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THE WORLD BANK

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MOROCCO

MOROCCO

11/12/69
(Rabat) Sinaceur Ben Larbi, Charge de Mission, Royal Cabinet
H.E. Moulay Abdeslam Ouazzani, Governor of Rabat-Sale Prefecture
Kamal Kanouni, Royal Protocol
Farouk Bennis, representative of Minister of Finance

11/13/69
(Rabat) Dr. Mohamed Benhima, Minister of State in charge of Agriculture
and Agrarian Reform

" Mamoun Tahiri, Minister of Finance

" Mohamed El Fasi, Minister of State in charge of Cultural Affairs
and Traditional Education

" Mohamed Bel Larbi, President of Young Employers Association

" Clark Prather, President, American Chamber of Commerce, Morocco
Othman Bengelloun, Vice President, American Chamber of Commerce, Morocco
Jacques Lambrichts, Member, American Chamber of Commerce, Morocco
Francois Hoche, Member, American Chamber of Commerce, Morocco

" Ahmed Reda Guedira, Minister of State in charge of secondary, technical,
university education and of formation of cadres

" Dr. Moulay Ahmed Laraki, Prime Minister

" Prince Moulay Hassan Ben Mehdi, President, National Bank for Economic
Development
Mohamed Benkirane, Director General, National Bank for Economic Development

" Amine Bengelloun, Director General, Compagnie Marocaine de Credit de Banque

" Abdelaziz Alami, Director General, Banque Commerciale du Maroc

" Driss Slaoui, Director General, Royal Cabinet
Moulay Ahmed Alaoui, Minister of State in charge of Promotion Nationale
and Handicrafts

" Abdelhadi Boutaleb, Minister of Foreign Affairs

" Hadj Mohammed Bahnini, Minister of Administrative Affairs, Secretary
General of the Government

11/14/69
(Casablanca) Colonel Bouazza Aboulhimz, Governor of Casablanca Prefecture

" Mr. Sakkat, owner, Filatis Textile Co.

" Mohamed Karim Lamrani, Cherifien de Phosphate (accompanied to Marrakech)

11/14/69
(Marrakech) Colonel Demmati, Governor of the Province

11/15/69
(Fes)

Ahmed Benbouchta, Governor of the Province

11/15/69
(Rabat)

Their Majesties the King and Queen

11/12-15/69
(Rabat)

Others possibly met:

Mohamed Imani, Minister of Public Works and Communications

Mohamed Jaidi, Minister of Commerce, Industry and Mines

Abdelkrim Lazrak, Minister of Tourism

Mustapha Faris, Secretary of State for Planning and Technical Development

General Mohamed Oufkir, Minister of the Interior, Town Planning and
Technical Development

Mfadel Lahlou, Director, Caisse Nationale de Credit Agricole (CNCA)

Haj Miloud Chaabi, Federation des Chambres de Commerce et de l'industrie
du Maroc

Mohamed Drissi, President, Junior Chamber of Commerce

PROGRAMME OF M. PRESIDENT McNAMARA'S
VISIT TO MOROCCO

Wednesday 12th november 1969

20.15 - Arrival at RABAT-SALE Airport

Welcome by :

- M. Sinaceur BEN LARBI, Chargé de Mission at the Royal Cabinet
 - H.E. Moulay Abdeslam OUAZZANI, Governor of Rabat-Salé Prefecture
 - M. Kamal KANOUNI, from the Royal Protocol
 - M. Farouk BENNIS, representative of M. Minister of Finance
- M. McNAMARA and the Moroccan officials proceed to Hilton Hotel
- Evening free

Thursday 13th november 1969

8. 45 - Talk with H. E. Dr ^{MOHAMED} BENHIMA, Minister of State, in charge of Agriculture and Agrarian Reform
9. 30 - Talk with H. E. M. Mamoun TAHIRI, Minister of Finance *delay in reply*
10. 00 - Signing of loan agreements
11. 00 - Talk with H. E. M. Mohamed EL FASI, Minister of State, in charge of Cultural Affairs and Original Education

- 11.50 - Talk, at Hilton Hotel, with M. Mohamed BEL LARBI, President of Young Employers Association *why is small & growing so slowly as seen*
12. 10 - Talk, at Hilton Hotel, with MM. Clark PRATHER (President), Othman BENGELLOUN (vice-President) Jacques LAMBRICHTS and François HOCHÉ (members) American Chamber of Commerce, Morocco
12. 40 - Talk with H. E. M. Ahmed Reda GUEDIRA, Minister of State in charge of secondary, technical, university education and of formation of cadres *why is his country growing so slowly - what is needed to speed up growth why is it advancing*
- Private lunch *so much more rapidly*
15. 00 - Talk with H. E. Dr Moulay Ahmed LARAKI, Prime Minister *how does govt propose to follow up on plan outlook for middle East*
16. 00 - Talk, at Hilton Hotel, with the Président of the National Bank for Economic Development (BNDE), H. H. Prince Moulay Hassan BEN MEHDI, and the Director General of the BNDE, M. Mohamed BENKIRANE *why such a small & slow growing private sector why is the govt taking so many initiatives*
16. 30 - Visit of the town and Mohammed V Mausoleum *mainly priv-sect interest, normally*
18. 00 - Talk, at Hilton Hotel, with M. Amine BENGELLOUN, the Director General of the " Compagnie Marocaine de Crédit et de Banque " *pl. agreement*
18. 30 - Talk, at Hilton Hotel, with M. Abdelaziz ALAMI, Director General of the " Banque Commerciale du Maroc "
20. 00 - Dinner given by M. Minister of Finance (with ladies)

Friday 14th november 1969

8. 00 - Leave for CASABLANCA by car
9. 00 - Arrival at Casablanca
- Welcome by Colonel Bouazza ABOULHIMZ,
Governor of Casablanca Prefecture
- Visit to the textile factory " Filatis ", financed by the
BNDE, on IBRD loans
10. 00 - Visit of the town (short visit to the Lycee Okba Ben Nafaa)
11. 00 - Leave for AGADIR by plane
- Flight over phosphate mines
12. 00 - Arrival at AGADIR
- Visit of the town
- Private lunch
14. 30 - Leave for MARRAKECH
15. 00 - Arrival at Marrakech
- Welcome by Colonel DEMNATI, Governor of the
Province
15. 30 - Visit of MARRAKECH and its region
20. 30 - Restricted dinner with folklore show, given by the
Governor

Saturday 15th november 1969

8. 00 - Leave for FES by airplane
9. 00 - Arrival at FES
- Welcome by H. E. M. Ahmed BENBOUCHTA,
Governor of the Province

- 9. 30 - Visit of the town and Karawyn University
- 11. 30 - Aperitif at 'Merinides Hotel'
- 12. 00 - Lunch at Palais Jamaï
- 13. 30 - Leave by car for the visit of the agricultural scheme
(itinerary attached)
- 18. 00 - Leave for RABAT by car
- 19. 30 - Arrival at RABAT
- 21. 30 - Dinner given by His MAJESTY THE KING
- Dinner given by Mrs LARAKI, M. Prime Minister's wife,
in honour of Mrs McNAMARA

Sunday 16th november 1969

- 10. 30 - Leave Hilton Hotel for RABAT-SALE Airport
- 11. 00 - Leave for LISBON by special airplane
- 12. 00 - (13.00 local time) arrival at LISBON

MOROCCO

List of personalities

(A) Government leaders

Prime Minister - Ahmed LARAKI. Appointed Prime Minister only a few weeks ago, Laraki was formerly Foreign Minister and was Ambassador to the U. S. from 1965 to 1967.

Minister of Finance - Mamoun TAHIRI. In office since 1965 and frequent visitor to the Bank.

Minister of State for Agriculture and Agrarian Reform - Mohammed BENHIMA. Until recently Prime Minister.

Foreign Minister - H. E. Abdelhadi BOUTALEB. Formerly Minister of State and has served also as Minister of Justice.

Minister of Public Works and Communications - Mohamed IMANI. A former Secretary of State for Economics.

Minister of Commerce, Industry and Mines - Mohamed JAIDI.

Director General of Royal Cabinet - Driss SLAOUI. Formerly Minister of Justice.

Minister of Tourism - Abdelkrim LAZRAK. Formerly Secretary-General, Ministry of Finance.

Minister of State for Secondary and Higher Education - Ahmed Reda GUEDIRA. Formerly Minister of Planning.

Secretary of State for Planning and Technical Development - Mustapha FARIS. Until recently Director of Hydraulics, Ministry of Public Works.

Minister of the Interior, Town Planning and Technical Development - General Mohamed OUFKIR. In charge of the Police and long-time strong member of the cabinet.

Note: See complete list of Government members on pages 4 and 5.

Directors of organizations to which IBRD has made or is considering loans

- (B) Banque Nationale pour le Développement Economique (BNDE)
Chairman - H. H. Prince Moulay Hassan Ben Mehdi (also Governor Central Bank).

Director General - Mohamed BENKIRANE.

Caisse Nationale de Crédit Agricole (CNCA)
Director - Mfadel LAHLOU.

Crédit Immobilier et Hôtelier (CIH)
Director General - Mohamed LAZRAK.

- (C) Financial and business leaders

Office Chérifien de Phosphate (OCP), government-owned phosphate mining and processing monopoly.
President - Mohamed Karim LAMRANI; he is also President of Credit du Maroc.

Fédération des Chambres de Commerce et de l'industrie du Maroc.
Located in Casablanca, this is the main such group in Morocco, although there are also active French and U. S. Chambers of Commerce.
President - Haj Miloud CHAABI.

Junior Chamber of Commerce. President - Mohamed DRISSI, textile manufacturer.

Centre de Jeunes Patrons. This group wants to start a management training school in Casablanca and is contacting possible sources of help in the U. S.
President - Mohamed BELARBI, Director of SOMACA, an auto assembly plant in Casablanca.

Banque Marocaine du Commerce Extérieur. One of the top commercial banks.
President - Hadj Abdelmajid BENGELLOUN.

(D) Leaders of political parties and labor organizations

Istiqlal. Largest political party; led movement for independence;
nationalistic in its views.
President - Allal EL FASSI.

Mouvement Populaire. Pro-monarchy party with strength among the
Berbers.
President - Majjoubi AHARDANE, former Minister of Defense.

Union Nationale des Forces Populaires (UNFP). Left wing,
progressive party, established after split with Istiqlal.
Leader - Abderrahim BOUABID.

Union Marocaine du Travail (UMT). Largest labor organization.
Secretary - Mahjoub BEN SEDDIQ.

(E) Educational leaders

Mohamed V University (Rabat). The modern university of Morocco,
founded by the French.
Rector: Mohammed EL FASSI.

Karaouine University (Fes). Traditionnal Islamic university.
Rector: Abdeslam EL FASSI.

(F) Foreign representatives

France. Chargé d'Affaires - Jean Claude WINKLER.

German Federal Republic. - Ambassador - Heinz VOIGHT.

U. S. A. Chargé d'Affaires a.i. - Dwight DICKINSON.

Belgium. Ambassador - Jean de Bassompierre.

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LIST OF GOVERNMENT MEMBERS
AFTER RESHUFFLES OCTOBER 1969

King & Queen

✓ Director General of Royal Cabinet	Driss Slaoui
Minister, Personal Representative of H. M. the King	Hadj Ahmed Balafrej
Minister of Royal Household	Mohammed Mammeri
✓ Prime Minister	Dr. Ahmed Laraki
Minister of Mauritanian and Sahara Affairs	Prince Moulay Hassan Ben Driss
✓ Minister of State in charge of Cultural Affairs and Traditional Education	Mohammed El-Fassi Fihri
✓ Minister of State in charge of Promotion Nationale and Handicrafts	Moulay Ahmed Alaoui
✓ Minister of State in charge of Agriculture and Agricultural Reform	Dr. Mohamed Benhima
✓ Minister of State in charge of Secondary and Higher Education	Ahmed Reda Guedira
Minister of Justice	Abdelhadif Boutaleb
✓ Minister of Foreign Affairs	Abdelhadi Boutaleb
Minister of National Defense	General Mohamed Mezian
Minister of Interior, Housing and Town Planning, in charge of Resistance and Veterans Affairs	General Mohammed Oufkir
✓ Minister of Administrative Affairs, Secretary General of the Government	Hadj Mohammed Bahnini
✓ Minister of Finance	Mamoun Tahiri
Minister of Commerce, Industry & Mines	Mohamed Jaidi
Minister of Public Works and Communications	Mohammed Imani
Minister of Public Health	Dr. Abdelmajid Belmahi
Minister of Tourism	Abdel Krim Lazrzak

n = total

Minister of Habous and Islamic Affairs	Hadj Ahmed Bargach
Minister for Primary Education	Mohammed Haddou Echiguer
Minister of Posts, Telegraphs and Telephones	Badreddine Senoussi
Minister of Labor and Social Affairs	Medhi Ben Bouchta
Minister of Information	Ahmed Snoussi
Minister of Youth and Sports	Omar Boucetta
Minister, Royal Cabinet	Ahmed Magid Benjelloun
Minister, Royal Cabinet	Dey Ould Sidi Baba
Minister, Royal Cabinet	Thami El Ouazzani
Minister, Royal Cabinet	Abdeslam Benaissa
Minister, Royal Cabinet	Kacem Zhiri
Minister, Preceptor of Crown Prince	Mohamed Aouad
Minister of the Royal Court	Ahmed Ben Messaoud
Secretary of State in charge of Planning and Training of Cadres	Mustapha Faris

Min of Missions in Royal Cabinet *Senoussi*

EDI Fellows in Morocco

Bensouda, Ahmed Mourri (F 1968)

Chef du Service du Plan et des Etudes Economiques
Ministère du Plan et des Affaires Economiques, B.P. 178, Rabat

Hassouni, Larbi (F 1963)

Office Chérifien des Phosphates, 305 Avenue Mohammed V, Rabat

Rhellab, Larbi (F 1967)

Directeur, Ecole du Genie Rural et de Topographie, B.P. 220, Meknes

Sadik, Abdelaziz (F 1969)

Ingenieur Agronome, Directeur Adjoint du Crédit, Chef de Service des Prêts
Caisse Nationale de Crédit Agricole, 2, Rue d'Alger, Rabat

✓ [Zemmama, Fayçal (F 1967)

Directeur de la Banque Populaire de Fés, Boulevard Mohamed V, Fés

✓ [Zerrad, Abderrazak (F 1964)

Secrétaire Général du Ministère d'Etat chargé du Tourisme et de l'Artisanat, Rabat

On February 26, 1961, King Mohamed V, the man who symbolized Moroccan independence and who was revered by a large segment of the Moroccan populace as a saint, died unexpectedly and was succeeded to the throne by his son, Moulay Hassan. Of the Alaouite dynasty which claims descent from the Prophet Mohamed and which has ruled Morocco since 1649, Moulay Hassan thus became King Hassan II. As King, he is concurrently Supreme Commander of the Royal Moroccan Army (RMA), President of the High Committee for National Defense and spiritual head of Islam in Morocco; since June 1965 when he declared "a state of exception" he has served in effect as his own Prime Minister.

This widely traveled young monarch made state visits to the U.S. in 1963 and 1967. He has traveled often to other countries and taken part in many international conferences. He made a visit to the USSR, October 24-28, 1966, during which economic agreements were concluded.

Moulay Hassan was born on July 9, 1929 at Rabat. He was educated at the Imperial College in Rabat. He took extension courses from the University of Bordeaux and received both a licence en droit and a diplome d'etudes superieures.

From 1953 to 1955, he was with his father in exile in Corsica and Madagascar. During the winter of 1955-56, Moulay Hassan took part in the Paris negotiations which led to the declaration of Moroccan independence (March 3, 1956).

With Moroccan independence the old Sherifian Empire gave way to the Kingdom of Morocco and Hassan's father changed his title from Sultan to King. Hassan was appointed Chief of Staff of the RMA, becoming formal Commander in Chief in 1957. He often represented his father at international gatherings.

In July 1957, Mohamed V broke with tradition and designated Moulay Hassan as Crown Prince. In the old Sherifian Empire, the Moroccan ruler had been chosen by the ulema* from among the male offspring of the Alaouite family. In May 1960, Hassan was concurrently named Deputy Prime Minister and Minister of National Defense. After he assumed the throne in 1961, Hassan also served as Minister of Foreign Affairs (June 1961-January 1963) and as Prime Minister (June 1961-November 1963.)

King Hassan is an enthusiastic tennis player, horseman, golfer and sports car driver. He hunts and swims. He is fond of ballet and Spanish music and dance. The King speaks fluent French and Arabic and some English.

*Council of religious leaders who interpret the Koran

Moulay Ahmed LARAKI

Prime Minister, Morocco

Dr. Moulay Ahmed Laraki was appointed Morocco's Foreign Minister on March 13, 1967, from his position as Ambassador to the United States. Dr. Laraki served as Ambassador to the United States from September 1965 to March 1967. Formerly he was Moroccan Ambassador to Spain (February, 1962 to mid-1965).

Ahmed Laraki is a medical doctor who has apparently abandoned medicine to pursue a career in the foreign service. Active in foreign affairs since 1956, he has served in the Foreign Ministry as director of international organizations, and, later, American affairs (1956 to 1958), as a close political adviser to former Foreign Minister Ahmed Balafrej (1956 to 1958) and as head of the Moroccan UN delegation (1957).

In 1959, Laraki was appointed chief of hospital services in Casablanca. As of February 1960, Laraki was a member of the Istiqlal National Committee. In September, 1964, he was named a member of the Moroccan-Tunisian Mixed Commission, a standing committee which negotiates cultural and technical agreements between the two countries.

A frequent participant in conferences, Laraki attended the Conference on the Status of Tangier (Madrid, October 1956), the 11th and 12th sessions of the UN General Assembly (1956-1957), and the U.S.-Moroccan base discussions of 1957. He toured Asia in August 1957, led a special mission to the US in March, 1958 and visited Communist China in November 1959.

Moulay Ahmed Laraki was born in Casablanca on October 15, 1931. He holds a degree in medicine from the University of Paris. He is married to the former Badia Sebti, a member of a very prominent and wealthy Moroccan business family. They have three children, Amina, Ali and Leila. He speaks fluent French, Spanish and some English.

Mohamed BENHIMA

Minister of Agriculture and Agricultural Reform - Morocco

On July 6, 1967, almost two years after King Hassan II declared a state of exception, dismissed Prime Minister Ahmed Bahnini and assumed the responsibilities of the Prime Ministership, Dr. Mohamed Benhima was named to succeed Bahnini. Benhima is a tough and clever tactician and an outstanding administrator. He has served in several cabinets and most recently served as Minister of Public Works (1963-65; May-July 1967) and as the King's chief advisor and negotiator for the Ziz Dam project.

Mohamed Benhima was born in Safi on June 25, 1924. After completing secondary school in Marrakech, he attended the medical school of the University of Nantes on a scholarship provided by the late King Mohamed V. In 1954 he returned to Morocco and practiced medicine as a gynecologist until 1956, when he was named cabinet director in the Ministry of Public Health; he was promoted to secretary general in 1959. Following the Agadir earthquake in 1960, he was named governor of the provinces of Agadir and Tarfaya. In 1961 he entered the Cabinet as Minister of Public Works. He subsequently served as Minister of Commerce, Industry, Handicrafts, Mines and Merchant Marine (July 1962-June 1963) and as Minister of Education, Youth and Sports (June 1965-May 1967).

Benhima speaks French and Arabic.

Abdelhadi Boutaleb

Foreign Minister, Morocco

Abdelhadi Boutaleb was born December 23, 1923 at Fez. His father, Abdelaziz, was assassinated in 1944. Boutaleb received a traditional Islamic education.

For a brief period in 1962, Boutaleb served as Ambassador to Syria. In November of that year, he returned to Morocco to become Secretary of State for Information - a post he held until June 1963. From August to September 1964, he served - in addition to his responsibilities as Justice Minister - as interim Minister for Mauritanian and SubSaharan Affairs. In 1968, Boutaleb was appointed Minister of State.

Abdelhadi Boutaleb is married. They have three children, two boys and a girl. He has a keen sense of humor. He has authored several books in Arabic on historical and literary subjects. Boutaleb speaks fluent literary and Moroccan Arabic and French; he learned some English at the USIS center in Casablanca prior to his 1960 visit to the United States.

GENERAL BRIEF

Background Notes

MOROCCO



Population: 13.5 million (est.)

Capital: Rabat

The Kingdom of Morocco is strategically situated on the northwestern corner of Africa, with nearly 1,700 miles of coastline on the Atlantic Ocean and the Mediterranean Sea. It is the closest of all African countries to Europe, separated only by the Straits of Gibraltar, and has an area of approximately 174,000 square miles.

The Atlas Mountain range, roughly parallel with Morocco's Atlantic coast but 125 miles inland, is an imposing barrier with peaks rising to 13,600 feet. On the Atlantic side of the Atlas Mountains, the climate is semitropical; on the other side dry steppes merge into the Sahara desert. Morocco's Mediterranean coast has a mild, sunny climate, although the rugged Rif Mountains rise sharply from the coast to heights of 7,000 feet. April through October are usually dry months in Morocco.

The Moroccan flag consists of a green five-pointed star against a red field.

THE PEOPLE

Morocco's population is estimated at 13.5 million, including 150,000 Europeans. Moroccans are descended from indigenous Berbers and from Arabs who invaded Morocco in the eighth and 11th centuries bearing with them the culture that has become dominant. There is a Moroccan Jewish minority of some 50,000. Arabic is the principal language, although Berber dialects are widely spoken in rural areas. French and Spanish are also spoken, particularly in government. Islam is the established state religion.

Casablanca (1,250,000 inhabitants) is the commercial and industrial center and leading seaport. The capital city, Rabat (250,000 inhabitants), is primarily engaged in governmental activities. Fez and Marrakech are old, walled cities of more than 250,000 people each. Tangier, formerly under international administration, is a port of 150,000 people on the Straits of Gibraltar.

HISTORY

Morocco's history has been shaped largely by its strategic location. Beginning with the Phoenicians, a long series of invaders have swept the land. From the first century B.C. until the fifth century A.D. it was a Roman province.

Then the Vandals, Visigoths, and Byzantine Greeks successively took over. Finally Islamic Arab forces from the east occupied Morocco in the eighth century A.D. The present Alaouite dynasty, which has ruled Morocco since 1649, claims descent from the prophet Mohammed.

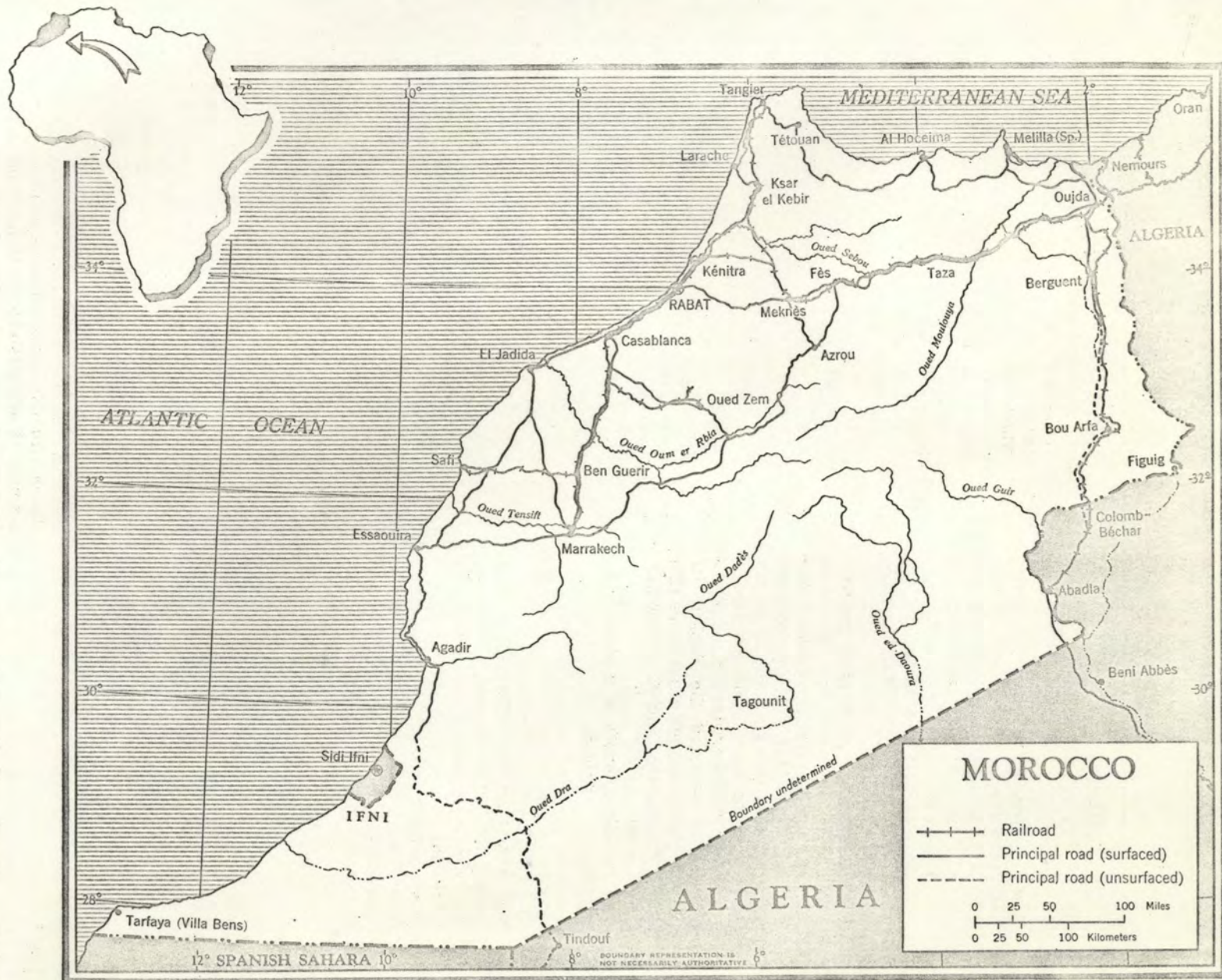
Because of its location and resources, Morocco was early involved in the competition of European powers for influence and control in Africa. France indicated a strong interest in Morocco beginning in 1830. Following recognition by Great Britain in 1904 of France's "sphere of influence" in Morocco, the Algeciras Conference (1906) formalized France's "special position" and entrusted policing of Morocco to France and Spain jointly. The Treaty of Fez (1912) relegated Morocco to the status of a protectorate of France; Spain also assumed a protectorate over northern and southern zones.

The first nationalist political parties based their arguments for Moroccan independence on such World War II pronouncements as the Atlantic Charter. A manifesto of the Istiqlal (Independence) Party in 1944 was one of the earliest public demands for independence. The Istiqlal Party subsequently provided most of the leadership of the nationalist movement.

The exile of Mohamed V in 1953, and his replacement by the unpopular Mohammed Ben Arafa, provided the spark which set off terrorist opposition to the French protectorate. France allowed Mohamed V to return in 1955 and negotiations which led to independence began the following year.

The Kingdom of Morocco recovered its political independence with the signing of a Joint Declaration with France on March 2, 1956. By subsequent agreements with Spain dated April 7, 1956, and April 1, 1956, control over the Spanish zones of influence was restored, and on October 29, 1956, the signing of the Tangier Protocol politically reintegrated the former international zone. Thus all zonal designations, and travel and commercial restrictions were abolished. The country's only geographical subdivisions now are 19 provinces and two prefectures.

Since attaining independence Morocco has been preoccupied with formulation and implementation of effective economic development programs; training of administrators, technicians, and professional people; and integration of the northern and southern zones and the city of Tangier. A Moroccan army numbering some 30,000 was formed in May 1956; total regular military forces now number some 53,000.



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was already independent), and the definition of powers held by the ministers, both individually and collectively.

A Constitution providing for representative government under a strong monarchy was approved by referendum on December 7, 1962. The King appoints the Prime Minister and other ministers and has the right to dissolve Parliament and approve legislation. A House of Representatives is elected directly by the people, and an upper Chamber of Councilors is elected indirectly by local representative bodies and by such groups as trade unions, and chambers of commerce and industry. Elections to the lower House were held in May 1963; those to the upper body during the remainder of the year. Parliament's inaugural session took place November 18, 1963. On June 7, 1965, however, the King suspended the Parliament and assumed full executive and legislative powers (becoming in effect Prime Minister). A number of minor Cabinet reshuffles took place in 1966 and early 1967. The Cabinet change of July 1967 included the appointment of a new Prime Minister. The King has promised the people a return to parliamentary Government following the adoption of certain constitutional amendments now in preparation.

POLITICAL CONDITIONS

The Istiqlal was the predominant party for the first few years of independence, but other tendencies began to take partisan form during that period. In 1958 the Popular Movement (MP) was organized with its base of support in the Berger rural areas. Within the Istiqlal itself, younger and more radical elements split away in January 1959 to form the leftist National Union of Popular Forces (UNFP), which called for more active government direction of social and economic change and election of a popular assembly to write a democratic monarchical constitution. At first the UNFP included the strong Moroccan Labor Union (UMT), but the UMT broke its formal affiliation in January 1963. In the same month the King named a new nonparty government, and the Istiqlal went into opposition status, together with the UNFP; but the two did not normally cooperate politically. The UNFP lost its organizational cohesiveness following arrests and trials of its leaders on charges of plotting against the King in 1963.

In March 1963 a strongly royalist coalition, the Front for the Defense of Constitutional Institutions (FDIC), grouped the MP and various nonparty supporters of the King in the first elections under the Constitution of December 1962, and in parliamentary collaboration thereafter. In April 1964 many non-MP members of the FDIC organized the Socialist Democratic Party (PSD), which was actually a group of royalist modern urban conservatives. From January 1963 to mid-1965 the various Cabinets consisted largely of MP members and those later identified with the

PSD, plus various independents.

In June 1965 the King invoked article 35 of the Constitution to declare a "state of exception," assumed all legislative as well as executive powers, and named a new government not based on parties.

With the appointment of a Prime Minister in July 1967 the King relinquished certain executive powers.

ECONOMY

The Moroccan economy depends heavily on agriculture; more than 70 percent of the population derives its living directly or indirectly from the soil. The leading agricultural products are grain, citrus fruits, vegetables, and wine grapes. Livestock-raising is also important.

Mineral resources also make an important contribution to Morocco's gross national product. From the standpoint of value of production, phosphates are by far the most important, but significant quantities of cobalt, manganese, iron, lead, zinc, and some petroleum also are produced. Phosphates are the largest single foreign exchange earner.

Of lesser importance as a source of national income are small industries, such as textile, cement, and paint factories. Tourism is growing rapidly.

Although politically united in 1956, economic unification of Morocco was completed only in February 1958 when the Moroccan franc replaced the peseta as the legal currency in the former Northern (Spanish) Zone. In 1959 the dirham, equivalent to 100 Moroccan francs, became the unit of currency (\$1.00 = 5.06 dirhams).

Economic progress has been difficult since Moroccan independence, due in part to the exodus of foreign (mainly French) capital and the need to devote a major portion of the Government's development budget to social projects such as schools and hospitals. The excellent infrastructure of roads, ports, and other facilities inherited from the French has been maintained and improved. The Government's 3-year plan (1965-67) for investment placed primary emphasis on agriculture, tourism, and manpower development.

Approximately 40 percent of Morocco's foreign trade is with France. The Moroccan trade balance, characterized by large deficits in the past, has been moving in recent years in the direction of equilibrium. Pressure on the Moroccan balance-of-payments position has occurred as a result of legal and illegal private capital transfers, and the expenses of the foreign exchange transfers made by the large number of foreign teachers and technicians employed by the Moroccan Government. In October 1964 austerity measures (restrictions on imports and stricter controls on import and export of Moroccan currency) were imposed to check the decline in foreign exchange holdings. The holdings of the central bank increased, and the austerity measures have been progressively relaxed.

A consultative group composed of Morocco's major aid donors and sponsored by the International Bank for Reconstruction and Development met for the first time in April 1967. The group seeks to assist Morocco by providing a multilateral framework for foreign assistance and advice on measures to achieve development objectives. The Moroccan Government is showing determination to expand the economy while maintaining sound fiscal and credit policies; it is seeking to develop agricultural, industrial, and tourism resources, while responding to the growing desire of labor for higher wages.

FOREIGN RELATIONS

A principal foreign policy concern of Morocco has been the border problems with Algeria which flared into brief fighting in October 1963; the maintenance of cooperative relations between Morocco and Algeria has high priority. A second major foreign policy concern of the Moroccan Government is its claim that the territory of Mauritania and Spanish Sahara should be part of Morocco.

Morocco is a member of the United Nations and a number of the U.N. specialized agencies. It is also a member of the Arab League and the Organization of African Unity.

U.S. POLICY

U.S.-Moroccan relations are characterized by mutual respect and friendship. They were strengthened by King Hassan II's visits to the United States in March 1963 and February 1967.

U.S. objectives with respect to Morocco include maintaining friendly and cooperative relations; supporting Moroccan efforts to develop an increasingly effective administration; and aiding its domestic, social, and economic progress. U.S. airbases in Morocco were, by mutual agreement, withdrawn in December 1963.

The United States began a program of economic and technical assistance to Morocco in 1957. In recent years this assistance has included agricultural commodities under the Food for Peace program. Through fiscal year 1967, total U.S. economic assistance to Morocco amounted to approximately \$550 million.

Some 110 Peace Corps volunteers are serving in Morocco.

PRINCIPAL GOVERNMENT OFFICIALS

Chief of State—King HASSAN II
Director General of the Royal Cabinet—Driss M'HAMMEDI
Minister, Personal Representative of the King—Hadj Ahmed BALAFREJ

Prime Minister—Dr. Mohamed BENHIMA
Minister of State—Gen. Mohamed MEZZIAN
Minister of Education and Fine Arts—Abdelhadi BOUTALEB
Minister of Justice—Ali BENGELLOUN
Minister of Foreign Affairs—Dr. Ahmed LARAKI
Minister of the Interior—Gen. Mohamed OUFKIR
Minister of Defense—Mohamed Haddou CHIGUER
Minister of Administrative Affairs—Hadj Mohamed BAHNINI
Minister of Finance—Mamoun TAHIRI
Minister of Commerce, Handicrafts, Industry, and Mines—Moulay Ahmed ALAOUI
Minister of Agriculture—M'Hammed BARGACH
Minister of Public Works and Communications—Yahia Cherif CHEFCHAOUNI
Minister of Health—Dr. Larbi CHRAIBI
Minister of Islamic Affairs—Hadj Ahmed BARGACH
Minister of Post, Telephone, and Telegraph—Bedreddine SENOUSSE
Minister of Labor—Abdelhafid BOUTALEB
Minister of Information—Ahmed SNOUSSE
Minister of Tourism—Hassan ABABOU

Morocco maintains an Embassy in the United States at 1601 21st Street, N.W., Washington, D.C. 20009. Mr. Ahmed Osman is the present Ambassador to the United States.

PRINCIPAL U.S. OFFICIALS

Ambassador—Henry J. Tasca
Counselor of Embassy—Dwight Dickinson
Director, U.S. AID Mission—Samuel C. Adams, Jr.
Public Affairs Officer—Edward V. Roberts
Consul General (Casablanca)—Donald L. Woolf
Consul General (Tangier)—Ben F. Dixon

The United States maintains an Embassy in Rabat at 6 Avenue de Marrakech and Consulates General in Tangier at Chemin des Amoureux and in Casablanca at 1 Place de la Fraternité.

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 3, 1969

FROM: M.P. Benjenk SUBJECT: Brief for Your Visit to MoroccoIntroduction

1. In the current fiscal year, Morocco is expected to receive the largest amount of Bank/IDA lending (\$94.6 million) amongst all the countries of Europe, Africa and the Middle East. In coming years, lending will level off at about \$50 million per year, giving for the whole 5-year program a total of \$300 million. Morocco is thus becoming an area of major activity for the Bank Group.

2. Bank assistance on such a scale assumes continued good economic performance. It should also provide the leverage needed to induce King Hassan and his Government to formulate new economic policies or to alter existing ones, in such a way as to speed up development. The Bank's intervention in such policies can only be gradual in view of the extreme Moroccan sensitivity as to national sovereignty and foreign interference. Your visit will provide a unique opportunity to start this process with the King and his Government.

3. With one possible exception relating to the Government's policy on interest rates, there are no major issues related to the Bank's lending program in Morocco ^{1/}. This brief focuses, therefore, on those economic policy matters which may be usefully taken up with the Moroccan authorities. It also provides short notes on the political and economic situation.

Political Situation

4. Morocco's socio-political structure is characterized by: a monarchy backed by the prestige of several centuries of autocratic rule and presently served by the strong personality of King Hassan; a largely agrarian and, to a certain extent, still feudal structure; a small urban middle-class which is politically divided or passive and has not yet asserted itself; and a nascent urban proletariat which is likely to grow rapidly in the future as a result of population pressure on the land.

5. The King rules supreme since he concentrated power in his hands and dissolved Parliament (as permitted by the Constitution) in 1965. The political parties and the press are strictly controlled. The administration inherited from the French Protectorate is omni-present and has an "interventionist" attitude in business. The private sector, largely French-dominated under the Protectorate, has not shown much entrepreneurial dynamism so far; it seems inhibited by its traditional mercantile attitude as well as by the climate created by governmental controls or interventions.

^{1/} See Annex A on projects in lending program.

November 3, 1969

*Stress
administration
A) Shah's reforms*

6. On the whole, Morocco's situation is strikingly similar (oil resources excepted) to that of Iran before the Shah's reforms of the mid-60's. The King is reported to be a great admirer of the reforms carried out by the Shah, but appears unwilling to make a similar break with the traditional ruling classes by radical reforms in the ownership of land and general modernization of customs. The basic problem is to reconcile the socio-political structure, which the rulers want to preserve, with economic growth: the dilemma is that this very structure is often inimical to growth, though it is likely to be increasingly threatened if growth does not take place. The King and the circles associated with the throne follow policies meant to ward off political pressures and discontent, and their key policy is to keep the people on the land, sometimes at the cost of uneconomic investments. Internally, the King relies a great deal on his role as religious leader of the country. Externally, public opinion has often been diverted towards territorial claims (against the Spanish enclaves and, to a lesser degree, lately, Mauritania). Morocco's stance in the Arab-Israeli dispute has been moderate.

The Economy

7. When compared to many countries, Morocco has good physical foundations for economic growth. ¹Agricultural and ²mineral resources are substantial, and the country has been equipped with an ³excellent system of roads, highways, ports and power plants. Its attractions and geographical location provide ⁴favorable conditions for tourism. With its current population of about ⁵15 million and its gross national product of about \$3 billion, there is a substantial base for the growth of domestic consumer industries. Similarly, the ⁶European market offers good prospects for a number of export industries, especially now that an agreement of association with the Common Market has been reached. The priorities of the new 1968-1972 Plan, emphasizing agriculture, tourism and training, appear generally appropriate to the country's needs, and the ⁷prospects appear good for continuing substantial foreign assistance, from both East and West.

8. To some extent offsetting these auspicious indicators, however, are a number of important constraints, with the consequence that in the 13 years since independence was achieved in 1956, per capita income has risen only very slightly. Continuing problems of major concern include the ¹rapid rate of population growth, ²mounting unemployment in the cities and ³underemployment on the land, ⁴serious ⁵shortages of skilled manpower and ⁶an uncertain educational policy, and ⁷hesitancy in the private sector. The economy's absorptive capacity is sharply limited by the ⁸inhibiting nature of the social structure with its marked contrasts and only limited interactions between the traditional and modern sectors.

9. For most of the post-independence period, the leadership's commitment to economic development was tenuous at best; however, in the past three years, there have been many indications that development is

beginning to assume a higher priority in the framing of national policy. Some of the principal targets specified in the current Plan are as follows: raising the growth rate of GDP to about 5 percent by the end of the Plan period; increasing the average rate of growth of agricultural output to 2.1 percent annually; expanding the irrigated area by 177,000 hectares; achieving an average annual increase of 7 percent in the industrial sector; lowering the birth rate from 50 to 45 per thousand population through a family planning program; creating nearly half a million new jobs; attracting well over a million tourists by 1972; and maintaining an average rate of growth of exports of some 5 percent over the Plan period.

10. This last goal, i.e. improving the unsatisfactory export performance of the recent past, appears especially important from the standpoint of Morocco's creditworthiness. While the debt service burden is still fairly low relative to foreign exchange earnings (below 10 percent in 1969) and to Government revenues, this burden will rise steadily even if the capital inflow continues to be provided at significantly concessionary average terms. Assuming the continuing availability of such financing, however, Morocco appears creditworthy for additional borrowing on conventional terms, provided also that achievable progress is recorded in improving domestic savings and capital productivity.

Points for Discussion With the King

11. The King is demonstrating an increasing interest in economic policies although he has little grounding, and sometimes questionable judgment in this field, as evidenced by a large number of expensive low-return investments in the agricultural area, which were launched at his direct behest in an attempt to avoid restiveness among the rural majority of the nation. The investment criteria and other economic policies pursued over the next several years may well prove to be critical in determining whether the Government will be able simultaneously to serve both the goals of maximizing long-run economic growth while preserving short-run political and social stability. At present, there appears still to be time for this regime to afford greater concentration on development vis-à-vis stabilizing palliatives. If too much time is lost in further rationalizing economic policies and moving ahead with development programs, however, the Government could be confronted with a situation in which it will feel the immediate pressures to be so great as to override its long-term economic goals. To meet these goals, policies affecting agriculture and industry may have the strongest impact in the short term while those related to population and education may be the most important in the long-run perspective.

12. Agriculture. In view of the age structure of the population (45 percent is below 15 years of age) and of the expected rate of employment creation in coming years, the social pressure which is likely to increase the most

rapidly is that of unemployment. The Government is pursuing a deliberate policy of keeping people on the land and stemming urban migration which creates economic burdens as well as social and political unrest. This concern is probably well placed, at least for the time being. Thanks to the frugal character of the Moroccan farmers, and to the land resources available, it has been possible to absorb a 50 percent increase in population (about 5 million persons) over the last ten years with relatively little migration to the cities. However, rural areas will face increasing difficulties in absorbing a population which is rising much faster than in the past. The Government is therefore rightly putting the greatest emphasis on agricultural development, but it is not always choosing the best means to promote it. The systematic construction of large dams (which was severely criticized in the 1967 Bank report on Agricultural Projects and Programs ^{1/}) is not yielding benefits commensurate with the investments. On the other hand, much less capital intensive projects such as improved cultural practices on rainfed land, ²better seed varieties and the use of fertilizers have proved to be readily acceptable to farmers and also to have a quicker and higher pay off.

13. Because of the pressing need for capital in the agricultural sector, we are recommending to the Moroccans that they should establish an inventory of these small integrated projects which would substantially improve production, and to group them in such a way as to enable them to attract foreign aid, at present centered mostly on large development schemes. We have not, however, discouraged the Government from pursuing the very few high-yielding irrigation projects, such as the Sebou. Rural areas also need a more determined effort to improve the infrastructure which the farmers are slowly coming to consider as necessary, i.e. water supply, electricity and the like. Still more important from the viewpoint of employment is the need to pursue the trend launched by the recently promulgated Agricultural Charter (which provides for the expropriation and redistribution to farmers of lands held by foreigners, religious trusts and village collectivities as well as for the distribution of State land), and to reassess the economic and social justification of the large private Moroccan estates. While some of these estates in the modern sector could not be divided without a serious loss in productivity, many are farmed below their potential. In the latter case, the Charter permits expropriation when the land is located within irrigation perimeters. On the whole, while the Charter is an important step forward, it falls short of a comprehensive land reform program, which political conditions would probably permit to introduce by stages only and which, in any event, can only have limited effects since private holdings in excess of 50 acres represent about 10 percent of the land in the traditional sector. The King should nevertheless be encouraged to pursue his efforts in this direction.

14. Industry. Industry, handicrafts and mining are contributing

^{1/} The general part of this report is enclosed in the second volume of this brief.

only 17 percent to GDP, with about one third of this attributable to the phosphate monopoly. Manufacturing employment does not exceed 160,000 workers, i.e. some 3-4 percent of the labor force. In view of Morocco's growing domestic market and favorable position for exports to Europe, there is substantial room for expansion in this field. The Government has taken a number of measures to encourage investments by providing incentives, subsidies and tax exemption. In addition, credit for industry has been adequately provided through the Banque Nationale pour le Développement Economique (which has received three Bank loans). Nevertheless, industrial progress has been slow, mostly because of the stagnation of the economy until 1967 and of the inhibition, noted above, on the side of both Moroccan and foreign industrialists. Among the latter, the French, who dominated this sector until independence, have been reluctant to invest further since. Other foreigners have shown little enthusiasm for investing in Morocco. The Government has attempted to make up for the lack of private aggressiveness with its participations in - or control of - many ventures, without noticeably accelerating the trend of industrialization.

15. The whole industrial policy of the Government needs to be re-examined in light of the somewhat disappointing results achieved so far and of the new perspectives opened by the association with the Common Market. This is a field to which the Bank should pay increased attention in the coming years. Assistance might be offered to Morocco in conducting a sector survey and in formulating a plan of action for speeding up the industrialization process. Particular care should be devoted to assessing the possibility of creating regional industrial nuclei outside the so far dominant centre of Casablanca. At the same time, the means needed to direct and, in the future, accelerate the urbanization process outside the Rabat-Casablanca area, should be looked into as this process is essential for the revitalization of the Moroccan provinces.

16. In contrast to industry, tourism is growing rapidly (15 - 20 percent yearly in number of visitors). In this sector, Government subsidies seem to have had the desired effect and investments are not lagging behind demand. It is possible, however, that investments made so far have not led to optimum economic benefits because of unduly high cost per bed and low occupancy ratios. ^{1/} In connection with the contemplated loan to the hotel credit institution (CIH), the Bank has asked that this matter be kept under review, at the same time as the whole range of subsidies.

17. Population. The current rate of natural increase is 3.3 percent per annum; according to some forecasts, it might reach 3.9 percent by 1986 as a result of further decreases in the death rate. Since 1966, the Govern-

^{1/} See Bank report of April 1969 on Tourism Sector Review, enclosed in second volume of brief.

ment has been open to assistance in family planning, initially from a Population Council team with the support of the Ford Foundation and more recently from US-AID and, on a limited scale, from the Swedish IDA. Despite the surprisingly favorable results of an attitudinal survey and the practical steps taken by the Government towards achieving the Plan target for the reduction of the crude birth rate from 50 to 45 per thousand, little result has been achieved so far. Insertions of IUD's were only about 8000 in 1968 against the 25000 forecast (women of childbearing age number about 3 million). The major constraints appear to be the shortage of trained cadres and the lack of a mass media information program. Such a program runs against the position taken by the traditional circles, including the influential Istiqlal opposition party (which is critical of the Bank's stand on population matters). In addition, the standard of living, the frequent lack of contact with any health service, the restricted role of women in Moroccan society, are formidable obstacles which are unlikely to be overcome as long as the Government does not promote family planning more actively. Even then, as has been experienced in such other countries as Egypt and Pakistan, the results are likely to be very slow.

18. Education. Some 85 to 90 percent of the adult population is illiterate. Total school enrolment is of the order of 1.5 million, representing roughly one third of the school age population. With its resources and priorities, the Government is unlikely to be able to expand quickly education (to which it devoted 25 percent of its current budget in 1968). What is more serious is that present educational policies seem to be in a state of flux which prevents a qualitative improvement. The Government is hesitant to choose between Arabic and French (which is still the language used by the administration and business). The emphasis on technical studies in curricula is insufficient whilst there are growing disparities between the qualifications of graduates and the needs of the economy. While the need for teachers is great, there are several thousand French teachers still employed because Moroccans are not being trained in sufficient numbers. The uncertainties which prevail in education are evidenced by the declining trend of investments forecast in the Plan. The existence of four ministries dealing with Education (Traditional, Primary, Secondary and Higher and Training of Cadres, respectively) does not facilitate the formulation of a broad educational program, tailored to resources and priority needs, which is badly lacking. It is hoped that the forthcoming Bank/UNESCO missions, which will try to prepare a project for financing by IDA, will also bring to light the steps most urgently needed for improving educational planning, and the possibilities for outside assistance in this field.

Topics for Discussion With Cabinet Members

19. While the above subjects can usefully be taken up with Cabinet

members, you might also like to discuss with them subjects which are more directly related to the Bank's operations.

20. The 5-year lending program does not raise any special problems except BNDE's lending rate and future agricultural projects. As you will recall, at the time of the program review last April, you asked that a number of operations shown as unallocated be shifted to agriculture. These are still to be identified. We wrote Mr. Tahiri last June to propose a project identification mission for agriculture, but both the workload in the Agriculture Projects Department and the necessary preparation by the Moroccans make it unlikely that the mission could be mounted before late 1970. We might have to shift to other sectors (e.g. hotel financing) the \$15 million earmarked for agriculture in FY 1972. The other projects forecast for FY 1971 and 1972 do not raise special problems, though their preparation calls for continuous follow up by the Bank.

21. Project implementation continues to raise some difficulties, as is reflected in the section of this brief dealing with our current operations, but none of these difficulties is comparable to those faced in early 1968. There is room for improvement in the administrative machinery but often - as is the case with the education project - it is the paper work which is lagging behind construction. One of the main constraints in this regard derives from the Minister of Finance's determination to control all dealings between the Bank and the Ministries responsible for project implementation. As his Department is not adequately staffed for such a purpose, this results in unnecessary delays and sometimes in a complete breakdown in communications.

22. Of much greater importance to the Bank is one matter affecting Government policy, that is the planning machinery. The 5-year Plan has been established along sound (though sometimes optimistic) lines. The weakness of the system, however, lies in the ministries responsible for the Plan's execution (especially Agriculture, Industry, Tourism, Public Works and Education). Little attention has been paid to establishing in these ministries the necessary programming cells responsible for the needed sector programs, project preparation, follow-up of projects underway, evaluation of their results and preparation of the economic priorities for the subsequent plan. Very few of the Bank's specific recommendations in this field made in 1967 ^{1/} have thus far been applied.

^{1/} See Bank report on "Development Planning in Morocco" enclosed in second volume of brief.

MOROCCO

Notes

on

Projects in Lending Program

<u>Projects and Remarks</u>	<u>Amount</u>	<u>Scheduled for Approval</u>
		<u>FY 1970</u>
1. <u>DFC - BNDE IV</u>	18 IBRD	Dec. 69/Jan. 70

Issues: (i) Increase in BNDE's present lending rate (7 percent) which limits its profitability. In view of the interrelation between BNDE's rate and other rates, which have been kept at unusually low levels as part of a deliberate Government policy, such an increase is contingent upon a general review of the interest rate structure in Morocco for which the Bank has been pressing the Finance Minister. In early 1969, he asked the IMF to look into this matter. In view of the importance the IMF attaches to continued price stability and of its doubts as to the economic merits of a change in the rate structure (as opposed to the financial merit for BNDE of an increase in its rate) it did not find fault with the Government's position that a general change in interest rate policy is not necessary or desirable at this time. Following discussions with the Minister during the Annual Meeting, it is proposed to have this review carried out by next spring's Bank economic mission. The Loan Committee will shortly decide (November 5) whether the carrying out of this review should become a condition of the loan. The mission could at the same time look into the whole range of subsidies for industry which limit the role of BNDE's rate as allocator of resources.

(ii) Appointment of a Deputy Director General to relieve Director's heavy workload.

Negotiations will be started in Rabat and pursued in Washington in early December.

<u>Projects and Remarks</u>	<u>Amount</u>	<u>Scheduled for Approval</u>
		<u>FY 1970</u>
<u>Documents:</u> Memorandum to Loan Committee (in BNDE section of brief); Appraisal Report (in separate black book).		
2. <u>DFC - CIH Hotel financing</u>	16 IBRD	Jan. 70
<u>Issues:</u> (i) settlement of debt and arrears due by Government or public institutions. (ii) Improvement in organization and appraisal standards. (iii) Arrangements required to review the whole range of subsidies given to hotels, including rebate on CIH lending rate.		
<u>Negotiations</u> scheduled for December.		
<u>Documents:</u> Bank general report on Tourism and CIH (in separate black book); appraisal report not finalized yet.		
3. <u>Agricultural Credit - CNCA II</u>	15 IBRD	Aug. 70
<u>Issues:</u> (i) Settlement of pending issues related to deficit and personnel of Caisses locales (see section in brief on present Agricultural Credit project). (ii) Preparation of new lending program (due in October 1969 but not received yet).		
4. <u>SEFERIF iron ore mining</u>	5 - 12 IBRD	Sept. 70
<u>Issues:</u> (i) market and prices for iron pellets and their effect on economic justification; study not yet made; (ii) financial plan and increase in equity.		

<u>Projects and Remarks</u>	<u>Amount</u>	<u>Scheduled for Approval</u>
		<u>FY 1971</u>
<u>Low probability of project being found suitable for Bank lending.</u>		
5. <u>Sidi Cheho dam and power plant</u> Issues: (i) Revision of financial structure and, perhaps, rates of power authority; (ii) study of water budget and uses in Oum Er Rbia river basin.	12 IBRD	Dec. 70
6. <u>Education II</u> Issues: (i) formulation of project; UNESCO identification mission will visit Morocco in Nov.-Dec.; (ii) improvement in planning and administration, including supply of secondary school teachers; (iii) correction of deficiencies in use of IDA funds (procurement and disbursements) -- see note in Education Section of brief.	10 IDA	Feb. 71
7. <u>Safi Port</u> Issues: (i) economic justification directly related to export of phosphates; (ii) administration and financial autonomy of ports.	5 IBRD	May 71
8. <u>Agriculture unidentified II and III</u> To be identified by mission late 1970. Slippage possible.	15 IDA	FY 1972
9. <u>BNDE V</u> Normal recurrent operation.	15 IBRD	FY 1972

<u>Projects and Remarks</u>	<u>Amount</u>	<u>Scheduled for Approval</u>
10. <u>Water Supply</u> <u>Issues:</u> (i) lack of cooperation between Ministry of Public Works and UNDP/WHO project responsible for studies; (ii) lack of adequate national and regional organizations responsible for both conveyance and distribution.	20 IBRD	FY 1972
11. <u>CIH II</u> (not in lending program) Could be included in program contingent upon results under CIH I (cf. 2 above)	15 IBRD	FY 1972
12. <u>Agriculture unidentified III</u> To be identified late 1970. Could be CNCA III (cf. 17 below)	10 IDA	FY 1973
13. <u>Education III</u> To be identified in 1969/70 and prepared under Education II (cf. 6 above).	5 IDA	FY 1973
14. <u>Roches Noires Thermal Power</u> Contingent upon improvements in power authority (cf. 5 above) and review of economic justification.	15 IBRD	FY 1973
15. <u>Roads II</u> To be based on studies carried out under Roads I.	10 IBRD	FY 1973
16. <u>Unallocated I</u> To be identified in 1970.	10 IBRD	FY 1973

- 5 -

<u>Projects and Remarks</u>	<u>Amount</u>	<u>Scheduled for Approval</u>
17. <u>CNCA III</u>	10 IBRD	FY 1974
18. <u>Agriculture unidentified IV and V</u> To be identified late 1970	15 IDA	FY 1974
19. <u>BNDE VI</u> Normal recurrent operation	15 IBRD	FY 1974
20. <u>Unallocated II</u> To be identified in 1970	5 IBRD 5 IDA	FY 1974 FY 1974
21. <u>CIH III (not in lending program)</u> cf. 11 above	15 IBRD	FY 1974

ENDING PROGRAM

Population: 13.7 m
Per Cap. Inc.: \$170

IVa. MOROCCO - 5 YEAR LENDING PROGRAM

		(\$ millions)						Total 1964-68	19
		1969	1970	Fiscal Year 1971	1972	1973	1974		
Sebou Irrigation	IBRD		46.0						
Agricultural Credit II	IBRD			15.0					
Agricultural Credit III	IBRD						10.0		
Agriculture Unidentified I	IDA				8.0				
Agriculture Unidentified II	IDA				7.0				
Agriculture Unidentified III	IDA					10.0			
Agriculture Unidentified IV	IDA						8.0		
Agriculture Unidentified V	IDA						7.0		
BNDE III	IBRD	15.0							
BNDE IV	IBRD		18.0						
BNDE V	IBRD				15.0				
BNDE VI	IBRD						15.0		
CIH Hotel Financing	IBRD		16.0						
Education II	IDA			10.0					
Education III	IDA					5.0			
SEFERIF Iron Ore Mine	IBRD			5.0					
Sidi Cheho Power	IBRD			12.0					
Roches Noires Power	IBRD					15.0			
Roads I	IBRD		7.3						
"	IDA		7.3						
Roads II	IBRD					10.0			
Safi Port	IBRD			5.0					
Water Supply	IBRD				20.0				
Unallocated I	IBRD					10.0			
Unallocated II	IBRD						5.0		
"	IDA						5.0		
	IBRD	15.0	87.3	37.0	35.0	35.0	30.0	45.0	2
	IDA		7.3	10.0	15.0	15.0	20.0	11.0	
	Total	15.0	94.6	47.0	50.0	50.0	50.0	56.0	2
	No.	3	4	5	4	5	5	5	

COUNTRY STATEMENT

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CONFIDENTIAL

Tuesday, April 8, 1969
5 to 5.45 p.m.

MOROCCO

COUNTRY STATEMENT

I. THE ECONOMIC SITUATION AND OUTLOOK

A. Current Economic Position and Prospects

1. Between 1960 and 1967, both the Gross Domestic Product and the population rose at an annual rate of about 3 percent. Considering the potentialities inherent in Morocco's natural and human resources, which were supplemented by considerable foreign assistance, the stagnation of per capita income over the past decade appears particularly disappointing. In the past two years, the overall economic performance has been somewhat more encouraging. In 1967, despite below-average rainfall, GDP rose by 7 percent, while in 1968, aided by good rainfall and a bumper harvest, total output rose by some 12-13 percent. While the gains of the past year are largely attributable to climatic conditions and therefore cannot be interpreted as marking a turning point in Morocco's performance and prospects, some indicators point to a reasonably auspicious beginning of the Five-Year Plan which was launched during the year.

2. The January 1968-December 1972 Plan represents an important step forward in Moroccan attempts to promote development. This Plan maintains the three principal priorities of the previous Plan, namely: agriculture, tourism and training. In addition, the new Plan indicates that somewhat greater attention will be focused on the needs for family planning and for industrial growth, especially in lines which will increase employment and/or exports. Both the ends and means described in the present Plan have been studied in much greater depth than was the case for earlier Plans. Among the principal targets set forth are the achievement of a 4.3 percent average annual growth rate in GDP and the raising of total investment from the low level of 11-12 percent of GDP in the recent past to 16-17 percent at the end of the Plan period. These and most of the Plan's other goals are seen as realistic in that they appear achievable with the domestic and foreign resources projected to be available and within the bounds of the present institutional framework. Realization of the stipulated goals, however, will call for very substantial improvements in fiscal and other performance efforts, as well as increases in long-term foreign exchange borrowings.

3. Among the major problems confronting the Moroccan economy are the following: (a) population growth continuing at a rate of some 3.3 percent per annum; (b) steadily mounting unemployment in the cities and underemployment on the land; (c) serious shortages of skilled manpower, especially in agriculture and education; (d) a combination of technical, administrative and institutional shortcomings in the lagging agricultural sector; (e) an educational system and policies which are not well-adjusted to development needs; (f) rising import needs and increasing debt service obligations which will necessitate large continuing inflows of foreign capital; and (g) a political and social structure which is, in various respects, inimical both to economic development and to the equitable sharing of its benefits.

4. The gravity of these issues does not preclude an overall judgment of qualified optimism concerning the Moroccan economy. Especially during the past year, there have been signs of progress in coping with these problems. Substantial improvements are to be seen in the new Plan and in the procedures for implementing it. Internal financial stability has been preserved and there are indications of gains in public savings, investment and tax efforts. Finally, there are also certain qualitative grounds for hope that economic development is beginning to assume a higher priority in the framing of national policy.

B. 5-YEAR ECONOMIC DEVELOPMENT PROGRAM

Morocco

			Actual Data				Projected Data					Period Growth Rates			
			1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1963-67
Population - growth rate	%	1												2.7	3.9
birth rate	per 1000	2				50									
Price Change - c.o.l. index	%	3	6.4	4.1	3.4	-1.0	-0.8							2.4	
exchange rate (dirhams)	per US\$	4	5.06	5.06	5.06	5.06	5.06								
Means of Payment - change	%	5	6.7	1.3	8.3	1.0	9.8							5.4	
GDP at factor cost; 1964 prices - Total	\$ mil.	6	2,154	2,283	2,326	2,293	2,449	2,765	2,666	2,781	2,906	3,037	3,174	3,317	
per capita	\$	7	170	176	175	167	173								1.1
GDP at constant market prices - real growth rate	%	8	5.5	6.0	1.9	-1.4	6.8	12.7		4.3	4.5	4.5	4.5	4.5	3.8
GDP at current market prices - Total	\$ mil.	9	2,344	2,472	2,601	2,524	2,692								
Production Growth (real) - agriculture	%	10		-1.7	5.3	-11.8	10.5	29.3							
food per capita	%	11		-6.0	7.4	-20.8	8.8								
manufacturing	%	12		6.0	--	1.9	4.6								
GDP by Branch - agriculture	%	13	29.2	28.2	29.1	26.1	27.0	31.1							
mining	%	14	5.1	5.6	5.5	5.4	5.1	4.7							
manufacturing	%	15	12.3	12.5	12.2	12.9	12.6	11.4							
construction	%	16	4.4	4.1	4.3	4.7	5.2	4.8							
transport & communication	%	17	15.8	16.2	16.5	17.1	16.6	15.5							
public admin. & defense	%	18	10.3	10.7	10.4	11.2	11.0	10.8							
other branches	%	19	23.0	22.6	22.1	22.7	22.6	21.8							
Resource Gap	% of GDP	20	2.8	-0.3	-2.0	-0.7	1.4								
Net Factor Payments	% of GDP	21		2.0	2.2	2.8	1.2								
National Saving - private	% of GDP	22	13.6	14.3	14.9	13.1	12.1								
public	% of GDP	23	-3.2	-2.6	-1.3	-1.3	(0.8)								
Total	% of GDP	24	10.4	11.7	13.6	11.8	13.1								
Marginal Saving Rate		25													
Consumption - private	% of GDP	26	76.0	74.0	73.4	73.9	73.3								
public	% of GDP	27	14.4	14.9	13.7	14.6	14.5								
Total	% of GDP	28	90.4	88.9	87.1	88.5	87.8								
Exports of Goods and Services	\$ mil.	29	509.8	580.0	575.8	549.6	552.9	564.0	592	622	653	686	720	756	2.0%
Imports of Goods and Services	\$ mil.	30	574.3	567.1	522.9	566.5	620.5	639.0	653	680	710	740	780	815	2.2%
Net Goods and Services	\$ mil.	31	-64.5	12.9	52.9	-16.9	-67.6	-75.0	-61	-58	-57	-54	-50	-44	4.5
Interest on Public Debt, Gross: Outflow (-)	\$ mil.	32	-5.7	-7.9	-6.9	-20.2	-16.6								
Other Investment Income, Net: Outflow (-)	\$ mil.	33	-15.1	-9.3	-22.4	-21.5	-19.6								
Net Investment Income: Outflow (-)	\$ mil.	34	-20.8	-17.2	-29.3	-41.7	-36.2	-45.0	-45	-45	-48	-51	-54	-57	
CURRENT SURPLUS (+) DEFICIT (-)	\$ mil.	35	-85.3	-4.3	23.6	-58.6	-103.8	-120.0	-106	-103	-105	-105	-114	-116	
Long Term Private Capital, Net inflow	\$ mil.	36	-20.9	-40.5	-33.0	0.4	40.0	4.0	10	14	20	22	24	26	
Long Term Public Capital, Gross inflow	\$ mil.	37	77.7	96.2	120.8	114.4	97.4	140.0	130	143	152	155	158	161	
less: amortisation	\$ mil.	38	-2.0	-17.2	-20.0	-42.7	-24.9	-64.0	-35	-44	-50	-57	-64	-71	
Net long term pub. cap. inflow	\$ mil.	39	75.7	79.0	100.8	71.7	72.5	76.0	95	99	102	98	94	90	
Short Term Capital, Net inflow	\$ mil.	40	--	--	0.4	-10.5	-18.1								
Other Capital, Net Inflow (incl. errors & om.)	\$ mil.	41	-11.8	-96.5	-46.1	-12.5	-8.6								
NET BALANCE	\$ mil.	42	-42.3	-42.3	45.7	-9.5	-18.0	-36	-18	10	17	15	4	--	
IMF Drawings (+) Repayments (-)	\$ mil.	43	--	13.0	-6.0	--	50		18	--	-50	-18	--	--	
Foreign Exchange Reserves, Inc. (+) Dec. (-)	\$ mil.	44													
Foreign Exchange Reserves, Net - Total	\$ mil.	45	137	75	121	108	88								
Foreign Exch. Reserves, Gross - govt. entities	\$ mil.	46	110	51	99	87	76	85							
comm. banks	\$ mil.	47	50	35	26	24	25								
Total	\$ mil.	48	160	86	125	111	101								
External Debt/d.	\$ mil.	49	272.7	351.6	491.7	592.9	601.2	635.4							
Debt Service Ratio	%	50		3.0	4.9	7.4	7.4								
Export Price Index	%	51	100	97	108	108									
Central Government - Current revenue	% of GDP	52	14.2	13.6	14.4	15.4	16.7								
Current expenditure	% of GDP	53	17.4	16.2	15.7	16.7	15.9								
Saving	% of GDP	54	-3.2	-2.6	-1.3	-1.3	0.8								
Capital revenue	% of GDP	55													
Capital expenditure	% of GDP	56				3.4	6.0								
Surplus (+) Deficit (-)	% of GDP	57				-4.7	-5.2								
Military expenditure	% of GDP	58	3.2	2.7	2.6	2.3									
Education - expenditure (general government)	% of GDP	59	4.0	4.0	3.9	4.3									
school enrol., primary & second.	%	60	36	38		45									
literacy rate, adult	%	61	14												
Tax Revenue (general government)	% of GDP	62	11.7	10.6	11.2	13.0	12.9								
Public Saving (% of public fixed investment)	%	63													
Gross Investment - private fixed	% of GDP	64													
public fixed	% of GDP	65													
increase in stocks	% of GDP	66	5.1	-0.2	--	-1.2	-0.2								
Total	% of GDP	67	12.4	10.8	10.9	10.8	13.7								
Finance of Investment - National saving	%	68	83.7	84.4	97.9	80.4	80.7								
Foreign capital	%	69													
private	%	70													
public	%	71													
Total	%	72	16.3	15.6	2.1	19.6	19.3								
Change in reserves	%	73													
Public Investment by Sector - agriculture	%	74	21.8	25.0	32.4	32.3	38.9								
industry	%	75	14.5	20.2	11.5	26.9	16.1								
power	%	76	2.0	3.6	3.2	5.5	7.8								
housing	%	77													
transportation	%	78	19.2	23.0	24.2	16.4	16.7								
telecommun.	%	79	2.3	0.9	2.9	5.0	6.1								
education	%	80	19.7	16.1	12.4	5.2	6.7								
health	%	81	8.8	6.8	9.4	7.3	6.7								
other	%	82	11.7	4.4	4.0	1.4	1.1								

/a Based on GDP at 1960 factor cost. /b Central Government only. /c 1964-68. /d Including loans undistributed. /e As of June 1968. /f 1960. /g Including change in reserves. /h Infrastructure. /i Tourism. /j Including other social expenditures. /k Administration.

C. Current Assessment

Development objectives

5. Principal development objectives previously identified by the Bank included improved allocation of resources and management of projects (particularly in agriculture), various agricultural reforms (primarily in land tenure), higher revenue and investment, better public administration and organization, and greater efforts to deal with the problem of excess population growth.

6. Allocation policies and project management: Morocco's allocation of resources available has been questionable in the past and there has been insufficient attention to economic considerations in the selection of projects, a fault particularly noticeable in the all-important agricultural sector. In addition, there have been serious shortcomings in the implementation of projects. These inadequacies in the field of economic development placed a strain on the Bank's relations with Morocco which began to improve only as the Bank decided to move forward with new lending despite these inadequacies, hoping to achieve improvement at the project level rather than requiring it at the general policy level. At the same time, there now seems to be a better appreciation on the part of the Moroccans of the need to change policies and improve performance if the investments undertaken are to yield the country a good return.

7. Agricultural reform and development: Agriculture accounts for some 30 percent of Morocco's GDP and employs 70 percent of the country's population. Agricultural output has failed over the past decade to keep pace with population growth, and this trend is expected to continue. Clearly the development of this sector is essential. Fundamental to it is land reform, where no discernable progress was in sight until the Cabinet approved late last year a draft agricultural law known as the Code des Investissements Agricole. This document sets forth a series of measures and programs to encourage agricultural investments, to permit land expropriation and redistribution (mostly in irrigated areas) and to relate levies on farmers to the capital and operational costs of irrigation works (except in a few designated areas). The law, if it is implemented, would be a substantial step toward more rational and equitable agricultural policies, although its provisions do not affect some of the large landholdings. It is scheduled for promulgation by the King in 1969 and will provide the indispensable framework for the implementation of the Sebou irrigation project, which is now under appraisal for financing by the Bank.

8. The issue of land reform is closely related to the whole problem of developing profitable alternatives to the present policy of heavy investments in relatively low-yield irrigation works. Because of the present system of sharecropping or collective tenure, which affects a good deal of the potentially most productive dry-farming areas, there continues to be little incentive to increase the use of modern inputs and to change production methods.

9. While the bumper harvest of 1968 is almost entirely attributable to the good rainfall rather than to the effects of improved inputs or administration, some progress in these took place during the year. In addition to some organizational improvements, large rises were recorded in both investment obligations and expenditures, with the greatest relative increase in the neglected dryland and livestock sector, where outlays were up ten-fold from 1965. Auspicious indicators during 1968 were the acceleration of the cereals program bringing to 340,000 hectares the coverage under Operation Engrais, the introduction of new Mexican wheat varieties on 5,000 hectares (for seed multiplication), some intensification in the rangeland improvement program, and new gains in foreign corporate investment in agriculture (most notably the King Ranch decision to develop some 50,000 hectares with 30,000 beef cattle).

10. Investment and fiscal performance: Morocco's gross capital formation rose by about 7 percent in 1968, which was greater than had been expected following the 25 percent rise in 1967. Of the total investment, the public sector capital expenditure comprised about 50 percent, and although its rise in 1968 was only 4 percent, it still exceeded somewhat the Plan's target. Private and semi-private investment levels in 1968 also were in keeping with the Plan's objectives. As proportions of GNP, total investment rose from only about 11 percent in the mid-1960's to about 13½ percent in both 1967 and 1968. An encouraging sign was seen also in the higher outlays as proportions of authorization levels, partly reflecting an easing of Treasury restraints. In his latest Budget address, Morocco's Finance Minister reported a marked improvement in 1968 financial performance, as indicated by a surplus under the ordinary budget and extrabudgetary accounts; however, the high level of capital expenditure resulted in a 20 percent increase in the overall cash deficit, following a 36 percent increase in 1967. Current expenditure rose by some 12 percent in 1968; the target for 1969 is to limit its rise to about 4½ percent.

11. The 1968 economic mission concluded that the problem of finding additional sources of finance for the public sector might shortly become critical, especially as Central Bank credit to the Treasury was rising rapidly. In both 1967 and 1968, for example, the Central Bank financed about one-third of the Treasury's deficit. The money supply rose by 12 percent in 1968, compared with 9 percent

in 1967. Because of the disturbing implications of these trends, the I.M.F. was led to impose conditions in the 1968 standby arrangement which were somewhat more strict than those imposed in the 1967 arrangement. These conditions included a rather tight ceiling on the domestic assets of the Bank of Morocco and on its net claims on the Government, as well as the imposition of stricter reserve requirements on the commercial banks. At the same time, the I.M.F. joined the I.B.R.D. in calling for substantially improved Moroccan efforts to raise the proportion of domestic financing (other than by borrowing from the central bank) of public sector investments. As of 1968, such domestic financing committed during the first two years of the Plan amounted to only 25 percent of the total planned investment outlays. The Moroccan Government agreed in late 1968 that it will endeavor to raise this proportion to 40 percent over the Plan period. The 1968 economic mission indicated that an increase in tax revenue of some DH 400 million over the Plan period over and above the increase of DH 330 million in receipts proposed by the Government would be a more adequate contribution to the financing of development expenditures from Morocco's internal resources. This would only moderately raise the tax burden to about 17½ percent of GDP by 1972, assuming an average annual rate of economic growth of about 4 percent. A new set of tax changes was initiated at the end of 1968, but it is not clear how much net increase in revenue can be expected from these measures. The structure of the Moroccan budget is complicated and we do not yet have detailed information on the latest changes and tax measures. A judgment on current and prospective tax and public savings performance will be made as soon as the information is obtained and analyzed.

12. Public administration and organization: Management of the public sector development effort has long been a major problem in Morocco. Many factors have been involved, including the lack of both consistent policies and continuity in key ministerial posts and the absence of clear-cut responsibility for making decisions and for following up on implementation. This problem promises to remain a serious one, but there was some progress in the past year. Steps were taken to create the necessary machinery for annual economic budgeting, to improve the coordination between planning authorities, the Ministry of Finance and executing agencies, and to implement some of the recommendations of a Bank consultant on the planning process. There are some grounds for believing that certain recent changes-- in particular the appointment as Minister for Planning of a strong figure who is close to the King--represent an upgrading of economic development and its planning among national priorities. *who*

13. There remain serious defects in public administration. The lack of trained and experienced Moroccans continues to be the main cause of shortcomings in programming and in executing projects. There is cont.

constant pressure to Moroccanize the civil service, but the training of Moroccan replacements for the previous French civil servants has not been properly designed or executed. Major shortcomings persist in the use of foreign experts and their associated Moroccan counterparts, in the salaries and conditions of service of the civil service, and in the underlying educational system which must provide the manpower for effective public administration over the longer-run.

14. Population and employment: The present demographic situation in Morocco is extremely serious, and the future prospects are not encouraging. If population were to grow at its current rate of some 3.3 percent annually, Morocco's current population of about 14 million would increase by five million the next ten years, and double in the span of a generation (22 years). In fact, the situation is likely to worsen if no action is taken, for the fertility rate is increasing while the death rate will probably continue to fall. Already the consequences of this condition are to be seen not only in the virtual stagnation of per capita incomes, but also in steadily rising unemployment, underemployment, and growing urban problems.

15. Even without considering the problem of absorbing the large numbers currently unemployed, there is a need to create up to 150,000 new jobs each year to cope with the rising labor force. Over the five years of the Plan period, the labor force is expected to grow by 710,000, but new investments, assuming full implementation, are not projected to create more than 485,000 jobs. When one considers that the Plan investment spending levels themselves are regarded by the Government as an upper limit which would be reduced in all sectors except agriculture if financial resources prove to be inadequate, the extreme gravity of the outlook is underlined. As a short-run expedient, the Plan merely mentions a policy of encouraging emigration. The only realistic solution to the long-run demographic problem appears to be a policy of effective birth control, though previous birth control campaigns have failed completely. The current Plan includes a family planning program designed to reduce the birth rate from 50 to 45 per thousand. Although the immediate effect of achieving this goal would be negligible, it would represent a significant achievement in the Moroccan context. There are some signs that the Moroccan government is concerned to do more in this field in the future than it has done in the past.

Key obstacles

16. Most of the major obstacles to Morocco's development have been cited above in the context of performance evaluation. To a considerable extent, many of the proximate obstacles to growth are concomitants of the political and social conditions. Backed by the prestige of several centuries of independent and autocratic rule (except during the short period of the French and Spanish protectorates), the monarchy has remained reluctant to enact reforms which might compromise its authority or detract from

its religious prestige, and the wealthier classes have been reluctant to support policies which would endanger their economic and social privileges. The King's absolute power has contributed to a present atmosphere of felt insecurity at the highest levels which has tended to paralyze government decision-making in some areas and to divert the attention of senior officials away from economic priorities and the efficient management of development. Symptoms of this situation have included the constant reshuffling of officials, capital flight, uncoordinated planning and poor administration, and a deleterious effect on incentives throughout the society. Other related effects have been ambivalent educational policies, a still-repressed status of women, savings in hard-to-mobilize forms, and entrepreneurial hesitancy. A certain amount of corruption is also present, but the above-noted factors constitute not only a much more serious problem, but indeed the overriding obstacle to Morocco's economic progress.

17. The King and his advisers are conscious of the potentially dangerous political and social pressures which are building up, although so far they have attempted to alleviate them mostly through barely adequate and uneconomic expedient measures. The expected aggravation of such problems as unemployment or population pressure on the land should progressively lead the Government to a greater economic awareness. Such signs as the priorities of the new Plan (with the King's support greatly enhancing its prospects of being implemented), the new taxes included in the 1969 budget, and the progress reflected by the draft Agricultural Investment Code may portend an evolution in the right direction. Whether this will be pursued--and reach the magnitude of a "White Revolution" of the Iranian type which Morocco appears to require--is an open question.

Sectoral priorities

18. The main sectoral priorities reflected in Morocco's new Plan--agriculture, training of cadres, and tourism--are considered to be appropriate to the country's needs. A major question mark concerns the very limited availability of qualified personnel needed to carry out the Plan. The main criticism of the Plan is that, especially in agriculture, project selection does not sufficiently reflect either short-run needs or economic profitability as an investment criterion. Education in general and the training of cadres in particular deserves increased emphasis. Educational policies need to address themselves especially to relieving projected serious shortfalls in agricultural and other technicians and to producing greater numbers of qualified teachers--regardless of how much the Arabization of education is pushed for political and cultural reasons. Tourism appears to have extremely promising prospects and to warrant the substantial investments targeted. More attention to industry seems warranted, especially where foreign exchange can be earned or saved at competitive costs. Fiscal and exchange rate policies to favor exports and employment should be devised and progress toward import liberalization should be continued. Most importantly, Morocco must deal with its increasingly serious population-employment problem.

Change in Bank's program

19. This year's more favorable assessment of Morocco's performance has led us to increase somewhat the Bank's five-year program. The weight of the increase is in FY 1970 and 1971, but it may in the event fall later because of the several projects which though tentatively identified, are yet to be prepared and appraised.

The case for local currency financing

20. Morocco's Plan projects Government investment outlays which are considerably larger than the total of expected foreign exchange borrowings plus the domestic savings which would be generated with the current fiscal structure. However, any case for local currency financing would depend on a finding that Morocco was approaching its limit of available local savings. This cannot at present be said. Thus, the case for financing local expenditure is weak and will remain so until substantial improvements are made in its savings performance.

D. Creditworthiness

21. Policies: There are two categories of economic policies essential for implementing the Bank/IDA program: (a) at the level of the economy as a whole, a lending program of the contemplated magnitude would not be justified unless the Government pursued and expanded its recent efforts to increase taxation; (b) at the sectoral level, Bank assistance is contingent upon measures of varying importance to improve allocative policies, program formulation, and project selection and implementation.

22. As noted, significant signs in the past year point toward better policy performance. These gains justify a larger lending program than was envisaged in 1968; its size is predicated on the assumption that substantial improvements will continue to be made in economic and sectoral policies. Failure to improve, and in particular, deterioration in fiscal performance, would call for a review of the lending program.

23. Payments and debt problems and prospects: Morocco's external payments position moved from an overall surplus of \$46 million in 1965 to deficits of \$12-\$36 million in the years 1966-1968. The forecast for this year puts the overall deficit at \$18 million. A \$50 million standby arrangement concluded with the I.M.F. in 1967 was drawn in 1968 as reserves declined to the level of only one month's imports. Another \$27 million standby came into effect in October 1968. To a large extent, the deterioration in the balance of payments is attributable to poor harvests in 1966 and 1967 which necessitated, until well into 1968, substantial imports of wheat and flour, which amounted to \$150 million over the period 1966-1968. Export earnings remained almost unchanged from 1966 to 1968, but growth is expected to resume in 1969 and a 5 percent average rate of export growth is expected over the next several years. A five-year agreement of limited

association has just been concluded with the E.E.C., a step which should aid citrus and other agricultural exports in particular. In return for more preferential treatment to be given to 75 percent of Morocco's exports, tariff and quota concessions are being extended to E.E.C. manufactured goods, with certain safeguards to Moroccan infant industries.

24. Morocco's external public debt climbed very rapidly in recent years, rising from a level of \$272 million in 1963 to over \$600 million at the end of 1967. Scheduled service payments on this debt have grown apace, rising to over \$50 million in this period. The debt servicing payments in 1967 were under 9 percent of the total disbursed debt outstanding, reflecting a significantly concessionary debt structure. Both this ratio and the debt service ratio rose significantly in 1968, largely because of the falling due of large wheat credits. The debt servicing burden will be growing steadily, however, as Morocco is expected to borrow large amounts in the coming years. Even with a reduced capital outflow, foreign exchange needs over the next five years have been estimated at some \$800 million, not accounting for the desirability of increasing foreign exchange reserves from their presently relatively low levels. This makes it particularly desirable that the additional inflow of foreign capital be provided on relatively soft terms. If the projected capital requirements were forthcoming at an average interest rate of 3-4 percent with an average 15 year term (which is close to the mix of the present debt), then debt service as a proportion of foreign exchange earnings would still grow to about 15 percent in 1972 and 17 percent in 1974.

25. In view of the growing transfer problem, the need is underlined for Morocco to weigh carefully the advantages it sees in attaining the investment targets of the Plan against the effects on its future credit-worthiness. The demand for future external assistance is in any case such as to emphasize the need for a common understanding between Morocco and its foreign partners on a program of lending on terms appropriate to the circumstances. Given the recently improved relations with both France and the Soviet Union, plus the present strong interest in Morocco on the part of other major aid donors, including the United States and the Bank itself, the risk that the requisite funds will not be available does not now appear to be large. Potentially more worrisome than either export fluctuations or the volatility of capital inflows is the possibility of renewed crop failures, which could again create severe liquidity strains as occurred within the past few years.

26. Bank/IDA blend: Considering Morocco's present performance and prospects, its debt service outlook and the Bank's leading role in the Consultative Group, a "hard blend" involving about 80 percent of Bank loans and 20 percent of IDA credits over the program period seems appropriate at this time. In view of the IDA funds already earmarked for FY 1970 and 1971 (\$10 million total against possible Bank/IDA lending of \$120-170 million), the proportion of IDA lending in the last three years would have to be substantially increased in order to reach the indicated blend for the whole program. This blend would imply average terms of 5.35 percent (at the present Bank rate) over about 25 years.

II. THE LENDING PROGRAM

A. Strategy and Objectives

27. The Bank made its first loan to Morocco at the end of 1962. In the six years which followed, the Bank made four further loans and the IDA one credit, bringing the total Bank Group commitment to \$86 million. Disagreements on policy and unhappy experiences in project implementation caused the Bank to hold back from new lending for two years between 1966 and 1968. A new approach towards Morocco was decided upon over a year ago. The strategy was to get started again despite Morocco's poor performance and develop better understanding on policy, and better project implementation by becoming involved in the preparation, appraisal and financing of significant new worthy projects and then to build on each success, in the same sector or others, as confidence between the Bank and Morocco grew and new opportunities were found. To this end the large Sebou agricultural project was taken under appraisal and a wide range of other possible projects were identified by a Bank mission in September 1968. Not all possible projects identified have been included in the program either because we wish to gain some experience before branching out or because the Government appears to prefer to get finance for them elsewhere. Agricultural projects are the principal example of the first. We are in the midst of appraising the large Sebou project as a test case. If things go well, we shall endeavor to undertake more in the all-important agricultural sector. The same is true in tourism: success with the hotel financing project (CIH) would lead to successive replenishment loans. The phosphate project is an example of the second category. Expansion of phosphate production would be a suitable basis for Bank lending, but so far the Government has felt they can obtain finance more easily elsewhere. The same may apply to telecommunications and water supply, for example.

28. The 5-year program contemplates lending of the order of \$300 million over the period, an amount which is consistent with Morocco's needs and expectations of other capital inflows. It provides for loans totalling almost \$100 million in FY1970 (of which \$40 million is for the Sebou) and just over \$70 million in FY1971. There are, however, many uncertainties, for although projects have been identified, it is by no means sure that policy issues with respect to some of the projects will be resolved, that the Government will wish to borrow from the Bank for all of them, or that every one will be prepared in time to fall in the year scheduled. A purposely large number have been put in the program so that even if some fall away, a substantial program will remain. Only a few projects have, so far, been identified for the remaining three years and much of the program in these years remains unallocated. Obviously agriculture (which was left outside the scope of the September 1968 identification mission) would be a prime candidate; also population control if it gives rise to significant investment.

B. BANK/IDA LENDING PROGRAM

	<u>FY1965 and prior</u>	<u>FY1966</u>	<u>FY1967</u>	<u>FY1968</u>	<u>FY1969</u>	<u>FY1970</u>	<u>FY1971</u>	<u>FY1972</u>	<u>FY1973</u>	<u>FY1974</u>
Agriculture										
Bank	1/17.5	1/10				2/55				
IDA	-	-				-		2/15		2/20
Communications										
Bank						1/3				
IDA						-				
Education										
Bank							0.5/5			
IDA		1/11					0.5/5		1/5	
Maint. Imports										
Bank										
IDA										
Power										
Bank							1/10		1/15	
IDA							-		-	
Transportation										
Bank						14 2				
IDA						0.5/5	2/15		-	
						0.5/5	-		1/10	
Water Supply										
Bank										
IDA							1/20			
Tourism										
Bank										
IDA						1/16				
Dev. Fin. Cos.										
Bank	1/15	1/17.5			1/15	1/15		1/15		1/15
IDA	-	-			-	-		-		-
Industry										
Bank							2/17			
IDA							-			
Other & Unallocated										
Bank								2/20	2/20	1/15
IDA								-	-	-
Total										
Bank	2/32.5	2/27.5			1/15	5.5/94	6.5/67	3/35	3/35	2/30
IDA	-	1/11			-	0.5/5	0.5/5	2/15	2/15	2/20
Bank and IDA	2/32.5	3/38.5	-	-	1/15	6/99	7/72	5/50	5/50	4/50

1/ Each entry will show both the number of projects and the total dollar value for that year and sector, separated by a slash. Thus, for example, an entry of 4/57 would denote 4 projects with a total value of \$57 million. If the exact number of planned projects for a year is not known, put an X where the number would otherwise be, e.g., X/57.

C. Rationale for the Program

29. The \$300 million of lending is intended to contribute as much as is warranted, in the light of the economic assessment, to the financing of Morocco's large foreign exchange requirements in the next five years. It would increase substantially the Bank's assistance to Morocco without, however, bringing it to such a level as to substitute for other sources of capital, domestic and foreign, which Morocco should continue to make efforts to mobilize. As proposed, the program would lead to disbursements covering about 20 percent of the foreign exchange requirements (\$800 million). As Morocco's debt service becomes increasingly heavy over the years, the proposed blend of Bank/IDA lending is designed to keep it manageable.

25%
\$200 m

30. In its initial years the program envisages Bank participation in financing projects in a wide range of sectors in order to multiply the opportunities for the Bank to foster economic consideration both in the selection of projects and in the formulation of the relevant policies.

31. The magnitude and diversity of its own proposed program is expected to help the Bank in putting life into the Consultative Group and ensuring a better coordination between the aid programs of its members. Since most countries assisting Morocco, whether Consultative Group members or others, put little emphasis on the economic aspects of the projects they finance (let alone on development policies), the prospects for directing the expected capital inflow toward priority objectives and for improving policies and performance will hinge largely on the Bank's leadership.

32. The program comprises two categories of projects: (a) projects in priority sectors such as agriculture, education, water supply (in view of the expected urban growth and industrialization), tourism and related airports, and industry; and (b) projects in such sectors as telecommunications, power, and roads. These latter projects are needed but these sectors do not command as high a national priority as the others.

33. The development of the priority sectors is expected to have either an immediate impact on growth, employment, foreign exchange savings or earnings, or (in the case of education) on critical long-term development constraints. If the lending program were to be cut back because of reduced creditworthiness, the projects in the second category would be the first choices for reductions, though their economic justification would be sufficient to warrant maintaining them in the revised program should the priority sectors not yield a sufficient number of projects.

D. Major Assumptions

34. Three important assumptions underlie the program: (a) that relations between Morocco and the Bank will continue to be sufficiently close to permit viable solutions to the pending policy or organizational issues which might constitute obstacles; (b) that the Moroccan Plan will be implemented at a rate which will necessitate external assistance at a higher level than in the past; and (c) that in the light of (b), which seems likely, Morocco will consider it in her interest to seek Bank assistance (and with it the Bank's standards) on a much larger scale than in the past. In this connection, it is not possible to predict whether bilateral assistance (which the Government might prefer because it is likely to be less demanding respecting economic policy and project matters) would be available in such amounts as to imply that a smaller Bank program would suffice.

III. OTHER BANK ACTIONS AND ISSUES

Technical Assistance

35. The Bank has provided basic and extensive technical assistance in the field of agricultural policy and organization. More assistance is needed, but the Government is so sensitive in this area that we can move only cautiously. Large Bank involvement in the Sebou project in the coming years will provide an opportunity for tackling indirectly the most pressing issues in this sector. Specific proposals for further assistance should await the outcome of the negotiations on the Sebou project.

• 36. A follow-up on the assistance previously provided in the field of planning would be useful and would call for a small Bank mission in the course of the next year.

37. Morocco's program for population control is at present assisted by various foreign bodies (USAID, Ford Foundation, Population Council, Swedish Government). In view of the great importance of the population problem, the Bank should keep abreast of the assistance under way and assess its adequacy with a view to determining whether the Bank's direct involvement in this field would be needed.

Pre-Investment Studies

38. The Bank should pursue the implementation of the UNDP/FAO recommendations for the Sebou basin as a whole and the implementation of the UNDP/WHO project under way for the study of water supply and sewerage schemes (which are expected to lead to Bank-financed projects).

39. In addition, the Bank should offer its assistance to formulate and implement either through UNDP or other sources, studies for: (a) a comprehensive development plan for tourism in the northern peninsular between Tangier and Tetouan; (b) a comprehensive irrigation and power plan for the Oum Er Rbia basin, subject to further review within the Bank; and (c) contingent upon the outcome of the present road appraisal mission, an integrated transportation plan for the Atlantic coast.

Joint Financing

40. Toward the end of the five-year period the Bank should consider plans for joint financing with other donors of subsequent phases of the Sebou project.

Legislation

41. Changes in legislation and in existing organization or financial structures are expected to be required to pave the way for Bank financing of the power and water supply sectors.

Consultative Group

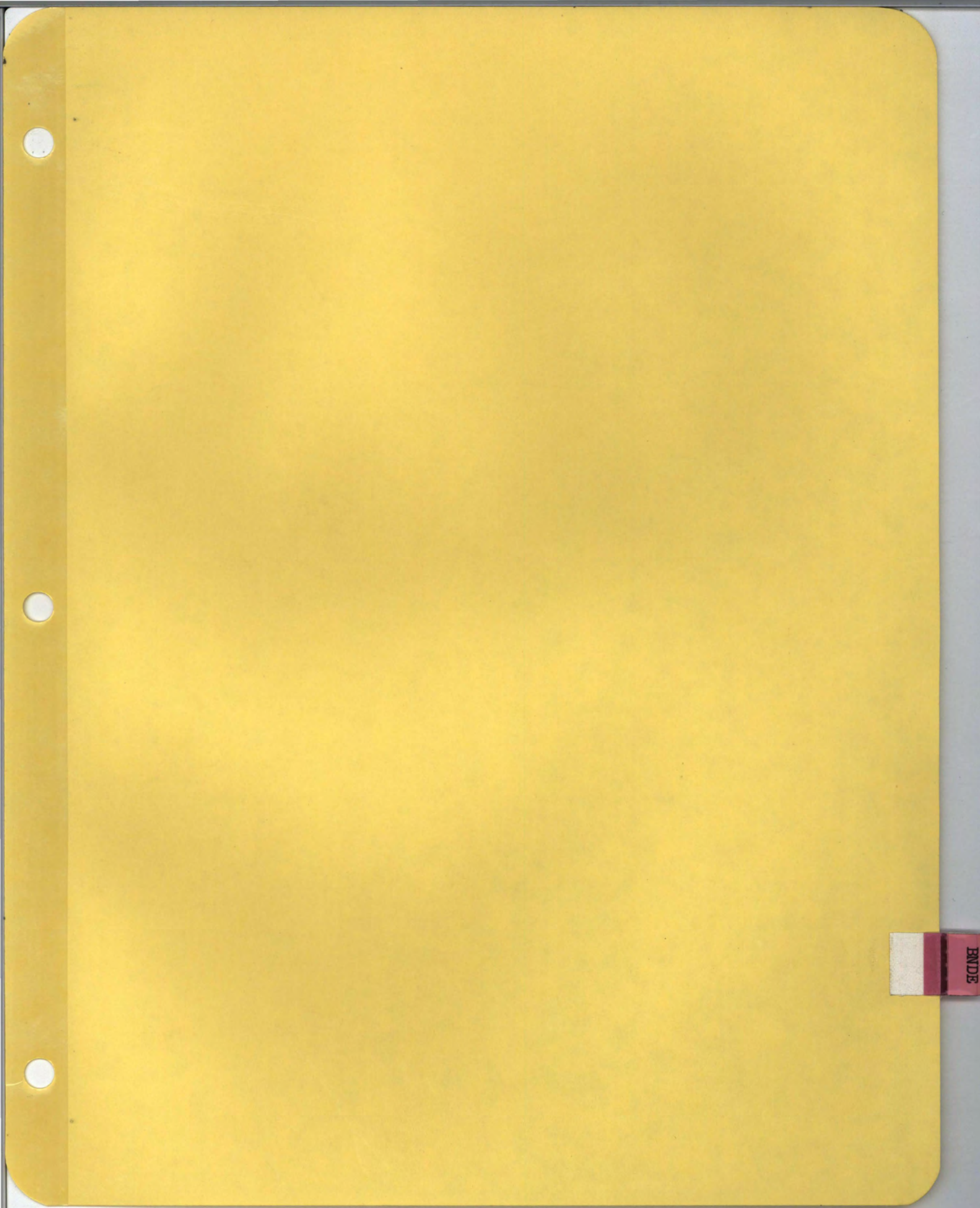
42. The Government is not fully convinced of the utility of a Consultative Group, and, should a meeting be held at all, favors a date after the Annual Meeting by which time it hopes to be more confident of the Bank's serious intention to undertake lending on a large scale. The members of the Group are much more convinced of its usefulness and look forward to regular meetings every 12 to 18 months. *projects*

SUMMARY PAST LENDING

STATEMENT OF BANK LOANS AND IDA CREDITS TO MOROCCO
Disbursements
(as of September 30, 1969)

Loan or Credit Number	Year	Borrower	Purpose	(Amount in US \$ Million)			
				Bank	IDA	Undisbursed	
329	1962	Banque Nationale pour le Développement Economique	Dev. Finance Co.	15.0	-		
389	1964	Kingdom of Morocco	Agriculture	17.5	70	4.9	
79	1965	Kingdom of Morocco	Education			11.0	9.9
433	1965	Caisse Nationale de Crédit Agricole	Agriculture	9.8			
447	1966	Banque Nationale pour le Développement Economique	Dev. Finance Co.	17.5			3.3
571	1968	Banque Nationale pour le Développement Economique	Dev. Finance Co.	15.0		12.6	
*	1969	Kingdom of Morocco	Highways	7.3		7.3	
*	1969	Kingdom of Morocco	Highways		7.3	7.3	
*	1969	Kingdom of Morocco	Agriculture	<u>46.0</u>		46.0	
Total (less cancellations)				128.1			
of which has been repaid to Bank				<u>8.6</u>			
Total now outstanding				119.5			
Amount sold				<u>1.1</u>			
Total now held by Bank and IDA				<u>118.4</u>	<u>18.3</u>		
Total undisbursed				<u>74.1</u>	<u>17.2</u>	<u>91.3</u>	

* To be signed on November 13, 1969.



INDEX

Insert for Brief for Mr. McNamara's Visit to Morocco: Banque
Nationale pour le Developpement Economique

DH 5.06 = US\$1

History

1. BNDE was established in 1959 with majority Government ownership. In 1961 and 1962, some foreign investors were brought in, and IFC took up in early 1963 75% of a share capital increase of DH 10 million. At present, the largest two shareholders are the Government with 43% of the total and IFC with 24.7%.

Resources and Role in the Economy

2. BNDE has total resources of DH 304 million, including three Bank loans (net of repayments) for a total of DH 218.6 million equivalent (\$43.7 million) BNDE has applied for a fourth loan expected to amount to \$18 million and to be negotiated in November.

3. Since the beginning of its association with the Bank Group, BNDE has substantially expanded its level of financing from \$10 million equivalent in 1962 to over \$21 million in 1968 and an increasing proportion of approvals has been in the form of direct loans and equity investments rather than rediscounting commitments for local currency loans financed by other banks.

4. At the end of 1968, the total portfolio outstanding of DH 195 million represented loans of DH 175 million to some 130 borrowers and equity investments of DH 20 million in 25 different companies. BNDE is the major long-term industrial financing institution in Morocco and it has assisted a majority of new industrial enterprises set up in the past 4-5 years. Its assistance has been reasonably diversified geographically with important concentration, however, around Casablanca (34%). BNDE has played also a major role in tourism financing, both directly and through a subsidiary: SOMADET, which promotes and takes participations in tourism ventures. The Government would prefer however to see Bank lending to hotels channelled through the Credit Immobilier et Hotelier (CIH) and this institution is being currently appraised by the Bank for a possible loan.

5.① The bulk of BNDE's direct lending in the past four years has been to textiles, tourism and food processing. The heavy exposure in textiles (35% of the total portfolio outstanding at June 30, 1969) had been a cause of concern because of the small size of many enterprises assisted and the high tariff protection they enjoyed.

② We are watching the situation. The textile industry is maturing, however, some textile manufacturers are exporting profitably without the benefit of subsidies and BNDE has decided to concentrate its new lending in this sector to existing rather than new enterprises for purposes of balancing, modernization and in some cases expansion of their facilities. Associate membership in the Common Market is expected to induce an increase in textile manufacturers exports, if the necessary marketing skills become available to the industry.

Problems Past and Present

6. Profitability. A cause of concern in the past had been BNDE's low profitability. This was remedied largely through a reduction in BNDE's relatively heavy capitalization, and return on share capital was 14.9 percent in 1968. The profitability question has in fact been induced by the low rate of interest (7 percent) charged by BNDE. Aside from profitability, this level may lead to over-investment, or at least to a misallocation of investments. BNDE will be asked in negotiations to use a higher shadow rate of interest in its appraisals, until a full review of interest rates (and possibly of the full range of industrial incentives) is carried out by the Government, possibly with the Bank's help. *what is
out there*

7. Management. Mr. Mohamed Benkirane has just been re-elected to a third two-year term as BNDE's Director General. He is seconded to BNDE from the Central Bank, where he had been Director of Credit. Mr. Benkirane has no Deputy and is overburdened with work as a result of which internal organization and coordination are suffering. Despite past Bank recommendations, Mr. Benkirane has been extremely reluctant to hire a Deputy. The need is more acute now and the suggested appointment may become the major issue in the forthcoming negotiations for a four Bank loan. *why*

8. Aside from the needed help to management, the Bank has encouraged BNDE to seek some qualified staff, and the Bank has agreed to provide some assistance in the form of staff visits and help in recruitment, in regard to expertise needed on market studies and economic assessments.

KNougaim:lgs

October 24, 1969

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CONFIDENTIAL

IC/0/69-95

November 3, 1969

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Morocco - Proposed Fourth Loan to Banque Nationale
pour le Développement Economique (BNDE)

1. The attached appraisal report (No. DB-57) recommends a Bank loan of up to \$18 million to Banque Nationale pour le Développement Economique (BNDE) to be used for making loans to, and other investments in, industrial and other productive enterprises in Morocco to cover the foreign exchange component of specific projects.

Background

2. The proposed loan would be the third operation of the four planned for Morocco in this fiscal year. A loan and a credit totalling \$14.6 million for a highway project and a \$46 million loan for the Rharb-Sebou irrigation project were approved by the Executive Directors on October 7 and October 28 respectively. Appraisal of a \$16 million loan to Credit Immobilier et Hôtelier (CIH), an institution which aids development of tourism through the financing of hotel construction, is under way and will be submitted to the Committee in the near future. Total Bank/IDA lending in FY 1970 is thus expected to reach \$94.6 million, i.e. more than was lent since the Bank started operations in Morocco in 1962; in coming years, it is expected to level at about \$50 million per year.

3. The Bank Group has been associated with BNDE ever since the Government relinquished its majority ownership in 1962. The Bank has made three loans to BNDE: \$15 million in December 1962, \$17.5 million in May 1966 and \$15 million in November 1968. The third loan, which has an uncommitted balance of \$1.4 million as of today, is expected to be fully committed in November. IFC, with an investment of \$0.9 million, owns one quarter of BNDE's share capital.

The Economy

4. An economic report entitled "Recent Economic Developments in Morocco" (No. EMA-114, dated August 29, 1969) was distributed to the Executive Directors on September 22. It concludes that in view of its recent economic performance and current outlook, Morocco is creditworthy for additional borrowing on conventional terms.

The Project

5. Since its association with the Bank Group, BNDE has grown rapidly and has made a substantial contribution to the industrial development of Morocco; hardly any new industry in the country is not directly or indirectly assisted by BNDE. Total financial assistance in 1968, including rediscounts, amounted to about \$21.6 million as compared to \$10 million in 1962. Direct long-term lending reached a high of \$12.5 million in 1968, bringing the portfolio of outstanding loans to \$34.4 million. BNDE initially played an important role as an equity investor and its equity portfolio, at cost, amounts to about \$4 million spread among 25 companies. However, in the past two years, BNDE has not been active in this field (in 1968 it made no equity investments) probably because some of its early participations did not turn out well; BNDE is overcoming this reluctance and intends to play a more active role as an equity investor in the years to come. BNDE has been active in the promotion of new industrial and tourist ventures, for the latter through its subsidiary SOMADET.

6. In connection with the third loan to BNDE, the Bank worked out last year with BNDE and with the Government measures to help ensure better project preparation by BNDE and improvement in its management and profitability. As far as projects are concerned, BNDE has improved its appraisal standards and although still weak in certain fields such as marketing and economic analysis, now studies projects more carefully from their technical and financial angles; also, follow-up of the projects it has financed is more thorough. In addition, BNDE seems to have weathered the troublesome period of the economic recession of 1966/67 and its portfolio does not have any extraordinary trouble spots and is protected by adequate reserves; the heavy exposure in textiles, an industry which has fared well lately, needs continued watching, however, in view of its planned expansion.

7. Regarding management, the Bank recommended last year and BNDE agreed to: (a) constitute an Executive Committee which would enhance the role of Directors in the decision-making process; (b) strengthen management with an experienced advisor; and (c) nominate a suitable Deputy Director General by the end of 1969. Of these three recommendations only the first two have been carried out though the second quickly became inoperative because the advisor left after five months with BNDE. No progress has been made in the nomination of a Deputy Director General. The Executive Committee is functioning and generally meeting the purpose for which it was constituted.

*did they
what are
plans for
recruitment*

8. On the profitability issue, BNDE and the Government agreed to improve BNDE's leverage by reducing by one third its share capital and replacing it by a low interest (2 percent) Government loan. The improved return on share capital did allow for the first time a 6 percent dividend in 1968. At the same time, the Bank stressed the need for a careful review of the interest rate structure in the country. In addition to its general economic implications for the allocation of resources, the Government's cheap money policy also makes it difficult for BNDE to charge a higher lending rate than its current 7 percent and thus to improve its profitability. To meet the Bank's request, the Minister of Finance asked the last IMF mission to Morocco to look into the interest rate structure of the country. The IMF, without making a final judgement on this matter, has indicated that an overall review of the interest rate structure at the present time is not particularly necessary or desirable. In view of the Bank's continued insistence on the matter, the Minister, during the last Annual Meeting, reiterated his willingness to have such a study carried out and asked the Bank to provide the guidance and, possibly, assistance needed to examine this problem in depth.

9. Despite the expected loss of hotel business by BNDE in view of the likelihood of Bank finance for tourist projects going in the future to another credit institution, i.e. the Crédit Immobilier et Hôtelier (CIH), BNDE faces attractive business prospects. Recent activities and projects in the pipeline make a business forecast of DH 130 million in new commitments from October 1969 through the end of 1971 appear reasonable. Of this, DH 113 million (US\$22.5 equivalent) is expected to represent financing of import needs of BNDE's clients. BNDE has tried to tap other sources of finance, but the only one outside the Bank which has materialized is US/AID with a loan of \$3 million; half of that loan can be used for local currency financing. For the balance of about \$18 million left after deduction of the funds still uncommitted under the third loan, BNDE is seeking the Bank's assistance. In negotiations we intend to review in detail BNDE's business expectations in the light of most recent developments and prospects for resources available.

Issues

10. The need to strengthen BNDE's management still persists but it has somewhat changed in nature. Though the Director General of BNDE and the staff have gained more experience over the past year or so, the earlier problem of only one person carrying the brunt of BNDE's work

load, and responsibility for all its actions, has now become overwhelming and makes it indispensable that a Deputy Director General be appointed in the next few months. Conversely, recruitment of qualified professionals has improved BNDE's staff, and if a satisfactory Deputy Director is appointed, an advisor of the type recommended last year will no longer be needed. Further recruitment of foreign staff for those areas of appraisal work in which BNDE shows weaknesses should be discussed during negotiations. The Bank may also be able to provide technical assistance.

11. BNDE's 6 percent dividend for 1968 may be insufficient to attract buyers of its shares and consequently the question of changing BNDE's lending rate remains open, although with a lesser degree of acuteness than last year. Bearing in mind the impact of any change of interest rate policy on the national economy, the appraisal report rightly suggests that the proposed review of the interest rate structure would have to be related to the rate's role as allocator of scarce resources. I therefore feel that it ought to be placed in the more general context of a country economic review. In view of the Finance Minister's request referred to in paragraph 8 above, I would propose that, provided further discussions within the Bank and with IMF lead to the conclusion that such a study is indeed warranted, it be entrusted to the next Bank economic mission which would be staffed accordingly. The review could with advantage encompass the whole range of subsidies and incentives given to Moroccan industry along similar lines as were recommended to the Minister of Finance earlier this year for tourism. In view of the Minister's agreement -- and request -- to have the interest rate matter studied with the Bank's assistance on the one hand and, on the other, his Government's well-known reluctance to conclude formal agreements with the Bank on matters which it considers as pertaining to national sovereignty, I believe that it is both unnecessary and impractical that agreement on the details of the suggested review of the interest rate structure be made a condition of the loan, as suggested in paragraph 65 of the appraisal report.

Recommendation

12. I recommend that the Bank invite representatives of the Government of Morocco and BNDE to negotiate a loan of about \$18 million in accordance with the recommendations of paragraphs 64 through 69 of the appraisal report except for that in paragraph 65.

Munir P. Benjenk
Deputy Director
Europe, Middle East and North Africa
Department

Population: 13.7 m
Per Cap. Inc.: \$170

IVa. MOROCCO - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total
		Fiscal Year					1964-68	1969-7
		1969	1970	1971	1972	1973	1974	
Sebou Irrigation	IBRD		46.0					
Agricultural Credit II	IBRD			15.0				
Agricultural Credit III	IBRD						10.0	
Agriculture Unidentified I	IDA				8.0			
Agriculture Unidentified II	IDA				7.0			
Agriculture Unidentified III	IDA					10.0		
Agriculture Unidentified IV	IDA						8.0	
Agriculture Unidentified V	IDA						7.0	
BNDE III	IBRD	15.0						
BNDE IV	IBRD		18.0					
BNDE V	IBRD				15.0			
BNDE VI	IBRD						15.0	
CIH Hotel Financing	IBRD		16.0					
Education II	IDA			10.0				
Education III	IDA					5.0		
SEFERIF Iron Ore Mine	IBRD			5.0				
Sidi Cheho Power	IBRD			12.0				
Roches Noires Power	IBRD					15.0		
Roads I	IBRD		7.3					
"	IDA		7.3					
Roads II	IBRD					10.0		
Safi Port	IBRD			5.0				
Water Supply	IBRD				20.0			
Unallocated I	IBRD					10.0		
Unallocated II	IBRD						5.0	
"	IDA						5.0	
	IBRD	15.0	87.3	37.0	35.0	35.0	30.0	45.0
	IDA		7.3	10.0	15.0	15.0	20.0	11.0
	Total	15.0	94.6	47.0	50.0	50.0	50.0	56.0
	No.		4	5	4	5	5	5
								19

SIDI SILMANE

October 22, 1969

MOROCCO--LOAN 389-MOR--SIDI SLIMANE AGRICULTURAL DEVELOPMENT PROJECT

The Project

1. The project is an integrated agricultural development program for part of the lower Sebou River Basin. It involves investments totaling US\$30.4 million equivalent, for which about 58%, or US\$17.5 million, is provided under the loan. Basic investments are in dam and irrigation works, drainage works, roads, on-farm development and agro-processing plants. The area involved covers about 88,000 ha (see Annex for project data).

Progress of the Project

2. Progress has been slow since the beginning and remained unsatisfactory till the end of 1967. Better progress was made during 1968, but it appears that the closing date will have to be postponed. To that effect a mission is currently reviewing operations.

Past Problems and Deficiencies

3. a) Shortage of qualified personnel.
 b) Administrative bottlenecks.
 c) Poor organization and management.
 d) Collection of water charges and establishment of a drainage tax.
 e) Procurement procedures.

4. Considering that expenditures on which disbursements under the loan are made were found to be about 20% lower than originally estimated the Bank agreed to increase the disbursement percentage from 68 to 100 (effective date February 24, 1969) in keeping with Side Letter of August 26, 1964, and changed the List of Goods.

Current Problems

5. a) Organization and management. Division of responsibilities between several Ministries and Departments is a serious constraint for orderly completion of the project.
 b) Difficulties to adjust agro-processing plants to production.
 c) Observance of procedures for international competitive bidding.
 d) Submission of supporting evidence for withdrawals from loan account.
 e) Implementation and collection of revised water charges and drainage tax.

MOROCCOLoan 389-MOR - Sidi Slimane Agricultural Development ProjectData

1. Borrower : Kingdom of Morocco
2. Amount of Loan : US\$ 17.5 million
3. Amount Disbursed (9.30.69) : US\$ 12.6 million
4. Date of Loan Agreement : August 26, 1964
5. Effective Date : April 9, 1965
6. Closing Date : October 31, 1969 ^{1/}
7. Term of Loan : 25 years
8. Period of Grace : 8 years
9. Annual Rate of Interest : 5 ¹/₂%
10. Annual Commitment Charge : 3/8 of 1 percent
11. Amortization : Thirty-five semi-annual payments
commencing September 15, 1972, at US\$ -
305,000 and increasing to US\$ 770,000
for the final payment on September 15,
1989.
12. Exchange Rate : US\$ 1.00 = dh 5.06
1 Dirham = US\$ 0.1976

^{1/} A supervision mission is presently in Morocco to review progress of operations and make recommendations on the appropriateness of extending the closing date.

October 22, 1969

MOROCCO--LOAN 433-MOR--AGRICULTURAL CREDIT PROJECT

The Project

1. The project, amounting to DH 100 million (US\$20 million equivalent), is Caisse Nationale de Credit Agricole's (CNCA) program to finance agricultural development in Morocco over a three-year period (1965-1968). The Bank agreed to finance DH 50 million (US\$10 million equivalent), of which DH 40 million (US\$8 million equivalent) was for financing on-farm development, processing and storage facilities (Part A) and DH 10 million (US\$2 million equivalent), for the purchase of farm machinery and equipment for the Centrale de Gestion des Exploitations Agricoles (CGEA) (Part B). (See Annex for project data.)

Progress of the Project

2. Concentrating initially on loans for on-farm equipment, the overall progress of the loan was slow up to mid-1968. Thereafter, increased lending for processing and storage facilities brought momentum to operations. Nevertheless, it appeared reasonable to postpone the closing date by one year to March 31, 1970. As of October 14, 1969, the loan is entirely disbursed.

Past Problems and Deficiencies

3. On Government's request, CNCA set up and developed a credit program, known as Caisses Locales, on unsound principles (no appraisal of individual loans, interest rate at 4%, recruitment of about 250 additional personnel to carry out the scheme). CNCA was not only burdened by the responsibility of implementing this scheme, but was also requested to shoulder the financial losses.

4. This departure from the Loan Agreement resulted in suspension of the loan in February 1968. At the same time CNCA was notified about the necessary measures to be taken in order to lift suspension. These were as follows:

- a) keep separate accounts for Caisses Locales;
- b) Government bearing all costs and deficits resulting from the Caisses Locales' operations;
- c) in case CNCA were the financial agent, funds being made timely available by the Government;
- d) CNCA not making any advances to this program;
- e) CNCA being remunerated for all expenditures incurred in this program;
- f) no CNCA staff being diverted to the Caisses Locales' operations.

5. In September 1968, CNCA notified its agreement to implement all points and the Bank lifted suspension.

Current Problems

6. To date, however, we have not yet received information as to how the Ministry of Finance has covered the Caisses Locales' deficit of 1967/68 (US\$140,000), and the plans for CNCA to be relieved of responsibility for the personnel of Caisses Locales in the event that they are dissolved. These issues would need to be resolved before the Bank could consider making a second loan to CNCA.

ADockx/weby
IBRD

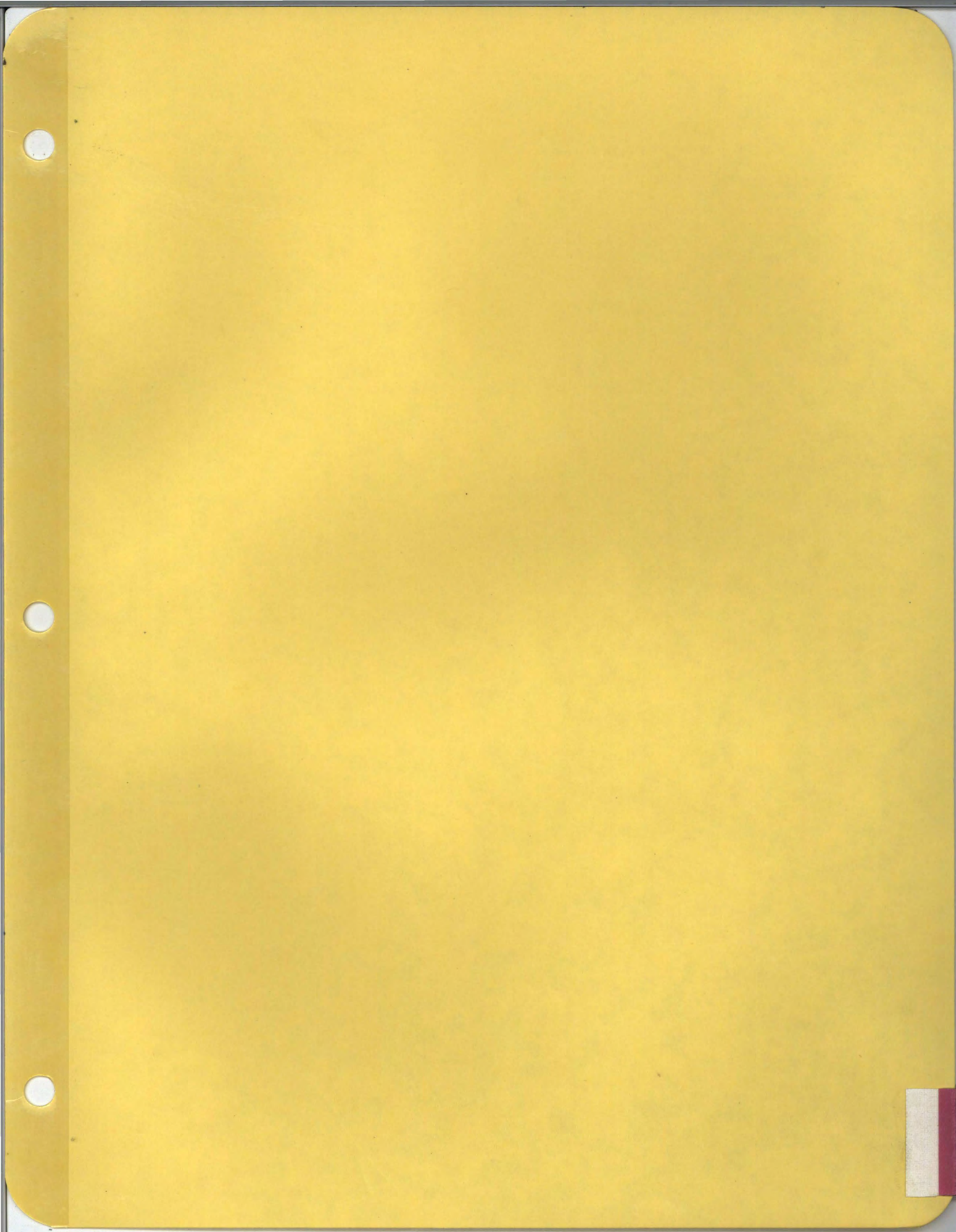
MOROCCO - Loan 433-MOR - Agricultural Credit Project
 Caisse Nationale de Credit Agricole (CNCA)

Data

- | | | |
|-----|--|---|
| 1. | <u>Borrower:</u> | Caisse Nationale de Credit Agricole |
| 2. | <u>Guarantor:</u> | Kingdom of Morocco |
| 3. | <u>Amount of Loan:</u> | Part A US \$8.0million |
| | <u>Original:</u> | Part B US \$2.0million
Total: <u>US \$10.0million</u> |
| | <u>Current:</u> | Part A US \$8.0million
Part B US \$1.8 million ^{1/}
Total: <u>US \$9.8 million</u> |
| 4. | <u>Amount Disbursed at October 14, 1969:</u> | Part A US \$8.0 million
Part B US \$1.8 million
Total: <u>US \$9.8 million</u> |
| 5. | <u>Date of Loan Agreement:</u> | November 8, 1965 |
| 6. | <u>Effective Date:</u> | February 17, 1966 |
| 7. | <u>Closing Date:</u> | Part A original: March 31, 1969
current: March 31, 1970

Part B original: June 30, 1966
current: December 31, 1966 |
| 8. | <u>Term of Loan:</u> | 16 years |
| 9. | <u>Period of Grace:</u> | 4 years |
| 10. | <u>Annual Rate of Interest:</u> | 5.5 percent |
| 11. | <u>Annual Commitment Charge:</u> | 3/8 of 1 percent |
| 12. | <u>Amortization:</u> | Twenty-five semi-annual payments commencing March 1, 1970, at US \$285,000 and increasing to US \$550,000 for the final payment on March 1, 1982. |
| 13. | <u>Exchange Rate:</u> | US \$1.00 = DH 5.06
1 Dirham = 0.1976 US \$ |

^{1/} an amount of about US \$200,000 was cancelled (not utilized within assigned period) February 16, 1968.



EDUCATION

MOROCCO - Education

Briefing Paper for Mr. McNamara

- I First education project - IDA Credit No. 79-MOR dated October 11, 1965 for \$11.0 million to build 21 multilateral secondary schools (closing date June 30, 1971).

Physical progress in the construction of schools has been satisfactory. The first phase of construction (consisting of 470 classroom) was completed last year. The second (last) phase (consisting of laboratories, administration buildings, hostels and the remaining classrooms) is in progress. As a result of changes in the school system, three schools have been dropped from the project. Re-allocation of part of the credit earmarked for these schools is under consideration; IDA staff will visit Morocco from about Nov. 17 to 25 for this purpose and to supervise the progress.

Current Problems

- (1) Claims for IDA disbursements have been seriously delayed; total disbursements to date amount to only \$1.1 million; for over a year no disbursements were made. Repeatedly we have urged the Ministry of Finance to speed up requests for disbursement - so far without result.
- (2) Communications with Morocco are difficult; most of our letters remain unanswered and no progress reports are received.
- (3) Progress in alleviating serious teacher shortages has been inadequate.

II Proposed second education project. At the beginning of this year, the government has requested that IDA would finance a second education project consisting of: (a) institutions of higher education, (b) secondary schools, (c) vocational training. Provision for such a project is made in the Five Year Lending Program for fiscal year 1971 (\$ 10.0 million). A Unesco Project Identification Mission will visit Morocco in November-December, 1969 to determine the scope of such a project. This will coincide with the visit by the IDA staff referred to above.

Major Problem Areas

- (1) Administration of the education system is in disarray and there has been confusion since the creation of three different Ministries of Education;
- (2) Planning is deficient, particularly in the field of higher education where objectives are poorly defined and spheres of interest insufficiently delimited;
- (3) Secondary school curricula are in need of revision;
- (4) The supply of secondary school teachers is considerably below the requirements;
- (5) The economic necessity of a further expansion of secondary education is unclear and open to doubt.

Solving these problems may take some time, before final agreement on a second education project.

IFC BRIEF

Exchange Rate:
(DH 5.06 = US\$ 1.00)

BRIEFING PAPER

IFC Activities in Morocco

I. EXISTING IFC INVESTMENTS

(i) Compania Industrial del Lukus (CIL)

Total Project Cost	:	US\$ 1.6 million equivalent
IFC Loan (7 $\frac{1}{2}$ %)	:	US\$ 890,000
IFC Equity Investment	:	US\$ 400,000 equivalent (DH 2.0 million)
IFC Contingent Commitment	:	US\$ 100,000
Total		US\$ 1,390,000
Date of Approval	:	March 31, 1966

The project consists in the transfer from an existing operation to CIL of the facilities for the processing and canning of tomatoes, peppers and tuna fish and the expansion of those facilities to double capacity. The latter operation was essentially financed by IFC funds, and is now completed. The company's production has not yet reached rated capacity, and the financial year ended March 31, 1969 showed a net loss of about US\$ 200,000 which the company attributes to a shortage of fresh tomatoes because of adverse weather conditions, high maintenance costs and losses attributable to previous years' operation. An IFC mission is presently visiting the company to examine the situation.

(ii) Banque Nationale pour le Developpement Economique (BNDE)

IFC Equity Investment:	US\$ 1.0 million equivalent (DH 4,939,350)
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The original investment of DH 7.5 million (US\$ 1.5 million) was reduced on October 22, 1968 to the above amount as part of a one-third reduction of BNDE's share capital to increase the company's leverage. In the past IBRD has granted the company three loans totalling US\$ 47.5 million. A new loan for about US\$ 18.0 million is presently under consideration. Audited financial statements for the year ended December 31, 1968 show net earnings of DH 1.25 million after taxes and provisions of DH 2.22 million, equivalent to a rate of return of 6.25% on share capital. The comparable net earnings figure for 1967 was DH 1.04 million.

II. PROSPECTIVE OPERATIONS

IFC investments in Morocco have been limited essentially by two factors. The first is that most large scale industrial ventures in the country, particularly in the mining sector, are government owned and thus ineligible for IFC financing. The second factor is that most other projects are of comparatively small size and thus being financed through BNDE.

Among potential future IFC investments there are two which at present seem to offer reasonable prospects for financing in the near future:

(i) Cellulose du Maroc

Total Estimated Project Cost : US\$ 20.0 million

Potential IFC Investment : US\$ 7.4 million

A technical study of this project to expand Cellulose's pulp production capacity from 40,000 tons to about 90,000 tons per year was completed earlier this year. Since almost the entire present and future production of the company is for the export, the majority shareholder of the company, the French Pricel Group, recently carried out a detailed market study, justifying the expansion plan. The company has informed us that it intends to submit soon a complete project report for our review. Present plans are to complete the expansion program in 1972.

(ii) AKU Nylon Project

Total Estimated Project Cost : US\$ 20.0 million

Potential IFC Investment : Not yet determined

After having carried out a market study in Morocco, the Dutch AKU company has come to the conclusion that in view of the existing local demand, the construction of an Enkalon-Terlenka plant with a capacity of about 7,000 tons per year would be justified. A technical mission of AKU is shortly going to investigate conditions at the proposed plant site north of Casablanca and a project report is expected to be ready beginning next year. AKU has indicated that it would not only want to be responsible for managing the project but would also insist on a majority share capital participation of between 51 and 60%.

October 21, 1969

GHKreuter:ar

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