. Education and Vocational Training	Increase the efficiency of the education sector	<p>Instituted a major shift toward basic education (particularly in rural areas and for females) and toward vocational training and at the secondary level to reduce the output of traditional education, which was producing too many unemployed graduates (Voc. Training)</p> <p>Restricted entry into free public university education to correspond to needs and resources (ESL)</p> <p>Increased teacher hours (ESL)</p> <p>Increase training of government officers in project evaluation (Voc. Training)</p>	<p>Extension of basic education from 65% to 95% of primary age children (ESL)</p> <p>Further restructuring of secondary and higher education to place more emphasis on vocational training and reduce the growth of university enrollment (ESL)</p> <p>Implementation of rural health services in selected provinces (Health I)</p> <p>Creation of specialized training courses and certificates for high priority areas, e.g. accountants (PERL)</p> <p>Completion of educational sector reform</p> <p>Establishment of a coherent manpower plan to guide the reforms in higher education and vocational training</p>	*	*				
				*	*				
2. Health and Nutrition	<p>Improve access of rural and lower income groups to health care facilities</p> <p>Enhance national food security</p>	<p>Increased provision of rural health centers and family planning programs (Health I)</p> <p>Instituted food security measures through Promotion Nationale and Education Nationale and other programs</p>	<p>Implementation of universal food security program as subsidies are phased out (IMF, WB)</p> <p>Extension of rural health services including family health and preventive care nationwide</p>	*	*				
						*	*	*	

SECTOR POLICIES

1. This section identifies the major sectoral features that are necessary for policy reform to resume and sustain medium-term growth in Morocco. The purpose of the policy framework is to identify factors that have constrained growth, define policy objectives to eliminate such constraints and recommend specific policy changes.
2. There are two principal constraints for the resumption of sustained growth in Morocco: (a) the underlying distortions in the economy, and; (b) the inefficiencies in the operation of the public sector. Elimination of these constraints requires improving the incentives' system necessary for a more intensive use of resources to increase production and exports, and undertaking a series of actions to improve the efficiency of the public sector. Carrying out these tasks will require removal of price distortions and liberalization in the trade regime, sectoral productivity improvement, mobilizing more domestic resources and an overall improvement in the machinery of government, notably, sound public investment screening mechanisms, and requiring public enterprises to operate like commercial entities.
3. The section below will thus deal jointly with a definition of the issues and needed reform in the public enterprises, and, subsequently, discuss policy objectives and recommendations for each principal sector -- agriculture, industry, energy, transport, telecommunications water supply, urban, population, health and nutrition, and education.

Public Enterprises (PEs)

4. Background: The Government is full, or part-owner, of nearly 600 PEs in Morocco. Activities of the PEs span all aspects of economic activity. Organizations range in type from those that provide public services essentially through extensions of Government departments (e.g. Regional Agricultural Development Agencies or ORMAVAS); the typology includes enterprises which produce public goods and services in a fully protected environment (e.g. the public utilities), and commercial enterprises with no public service obligations, which compete domestically and internationally, and finally, holding companies through which public participations are effected (e.g. BRPM)
5. The PE sector has grown rapidly in Morocco and its enterprises performed an important role in the economy in that, after independence, while the private sector was developing, public sector institutions were the main vehicles for the promotion of economic development. Initially PE investments were financed by a combination of borrowing, retained earnings and Government



transfers. In the early 1980s, the low domestic saving ratio (brought about by low interest rates) decreased the availability of commercial financing for PEs, and budgetary transfers became more important as a source of financing. After 1983, Morocco's declining creditworthiness, coupled with fiscal restraint under successful IMF programs, caused the Government to delay budget subventions to PEs, as well as payments for PE outputs. The result was a sharp build-up in arrears to PEs. Liquidity problems in these PEs caused them, in turn, to delay payments to other PEs and to the private sector. The arrears rapidly built up, reaching over DH 6 billion in 1984, or nearly 20% of the total Moroccan budget for that year<sup>1/</sup>. These arrears have complicated macroeconomic management and accentuated the need for a close examination of all Government decisions relating to PEs. Many Moroccan PEs, while financially exposed on account of the arrears problems, are technically strong, and would be able to develop and grow independently of State support if permitted to do so. But they face common inter-related problems such as: (i) Ministers chair Board of Directors which tends to politicize decision-making in all aspects of resource deployment and use; - including investment decision-making and input and output pricing - with consequential adverse impact on financial performance and greater dependence on state resources; (ii) the lack of accounting and management information systems makes it difficult to assess the costs of enterprise activity and to judge the impact of decisions within a PE and on the economy at large; (iii) lack of freedom to set enterprise administrative policy adversely affects management's capacity to deploy its own resources and has deleterious effects on staff and worker morale and productivity.

6. The sector contributes about 20% to value added in the economy. On the other hand, PEs as a group are net recipients of Government funds. Budgetary flows to PEs have been as high as DH 3.2 billion in some years. Budgetary transfers accounted for over 43% of PE financing in 1981 and 46% in 1982. The direct subsidy element of PE financing rose from 25% in 1973-77 to 39% in 1982. Net budget transfers have constituted 12% of the overall budget deficit over the past five years. In recognition that this drain on the economy could not persist, the Government conducted an exhaustive survey (the Jouahri Report, 1979-82) of the problems facing PEs. There were several outcomes of this exercise. An Interministerial Committee under the Prime Minister was constituted which, together with a Committee de Vigilance established under the Ministry of Equipment, would recommend improvements in PE management and operations and monitor the arrears situation. In six sectors 142 measures were proposed and adopted. These measure were ad hoc in nature and did not resolve PE's problems. Subsequently, the Government realized that an overall framework and strategy were needed for PE reform -- specifically to resolve the arrears' question and what type of measures are needed to rationalize the sector so as to ensure that the arrears do not re-emerge.

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<sup>1/</sup> By way of comparison, Morocco's capital budget in 1984 was DH 7 billion.

7. Policy Recommendations: The overall objectives in the PE sector are to help establish an environment conducive to the development of efficient, self-sustaining enterprises so as to decrease their dependence on public finance. A dual approach of introducing general reform in conjunction with restructuring actions in specific enterprises is necessitated by long-standing Government interventions in both PE policy-making and enterprise management, which have adversely affected the efficiency of key enterprises operative in important economic sectors. In view of the complexity of the sector, accentuated somewhat by limited Government administrative capacity, selectivity will be needed in the choice both of policy issues to be addressed and enterprises to be restructured. Selectivity will be based, inter-alia, on the enterprises' contribution to value added, the arrears' situation, its dependence on the budget, and its willingness to accept reforms.

8. Policy and institutional changes will be needed in both Government departments and PEs to evolve a satisfactory balance between the need for improved supervisory controls by Government on the one hand, and strong, professional enterprise management on the other. At the enterprise level, reforms will consist of introducing revised accounting, information and management systems, rational investment planning systems and methods. In specific, identified cases and in the organizations appraised (e.g. ONE, ONCF, ONEP), organizational physical and financial restructuring programs should be implemented. Restructuring programs for each PE would review appropriate options for privatization, liquidation and transfers, so as to raise resources. The financial autonomy and self-sufficiency of PEs would thus be promoted, relieving the State of the need to provide budgetary funds for capital and operating expenditures. Thus, the role of the State vis-a-vis PEs would be substantially redefined.

#### Agriculture

9. Background: Agriculture provides 40% of all employment and generates about one-third of all exports. The decline in the relative importance of agriculture over the past twenty years - in terms of value added, employment and exports - has contributed to Morocco's economic difficulties. Domestic production has failed to keep up with consumption, so that agricultural imports account for one-quarter of total imports; exports (particularly citrus fruits, vegetables, canned fish and wine) have been stagnant for more than a decade. The divergence of domestic consumption and production, and between imports and exports, combined with stagnation in production could, if continued, jeopardize Morocco's adjustment effort. It is therefore important that the Moroccan Government's efforts be directed at reforms aimed at restructuring the sector.

10. Policy Recommendations: The essence of the agricultural sector strategy is to ensure that investments are directed towards quick-yielding, low cost projects. An important start has been made under the First Agricultural Sector Loan, under which the public investment program was recast to emphasize faster growth in rainfed areas, increased efficiency in irrigated farming and productivity - all the while minimizing budgetary financing, and improving cost recovery. An optimal role for the public sector is being

defined and its interventions rationalized to permit increased emphasis on policy planning and analysis, and the enhancement of the delivery of key agricultural services (e.g. research and extension) which must continue to be provided by the Government. Through investments in the rehabilitation of irrigation works, the re-organization of the ORMVAs is being effected to strengthen planning, monitoring and evaluation functions, as well as to increase the efficiency of field operations. Contract plans will be executed between the Ministry of Agriculture and the ORMVAs to define these roles. There are commercial services in agriculture (e.g. credit), which should be encouraged to be transferred to the private sector to the extent feasible. The reform program is broad-ranging and a critical element of Morocco's adjustment effort. In the next phase, reforms in the pricing and incentive systems in agriculture should be introduced. Past Governments' policies aimed at promoting agricultural productivity while supplying (mainly urban) communes with basic foodstuffs at low prices (and insulating both producers and consumers from fluctuations in world market prices) have resulted in unsustainable burdens on the budget.

### Industry

11. Background: The manufacturing sector will play a predominant 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 the disequilibrium in the balance of trade, with imports of intermediate and capital goods growing faster than locally produced import substitutes.

12. Policy Recommendations: Morocco's adjustment efforts in the trade and industry sector need to concentrate on policy reforms in tariff protection and investment incentives, as well as to emphasize export promotion. More specifically, policy work in the financial, trade and industrial sectors needs to focus on the following issues; finding a balance between reductions in quantitative restrictions and tariffs; further reforms in the financial sector to mobilize resources and increase the efficiency of financial intermediation; and further liberalization of interest rates and bank commissions, combined with a larger intervention of the Treasury and other financial intermediates on both monetary and capital markets. As such, the implementation of the investment codes reform to eliminate rebates on interest rates will also be needed. In this context, an assessment should be undertaken as to what needs to be done to develop long-term financing investments and capital markets. Trade liberalization policies will inevitably increase competition from imports, so that many local enterprises willing to respond to the new trade environment <sup>1/</sup> will need to improve efficiency and would require funds for expansion and/or restructuring.

### Energy

13. Background: The principal problem facing the energy sector in Morocco is the country's dependence on imported oil. In 1984, imported oil accounted for over 85% of gross energy consumption and equalled nearly half of

<sup>1/</sup> e.g. in agro-industries, textiles, handicrafts, engineering.

total export earnings. Although oil exploration is continuing, no major discoveries have been made in recent years; while it was thought in the early 1980s that Morocco's gas reserves could be large, subsequent drilling results have been disappointing. Morocco's immense reserves of oil shale are unexploitable given current technology and oil prices. The most prospective of Morocco's coal reserves at Jerada are being developed.

14. In recent years the rate of growth of energy consumption has slowed as a result, inter alia, of policy decisions to increase energy prices and adopt energy conservation measures. The energy demand elasticity to GDP growth has dropped from 1.12 during 1974-80 to 0.67 during 1981-84. Domestic retail prices for most petroleum products and for coal are at or above international levels.

15. Energy planning has been deficient, there being no overall Government strategy for allocating investment resources among energy alternatives and ranking energy projects according to economic criteria. While strides have been made to reduce energy demand, a consistent set of demand management policies are needed, particularly with respect to curbing fuelwood consumption.

16. Policy Recommendation: Morocco's primary objective in the energy sector is to reduce the burden of energy imports, while ensuring that resources are allocated efficiently to the sector. Efforts have been made to expand generation capacity in the power sector and to explore and appraise petroleum and oil shale resources. However, a change in investment priorities is needed in view of Morocco's tight resource position. In the medium term, it will be more cost-effective to concentrate on achieving greater efficiency in energy conservation and end use. This does not mean that energy supply issues can be ignored. Rather, since Morocco has done well in promoting private company oil investment, it should continue to do so by increasing energy supplies and reducing its budgetary burden.

17. One of the main actions in the power sub-sector will be the organizational and financial restructuring of the public enterprises which are responsible for power generation, transmission and distribution. The Office National de l'Electricité (ONE), one of the largest and best-managed institutions in Morocco, is responsible for power generation and some distribution, and is under the tutelage of the Ministry of Energy and Mines. The Regies (municipally owned public enterprises) also distribute electricity, as well as potable water, but are under the Ministry of the Interior. Co-ordination problems hinder efficient grid interconnections and subsequent operations and inhibit rational investment planning. It may, on balance, be disadvantageous for the Regies to continue to be responsible for the distribution of both power and water. The financial position of ONE and the Regies is threatened by the arrears' problem (see PE section, para. 44), insufficient tariff increases and an inappropriate tariff structure. The accounting systems of the Regies are deficient. To rectify shortcomings within the power subsector, reforms should aim at (i) a clear definition of the roles of each participant in the power sector, the improvement of coordination among them and the evolution of an optimal allocation of responsibilities for the distribution of power (the studies and actions

required to achieve this would parallel those in the Water Supply and Sewerage sector where similar problems exist; (ii) a program of financial restructuring of ONE and the Regies; (iii) the development of new forms of governmental control of the utilities in line with the objectives of the PE reforms; (iv) tariff reform; (v) the preparation of an integrated least cost electricity investment program; and (vi) operational improvements to reduce losses, particularly in transmission and distribution, and the implementation of load management measures.

#### Transport

18. Background: Morocco has a well-developed transport system. There is evidence of overinvestment in road and rail transport. Demand for these transport modes is easily met by the existing networks. However, sector performance is hampered by overregulation by the Government. Also the sector is a major recipient of public investment funds and is heavily subsidized. The principal challenges facing the Ministry of Transport will be to rationalize investment planning and co-ordination, so as to permit a selection of least cost ways of providing transport services. At the same time, access to the transport market needs to be streamlined and liberalized to determine the allocation and use of transport resources. Domestic resource mobilization must be promoted through the setting of tariffs to reflect the economic costs of services provided and the efficient use of existing transport capital stock.

19. Policy Recommendations: The institutional framework within the sector has not been conducive to its efficient development. Many of the policy changes (regulation, pricing/subsidies) and institutional reforms needed for the sector are essentially those that affect many public enterprises in Morocco. It is appropriate therefore for the Government to concentrate on improvements in the management of the public enterprises which operate in the sector, particularly ports and railways. There are a number of key areas which will need special attention. A National Transportation Plan needs to be formulated in order to define optimal intermodal distribution of the principal traffic flows. Expertise needs to be built up in the Ministry and concerned public enterprises within the sector to evaluate investments in accordance with economic principles. Modern management tools, particularly analytical accounting methods, need to be introduced so as to permit an adequate analysis of costs and the establishment of appropriate tariffs. Access to the transport market needs to be facilitated by a concerted effort to deregulate entry. Tariff policy must be used to raise resources and allow for an optimal distribution of traffic among modes.

#### Telecommunications

20. Background: Telephone density in Morocco, currently one line per 100 inhabitants, is exceedingly low for a country with Morocco's income levels. The waiting list for connections is almost equal to the number of lines in operations. Lack of sufficient capacity leads to high usage and congestion at peak hours which is detrimental to service quality. Large parts of the existing network are obsolete or worn out and must be replaced. Since the predominant users of telecommunications' infrastructure are businesses,

commercial activity is dampened for want of this critical resource. Even if the current five-year development plan, which calls for a trebling of the density by 1990, were to be implemented, it would still be lower than countries of similar income levels.

21. Policy Recommendations: An appropriately planned rehabilitation and development of the network would greatly benefit Morocco. Increasing communications efficiency between major industrial and commercial centres (such as with the export processing zone in Tangiers which is far from industrial centres), combined with enhanced access to service, rural and international, will support the productive sectors and promote marketing efficiency, and will be particularly important for the export sector and for the promotion of tourism. A more efficient network will also aid Government administration and permit a more efficient use of skilled manpower throughout the economy. Finally, expansion and improvement of the network within the country will support the Government's policies of expanding the economy's agricultural base and decentralizing industry and commerce from the Casablanca-Rabat-Kenitra axis as a means of curbing the country's high urban growth rates. Finally, as part of the reforms to be implemented in Moroccan public enterprises, the ONPT will be expected to evolve into an autonomous, commercially-oriented enterprise whose financial and management systems, and planning and implementation capabilities would be appropriate to enable the introduction and absorption of new technologies.

#### Water Supply

22. Background: Water is generally scarce in Morocco. Rainfall is uneven, and unevenly distributed. Domestic consumption is low by comparison with countries of similar income levels. Moreover, domestic consumption accounts for only 3.4% of overall water use. Access to public water systems in urban areas is reasonable, but in rural areas only about 25 percent of the population draws water from the public distribution. Widening such access to rural and low-income urban groups would have important equity effects and at the same time supplement Government efforts to improve public health. The sewerage system has not developed at the same pace as the water supply system. Sewerage systems are generally inadequate. Only one-third of the population is connected to sewers; much of the network discharges raw sewerage into rivers, which are often not perennial, which creates severe health hazards and results in serious pollution.

23. Policy Recommendations: Given current economic conditions in Morocco, large investments to expand water and sewerage networks which are financed by budgetary transfers would be inappropriate. At the same time the institutional and financial framework for a future water and sewerage sector development program needs to be laid. The promotion of efficient water use and of resource generation for sector operation and investment needs should be emphasized through appropriate tariffs and cost collection measures. The operational efficiency of existing systems has to be increased. Most importantly, agencies charged with the production and delivery of water and the disposal of sewerage need to be strengthened and the organizational framework rationalized. At present, responsibilities for the distribution of

water and electricity, and for the treatment of sewerage are entrusted to single agencies, the Regies, which are municipal public enterprises. In general, Regies are not well managed and are often subject to political interference. There is no inherent reason for such a shared distribution function. Thus, reforms need to center around the need to establish a rational division of functions and responsibilities for generating and distributing electricity and potable water, and the treatment of sewerage. Many of the institutional and financial problems facing the water supply agencies in Morocco - (ONEP) and the Regies - are common to Moroccan public enterprises. Sound criteria need to be developed for optimizing the development of water resources - based on water plans for the major water basins - and allocating them between various users; and investment planning capabilities need to be strengthened.

#### Urban

24. Background: Morocco's urban growth is estimated to be twice that of the rural areas. However, urban areas offer considerable scope for economic activity and efficient employment creation. Land availability per se is not particularly constrained in Morocco, although access to land is an issue. The Government should be encouraged to rationalize rather than restrain urban growth, and to finance urban development less from budget transfers than by (1) mobilizing local fiscal resources, (2) raising user charges, and (3) raising the share of institutional and private savings directed towards municipal and housing finance.

25. Policy Recommendations: As in education and in health and nutrition, in order to mitigate the impact of cutbacks in Government expenditures on the more vulnerable elements of the population, social services and infrastructure must be appropriately targetted. Considerable efforts will be needed to improve cost effectiveness and lower unit costs of delivery systems. Increasing the availability of low-cost serviced land (particularly from the private sector) is of the highest priority, as is the need to mobilize private resources to the urban sector through the establishment of savings and loan schemes. In addition, there is a need for further analysis of the legal framework for land acquisition and registration, and of municipal finance so as to remove the bottlenecks to more rational urban development. Investments in urban infrastructure must also be linked to developments in processing, manufacturing and in tourism.

#### Population, Health and Nutrition

26. Background: With population growing at 2.6% per annum (1970-82), economic growth must be supplemented by an expansion of population control activities if per capita income is to rise. There is understandable reluctance in this Muslim society to set demographic objectives in the form of limitations on natality. Changes in marriage and inheritance laws and practices will be difficult to achieve. On the other hand much can and is being achieved through integrated programs in family planning, health, and maternal and child care. For example, training in contraceptive delivery is provided as part of medical and paramedical training programs.

"Demedicalizing" contraceptive sales, distribution and service advice is being promoted. In addition, attitudes with respect to the need for large families are being changed not only through education programs but also through the promotion of social security programs and retirement plans which provide alternatives, in terms of "insurance", to large families.

27. Policy Recommendations: Morocco spends only 1.2% of its GNP on public health services, considerably less than other countries with similar income levels. In view of the country's financial constraints, the situation will only worsen unless the Government acts to seek additional external financing and ensure that available resources are used efficiently within the sector. Cost effectiveness must be encouraged by introducing basic changes in the structure of expenditures in the public health system for equity and efficiency considerations, e.g. by reducing the proportion of expenditures on hospitals and reallocating funds to basic health services. However, in order to deal with the critical issue of how to finance the health sector, attempts must be made to (i) define the respective roles of the Caisse Nationale de Security Sociale and private sector health schemes; (ii) find the means to integrate additional employees from industry, agro-industry, and agriculture into the health care financing system, and (iii) provide further analyses as to how to promote cost containment and cost recovery.

#### Education

28. Background: Expenditures on Education in Morocco have grown exceedingly rapidly over the past decade. During a time when budget expenditures as a whole were growing faster than the economy could afford, the Ministry of Education's budget increased from 12.5% of the Central Government Budget in 1975 to 21.5% in 1985. These expenditures were not being used effectively in meeting basic educational needs and producing manpower consonant with Morocco's evolving development needs and priorities. Expenditures on higher education were disproportionately high, with enrollments growing at 17.3% per annum, while those in primary and secondary schooling were growing at annual average rates of 4.4% and 8.0% respectively. During the late 1970s, construction of new university facilities absorbed as much as 50% of the Ministry's budget. In the early 1980s, the combination of an emergence of skill constraints in manufacturing, particularly in the private sector, and of unemployment of university graduates within an environment requiring severe fiscal restraint, caused the Government to re-think its education strategy. It has begun a fundamental education reform program aimed at (i) restructuring education expenditures and reallocating resources from higher towards primary and secondary grades; (ii) enhancing efficiency in terms of improved student flows; (iii) containing public expenditures through a reduction in unit costs, the introduction of cost recovery measures and encouragement of private sector participation; and (iv) improving the employment orientation of schooling at all levels. While the number of students entering primary schools will be expanded, entry thereafter into vocational training will be encouraged, admission to university facilities will be reduced sharply relative to historical trends and will be concentrated in those specializations needed for the development of the economy.



29. Policy Recommendations: The reform will render the education system more equitable by increasing access of the population, especially the rural population, to education services. It will take about ten years to implement. It is appropriate to support the reform in its critical phases, given that it is expected to make a significant contribution to a reduction in the rate of growth of budget expenditures, and increase the efficiency of the education system.

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