

**AFRICAN DEVELOPMENT BANK GROUP**



**MOROCCO**

**CONSOLIDATION OF THE 1992-94 STRUCTURAL  
ADJUSTMENT PROGRAMME**

**Project Performance Evaluation Report (PPER)**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

**12 March 1999**

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CURRENCY, ACRONYMS AND ABBREVIATIONSCurrency Equivalents

Currency Unit : Dirham

<u>At Appraisal</u> (May 1993)	<u>On Completion</u> (December 1994)	<u>At the time of the Audit Mission</u> (July 1998)
1 UA = US\$1.39773	1 UA = US\$1.45985	1 UA = US\$ 1.33154
1 UA = DH12.7129	1 UA = DH13.1210	1 UA = DH12.9760
1 US\$ = DH9.09539	1 US\$ = DH 8.98791	1 US\$ = DH9.74510

Weights and Measures

1 km	:	kilometre	=	1 000 metres
1 ha	:	hectare	=	10 000 square metres (m <sup>2</sup> )

Financial Year

1 January - 31 December

(Since 1996, the financial year starts from 1 July until 30 June of the following year)

Acronyms and Abbreviations

ADF	:	African Development Fund
ASAP	:	Agricultural Sector Adjustment Programme
BAJI	:	Barnamaj al aoulaouiyat al ljtimaiya
DH	:	Dirham
EEC	:	European Economic Community
ESAF	:	Enhanced Structural Facility
ESRP	:	Economic and Social Reform Programme
FAO	:	United Nations Food and Agricultural Organisation
FSAP	:	Financial Sector Adjustment Programme
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross domestic product
GFCF	:	Gross fixed capital formation
IDA	:	International Development Association
IFAD	:	International Fund for Agricultural Development
IMF	:	International Monetary Fund
KfW	:	Kreditanstalt für Wiederaufbau
PCR	:	Project Completion Report
PIP	:	Public Investment Programme
PPAR	:	Project Performance Audit Report (now PPER)
PPER	:	Project Performance Evaluation Report
PSP-PSP	:	Private Section Participation in Public Services
SDR	:	Special Drawing Right
SEGMA	:	Services de l'état gérés de manière autonome
SICAV	:	Société d'investissement à capital variable

SMI/SME	:	Small and Medium Sized Industries/Small and Medium Sized Enterpr.
UA	:	Unit of Account of the African Development Bank
UMA	:	Union du Maghreb arabe (Maghreb Arab Union)
UNDP	:	United Nations Development Programme

## PREFACE

1. This project performance evaluation report (PPER) concerns the Consolidation of Morocco's Structural Adjustment Programme for the 1992-94 period for which the ADB granted loan n° B/MAR/CON-PAS/93/47B of UA 100 million in August 1993.

2. This phase of the programme aimed overall, at consolidating sustainable growth of the Moroccan economy and specifically at : (i) introducing minimum competition in the economic sectors and an incentive system that is as neutral as possible with a view to lifting the administrative obstacles to trade, spurring exports on and strengthening the convertibility of the dirham ; ii) arriving at long-term reduction of the budget deficit while ensuring a better resource allocation in order to give renewed impetus to investment in the productive sectors ; (iii) contributing to greater social justice by setting out a social development strategy for low income households and rechanneling credit to the social sectors and agriculture so as to reduce further social inequality. The consolidation of the SAP focussed on investing more in the priority sectors, sound private investment incentive and facilitating external trade. This phase was to be implemented in 24 months.

3. The ADB loan was to cover the foreign exchange costs of eligible imports for the private and public sectors of the Moroccan economy. Together with the loans of the World Bank and the European Union, the ADB loan was of considerable assistance to the balance of payments during the 1992-94 period.

4. In May 1997, the Bank prepared the SAP Consolidation Completion Report, according to which, most of the measures of the programme were implemented within the prescribed deadlines or before. The results of the programme are mitigated and the situation in Morocco is still precarious. It is worth pointing out that some external factors (climatic uncertainties), low export capacity, and the social situation were highlighted to justify Morocco's performances. In accordance with guidelines from the Board, an indepth performance evaluation was undertaken to assess these and other problems relating to the institutional and socio-economic aspects with a view to determining better, the possible impact of the programme on the economy and to drawing the lessons of the consolidation phase.

5. This report was written after a Bank audit mission to Rabat from 15 to 30 July 1998. It refers to the appraisal and completion reports and is based on : (i) information available in programme files at the Bank ; (ii) statistical, economic and financial data collected during the mission ; and (iii) discussions and talks between the mission and the Authorities, top level officials of the Ministries concerned and the Al-Maghrib Bank, as well as with representatives of the UNDP and the European Union in Rabat.

6. The PPER is complementary to the analyses and conclusions of the completion report. It evaluates the performance, results and the sustainability of the effects of the programme from the macroeconomic and sectoral standpoints, during the 1990-97 period. It draws lessons and conclusions and formulates recommendations to the Bank and the borrower for consolidating the effects of the programme.

7. Copies of the PPER have been sent to the Government of the Kingdom of Morocco and to the Bank's Operations Department concerned. Their comments will be taken into account in the final version of this report.

**BASIC DATA ON THE PROGRAMME****A Preliminary data**

Country	:	Kingdom of Morocco
Programme	:	Consolidation of the Structural Adjustment Programme
Loan	:	B/MAR/CON-PAS/93/47B
Borrower	:	Government of the Kingdom of Morocco
Executing Agency	:	Directorate of the Treasury and External Finance

**B Basic data on the loan**

		<u>SCHEDULED</u>	<u>ACTUAL</u>
Loan amount (UA million)	:	100	100
Commitment charge		1% on the undisbursed loan amount starting sixty days after the signature of the loan agreement.	
Duration	:	Twenty years including a grace period of five Years.	
Grace period (year)	:	Five (5)	Five (5)
Repayment conditions	:	In thirty (30) equal and half-yearly instalments starting from the sixth year and from the date of signature of the loan agreement.	
Conditions for tranche	:	Three tranches : 40, 30 and UA 30 million respectively	Three tranches: 40 30 and 30 million respectively
Evaluation	:	May 1993	May 1993
Negotiations	:	-	11-13 Aug. 1993
Approval	:	-	31 August 1993
Signature	:	-	23 sept. 1993
Implementation	:	-	24 nov. 1993

**C. Basic data on the SAP Consolidation**

	SCHEDULED	ACTUAL	DIFFERENCE
1. External Financing requirements (*) (in UA billion)	6.151	6.151	-
2. Duration of SAP	1993-94	1993-94	-
3. Date of disbursement of 1 <sup>st</sup> tranche	before 31/12/93	8 Dec. 1993	-
4. Date of disbursement of 2 <sup>nd</sup> tranche	before 31/3/94	2 Sept. 1994	6 months
5. Date of disbursement of 3 <sup>rd</sup> tranche	before 30/6/94	28 Dec. 1994	6 months
6. Date of closure of loan	December 1994	31 December 1994	-

**7. Financing plan**

Sources of Finance	At appraisal (UA million)	On completion (UA million)	Difference
ADB	100	100	None
World Bank	193.73	193.73	None
European Union	68.75	68.75	None
<b>Total</b>	<b>362.48</b>	<b>362.48</b>	<b>None</b>

**D. Performance Indicators**

1. Number of extensions of the date of last disbursement	:	None
2. Status of Programme	:	Completed
3. Implementation Performance	:	Satisfactory
4. Performance of the Bank	:	Satisfactory
5. Programme Results	:	Satisfactory

(\*) For the 1993-94 period, taking into account the current of the balance of payments, repayment of the external debt, replenishment of the gross reserves, IMF buybacks.

**E. Missions**

Type of mission	Number of persons	Dates	Man/Days
Appraisal	2	9-24 May 1993	30
Midterm Review	2	July and Dec.1994	24
Financial Supervision	1	February 1994	16
Completion	2	May 1997	5
Post-evaluation	2	15-30 July 98	26

**F. Disbursement (in UA million)**

		<u>Scheduled</u>	<u>Actual</u>
Total disbursed	100		100
Amount cancelled		0	0
Undisbursed balance		0	0
Repayment		-	-

**Annual Disbursement (in UA million)**

	<u>Scheduled</u>	<u>Actual</u>
1993	40	40
1994	60	60
Total	100	100

**G. Other programmes financed by the Bank Group in respect of Structural/Sectoral Adjustment in Morocco :**

Programme/ Project	Year of Approval	Loan (UA million)	Status	Date of Completion	Status of the PPER
Agriculture Sector Recovery Programme	1985	45	Completed	1988	n.a.
Secondary and Service Road Maintenance and Repair Programme	1985	49	Completed	1993 (ADB/BD/IF/96/117)	PPAR available (ADB/BD/WP/97/114)
Education System Reform Programme	1986	60	Completed	1992	PPAR available (ADB/BD/WP/95/101)
Transport Sector Programme	1987	94	Completed	1994	n.d.
ASAP II	1987	117	Completed	1991 (ADB/BD/IF/96/266)	n.a.
SAP	1989	100	Completed	1991	PPAR available (ADB/BD/WP/91/109)
FISAP I	1992	75	Completed	1994 (ADB/BD/IF/96/24)	PPAR to be prepared
FISAP II	1995	150	Completed	1997	PPAR to be prepared
FISAP III	1997	100	On-going	-	-

Note : - n.a. = not available  
- PPAR has since January 1999 become PPER

## I EVALUATION SUMMARY

### 1.1 Objectives and Scope

1.1.1 This project performance evaluation report concerns the Consolidation of Morocco's Structural Adjustment Programme of 1992-94, for which the ADB granted loan n°B/MAR/CON-PAS/93/47B of UA 100 million, in August 1993.

1.1.2 The overall objective of the loan was to lay the groundwork for the sustainable growth of the economy, but specifically to : (i) introduce some competition in the economic sectors and introduce incentives aimed at removing obstacles to trade and stimulating exports; (ii) reduce the budget deficit while ensuring a better resource allocation; and (iii) seek greater social justice by formulating a social development strategy. The programme comprises 27 measures in the external trade, public finance and social sectors. These measures are given in the matrix attached to the appraisal (Ref. MAR/AMGE/93/01) and completion (Ref. ADB/BD/IF/98/65) reports. For the second and third tranches, some of these measures were added by the Bank to the initial measures, given the progress made in the implementation of the programme financed by the World Bank since 1992.

1.1.3 The main results expected of the programme depended on the trend of the following performance indicators during 1992, 1993 and 1994 : whether the ratio GFCEP/GDP reached 23.4 %, 23.5 % and 23.8 % respectively; that of outstanding public debt/foreign exchange earnings 2.3 %, 2.5 % and 2.4 % ; the real growth rate of manufactured goods exports 5.9 %, 7 % and 9 % ; if the level of the net external assets of the Al-Maghrib Bank reached US\$ 3 200 million US\$ 3 700 million and US\$ 3 800 million ; and a level of direct foreign investment of US\$ 300 million, 500 million and 600 million.

### 1.2 Implementation Performance

All scheduled amounts were mobilised as shown in the financing plan and fully disbursed without any delay to the programme. The loan conditions were promptly fulfilled and almost all measures were implemented during the period of the programme with the exception of the decrees fixing shadow prices and tariff equivalents for basic agricultural products and main by-products. These which were adopted only in 1996 and the final report of the study on the logistics of effective external trade which took longer than planned. The goods and services procurement procedures were respected. The loan was disbursed in three tranches as planned during negotiations, not only to keep the programme's implementation under control, but also to spread disbursement over a reasonable period of time so as to take into account the objective of reducing the pace of loan disbursement of non-project loans. Three missions including two midterm review and one financial supervision were fielded to the programme and it was also provided with assistance by the Bank's Regional Office in Rabat. Implementation performance is therefore satisfactory on the whole.

### 1.3 Institutional Performance

#### **Performance of the Borrower**

1.3.1 The Moroccan Government illustrated its firm resolve to implement the Programme and the Directorate of Treasury and External Finance carried out its tasks of administrative coordination of the programme's implementation satisfactorily, by promptly collecting the texts of the decrees and the documents required from the departments concerned. However, in

spite of the Bank missions to the field and the assistance of its Regional Office in the country, no status report was submitted ; similarly, the loan account was not audited by the Finance Inspectorate as was stated in the loan agreement.

### **Performance of the Bank**

1.3.2 The Bank took active part in the preparation, appraisal and follow up of the Programme. Thanks to its midterm review and financial supervision missions and the assistance of its Office in the country it was able to satisfactorily supervise the measures which were implemented within acceptable deadlines.

#### 1.4 Impact of the Programme

1.4.1 The Programme's macroeconomic performance was ambivalent. For, although the growth rate was regular during 1989-91, it developed haphazardly during the period of the programme, from -1 % in 1993 to 10.4 % in 1994 instead of the expected 4 %. However, it continued to increase after the programme, reaching 11 % in 1995 and 1996. This was due mainly to the variations of agricultural production which is subject to the vagaries of the weather. In addition, the gross investment rate during the programme (21.7 % in 1993-94) remained below the expected rate of 23.6%, the private and public investment rates having fallen to 18 % during the same period (instead of 20 % in 1992), despite efforts exerted by the Government to control inflation and to stabilise the real exchange rate. Indeed, by affecting budget savings negatively, the liberalisation of external trade contributed to the drop in overall investment. Rather than fall as anticipated in the programme, the budget deficit increased from 2.2% of the GDP in 1992 to 2.8% in 1993-94 and after (3.4 % in 1995-96). This trend is the combined result of the marginal rise of current expenses and the significant drop in current income.

1.4.2 Nonetheless, the encouraging results obtained particularly the improvement in the external debt situation, the positive trend of exports, especially those of manufactured goods, the increase in net external assets and direct foreign investment and the control of inflation are worth pointing out.

#### 1.5 Sustainability

1.5.1 The overriding factor being the sustainability of the programme's effects lies in the Government's firm political resolve to pursue the reforms. This resolve, together with a stable political situation, created a general atmosphere of confidence which was key particularly to foreign investment. The increase in direct foreign investment gave impetus to the private sector which was expected to spearhead the country's economic development . The will of the powers-that-be to promote and develop the private sector so that it actually plays fully this role is irreversible. The Government's resolve meant strategic options particularly state divestiture from certain public services, sound investment incentives geared towards economic recovery under the investment charter, new corporate laws, the definition of the labour and trade codes, the creation of trade tribunals, etc., which are likely to perpetuate the positive effects of the consolidation phase and of other programmes.

1.5.2 The increasing openness of Morocco to outside world as a result on the one hand of the price decontrol and the liberalisation of trade and the strengthening the country's exporting capacity (reduced taxation in particular), and on the other, the improved legal and regulatory framework and of better infrastructure, is an unavoidable process. This process deserves to be

supplemented by actions aimed at strengthening the capacity of the Administration and the economic operators to adapt to the new international environment and to new challenges.

1.5.3 Although the economic results registered are encouraging, they are far from being final, because the Moroccan economy is easily influenced by the vagaries of the weather and the price fluctuations of basic products (agricultural and phosphates in particular), which could jeopardise the sustainability of the programme's effects. In addition, sustainability means greater social unity and fewer economic and social differences. Yet, increased unemployment, particularly of the youth, and poverty, worsen the social atmosphere and may jeopardise the programme's long term effects. The implementation of BAJ1, financed by the World Bank, as the first phase of the programme of social priorities, testifies to the Government's awareness of the poverty phenomenon and its resolve to address it so as to avoid the risks of social uprising, a factor which could affect negatively the sustainability of the programme's effects.

## 1.6 Conclusions

1.6.1 Encouraging results were obtained despite an ambivalent overall performance especially of manufactured goods exports. A highly positive direct foreign investment trend made foreign exchange surpluses possible and enabled an accumulation of reserves despite the deficit of the current balance. Less use was made of external financing but the debt situation is still preoccupying. Inflation was kept under control and the real exchange rate of the dirham remained stable, which explains in part, the good performance of the balance of payments. These results are still poor for, despite these efforts, the real growth rate is yet to stabilise. To that end, the macroeconomic framework will have to be reinforced with further reforms and growth strategies based on sectoral options geared towards a diversification of the productive system in order to limit the effects of uncertain weather and deteriorating terms of trade that are a threat to the positive effects of the programme.

1.6.2 Generally, macroeconomic performance is fragile, some areas are still a problem and therefore the reform efforts must be pursued. The pace of economic growth reached did not lead to the creation of enough jobs which has meant increased poverty and a preoccupying situation. These problems are challenges to development. They must be addressed by the Government, economic and social partners as well as by donor agencies in the years to come. It is worth pointing out however, that some initiatives like the social priorities project, known as BAJ1, financed by the World Bank and shortly, the economic and social reform programme, appraised jointly by the ADB and the World Bank, have been taken in that connection.

## 1.7 Feedback and Monitoring of Actions

1.7.1 The lessons to be learnt from the SAP experience both by the country and the Bank in addition to those already mentioned in the PCR are : the consequences of the external factors that were overlooked and that may jeopardise the implementation of a coherent policy and consequently the set objectives ; the volume of actions and the sequence of the policies to be applied to arrive at the expected results ; prior support of the social partners for the programme's objectives and measures ; the importance of the export strategies and actions agreed to with the private enterprise to strengthen and increase its export capacity.

1.7.2 In order to consolidate the results obtained, it is recommended that the Government examines the possibility of simplifying administrative and legislative procedures with a view to reducing the time frame for adoption of bills, decrees and regulations ; provide the social Ministries with adequate budget resources in line with their basic requirements ; actually implements the recommendations of the study on the transfer of some public services to the private sector with the purpose of streamlining the management of these services and cut down on public spending ; pursues the efforts made to strengthen Morocco's export capacity and facilitate a successful entry into foreign markets ; pursues and strengthens social sector reforms by creating the conditions for alleviating poverty and extending the access of the underprivileged to basic social services and strengthens the social cover of the vulnerable ; pursues the banking and financial sector reforms with a view to better mobilising savings and facilitating the access of enterprises, particularly SMIs/SMEs to sources of finance at soft conditions.

1.7.3 The Bank is recommended to pursue the political dialogue with the Moroccan Government with the purpose of assisting it in efforts to strengthen the legal and regulatory framework and ensure the implementation of the recommendations of the studies carried out in the context of the programme.

1.7.4 The Government will be required to monitor mainly the continuation and strengthening of reforms, the inclusion in the budget of the allocations to the social Ministries and the implementation of the social strategy with a view to reducing unemployment and alleviating poverty.

1.7.5 The main monitoring actions expected of the Bank concern the compliance with the provisions of the loan agreement and continued policy dialogue with the Government to take the reforms a step further.

## II. CONTEXT

### 2.1 National Economic Context

2.1.1 Morocco is relatively well endowed in natural resources with the phosphate deposits for which it is the lead producer and exporter, as well as iron, manganese, plaster and copper. In addition, it can boast of a rich agricultural system that resorts partly to irrigation, and its tourist industry is one of the most dynamic in Africa. Towards the end of the 70s, the country was faced with macroeconomic and financial imbalances due *inter alia* to the sharp drop in the phosphate prices on the international market and a very high external debt. The situation also featured an external payment imbalance and a public finance deficit. Accordingly, the Moroccan Government decided to set in motion as of 1983, a process of economic reform in close collaboration with the IMF and its standby arrangement, the World Bank and the ADB through sectoral adjustment loans with the aim of adjusting the major macroeconomic imbalances and of arriving at a sustained growth rate. These reforms focussed first of all, on a better management of the domestic demand through the reforms of the monetary and fiscal policy, and then on an increase in the supply of goods and services through the adjustment measures relating to external trade, and the agriculture, industry and public enterprise sectors.

2.1.2 The application of these measures especially to the sectors in question had no effect on the structural weaknesses of the economy and consequently, the Government opted as of 1988 for a regular adjustment programme to address them globally and from the sectoral standpoint. This explains the first structural adjustment programme of 1989, to which the ADB contributed UA 100 million. The performance audit report written at the end of the programme made it possible to lay emphasis on these weaknesses especially those due to public spending cuts that were detrimental to the education and health sectors, and on the persistent pockets of poverty in both rural and urban areas.

2.1.3 External factors, especially the vagaries of the weather and the drop in the prices of basic commodities contributed largely to the irregular performance of the economy especially the agricultural and mining sectors on which the Moroccan economy is dependent. In addition, although the balance of payments improved considerably it was still sensitive to the export earnings fluctuations, the deterioration of the terms of trade and to net capital flows. It also turned out that the budget deficit stood at a rather high level and that further measures to liberalise external trade were indispensable. Therefore, these problems had to be addressed and the progress achieved by previous programmes preserved and consolidated. Accordingly, the Moroccan Government launched a phase of consolidation of the SAP for the two-year period (June 1992 to June 1994), with funds from the World Bank, the EEC and the ADB.

### 2.2 Background of Policy-Based Operations

2.2.1 Since 1983, the Kingdom of Morocco has been implementing a series of adjustment programmes in the agriculture, industry, education and public enterprise sectors for which the ADB provided financial support. Since 1989, the Bank has also contributed to the financing of the first structural adjustment programme for the 1989-90 period as well as to three financial sector programmes.

2.2.2 In the agricultural sector, the Bank has granted two loans of UA 45 and 117 million to finance the agricultural sector recovery programme and the agricultural sector recovery programme, phase II, the objective of which was to find solutions to the obstacles to agricultural development through varied actions in areas such as supervision, credit management and policy in view of a better use of agricultural resources and cost-effective agriculture. These programmes have been completed.

2.2.3 In the transport sector, the programme for the maintenance and repairs of secondary and service roads as well as the transport sector programme were provided with UA 49 and 94 million, respectively. The first consisted in repairing secondary and service roads by consolidating and renewing the outer layer. The transport sector programme for its part aimed at improving the capacity of the transport to meet the demands of the various sectors of the Moroccan economy. These programmes have been fully implemented.

2.2.4 The education sector was provided with a loan of UA 60 million for the education system reform programme the objectives of which were, the expansion and improvement of the teaching and training system. This programme has been completed.

2.2.5 The purpose of the UA 100 million SAP loan was to : secure an average annual GDP growth of about 4.6 % ; stabilise public finance and increase the level of investments so as to facilitate the return to a more sustained and lasting economic growth ; strengthen the country's external credit as well as its capacity to service its debt and enable it to call upon the international finance market. The SAP has been completed and its performance was evaluated by the Bank in 1991 (Ref.ADB/BD/WP/91/109).

2.2.6 The Bank also assisted in the efforts to adjust the financial sector providing UA 75, 150 and 100 million respectively, for three operations. The objectives of these programmes were to develop and diversify the financial sector so as to assist the private sector financially. FISAP I and II have been completed whereas FISAP III, approved in November 1997, is on-going (ADB/BD/WP/97/123).

2.2.7 It is worth pointing out that the Bank prepared and appraised, jointly with the World Bank in July 1998, the economic and social reform programme (ESRP) which will be presented to the Board by the end of 1998.

### 2.3 Programme Design

2.3.1 Although the design of the consolidation phase was mainly the work of the Government of Morocco and the World Bank, the ADB also took active part in the entire process. After the joint appraisal of the programme with the World Bank in 1991, it decided in 1992 to postpone the project because of resource restrictions and was not able to approve the related loan until 1993, after the reappraisal of the programme, that is to say, one year after its start-up with World Bank funds. It is on the basis of the shortcomings pointed out in the SAP performance evaluation report written in 1991 and given the progress made in the implementation of the programme that the Bank defined and laid down the components and measures of the consolidation phase. Accordingly, it had to propose additional measures, in agreement with the Moroccan Government for the second and third tranches of the loan. Its programme comprised 27 measures involving the external trade, public finance and social sectors. Furthermore, the Bank's financing was tied to a condition concerning the pace of programme implementation bearing in mind, the deadlines for the implementation of the reforms.

2.3.2 The growth projections given in the programme were too optimistic because account was not taken of the consequences of the external factors which turned out to be decisive in the country's economic performance. Indeed, the Moroccan economy is dependent primarily on agriculture and mines (phosphates) which are vulnerable to changes in the weather and the world prices of raw materials.

#### 2.4 Relevance of the Programme

2.4.1 The implementation of the SAP had highlighted a number of weakness well described in the completion report : fragile, haphazard growth subject to the vagaries of the weather; decline of the GFCP/GDP and the real growth rate of manufactured goods exports as compared with projections ; gross investment rate below the set objective and a contrasting trend of the outstanding external debt/foreign exchange earnings ratio. It also revealed, from the social standpoint, persisting pockets of poverty affecting a significant fraction of the population both in the rural and urban areas. Thus, the problem had to be addressed, while preserving and consolidating the progress achieved by the previous programmes, with a view to laying solid bases for the Moroccan economy.

2.4.2 The consolidation of the SAP fell logically into line with the previous programmes which aimed at readjusting the major macroeconomic imbalances of the Moroccan economy and at reaching a sustainable growth rate. Its objectives were relevant. The main actions planned are described in the Appraisal (MAR/AMGE/93/01) and Completion Reports (ADB/BD/IF/98/65).

#### 2.5 Objectives and Scope of Appraisal

2.5.1 According to the appraisal report, the objectives of the consolidation phase were to:  
 (i) introduce minimum competition in the sectors of the economy and set in motion an incentive system that is as neutral as possible, aimed at removing the administrative barriers to trade, giving renewed impetus to exports and strengthening the convertibility of the dirham ; (ii) reach a long term reduction of the budget deficit while ensuring a better resource allocation with a view to stimulating investment in the productive sectors ; (iii) contribute to greater social justice by formulating a social development strategy for low income households and rechannel credit to the social sectors and agriculture so as to reduce further social inequalities. As outlined, the objectives and the results coincide and it is difficult on that basis to draw up a logical framework. For more clarity, the overall and specific objectives were reformulated at post-evaluation as follows : to build a sustainable growth of the Moroccan economy as the overall objective whereas the specific objectives were to rationalise the management of public finance and investment incentives, facilitate external trade and alleviate poverty.

2.5.2 The main results expected depended on the trend of the following five performance indicators during the period of the programme : a real GDP growth rate of 4% in 1993 and 1994 (against -3 % in 1992) ; an outstanding public debt/ foreign exchange earnings ratio of 2.5% in 1993 and 2.4 % in 1994 ; a real manufactured goods export growth rate of 7% in 1993 and 9% in 1994 ; a net external asset amount of US\$ 3.700 million for the Bank Al Maghrib in 1993 and US\$ 3.800 million in 1994 ; a direct foreign investment amount of US\$ 500 million in 1993 and US\$ 600 million in 1994.

2.5.3 Most of the programme's measures involved the adoption of legislative and regulatory texts which had already been or are being prepared under the World Bank loan, facilitating thereby their implementation. No mechanism had however been planned to ensure the effective implementation of these measures given the country's socio-economic realities, and no risk or assumption had been anticipated when the programme was designed.

## 2.6 Financial Provisions – Banks and Others

The financial plan of the programme as given in the appraisal report included the Bank and the other donor agencies. Apart from the Bank loan of UA 100 million, the programme was provided with an assistance of US\$ 275 million (UA193.73 million) by the World Bank and ECU 80 million (UA 68.75 million) by the European Union. All commitments made by these donor agencies were fully respected. The World Bank was the first and only one to intervene in 1992, whereas the EEC and the ADB were able to release their resources only in 1993. In 1992, the Bank tried not to exceed the ceiling of resources for policy-based reform operations which had already been reached.

## 2.7 Evaluation Methodology and Approach

2.7.1 The following three methods were used to obtain information : (i) a review of the programme-related documents available in the Bank; (ii) a review of the documents collected from the Ministerial departments concerned and the Bank Al-Maghrib in Rabat; (iii) discussions with the managers of the said departments, and those of the Bank Al-Maghrib, as well as with the UNDP and EEC resident representatives.

2.7.2 Evaluating the effects of the programme meant comparing the results obtained with the set macroeconomic objectives. Determining these effects raises other issues because the trend of Morocco's GDP for instance, depends on that of external factors on which the SAP has no control: the demand of developed countries for basic exports, the international prices of these products, rainfall, net financial flows from the rest of the world, etc. Lastly, the implementation of the SAP on overlapping periods and the post-evaluation of their effects makes it difficult to state precisely to the origin of the effects.

# III. PROGRAMME ACHIEVEMENTS AND RESULTS

## 3.1 Entry into Force of the Loan

The Government met without difficulty and within acceptable deadlines the conditions precedent to the entry into force of the loan agreement and to the disbursement of the first tranche. Evidence that these conditions had been fulfilled was provided before negotiations. The loan became effective two months after the signature of loan agreement, illustrating among other things, the resolve of the Government and the Bank to quickly implement the programme along with the other cofinancers.

## 3.2 Implementation Schedule

3.2.1 A rough implementation schedule was given for the programme's measures. It took account of the disbursement of the three tranches and as such making it difficult to determine the implementation time frame. Most measures were implemented during the period of the programme. There was however a slippage over the adoption of the decrees fixing the

shadow prices and tariff equivalents for agricultural products and basic by-products. These prices were fixed in 1996, after the programme because of the concern over a respect for GATT provisions which contain a tariff equivalent protection system instead of the shadow price system. Similarly, the final report of the study on the logistics of effective external trade took longer than planned to prepare.

3.2.2 The measures, especially those relating to external trade were implemented in gradual phases although provisions had been made for simultaneous implementation. Consequently, the effect expected could not be obtained. Some measures, such as the adoption of « outline law n° 18-95 that forms the Investment Charter » and aimed at improving the incentive environment, as well as those intended to facilitate trade (customs procedures, decrees fixing shadow prices and tariff equivalents for the basic products and main by-products) were initiated in 1990-93, but could not be implemented until 1996-98, i.e. several years after the programme. The same applies to the investment charter intended to stimulate private investment which was initiated in the form of a bill but which became effective only in 1996. Long winding legislative and administrative procedures and the application of the bill are the main reasons for this situation.

### 3.3 Financing Requirements, Loan Disbursement and the Use of Counterpart Funds

3.3.1 According to the appraisal report, the external financing requirements for the 1993-94 period were estimated at 78.193 billion dirhams or UA 6.151 billion. These include the current balance of payments deficit, external debt repayment, gross reserve replenishments and IMF buybacks. They were to be financed with drawdowns on medium and long term loans (67%), private external capital flows (27%) and net flow after rescheduling (6%).

3.3.2 The loan was disbursed in three tranches as planned during the negotiations when two concerns were in mind: (i) to exercise control over the programme's implementation ; and (ii) to spread the disbursement over a reasonable period so as to take into account the objectives of reducing the pace of policy based loan disbursement. This explains the delays encountered in the mobilisation of Bank resources for disbursement requests sent by the borrower. These delays were due to the Bank's cash management and had no effect on the conduct of the programme which was completed within the set schedule.

3.3.3 The foreign exchange resources of the loan were used to finance mostly food commodities (49.56%), billet (18%), sulphur (10.57%) and oil (10.27%). 12% of these resources were used to finance chemical and pharmaceutical products, capital goods etc. The loan counterpart funds were managed by the Ministry of Finance and were paid into the State's general budget in accordance with the principle of non-allocated resources and as such it was difficult to determine their utilisation.

### 3.4 Logical Framework Approach

3.4.1 There logical framework approach is mentioned in the Bank's operational guidelines in force at the time the programme was appraised, although often, as in the case of the SAP consolidation phase, it is not used. Even though the objectives were not prioritised and despite the confusion between objectives and results in the said report, a retrospective matrix was prepared and the performance indicators identified to evaluate the results and to determine the extent to which the objectives were attained.

3.4.2 It is also worth pointing out that the consequences of and risks inherent in the implementation of the entire programme were not outlined in the appraisal report.

### 3.5 Compatibility between the Strategies and Policies of the Bank and those of the Country

3.5.1 This programme was a logical follow-up to the previous sectoral and structural adjustment programmes that have been implemented by the Moroccan Government. It was also in keeping with its development policy letter as amended during the loan agreement negotiations.

3.5.2 Furthermore, the programme was one of the Bank Group's sectoral priority operations Morocco during the period, in compliance with the economic prospects and country programmes (EPCP) for the period 1991-93.

### 3.6 Compatibility with Regional Economic Integration

The programme was not designed with economic integration in mind. However, most of the external trade measures bring Morocco closer to the regional and world economies.

### 3.7 Reform Measures

3.7.1 The measures planned to meet the programme's objectives focussed on the following axes : (i) public finance ; (ii) external trade reform ; and (iii) the social sector. Almost all of them were implemented before or as scheduled during the period of the programme.

3.7.2 With regard to public finance, the measures were to lead to a better resource allocation with a focus on the Government's priorities in the social sector, meet the requirements in infrastructure for the development of the private sector and rationalise investment incentives. To improve the incentive framework, several investment codes that existed were merged into Outline Law n° 18-95 which forms the Investment Charter. Indeed, there were nine investment codes on various sectors (mines, industry, tourism, exports, etc.) which have meant confusion over and differences between the benefits allowed each sector and the respect of the Government's sectoral priorities. The Outline Law was examined during a cabinet meeting on 9 June 1993, but it was adopted in 1995 and applied in April 1996 after the period of the programme. In order to cut down on public spending, a study to review public service areas where the private sector could intervene was carried out ; its recommendations have not yet been followed by « rapidly applicable plans of action » as suggested in the appraisal report. Nevertheless, sectors have already been identified (water, electricity, health, education, housing municipal services, among others) and the Ministry of Health has extended an invitation to private operators interested in non-hospital activities (laundry, cooking...). In addition, under the 1993 Appropriation Law, as happened in 1992, the investment loan increase rate set for the six core Ministries (Agriculture, Public Works, Transport, Education, Health, Housing) could not be reached.

3.7.3 Despite the progress made by previous programmes in the area of external trade, (liberalisation measures, especially the provisions to remove quota restrictions, to reduce the custom duty and to introduce a new legislative framework, etc.), several problems that were a threat to the development of exports still prevail and the related costs impact on their

performance, making them lose a good many of the possible benefits Morocco could have derived from its proximity to the markets of Western Europe. These included the time required for import and export formalities and banking procedures, lack of a system for exchanging computerised data, port congestion, etc.

3.7.4 Measures to protect the economy and to facilitate external trade were consequently designed to reduce trade costs, regularise administrative procedures and remove the obstacles in the transport sector. They were designed for free trade with the prospect of a free trade agreement between Morocco and the European Community and a better environment for private operators. The measures below were all implemented but they should be strengthened and actual implementation secured:

- total lifting of import and export restrictions with the low protection rates, made official by the implementing decree n° 2-93-415 of 2 July 1993 and decree n° 1308-94 of 19 April 1994 of law n° 13-89 of 9 November 1992 ;
- reduction of the custom duty, ad valorem value at, 35% since June 1993 except for agricultural products for which the tariff equivalents must be dismantled in 10 years period. However, agricultural products tariffs were reduced by 2.5% a year and thus the rate fell from 45 to 41.5% between 1996 and July 1998 ;
- Formulation of a new customs code which will soon be submitted to the cabinet meeting and reduction of the customs clearance time (from 2 to 3 days on average to a little over a day) with the collaboration of the private operators who are worried about their production costs ;
- selective instead of systematic container inspection since March 1998 ; computerisation of the custom department in view of a better control of the customs clearance time;
- abolition of quota restrictions, except for basic agricultural products (oil seeds meat, sugar ...) which were subject to tariff equivalents (decree n° 1308-94 of 19 April 1994 of the Ministry of Trade, External Investment and Crafts). Quota restrictions and shadow prices for basic commodities (grain, sugar, oil...) were lifted only in June 1996. On the whole, the liberalisation of agricultural products had been delayed but was completed in July 1998. The number of tariff quotas was reduced from 9 to 6 (0% ; 2.5% ; 10% ; 17.5 %; 25% and 35 %).

3.7.5 Efforts have been made under FISAP to stimulate the private sector from the fiscal and financial standpoints, especially by strengthening the financial and banking system (virtual liberalisation of the interest rates and impetus to the financial market, cautious management and supervision of banks leading to an increase in their equity capital, strengthening of the legislative, legal and institutional framework of the financial sector with the creation of the National Council for Money and Savings, the Committee of Credit Institutions, the Deposit Guarantee Fund, etc. Similarly, from the point of view of regulations, the Company and Trade Codes were renewed, economic interest groups created and trade tribunals set up. The private sector was given a boost with the transfer of more facilities (concession of the thermal power stations to private operators) and the reduction of

the price of electricity used by the industrial sector. The human resource development aspect as a key accompanying action to these efforts became increasingly important in these enterprises.

3.7.6 Major progress was made in the legal and institutional environment to develop exports, on the basis of the conclusions of the study on the logistics and efficiency of external trade, but it seems that the very dynamics of exports are still to take shape particularly regarding strategies for winning markets which require *inter alia* the increased competitiveness of Moroccan products as well as professional associations, streamlining of the framework to promote exports, training, etc. A joint committee (public services and private operators) has been set up to review the situation and adapt the texts.

3.7.7 All measures of the social component were carried out except for those concerning the budget allocations to the Ministries of Primary Education and Public Health, for material, investment and various other expenses which have tended to decrease. Indeed, these allocations to the Ministries of Health and Education dropped by 2.7% and 5.7%, respectively, in 1994 as compared with 1993. Similarly, investment into the Ministry of Education dropped by 0.7% over the same period. Conversely, the investment expenses of the Ministry of Health increased by 25.3% in 1994. The Authorities carried out a conclusive evaluation of the running of the hospitals under this Ministry, in view of management autonomy and of the accountability of the managing structures (semi-autonomy so that earnings could be added to the State subsidised budget). This operation enabled an effective streamlining of the SEGMA hospitals; the resulting savings were reallocated to the development of health care which is considered a priority. From nine SEGMA hospitals at the start of the programme in 1993, to thirty nine at the end of programme in 1994 and to 70 in July 1998. The Government is currently trying to give some perspective to this autonomy so that in the medium term it becomes total and can be introduced in all hospitals in the provinces.

3.7.8 The Government has been seeking to reduce its direct involvement in economic activity to the benefit of the private sector with a view to cutting down on public spending and improving public services. However, the recommendations of the study undertaken in that regard (cf. Paragraph 3.7.2) have not yet been applied. The transfer of public services to the private sector may play a major role in reducing costs as illustrated by the experiment carried out in 1996 by the Government on the production of electric energy which led to a profit of 12% on the unit cost of the kwh.

3.7.9 The documents justifying the implementation of the other measures concerning the Overall Development Strategy have been sent to the Bank (determining the profile of the target population, formulation and utilisation of a system for monitoring priority indicators). The social strategy was formulated on the basis of the study on the reasons for the vulnerability and safety nets for the underprivileged, and led to the project of social priorities known as BAJ1 involving fourteen of the country's poorest provinces. The project focuses on education, literacy and social promotion, has been underway since 1996, but has not yet been evaluated either by the World Bank which financed it or by the Government for an idea of the results obtained.

3.7.10 It is remarkable that in one year, almost all the measures of the consolidation phase were implemented or the related texts formulated. However, the full effects of most of these measures, especially those relating to external trade and the social sector will only be felt in the medium and long terms, given their complexity, the weight of the past, the reluctance of the departments to adapt to innovations, the development of the external environment, etc.

### 3.8 Institutional Performance and Follow-up

#### A - Performance of the Borrower and the Executing Agency

3.8.1 The Government played an active role in the design and preparation of the programme, in collaboration with the World Bank and the IMF and illustrated its firm resolve to carry out the measures it had undertaken. The Directorate of the Treasury and External Finance commissioned to implement the reforms played its role efficiently, collecting various documents concerning the fulfilment of the loan conditions and the implementation of the measures. However, no quarterly progress report was sent to the Bank, despite an exchange of correspondence and other reminders during Bank missions to the country and of Moroccan managers to the Bank. Similarly, the loan account was not audited by the Finance Inspectorate as agreed to during the loan agreement negotiations. The performance of the Government and that of the Treasury Directorate are judged satisfactory on the whole since almost all the programme's measures were implemented during the period of the programme.

#### B - Performance of the Bank

3.8.2 The Bank took part in the design and preparation of the programme's consolidation phase, as well as in the World Bank loan negotiations held in Washington. After evaluating the programme jointly with the World Bank in July 1991, the Bank postponed its presentation to the Board in order to avoid a cost overrun of non-project operations during 1992 ; it reappraised the programme and approved the loan in 1993 further to a new request from the Moroccan Government. It played an active role in the implementation phase thanks to its Office in Rabat and to its technical missions. Its performance is judged satisfactory on the whole.

#### C - Follow-up

3.8.3 The programme was monitored by the Bank. In one year, it sent two midterm review missions (July and December 1994) and a financial supervision mission (February 1994) to the field. It exchanged correspondence frequently with the borrower in the context of the programme. Furthermore, the presence of its Office in the country enabled an almost permanent monitoring of the programme although it failed to demand that the borrower send quarterly progress reports and prepare the audit of the loan account.

3.8.4 There was no mechanism for the effective control of programme implementation. There was poor coordination between the various Government departments involved in the implementation of the programme making it difficult to follow up the actual application of the measures by the Borrower.

### 3.9 Respect of the Loan Agreement Conditions and Provisions

All general conditions and those precedent to the disbursement of the tranches were fulfilled. Nevertheless, some provisions of the loan agreements were not complied with by the borrower, as indicated in paragraph 3.8.1 : no quarterly reports were sent on the programme's status, no report was prepared on the audit of the loan account by the General Finance Inspectorate, even though several reminders were sent and steps taken the Bank's Office in Rabat. The Bank goods and services procurement procedures were also fully complied with.

## IV PROGRAMME EVALUATION AND IMPACT

### 4.1 Impact of the Reforms

4.1.1 The structural adjustment consolidation programme was to reduce in the long term, the budget deficit, help rechannel credit into the social sectors (health and education) and agriculture, give renewed impetus to exports and contribute to a better social justice for the low income earners. The performance indicators defined at appraisal (cf.para.2.5.2) was used as basis for the review of the macroeconomic and sectoral performance of the Moroccan economy.

#### a) **General Economic Activities**

4.1.2 Instead of the 4% projected in 1993, the real exchange rate stood at -1%. In contrast, the 1994 performance of 10.4% largely exceeded the estimate. Notwithstanding the year to year instability, the growth rate for 1993-94 (4.7%) was higher than estimated (4%) and double the rate for the 1989-92 pre-programme period. However, growth declined to 2.5% (the pre-programme level) in 1995-96.

4.1.3 The erratic economic trend is more attributable to exogenous factors which affected supply than to general fluctuations in demand. Indeed, gross investments declined from 10.2% to 3.1% between 1989-92 and 1993-94, private and public consumption also dropped from 8.6% to 7.6% and from 9.9% to 8.2%, respectively over the same period. Whereas private consumption which makes up most of the general GDP demand stagnated at 69.5%, public consumption increased from 15.9% to 17.6%. Net export, another component of the general demand, fell between 1989-92 and 1993-94 as shown in the increase in the current account deficit (1.8% of the GDP in 1989-92 to 2% in 1993-94). Likewise, the 2.5% decline in the growth rate in 1995-96 was not due to variations in the general demand because over the period, gross investment increased by 5.7%, private consumption stagnated at 7.3% and the current account deficit increased to 3.1% of the GDP.

4.1.4 The economic trend is also mostly due to fluctuations in agricultural production which itself is dependent on weather conditions. As in the past, this recurrent structural problem affected the programme performance despite considerable efforts on the part of the Government to mobilize water and hydrogeologic resources to reduce the impact of fluctuating rainfall.

4.1.5 Government also directed its efforts at diversifying the economic structure as can be seen in the decline in the contribution of the primary sector to the GDP (18.3% over the 1989-92 period; 16.2% in 1993-94; 15% in 1995-96), compared with significant increase in

the secondary and tertiary sectors. However, these efforts to diversify the productive system through clear sectoral choices have remained inadequate since agricultural production continues to have a determinant impact on the Moroccan economy and the productive system continues to be subject to vagaries of the weather.

4.1.6 Investment is a favoured instrument for solving this structural problem since it acts on both demand and supply and can bring about strong growth. However, the 21.7% gross investment rate for 1993-94 fell below the projected 23.6%, and the decline continued in 1995-97 with 21.2%. The private investment rate which stood at nearly 20% of the GDP in 1992, dropped to 18% in 1993-94 and 17% in 1995-96 despite Government effort to control inflation and stabilize the real exchange rate. The decline is attributable to the increase in household consumption after the 1994 and 1996 climatic changes, the fall in budgetary savings and public investment, as well as inconsistencies in the incentive framework the aim of which was to harmonize incentives for private investment and establish a single national structure to promote investment. Although the single investment code came into force only in April 1996 (edict 18-95 establishing the investment charter), its enforcement modalities have not yet been clarified. Moreover, the single investment promotion structure has so far not been established.

#### **b) Public Finance**

4.1.7 One of the general objectives of the consolidation phase was to “steadily reduce the budget deficit”. However, it was noted that the general budget deficit increased from 2.2% of the GDP in 1992 to 2.8% in 1993-94 and 3.4% in 1995-96. The deterioration in public finances is less attributable to ordinary expenditure whose share in the GDP increased marginally from 21% to 22% between 1989-92 and 1993-94 than to the sharp decline in ordinary receipts from 23.8% to 19.1% (fiscal receipts stagnated at 20% in 1993-94 compared with 1989-92). The value of ordinary receipts increased less (5.1% compared with 14.8% in 1992) than ordinary expenditure (7.2% compared with 8% in 1992) in 1993-94, and declined more sharply (-23.1%) than ordinary expenditure (-22.1%) in 1995-96. The low increase in fiscal receipts and their decline in 1995-96 (18.4%) were the direct consequence of the abolition of tariff protection following external trade liberalization which had been effective for several years and in the finalization stage within the programme framework. By having a negative impact on budgetary savings, external trade liberalization contributed to reducing public investment and, indirectly, private investment both of which go hand in hand. However, in the medium term, fiscal receipts will probably increase thanks to export income induced by the extension of the fiscal base.

4.1.8 The Government financed the growing budget deficit by increasingly resorting to internal resources in order to reduce external debt. Hence, the share of external financing in the GDP fell (from 2.18% in 1989-92 to -1% in 1994-95 and -0.5% in 1995-96), while that of internal financing increased (1.4% to 4.1% and 3.1%, respectively). However, the funding of the budget deficit with internal instead of external resources during the programme period increasingly left less financial resources for private financing. This partly explains the decline in private investment as earlier indicated. The decline in private investment is both due to the indirect but negative impact of external trade liberalization which induced a fall in fiscal receipts, while inconsistencies in the investment code were not reconciled early enough. In contrast, the decline in the share of external financing in the GDP gradually reduced the external debt burden, put aside the risks of Government

insolvency and loosened the financial constraints on public investment, thereby contributing to boosting foreign investor confidence and strengthening the capacity of the Moroccan economy to attract them.

4.1.9 The Government's public debt objective was reached and even exceeded since the outstanding public ratio vis-à-vis foreign exchange receipts stood at 2.3 in 1993 and 2.1 in 1994, against the projected 2.5 and 2.4, respectively. However, the outstanding public debt during the programme period increased from US \$ 20 877 million in 1993 to US \$ 21 812 million in 1994 and US \$ 22 573 million in 1995. A declining trend began in 1996 (US \$ 21 317 million) and 1997 (US \$ 19 096 million). As a percentage of the GDP, the outstanding public debt declined from 79% in 1989-92 to 75% in 1993-94 and 63% in 1995-96. The public debt structure improved from 1993, more of it in the very long term. This trend is attributable to the consolidation of the medium-term debt and the paid-up amount through the reduction of compulsory application by Banks from 35% to 25% within the FISAP framework. The outstanding internal debt increased from 27.2% in 1989-92 to 32.2% in 1993-94 and 35.4% in 1995-96. However, the debt burden even after rescheduling was above 26% of ordinary receipts in 1995-96. Despite considerable progress made, the debt burden is still cause for concern since the signs of the pursuit of savings/public investment balance persist and debt servicing remains high (US \$ 3 448 million in 1996).

### **c) Money, Credit and Inflation**

4.1.10 The actual level of external net assets exceeded projections (US \$ 3.8 million in 1993 compared with US \$ 3.7 million estimated, US \$ 4.5 million in 1994 against US \$ 3.8 million projected). In GDP percentage, the assets increased from 9.7% in 1989-92 to 15% in 1993-94, then declined to 11.7% in 1995-96. The value bases of the Moroccan Dirham weakened over the years with a sharp decline in the nominal value of net external assets from 58.2% in 1989-92 to 10.9% in 1993-94 and -5.6% in 1995-96.

4.1.11 The money supply/GDP ratio increased from 55% in 1989-92 to 63% in 1993-94 and 64% in 1995-96, indicating increased monetarization of the economy. The monetary policy reflected external net asset fluctuations with the decline in the money supply from 14.1% in 1989-92 to 9% in 1993-94 and 6.8% in 1995-96. The funding of the increasing budget deficit with internal instead of external financing was done to the detriment of the private sector since credit to the Government increased from 5.8% to 8.4% from 1989-92 to 1993-94, while credit to the private sector fell sharply from 17.2% to 9.6% over the same period. However, as part of effort to promote the private sector, a rebalance was undertaken in 1995-96 with credit to the Government stagnating at 8.4% while credit to the private sector increased to 12.8%. Credit to the economy mostly went to industry (47.3% of credit in 1993-94 and 45.3% in 1995-96) and commerce (13.8% of credit in 1993-94 and 14.1% in 1995-96). However, consumer credit recorded the highest increase, from 13.8% in 1993-94 to 31.4% in 1995-96, which explains the increase in private household consumption in 1995-96. In the wake of the programme in 1996, Morocco moved from a period of controlled interest rates and credit limits to full liberalization. Borrowing and lending rates are henceforth influenced through direct intervention in the money market.

4.1.12 Efforts to reduce the budget deficit through the above monetary policy led to a reduction in the inflation rate from 6% in 1989-92 to 5.1% in 1993-94 and 4.5% in 1995-96. The sharp decline in inflation following the programme (3% in 1996 to 1% in 1997) is also due to the increase in cereal production in 1996 which forced prices downwards. However,

the sharp decline in cereal production in 1997 did not being about price increases, thanks to food imports. The fall in agricultural income contributed to falling prices.

#### **d) Exchange Rate**

4.1.13 Following a slight depreciation of 1.1% in 1989-92, the Dirham appreciated by 2.1% in 1993-94 and 1.4% in 1995-96. The moderate appreciation of the real exchange rate is attributable to the Government's prudent budgetary and monetary policy, external trade liberalization and simplification of customs procedures which contributed to reducing the production cost of export firms. The real appreciation of the Dirham partly explains the deteriorating commercial balance and current account deficit.

#### **e) Balance of Payments**

4.1.14 The balance of payments surplus declined, even registering a slight deficit. Indeed, the general balance vis-à-vis the GDP declined from 2.9% in 1989-92 to 1.6% in 1993-94, and to -0.5% in 1995-96. The balance of payments position depends on the status of the commercial balance which is structurally in deficit since the total import value is usually higher than the export value. Imports increased from 22.9% of the GDP in 1989-92 to 28.4% over the programme period, then to 31.2% in 1995-96. Exports also increased, although at a rate lower than imports: from 14.9% of the GDP to 19.3% and 22.4%, respectively, over the same period. For that reason, the commercial balance deficit increased from 9.5% of the GDP to 9.8% and 9.6%, from 1989-92 to 1993-94 and 1995-96, respectively.

4.1.15 The increase in imports is attributable to the import of food products following repeated drought, external trade liberalization (reduction and abolition of tariff protection and quantitative restrictions) and the appreciation in the value of the Dirham which made foreign products less expensive. The changing pattern of exports is linked to the export of manufactures which accounted for 60% of total export over the 1993-97 period. Indeed, the export of manufactures posted a real growth rate of 7.3% compared with an estimate of 7% in 1993. In contrast, the 6.8% increase recorded in 1994 fell short of the projected 9%. Manufactures are dominated by phosphates and their derivatives which account for 26.4% of total exports, compared with 16.7% for fabrics and clothing and 15.4% for fishing products. Over a longer period, the growth rate of manufacture exports evolved positively (6% in 1989-92, 7% in 1993-94 and 9.3% in 1995-96).

4.1.16 The weak export performance during the programme is especially attributable to the low growth rate in major OECD countries, the abolition of the preferential agreement which hitherto facilitated access of Moroccan products to European markets, the appreciation of the Dirham in 1993-96 whereas the real exchange rate of its South-East Asian competitors (Malaysia and Indonesia) depreciated, and competition from Central European countries (Poland and Hungary especially for fabric and leather). The poor performance is also linked to certain handicaps inherent in the export firms themselves (family management, unsuitable working tool in the face of changes required by technical progress and opening to the outside world, difficult access to credit owing to inadequate guarantees and equity, dependence on the external world for supplies and on state subsidies, etc.). With regard to outside markets, several firms lack the necessary information, organization and equipment. Moroccan entrepreneurs themselves list the high cost of factors (especially electricity), bureaucracy, poor infrastructure, etc. among these handicaps. Even if the technological capacity is not in doubt, at least for some firms, the key issue remains the upgrading of the production system

as a whole with a view to making Moroccan products competitive in the local and international market, eventually guaranteeing internal and external macro-economic balances and dynamic growth. This would only be possible through the improvement of the institutional environment for business by adapting legal texts to international standards, through support action in terms of financing and access of firms to the banking system on favourable conditions, training, advice, guarantee funds, etc.

4.1.17 The Moroccan authorities have put in considerable effort in recent years to gradually eliminate the constraints that hinder improved export prospects particularly in connection with basic economic infrastructure where there have been accumulated delays (modernization of ports and construction of highways to link the major cities, etc.), improvement and strengthening of the legal and regulatory framework especially through measures outlined in the programme. The authorities plan to introduce sectoral strategies and realistic action plans that would involve the direct involvement of export firms, in addition to strengthening that approach through special and target actions which private operators could fund in partnership with the Government and vocational associations.

4.1.18 Net private transfers declined, despite the significant income of Moroccans resident abroad. Their contribution to the GDP fell from 7.6% to 7.4% and 6.5%, from 1989-92 to 1993-94 and 1995-96, respectively, not enough to compensate the commercial deficit. As a result, the current balance deficit increased from 1.8% in 1989-1992 to 2.2% in 1993-94 and 3.1% in 1995-96. However, non-monetary capital was enough to compensate the current account deficit (at least during the programme period), notwithstanding its falling contribution to the GDP (from 5.2% in 1989-92 to 3.8% in 1993-94), thanks to the increase in direct foreign investments (from 1.2% of the GDP in 1989-92 to 2% in 1993-94), the programme objective of which was exceeded. Indeed, the volume of such investments rose from US \$ 591 million in 1993 to US \$ 890 million in 1994, compared with US \$ 500 and 600 million initially projected, respectively. Mostly carried out in the chemical and paracheimical, agrifood, textile and leather manufacturing industries, investments continued to grow over the 1995-97 period, from US \$ 619 million to US \$ 1294 million. The increase in direct foreign investments and private transfers from Moroccans residing abroad is less the result of the investment charter initiated only in 1996 and more the outcome of all efforts made by the Government to maintain a climate of political stability and gradually improve the macro-economic framework. Mention should also be made of opportunities created through privatization on course since 1993.

#### **f) External Trade Liberalization**

4.1.19 The external trade liberalization measures implemented during the programme consolidation phase concerned the pursuit of past efforts initiated through the passing of Edict 13-89 on external trade (implementing decree 2-93-415 of July 1993) as stated in paragraph 3.7.3 above.

4.1.20 Generally, these measures produced encouraging results. Indeed, the reduction and abolition of protection and quantitative restrictions contributed to lowering inflation and slowing the appreciation of the Dirham following the significant reduction in factor costs (especially electricity). Transaction costs also came down thanks to better control of customs deadlines brought about by the introduction of selective container visits and certified admission, as well as computerization of customs services. Thus, export and import volume increased, with the attendant macro-economic impact on Morocco attributable, among other

things, to the programme's consolidation phase (significant increase in fiscal receipts and reduction in the budget deficit).

4.1.21 External trade promotion and Morocco's gradual integration into the world economy were partly facilitated by programme measures as can be seen through the increase in the economic cover rate from 37.8% of the GDP in 1989-92 to 47.7% in 1993-94. The rate improved to 53.6% in 1995-96 on account of the structural reforms carried out from 1995 to promote investments, develop economic financing, modernize the legal and regulatory environment and prepare the Moroccan economy towards the prospect of implementing the free trade agreement signed in 1996.

4.1.22 However, the programme had impacts other than positive. Indeed, the reduction and abolition of protection and quantitative restrictions led to increase in imports, thus worsening the commercial deficit and limiting the balance of payments surplus. It also contributed to reducing and slowing the increase in fiscal receipts, thus worsening the budget deficit and reducing public investments, causing the State to tap into bank financial resources to the detriment of the private sector and falling private investments. According to some Moroccan officials, reduction in protection led some inefficient and uncompetitive local firms to fold up, generating increasing unemployment in its wake.

## 4.2 Socio-Economic Impact

4.2.1 The projected increase in allocations to the "equipment and sundry expenditure" and "investment" chapters for the Ministry of Education and Health in 1994 was not attained owing to expenditure reallocation in favour of the population affected by the 1993 drought.

4.2.2 Over the 1993-96 period, the real per capita income increased by 2.6% on yearly average, explaining the increase in household consumption during the period following improvement in climatic conditions. Unfortunately, the unemployment rate continued to increase and stood at 18% in 1996.

4.2.3 The inadequate budgetary allocation to the Ministry of Education led to a deterioration in the internal efficiency of the education system and an increase in the repeat and dropout rate, on the one hand, and worsened unequal access to education according per social standing, sex and education. In connection with health, the inadequate expenditure resulted in under-equipment of the sub-sector and contributed to the deterioration of the health system where efforts were to be channeled towards basic infrastructure and chronic diseases. The experience obtained by SEGMA hospitals succeeded in rationalizing hospital management. That explains the increase in the number of these hospitals and the desire to extend their services to other provinces.

4.2.4 The definition of the social strategy resulted in the implementation by the World Bank of the first social priority project (BAJ1) comprising three complementary projects in basic education, health and employment promotion. The set objective of BAJ1 was to improve the economic and social conditions of rural dwellers, open up and develop underprivileged localities. Since the authorities have not yet evaluated that first programme, it is difficult to assess its impact.

4.2.5 Generally, the social indicators did not improve significantly over the programme period, although the performance cannot be attributable to the programme itself but is the result of all policies implemented by the Government over the past decade.

### 4.3 Institutional Impact

4.3.1 The implementation of the programme contributed to strengthening the analytical capacity of the Moroccan Government services with regard to reform design and application. Indeed, interministerial committees were set up to accelerate the implementation of certain programme measures (especially the national committee for simplification of international trade procedures and the import consultative committee). The interministerial committees were responsible for preparing, following up and implementing the social development strategy, as well as the study on private sector participation in the supply of public services. Generally, the Government capitalized on experiences within the context of all adjustment programmes – structural and sectoral – especially the SAP, FISAP I and II and the preparation of new reform operations (FISAP III and ESRP). The establishment of technical and industrial centres will increase and strengthen the technological capacity of youths and firms.

4.3.2 The ongoing computerization of customs services for the systematic verification of customs dossiers, the selective visit of containers and computer-assisted assessment are factors for strengthening the institutional capacity of customs administration, and will contribute to reducing the cost of transactions. The modernization and renewal of the business code, the commerce code and the customs code, as well as the establishment of trade tribunals and the draft labour code constitute institutional innovations likely to improve the business environment, thus increasing Morocco's capacity to attract foreign investment and contribute to the development of the private sector.

4.3.3 The recent design of a social indicator management chart is supposed to provide the administration with a social alert system to draw the attention of public authorities to undesirable trends with a view to correcting them. However, the socio-economic information system indispensable for diagnosis, policy formulation, implementation and follow-up and evaluation of reform measures is gradually being put in place, but is yet to be finalized.

4.3.4 The systematization of the SEGMA hospital experiment strengthens the position of hospital management by giving them direct management responsibility and means for improving their efficiency. Moreover, the establishment of the National Institute of Health Administration to see to training will provide the system with managers capable of sustaining and developing the experiment.

### 4.4 Impact on Women

The programme contained no special measures for women. However, the programme measures contributed to better understanding of women's condition. Most social-related measures keyed in on that (determination of the target population profile, preparation and application of a priority indicator follow-up system, preparation of a social strategy and action plans for its implementation in favour of modest income households, study on vulnerability sources). The reduction in expenditure under the "equipment and sundry expenditure" and capital investment chapters in the Ministry of Basic Education, and the decline in equipment and other expenditure in the Ministry of Health definitely had

repercussions on the condition of women who, in such cases, are the first victims (fall in the education level, unemployment, etc.).

#### 4.5 Impact on the Environment

The programme contained no special measure with regard to the environment. However, budgetary reallocation in the wake of the 1993 drought led to a decline in resources allocated to environmental programmes.

### **V PROGRAMME SUSTAINABILITY**

5.1 The key factor to sustaining the programme impact resides in Government willingness to pursue reforms. The willingness, combined with a stable political situation created a climate of general confidence is the key factor in attracting foreign investment. Increase in direct foreign investment gave impetus to the private sector which henceforth is called upon to play a locomotive role in economic development. The willingness on the part of public authorities to promote and develop the private sector with a view to having it to effectively and fully play its role is an irreversible process. Within the programme context, the State's desire was manifest in its strategic choices, especially its divestiture from certain public services, the rationalization of investment incentives for economic recovery within the investment charter framework, new edicts on firms, the preparation of the labour and commerce codes and the establishment of trade tribunals, all of which would sustain the positive impact of the consolidation phase and other programmes.

5.2 Morocco's increasing opening to the outside world owing to price and trade liberalization and the strengthening of the country's export capacity (especially reduced taxation) on the one hand, and improvement of the legal and regulatory framework and infrastructure, on the other hand, are an inevitable process. The process should be accompanied with action to strengthen the capacity of Government services and economic operators to adapt to the new international environment and challenges. Indeed, the Moroccan economy for long remained a rent-seeking economy (i.e. protected), with firms receiving State subsidies. The change in entrepreneur mentality is necessary for them to adapt to changes engendered by various measures and face external markets where competition is becoming increasingly fierce.

5.3 Although the economic performance recorded is encouraging, it is far from conclusive owing to the high dependence of the Moroccan economy on vagaries of the weather and fluctuating world commodity prices (especially agricultural products and phosphates), both of which are able to compromise the sustainability of programme impact. Sustainability depends on social cohesion and the reduction of economic and social disparities. However, worsening unemployment, especially of youths and the increasing risk of excluding poor sections of the population (particularly in rural areas) from adequate health cover have tensed up the social climate, increasing the risk of social explosion. The preparation of the social strategy and putting in place by the World Bank of BAJI demonstrate the Government's awareness of the poverty problem and its willingness to address it in order to avoid such risks which might work against the programme's sustainability.

## **VI PERFORMANCE RATING**

The performance rating tables are given in the annex.

### **6.1 Implementation Performance**

The implementation performance was satisfactory, practically all the measures having been implemented in the course of the period. Likewise, the conditions precedent to entry into force of the loan agreement and disbursement in three tranches were rapidly fulfilled and funds were released on time without any untoward impact on programme operation. However, provisions agreed to during loan negotiations for the submission of quarterly programme progress reports and the preparation of a loan account audit report by the Inspectorate of Finance were not respected.

### **6.2 Bank's Performance**

The Bank participated actively in all stages of the programme. As was decided, it was responsible for programme follow-up through mid-term review and financial supervision missions. In addition, the active role played by the Bank's regional office in Rabat in implementing programme measures should be pointed out. Hence generally, the Bank's performance is considered satisfactory.

### **6.3 Result Performance**

Generally, the results are satisfactory even though ratings differ from one indicator to another. Concerning institutional development, the objectives were satisfactorily attained. The same goes for sustainability. The Borrower's firm and continued commitment is the most satisfactory sustainability indicator. Other indicators require more effort. The indicator on programme relevance and attainment of objectives is generally satisfactory, while the one on poverty alleviation, social aspects and women in development requires in-depth structural reforms. The sectoral policy indicator marks the high point of the relevance and attainment of objectives.

## **VII CONCLUSIONS, LESSONS AND RECOMMENDATIONS**

### **7.1 General Evaluation**

7.1.1 The SAP consolidation phase produced encouraging but inadequate results. The general performance is mixed especially with regard to export of manufactures. A very favourable trend in direct foreign investment produced a surplus in the balance of payments and led to an accumulation of reserves despite the current balance deficit. Resort to external financing reduced, although the debt situation is still cause for concern. Inflation was controlled and the Dirham exchange rate stabilized, partly explaining the good performance of the balance of payments.

7.1.2 Generally, the macro-economic performance remains fragile and makes necessary the pursuit of economic stabilization efforts. Critical areas persist. Indeed, the economic growth rate attained has fallen short of generating enough jobs. Poverty has worsened.

These problems constitute development challenges which all economic and social partners, the government and Morocco's donors will face in the coming years. However, it should be noted that a few initiatives have already been taken in that connection, e.g. the initiation of the BAJI project financed by the World Bank and soon the economic and social reform programme which will be jointly financed by the ADB and the World Bank. The Bank plans to pursue policy dialogue with the Moroccan Government to improve and strengthen the macro-economic framework and support it in its attempt to find solutions to these problems.

## 7.2 Retroaction and Recommendations

7.2.1 The lessons drawn from the SAP experience for the country and the Bank, in addition to those mentioned in the PCR, are as follows:

- i) the fact of not taking into account exogenous factors (vagaries of the weather) can thwart the pursuit of a consistent policy and render objectives which were initially reasonable finally seem too optimistic and prevent the attainment of results (para.2.3.2 and 4.1.4.);
- ii) the schedule and policy implementation sequence are key factors to obtaining the desired results (par. 3.2.1 and 3.2.2);
- iii) External trade liberalization without export strategies and concerted action targeting private enterprises to strengthen and increase their export capacity is not enough to stimulate exports (par. 4.1.17);
- iv) improvement of the macro-economic framework and the general climate of confidence, consolidated by political stability are key factors for foreign investment and the success of all reforms (4.1.18);

7.2.2 To consolidate the results obtained, in addition to the general recommendations regarding the respect of provisions of the loan agreement (forwarding of quarterly progress reports, auditing of the loan account by the Inspectorate of Finance), it is recommended that the Government:

- i) reflect on the possibility of simplifying administrative and legislative procedures with a view to reducing the timeframe for passing edicts, decrees and regulations to accelerate the effective implementation of the programme measures (par. 3.2.2).
- ii) extend enough budgetary allocations to social ministries to meet fundamental social needs (para.3.7.7 and 4.2.3);
- iii) actually implement the recommendations of the study on ceding the supply of public services to the private sector with a view to rationalizing the management of such services and reducing public expenditure (para.3.7.2).
- iv) pursue efforts to strengthen Morocco's export capacity by developing and generalizing the sectoral strategy experience in order to assist export-oriented firms to upgrade and successfully penetrate foreign markets (para.4.1.16 and 4.1.17).

- v) pursue and strengthen reform efforts especially those in the social sector by creating an environment conducive to poverty alleviation, extending access of the underprivileged to basic social services and strengthening social protection for the poor (par 5.3);
- vi) implement a growth strategy based on sectoral choices aimed at diversifying the productive system and making it less subject to vagaries of the weather (par 4.1.5);
- vii) strengthen the dialogue mechanism with all the social partners, especially economic operators, and pursue efforts to strengthen the country's capacities (par 7.1.2) ;
- viii) pursue reforms in the banking and financial sectors to better mobilize savings and facilitate access of firms particularly SMI/SMEs to financing on concessional terms (4.1.16).

7.2.3 In addition to the recommendations in the completion report, it is recommended that the Bank:

- i) pursue policy dialogue with the Moroccan Government with a view to supporting it in its efforts to reform the legal and regulatory framework (7.1.2);
- ii) ensure the effective implementation of the recommendations of studies carried out within the programme framework (3.7.2).

### 7.3 Follow-up Action

A- At Government level:

- i) inclusion in the budget of allocations which the social ministries need and strengthening of follow-up of recommendations of the study on ceding the supply of public services to private operators (par. 3.7.2);
- ii) rapid implementation of the economic and social reform programme now in the preparation phase (7.1.2);
- iii) clarification of modalities for enforcing the investment charter (par 4.1.6);
- iv) establishment of the single investment promotion structure (par 4.1.6);
- v) establishment of a dialogue mechanism between economic and social partners with a view to growth, unemployment reduction and poverty (par 7.1.2).

B- At the Bank level:

- i) pursuit and strengthening of the dialogue policy with the Government especially in connection with social strategies (para.4.2.4, 7.1.2);
- ii) respect of loan agreement provisions (3.8.1 and 3.9);

iii) strengthen project/programme supervision guidelines (3.8.3).

**MATRIX OF RECOMMENDATIONS AND FOLLOW-UP ACTION**

Major Observations and Conclusions	Recommendations	Follow-up Action	Responsibility
<p><b>Programme formulation and rationale</b></p> <p>1) Too optimistic appraisal and non-anticipation of the impact of exogenous and determinant growth factors</p> <p>2) Absence of follow-up mechanism for effective implementation of measures</p> <p><b>Programme Implementation</b></p> <p>3) Approximate implementation schedule linked with tranche disbursements</p> <p>4) Delay in the implementation of certain measures</p> <p><b>Respect of Loan Conditions and Provisions</b></p> <p>5) No quarterly progress report submitted and the loan account audit report not prepared</p> <p><b>Evaluation of Programme Performance and Results</b></p> <p>6) Non-application of recommendations of the study on the possible participation of the private sector in supply of public services</p>	<p>-Take explicit account of exogenous factors in setting out programme objectives</p> <p>- Set up a follow-up/evaluation system</p> <p>- Prepare a precise schedule for measures</p> <p>- Set up a follow-up/evaluation system</p> <p>- Ensure the respect of loan provisions</p> <p>- Implement the recommendations of the PSP-PSP study</p>	<p>- Undertake studies to evaluate the probable impact of exogenous factors</p> <p>- Follow programme evaluation operational guidelines</p> <p>- Set up a follow-up/evaluation structure</p> <p>-Respect the schedule drawn up</p> <p>- Forward progress reports</p> <p>- Set up a follow-up/evaluation structure</p> <p>-Apply the operational guidelines</p> <p>- Prepare an action plan and an implementation schedule</p>	<p>Government</p> <p>Bank (programmes department)</p> <p>Government and Bank (programmes department)</p> <p>Government</p> <p>Government</p> <p>Government and the Bank (programmes department)</p> <p>Bank (programmes department)</p> <p>Government</p>

Major Observations and Conclusions	Recommendations	Follow-up Action	Responsibility
7) Non-attainment of the projected credit growth rates for the six key ministries, including the social ministries	Make provision for budgetary allocations for the social ministries	- Include allocations required by the social ministries in the budget	Government
8) A still fragile macro-economic framework	- Pursue comprehensive reforms	- Undertake a review of public expenditure in the social sectors	Government
9) Insufficient involvement and support of social partners to programme objectives and measures	- Have various social groups participate in programme design and preparation	- Implement appropriate policy and economic measures	Government
		- Set up dialogue structures with social partners	Government
10) Strengthen the capacities of Government services and economic operators to enable them adapt to the new environment and challenges brought about by full economic liberalization	- Strengthen the capacities of Government services and social partners		
		- Organize training and sensitization seminars for social partners	Government
11) Emphasis on the application of social strategy for unemployment and poverty reduction	- Formulate comprehensive structural measures		
		- Implement necessary structural reforms	
			Government

**Morocco: Consolidation of the Structural Adjustment Programme (1992-94)**  
**Retrospective Matrix of the Logical Framework**

Hierarchy of Objectives	Objectively Verifiable Indicators				Means of Verification	Risks/Assumptions
	Indicators	Achievements				
		During Appraisal 1993	On Completion 1994	During Evaluation (1996 figures)		
<b>1. General Objectives</b>						
Promote sustainable growth	- Real growth rate (%) - Inflation rate (%) - Investment rate (%)	-1.0 5.2 22.8	10.4 5.1 20.7	-2.2 (1997) 1(1997) 20.2	National statistics -Moroccan economy in figures - Annual management chart of the Moroccan economy IMF and World Bank statistics	
<b>2. Programme Objectives</b>						
2.1 Facilitate external trade	- Inflation rate (%) - Appreciation of the real exchange rate (%) - Cover rate (expor.+ impor.)/GDP (%)	5.2 2.8 44.8	5.1 1.5 50.7	1(1997) 0.8 (1997) 54.9 (1997)	- National statistics - IMF statistics	Government commitment to pursue the structural reforms; non-competitiveness of the country's exports
2.2 Rationalize public finance management	-Budget deficit / GDP (%) - Outstanding public debt/export - External financing/GDP (%)	3.6 2.3 -0.4	3.3 2.1 -1.6	1.9 2.2 -0.8	-National statistics -IMF statistics	Government willingness to pursue reforms and sanitize public finances
2.3 Alleviate poverty	- GDP/capita (%) - Infant mortality (per thousand)	-3 -	8.5 -	10.3 63.1	-National statistics -IMF statistics	Difficult economic and social context

Hierarchy of Objectives	Objectively Verifiable Indicators				Means of Verification	Risks/Assumptions
	Indicators	Achievements				
		During Appraisal 1993	On Completion 1994	During Evaluation (1996 figures)		
<b>3. Achievements</b>						
3.1 Economic growth	Growth rate	-1.0	10.4	-2.2 (1977)	- National statistics	- Government commitment to improve the competitiveness of the Moroccan economy
3.2 Morocco's integration into the world economy	- Export of manufactures (%)	7.3	6.8	10.7 (1997)	- IMF statistics	-Government willingness to improve the internal capacity of industrial organization
	- Total export/GDP (%)	17.9	20.8	23.9 (1997)		
	- Total import/GDP (%)	26.9	29.9	31.0 (1997)		
3.3 Sanitation of public finances	- Budget deficit/GDP (%)	3.6	3.3	1.9	- National statistics	Government willingness to abandon risky management of public finances
	- Outstanding public debt/export	2.3	2.1	2.2	- IMF statistics	
	- External financing/GDP (%)	-0.4	-1.6	-0.8		
3.4 Sanitation of the balance of payments	- Direct foreign investment (US \$ million)	591	890	1294 (1997)	- National statistics	- Favourable trend of world commodity prices
	- Private transfers/GDP (%)	8.0	6.9	6.4	- IMF statistics	- Vagaries of the weather
	- General balance of payments/GDP (%)	1.4	1.88	0.7		
3.5 Restructuring of public expenditure in favour of the social sectors	- <u>Education expenditure (%)</u>	--	-0.7	-0.7	- National statistics	- Agitated economic and social context
	- Investment	--	-5.7	-5.7	- IMF statistics	- Steady donor support
	- Equipment					
	- <u>Health expenditure (%)</u>	--	25.3	12.7		- Vagaries of the weather
	- Investment	--	-2.7	-5.0		
	- Equipment					
	- School dropout rate (%)	4.9	4.87	6.4		- Inadequate internal and external financing
- School promotion rate (%)	81.8	82.5	80.5			

Hierarchy of Objectives	Objectively Verifiable Indicators				Means of Verification	Risks/Assumptions
	Indicators	During Appraisal 1993	Achievements On Completion 1994	During Evaluation (1996 figures)		
Achievements (cont.)						
3.5 Inflation control	- Inflation (%)	5.9	5.1	1.0(1997)	National statistics	- Sound budget management
	- Appreciation of the real exchange rate (%)	2.8	1.5	0.8(1997)	-IMF statistics	- Sound Dirham management
<b>4.Activities</b> Matrix of measures:						
4.1 Reform the regulatory and institutional framework						
					Financing Plan UA Million	
4.2 Restructure the customs department		Appraisal	Completion	Evaluation		- Respect of conditionalities
				100		
	ADB	100	100	193.79		
	World Bank	193.79	193.79	68.75		- Delay in putting in place the financing plan
	European Union	68.75	68.75	362.54		
	Total	362.54	362.54			
4.3 Undertake studies in connection with the participation of the private sector in the supply of public services						
4.4 Prepare a social development strategy, etc.						

**PERFORMANCE RATING**

**1. Implementation Performance**

<b>INDICATORS</b>	<b>RATING (1 to 4)</b>	<b>COMMENTS</b>
1. Respect of the schedule	3	The programme was implemented within the projected deadline. The conditions were speedily fulfilled. Almost all the measures were implemented during the programme period, except the two measures the implementation of which was postponed. Disbursements were carried out within the allotted timeframe.
2. Respect of cost	N.A.	
3. Respect of loan conditions and provisions	2	All the conditions were fulfilled. The procedures for the procurement of goods and services were respected: forwarding of quarterly progress reports and auditing of the loan account.
4. Matching of follow-up/evaluation with quarterly progress reports	2	Although the follow-up was correctly undertaken, it was difficult to compare the reports with the guidelines since the progress reports were not received.
5. Satisfactory operation (where necessary)	N.A.	
<b>General evaluation of implementation performance</b>	<b>2.33</b>	<b>Satisfactory</b>

**Bank's Performance**

<b>INDICATORS</b>	<b>RATING (1 to 4)</b>	<b>COMMENTS</b>
1. During identification	3	The SAP performance evaluation report highlighted outstanding problems, on the basis of which a consolidation phase was defined with the Bank's active participation.
2. During preparation	3	The Bank played an active role alongside the World Bank in preparing the programme.
3. During appraisal	3	The Bank participated jointly with the World Bank in the first programme appraisal in 1991. Unable to approve the loan in 1992 owing to lack of resources, it reappraised the programme in 1993. It participated in World Bank loan negotiations, thanks to which it was able to state the measures and conditions of its programme more precisely. However, it did not assess the impact of exogenous factors (drought) on growth projections.
4. During supervision	2	The Bank and its Office in Rabat steadily follow-up the programme despite the Borrower's not forwarding quarterly progress reports. For that reason, there was little correspondence with the Borrower on programme implementation and outstanding problems (e.g. sequence of implementation of measures, hence their timeliness during the programme period).
<b>General evaluation of Bank performance</b>	<b>2.75</b>	<b>Satisfactory</b>

**Programme Performance**

<b>INDICATORS</b>	<b>RATING (1 to 4)</b>	<b>OBSERVATIONS</b>
<b>1. Relevance and attainment of objectives</b>	<b>2</b>	<b>Satisfactory</b>
i) Macro-economic policy	2	The macro-economic policies undertaken were appropriate in view of the programme objectives. The results, although encouraging, were inadequate.
ii) Sectoral policy	3	No sectoral policy was explicitly defined in the programme. However, there is no doubt that the growth in industrial exports is the consequence of the changes in the productive sectors. Sectoral strategies are yet to be developed and the productive system diversified. However, the programme measures affected the social sector.
iii) Physical achievement (including production)	N.A.	
iv) Financial performance	N.A.	
v) Poverty alleviation, social aspects and women in development	1	Although the social strategies and action plans were outlined, their implementation is yet to produce the desired impact. Owing to inadequate credit to the social ministries, education and health issues could not be addressed effectively, more so in the rural area and with regard to women. Unemployment is on the rise and poverty has attained worrying proportions especially among youths.
vi) Environment	2	Budgetary reallocation to assist the population affected by drought reduced resources allocated to environmental programmes.
vii) Private sector development	2	The trade liberalization measures and budget policies stimulated the private sector, although there are still many problems in the sector (financing, bureaucracy, cost of factors of production, upgrading, etc.) which hinder its development and effectiveness and prevent it from fully playing its role.
viii) Others (specify)	N.A.	

<b>2. Institutional Development</b>	<b>2.75</b>	<b>Satisfactory</b>
i) Institutional framework, including restructuring	3	Government benefited from the experience gathered in preparing reforms and its institutional capacities improved. The customs departments were strengthened. Other innovations were carried out on the institutional mechanism: renewal of the commerce code, the customs code, establishment of trade tribunals, etc.
ii) Financial and management information system, including the audit system	2	The 1993 banking edict authorizing the restructuring of the financial system and the introduction of new bank regulating and control instruments, the SEGMA hospital operating and billing experiment contributed significantly to improving the information and management system, although the system should be strengthened.
iii) Technology transfer	3	The direct and effective involvement of national managers in the design and preparation of programmes, preparation of studies and the definition, implementation and follow-up of reforms enriched their knowledge and experience.
iv) Provision of qualified staff (including rotation), training and provision of counterpart staff	3	Morocco capitalized on the programme experience and has enough qualified trained staff.
<b>3. Sustainability</b>	<b>2.50</b>	<b>Satisfactory</b>
i) Borrower's continued commitment	4	The Government showed strong determination to pursue reforms. It took all steps necessary to implement the measures it negotiated and within acceptable timeframes. It initiated new programmes (FISAP II and II, ESRP) to strengthen and stabilize the general macro-economic framework.
ii) Political environment	2	Political stability was maintained throughout the programme; however, social cohesion was shaken following the increase in unemployment and poverty.
iii) Institutional framework	2	Considerable effort was made to strengthen the institutional framework through the creation of new structures and the renewal of existing ones
iv) Technical viability and staff training	N.A.	
v) Financial viability, including cost recovery systems	N.A.	
vi) Economic viability	2	The economic bases exist although additional structural measures should be envisaged to counteract the impact of exogenous and social factors which can weaken the macro-economic framework.
vii) Environmental viability	N.A.	
viii) Operating and maintenance mechanism (availability of recurrent funds, foreign exchange, spare parts, maintenance workshop)	N.A.	
<b>4. Internal rate of return</b>	<b>N.A.</b>	
<b>5. General performance evaluation</b>	<b>2.45</b>	<b>Satisfactory</b>

MOROCCO: CONSOLIDATION OF THE 1992-94 STRUCTURAL ADJUSTMENT PROGRAMME  
KEY SOCIO-ECONOMIC INDICATORS

	1989-91 Average	1992	1993	1994	1995	1996	1993-94 Average	1993-96 Average
<b><u>National Account (annual variation in %)</u></b>								
GDP at constant prices	4.4	-4.0	-1.0	10.4	-7.0	12.0	4.7	3.6
Primary sector	7.1	-36.9	-4.7	61.4	-43.9	78.8	28.3	22.6
Secondary sector	2.8	2.4	-1.0	4.0	3.6	4.5	1.5	2.8
Tertiary sector	4.5	7.0	-2.2	2.9	-0.6	2.5	0.35	0.65
State	4.7	2.9	4.9	-0.3	4.7	2.4	2.3	2.9
<b><u>Production Structure in GDP %</u></b>								
Primary sector	18.2	14	14.7	18.5	14.8	20.4	16.6	17.1
Secondary sector	28.3	29.1	32.3	30.8	33.1	30.5	31.5	31.7
Tertiary sector	37.6	44.3	40.0	38.4	39.1	36.8	33.2	38.6
State	13.2	16.5	13.0	13.3	13.1	12.3	13.1	12.9
<b><u>Resource Application in GDP %</u></b>								
Import of non-factor goods and services	27.2	27.4	26.9	29.9	33.5	29.0	28.4	29.8
Total resources	--	--	126.9	129.9	133.5	129.0	128.4	129.8
Local expenditure	--	--	109.0	109.1	110.0	107.5	109.0	108.9
Local consumption	85.4	87.0	86.6	87.7	88.7	87.0	87.1	87.5
Private	69.5	70.1	68.5	70.6	71.4	70.6	69.5	70.3
Public	15.4	16.9	18.1	17.1	17.5	16.4	17.6	17.3
Gross investment	23.5	23.2	22.8	20.7	22.4	20.2	21.7	21.5
Nonpublic	17.4	19.01	19.2	17.6	19.1	17.8	18.4	18.4
Public	4.1	4.2	3.6	3.1	3.3	3.4	3.3	3.3
Stock variation	--	--	-0.2	0.6	-0.9	0.4	0.2	-0.02
Export of non-factor goods and services	18.1	17.4	17.9	20.8	23.4	21.5	19.3	20.9

	1989-91 Average	1992	1993	1994	1995	1996	1993-94 Average	1993-96 Average
<b><u>Balance of Payments in GDP %</u></b>								
Commercial balance	-7.9	-9.4	-7.7	-6.9	-7.3	-5.8	-7.3	-6.9
Current balance	-1.9	-2.1	-2.1	-2.6	-4.8	-1.8	-2.3	-2.8
Balance of payments	2.8	2.4	1.4	1.8	-1.8	0.7	1.6	0.5
Private transfers	7.6	8.1	8.0	6.9	6.7	6.4	7.4	7.0
Net capital flows	5.2	4.3	3.4	4.3	2.8	2.2	3.8	3.2
Direct foreign investment	1.2	1.8	2.2	1.8	1.4	1.2	2.0	1.6
<b><u>Budget deficit in GDP %</u></b>								
Total income (excluding income from privatization)	23.8	25.6	26.0	24.2	23.9	23.6	25.1	24.4
Total expenditure	27.2	27.3	29.9	28.1	29.6	27.0	29.0	28.6
- Recurrent	--	--	22.1	21.4	22.5	21.2	21.7	21.8
- Investment	--	--	7.9	6.7	7.1	5.8	7.3	6.9
General balance (excluding income from privatization)	--	--	-3.9	-3.9	-5.7	-3.4	-3.9	-4.2
Income from privatization	--	--	0.9	0.7	0.4	1.4	0.8	0.85
Arrears variation	--	--	-0.6	-0.1	1.9	0.1	-0.35	0.3
General balance, settlement basis	-3.6	-2.1	-3.6	-3.3	-3.4	-1.9	-3.4	-3.0

	1989-91 Average	1992	1993	1994	1995	1996	1993-94 Average	1993-96 Average
<b><u>Money and Credit, Annual Variation in %</u></b>								
Internal credit	11.1	9.8	6.1	8.8	13.6	6.4	7.4	8.7
Government net credit	5.8	7.9	6.3	5.6	14.0	2.3	5.9	7.0
Net credit to the economy	17.1	11.4	5.8	12.2	13.3	10.7	9.0	10.5
Money and quasi-money	14.0	9.3	7.9	10.2	7.0	6.6	9.0	7.9
M1/GDP	42.3	44.4	63.5	62.4	66.3	61.9	62.9	63.5
<b><u>Exchange rate and public debt (annual variation in %)</u></b>								
Effective nominal exchange rate	1.6	2.5	5.7	4.7	0.6	0.6	5.2	2.9
Local inflation rate	6.03	5.7	5.2	5.1	6.1	3.0	5.1	4.8
Actual inflation rate	-1.1	0.4	2.8	1.5	2.3	0.55	2.15	1.8
<b><u>Debt structure (in %)</u></b>								
Medium and long term	95.8	96.5	98.0	99.0	99.3	99.3	98.5	98.9
Bilateral	56.9	54.6	54.0	54.0	53.4	50.1	54.0	52.9
Paris Club	48.5	49.5	49.0	49.0	48.6	45.9	49.0	48.1
Arab countries	8.0	4.7	5.0	5.0	4.3	4.0	5.0	4.6
Other countries	0.4	0.4	0.0	0.0	0.5	0.0	0.0	0.12
Commercial banks	16.2	15.7	16.0	16.0	16.0	17.5	16.0	16.4
International institutions	22.7	26.2	28.0	29.0	29.8	31.2	28.5	29.5
Incl. World Bank	14.9	15.9	17.0	17.0	17.7	17.6	17.0	17.3
International Monetary Fund	3.1	2.0	1.0	0.7	0.0	0.0	0.85	0.4
Short term	0.87	1.3	1.0	1.0	0.7	0.7	1.0	0.85

	1993	1994	1995	1996	1993-1996 Average
<b><u>Social Characteristics (annual variation in %)</u></b>					
Population growth	2.0	1.9	1.8	1.7	1.85
Infant mortality	65.6	--	61.6	63.1	--
Life expectancy	67.3	67.9	68.4	68.8	68.1
Literacy rate	41.7	42.1	43.7	--	--
Crude enrollment rate (primary)	77.1	80.6	82.9	--	--
Crude enrollment rate (secondary)	37.4	37.9	38.0	--	--
Unemployment rate	15.9	20.3	32.9	18.1	19.3
Youth unemployment rate (15-24 years)	30.2	39.9	37.3	32.0	34.8
Public education expenditure (in GDP %)	5.9	5.3	5.6	5.2	5.5
Public health expenditure (in GDP %)	0.9	1.0	1.1	1.0	1.0

- Sources:** - International Monetary Fund, Morocco, statistical annexes.  
 - Kingdom of Morocco, Ministry of Economy and Finance, February 1998  
 - . Moroccan Economy in Figures, August 1997  
 - . Annual Management Chart of the Moroccan Economy, March 1998.