KINGDOM OF MOROCCO

THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME
(PARSP-III)

APPRaisal REPORT

NB: This document contains errata or corrigenda (see Annexes)

GOVERNANCE AND ECONOMIC AND FINANCIAL REFORM DEPARTMENT
OSGE
MARCH 2008
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Currency Equivalents
(March 2008)

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>=</th>
<th>Moroccan Dirham (MAD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UA 1</td>
<td>=</td>
<td>US$ 1.60</td>
</tr>
<tr>
<td>UA 1</td>
<td>=</td>
<td>MAD 12.19</td>
</tr>
<tr>
<td>UA 1</td>
<td>=</td>
<td>EUR 1.07</td>
</tr>
</tbody>
</table>

Fiscal Year

1 January to 31 December

This report was prepared by Messrs. E. LARBI, Principal Economist (OSGE), M. KHOALI, (Consultant, OSGE) following preparation and appraisal missions to Morocco in June 2007 and February 2008 respectively. The preparation team was led by Mr. E. Larbi (OSGE), and comprised Messrs. M. Khoali (Consultant, OSGE) and W. Raïs (MAFO). The appraisal mission team was led by Mr. E. Larbi and comprised Messrs. M. Khoali, A.A. Ba (ORNB) and A. Yahiaoui (OINF3). For more information, please contact Mr. Gabriel NEGATU, Director, OSGE (Extension: 2077); Mrs. Marlène KANGA, Manager, OSGE.2 (Extension: 2251) and Mr. Ezzeddine LARBI, Principal Economist, Task Manager of PARSP-III, OSGE (Extension 3539)
The information provided below is intended to provide guidance to prospective suppliers, contractors, consultants and other persons interested in the procurement of goods, works and services for projects approved by the Board of Directors of the Bank Group. More information and guidance may be obtained from the Executing Agency of the Borrower.

1. **COUNTRY** : Kingdom of Morocco

2. **PROJECT TITLE** : Public Administration Reform Support Programme Phase III (PARSP-III)

3. **BORROWER** : Government of Morocco

4. **LOCATION** : National territory

5. **EXECUTING AGENCY** : Ministry of the Economy and Finance
Rabat, Morocco
Phone: (212) 37 67 72 69

6. **PROGRAMME DESCRIPTION** : The Programme focuses on the following four (4) components:
   (i) Strengthening public finance management;
   (ii) Improving human resource management efficiency;
   (iii) Control of the Wage Bill of the Public Service; and
   (iv) Simplification of procedures and e-government.

7. **TOTAL COST** : Not Applicable

8. **SOURCE OF LOAN** : ADB

9. **LOAN AMOUNT** : 46 million Euros

10. **OTHER SOURCES OF FINANCE** : - World Bank: US$ 100 million
    - European Union: EUR 25 million grant

11. **DATE OF APPROVAL** : May 2008 (indicative date)

12. **STARTING DATE AND DURATION** : June 2008 (indicative date), for 18 months

13. **PROCUREMENT** : Not applicable

14. **DISBURSEMENT** : The proposed loan will be disbursed in a single tranche of 46 million euros. The disbursement of the single tranche will be subject to fulfillment of the conditions precedent to the effectiveness of the loan and of the 9 conditions for disbursement of the single tranche.

15. **CONSULTING SERVICES REQUIRED** : None
### ACRONYMS AND ABREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BPW</td>
<td>Building and Public Works</td>
</tr>
<tr>
<td>CE</td>
<td>Continuing Education</td>
</tr>
<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
</tr>
<tr>
<td>CGED</td>
<td>Expenditure Commitment Control</td>
</tr>
<tr>
<td>CM</td>
<td>Cabinet Meeting</td>
</tr>
<tr>
<td>CRI</td>
<td>Regional Investment Center</td>
</tr>
<tr>
<td>ESMP</td>
<td>Employment and Skills Management Planning</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FTC</td>
<td>Fixed-Term Contract</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFCF</td>
<td>Gross Fixed Capital Formation</td>
</tr>
<tr>
<td>HRM</td>
<td>Human Resources Management</td>
</tr>
<tr>
<td>IEM</td>
<td>Integrated Expenditure Management</td>
</tr>
<tr>
<td>IGF</td>
<td>General Inspectorate of Finance</td>
</tr>
<tr>
<td>IGFM</td>
<td>General Inspectorate of Ministries</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IMAGE</td>
<td>Integrated Management of Government Employees</td>
</tr>
<tr>
<td>MAD</td>
<td>Moroccan Dirham</td>
</tr>
<tr>
<td>MADR</td>
<td>Ministry of Agriculture and Rural Development</td>
</tr>
<tr>
<td>MEN</td>
<td>Ministry of National Education</td>
</tr>
<tr>
<td>MFP</td>
<td>Ministry of Finance and Privatization</td>
</tr>
<tr>
<td>MMSP</td>
<td>Ministry of Public Service Modernization</td>
</tr>
<tr>
<td>MRE</td>
<td>Moroccans Living Abroad</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium-Term Expenditure Framework</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
</tr>
<tr>
<td>NIC</td>
<td>New Information and Communication Technologies</td>
</tr>
<tr>
<td>PARCOUM</td>
<td>Medical Coverage Reform Support Programme</td>
</tr>
<tr>
<td>PARSIP</td>
<td>Public Administration Reform Support Programme</td>
</tr>
<tr>
<td>PASFI</td>
<td>Financial Sector Adjustment Programme</td>
</tr>
<tr>
<td>PDES</td>
<td>Economic and Social Development Plan</td>
</tr>
<tr>
<td>PEA</td>
<td>Public Expenditure Analysis</td>
</tr>
<tr>
<td>PER</td>
<td>Public Expenditure Review</td>
</tr>
<tr>
<td>PM</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>PRA</td>
<td>Early Retirement Programme</td>
</tr>
<tr>
<td>PS</td>
<td>Public Service</td>
</tr>
<tr>
<td>REC</td>
<td>Strategic Staffing Framework</td>
</tr>
<tr>
<td>SGFP</td>
<td>General Rules and Regulations of the Public Service</td>
</tr>
<tr>
<td>SGG</td>
<td>General Secretariat of the Government</td>
</tr>
<tr>
<td>TGR</td>
<td>Trésorerie générale du Royaume (General Treasury)</td>
</tr>
<tr>
<td>TOFE</td>
<td>Table of Government Financial Operations</td>
</tr>
<tr>
<td>ToR</td>
<td>Terms of reference</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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### PARSP-III: RESULTS-BASED LOGICAL FRAMEWORK

<table>
<thead>
<tr>
<th>HIERARCHY OF OBJECTIVES</th>
<th>EXPECTED RESULTS</th>
<th>IMPACT</th>
<th>PERFORMANCE INDICATORS</th>
<th>INDICATIVE TARGETS TIME FRAME</th>
<th>RISKS/MITIGATION MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>I- Goal</td>
<td>LONG-TERM RESULTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Strong economic growth and sustainable development: 6% per year</td>
<td>Moroccan population, especially the unemployed and the poor</td>
<td>- Economic growth rate</td>
<td>- Economic growth rate: 6% on average per year for the duration of the Government programme: 2008-2015</td>
<td>1. Stable macro-economic framework</td>
</tr>
<tr>
<td></td>
<td>- Improvement of business Environment</td>
<td>Moroccan population, private sector and civil servants</td>
<td>- Growth rate of investments, FDI in particular</td>
<td>- Investment rate of 26.8% in 2007 will rise to more than 32% in 2015</td>
<td>2. Sustained political will to accelerate the reform programme</td>
</tr>
</tbody>
</table>

**Sources:**
- The Government’s action plan for the 2008-2015 period
- Economic and social report of the Treasury and External Finance Department;
- Statistical Yearbook of the Statistics Department;
- Economic and Financial Report of the Department of Studies and Forecasts of MEF

**Mitigation measures**
Political and social stability: Legislative elections were held in September 2007, from which emerged a new Government that endorsed the reforms undertaken, notably pursuing reforms under the PARSP.
<table>
<thead>
<tr>
<th>II- PROGRAMME OBJECTIVES</th>
<th>MEDIUM TERM RESULTS</th>
<th>IMPACT</th>
<th>PERFORMANCE INDICATORS</th>
<th>INDICATIVE TARGETS TIME FRAME</th>
<th>RISKS/MITIGATION MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1°/ Improve public finance management</td>
<td>- Sustainable budget deficit management</td>
<td>Public sector and private sector</td>
<td>- Overall budget deficit excluding privatization</td>
<td>- Reduction of budget deficit from 4.5% of GDP in 2007 to 3.5% of GDP in 2009</td>
<td>1. Civil servants and their trade unions comply with the reform</td>
</tr>
<tr>
<td></td>
<td>- Implementation of deconcentration</td>
<td>Moroccan population</td>
<td>- Current expenditures/GDP ratio</td>
<td>- Current expenditure/GDP ratio decreases from 21.9% in 2007 to 21.2% in 2008 and 20.7% in 2009</td>
<td>2. Ownership of the reform by the different actors</td>
</tr>
<tr>
<td></td>
<td>- Flexible budgeting</td>
<td>Different public sectors and institutions</td>
<td>- Compliance with deconcentration plan</td>
<td>- The number of ministries with deconcentration master plans increases from 2 in 2007 to 8 in 2009</td>
<td>3. Pressure from unions to increase salaries, speed up promotions, and resume mass recruitment</td>
</tr>
<tr>
<td></td>
<td>- Use of MTEF, TOFT and sectoral MTEFs</td>
<td>Priority and pro-poor sectors</td>
<td>- Extension of flexible budgeting</td>
<td>- All Ministries would have adhered to flexible budgeting in 2009</td>
<td>4. Implementation of the credible overall governance framework for the development of a knowledge society and e-government</td>
</tr>
<tr>
<td></td>
<td>- Reform of the organic budget law (LOLF)</td>
<td>Different public institutions</td>
<td>- Adoption of an MTEF Procedures Manual</td>
<td>- All investment credits will be globalized in 2009</td>
<td>Mitigation Measures</td>
</tr>
<tr>
<td>2°/ Enhance the efficiency of human resources management</td>
<td>- New human resources management system</td>
<td>- Completion of the RECs in all eligible Ministries</td>
<td>- Preparation of a reflection platform for reform of the LOF</td>
<td>- In 2009: Generalization of the MTEF, sectoral MTEFs and presentation of a 2009-2011 TOFT</td>
<td>1°/ The redeployment process has been launched, but in a limited way. The implementation decrees for the redeployment were adopted in 2006</td>
</tr>
<tr>
<td></td>
<td>- Management planning of jobs and skills</td>
<td>- Launching of the GPEEC(^1) in Ministries that have completed their RECs</td>
<td>- Preparation of a reflection platform for the LOLF reform in line with international best practices</td>
<td>- The number of Ministries using the GPEEC increases from 4 in 2008 to 10 in 2009</td>
<td>2°/ Implementation of the communication strategy by the Government aimed at consolidating consensus around the reform by the different actors and maintaining ongoing dialogue with development partners.</td>
</tr>
<tr>
<td>3°/ Control the public service wage bill</td>
<td>- Control of the wage bill</td>
<td>- Wage bill/GDP ratio</td>
<td>- Average time in regularizing the promotion of civil servants</td>
<td>- Decrease in the wage bill from 10.7% of GDP in 2007 to 10.4% of GDP in 2008 and to 10.2% of GDP in 2009</td>
<td>3-a. Firm Government control over wage bill trends</td>
</tr>
<tr>
<td></td>
<td>- Strengthening of monitoring and control of the wage bill</td>
<td>- Average time in regularizing the promotion of civil servants</td>
<td>- Decrease in the average time for regularizing the promotion of civil servants from 27 months in 2006 to 14 months in 2009</td>
<td>- At end 2009, all customs procedures accessible by Internet: declaration, customs clearance, payment</td>
<td>3-b. A new promotion system that limits the number of promotions in the medium term</td>
</tr>
<tr>
<td>4°/ Streamline administrative procedures and e-government</td>
<td>- Streamlining of procedures and implementation of e-government</td>
<td>- Stabilization of the BADR customs system and certification of the quality of its computer code</td>
<td>- Decrease in the average time for regularizing the promotion of civil servants from 27 months in 2006 to 14 months in 2009</td>
<td>- At end 2009, all customs procedures accessible by Internet: declaration, customs clearance, payment</td>
<td>3-c. A growing number of civil servants on retirement in the coming years</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>III- INTRANTS ET ACTIVITES</th>
<th>SHORT-TERM RESULTS</th>
<th>IMPACT</th>
<th>PERFORMANCE INDICATORS</th>
<th>INDICATIVE TARGETS TIME FRAME</th>
<th>RISKS/ MITIGATION MEASURES</th>
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<tbody>
<tr>
<td>1°/ Activities</td>
<td>- Efficient...</td>
<td>- Public administration</td>
<td>- Number of reform measures implemented half way through the programme period and at the end of implementation</td>
<td>50% in 2008</td>
<td>1. Political will to pursue the reforms</td>
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<td>- Negotiate,...</td>
<td>- Users</td>
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<td>100% in 2009</td>
<td>2. Support from donors</td>
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<td></td>
<td>- Implementation...</td>
<td></td>
<td></td>
<td></td>
<td>Mitigation Measures</td>
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<td></td>
<td>1. Ownership by the new government of the ongoing reform</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Status of preparation of the programmes of the different cofinanciers at an advanced state</td>
</tr>
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</table>

**Sources:**
- Loan agreement; special account audit report, Programme execution monitoring report

**Sources:**
- Official Gazette
- PARSP Activity Report
- Supervision Mission
- Final Review Report finale
- Completion Report

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- Efficient implementation of the programme by adhering to the projected schedule and the Bank’s rules and procedures

**RISKS/ MITIGATION MEASURES**

- Monitoring, appraisal and supervision
- Auditing of special account

**Source of finance:**
- ADB: 46 million Euros
- WB: 100 million USD
- EU: 25 million Euros

**III- INTRANTS ET ACTIVITES**

**SHORT-TERM RESULTS**

- Efficient implementation of the programme by adhering to the projected schedule and the Bank’s rules and procedures

**INDICATIVE TARGETS TIME FRAME**

- Monitoring, appraisal and supervision
- Auditing of special account

**Mitigation Measures**

- Monitoring, appraisal and supervision
- Auditing of special account

**1. Political will to pursue the reforms**

**2. Support from donors**

**Mitigation Measures**

- Ownership by the new government of the ongoing reform
- Status of preparation of the programmes of the different cofinanciers at an advanced state
EXECUTIVE SUMMARY

I. Project Origin and Background

The Public Administration Reform Support Programme (PARSP) was prepared by the Government and launched in 2003. The PARSP was designed from a common matrix\(^2\) comprising a series of specific measures structured around the implementation of successive operations aimed at gradually implementing the various elements of a complex reform. In brief, the PARSP was supposed to be implemented as a series of successive operations. The current programme (PARSP III), which covers the 2008-2009 period, is the third phase of the operation.

II. Programme Objectives

The PARSP III aims to achieve the following four objectives: (i) strengthen public finance management; (ii) improve efficiency in human resources management; (iii) control the civil service wage bill; and (iv) streamline procedures and introduce e-government.

III. Loan Description and Type

3.1. The Bank’s support, which covers the 2008-2009 period, is in the form of budget support aimed at enabling the Government to pursue its reform programme. Like the previous PARSPs, the PARSP III is cofinanced with the World Bank and the European Union.

3.2. The main outcomes expected from the PARSP are: (i) extension of budget management pilot experiences to the whole administration, (ii) completion of the new human resources management system (HRM), which requires new job classification and pay reform, (iii) maintaining the wage bill reduction rate until the target is reached, and (iv) introduction of a new electronic government component. All these reforms are expected to produce results as of 2009.

IV. Financing Requirements and Sources

The fiscal year 2008 budget deficit, based on forecasted trends in revenues and expenditures, is aligned with the objective of debt reduction and balanced commitment of Government support for growth and social development. Given the expected developments in the national and international situation and their impact on Government resources and expenditures, the budget deficit is estimated at close to 20 billion dirhams, or 3% of GDP. This programme covers 16.25% of external financing requirements in 2008.

5. Programme Implementation and Monitoring Mechanisms

Like in the previous PARSPs, the implementation of the programme will be coordinated by the MEF Budget Department, and implementation will be regularly monitored through monitoring and supervision missions.

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\(^2\) The matrix of measures common to the three institutions, as validated by the Government and its three partners during the joint mission conducted in February 2008, is presented in Annex II
6. **Coordination with Other Donors**

With respect to appraisal of the PARSP-III, there was very close coordination between the Bank and the other co-financiers of the programme. Thus, the programme content, conditions, and trigger points are common to the three institutions. For the Bank, the single loan tranche will be disbursed after effectiveness of the loan agreement and after the satisfactory fulfilment of the ten conditions stipulated in the loan agreement.

7. **Risks and Mitigation Measures**

In the medium term, the Moroccan economy will remain vulnerable, on the internal and external fronts, to:

- Exogenous shocks due to changes in the internal and external environments, notably modifications in the Government coalition and security situation in the region. The probability of this risk is low, and it could be further mitigated by the new Government team to implement reforms using a participatory approach and to pursue ongoing dialogue with development partners.

- Pressure from unions for wage increases for some categories of civil servants, acceleration of promotions and resumption of mass recruitment. However, this risk can be mitigated by: (i) the Government’s decision to maintain firm control over wage bill trends, (ii) the implementation of a new promotion system that limits the number of promotions in the medium term, and (iii) the attainment of retirement age by a growing number of civil servants.

8. **Conclusion**

The lessons learned from past administrative reform experiences have been incorporated into the PARSP-III. For example, the Government has opted not to undertake widespread reform aimed at addressing a broad spectrum of public administration weaknesses. Rather, the Government prefers, first, to focus on specific areas likely to modernize procedures, increase transparency, reduce costs, and improve the quality of human resources. This gradual approach is aimed at ensuring better control of the reform implementation and organizational change management process. Second, the reform of the administration will be extended to other areas, notably the streamlining of procedures and electronic government for disbursement measures under PARSP-III.

9. **Recommendations**

It is recommended that an ADB loan of 46 million Euros be granted to the Government of the Kingdom of Morocco in the form of a quick-disbursement loan to support the third phase of the public administration reform support programme. It is also recommended that the loan be disbursed in a single tranche, subject to the fulfillment of the general and special conditions stipulated in the loan agreement.
I. INTRODUCTION

1.1. Project Origin and Background

1.1.1 The public administration reform programme in Morocco has been in the making since 1996. It was in 1998, within the context of the implementation of the Economic and Social Reform Programmes (PRES), cofinanced by the Bank, that public administration reform was retained as a component of a programme supported by the international community. However, in the absence of analytical work on the dysfunctions of the administration and appropriate measures to address them, the measures undertaken have had mixed results.

1.1.2 Launched in 2001 by the Moroccan government, the Public Expenditure Review (PER) jointly conducted with the World Bank reached the same conclusions. In the wake of the PER, two inter-Ministerial working groups were formed to examine budget reform and civil service reform. Their conclusions were the basis of deeper reflection that involved civil society, and resulted in a national colloquium on administrative reform in May 2003. It is in this context that the government prepared, in 2003, its new public administration reform strategy in partnership with the African Development Bank, the World Bank, and the European Union.

1.1.3 Based on this strategy, the government prepared the Public Administration Reform Support Programme (PARSP), which was launched in 2003. The PARSP was designed from a common matrix with development partners, comprising a series of specific measures structured around the implementation of successive operations aimed at gradually implementing the different measures of a complex reform. In summary, the first two PARSPs were implemented as several successive operations and their execution was satisfactory. The present programme (PARSP III), which covers the 2008-2009 period, is its third phase.

1.1.4 As was the case with the PARSP-II, the Bank, the World Bank, and the European Union jointly participated in the different PARSP-III preparation and appraisal missions, based on the updated matrix of measures. Following the review of the outcomes of PARSP-II in June 2007, the three institutions deemed the execution of the second phase of the PARSP satisfactory and decided to consolidate the achievements of this programme by supporting PARSP-III.

1.2 Justification of PARSP in the Country Strategy Paper (CSP)

The objectives of the PARSP are aligned with CSP priorities and are also with the Bank’s strategic orientations and policy on good governance for 2008-2012. Indeed, the main components of the Moroccan administrative reform focus on principles of accountability, transparency, ownership, and participation, major orientations of the Bank’s policy for good public governance. Consolidating public finance management and strengthening fiscal discipline, the focus of PARSP–III objectives, are among the essential conditions for accountable and efficient public finance management.

3 The matrix of measures common to the three institutions, as validated by the government and its three development partners during the joint mission in February 2008, is presented in Annex II.

4 PARST-II Completion Report, June 2007
1.3 **Performance of Similar Programmes**

1.3.1 Structural adjustment and reform operations financed to date stand at UA 926.5 million, comprising the structural adjustment programme; consolidation of the structural adjustment programme; the Economic and Social Reform Programme (PRES), the four financial sector adjustment programmes (PASFI) and PARSP I & II.

1.3.2 PARSP I & II show that the Moroccan government has undertaken a broad reform program focused in particular on budget modernization, deconcentration, simplification of the expenditure control system, strategic redeployment of staff, wage reform, and wage bill control. The following lessons can be drawn from achievements made under PARSP I & II, as described in the respective completion reports:

- PARSP I & II were limited to a pilot phase and concerned pilot ministries;
- It took longer than expected to implement some measures, notably in the area of human resource management;
- Institutional capacity needs to be enhanced and skills strengthened.

Faced with these constraints and while continuing the reforms undertaken, PARSP III intends to (i) generalize the implementation of the pilot experiences in budget management to the whole administration, (ii) complete the new human resources management system (HRM), which requires new job classification and wage reform, (iii) maintain the rate of reduction of the wage bill until the targeted objective is reached.

II. **Political Situation and Recent Social and Economic Developments**

2.1 **Political Situation**

The political system in Morocco is a constitutional monarchy governed by the 1972 Constitution, which sanctions a bicameral Parliament, comprising the House of Representatives and the House of Councillors. Multipartism opened the way for political change, which translated into reality. The most recent elections, held in September 2007, consolidated the emerging democratization process. These elections, recognized by several countries and international organizations as open and transparent, gave the population an opportunity to express a certain level of discontent, reflected in the low participation rate of around 35%, despite efforts made by the previous government. This perception could constitute a clear signal of the need to speed up ongoing reforms such as those supported by the PARSP by including actions that have a high impact on the population by improving services to the public.

2.2 **Economic Situation**

2.2.1 The implementation of the PARSPs in 2003 made a significant contribution to the improvement of the fundamental parameters of the economy. The economic situation is characterized by prudent macroeconomic management, higher growth despite the risks in the agricultural sector, controlled inflation, a declining unemployment rate, a strong external position and strong orientation towards consolidation of public finances. As well, the public

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5 See “Macroeconomic Indicators” chart below
debt, declining and sustainable, was given a credit rating in 2007. In 2007, Morocco posted an 8% growth rate, led by strong external and internal demand as well as by credit expansion. This rate is two times higher than the average growth recorded between 2000 and 2005. However, owing to poor harvests in 2007, this growth rate fell to 2%, but is forecast at 5.5% for 2008. The economic situation reflects the impact of the sectoral reforms undertaken, notably with respect to infrastructures, buildings, tourism, and telecommunications, which posted growth rates higher than 6%.

2.2.2 With respect to government finances, the economic performance achieved supported the pursuit of budget consolidation. Thus, the budget deficit fell to 4.5% of GDP in 2007, compared with 5.6% in 2006. Total expenditures increased 0.5%, up from 26% of GDP in 2006 to 26.5% of GDP in 2007. This rise is attributable to the increase in food subsidies and oil products, while the wage bill fell from 11% of GDP in 2006 to 10.7% of GDP in 2007 and is projected to reach 10.4% of GDP in 2008. Total government revenues confirmed a rising trend, from 23.9% of GDP in 2005 to 25.3% of GDP in 2006, and 25.7% of GDP in 2007. This increase in revenues was stimulated primarily by improvements in collections by the tax administration.

2.2.3 Between 2003 and 2007, the external debt fell from 78.9 billion MAD to 61.9 billion MAD, a decrease from 21% to 12.7% of GDP. During the same period the internal debt rose from 217 billion MAD to 288.7 billion MAD, a 24% increase.

Macroeconomic Indicators

Source: World Bank, European Union, African Development Bank ad Moroccan Authorities

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6 The spread of the Emerging Markets Mandatory Index (EMBI+) for Morocco’s sovereign debts fell significantly, to less than 70 base points towards end-2007.

7 In 2007: Tourism grew 9%, Buildings and Public Works grew 8% Telecommunications, 8%
2.2.4 However, macroeconomic performance remains inadequate to boost strong and job-creating growth. The two main concerns are insufficient and volatile economic growth and the persistent budget deficit.

2.3 Medium-term Macroeconomic Outlook

2.3.1 Morocco’s 2006-2011 medium-term economic prospects are based on a development scenario in which the Moroccan economy is marked by sustained and lasting growth. These prospects hinge upon: (i) strengthening macroeconomic stability; (ii) gradual adjustment of public finance; (iii) acceleration of structural reforms; and (iv) reinforcement of investment.

2.3.2 In spite of fluctuations, the economic growth rate is expected to reach an annual average of 4.5% by 2011, underpinned by growth in non-agricultural sectors. The unemployment rate is projected at around 9%, given the expected dynamism of the economy. Inflation is expected to be controlled at around 2% thanks to budget restrictions and to a prudent monetary policy, despite the substantial subsidies granted and likely to spark inflationary pressures. The external position is expected to remain strong thanks to remittances from Moroccans living overseas and to tourism receipts that can reduce the trade deficit balance and increase the savings rate.

2.3.3 With a lower country risk and a relatively low level of debt, the debt service would decrease thus making available resources for public investment, and total and national savings investments ratios should stand at around 32% and 33%, respectively, of GDP in 2008. Structural reforms and the policies supported by the “Emergence Plan”8 should help improve productivity gains and stimulate direct foreign investment flows under free-trade agreements thereby achieving the aforementioned growth rate.

2.3.4 With respect to the budget, the government is committed to ensuring sound public finances by reducing the overall budget deficit from 3.3% in 2008 to 2.9% by 2011. Among others, this performance would be the combined result of implementation of the PARSPs and of the recommendations from the two studies on tax issues9, which had advocated measures to expand the tax base, simplify the tax regime, modernize the tax administration and reduce tax exemptions.

2.3.5 Debt sustainability analysis shows that the base scenario is viable in the medium term (see Annex XI). The slightly lower budget deficits should generate lower net internal financing needs, from 3.2% in 2008 to 2.3% in 2011, while external financing should stabilize at 1.5% of GDP in 2011. The budget framework is also sound enough to resist shocks. Under the different scenarios, several shocks are simulated using the base scenario, and in each case, the public debt is found to be sustainable. In the medium term, the performance of the external account is also expected to remain strong, with a decreasing current account surplus during the 2008-2010 period. Reimbursement of the external debt would represent 4% of GDP on average. Overall, these factors should help reduce outstanding external debt from 26.7% of GDP in 2007 to 22.2% in 2010, with claims on government falling from 12.5% to 10.7% of GDP.

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8 The “Emergence Plan” is an industrial strategy in Morocco that is based on positioning Morocco in new profitable markets, known as world trades. Seven jobs had been identified: off shoring, automotive, aeronautics, electronics, agro-industry, products from the sea, and textiles.

9 Study conducted in 2005 by the IMF and the European Union, at the request of the government.
2.4 Poverty Reduction Efforts

About 14.2% of the population in Morocco\textsuperscript{10}, lives below the poverty line. The poor constitute 22% of the population in rural areas and 7.9% in urban areas. In recent years, real—but insufficient—progress has been noted in poverty indicators: the rural electrification rate, rate of access to drinking water in rural areas, net enrolment rate, and life expectancy at birth. To revitalize the fight against poverty and insecurity, the Government launched a National Human Development Initiative (Initiative nationale pour le développement humain – INDH) for the 2006-2010 period. The INDH is unique in that it adopted a participatory approach, while targeting its interventions to well-identified geographic areas and to the poorest categories\textsuperscript{11}.

III. The Government’s Development Programme

3.1 The Government’s Reform Programme

3.1.1 The current government’s economic and social programme (ESP) was presented to Parliament in October 2007\textsuperscript{12}. The ESP aims to ensure the continuity of reforms while speeding up their implementation and enriching their content—with the objective of increasing economic productivity, efficiency and strengthening human capital to stimulate growth. Thus, the ESP aims to consolidate gains achieved under previous programmes, notably the Public Administration Reform Support Programmes (PARSP), with the following objectives:

(i) modernizing and enhancing the effectiveness of the administration by improving multi-year budget programming measures, putting in place a new results-based management approach, performance and accountability and developing evaluation and audit performance capacities;

(ii) strengthening and developing the decentralization and deconcentration process to respond to local management needs through greater empowerment of local managers;

(iii) improving human resource management to make it a vector for the effectiveness of the administration through the promotion of a merit and performance-based management culture, improvement of the profile of personnel by implementing suitable recruitment and continuous training policies set within the framework of a controlled wage bill.

3.1.2 The series of PARSPs was designed to correct the dysfunctions of the public service, which is characterized by (i) excessive concentration of services, (ii) mismatch between human resources and the needs of the administration; and (iii) a rising trend in the wage bill and dysfunctional wage plan

3.1.3 Excessive concentration of services, decision-making authority and resources at the central level is one of the main characteristics of the Moroccan administration. Managers

\textsuperscript{10}For assessment of standard of living and basic equipment, only 2004 data is available.

\textsuperscript{11} According to a study “Moving out of poverty in Morocco”, conducted by the World Bank in July 2007, there are 360 poor communities in rural areas and 250 poor neighborhoods in urban areas.

\textsuperscript{12} Prime Minister’s speech dated October 24, 2007
in the field have no say in the use of budget resources or in the management of their staff. This results in slowdowns that have a negative impact on the quality of results expected from public expenditures and promote the risk of corruption.

3.1.4 **Human resources management** is not in line with a strategic vision of optimal use of personnel aimed at meeting public administration needs. Staff recruitment does not give priority to competition and the search for professional profiles adapted to the needs of the administration. Thus, the structure of tasks to be accomplished by several civil servants and their skills profiles do not meet the main requirements of a modern administration.

3.1.5 Because of the absence of a coherent mechanism for evaluating the individual performance of employees, the **remuneration system** in Morocco is characterized by the absence of a direct correlation between the amount of wage paid and the real value of the employee’s output. This situation creates disparities among civil servants. Promotion, based essentially on seniority rather than on professional skills or on criteria of objectivity and transparency based on merit, is currently one of the elements for improving salary levels.

3.1.6 The wage bill, in relation to the GDP, has been rising since the 1980s. In 2003, the wage bill as a percentage of GDP stood at about 12.5% compared with about 10.4% in 1990. There are three reasons for this upward trend: (i) the lack of standard and global institutional mechanisms for the regular adjustment of the basic wage in relation to changes in the relevant economic variables; (ii) the predominance of an incentive system that is not based on the employee’s individual performance; and (iii) a promotion system that is disconnected from individual performance and functions more as a means of increasing salaries. However, thanks to the measures implemented under the PARSPs, the authorities have succeeded in reversing the rising trend in the wage bill.

3.1.7 Thus, the implementation of PARSP I & II largely contributed to the correction of the dysfunctions in the public administration; PARSP III focuses on consolidating the results of the latter. However, there have been some delays in the implementation of components of the reform such as the introduction of sectoral MTEFs, results-based budgeting, deconcentration of the central administration, reform of the pay scheme in the public sector.

IV. **Conditions for Budget and Capacity Building Support**

4.1 **Conditions**

4.1.1 It should be noted that since the launching of the PARSPs in 2003, the economic situation has been characterized by prudent macroeconomic management, higher growth rates, controlled inflation, falling unemployment rates, strong external position, decreasing and sustainable public debt and strong orientation towards consolidating public finances. In addition, the Government, with support from the World Bank, the IMF and the European Union, undertook a fiduciary review of its public finance system. This review was all the more important because the instrument proposed by the Bank to finance PARSP-III consists of an operation in the form of budget support. This led to the completion of four types of fiduciary reviews, namely: (i) Country Financial Accountability Assessment (CFAA-

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13 The following measures were taken to control the wage bill: (i) early retirement programme; (ii) Regularization of the promotion of civil servants and decrease in payment arrears, (iii) better process for monitoring recruitment and the use of vacant positions, and (iv) implementation of measures leading to better monitoring and forecasting of the wage bill.

14 See Annex VIII

4.1.2 The main findings of the CFAA study were as follows: “The Moroccan system is robust, and is characterized by considerable reliability, with institutions rooted in a long tradition of legality, control, and centralism.” The CFAA rated the risk linked to the public finance management system in Morocco as low.

4.1.3 Similarly, the last report on procurement in Morocco indicated that the legal and regulatory framework of public procurement, as well as of local governments, is “based on principles of economy, transparency and effectiveness, and draws on generally accepted international practices”.

4.1.4 In 2002, the Government, in partnership with the World Bank, conducted a public expenditure review (PER). The main conclusion of the review highlighted the threat of the rising wage bill to the viability of the medium-term fiscal position.

4.1.5 Since Morocco represents a low fiduciary risk, confirmed by the most recent EPIP appraisal conducted in 2006 by the Bank—which gave Morocco a rating of 4.2815—the implementation of the PARSP-III will further reduce this fiduciary risk. It is therefore proposed, that, like the World Bank and the European Union, the Bank should finance the third phase of the PARSP in the form of budget support for Morocco.

4.2 Institutional Capacity

Regarding the management and implementation of reform programmes, the Moroccan administration has a satisfactory level of supervision, a well-structured administrative mechanism, and a relatively clear and generally satisfactory job assignment system. As was the case with PARSP-I & II, the MEF and the MMSP are the two Ministries most involved in managing the PARSP. However, because of the complexity of the public administration reform programme, which includes innovative administrative management practices, the Government will not require the experience and expertise of external technical assistance16.

V. Public Administration Reform Support Programme

5.1 Programme Context

5.1.1 For reasons of efficiency and prioritization, the PARSP focused its reform actions on four major objectives: (a) improving government efficiency in budget management; (b) improving government efficiency in human resource management; and (c) controlling the rising public service wage bill; and (d) streamlining procedures and electronic government. The performance of the first two phases of the PARSP was satisfactory in that they resulted in progress in the public administration reform, as demonstrated in their respective completion reports.

15 Gestion économique (Note: 4,50), Politiques structurelles (Note: 4,00), Politiques d’inclusion sociale et d’équité (Note: 4,10), Gestion publique et des institutions (Note: 4,50)

16 Such as the three-year rolling MTEF, globalization of credit, flexible budgeting, programmes-budgets, contractualization between the central administrations and deconcentrated services, performance auditing, strategic staffing framework, State-social actor partnerships.
5.1.2 Thus, PARSP-I achieved significant milestones in administrative reform, namely: (i) introducing flexible budgeting; (ii) preparing a strategic staffing reference framework (REC); and (ii) successfully implementing the voluntary separation and early retirement programmes. However, in compliance with the approach adopted by the Government not to immediately involve all Ministries in the reform, only some pilot Ministries participated in the implementation of PARSP-I. The objective of the second phase of the programme, PARSP-II, was to involve a greater number of Ministries and to raise the implementation of the programme to another level, while expanding the range of reforms implemented. This context again underscores the relevance and urgent need for pursuing administrative reform, justifying the Bank’s support through PARSP-III.

5.2 Programme Objectives

The objective of the PARSP-III is to consolidate, deepen, strengthen, and extend to the rest of the administration, gains achieved under the previous phases of the PARSP. The PARSP-III focuses on four aspects and takes into account progress made and lessons learned from PARSP-I & II. First, extension of programme reforms. This involves advancing from the pilot phase to implementing the reforms in the whole administration. Second, consolidate results achieved under PARSP I & II, notably strengthening of institutional capacities and reinforcing the areas of competence of structures and responsibilities. Third, catching up with delays in implementing some programme components, notably in the areas of human resource management. Fourth, the need for an active policy for disseminating the achievements of the reform17, which should contribute to its acceptance by the public.

5.3 Description of Programme Components

5.3.1 Just like the previous PARSPs, PARSP III is supported by the African Development Bank, the World Bank, and the European Union. It will help consolidate and generalize the implementation of the following components, while introducing a fourth component relating to “Simplifying procedures and e-government 18”, which would make the impact of the ongoing administrative reforms more tangible for citizens. These are (i) strengthening of public finance management, (ii) enhancement of efficiency in human resource management, (iii) control of the public service wage bill, and (iv) streamlining of procedures and e-government.

A. Strengthening of Public Financial Management

5.3.2 The Medium-term Expenditure Framework. The objective of this component is to prepare and implement an aggregated MTEF. The goal of the MTEF is to establish sectoral budget ceilings within a multi-year perspective, taking into account sectoral MTEFs and intra- and inter-sectoral priorities. Consequently, these ceilings are consistent with the Table of Government Financial Operations, and help make budget policies more predictable and more transparent. For these pilot experiences, the government decided to adopt a rolling three-year MTEF (regularly updated), and to start defining sectoral MTEFs. The initial objectives supported by the PARSP are to introduce a multi-year budget system, for the sectors as well as at the consolidated level, and to ensure that the sectoral MTEFs comply

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17 The government is expected to pursue the implementation of a communications strategy aimed at consolidating consensus around the objectives and modalities of the reform, notably by organizing information and training sessions on change management

18 E-government
with the Table of Government Financial Operations (TOFE). An MTEF was prepared for financial years 2007 and 2008 budgets. Two seminars were organized in April 2006 and April 2007 to disseminate the MTEF methodology to all ministries. In 2007, sectoral MTEFs were prepared on an experimental basis in the ministries of National Education, Housing, Health, and Equipment. Under PARSP-III, nine ministries in total are expected to prepare their MTEFs for 2008-10 (Condition No. 3). In addition, multi-year budgeting should be integrated in all sectors and at the consolidated level, to ensure that sectoral MTEFs are consistent with the Table of Government Financial Operations (TOFE). The MTEF can then be adopted as a normal budget procedure in the context of future phases of the PARSP. Since the MTEF is a component of the budget orientation process, it will be necessary to amend the organic budget law.

5.3.3 Flexible budgeting. This is an approach that gives greater consistency to government action insofar as it lays special emphasis on the performance of public expenditures. Indeed, with flexible budgeting, which covers a paragraph and no longer a line, allocations for the execution of an action or a coherent set of actions from the same directorate are grouped together under a single programme. Each of these programmes is associated with specific objectives defined in terms of the general objectives and expected outcomes. The programme is backed by indicators of quantified objectives that establish a relationship between sectoral objectives, planned actions, allocations made and expected outcomes. In 2007, the proportion of the budget using “flexible budgeting” accounted for 70% of the “globalized” budget. Some ministries modified their budget nomenclature to formulate their programmes at the paragraph level and make globalization even more useful. Consequently, one of the conditions under PARSP-III is to pursue flexible budgeting to achieve the objective of 30 ministerial departments by end-2008 (Condition No. 1). It is also important to amend the organic budget law to allow a new presentation of the budget by programme and sub-programme, and formally institute the programme as an appropriate level of aggregation for the budgetary spending authority. These new measures will result in the institutionalization of sectoral objectives, results indicators (mid-term and at the end), and of their projected targets. At present, at least 22 departments publish their performance indicators at the paragraph level, and make globalization even more useful.

5.3.4 Deconcentration. The strategic orientations of deconcentration were presented in the December 12, 2006, speech from the throne, which notably underscored the importance of deconcentration as support for decentralization. It also laid emphasis on the central role of the governors of regions (Walits) as well as on strengthening regional centers. A national decentralization plan is being prepared. The government plans to experiment on pilot ministries responsible for health, equipment and finance. It is necessary to resume the deconcentration program as soon as the national strategy is adopted, to put in place an updated deconcentration guide, prepare deconcentration master plans by ministry and adopt an MEF circular that improves the credit deconcentration process by simplifying it (Condition N°2).
5.3.5 **Contractualization:** One of the central mechanisms that allow the administrative deconcentration policy in Morocco to be operational and effective is contractualization. It is designed as a results-based management process committing, under a contract, the central administration and deconcentrated offices, to the implementation of three-year programme budgets. Two departments have implemented their performance contracts (High Commissioner for Water and Forests and the Ministry of Health), and, while waiting for the implementation of deconcentration master plans, the government continues to ensure the conclusion of objectives/means/outcomes contracts, signed between the ministries and their respective external services in order to strengthen the empowerment of managers and delegation of credits for these services.

5.3.6 **Strengthening Internal Auditing and Introducing Performance Evaluation and Control.** In order to bring about major change in auditing and control, three sets of measures had been identified, namely: (a) organization of joint IGF/IGM (General Inspectorate of Finance/General Inspectorate of Ministries) audit missions; (b) implementation of manuals of procedures and guides used at the level of the General Control of Expenditure Commitment (CGED); and (c) implementation of the 2005 training programme by the CGED. The development of the new GIPE (Integrated Management of Government Employees) system was also planned. At end-2007, the IGF and IGMs formed, as planned, joint teams to conduct performance audits in ministries that subscribe to globalization. These teams offer joint training and have prepared a number of repositories and tools to support their work. It is confirmed that joint performance audit missions were conducted in at least 15 ministries during fiscal year 2006, but also during fiscal year 2005 and 2004, according to the ministry’s date of entry into the globalization mechanism. With respect to auditing the 2007 budget, audit missions for about two dozen ministries are slated to start around July 2008, knowing that these ministries would have submitted their performance reports in 2007.

5.3.7 **Modernization of the Information System.** To optimize the technical arrangement for streamlining the management of public expenditures and rendering it more effective, the Government opted to modernize its information system through the integrated public expenditure management system (GID) and the system for the Integrated Management of the Government’s Human Resources (GIPE). Reform of internal expenditure control consisted primarily of merging the former expenditure commitment control (CED) unit with the treasury (Trésorerie Générale du Royaume—TGR) in 2006 and easing *ex ante* control based on the capacity of commitment officers. The latter operation, the most complex and the most sensitive, is ongoing. A draft decree on easing control modalities approved by the Government Council, will be examined in Cabinet in 2008, following the completion of the study on public expenditure control (*Condition No. 4*). The success of this control reform depends in large part on the sensitization of authorizing agents to strengthen their capacity and to definitively and significantly internalize control of their expenses.

5.3.8 **Reform of the Organic Budget Finance Law (LOLF):** The Moroccan authorities plan to undertake reform of the LOLF. With respect to reform of the LOLF, the authorities seem to prefer a three-phase approach: internal reflection within the MEF, international comparison phase, with reference to developed countries, but also to emerging countries (Chile, Turkey, or former Eastern block countries) which have undertaken such reform. Before undertaking reform of the LOLF, reflection is necessary; to this end, the creation of an ad hoc committee (identification work and road map) is underway.
B. Enhancement of Efficiency in Human Resources Management

5.3.9 This component comprises: (i) pursuing implementation of the strategic staffing framework (RECs)\(^\text{19}\), ii) classification of jobs, (iii) a new remuneration system, (iv) new methods of recruitment and promotion of mobility, (v) a system of promotion and evaluation of the performance of civil servants; and vi) a continuous training development policy.

5.3.10 Pursuing implementation of the REC: One of the major innovations introduced by the PARSP in the human resource management system in the Moroccan administration is the development of a strategic staffing framework (REC). For the Government, the REC constitutes the central pillar of its new policy on human resource management planning. The advantage of this tool is that it assigns a profile to each position. In so doing, it gives preference to the notion of job over that of rank currently in use. This substitution represents a major change in the management of human resources. This process of gradual formulation of RECs by the various ministries is going on smoothly. The preparation of a methodological guide on the REC has enabled the ministries to harmonize their methodologies and enhance the conceptual quality of their respective RECs. The MEF and the Ministry of Public Sector Modernization (MMSP) have already prepared their strategic staffing frameworks (REC). The completion of the REC process in at least six ministries is a condition under PARSP-III (Condition No. 5). The ministries concerned are the most important in terms of diversity of jobs and staff. They represent 80% of the entire public service (Agriculture, General Affairs, Equipment, National Education, Water and Forestry, Justice, Interior, and Health).

5.3.11 Job Classification: The system of corps and management will be completely modified by the new system of job families. At present, job classifications are regulated by about 70 special rules and regulations. This proliferation imposes constraints that hamper mobility and fuel competition for salary increases. The launching of the MMSP study on job classifications under the common nomenclature project, which constitutes a condition under PARSP-III (Condition No, 6), will lead to new job classifications, which will enable the authorities to address current constraints and the negative effects of the system of corps.

5.3.12 New Remuneration System: The implementation of the new remuneration system, which will allow for a more predictable wage bill that increases more slowly, is a priority and a necessity for HRM reforms. The current remuneration system in Morocco has been distorted by successive salary increases granted in the form of benefits for different bodies. The Government has prepared the terms of reference for a one-year study aimed at reforming the remuneration system. This study is expected to use the preliminary results of the REC and the new category classification of jobs and positions. The designation of an office responsible for the study on the preparation of a new remuneration system based on the new classification of jobs is a condition under PARSP-II (Condition No. 7).

5.3.13 Recruitment and Mobility: A bill has been prepared on the modification of the general rules and regulations of the public service with a view to reforming the recruitment, mobility, secondment, and redeployment systems. To date, this bill has been adopted by the Lower House and is now in the Upper House. Draft implementing decrees have also been prepared; they will be signed and implemented as soon as the law is adopted.

\(^{19}\) Annex V shows the state of progress in the implementation of RECs
5.3.14 **Evaluation and Promotion:** Performance evaluation plays a decisive role in the eligibility of employees for future promotions (half of the quota compensates the best performance). However, since no quotas have been established for the evaluation process, a study led by the MMSP showed that Ministries tend to give very high ratings, hence the need to review the evaluation process by also introducing quotas for ratings.

5.3.15 **Continuous Training:** Decree n° 2-05-1366 of 2 December 2005 concerns the organization of continuous training for government civil servants and officers. The national strategy has been finalized and presented to the Higher Civil Service Council (Conseil supérieur de la fonction publique -CSFP). Considering the rate of development of RECs and GPEC tools, which include a training strategy that constitutes a condition under PARSP-III (*Condition No 8*), the emphasis is on the “national” aspect of the training strategy, and on the importance of financing the training courses: at present, the best case scenario is 0.5% of the wage bill, whereas the stated objective is to achieve 1%.

C. **Control of the Public Service Wage Bill**

5.3.16 This component comprises enhancing the monitoring and control of the public service wage bill, qualitative re-profiling of the public service, and introduction of better management of remuneration allocations.

5.3.17 **Enhancing the monitoring and control of the public service wage bill:** The Moroccan authorities have confirmed their objective to reduce the wage bill to less than 10% of GDP as of 200920. The initial measures implemented in this regard have started bearing fruit. These include: (i) the Early Retirement Programme (ERP) implemented in 2005, which resulted in wage bill savings of close to 1% of GDP, (ii) issue of the decree defining conditions for promotions that ensure greater visibility and fluidity in the promotion of civil servants (2006); and (iii) measures instituted by the budget law to restrict the creation of budget positions to the strict minimum needed to meet the real needs of the administration. These measures have enabled the authorities to reverse the rising trend in the wage bill since 2005. Thus after reaching 12% of GDP in 2005, the wage bill fell to 11% and 10.7% of GDP in 2006 and 2007 respectively. It is expected to fall to about 10.4% of GDP in 2008. In the medium term, the PARSP-III proposes the gradual implementation of tools that will help Ministries to prepare for the implementation of limited funds for personnel expenditures. Some pilot Ministries could start implementing these measures, which, as soon as the LOLF is approved, will be extended to all ministries.

5.3.18 **Qualitative Re-profiling of the Public Service:** The early retirement programme (ERP) implemented in 2005 helped to improve the quality and geographical distribution of the civil service, notably by rejuvenating the civil service and reducing overstaffing in central urban areas (see Annex VII on the geographic concentration of staff). The vacancies created by the ERP allowed the authorities to recruitment more staff for priority sectors such as education, health, justice, and security. Indeed, the number of recruitments in 2006 and 2007 and those planned under the Budget Law for 2008, are close to triple the number of mandatory age-related retirements. The Moroccan authorities have made known their intention to take advantage of the REC and the adoption of the new legislation to conduct an extensive redeployment of staff from overstaffed areas to poorly served areas. The deconcentration of recruitment is also expected to guide redeployment policies. In

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20 See Annex VI « Wage Bill Compared»
overstaffed areas, the positions vacated because of normal retirement have to be eliminated. Within the limits of the recruitment ceilings established by the public authorities, recruitments should be authorized in priority sectors such as education, health, security and justice, as well as in poorly served areas. The prohibition to recruit staff into lower levels (1 to 4) of the public service will be maintained.

5.3.19 Introduction of better remuneration allocations management: Control of the financial impacts of HRM regulations: At present, the average period for regularizing a promotion in grade is 27 months, which is 2 months less than the average a few years ago. This time frame is still too long, and involves significant arrears and distorts annual wage bill forecasts. One of the conditions (Condition No. 9) under PARSP-III is the creation of a group responsible for the: (i) preparation and implementation of measures aimed at improving the monitoring and forecasting of the wage bill, and (ii) gradual introduction of best practices in remuneration allocations management to four Ministries (Finance, Education, Health and Housing). This exercise should help to reduce the time taken to regularize recruitment, promotions and transfer of civil servants, such that payment arrears are reduced to reflect the minimum regulatory time frames defined in the Prime Minister’s Circular of 22 March 2007. Initially, the exercise can begin in the four pilot Ministries (MEF, Education, Health, Housing), and be extended thereafter to other ministries. As of 2008, four pilot ministries (the MEF, DEN, Health, and Housing) can experiment with shared management of remuneration allocations with the Chief Paymaster, currently the only manager of these credits for Ministries. This choice is motivated by several factors: these ministries have a ministerial treasury, an effective computerized HRM tool, and well-developed HRM structures of acceptable quality. Technical support and training will be needed for this operation. All actions described above should be aimed in the long term at stabilizing the civil service staff to a level that is consistent with the optimal size of the central government. The subsequent preparation of a study will help to establish the appropriate parameters to be taken into account in defining the optimal size of each Ministry so as to focus their recruitment policies on their real needs.

D. Streamlining of Procedures and E-government

5.3.20 General Context: The Moroccan Government gives priority to the e-government theme, not only as a tool for modernization, but also as an instrument for far-reaching reform of the operations and missions of the civil service and for better governance. There is widespread consensus around this theme: among political parties, among Ministries, and within the private sector. This consensus is an important guarantee of sustainability of the reforms undertaken under the PARSP: e-government will remain a priority for the Moroccan Government, irrespective of its structure in coming years. E-government focuses on the following complementary components:

5.3.21 Institutional Framework: Efforts relating to e-government are often slow because of the absence of an institutional structure capable of sufficiently coordinating the efforts. A number of laws (for example, on electronic signature), have still not been adopted by Parliament. The main action envisaged under PARSP-III is a decision by the Prime Minister conferring responsibility for and leadership in e-government to a high-level body with the necessary authority and credibility.

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21 This involves re-profiling and re-deploying the workforce
5.3.22 **Vertical Components**: A number of services for citizens and enterprises have been identified, and these could generate rapid results that are visible and significant for users. Under PARSP-III, it is proposed that efforts be concentrated under two priority areas, in which significant results have already been recorded and must be consolidated, namely Customs and Government Contracts Procurement Service, while generalizing the establishment of a single system for the registration of enterprises.

5.3.23 **Horizontal Components**: E-government will only be efficient if it is based on resources and approaches common to the entire Moroccan Government; in general, this need is well understood in the upper echelons of the administration, but it is still not well implemented at operational levels. Three priority action pillars have been identified in this area: interoperability, standardization, and security. For reasons of selectivity, measures related to these components will be postponed to the next phase of the PARSP (PARSP-IV/see Annex II).

5.3.24 **Crosscutting Components**, involving vertical and horizontal dimensions: The full benefits of the components identified above will only be felt if the Moroccan administration takes the necessary steps to succeed. “Crosscutting” tools should notably include the following three dimensions: more significant role for the private sector (outsourcing and public-private partnerships), integration of central and local e-government approaches, identification and financing of the communications and training functions needed for ownership of reforms by the administration and its users. The central government-local government link can be underscored within the context of putting public procurements online.

5.3.25 In a nutshell, the PARSP-III measures will help to modernize public administration, as well as public finance and human resource management. The main results expected from PARSP-III are presented in Annex III.

VI. **Programme Loan**

6.1 **Loan Objective**

The proposed loan aims to continue and strengthen Bank support for the Government’s efforts to implement and pursue the Programme measures. It will help to finance the budget deficit for the year 2008.

6.2 **Financing Requirements and Sources**

6.2.1 For Financial Year 2008, the budget deficit is in line with debt reduction and balanced commitment of Government support for growth and social development. Given the expected trend in the national and international situation, the budget deficit would be close to 20 billion dirhams, or 3% of GDP.
6.2.2 The financing needs and sources are presented in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008 (forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget deficit</td>
<td>9,767</td>
<td>11,319</td>
<td>19,968</td>
</tr>
<tr>
<td>Arrears variation</td>
<td>1,300</td>
<td>- 440</td>
<td>5,600</td>
</tr>
<tr>
<td>Financing need</td>
<td>11,000</td>
<td>10,900</td>
<td>25,600</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>11,600</td>
<td>6,000</td>
<td>22,400</td>
</tr>
<tr>
<td>External financing</td>
<td>- 578</td>
<td>4,900</td>
<td>3,100</td>
</tr>
</tbody>
</table>

Source: Moroccan Authorities

6.2.3 This deficit, coupled with the 5.6 billion dirhams reduction in payment arrears, would give a financing requirement of 25.6 billion dirhams. Coverage of the latter would require mobilization of MAD 22.4 billion by the Treasury on the internal market, taking into account net positive external flows of MAD 3.1 billion.

6.2.4 The Bank, the World Bank and the European Union continue to support the reform programme, and intend to continue the assistance. The Bank’s share of financing for PARSP-III will represent 16.5% of external financing; that of the World Bank will stand at 24.43%. The contribution of the European Union will be a grant of EUR 25 million. The following table summarizes the contribution of each donor to the financing of PARSP-III.

<table>
<thead>
<tr>
<th>Donors</th>
<th>Amount of financing</th>
<th>Amount of financing in MAD million</th>
<th>Share of each donor in external financing requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>USD 100 million</td>
<td>757.5</td>
<td>24.43%</td>
</tr>
<tr>
<td>ADB</td>
<td>EUR 46 million</td>
<td>524.4</td>
<td>16.25%</td>
</tr>
<tr>
<td>EU</td>
<td>EUR 25 million</td>
<td>284.9</td>
<td>9.19%</td>
</tr>
</tbody>
</table>

6.3 Loan Instrument and Conditions

This programme, which is based on a programme approach, will be financed by the Bank in the form of budget support. To comply with the annual programme loan approach adopted for the financing of this programme, the present loan will be disbursed in a single tranche, as is the case at the World Bank.

6.4 Disbursement

The 46 million Euro loan will be disbursed in a single tranche into a Treasury account opened at Bank Al Maghrib by the Moroccan Government. The amount of the loan is compatible with Morocco’s capacity to borrow from the Bank. For the year 2007, the Bank’s risk exposure level with regard to Morocco stood at 7% of the maximum bearable portfolio, far below the critical threshold evaluated at 15%, and the total debt stock/GDP is estimated at 25%, whereas it could be 50%. The disbursement of the single tranche will be subject to fulfillment of the conditions precedent to effectiveness of the loan and the measures stipulated in the loan agreement and reiterated in Section 8.2.3.

6.5 Programme Auditing

In order to comply with the General Conditions Applicable to Loan Agreements, this programme shall be audited by the Public Finance Inspectorate (PFI) in April 2009, focusing on the payment of loan resources into the account opened by the Treasury at the Bank Al Maghrib.
**6.6 Programme Implementation and Monitoring Mechanism**

6.6.1 As was the case with the previous PARSPs, the Ministry of the Economy and Finance will be responsible for the administration of the loan. The implementation of the administrative reform will be coordinated and monitored with the support of the Inter-Ministerial Management Committee for the administration. This committee was created at the beginning of 2003 by Prime Ministerial decree, with the appointment of a permanent coordinator.

6.6.2 The PARSP-III will be implemented over an 18-month period, starting from the date of approval by the Board. The indicative implementation schedule for the PARSP-III is presented below:

<table>
<thead>
<tr>
<th>Phases</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation to the Board</td>
<td>May 2008</td>
</tr>
<tr>
<td>Programme effectiveness</td>
<td>June 2008</td>
</tr>
<tr>
<td>Disbursement of single tranche</td>
<td>June 2008</td>
</tr>
<tr>
<td>First supervision</td>
<td>October 2008</td>
</tr>
<tr>
<td>Audit</td>
<td>April 2009</td>
</tr>
<tr>
<td>Second supervision</td>
<td>May 2009</td>
</tr>
<tr>
<td>Completion report to the Bank</td>
<td>December 2009</td>
</tr>
</tbody>
</table>

6.6.3 The implementation of the programme will be regularly monitored through supervision missions, which will be jointly conducted with the World Bank and the European Union until the closure of the Bank’s loan. During the Bank’s supervision missions and with support from the Inter-Ministerial Management Committee for Administrative Reform, all sector stakeholders will be involved in discussions relating to the progress of the programme. The same approach was adopted for PARSP-I & II, and produced meaningful results.

**6.7 Coordination with other donors**

The Bank and the other programme cofinanciers collaborated closely in the appraisal of PARSP-III. The three institutions held several consultative meetings about aspects of the programme, including the pooling of documents and information. The PARSP-III appraisal and matrix of measures harmonization missions were jointly conducted to identify measures common to the three institutions.

**VII. Programme Rationale, Impact and Risks**

**7.1 Programme justification**

The objectives of the present programme are consistent with Morocco’s CSP for 2007-2011, which encourages, among others, the Bank to support economic reforms undertaken by the country. They are also in line with the Bank’s good governance policy, the first pillar of its assistance strategy for improving efficiency in government actions through support for the strengthening of the governance system.
7.2 **Impact**

7.2.1 **Macroeconomic Impact:** In order to contribute to stronger economic growth, the programme has made the modernization of public administration a priority measure aimed at upgrading the institutional framework needed for better management of development. Since the launching of the PARSP, improvements have been noted in several aspects of the Moroccan macroeconomic environment\(^{22}\): (i) inflation under control; (ii) surplus balance of payments; (iii) significant international reserves; (iv) reduced public debt / GDP ratio; and (v) reduced budget deficit.

7.2.2 **Impact on the Business Climate:** Pursuing the streamlining of administrative processes, as well as improving public expenditure management and responsiveness of the public administration have helped to create a conducive environment for attracting more private investments to Morocco. Because of the improved business climate as a result of the positive impacts of the programme, gross investment rose to about 30.3% of GDP in 2007, compared to 27.5% in 2003. The implementation of the deconcentration policy should, in the medium term, significantly reduce administrative bottlenecks that hamper the activities of beneficiaries of public services.

7.2.3 **Social Impact:** Under PARSP III, there is no provision for a new “Early Retirement Programme” (ERP). The Moroccan civil service does not suffer from a bloated workforce, but rather from uneven distribution of the latter among Ministries and among regions. This regional imbalance is illustrated in the chart in Annex VI. In 2006, Moroccan civil servants represented only 2.1% of the population, a percentage that is not excessive compared to countries with a similar level of development\(^{23}\). However, in order to ensure better control of the workforce, the programme has upheld the principle of limiting the number of new jobs to 7,000 in 2007 and 2008. Given that the number of applicants for normal retirement will decline, especially in the next five years, making provision for 7,000 new budgeted positions each year should suffice to meet the rational needs of the administration, particularly in priority sectors (education, health and security).

7.2.4 **Impact on Human Resources Management:** Under its human resources management component, the PARSP III has retained consolidation of the quality of public service because of the dominant role that skills and performance play in the establishment of RECs. The impact of new human resource management tools\(^{24}\) will enable the PARSP III to take the implementation of the administrative reform to a qualitatively higher level with regard to: (i) controlling the staff strength; (ii) improving the match between the needs of the administration and skills used; and (iii) the efficiency of civil servants. The gradual improvement in the effectiveness and efficiency of the civil service that will result from the smooth implementation of the PARSP III is a key element for the success of many structural reforms initiated by the Government.

7.2.5 **Impact on Gender.** Women represent about 34% of the staff in the Moroccan public administration. More than 45% of female civil servants work in the social ministries (health, education, social welfare). In terms of category, women represent: 32.82% of support

\(^{22}\) In Country Report No. 07/323-September 2007\(^{22}\), the IMF summarizes its preliminary findings, which sanctioned its Article IV consultation with Morocco in September 2007.

\(^{23}\) In 2006, 3.5% in Tunisia, 4.6% in Algeria and 6.5% in Egypt

\(^{24}\) These tools are: (i) the RECs, (ii) the new job classification, (iii) the new remuneration system, (iv) recruitment by competition and mobility, (v) the new evaluation and promotion system, as well as (vi) the professional development policy.
staff, 46.91% of middle managerial staff, and 20.26% of senior managerial staff. Women represent 40% of applicants under the Early Voluntary Retirement programme, and 35.39% of civil servants who have benefited from the early retirement programme. The majority of them (56%) are from the support staff and middle management categories (grades 1 to 9). The female population was most affected by the departures with a rate of 8.38% compared to 7.22% for men. Thus, the public service feminization index remained stable at around 32%.

7.2.6 Impact on the environment. The PARSP III, whose main objectives include improving public administration, has been classified in environmental and social category III. Consequently, actions under the PARSP should not have any significant environmental impact.

7.3 Risks and Mitigation Measures

7.3.1 In the medium term, the Moroccan economy will remain vulnerable on the domestic and external fronts. On the domestic front, the risks will stem from the increase in drought cycles, the decline in tourism receipts owing to possible security threats, or even to the decline in remittances from Moroccans living abroad because of generational change and much stricter restrictions concerning emigration. On the external front, the persistent oil price increases, high international interest rates and deteriorating terms of trade are causes for concern. There are two major types of risks: exogenous risks and social pressure.

- Exogenous shocks: Morocco remains vulnerable to changes in the domestic and external environment, including changes in the Government coalition and security situation in the region. This type of risk could be mitigated by better ownership of the reform by the different stakeholders, and continued dialogue with development partners.

- Social pressures: The Government could face pressure from unions to increase salaries, speed up promotions and resume mass recruitment. These pressures could undermine the Government’s efforts to control the wage bill. However, this risk could be mitigated by: (i) the Government’s decision to maintain firm control over trends in the wage bill (as a % of GDP), (ii) the new promotion system, which limits the number of promotions in the medium term, (iii) the growing number of retired civil servants in the coming years, and (iv) new measures to improve the wage bill and its management.

VIII. CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusions

8.1.1 The public administration reform falls within the framework of strategic reforms initiated by the Moroccan authorities to put in place an administration that is reduced in size, refocused on its fundamental mission, client-focused and delivering quality services at least cost, notably for the private sector. This support programme for the reform aims to consolidate the achievements of PARSP I & II, whose implementation was generally deemed to be satisfactory by the three international financial institutions supporting it. Under the

25 «INTILAKA», Study conducted by the MMSP in 2006.
present cycle of implementation, the public administration reform support programme will improve in consistency following the extension to other Ministries of tools such as flexible budgeting, sectoral MTEFs, the RECs, deconcentration plans, as well as the civil service redeployment exercise.

8.1.2 The gradual and prudent approach adopted by the Government, despite inevitable bottlenecks imposed on the implementation of the reform in general, has nonetheless helped to ensure continuity and control over the reform process. Because of the programme approach adopted for the implementation of this complex and “multidimensional” reform, the impact of the reforms is not noticeable in the initial phases of the programme. It is at the end of the third and fourth phases of the programme, after a critical mass of key measures have been achieved, that the full impacts of the various reforms will begin to be felt. At the social level, civil servants have not shown any significant resistance to the reform.

8.1.3 However, a lot remains to be done to ensure effective and general ownership of the reform among administration officers. The effective implementation of all the measures envisaged under PARSP-III should help to improve the competitiveness of the Moroccan economy, strengthen budget sustainability in the medium term, and thus maintain the viability of the macroeconomic framework needed to achieve stronger and more sustainable economic growth.

8.2 Recommendations

8.2.1 In light of the foregoing, it is recommended that the Government of the Kingdom of Morocco be granted an ADB loan of 46 million Euros, in the form of a quick-disbursing loan, to support the third phase of the Public Administration Reform Support Programme. It is also recommended that the loan be disbursed in a single tranche, subject to fulfillment of the relevant general and special conditions stipulated.

8.2.2 The conditions for the disbursement of PARSP-III were discussed and agreed by the Moroccan authorities involved in the different components of the PARSP-III. They reiterated their commitment to pursue the implementation of the reform and the achievement of the actions selected. To ensure better targeting by the different Ministries, the disbursement conditions have been presented by component.

A°/ Conditions Precedent to Effectiveness of the Loan Agreement

The effectiveness of the loan agreement shall be subject to fulfilment by the Borrower of the conditions stipulated under section 5.01 of the General Conditions Applicable to ADB Loans and Guarantee Agreements.

B°/ Conditions Precedent to the Disbursement of the Single Tranche

The disbursement of the loan in a single tranche shall be subject, in addition to effectiveness of the loan agreement, to the implementation, by the Borrower, of the following measures. The Borrower shall fulfill the following conditions to the full satisfaction of the Bank:
Component A: Strengthen Government efficiency in budget management

(i) Implement flexible budgeting in thirty (30) Ministries (§.5.3.3)
(ii) Adopt an MEF circular that improves the budget allocation deconcentration process by streamlining it (§.5.3.4).
(iii) Prepare sectoral MTEFs for 2008-2010 for a total of nine (9) Ministries (§.5.3.2).
(iv) Complete the study on public expenditure control (§.5.3.7).

Component B: Improve efficiency in human resource management

(v) Complete RECs in at least six (6) Ministries (§.5.3.10).
(vi) Launch the MMSP study on job classification in a common nomenclature of jobs (§.5.3.11).
(vii) Designate an office responsible for the study on preparing a new remuneration system based on the new job classification (§.5.3.12).
(ix) Prepare a public administration continuous training strategy (§.5.3.15).

Component C: Consolidate and Control the wage bill of the Public Service

(x) Create a group responsible for preparing and implementing measures aimed at better monitoring and forecasting of the wage bill, and (ii) gradual introduction of best practices in remuneration allocations management to 4 Ministries (Finance, Education, Health, and Housing) (§.5.3.19).
SUBJECT: Development Policy Letter on the Public Service Reform Strategy

REFERENCE: My letter № 2751/E of May 2, 2006

Mr. President:

I have the honour to present the public administration reform strategy that the Government of the Kingdom of Morocco committed to undertake as part of the programme presented to Parliament on October 24 and 25, 2007, as well as the measures adopted to ensure its implementation, with technical and financial assistance from the World Bank, the European Union, and the African Development Bank.

Indeed, public administration reform is at the heart of improving governance and it is aligned with economic and social reforms that the Government plans to implement with a view to improving the performance of the national economy and reinforcing its capacity to pursue its sustained rate of growth in a changing regional and international context that is characterized by globalization and trade globalization.

I. Objectives of the public administration response

The public administration reform strategy, which seeks to pursue actions already underway, is focused on achieving the following objectives:

- Introduce a modern administration that can help strengthen the competitiveness of the national economy and the sustainable development of the country and promote investments in the context of new sectoral strategies while ensuring the viability in the medium-term of its macro-economic framework.

- Improve the quality of government services by establishing local management, strengthening the de-concentration process, in line with progress made in the decentralization process, cost control and the search for performance in public action;
Simplify administrative procedures and develop e-government to improve public services provided and ensure integrity and transparency in relations between the government and users.

II. Achievements:

The Kingdom of Morocco has made significant progress with respect to the different actions undertaken in the context of the implementation of its public administration reform programme. The main achievements by pillar are as follows:

2.1. Improve government efficiency in budget resources management by:

Introducing multiyear budget programming through the implementation of a medium-term expenditure framework (MTEF) aimed at ensuring better predictability and flexibility in the allocation of public resources and better visibility in public expenditure changes and their accounting with a view to controlling the budget deficit. Thus, the MTEF will help strengthen overall budget discipline and improve the performance of budget achievements by promoting the implementation of the mechanism for contractualization of objectives and resources within a three-year budget framework, thereby reinforcing the budget deconcentration process. The following steps were taken to put the said Framework in place:

- Preparation of a manual describing the methodological approach for preparation of the MTEF by an inter-Ministerial committee and its testing by the pilot departments;
- Dissemination of the said guide to all ministerial departments through a circular from the Prime Minister;
- Organization of an MTEF theme day for all ministerial departments to help them learn the methodology developed for the said framework.

Thus, during the past year, 9 ministerial departments have prepared their sectoral MTEFs.

The deployment of flexible budgeting, which constitutes a major pillar for the implementation of results-based management, improved performance and accountability. This mechanism is aimed notably at allowing managers greater flexibility in the use of their budget allocations in exchange for their commitment to achieve pre-defined objectives measured by performance indicators and to be accountable for progress made with respect to resources used.

Thanks to efforts made in this regard, at end-2007, 32 ministerial departments that manage close to 77% of the investment budget adhered to this mechanism. In addition, a set of performance indicators is established each year and are included with the draft sectoral budgets sent to Parliament.

Furthermore, a methodology guide was prepared to help ministerial departments set up and improve their performance monitoring system.
Strengthening administrative de-concentration, in keeping with the Royal Guidelines presented in the December 12, 2006, speech given in Agadir on the occasion of the national meeting of local communities, which outlined the main tenets of a new administrative deconcentration strategy based on a territorial approach by strengthening the central role of Walis and governors and putting in place homogenous regional centers.

This involves developing real local management and bringing the government closer to its users by reviewing the organization of administrative structures and rehabilitating the role of deconcentrated services in the implementation of public policies.

In this context, it is worth indicating that the implementation of decree n°2-05-1369 of 2 December 2005 establishing the rules for the organization of ministerial departments and for administrative deconcentration is likely to strengthen deconcentration and support the mechanism for contractualization of relations between the central governments and their deconcentrated services. Indeed, this decree adopts the principle of subsidiarity for the distribution of allocations between the central services and the deconcentrated services.

Reform of public expenditure control aimed at introducing greater flexibility, fluidity, and efficiency into public expenditure. This reform is oriented towards the new results-based budget approach, which seeks to make managers accountable for the outcome of their actions in exchange for the flexibility they enjoy in the use of the resources made available to them, the objective being to progressively replace the current a priori control with support and a priori control based on performance evaluation.

In this perspective, and as a first step, it proceeded, from the beginning of 2006, to merge the General Directorate of Government Expenditure Commitments (Contrôle Général des Engagements de Dépenses de l’Etat) with the Treasury (Trésorerie Générale du Royaume) to shorten the control circuit and thus reduce the timeframe and cost.

In addition, work is being finalized to ease a priori control by the introduction of contrôle modulé de la dépense (CMD) aimed at refocusing control on risk management and sharing the said function with managers who meet the eligibility criteria. In this context, a draft decree relating to government expenditure control was approved by the Government Council.

In addition, a Forum on Performance, comprising representatives from several commitment authorities, was launched on September 20, 2007, with the aim of sharing good ministerial practices relating to budget and public expenditure management through the organization of workshops to examine different themes chosen by the commitment officers themselves.

The introduction of performance auditing for the implementation of results-based management based on better coordination, in terms of sharing of experiences and information between control bodies, notably the General Inspectorate of Finance (IGF) and the General Inspectorate of Ministries (IGM).
To this end, efforts made focus on:

- the preparation of a performance audit manual that complies with international auditing standards and practices and is adapted to the context of Moroccan legislation and regulations;
- the implementation of performance auditing training for IGF and IGM inspectors, using the said manual;
- The launching, during 2007, of 13 joint performance audit missions comprising a team of 60 IGF and IGM inspectors.

Pursue development of the Integrated Expenditure Management System (GID), which will allow better communication between the computer systems of the different actors involved in public expenditure (commitment officers and their assistants, planning and control bodies) and ensure the automation of budget monitoring with a view to optimal exploitation of budget information.

This system will thus allow the simplification of procedures to improve fluidity in the execution of public expenditure and the preparation of draft budget execution laws within the required deadlines.

2.2 Improving government efficiency in human resources management by

- Implementing Tools for Planning Management of Jobs and Skills by
  - Preparing strategic staffing frameworks (REC), preferred tools for ensuring visibility in the short and medium terms with respect to human resources and allow the qualitative and quantitative definition of job needs. Thus, at the end of February 2008, 6 ministries had completed the preparation of their REC and those of most ministries are being finalized.
  - The development and implementation of information systems dedicated to human resources management;
  - Encouraging ministerial departments to modernize human resources management tools by mobilizing financial support funds. To this end, the Civil Service Modernization Fund (FOMAP), introduced by the 2005 Budget Law to contribute to the financing of projects proposed by the different ministerial departments and relative to civil service modernization operations, has participated in financing 33 projects focused primarily on the preparation of the strategic staffing framework, the planning management of jobs and skills (GPEC) and the development of e-government.

- the introduction of a new culture of human resources management based on skills and merit, notably through the implementation of a new system involving:
The rating and evaluation of civil servants: this new system, which was launched in 2006, is based on the evaluation of the output and performance of civil servants through the institution of personal interviews and the expansion of the rating scale (maximum of 20 points instead of 3 before). In addition, a circular and an evaluation guide have been prepared for managers of ministerial departments who have also benefited from training on this topic.

The adaptation of the system for promoting government civil servants, through the introduction of promotion paths through professional aptitude competitions and choice compensates merit and competence.

The institutionalization of professional development within the public administrations, which will serve as a key instrument for filling the gaps highlighted by the RECs between the existing profiles and the skills required to fulfill the administration’s new mission. Thus, a decree relating to the professional development of government civil servants and officers was published in 2005 and aims notably to implement a coherent professional development policy that will be based on a global strategy as well as on sectoral plans prepared in compliance with the said strategy. To this end, seminars on the mechanics of professional development, the preparation of professional development plans and the purchase of training were organized to support the ministerial departments in the preparation of their sectoral plans.

2.3 Controlling the wage-bill

Actions taken in this context relate notably to pursuing efforts to control the civil service workforce and improve human resources management. This primarily involves:

- the implementation of a voluntary departure operation for civil servants which benefited close to 39,000 civil servants, 69% of whom were more than 50 years old. This operation, which was the subject of an evaluation, resulted in a 7.6% reduction of civil service staff, a 1 point gain in the share of the wage bill in the GDP, the qualitative re-profiling of the civil service and the improvement of its level of supervision as well as its modernization;

- prohibiting recruitment into levels 1 to 4 while confirming casual staff and resorting to outsourcing some tasks done by this category of staff;

- limiting recruitment into the public service strictly to the needs of the priority sectors, notably education, health and security;

- Eliminating positions vacated by employees who have reached the mandatory retirement age.

Thus, and thanks to efforts made in this context, a downward trend was noted in the weight of the wage bill in relation to the GDP. In deed, this weight declined from 11.9% in 2005 to 11% in 2006 and 10.8% in 2007.
III. Action plan for pursuing reform programme

The measures retained for the completion of the administrative reform program include deepening actions already undertaken as well as introducing new complementary measures relating notably to simplifying procedures and developing electronic government. Furthermore and in addition to the outcome indicators, impact indicators are associated with the measures retained to measure the impact of the reform notably on administrative management and the performance achieved.

Thus, the measures retained focus on the following four pillars:

3.1 Improving government efficiency in the management of budget resources:

Since the budget is one of the key instruments available to the government for the implementation of its policies in different areas, budget management efforts should be pursued to ensure optimal allocation of resources and improved efficiency in public expenditure and to strengthen the capacity to evaluate government policies. Such efforts are likely to help modernize the public administration and improve the quality of services, while pursuing efforts to control the macro-economic framework and preserve the economic fundamentals.

To this end, the following actions were retained:

- **Improving multi-year budget programming** by preparing and disseminating the Treasury flow of funds table (TOFT) and implementing sectoral MTEFs in 5 new ministerial departments, which will receive technical assistance for this purpose, the objective being to gradually implement the MTEF in all ministries in order to strengthen overall fiscal discipline and ensure the conditions needed for improved allocation of resources in relation to the priorities established by the government.

- **Generalization of the new budget approach based on results, performance, and accountability** by
  - Implementing budget flexibility to all eligible ministerial departments and signing a minimum of 3 pilot performance contracts between the Ministries of Education and Health and their respective deconcentrated services. This will allow the strengthening of good governance rules and the introduction of the features of the new budget approach based on results, performance, and accountability.
  - The preparation of a deconcentration strategy, adoption of a deconcentration manual, and preparation and implementation of a Deconcentration Master Plan in 5 ministerial departments. These actions are aimed at strengthening deconcentration to create the conditions needed for improved efficiency in the administration’s actions and thus promote local management that meets the needs of citizens.

- **Reform public expenditure control and strengthen evaluation and performance auditing capacity by**
the implementation by decree of a new public expenditure control system aimed at easing a priori control by the institution of modulated expenditure control (contrôle modulé de la dépense - CMD) based on risk management and strengthening of internal control at the level of managers.

The dissemination of ministerial reports and of the consolidated budget performance audit report for 2007, prepared by joint IGM and IGF missions in at least 20 ministries. Similarly, a performance monitoring manual will be adopted and a group of experts put in place to improve performance monitoring, comprising IGF and 3 pilot ministries. In addition, the partnership between the IGF and IGM will become more concrete through a Ministry of Economy and Finance circular with a view to improving the performance monitoring system by strengthening the performance audit capacities of control organs, thus further developing transparency and efficiency in public action.

The preparation by an independent expert of a progress report on the implementation of the GID system before its implementation. This action is likely to give reasonable assurance about the smooth functioning of the GID system, which will allow greater fluidity in public expenditure execution and the acceleration of the preparation of the laws and regulations

Reform of the budget framework law through the establishment of a platform for reflection on ways of improving the said law, the implementation of international benchmarking on recent developments relating to best practices in amending budget framework laws, the deepening of the reflection on reform pillars and preparation of a schedule for the implementation of the said reform. The reform of the budget framework law, which thus constitutes the culmination of the budget reform and control process launched in 2001, aims to consolidate gains in budget reform and validate measures under the new budget approach based on results, performance and accountability.

3.2 Improving government efficiency in the management of human resources

The management of human resources plays a strategic role in the implementation of an administration that is modern, efficient, and responsible and thus constitutes an important element for the success of reforms undertaken.

The measures to be undertaken include:

Implementation of management planning for jobs and skills (GPEC), notably through the completion of the strategic staffing framework (REC) in all eligible ministerial departments and the convergence of HRM score cards for better visibility in the medium term with respect to recruitment, mobility and professional development.

Encouraging mobility among civil servants with a view to making optimal use of the administration’s human resources, notably through the
o harmonization of statutes;

o adoption of implementing decrees relating to redeployment, secondment, transfer after following the ratification and publication of the law amending the General Statutes of the Civil Service;

o institution of financial incentives for redeployment.

► The introduction of the draft law amending the general statutes of the civil service which seek to guarantee, in particular, maximum equity and transparency in access to the civil service through the organization of competitions, and the institution of recruitment by contract to contribute to the achievement of identified projects.

► Conducting the study on classification of jobs in a common nomenclature, which aims to classify all civil service jobs in the administration in a common nomenclature, in order to better match human resources to employment needs. This study will help promote merit and facilitate the harmonization and consolidating of statutes, mobility and redeployment of civil servants as well as the establishment of a more equitable and transparent remuneration system.

► Conduction the study on the design of a new remuneration system based on the new job classification in a common nomenclature which is based on principles of equity and transparency by determining remuneration on the basis of level of qualifications, the nature of responsibilities, the complexity of the job and the output.

3.3 Consolidating and Controlling Public wage bill growth

This involves strengthening monitoring and control of the wage bill, the adoption of best practices in the management of earnings credits by the ministries and the stabilization of the civil service workforce. To this end, the following actions will be undertaken.

► The publication by the Ministry of Economy and Finance of a quarterly report on wage bill trends and its determining factors by ministerial department

► The generalization of best practices in earnings credit management to other ministerial departments following their introduction to 4 pilot departments

These actions will likely result in better control of the wage bill growth, whose share of the GDP should be reduced to 9.2% by 2012

3.4 Simplifying procedures and e-government

Simplifying procedures and developing electronic government are at the heart of the modernization of the public administration and constitute a vector for improving governance and the quality of public services provided to users.
The actions retained in this context relate to:

► The setting up of a governance framework for the development of a knowledge society and electronic government to ensure better inter-Ministerial coordination and the sharing of relevant resources;

► The simplification of procedures and improving public services by introducing electronic government in areas such as customs and government contracts by:
  ▪ stabilizing the BADR system and certifying the quality of its computer code
  ▪ implementing the government contract decision database for all ministerial departments and extending to some public institutions and some local government administrations tools for online government contracts (uploading of offers, terms of reference, results and the submission of offers online);

► The launching of a study on the implementation of technical norms and standards for public administration information systems;

► The launching of a study on the development of a common HRM database for the public administration (e-HR Programme: Harmonization of Human Resources Information Systems-SIRHs).

IV. Steering and monitoring the public administration reform strategy.

Responsibility for steering and monitoring the implementation of the reform will reside with a special Inter-Ministerial Committee chaired by the Minister Delegate to the Prime Minister responsible for Economic and General Affairs, and including representatives of the departments responsible for the Modernization of the Public Sector, Economy and Finance, the Interior, National Education, Equipment and Health. This committee will coordinate, monitor, and evaluate achievements made under the public administration reform based on results and impact indicators to improve the performance and output of the administration.

Moreover, the status of progress of this reform programme will be regularly monitored by the Economic and General Affairs, Modernization of Public Sectors, and Economy and Finance departments and progress reports prepared for the above mentioned commission.

Furthermore, the communications strategy concerning the reform already prepared will be implemented to ensure the mobilization and support of the different partners involved, thus ensuring the conditions necessary for the success of the public administration reform program.

Thank you, Mr. President, for your support for the implementation of this important reform programme of the Moroccan public administration.

Yours sincerely
**KINGDOM OF MOROCCO**  
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Matrix of Common Measures

[*] the asterisks between brackets refer to conditions imposed by the Bank for disbursement of the single tranche

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures achieved PARSP I-II</th>
<th>Measures/Conditions under PARSP III</th>
<th>Provisional Measures for the next phases of the PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1 Greater visibility of policies and their medium-term budgetary implications placing budget allocation decisions in a multi-year framework</td>
<td>Establishment through Prime Ministerial circular of Committee reflect on the issue of sustainability of the ESDP as well as on the link between the ESDP, the MTEF and their declinations in the context of the budget law</td>
<td>Preparation and presentation of a TOFT for 2008-2010. [*] Preparation of sectoral MTEFs for a total of 9 ministerial departments.</td>
<td>Preparation and presentation of a TOFT for 2009-2011. Extension of sectoral MTEFs for 2009-2011 by the incorporation of 5 new ministerial departments, with assistance from an ad hoc working group</td>
<td>MTEF procedures manual adopted. TOFTs and 14 sectoral MTEF for 2009-2011. Identification of multi-year budget objectives targeted by the ministerial departments concerned</td>
<td>Integration into the draft budget law preparation process of multi-year planning for public expenditure</td>
</tr>
</tbody>
</table>

| A.2 Strengthening the responsibility of deconcentrated services in budget programming and execution with the focus on results and accountability | Extension of flexible budgeting in deconcentrated services to 12 ministries from the 2005 budget law | [*] Extension of flexible budgeting to at least 30 ministerial departments [*] Signing and dissemination of an MEF circular that improves the credit deconcentration process by simplifying procedures | Extension of flexible budgeting to all eligible ministerial departments. Signing of a minimum of 3 pilot performance contracts between the Ministries of Education and Health and their respective deconcentrated services Preparation of a deconcentration strategy, and adoption of a deconcentration manual Preparation and implementation of Deconcentration Master Plans in 5 ministerial departments | Number of ministries that have adopted flexible budgeting: 2005 2006 2007 2008 14 20 30 32 Share of globalized investment in total budget: 2005 2006 2007 2008 40% 60% 70% 80% Number of performance contracts signed between central administrations and their deconcentrated offices. Number of ministries with deconcentration master plans. 2007 2008 2010 2 5 10 | Higher rate of public investment execution Higher rate of budget deconcentration |
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### A.3 Improving the performance of ministries through the introduction of internal auditing, evaluation and performance control.

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation and dissemination by the CGED of procedures manuals relating to:</td>
<td>• Control of government contracts; • Commitment accounting.</td>
</tr>
<tr>
<td>Preparation and validation of the performance audit manual in compliance with ISA standards</td>
<td>[*] Completion of the study on public expenditure control</td>
</tr>
<tr>
<td></td>
<td>Preparation of performance audit reports for 2006 and dissemination of a consolidated audit performance report, prepared by IGM/IGFs in at least 13 pilot ministerial departments</td>
</tr>
<tr>
<td></td>
<td>Implementation by Prime Ministerial decree of a new public expenditure control system</td>
</tr>
<tr>
<td></td>
<td>Preparation of 2007 performance audit reports and dissemination of a consolidated performance audit report of 2007 budgets by the IGM/IGFs in at least 20 ministries</td>
</tr>
<tr>
<td></td>
<td>Adoption of a performance monitoring manual and establishment of a group of experts to improve performance monitoring comprising the IGFs and 3 pilot ministries</td>
</tr>
<tr>
<td></td>
<td>MEF circular on a strengthened IGF/IGM partnership agreement</td>
</tr>
<tr>
<td></td>
<td>Implementation of the Government Accounting Plan</td>
</tr>
<tr>
<td></td>
<td>Preparation by an independent expert of a progress report on the implementation of the GID system before its application</td>
</tr>
<tr>
<td>Number of IGM and IGF inspectors that have received training:</td>
<td>2006: 50, 2007: 20, 2008: 20</td>
</tr>
<tr>
<td>Number of IGM that have received training based on the audit manual in:</td>
<td>2006: 14, 2007: 20, 2008: 20</td>
</tr>
<tr>
<td>New accounting instructions. Submission of progress report on the implementation of the GID</td>
<td></td>
</tr>
</tbody>
</table>

### A.4 Reforming the organic budget law (LOF)

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of a platform for reflection on budget law (LOF) reform</td>
<td>Application of international benchmarking on recent developments in best practices for amending the budget framework law, deepening reflection and preparing a schedule</td>
</tr>
<tr>
<td>Reform platform</td>
<td></td>
</tr>
<tr>
<td>Commitment to inter-Ministerial consultation process on the LOF reform platform</td>
<td></td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures achieved</th>
<th>Measures/Conditions under PARSP</th>
<th>Provisional Measures for the next phases of PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B.1 Preparation of the new management system</strong></td>
<td>Completion of RECs in the Ministries of Agriculture and Equipment and start of REC works in the MEF and MMSP and launching of REC in the new ministries</td>
<td>[^]*Completion of RECs in at least 6 ministerial departments in 2007 Launching of the GPEEC in ministerial departments that have completed their RECs</td>
<td>Completion of RECS in all eligible ministerial departments. Launching of the GPEEC in all eligible ministerial departments. Preparation of evaluation tools (sample contracts, service projects, score cards and their disclosure), and implementation of evaluation indicators based on the RECs</td>
<td>Number of ministerial departments that have finalized a REC: 2006 2007 2008 2009 4 6 20 all</td>
<td>Extension of GPEEC tools within ministerial departments in the human resource management process (recruitment, professional education, mobility, and evaluation)</td>
</tr>
<tr>
<td><strong>B.1.1 Management planning for jobs and skills (GPEEC)</strong></td>
<td></td>
<td></td>
<td></td>
<td>Number of ministerial departments using a GPEEC: 2008 2009 3 10</td>
<td></td>
</tr>
<tr>
<td><strong>B.1.2 Classification of jobs</strong></td>
<td>Preparation of an action plan relating to the harmonization of statutes on government jobs. Preparation of statutes harmonization decrees</td>
<td>[^]*. Launching of the study on the classification of jobs in a common nomenclature</td>
<td>Completion of the study on the classification of jobs in a common nomenclature</td>
<td>The common nomenclature covers 90% of government civil servants in 2009.</td>
<td></td>
</tr>
<tr>
<td><strong>B.1.3 Remuneration</strong></td>
<td>[^]* Terms of reference of the contract for the study on the preparation of a new remuneration system based on the new job classification</td>
<td>Completion of the assessment, analysis of the existent and technical adjustments, and launching of the design of scenarios for a new remuneration system based on the new job classification</td>
<td>Assessment and technical adjustments reports, prepared and validated</td>
<td>Launching of works relative to the structural reform for the establishment of a remuneration system that is more equitable and transparent</td>
<td></td>
</tr>
<tr>
<td><strong>B.1.4 e-RH Programme for the harmonization of SIRHs in the public administration</strong></td>
<td>Launching of an international call for expression of interest in the study to define the e-RH programme Conduct of the study to define the e-RH programme Launching of a study on the implementation of a common database for the harmonization of SIRHs</td>
<td>Implementation of the common database Launching of a feasibility study for a public administration human resource info center</td>
<td>Number of ministerial departments whose SIRH are harmonized: 2008 2009 4 7</td>
<td>Harmonization of human resource management information systems</td>
<td></td>
</tr>
</tbody>
</table>
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### B.2 Reform current management system

<table>
<thead>
<tr>
<th>Measures achieved</th>
<th>Measures/Conditions under PARSP III</th>
<th>Provisional Measures for the next phases of the PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
</table>
| Adoption by the Government Council of decrees relative to:  
  • the evaluation of the performance of civil servants;  
  • the promotion of civil servants. | Presentation to Parliament of the law amending the general statute of the civil service on:  
  • redeployment  
  • leave of absence  
  • secondment  
  • recruitment by contract  
  • access to the civil service through competition | Adoption by Government Council of implementing decrees following the publication of the law amending the status of the civil service relative to:  
  • redeployment  
  • leave of absence  
  • secondment  
  • recruitment by contract  
  • access to the civil service through competition | Increase in the number of civil servants recruited through competition of by contract | Better adaptation of civil servants to the needs of the administration |

### B.3 Introduction of professional development

<table>
<thead>
<tr>
<th>Measures achieved</th>
<th>Measures/Conditions under PARSP III</th>
<th>Provisional Measures for the next phases of the PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
</table>
| Adoption by the Government Council of the draft decree on professional education | Preparation of a professional development strategy for the public administration | Adoption of a professional education strategy by the Higher Council of the Public Service (Conseil supérieur de la fonction publique) | Number of ministerial departments that have put training plans in place:  
  2008 2009 2010  
  5 10 all | Increase in the number of staff that have benefited from professional development compared to the total number of civil servants |

### SUB-PROGRAMME C: CONSOLIDATION AND CONTROL OF GOVERNMENT WAGE BILL

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures achieved PARSP I-II</th>
<th>Measures/Conditions under PARSP III</th>
<th>Provisional Measures for the next phases of the PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.1 Strengthening monitoring and control of the wage bill</td>
<td>Preparation of the model used to forecast the wage bill for 2005-2008, specifying the hypothesis and parameters used.</td>
<td>[*]Creation of by MEF circular of a committed responsible for quarterly monitoring of trends in the wage bill</td>
<td>Dissemination by the MEF of a quarterly report on developments in the wage ill and its determining factors by ministerial department</td>
<td>Improvements in wage bill forecasting, monitoring of its execution, and the tools used in this regard</td>
<td>The wage bill decreases from 12% of GDP in 2005 to 10.2% of GDP in 2009.</td>
</tr>
</tbody>
</table>
### Sub-Programme D: Simplification of Procedures and E-Government

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures achieved PARSP I-II</th>
<th>Measures/Conditions under PARSP III</th>
<th>Provisional Measures for the next phases of the PARSP</th>
<th>Output Indicators</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>D.1</strong> Improve governance and leadership with respect to e-government</td>
<td>Preparation of a circular from the Prime Minister on a credible governance framework for the development of a knowledge society and e-government</td>
<td>Implementation of a credible governance framework for the development of a knowledge society and e-government</td>
<td>Prime Minister’s circular on governance in electronic government</td>
<td>Improved productivity in e-government, measured by the increase in the number of online transactional services</td>
<td></td>
</tr>
<tr>
<td><strong>D.2</strong> Streamline procedures and improve public services through e-government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>D.2.1</strong> Customs</td>
<td>[*] Launching of the process to recruit an audit firm qualified in the BADR system to meet a level of requirement that complies with relevant international standards</td>
<td>Stabilization of the BADR system and certification of the quality of its computer code</td>
<td>Increase in the number of customs procedures accessible online (declaration, customs clearance, payments)</td>
<td>Efficiency gains by users, measurable by the reduction of the time required for import and export procedures, and the length of stay and customs declaration</td>
<td></td>
</tr>
<tr>
<td><strong>D.2.2</strong> e-procurement (government)</td>
<td>Extension to all ministerial departments of implementing the government contract decision</td>
<td></td>
<td>At least 80% of offers, terms of</td>
<td>Greater transparency in the management of</td>
<td></td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>contracts online</th>
<th>the online government contract portal (uploading of offers, terms of reference, and results)</th>
<th>database for all ministerial departments Extending to some public institutions and some local government administrations tools for online government contracts (uploading of offers, terms of reference, results and the submission of offers online)</th>
<th>reference and results of central government contracts of the are available online Increase in the number of transactions using the new system</th>
<th>government contracts and associated economies of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.3. Outsourcing of government services and public-private partnerships in the area or e-government</td>
<td>Launching of a study on outsourcing some MEF information technology functions Validation by the MMSP of the terms of reference of a study on standardization of the interoperability of public administration information systems</td>
<td>Launching of the implementation of the conclusions of the study on outsourcing some MEF information technology functions Implementation of the norms and standards recommended by the study in the context of online services</td>
<td>Study completed and generalization of good practices proposed Availability of new standards on interoperability</td>
<td>Harmonization of public systems for online transactional systems and economies of management</td>
</tr>
</tbody>
</table>
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Summary Table of Outcomes Expected from PARSP-III

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Main outputs expected from PARSP-III</th>
</tr>
</thead>
</table>
| Strategic reallocation of budgetary appropriations         | • All Ministries would have prepared an MTEF by 2009–11.  
• Greater number of budget-programmes linking the reallocations to specific targets |
| Flexible crediting and results-based budgeting             | • All ministries would have adopted flexible budgeting by end-2008  
• At least 14 ministries have prepared performance audit reports and reduce the number of performance indicators in 2008 |
| Launching of deconcentration                              | • Adoption of a deconcentration strategy, of a revised and validated deconcentration guide, and at least 2 deconcentration activities are underway |
| More efficient and more transparent management of public finances | • A performance audit report will be prepared  
• A new procurement code will become effective in 2008  
• The ministry of finance will publish an MTED in 2008.  
• All government contracts will be awarded through an electronic procurement procedure. |
| Reform of human resources management                       | • Adoption of the law on redeployment of civil servants  
• A new job classification will be prepared  
• A study on updating the new remuneration system will be completed |
| Reduction and control of the wage bill                     | • Reduce outstanding promotion arrears to a minimum  
• A voluntary departure programme for local administration staff is being implemented |
| Strengthening e-government                                 | • A high-level entity will be created and will have the appropriate tools to fulfill its functions |
| Improvement of efficiency and transparency in public services | • Completion of the migration of customs information technology to a web-based system  
• The electronic procurement procedure will allow greater transparency in all government offers processed online. |
| Simplification of public services                          | • Preparatory work will be completed for the unique identity card |
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Key Macroeconomic Indicators

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>I. National accounts</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>25.5</td>
<td>26.1</td>
<td>25.9</td>
<td>27.5</td>
<td>28.7</td>
<td>30.3</td>
<td>31.6</td>
<td>31.9</td>
<td>31.9</td>
</tr>
<tr>
<td>Domestic saving</td>
<td>24.3</td>
<td>30.3</td>
<td>29.6</td>
<td>30.7</td>
<td>30.5</td>
<td>32.2</td>
<td>34.5</td>
<td>33.5</td>
<td>32.9</td>
</tr>
<tr>
<td>Public investments</td>
<td>2.7</td>
<td>2.6</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Budget savings</td>
<td>0.3</td>
<td>1.8</td>
<td>0.3</td>
<td>0.8</td>
<td>0.7</td>
<td>-0.9</td>
<td>1.9</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Private investments</td>
<td>22.8</td>
<td>23.5</td>
<td>23.6</td>
<td>25.2</td>
<td>26.5</td>
<td>28.1</td>
<td>29.3</td>
<td>29.6</td>
<td>29.2</td>
</tr>
<tr>
<td>Personal savings</td>
<td>24.0</td>
<td>28.6</td>
<td>29.3</td>
<td>29.9</td>
<td>29.7</td>
<td>33.1</td>
<td>32.6</td>
<td>31.5</td>
<td>31.4</td>
</tr>
<tr>
<td>II. Government Finances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>23.6</td>
<td>22.3</td>
<td>22.0</td>
<td>21.6</td>
<td>22.5</td>
<td>23.9</td>
<td>25.3</td>
<td>25.7</td>
<td>25.1</td>
</tr>
<tr>
<td>Tax revenues</td>
<td>21.7</td>
<td>20.4</td>
<td>20.4</td>
<td>19.8</td>
<td>20.2</td>
<td>21.8</td>
<td>22.2</td>
<td>23.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Recurrent expenditure, of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>10.8</td>
<td>11.2</td>
<td>10.9</td>
<td>11.2</td>
<td>11.3</td>
<td>11.9</td>
<td>11.0</td>
<td>10.7</td>
<td>10.2</td>
</tr>
<tr>
<td>Investment expenditure (including road fund)</td>
<td>5.4</td>
<td>5.3</td>
<td>4.7</td>
<td>4.5</td>
<td>4.5</td>
<td>4.4</td>
<td>4.6</td>
<td>4.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Primary balance</td>
<td>-0.6</td>
<td>-1.3</td>
<td>-0.2</td>
<td>-1.0</td>
<td>-0.7</td>
<td>-2.3</td>
<td>0.7</td>
<td>0.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-5.2</td>
<td>-5.7</td>
<td>-4.1</td>
<td>-4.6</td>
<td>-4.2</td>
<td>-5.6</td>
<td>-2.5</td>
<td>-2.7</td>
<td>-3.3</td>
</tr>
<tr>
<td>III. Balance of payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance</td>
<td>-8.7</td>
<td>-8.0</td>
<td>-7.6</td>
<td>-8.7</td>
<td>-11.5</td>
<td>-13.9</td>
<td>-14.4</td>
<td>-15.0</td>
<td>-15.4</td>
</tr>
<tr>
<td>Balance of current operations</td>
<td>-1.3</td>
<td>4.3</td>
<td>3.6</td>
<td>3.2</td>
<td>1.7</td>
<td>1.9</td>
<td>2.8</td>
<td>1.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.7</td>
<td>7.6</td>
<td>1.4</td>
<td>4.9</td>
<td>1.9</td>
<td>5.0</td>
<td>4.5</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td>International reserves (in months of imports)</td>
<td>4.9</td>
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<td>9.9</td>
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<td>IV. Indicators of Credit Capacity</td>
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<td>Public debt/GDP</td>
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<td>60.9</td>
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<td>Consumer price (yearly average)</td>
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<td>3.3</td>
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<td>GDP growth rate</td>
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<td>Non-agriculture GDP growth rate</td>
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<td>3.7</td>
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<td>6.2</td>
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<td>Unemployment rate</td>
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<td>9.7</td>
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Source: Moroccan authorities
## Summary Table of Measures Undertaken

<table>
<thead>
<tr>
<th>MINISTRIES</th>
<th>MTEF Achieved</th>
<th>MTEF Ongoing</th>
<th>Flexible budgeting Achieved</th>
<th>Flexible budgeting Ongoing</th>
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<th>REC Ongoing</th>
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**Sources:** Moroccan Authorities
THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME
(PARSP-III)

APPRAISAL REPORT

Morocco’s 2005 Wage Bill Compared, in percentage of PIB

Source: World Bank
High concentration of human resources in the Rabat area, 2005

Sources: HCP, Statistical year Book, 2006
**Annex VIII**

**KINGDOM OF MOROCCO**

**THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME (PARSP-III)***

**APPRAISAL REPORT**

**Complementary Elements of the Fiduciary Review**

<table>
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<th>Type of review</th>
<th>Comments</th>
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<td>CFAA-2006</td>
<td>Delays were noted in the supply of financial information and the public expenditure control channel. In its recommendations, the CFAA indicated the priority areas in which the government should undertake reform actions. These areas were as follows: deconcentration of credits to the government, development of the integrated management system for expenditure, consolidation and ranking of the control function. The CFAA report also attests to the modernization and strengthening of the <strong>Audit Court</strong>. The autonomy and resources of the Audit Court are henceforth in a good position with respect to the INTOSAI (created in 1953 and comprising 188 member countries today, including Morocco) standard. At the same time, the network of <strong>Departmental Audit Courts</strong>, still in its early stages, has experienced significant developments. The report recommends pursuing this route while opting for an audit approach underpinned by pedagogy rather than on sanctions. These areas have remained at the centre of the ongoing administrative reform since 2003.</td>
</tr>
<tr>
<td>CPAR-2000</td>
<td>The dysfunctions of the procurement system identified by the CPAR include the (i) centralization of the structure for the organization of the procurement process and execution of contracts, (ii) the long delays in approving contracts, (iii) the notification of instructions to contractors and for payments related to the execution of contracts, (iv) the absence of an arbitration structure in case of litigation, and (v) the low participation of foreign enterprises. In order to curb and remedy these dysfunctions, the report recommended measures aimed at improving the management of contracts, the payment circuit, a training programme for staff in charge of procurement, as well as the introduction of international standards in the selection of consultants.</td>
</tr>
<tr>
<td>RDP-2002</td>
<td>The PER indicated that control of the wage bill was henceforth an indispensable component for a strong medium-term growth strategy. Faced with the potential risks associated with the upward trend of the wage bill, the Review advocated the urgent implementation of a “medium-term strategy for the control of the wage bill and overhaul of human resource management in the civil service”. The recommendations of the PER largely contributed to the formulation of one of the major components of the administrative reform supported by the present programme.</td>
</tr>
</tbody>
</table>
**KINGDOM OF MOROCCO**  
**THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME (PARSP-III)**  
**APPRAISAL REPORT**

**Details of some PARSP-III Components**

<table>
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<td>MTEF</td>
<td>The combined schedule as presented in the MTEF manual disseminated in a circular from the Prime Minister is as follows: (i) Macro framework from January to March: the minister of finance presents guidelines on macroeconomic parameters through a circular from the Prime Minister; (ii) preparation by ministers of their sectoral MTEF in March-April, at the same time as their strategic sectoral coordination/sectoral strategy framework; (iii) between May and June, the Minister of Finance consolidates the sectoral MTEFs into one global MTEF, from which the Prime Minister extracts framework letters; and (iv) finalization of MTEFs after adoption of the budget.</td>
</tr>
<tr>
<td>Flexible budgeting</td>
<td>The programme is backed by indicators of quantified objectives that establish a relationship between sectoral objectives, planned actions, allocations made and expected outcomes Flexible budgeting therefore enables the managers in the ministries and their deconcentrated offices to freely reallocate credits within a given paragraph, by bypassing any prior authorization from the MFP. By granting greater flexibility and responsibility to commitments officers and their assistants (about 2,000), flexible budgeting helps improve the planning of the execution and evaluation of public expenditures. However, it is worth noting that, for the moment, under flexible budgeting, commitments officers and their assistants are only authorized to make payments between lines within a given paragraph. Furthermore, this operation only concerns capital spending and some lines of expenditure for goods and services. Staff expenditures are precluded.</td>
</tr>
<tr>
<td>Contractualisation</td>
<td>This contractualisation aims to: i) empower deconcentrated offices in the choice of projects, management of resources granted and the attainment of expected results; ii) incorporate the administration into a system of planning that would make for a better definition of objectives and orientations; iii) give preference to a performance-based system rather than a resource-based system and develop the principles of performance evaluation and control. This contractualisation between central and deconcentrated offices of the ministries is focused on the programme budget.</td>
</tr>
<tr>
<td>GID</td>
<td>In streamlining the database, reducing the multiple entries and ensuring consistency in the accounting systems of the various actors in the chain of expenditure, the GID (integrated public expenditure management system) should help enhance the effectiveness, transparency and fluidity of the expenditure circuit. The short-term action plan for the implementation and deployment of the GID comprises: a) the mapping of the computer environment to be used in executing public expenditure; b) linking of the information systems for the execution of expenditures at the level of the various partners; c) supply of computer tools to all commitments officers and their assistants to meet their immediate needs in public expenditure management. The integration of all the stakeholders into the process of public expenditure execution and control is only planned for the medium term.</td>
</tr>
<tr>
<td>Modernization of the Information System</td>
<td>In this regard, the TGR has launched an extensive interactive training operation with the establishment of a Forum on the performance of commitment officers «Forum de la performance des ordonnateurs». In broad terms, the project consists in easing control tasks (newly configured), with the latter being internalized at the level of the commitment officer.</td>
</tr>
<tr>
<td>LOLF</td>
<td>The reform of the nomenclature constitutes an initial area of practical reflection which can be undertaken immediately and benefit from gains acquired through the ongoing globalization experiences. However, two limits should be set with respect to the extent of this reform: the nomenclature should remain compliant with GFS 2001 standards stipulated by the IMF (notably the economic, administrative and functional nature of the expense) and the reform should take into account the capacity of Moroccan services to effectively manage funds on a programme basis that will be too comprehensive. At the present time, raising the level from flexible budgeting at the paragraph level to the article level in some ministries and for some restricted funds is possible by simple decree without contravening parliamentary authority.</td>
</tr>
<tr>
<td>REC</td>
<td>This mechanism is being gradually implemented and it has actually reached a stage where what was once purely technical has been implemented. In contrast, sensitive elements of the reform, which could undermine its advantages, are rather slow. Thus the aspect relating to Preparation of a new human resource management system is making satisfactory progress, except for reform of remuneration which is rather slow and has become an obstacle in the smooth implementation of the rest of the modernization programme. Some laws relating to the statutes and to statutory management have not yet been adopted, while some have been in the circuit for more than a year, while the need for a new budget nomenclature is becoming a necessity. The fine tuning of management planning tools for the workforce, jobs, and skills (GPEC) is being launched in ministries that have completed their RECs. The assistance provided on the FOMAP for the new RECs comprise not only assistance for RECs, but also for GPEC tools.</td>
</tr>
<tr>
<td>Modalities for recruitment and mobility</td>
<td>At present there are several software packages for HRM databases in the Moroccan administration. The MMSP is currently conducting a study on possible solutions for combining all these databases. For the moment, a study to define the e-RH has been completed; a study to establish a government info center (platform federating the systems), as well as the launching of a call for tenders for the preparation of a common center for the SIRH is planned for 2008-2009.</td>
</tr>
</tbody>
</table>
KINGDOM OF MOROCCO
THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME
(PARSP-III)

APPRAISAL REPORT

Rating of Morocco by the International Rating Agencies
Standard & Poor's and Moody's Rate

1.  **During the 2003 visits:** These visits resulted in the improvement of Morocco’s rating outlook from "negative" to "stable" by the two agencies. According to Standard & Poor's, this is due to the improvement of growth forecasts, which predicts the stabilization of the medium term public debt burden. This stabilization is based on better tax receipts and less expenditure. Standard & Poor's also specified that, the rating is sustained by a stable political environment which is becoming liberal over the years, a cautious monetary policy and a strong position in terms of foreign exchange reserves. According to Moody's, the improvement in the rating outlook is mainly due to improvement of the country’s public finances. Moody's underlined the improvement recorded at the level of budget deficit following stabilization of tax receipts and reduction of the expenditure budget. Moody's noted that changes in the outlook also reflect the reduction of the level of the country’s public debt as a consequence of the strategy adopted for active debt management.

2.  **In 2004,** the visit of Standard & Poor's and Moody's to Morocco resulted in the improvement of the rating outlook from "stable" to "positive". According to these two agencies, the improvement of the rating outlook from "stable" to "positive" is explained by:

   (i) A marked improvement in Morocco’s external position following a decline in the external debt stock and the high level of foreign exchange reserves from foreign direct investments and surpluses from 2002-2004 current accounts;

   (ii) The pursuit of the political liberalization that is likely to limit, with time, the risk of political and social instability; and

   (iii) a strong commitment for economic reform, with stable and predictable policies that would enable, notably through the recent successes of privatization operations, the liberalization of key industrial sectors and the adoption of new labour codes to strengthen external competitiveness.

3.  **On August 28, 2005,** the rating agency, Standard & Poor's (S&P), upgraded the rating of the Moroccan debt from "BB" to "BB+'. As a result, Morocco will be able to borrow more funds on international financial markets on better terms. With this rating, Morocco has integrated the group that comprises Egypt, Romania or Macedonia. This improvement in Morocco’s rating is in recognition of the strong commitment of the Government to implement structural reforms as well as the sound macroeconomic performance of the country, mainly the enhanced soundness of external position indicators. Standard & Poor's and Moody's underlined that, in this respect, this upgrading of the rating is possible when the reforms in question enable significant outlook growth and effectively reduce the proportion of fixed expenses in the budget that remain high, in particular, the wage bill.
Fitch Ratings Rates Morocco’s Foreign Currency "BBB"

After waiting for ten years, Morocco finally gets Investment Grade. This was granted by the international agency, Fitch Ratings. This agency has assigned Morocco a foreign currency IDR of "BBB" and a local currency IDR of "BBB", with a stable outlook. Françoise Alos, head of Communications at Fitch Ratings, indicated in Paris that: “This valorization is equivalent to the lowest level of the Investment Grade”. Besides, Morocco got a short-term foreign currency rating of "F3" and a country ceiling of "BBB". It should be noted that the two other international references, namely the Moody's and Standard & Poor's did not classify Morocco in this category.

It was indicated in the rating report that " Morocco's ratings reflect the sound progress in recent years on the economic, political and social areas, which has translated into continuing improvements in living standards and external position, despite persistent fiscal deficits ". The rating agency supported this ranking by referring to surpluses on current account since 2001 and satisfying external debt and liquidity ratios.

However, Fitch Ratings considers that the public debt is "relatively high and is the major weakness of the country." Nevertheless, it underlines efforts made in reducing the 2006 debt burden. It also mentions the depth of the stock market that allows the Government to increase at the national level its financial needs. Fitch expects "a sustained pace “of growth with regard to receipts from tourism, exports and FDI. "This will result in an improvement in external debt and liquidity ratios in 2007-2008." According to the rating agency, Morocco’s debt burden (63% of GDP in 2005) is due to a wide budget deficit linked to the narrow tax base and the significant subsidies allocated to the energy sector. A deficit, brought down to 1.9% of GDP thanks to the DVD operation and improvement in tax receipts. Fitch forecasts a slight worsening of the budget deficit in 2007, following the reduction of the customs revenues related to EU agreements.

Fitch’s reasons are almost identical to those given by Moody's and S&P. However, the two agencies exclude Morocco in their Investment Grade because of the high level of indebtedness. The remarks of Murilo Portugal, Deputy Managing Director of the IMF, corroborate the statements of the rating agencies

Fitch Ratings points out the vulnerability of the Moroccan economy in relation to climate vagaries and fluctuations in energy costs. However, it indicates that the Moroccan economy has entered a “transition phase” geared towards the dynamics of investment in the country. Its reasoning is based on the increase of the receipts of tourism, which are becoming the first source of foreign income in the country, as well as the infrastructure and housing booms, without forgetting the positive nature of off shoring, sub-contracting and textile. This dynamics resulted in a growth rate of 8.1% of GDP.

However, according to Fitch ratings, "the overall growth was not sufficient to significantly reduce poverty that remains relatively high in Morocco and to reabsorb unemployment in a sustainable manner ". The agency nevertheless notes that the Moroccan economy’s liquidity ratios have increased significantly. This increase is due to the facilitation of the creation of enterprises, reforms of the banking sector, which is not short of liquidities, and the development of the stock market.
KINGDOM OF MOROCCO
THIRD PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME
(PARSP-III)
APPRASAL REPORT

Morocco: Public Debt Sustainability: Bound Tests 1
(Public debt in percent of GDP)

Baseline and historical scenario

Primary balance shock (in percent of GDP) and no policy change scenario (constant primary balance)

Growth shock (in percent per year)

Baseline: 6.0
Scenario: 4.5
Historical: 4.0

Real depreciation and contingent liabilities shocks 2

Combined shock

Baseline: 5.4
Scenario: 4.0
Historical: 4.0

Sources: International Monetary Fund, World Bank data, and authors' estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical averages for the variable is also shown.

2/ Permanent 5% standard deviation shocks applied to real interest rates, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP is a shock to contingent liabilities shock in 2005, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency relative to domestic inflation adjusted on GDP deflator).
Annex
MOROCCO

PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME PHASE III
PARSP III

CORRIGENDUM

1. Replace the Loan Amount in the title of the cover page as follows: **PROPOSAL FOR AN ADB LOAN OF 66,000,000 EUROS TO FINANCE THE PUBLIC ADMINISTRATION REFORM SUPPORT PROGRAMME PHASE III –PARSP III–**

2. Replace in the programme information sheet the amount of 46 million Euros with 66 million Euros
   § 9: Loan amount
   §14: Disbursement.


4. Executive Summary- Recommendations: (page 2) replace loan of 46 million Euros with loan of 66 million Euros.

5. Page 16 §6.4 Disbursement: replace the 46 million Euro loan with the 66 million Euro loan.

6. Replace § 6.2.4, page 16, as follows:

   The Bank, the World Bank and the European Union continue to support the reform programme, and intend to continue the assistance. The Bank’s share of financing for PARSP-III will represent 24.43% of external financing; that of the World Bank will stand at 24.43%. The contribution of the European Union will be a grant of EUR 25 million. The following table summarizes the contribution of each donor to the financing of PARSP-III.

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<tr>
<th>Donors</th>
<th>Amount of financing</th>
<th>Amount of financing in MAD million</th>
<th>Share of each donor in external financing requirement</th>
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<tr>
<td>World Bank</td>
<td>USD 100 million</td>
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<tr>
<td>ADB</td>
<td>EUR 66 million</td>
<td>757.5</td>
<td>24.43%</td>
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<tr>
<td>EU</td>
<td>EUR 25 million</td>
<td>284.9</td>
<td>9.19%</td>
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7. Recommendations: (p. 18) replace a loan of 46 million Euros with a loan of 66 million Euros.