Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 68007 – MA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF EURO 123.9 MILLION
(US$160 MILLION EQUIVALENT)

TO

THE KINGDOM OF MOROCCO

FOR A

FIRST ECONOMIC COMPETITIVENESS SUPPORT PROGRAM
DEVELOPMENT POLICY LOAN

February 11, 2013

Finance and Private Sector Development
Maghreb Department
Middle East and North Africa Region

KINGDOM OF MOROCCO—GOVERNMENT FISCAL YEAR
January 1st–December 31st

CURRENCY EQUIVALENTS
(Exchange rate effective as of September 30, 2012)

US$1 = 0.77 Euros

ABBREVIATIONS AND ACRONYMS

AFD	*Agence Française de Développement* (French Development Agency)
AfDB	African Development Bank
ALMP	Active Labor Market Program
AMDI	*Agence Marocaine de Développement des Investissements* (Investment Promotion Agency)
BAM	*Banque Al Maghrib* (Central Bank of Morocco)
BP	Bank Procedure
CC	*Conseil de la Concurrence* (Competition Council)
CGEM	*Confédération Générale des Entreprises du Maroc* (Moroccan Enterprises Association)
CII	*Commission interministérielle pour les investissements* (National Investment Commission)
CNEA	*Comité National de l'Environnement des Affaires (*National Business Environment Committee*)*
CNSS	*Caisse Nationale de Sécurité Sociale* (National Social Security Fund)
CPS	Country Partnership Strategy
DPL	Development Policy Loan
ECSP	Economic Competitiveness Support Program
EFTA	European Free Trade Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GPBM	*Groupement Professionnel des Banques du Maroc* (Banking Professional Association)
HCP	*Haut Commissariat au Plan* (Higher Planning Commission)
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IMF	International Monetary Fund
MAGG	*Ministère des Affaires Générales et de la Gouvernance* (Ministry of General Affairs and Governance)
MCINT	*Ministère de l'Industrie, du Commerce et des Nouvelles Technologies* (Ministry of Industry, Trade and New Technology)
MEF	*Ministère de l'Economie et des Finances* (Ministry of Economy and Finance)
MENA	Middle East and North Africa
MFN	Most Favored Nation
MFPMA	*Ministère de la Fonction Publique et de la Modernisation de l'Administration* (Ministry of Civil Service and Modernization of Public Administration)
OECD	Organization for Economic Cooperation and Development
OP	Operational Policy
PANE	*Plan d'Action National Pour l'Environnement* (National Environment Action Plan)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management

PJD	*Parti de la Justice et du Développement* (Justice and Development Party)
PLL	Precautionary and Liquidity Line
PNEI	*Pacte National pour l'Emergence Industrielle* (National Pact of Industrial Emergence)
SA	*Société Anonyme (Public Limited Liability Company)*
SARL	*Société à Responsabilité limité* (Private Limited Liability Company)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TA	Technical Assistance
USAID	United States Agency for International Development
US$	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

Vice President:	Inger Andersen
Country Director:	Simon Gray
Sector Director:	Loic Chiquier
Sector Manager:	Simon C. Bell
Task Team Leaders:	Philippe de Méneval and Jean-Pierre Chauffour

KINGDOM OF MOROCCO

FIRST ECONOMIC COMPETITIVENESS SUPPORT PROGRAM DEVELOPMENT POLICY LOAN

TABLE OF CONTENTS

ANNEXES

ACKNOWLEDGMENTS

The ECSP DPL was prepared by an IBRD team consisting of: Philippe de Méneval (TTL, MNSFP), Jean-Pierre Chauffour (co-TTL, MNSED), Stefano Paternostro (Manager, AFTSW), Najy Benhasine (Manager, CICBR), Khalid El Massnoui (MNSED), Youssef Saadani (MNSFP), Mariem Malouche, Jean-François Arvis (PRMTR), Steve Wan (MNSF1) and Sanaa Bouchikhi (MNCMA). Tadatsugu Matsudaira (PRMTR), Gael Gregoire (MNSEN), Andrea Liverani (MNSSO), and Soukeyna Kane (MNAFM) provided key inputs for the preparation of this operation. Simon C. Bell (MNSFP) and Eavan O'Halloran (MNC01) provided detailed comments on a first draft of the Program Document. The Lawyers for this operation were Jean Charles De Daruvar and Maya Abi Karam (LEG). Peer reviewers were Ndiame Diop (MNSED) and Paul Noumba (AFTFW). Michael Hamaide (MNADE) and Sophie Pouget (FGIDR) provided input at various stages of the identification/preparation work. The team worked under supervision guidance of Simon Gray (Country Director, MNC01), Loic Chiquier (Director, FCMDR), Simon C. Bell (Sector Manager, MNSFP), Manuela Ferro (Sector Director, MNSPR), and Bernard Funk (Sector Manager, MNSPR). Special thanks are due to the Ministry of General Affairs and Governance and the Ministry of Economy and Finance of Morocco for their very productive cooperation.

LOAN AND PROGRAM SUMMARY - **KINGDOM OF MOROCCO**

FIRST ECONOMIC COMPETITIVENESS SUPPORT PROGRAM

DEVELOPMENT POLICY LOAN

Borrower	Kingdom of Morocco
Implementing Agency	Ministry of Economy and Finance and Ministry of General Affairs and Governance
Financing Data	Terms: IBRD variable-spread loan with 29 years maturity, including a 6 year grace period with Level Repayment. The Front-End Fee will be financed out of the loan proceeds (capitalized). Amount: Euro 123.9 million (US$160 million equivalent).
Operation Type	The proposed loan is the first Development Policy Loan (DPL) in a programmatic series of two single-tranche DPLs.
Main Policy Areas	This DPL will provide support in three key areas: (i) improving the investment climate; (ii) furthering trade policy reform and trade facilitation; and (iii) improving economic governance.
Key Outcome Indicators	**Improving the investment climate**, through: • Reduced barriers to entry to Small and Medium Enterprises (SMEs) by abolishing the mandatory minimum capital requirement for creating a limited liability companies. • Reduced room for discretion and arbitrariness by standardizing and simplifying a first set of 20 priority administrative procedures applicable to businesses. • Strengthened administrative information sharing among four key agencies interacting with firms. • Reduced delays in payments to SMEs in commercial transactions. **Furthering trade policy reform and trade facilitation,** through: • Reduced tariff rates for manufacturing goods. • An updated and modernized legal and regulatory framework for import standards and their enforcement. • Reduced delays for trade operations by streamlining port logistics. **Improving economic governance,** through: • Increased transparency and accountability in the process by which investment incentives are granted and monitored. • Improved Government coordination and private sector involvement in investment climate reforms. • Reduced monopolistic behavior, by strengthening the competition legal framework and the Competition Council.
Program Development Objective(s) and Contribution to CPS	The objective of the First Economic Competitiveness Support Program Development Policy Loan (ECSP DPL I) is to support policy reforms in three key areas of the Government's comprehensive economic strategy: investment climate, trade policy and trade logistics, and economic

	governance. The ECSP DPL I is a key activity planned in the Bank's Country Partnership Strategy (CPS) (2010-13), more specifically within its first pillar *"Enhancing growth, competitiveness and employment"*, while contributing significantly to the CPS cross-cutting governance theme.
Risks and Risk Mitigation	The program faces the following risks: ***Political risk.*** There are high expectations within the population for meaningful and quick change and therefore real pressure that reforms be implemented in a credible manner. The new Government's articulated reform agenda – and the discussions that the Bank has held with key Ministries to date – confirm that there is a credible and strong commitment to the proposed reforms. The Bank team will monitor political developments closely and will continuously assess the implementation of the Bank's overall program and this operation. ***Macroeconomic risk.*** Morocco faces three macroeconomic exogenous risks: (i) possible deterioration of the ongoing global economic difficulties; (ii) impact of poor weather on the agricultural sector; and (iii) continued high prices of food and energy. Management and mitigation of these risks are predicated on the new Government's commitment to proceed with the ongoing and envisaged reforms. The Government is also devising specific measures to mitigate the impact of the existing subsidy scheme on public finances, to be introduced in 2013. As a first step, a partial adjustment to increase the price of liquid fuel products (gasoline, gasoil, industrial fuel) was implemented in early June 2012. ***Governance and institutional capacity risk***. Ensuring adequate institutional capacity to monitor and support the implementation of the reform program could pose a key challenge. In this respect, the new Constitution and the consequent revision of the country's overall governance structure provide an opportunity to improve the checks and balances between the legislative, the executive and the judiciary powers; empower the key governance institutions; and consolidate the principles of modern governance. Main donors have mobilized sizeable resources to provide institutional capacity building and technical assistance needs. The Bank-supported program remains aligned with these priorities as a new DPL series on Accountability and Transparency is under preparation to support key governance reforms. ***Risks specific to this operation***. This DPL includes key structural reforms that may take time to materialize in concrete and visible results, such as the strengthening of the powers and independence of the Competition Council, which will notably depend on the final legal framework and its implementing regulations, and will constitute a trigger of the second Development Policy Loan of the program. The Government is aware of this challenge and is determined to increase consultations and dialogue with all the relevant stakeholders so as to manage demand for rapid results and ensure appropriate buy-in for these structural reforms. The Bank will support such efforts and scale up as necessary its engagement with both Government and stakeholders.
Operation ID	P127038

IBRD PROGRAM DOCUMENT FOR A

PROPOSED FIRST ECONOMIC COMPETITIVENESS SUPPORT PROGRAM DEVELOPMENT POLICY LOAN

TO THE KINGDOM OF MOROCCO

I. INTRODUCTION

1. ***This Program Document describes the First Economic Competitiveness Support Program Development Policy Loan* (ECSP DPL I)** in the amount of Euro 123.9 million (US$160 million equivalent). It will be followed about 18 months later, by ECSP DPL II, thus forming a programmatic series of two DPL operations in support of competitiveness reforms. The content of the follow-up operation is likely to evolve as the new Government starts to implement its reform program. This will require further preparation and updating of the expected future prior actions that are outlined at this stage for ECSP DPL II.

2. ***The objective of the proposed program is to support policy reforms in three key areas of the Government's comprehensive economic strategy***: the investment climate, trade policy and trade logistics, and economic governance. These reforms will in turn contribute to enhanced prospects for competitiveness, growth and job creation. The investment climate will be supported in particular by removing barriers to entry, simplifying the regulatory environment for doing business and reducing discretion in the implementation of the rules by increasing transparency and access to information. Trade policy reform and trade facilitation will be supported by pursuing ongoing tariff rationalization, strengthening the regulatory framework for import standards and easing logistics at ports of entry. Finally, economic governance will be improved by significantly strengthening the Competition Council's (Conseil de la Concurrence – CC) mission and prerogatives, increasing transparency and accountability in the way that investment incentives are granted and sectoral policies conducted, and strengthening the public-private coordination for investment climate reforms.

3. ***The ECSP is a key engagement under the Bank's Country Partnership Strategy (CPS) (2010-2013)***, in support of its first pillar "*Enhancing growth, competitiveness and employment*", while at the same time contributing significantly to the CPS cross-cutting governance theme. The ECSP is complementary to other parts of the new Government's program, namely macroeconomic stabilization, financial sector reform, skills development for employment, justice sector reform and governance and accountability reform. The ESCP is also aligned with the priorities of the MENA region Framework for Engagement, in particular through strengthening economic governance and institutions, and creating opportunities for growth and employment.

4. ***Over the past decade, Morocco has made good progress in carrying out business environment reforms, but the actual impact of these reforms, albeit positive, has been insufficient***. The private sector has responded positively to these reforms, but productivity, export diversification and technological intensity still lag other emerging countries. The key indicators on private sector show a relatively weak entry and exit of firms in the Moroccan economy, and therefore relatively weak economic and productivity growth prospects.

5. ***The need for a structural transformation of the Moroccan economy that will lead to stronger growth and job creation requires a comprehensive and coordinated set of policies in several key areas:*** maintaining the stability of the macroeconomic environment; improving the business environment – including in the area of infrastructure and in regulatory institutions; developing a trade policy that better supports the competitiveness of Moroccan products; developing a financial sector that better serves smaller firms; ensuring a labor force that is better trained, and effective social protection and labor market institutions.

6. ***While progress in all these areas is notable, there is a strong need to increase the impact of reforms and the response of private investors to these reforms***. Weaknesses remain in the business environment, especially in areas – like regulatory reform – that require significant public agency coordination, and where a gap remains between the laws and their application. While sector-specific and industrial development plans are in place (*Programme Emergence, Maroc Export Plus, Plan Maroc Vert, Plan Halieutis, Vision 2015 for craft*) and Morocco adopted an ambitious Free Trade Agreement (FTA) agenda, some areas of trade policy – including trade logistics and trade finance – remain weak. Financial sector reforms have been impressive in Morocco, but there is room to further improve domestic Small and Medium Enterprises (SMEs) access to credit.

7. ***Looking forward, the challenge will be in the implementation and coordination of all the policies that affect private sector development, investment and job creation***. The success of the sectoral programs underway will depend on the ability to coordinate, implement and evaluate policies at various levels and through various agencies. This has proven to be especially difficult in the past when strong inter-agency coordination was required, in particular to address persistent cross-cutting constraints in the business environment that impact negatively the efficiency of all these interventions and support plans: the availability of skills; access to land and finance for SMEs; rules and regulations – and especially their implementation by the administrations in charge – that are cumbersome and often inconsistently applied. These cross-cutting issues affect mostly domestic SMEs, which are the primary source of job creation in Morocco.

8. ***In this context, the proposed ECSP Programmatic DPL series is designed to support the reform of several key cross-cutting constraints that would favor greater competition between business stakeholders and more effective policies to spur competitiveness.*** These include reducing discretion in the implementation of regulations; reducing anti-competitive behavior; improving the Government's coordination and private sector participation in policy-making; increasing the efficacy, transparency and accountability of the Government's policy making; and increasing access to information, which are all important objectives that will be addressed by the specific Government policy reforms supported by ECSP.

II. COUNTRY CONTEXT

A. RECENT POLITICAL AND SOCIAL DEVELOPMENTS

9. ***The wave of democratization that has swept through the Middle East and North Africa (MENA) region since the start of the Arab Spring has also enveloped Morocco although its experience has been reasonably peaceful, albeit with social demonstrations***

taking place regularly across the country during 2011. This social movement, known as the "February 20 Movement" started with calls for reforms, a curbing of corruption and a more inclusive development process. Following King Mohammed VI's speech of March 9, 2011, a broad and comprehensive package of political reforms that gathered the support of the population was adopted through a constitutional referendum held on July 1, 2011[1]. The new Constitution sets the basis for a more open and democratic society, provides mechanisms for the construction of a modern state of law and institutions, and lays the foundation for extended regionalization. Its provisions need to be concretized by several laws that the Parliament will need to adopt in the coming months.

10. ***The new Constitution introduces a new institutional model based on separated, balanced and complementary powers.*** In addition, it reinforces the principles of good governance, human rights and protection of individual freedoms, as well as increased institutional responsibility and accountability. The main changes reflected in the new Constitution are: (i) strengthening the role of Parliament through greater oversight powers over the Government; (ii) elevating the Prime Minister's status to that of Head of Government; (iii) enhancing the independence of the judiciary – autonomous from the executive and the legislative; (iv) respecting all human rights as they are universally recognized; (v) establishment of important institutions, including the National Council for Human Rights, the Ombudsman system, the Competition Council, the National Authority for Integrity and the Prevention and Fight against Corruption; (vi) establishment of the Council for Youth and Community Work; (vii) establishment of advanced regionalization as a democratic and decentralized system of governance; and (viii) the establishment of an agency for gender parity and against discrimination.

11. ***Transparent elections, held on November 25, 2011, were won by the "Parti de la Justice et du Développement" (PJD), an Islamist party that had traditionally been in active opposition and has seen its support increasing steadily in recent years.*** The PJD won 27 percent of the vote, almost twice what the second largest political party won. An intense period of discussions among political parties then followed, leading to the formation, in early January 2012, of a Government coalition, with the head of the PJD becoming the Head of Government.

12. ***The Arab Spring protests and constitutional changes represent real pressure on the Moroccan State for meaningful and quick change.*** While the people seem to be willing to support the new Government and its mandate, they are expecting, and indeed demanding, that the new Government break with the past and usher in more credible and faster reforms, notably in areas of job creation and the improvement of the quality of public services delivered. Morocco is thus on the threshold of potentially profound social, political and economic transformation.

13. ***Many important tasks are awaiting the newly elected Parliament***. In addition to adopting various organic laws – such as the new Organic Budget Law and the one planned for regionalization – and establishing the institutions dedicated to human rights and economic and social development, the new Parliament will need to start reforming mechanisms that govern the relationship between the legislature and the executive. The Government's program voted by Parliament on January 26, 2012, is in line with such challenges as it centers on the rapid

[1] The vote in favor of the proposed reforms was 98.5 percent with a participation rate of 73 percent

implementation of the new Constitution and promotes good governance, transparency, and accountability within the public sector.

B. RECENT ECONOMIC DEVELOPMENTS IN MOROCCO

14. ***Morocco made significant economic headways during the last decade.*** Growth pattern shifted to a higher level averaging 4.9 percent over 2001-2011, much higher than the average rate of the 1990s (2.8 percent). Inflation was subdued, recording less than 2 percent in average over the period. The growth and inflation performance allowed gross domestic product (GDP) per capita to almost double over the last decade to reach the equivalent of US$3,100 in 2011. The unemployment rate declined from 12.3 percent in 2000 to 8.9 percent in 2011. Absolute poverty decreased from 15.3 percent to roughly 9 percent between 2001 and 2007. Based on these achievements, Morocco gained "investment grade" rating in 2007, which was confirmed over 2009-2011 despite ongoing world economic turmoil. These developments are further described in Annex 3.

15. ***Since 2008, Morocco has been hit by a number of adverse exogenous shocks.*** Like other emerging countries, Morocco has suffered from the global finance crisis as well as the high fuel and food prices. Given its strong trade exposure to the EU, Morocco has been particularly vulnerable to developments in the euro area and the resolution of the sovereign debt crises in Spain, Italy and other peripheral countries. Yet, even under a mild scenario of orderly resolution, Morocco's external demand will remain weak under the current projections for growth in the EU and other advanced economies. At the same time, prices of the main commodities have remained high, with the price of Brent crude averaging nearly US$ 113.4 in September 2012, up 18.6 percent from its lowest level of June. In addition, cereal prices have soared following droughts in the United States and Russia, which may lead to another food crisis in the coming months. Internally, Morocco has suffered from a decline in its agricultural output that has put more pressure on the balance of payments and the budget due to increasing food imports, especially cereals.

16. ***Despite those negative exogenous shocks, Morocco's non-agricultural output is projected to remain robust in 2012.*** Over the first three quarters of 2012, while the agricultural sector suffered from insufficient rainfall resulting into a 8.8 percent drop in production, non-agricultural GDP increased by 4.5 percent, allowing GDP growth to post a positive rate (2.7 percent) although it is one of the lowest rates in a decade,. Domestic demand remains the main driver of growth. Public consumption gained 5.1 percent while household consumption increased by 4.5 percent over the period benefiting from the recent wage rises and relatively low prices of non-food products. Investment increased by 3.2 percent, mostly driven by programs of social housing, public works, and industrial equipment.

17. ***The Government and the Central Bank have shown continued commitment to control inflation.*** Despite higher world prices of imported commodities, inflation has remained relatively low, mostly because of basic food and fuel subsidies and prudent monetary policy. Subsidies have allowed the Government to control consumer prices of basic food and fuels. As a result, the average consumer price index increased just marginally over the first nine months of 2012, edging up to 1.1 percent, similar to the same period last year. Among all sectors, higher food prices have contributed the most to inflation (up 2 percent).

The upward adjustment of the administered prices for fuel products in June 2012 and related direct increase in transportation prices (by 2.6 percent) has had limited indirect effect so far on overall inflation.

18. ***Morocco's unemployment rate has been stubbornly high despite declining participation rates.*** Less than half of the Moroccan population is actually active (either employed or looking for a job), which reflects one of the lowest participation rates among comparator countries. Participation rates have been steadily declining from 55.3 percent in 1999 to 48.6 percent over the first three quarters of 2012. Unemployment rate remained quasi-stable over the period, reaching 9.1 percent of the active population or about one million unemployed. Regarding the profile of the job seekers, 4 out of 5 unemployed are urban jobless, 2 out of 3 are youth aged 15-29, 1 in 4 jobless holds a university diploma, half of the unemployed look for their first jobs, and more than two third have been jobless for more than one year.

19. ***The economic turmoil in Europe and continued high prices of commodities have eventually had their toll on Morocco's fiscal balance.*** The fiscal deficit[2] deteriorated to 6.9 percent of GDP in 2011 and central government debt jumped to 53.7 percent of GDP. In 2012, the fiscal deficit is estimated to stay high. The deficit reached 5.1 percent of GDP at end-September 2012 (up from 4.2 percent of GDP during the same period last year). Given the impact on subsidies of higher world prices of basic food and fuel products, the deficit is expected to increase over the rest of the year. However, the decision of the Government to increase the prices of liquid fuel products in June 2012 (up 19.6 percent for gasoline, 14 percent for gasoil, and 13.4 percent for industrial fuel), should help reduce the projected deficit by 0.6 percent of GDP this year and 1 percent of GDP in 2013. This measure, combined with strict controls of recurrent expenditures should contain the fiscal deficit to around 6-6.5 percent of GDP in 2012.

20. ***The current universal and open subsidy system and higher wage bill are increasingly testing Morocco's record of fiscal prudence.*** Despite the good performance of tax collection over the first nine months of 2012 (up 5.5 percent), government revenues could not compensate for the expansion of current expenditures (up 11.3 percent), mostly due to higher subsidies and a larger public wage bill. The cost of the subsidy system (6.5 percent of GDP by end-September 2012 vs. 6.2 percent of GDP by end September 2011), along with the Government wage bill (11.5 percent of GDP, up from 10.7 percent of GDP), explain 75.3 percent of the increase in current expenditures. Subsidies and the wage bill represent 61 percent of total expenditures.

Table 1. Annual subsidies in percent of GDP

Commodities	2007	2008	2009	2010	2011	Est. 2012
Food	0.8	1.1	0.7	0.7	1.0	1.0
Fuels	1.7	3.5	1.1	2.9	5.1	5.2
Total Subsidies	**2.5**	**4.6**	**1.7**	**3.6**	**6.1**	**6.2**

Source: Moroccan Authorities and Bank staff estimates

[2] Fiscal deficit does not include privatization receipts.

21. ***Even though deficit financing has been exclusively through domestic market, there are no apparent signs of crowding out private investment, as interest rates eased over the period.*** Net external financing has been negative as disbursement from multilateral creditors was very low, but is expected to scale up over the rest of the year. Overall, the central Government debt increased by 4.6 percentage points of GDP by June 2012, bringing it to about 55.3 percent of GDP– compared to 50.7 percent of GDP end-June 2011– of which 12 percent of GDP is foreign-exchange denominated. This debt level remains manageable provided the Government continues implementing the announced measures for this year to consolidate public finances, notably through reducing the unnecessary current expenditures, rationalizing transfers to public entities, including state-owned enterprises (SOEs), and improving tax collection and fighting fraud and tax evasion.

22. ***The weakening fiscal situation has been putting the balance of payments under stress.*** The trade deficit continued to deteriorate in 2012 due to sluggish external demand, notably from Europe, and higher world prices of imported commodities. The trade deficit increased by 10 percent over January-October 2012 compared to the same period last year. Total nominal imports increased by 6.6 percent, entirely due to higher import prices, while exports grew by 3 percent reflecting volume effect. Morocco suffered a loss of 5.6 percent in its terms of trade. Tourism receipts declined by 2.5 percent and workers' remittances dropped 3.1 percent. The current account deficit is therefore estimated to have widened to 10 percent[3] of GDP over the period; trends indicate that the annual deficit at the end of 2012 would reach 9 percent of GDP. On the capital account side, foreign direct investment (FDI) inflows grew by a healthy 4 percent during the period, thanks to foreign investors' continued confidence in the Moroccan economy. However, total net external capital flows were not sufficient to finance the current account deficit and net international reserves declined by almost US$4 billion since end-2011 to reach the critical level of US$15.5 billion in October 2012, corresponding to 3.8 months of imports coverage. Nevertheless, the Government's raising of US$ 1.5 billion on international financial market in December, coupled with an expected scaling up of disbursement from multilateral and bilateral financing sources should boost foreign reserves to more than 4 months of imports by the end of the year.

23. ***To stimulate economic activity and help finance the economy, the Central Bank decided to reduce its policy rate from 3.25 percent to 3 percent in March 2012 – rate confirmed in December – and money reserve requirement for banks from 6 to 4 percent in September 2012.*** These decisions were taken to inject liquidity into the money market to meet financing needs of economic agents in a context of low inflation and a balance of inflationary risks tilted to the downside. As a result, money supply increased by 3.6 percent by end October 2012 (y/y), compared with a growth of 5.0 percent during the same period in 2011. Bank credit to the economy increased by 4.0 percent (compared to 7.0 percent last year), mostly driven by credit to corporate treasuries (up 10.4 percent), which in part reflects liquidity needs of businesses to compensate for large arrears overdue by the public sector. Credit to housing also increased substantially (up 5.8 percent) due to extending social housing programs backed by the government. Consumption credit jumped 11.1 percent in part because of easier access to credit and the relatively low prices of housing equipment. At the same time, credit to business equipment dropped by 1.0 percent. Non-performing loans remained at 4.3 percent of total credit to the private sector, stable over the period January-

[3] Bank staff estimates.

October 2012. Overall, the conduct of monetary policy has remained in line with the objective of price stability.

C. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

24. ***Morocco's macroeconomic room for maneuvering has narrowed considerably.*** The twin deficits that have accumulated to finance the series of adverse external shocks since 2008 have largely exhausted the room for maneuver that Morocco had built prior to these crises through prudent macroeconomic policies and management. They unveiled two main weaknesses that are endangering Morocco's external and fiscal sustainability in case of a further deterioration of its external or domestic environment. First, the low structural transformation of the economy, which hinders the prospects of a rapid increase in competitiveness, exports, and quality job generation. Second, the pursuit of highly onerous fiscal policies, such as the universal subsidy system and tax exoneration programs. These two weaknesses are contributing to the reversal of the downward trend of public debt and the depletion of foreign reserves to critical levels.

Table 2. Base-line Medium Term Macroeconomic Indicators

			Est.		Projections		
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Part A: Main Macro Aggregates							
Real annual growth rates							
GDP at market prices	**3.6**	**5.0**	**2.5**	**4.5**	**4.9**	**5.2**	**5.4**
Non-Agricultural GDP	4.5	4.9	4.1	4.1	5.3	5.7	5.9
GDP per capita	2.5	3.8	1.5	3.5	3.8	4.2	4.5
Total consumption	1.5	6.8	2.7	4.5	4.5	5.0	4.9
Gross domestic investment (GDI)	-1.6	3.3	4.1	3.1	3.5	4.0	4.3
Exports (GNFS)	16.6	2.1	3.5	5.8	7.4	7.3	7.5
Imports (GNFS)	3.6	5.0	4.8	4.5	5.2	5.5	5.4
Nominal GDP growth	**4.3**	**5.0**	**4.5**	**7.1**	**7.6**	**7.8**	**7.9**
Savings-investment balance, as							
Gross domestic investment	35.0	36.0	36.7	36.2	35.8	35.3	35.0
of which Government	5.8	5.9	5.2	5.4	5.5	5.6	5.7
Foreign savings	4.5	8.0	9.0	8.4	7.2	6.2	5.5
Gross national savings	30.5	27.9	27.7	27.8	28.5	29.1	29.5
Government savings	1.7	-1.0	-1.2	0.1	1.2	1.8	2.6
non-Government savings	28.9	28.9	28.9	27.8	27.3	27.3	26.9
Gross domestic savings	26.3	24.0	22.2	22.4	23.1	23.5	23.9
Prices and money							
GDP inflation (period average)	0.6	0.1	2.0	2.5	2.6	2.5	2.4
Annual average exchange rate	8.4	8.1	8.6	8.6	8.7	8.7	8.8
Incremental capital-output ratio	9.8	7.0	14.5	8.2	7.4	6.8	6.5
Money growth	4.8	6.5	5.6	7.6	8.7	8.9	9.0
Part B: Government Finance							
Percentage of GDP							
Total revenues (excl. privatization)[4]	25.4	25.9	25.8	26.4	26.8	26.8	26.7

[4] Revenues include VAT of local governments.

Cont'd

			Est.	Proj			
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
of which Tax revenues	22.7	23.0	23.5	24.0	24.3	24.2	24.2
Total expenditures (incl CST)	29.9	33.0	32.3	32.0	31.4	30.8	30.1
of which wages and salaries	10.3	11.0	11.1	11.0	10.6	10.4	10.1
of which subsidies	3.6	6.1	6.2	4.4	4.0	3.6	3.3
Deficit(-)/Surplus(+) (commit.	-4.7	-6.9	-6.2	-5.3	-4.4	-3.8	-3.2
Other							
Total Debt of Central	50.3	53.7	56.8	57.6	57.4	56.6	55.3
Total interest payments/Tax	10.1	9.9	10.8	10.8	10.4	10.0	9.5
Part C: Balance of Payments							
Exports of G&S (US$, mln)	30,3	35,4	36,3	38,6	42,1	45,7	49,6
Imports of G&S (US$, mln)	40,1	49,5	50,5	53,0	56,3	59,9	63,9
Remittances (US$), change in %	7.1	7.3	-7.0	9.0	10.0	9.5	9.0
Current Account balance (in % of	-4.5	-8.0	-9.0	-8.4	-7.2	-6.2	-5.5
Gross reserves (CB) in months of	5.3	5.3	4.4	4.2	4.0	3.9	4.1

Source: Government of Morocco until 2011 and World Bank staff estimates after

25. ***Macroeconomic prospects in the medium term will greatly depend on the scope, depth and pace of Morocco's reform programs as well as developments in Europe – the main trading partner of Morocco.*** Morocco is expected to benefit from ongoing reforms to improve the economy's overall competitiveness and the effectiveness of sectoral policies. The current reforms to strengthen governance and justice, consolidate public finance, and deepen decentralization are critical to achieving long-lasting improvement in economic efficiency, productivity, and employment. Under these assumptions, economic growth should recover to around 5 percent by 2015. Inflation is projected to remain under control at 2.5 percent or below. Main macroeconomic indicators are presented in the Table 2.

26. ***Should the underlying sources of growth be slow to materialize, growth prospects would have to be adjusted downward.*** A potential deterioration of world economy, particularly in Europe, would negatively impact the medium term macroeconomic outlook through reduced prospects on exports, including tourism, as well as on workers' remittances and FDI flows. Similarly, sustained high commodity prices, a deterioration of the regional context and prolonged global financial uncertainties would have an adverse impact on Morocco's prospects. Moreover, there is a potential risk that even pre-crisis growth levels might not be sustainable over the medium term if internal demand remains the key driver of growth.

27. ***In line with the new Constitutional requirement, the Government has further committed to fiscal stability and to progressively decrease the budget deficit to the medium term target of about 3 percent of GDP by 2016 through the implementation of a set of critical reforms.*** The key measures include:

- **Reforming the universal subsidy system**. Fully aware of the considerable financial burden the current system imposes on public finances, the Government announced the launch of the reform of the subsidy system with the 2013 Budget law. In essence, the overall goal is to improve its efficiency through targeted social programs while progressively allowing for international market price pass-through, especially for fuel products. Currently, the key axes

of the reform are: (i) progressive removal of untargeted subsidies; and (ii) identification of alternative targeted systems to support poor and vulnerable households.

- **Implementing civil service reform including the implementation of a new remuneration system**. Following a long preparation phase, the Government has now reiterated its plans to roll out a comprehensive civil service reform including a clear and well defined remuneration system. Together with measures foreseen in the new Organic Budget Law soon to be submitted to Parliament, these measures will result in better management and control of the wage bill.

- **Accelerate the fiscal and pension reform agenda**. Key fiscal reform measures include maintaining momentum of the ongoing tax reform to broaden the tax base, improving the efficiency of the VAT, strengthening tax administration, and removing unproductive tax exemptions. These measures would offset the negative impact of the reduced top rates on corporate and personal income taxes. Another key measure is the commitment to a comprehensive reform of the pension system, starting with a parametric reform of the public sector pension fund in order to ensure it has a balanced budget in the short term.

- **Enhancing the efficiency of public investment as well as that of the private sector**. The Government strategy seeks to consolidate public investment efforts in social sectors (health, education, social housing) while working on the profitability of existing investments, mainly in sectors such as industry, agriculture and tourism. In particular, the Government plans to support high value added industries, mainly through PPP funding for training, infrastructure and logistics. Regarding SMEs, the government intends to support marketing of their products, especially abroad.

28. **The Government's debt strategy is to diversify financing sources and take on a greater proportion of external financing** (Table 3). Three main factors underpin the decision of the Government to reinforce its external sources, especially multilateral and concessional. The first is linked to Morocco's public debt maturity structure. The maturity of public debt has fallen in recent years and will fall further given that the Government mostly financed its needs through issuing short-term T-bills in the domestic market. The main reason behind this choice is to avoid affecting long-term floating rates for banks' domestic lending to the private sector, especially housing credit, as they are indexed to primary market rates on long-term securities (10 and 15 year bonds). The second relates to the higher balance of payments needs. The third is due to the current higher borrowing requirements of the Budget, in a context of tightening liquidity of the domestic financial markets after a long period of an over-liquid money market.

29. **In this context, new external financing schemes are being put in place**. The most important one was the August 2012 arrangement under Precautionary and Liquidity Line (PLL) in amount of US$6.2 billion approved by the International Monetary Fund (IMF). The PLL is part of the proactive approach of the Government to ensure new external financing lines to be able to cope, if necessary, with a deterioration of internal and external balances that would emerge from a possible worsening situation in Europe. SOEs are also seeking more external financing in line with the government policy. To this end, Office Chérifien des Phosphates (OCP) benefited from a Euro 100 million loan recently. MedZ, a subsidiary of Caisse de Dépôts et de Gestion specialized in developing industrial zones and incubating firms in emerging sectors, has benefited from Euro 150 million awarded by Agence

Française de Développment (AFD) and Euro 100 million by European Investment Bank (EIB). The Government has raised US$1.5 billion from the international market in December 2012.

Table 3. Financing Requirements of the Central Government (in percent of GDP)

	Est.				Projections	
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Financing required	**16.7**	**17.5**	**17.5**	**16.6**	**15.5**	**14.8**
Budget deficit (+)	6.9	6.2	5.3	4.3	3.8	3.2
Amortization	9.8	11.3	12.2	12.3	11.6	11.5
Domestic	9.0	10.5	11.3	11.3	10.7	10.5
External	0.8	0.9	0.9	0.9	0.9	1.0
Total Financing available	**16.7**	**17.5**	**17.5**	**16.6**	**15.5**	**14.8**
Domestic financing	14.1	14.3	14.2	13.2	12.3	11.8
External disbursement	1.5	2.1	2.3	2.4	2.5	2.4
Others (Privatization, grants,…)	1.1	1.1	1.0	1.0	0.7	0.6

Source: Government of Morocco until 2011,and World Bank staff estimates after 2011

30. ***Despite its deterioration in 2012, the external position is expected to remain sustainable over the medium term provided that key critical reforms under implementation take hold.*** As noted earlier, the current account deficit is expected to deteriorate in 2012 and to progressively edge downward to around 5.5 percent of GDP in 2016 benefiting from improved export potentials and a recovery of tourism activities and workers' remittances. This scenario critically assumes that Morocco would benefit from its continued reform efforts in trade and competitiveness, supported among others by the World Bank. These reforms, along with sector strategies already under implementation, would translate into higher productive private investments, including FDIs, and progressive gains in competitiveness of its exports, including tourism. In this context, external debt is expected to follow an inverted U path reaching a maximum at 40.9 percent of GDP in 2016 before steadily dropping thereafter, while net foreign reserves will remain above 4 months of imports.

31. ***Balance of payments financing requirements constitute a moderate concern in the medium term, given the country's relatively low outstanding external debt and still adequate foreign reserves.*** As the current account deficits are projected to steadily improve in the medium term, financing them through traditional multilateral and bilateral credit lines along with other private capital flows, including FDIs should not be a major constraint. In addition, countries members of the Gulf Cooperation Council (GCC) recently confirmed their intention to invest US$5 billion over the next 5 years in FDIs. Any remaining financing gap could be filled by tapping international financial markets. The PLL from the IMF will continue to provide a useful line of credit.

32. ***The authorities are considering a possible move to a more formal inflation targeting system in conjunction with a more flexible exchange rate.*** The central bank has developed the necessary prerequisites and tools to shift to an inflation targeting framework. However, the timing of this reform should be carefully considered as it requires measures to ensure fiscal sustainability especially with regards to reforming the subsidy system so as to prevent a negative impact on financial stability. The current exchange rate regime has

contributed to macroeconomic stability, yet given the rigidities of the economy, the recent trends in the current account balance would suggest that it could possibly be undermining international competitiveness. In the future, a more flexible exchange rate policy would help strengthen structural reforms to foster competitiveness and weather external shocks.

33. ***A comprehensive public debt sustainability analysis indicates that the fiscal framework remains sustainable although it would weaken under some medium term downside risks (see Annex 4),*** notably those related to "no policy change" assumption (A2) and growth shock (B2)[5]. Indeed, when the debt sustainability analysis was run under the assumption of "no-policy-change" scenario, the debt stock increased over the period 2012-2017, before inversing the trend, while under the scenario of "reduced GDP growth by half standard deviation" the debt stock steadily increases. All the other scenarios proved fully sustainable over the medium term.

34. ***In sum, Morocco is facing growing economic and fiscal challenges.*** Assuming that the ongoing key fiscal and structural reforms, including those included in the 2013 Budget Law and described above, are implemented in a timely fashion, Morocco's macroeconomic framework would remain adequate and sustainable in the medium term. In particular, the projected macroeconomic outlook and the success of the structural reforms depend on a robust fiscal consolidation, a prudent monetary policy, and more flexible exchange rate policy over the medium term that supports external competitiveness. Until now, the adverse effects of the global environment on Morocco have been weathered relatively well, thanks to strong economic fundamentals and sound macroeconomic policies carried out over the last decade. Yet, in contrast to when the international crisis struck in 2008, the Government today has much smaller margins for maneuver. Its commitment to deepen and expand the current reform efforts is key to the prospects for a sustainable recovery of investment, growth, and employment in the years to come.

D. COMPETITIVENESS ENVIRONMENT

35. ***Even before the ongoing deceleration, there was broad consensus that the positive growth experience of the last decade was not sufficient for Morocco to meet its development challenges.*** Structural reforms have been initiated but more needs to be done for their benefits to be fully realized. Liberalizing transport, energy, and telecommunications, strengthening the financial sector, and selectively opening the trade regime have contributed to the dynamism of the non-agricultural sector, especially since 2004. Recent strategies have also been launched to modernize the agricultural sector and support industrial diversification. Since these reforms, private investment rates increased from 15 percent to 22 percent of GDP currently, a rate that compares to the most dynamic economies. However, this relatively high level of private investment in Morocco remains insufficient when compared to the average growth performance, and the broad consensus is that recent achievements were not sufficient and more is required to unleash a process of quality jobs creation and further poverty reduction.

36. ***Low productivity has continued to obstruct Morocco's growth path.*** Morocco invested no less than six percent of GDP in education for many years, and considerable

[5] See assumptions in Table in Annex 4.

resources went to physical capital accumulation associated with basic infrastructure. However, these investments brought about limited productivity improvements. Over the last decade, the incremental capital output ratio, a broad measure of the productivity of investment, remained high in Morocco at about 8.2 on average compared to a value of about two to three registered in developed countries. According to international experience, reaching and sustaining annual GDP growth rates above six percent requires not only increasing investment but also sizable productivity gains. The existence of rigidities in the Moroccan economy, especially those of mismatched skills, and a constraining business environment, continue to hamper investment in high value-added competitive sectors.

37. ***Morocco trade performance reflects firms' prudent export strategies both in terms of products exported and markets served.*** Nearly three-quarters of export growth in the period 2002-2010 originated from firms choosing to expand existing trade relationships (existing products exported to existing destination markets) rather than experimenting with new products and new destination markets. The contribution of new markets, new products, and new firms to export growth represent only about 11 percent, 4 percent, and 9 percent respectively. Importantly, there is little change in the trade structure as a result of entry or exit of exporting firms, suggesting barriers to or lack of incentives for firm entry into exports.

38. ***Morocco's trade deficit is also a reminder of the need to diversify and broaden the country's export base.*** Manufacturing exports have grown at eight percent per year on average since 2002 – half the performance of emerging middle-income countries. Moroccan exports are not diversified enough and reflect the relatively slow structural transformation of the Moroccan economy. Exports of textiles and phosphates account for over 40 percent of total Moroccan exports. [6] Yet, this has improved lately with the growth of new sectors such as electronics and automobiles parts, identified as priority sectors in the context of the "Programme Emergence". For instance, in electronics, exports increased by 29 percent and the number of employees by 26.5 percent between 2009 and 2011.

39. ***In spite of recent positive developments, weak diversification and growing trade deficit are symptoms of relatively weak entry and exit of firms in the Moroccan economy, and therefore weaker productivity growth and job creation prospects.*** No emerging economy has been able to sustain high growth for long periods of time, without a profound structural transformation of its economy with increased manufacturing exports and a more diversified and more technologically sophisticated private sector. This transformation is not yet happening on a large scale in Morocco.

40. ***The needed structural transformation of the private sector requires improvements in many areas:*** a stable macroeconomic environment; addressing factor costs issues (such as energy policy, land policy, labor costs); an improved business environment - including in the area of infrastructure and in regulatory institutions that level the playing field; a trade policy that supports the competitiveness of Moroccan products; a financial sector that better serves smaller firms; a labor force that is better trained; and effective social protection and labor market institutions.

41. ***Tackling this competitiveness agenda requires designing and implementing a***

[6] Source: Moroccan customs data 2002-2010. HS sectors include HS28, HS31, HS61 HS62 and HS64.

comprehensive and coordinated set of policies. There is a strong need to increase the impact of reforms and the response of private investors to these reforms. Even though Morocco has significantly improved its Doing Business ranking since 2011, weaknesses remain in the business environment, especially in areas like regulatory reform that require public agency coordination, and where a gap remains between the laws and their application. While sector-specific development plans are in place (Programme Emergence, Maroc Export Plus, Plan Maroc Vert, Plan Halieutis, Vision 2015 for craft) and Morocco has adopted an ambitious FTA agenda, some areas of trade policy – including trade logistics and trade finance – remain to be developed. Financial sector reforms have been impressive in Morocco, but there is room for these reforms to trickle down to domestic SMEs that remain credit constrained. Finally, the employability of Moroccan workers in a changing environment remains a critical issue in the labor market: firms which need to move up the value chain to remain competitive require better trained workers, currently a scarce resource according to business surveys. Improving the skills of the labor force, the functioning of labor market institutions and the effectiveness of social protection is paramount in helping the structural transformation of the Moroccan economy.

42. ***Recent progress of Morocco in the Doing Business (DB) ranking demonstrates that there is room for further improvement through well structured public-private coordination***. Morocco is ranked 97 in the 2013 report, a slight decrease in ranking after having been the economy with the best improvement in the DB 2012 ranking (21 ranks improvement compared to the DB 2011 ranking). Notable progress has been achieved in the area of starting a business, protecting investors, and construction permits. This progress over the past two years is in great part due to the key coordinating role of the National Business Environment Committee *(Comité Nationale de l'Environnement des Affaires – CNEA).*

III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESS

43. ***The new Government is aware of the need to undertake structural changes and is committed to address many of the issues facing Morocco's economic and social development***. The new Government's program was articulated by the Head of Government, Mr. Abdelilah Benkirane, in January 2012 and covers the 2012-16 period. The Government's program aims at improving social outcomes with a special focus on youth and families, particularly in education, health, access to services, including housing, and in due course at establishing targeted safety nets mechanisms as a substitute for the current non-targeted subsidies. Addressing unemployment will demand an integrated approach and includes measures to continue support to employment creation programs undertaken to date and introduction of new programs to insert the unemployed into businesses and associations. Social assistance and pension reform are also being pursued as part of a broader and more comprehensive overhaul of the social protection system. As regards good governance, the areas of future focus are multiple, including access to information, reform of the fiscal system, budget reform, and a profound reform of the justice sector.

44. ***Improving growth and competitiveness are central to the new Government agenda for a shared economic development and job creation***. For the period 2012-16, the program aims for a growth rate of 5.5 percent, an inflation rate of two percent, reducing unemployment to eight percent and aiming for a progressive reduction in the budget deficit to three percent

by 2016. Key areas of priority on the economic front that this DPL series supports include strengthening the competitiveness of the economy through cross cutting reforms to improve the investment climate, support SMEs and continue the trade policy reform agenda. Among others, the Government's program specifically identifies the new Competition Law to reinforce the independence and the powers of the Competition Council (CC), a new Investment Law to incentivize entrepreneurs, the modernization of the export framework, and the simplification of administrative procedures for investment. Particular emphasis is placed on improving economic and financial governance, which is pivotal to attain the ambitious objectives of the new Government's agenda.

45. ***The new Government's program indicates that sector-specific strategies developed under previous Governments will remain in place***. These sectoral plans consist mainly of tax incentives to specific sectors, combined with dedicated infrastructure investments. Several strategies have been adopted covering the main sectors that Morocco wishes to develop. An export plan (Maroc Export Plus) has been launched, as well as an agribusiness development plan (part of the Plan Maroc Vert), and an innovation and technology plan (Initiative Maroc Innovation) that aims at developing an innovation ecosystem that favors research and development. In addition, a development plan in the Information and Communication Technology (ICT) sector (Maroc Numeric) is being implemented. Lastly, an ambitious industrial strategy was launched in 2005 and continues to be rolled out within the framework of the "Programme Emergence".

46. ***The ambitious "National Pact of Industrial Emergence 2009-2015 (PNEI)" signed in February 2009 continues to be implemented***. It constitutes a comprehensive approach with a number of specific commitments taken both by ministries (Justice; Interior; Economy and Finance; Agriculture and Fishing; Education and Research; Labor and Training; Industry, Commerce and New Technologies; International Trade; and General Affairs and Governance) and representatives of private sector organizations (Moroccan Enterprises Association – *Confédération Générale des Entreprises du Maroc* (CGEM), and the Professional Banking Association – *Groupement Professionnel des Banques du Maroc* (GPBM)). These commitments are organized under 10 different pillars: Off-shoring, Automobile, Aeronautic, Electronics, Textile and Leather, Agro-Industry, SME Competitiveness, Investment Climate, Training, Industrial Zones. The Programme Emergence has given strong signals to the automobile and aeronautic sectors which have benefited from notable foreign investments over the recent years.

47. ***The impact of the sectoral programs underway will depend on the ability of the Government to address in parallel persistent cross-cutting constraints in the business environment.*** These cross-cutting issues, such as the weak quality and lack of predictability of the regulatory environment for business transactions and trade, impact negatively the efficiency of sectoral interventions and support plans. They also affect mostly domestic SMEs, which are the primary source of job creation in Morocco. In this context, the proposed ECSP Programmatic DPL series is designed to reduce discretion in the implementation of regulations; reduce anti-competitive behavior; improve the Government's coordination and private sector participation in policy-making; and increase the transparency and accountability of the Government's policy making. Policy actions included in the PNEI pillars relating to SME competitiveness and Investment Climate, notably the strengthening of the CNEA, are supported by this DPL.

INVESTMENT CLIMATE REFORMS

48. ***Diversifying the economy and increasing job creation will require improving the business environment through complex and in-depth reforms of the legal, regulatory and administrative frameworks, which restrict access of new entrants to the market while favoring established enterprises***. The ability to carry out complex investment climate reforms within a public-private dialogue framework is essential to address this challenge. As a first immediate step, a package of reforms has been devised around three core pillars to address simultaneously issues related to: (i) the investment climate; (ii) trade openness and trade logistics issues; and (iii) economic governance.

49. ***In the investment climate area, the Government is pursuing an ambitious plan to simplify regulations and increase predictability and consistency in the way rules are enforced***. Business entry has been largely simplified and progress in implementation of the Enterprise Unique Identifier (EUI) will soon enable major progress in online registration, so far piloted in the Casablanca one-stop-shop. With this reform, the investment one-stop-shop (Centres Régionaux d'Investissement, CRI) will effectively operate as an institution where all relevant administrations are truly decentralized with links to a single database. Other reforms of note include the removal of the mandatory minimum capital requirement, simplified property transfer and construction permit regulations, the expansion of the online tax payment system to a larger set of firms, including SMEs, reduction of corporate taxes, especially for SMEs, and the recent passing of a new law regulating delays in payments in commercial contracts, with the objective of solving an issue that has plagued the finances of SMEs for years.

50. ***In terms of reducing discretion and arbitrariness in the implementation of regulations by the various administrations, a major effort of standardizing regulatory forms and increasing access to clear and comprehensive online information on regulations is underway***. This project, housed at the Ministry of Civil Service and Modernization of Public Administration (MFPMA), is supported by World Bank technical assistance. It aims at introducing best-practice standards in regulatory forms, progressively certifying all major regulations to which both citizens and firms are subject. In this process, it is envisaged that each regulation will also be subject to simplification. A first batch of 20 regulatory forms has recently been identified jointly by the public sector and the private sector.

51. ***Investment climate reforms have progressed rapidly over the recent years with the launch of the National Business Environment Committee (Comité National de l'Environnement des Affaires – CNEA).*** A public-private platform headed by the Head of Government, the CNEA has been instrumental in prioritizing the investment climate reform agenda, actively involving the private sector in this process, coordinating reforms between different ministries and monitoring results and impacts. Its consultative nature, backed by a strong team and well defined processes, made it successful in ensuring coordination and accountability in reforms, where many previous inter-sectoral committees have failed in the past, in particular with respect to reforms measured by the Doing Business survey.

TRADE POLICY MODERNIZATION

52. ***In the trade policy area, Morocco has negotiated FTAs aiming at liberalizing trade***

with the world's two largest markets (US and EU) as well as neighboring Arab countries. With the EU, the Association Agreement provides for the exemptions of customs taxes and equivalent taxes for industrial products, and partial or complete tax reductions for agricultural products under tariff quotas. In October 2008, Morocco was granted an "Advanced Status" by the EU, similar to the one granted to Eastern European countries. This status could ultimately lead to conclusion of a broader free trade agreement encompassing in particular agriculture, services, public contracts, etc. In addition, FTAs were signed with Turkey, a Pan-Arab Agreement with 17 Arab countries, and a regional trade agreement with Tunisia, Egypt and Jordan (the Agadir Agreement). With the United States, the FTA provides for equal or preferential treatment for most goods and services.

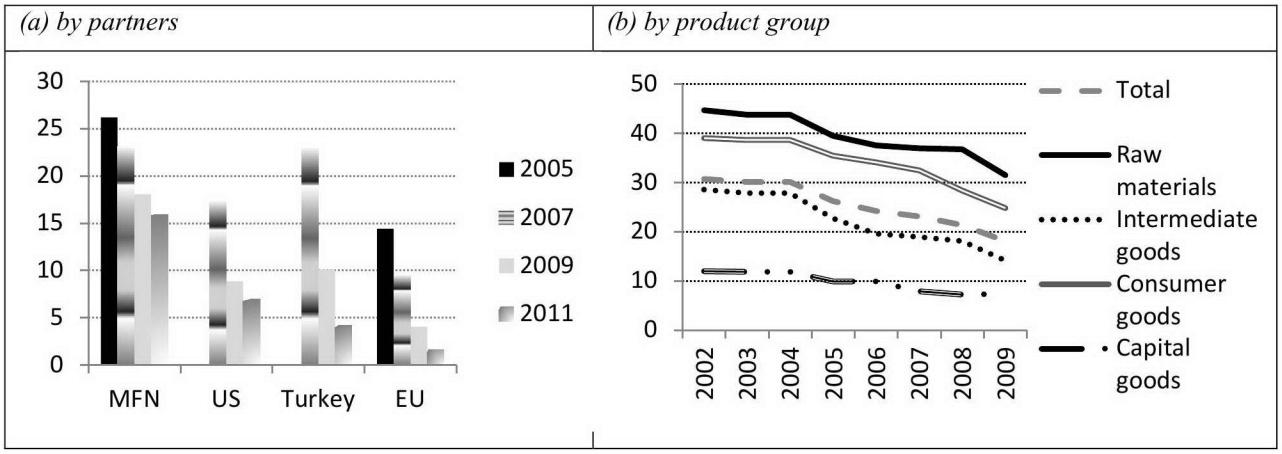
53. ***In addition, Morocco is committed to reduce its Most Favored Nation (MFN) tariff barriers and to simplify its tariff structure***. The 2009 Budget Law introduced important tariff reform with two objectives: (i) to reduce the tariff differential between the common tariff (MFN) and the preferential tariffs to avoid trade diversion; and (ii) to harmonize the tariff structure by lowering the number of tariff bands from seven to four (2.5 percent; 10 percent; 17.5 percent and 25 percent), and reducing the maximum tariff rate applied to industrial products from 50 percent to 25 percent by 2012. This reform includes a gradual reduction of the tariffs rates over four years (Table 5). As a result, the average MFN tariff on industrial goods went down from about 32 percent in 2000 to about 15 percent in 2011 (world average at nine percent). Tariffs are much lower vis-à-vis the EU (less than two percent), the US and Turkey (less than ten percent) and Agadir members (zero percent). Tariffs have been reduced on all industrial goods and particularly intermediate goods (Figure 2) although tariff rates for agricultural products remain very high.

Table 5. Tariff reduction schedule for industrial goods, 2009-2012

	December 31, 2008	January 1, 2009	January 1, 2010	January 1, 2011	January 1, 2012
Tariff Bands	10%	7.5%	5%	2.5%	2.5%
	15.3%	2.5%	2.5%	2.5%	2.5%
	17.5%	10%	5%	2.5%	2.5%
	21.9%	2.5%	2.5%	2.5%	2.5%
	25%	20%	17.5%	10%	10%
	32.5%	27.5%	27.5%	25%	17.5%
	40%	35%	35%	30%	25%

Source: Official Bulletin 2009

Figure 2. Tariff reductions, 2002-2011



Source: WITS for 2002-2009 and Morocco Customs for 2010-11

54. ***The authorities have launched an ambitious legal reform agenda aimed at progressively aligning their legal framework to the new trade environment***. Following the wave of bilateral and multilateral trade agreements signed by Morocco and the tariff reduction reforms implemented over the last decade, Morocco is now upgrading its overall legal and regulatory framework. Key legislation has recently been approved or is under finalization to implement: World Trade Organization (WTO)-compliant trade defense mechanisms; safety regulations on traded products and services; new trade law providing for a formal registration of importers and exporters and modernization of export promotion policies and services.

55. ***In terms of trade logistics, Morocco is well-positioned geographically to benefit from low-cost trade.*** In the sub-indicator Trading Across Border, measured by Doing Business, Morocco does well. This measures the time, cost and number of documents required to export a standard consignment. The paperwork appears relatively burdensome, but the cost per container of exporting is much lower (US$577) than the regional average of over US$1000. Significant progress is being made in improving transport and logistics and the efficiency of backbone services (ports, air transport, telecommunications and financial services). It has also embarked on an ambitious plan to simplify trade processes at points of entry, particularly with the launch of the PORTNET portal. PORTNET will be used as the central platform connecting the IT systems of all concerned departments and public and private bodies involved in trade logistics. The Commerce Department has also launched a study for developing and integrating in PORTNET a single one stop shop point of entry for all procedures related to international trade.

ECONOMIC GOVERNANCE

56. ***Many of the constraints to stronger diversification, business growth and job creation – corruption, administrative uncertainty, enforcement of the rules and the judiciary – relate to issues of governance of market institutions***. Whether it is with the judiciary, the discretionary enforcement of regulations by the public administrations, the independence and efficacy of market regulatory institutions – in particular in ensuring fair competition and a leveled playing field, or the control of corruption, the private sector development agenda is fundamentally challenged by governance related issues. These are consistently rated in firm surveys as the most important constraints to businesses.

57. ***In this area, significant progress is ongoing in three areas: competition policy, transparency and monitoring of the incentives regime and policy coordination and inclusion***. A new legal framework for competition has been approved by the Council of Government and integrates all the Organization for Economic Cooperation and Development (OECD) principles on best practice competition regulation. In particular, it gives authority to the CC to investigate and sanction monopolistic behavior, mergers and collusion. The CC has also been recently strengthened by its inclusion in the new Constitution as a central regulatory institution with significant investigative and sanctioning powers. The adoption of the new legal framework for Competition should enable the CC to address long lasting entrenched monopolistic behaviors that plague a number of sectors. The real test of the effectiveness of this framework will naturally be its implementation and the ability of the CC to address competition issues in key sectors. Yet, adoption of this legal framework by the Council of Government is an important first step and sends a strong signal to investors that the Moroccan business place will become a more level playing field in the near term.

58. ***In the transparency and accountability area, an important reform is under preparation to improve the effectiveness of investment incentives granted by the Investment Promotion Agency (Agence Marocaine de Développement des Investissements – AMDI) to strategic investors***. The AMDI, acting as the secretariat of the National Investment Commission (Commission Interministérielle pour les Investissements – CII), an inter-ministerial body headed by the Head of Government, manages the process of granting special investment incentives to "strategic" investors under a contractual framework. It also has the responsibility to monitor existing investments that have received incentives under contractual agreements. The ongoing reform introduces more transparency in the way incentives are granted and monitored. With input from all concerned departments, AMDI will be required to provide the CII with a detailed estimate of the direct and indirect costs involved in each incentive contract (including estimates of forgone tax revenues and hidden land subsidies). An estimate of the expected benefits in terms of jobs, investments and spillover effects will also be required to justify public support of each investment. AMDI will be required to closely monitor the actual costs and benefits of each investment over the years and to publish an annual report that synthesizes its findings. In line with the new Constitution requirement on more transparency, this first important step in increased transparency, monitoring and accountability of public policies for competitiveness will be expanded to other agencies.

59. ***In terms of inclusiveness and coordination of policy-making in the competitiveness area, the strengthening and institutionalization of the CNEA is an important step that should be replicated in other areas***. The CNEA has been a good model of public-private participation and inter-ministerial coordination for the design and monitoring of investment climate reforms. This model, which is being strengthened by the institutionalization of CNEA and the adoption of formal internal and consultative processes, should be replicated in other areas, in particular in the context of the sectoral strategies that are spearheaded by different ministries (industry, foreign trade, agriculture, etc.) and yet involve many stakeholders.

CONSULTATION ARRANGEMENTS

60. ***Consultations on economic and trade policies have been systematized***. The sectoral strategies which have been prepared over the recent years (Programme Emergence in industry and IT services, Plan Azur for tourism, Plan Maroc Vert for agriculture and agribusiness, Maroc Export Plus in exports) have all involved sustained and open consultations with the

private sector. These have taken the form of annual national public events ("assises") in each sector, as well as more technical consultations to prepare each strategy. These consultations have involved the main business association, the Moroccan Enterprises Association (Confédération Générale des Entreprises du Maroc – CGEM) and its sectoral and regional branches. In addition, the policies supported by the DPL have been the subject of large public-private consultations, where the job-creation objective has been widely shared by stakeholders, and no concerns about potential distributional impacts have been raised.

61. ***Public-private forums for improving consultations during the preparation of laws, regulations and administrative reforms have been established.*** Committees like the CNEA have been institutionalized and provide a forum for regular consultations with the private sector. Several measures supported by this operation are included in the annual reform program of the CNEA and have been supported by technical assistance by the Bank, which notably entailed dialoguing with representatives of the private sector, such as CGEM representatives, business lawyers, accountants, and SME managers. The creation of the CNEA followed the conclusions of a World Bank technical assessment with the Ministry of General Affairs and Governance (MAGG) in 2008 and 2009, the results of the Doing Business annual survey, and its inclusion as a specific measure in the PNEI signed in February 2009. Reinforcing the efficiency and ensuring the sustainability of the CNEA is one of the actions of this DPL. Consultations on important and sensitive issues like competition have also been organized regularly by the CC, in particular to prepare for the new Law.

62. ***Since a decree of May 2009, the Secretary General of the Government is required to publish on its website, drafts of the key economic or trade laws for a minimum period of two weeks for public consultation.*** It is then required to publish the comments received and finalize the draft laws taking into account relevant comments received. This applies to all the laws that are of the realm of the US-Moroccan FTA (as this consultation process was part of the agreement), which includes most laws that govern economic and trade policy. For example, the Competition Law supported by this DPL was consulted upon for thirty days before it was adopted by the Government. The comments received through this consultation period have translated into a revised and improved draft law.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINK TO COUNTRY PARTNERSHIP STRATEGY

63. ***The proposed DPL is one of the key operations outlined in the FY10-13 CPS which was discussed by the Bank's Board of Executive Directors in January 2010.*** The =CPS is designed to help the Government achieve its medium term priority objectives in a flexible and responsive way. It is organized around three main pillars. The first concentrates on activities that encourage growth, competitiveness and employment, including fostering macroeconomic stability and promoting private sector development as an engine of growth. The second pillar supports the improvement in access to, and quality of public services, including the development of institutions and management systems. The third pillar aims at ensuring that Morocco's development can be sustainable and addresses natural resources and climate change challenges. In addition, the CPS places a strong emphasis on the governance agenda which is to be mainstreamed across the World Bank program. As further described below,

ECSP DPL I is closely connected with the planned Second Financial Sector DPL, and the Skills and Employment DPL series as all three underpin the first pillar of the CPS, along with operational support in the justice sector and on information and communication technologies, to support the Government in enhancing growth, competitiveness and employment.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

64. ***The World Bank and the IMF maintain a close collaboration in Morocco.*** Regular exchanges between Fund and Bank country teams are customary. Discussions focus on the respective work programs, country priorities, recent developments and prospects, and reflect the growing weight of DPLs in the Bank's Morocco portfolio. The Fund participates in Bank project review meetings where relevant. Similarly, Bank staff was consulted in the context of the IMF's 2012 Article IV consultation with Morocco, which was concluded by the IMF's Executive Board on February 1, 2013. The IMF has also completed its first review of Morocco's performance under the economic program supported by the PLL arrangement (approved on August 3, 2012 in an amount equivalent to US$6.2 billion) and reaffirmed Morocco's continued qualification to access PLL resources. The Public Information Notice issued by the IMF on February 5, 2013 is provided in Annex 6.

65. ***The proposed operation was prepared in consultation with the EU, the main donor active in Morocco's competitiveness agenda***. The EU has had a program in support of the competitiveness agenda in Morocco since 2009 including dedicated technical assistance to key Government agencies. Of particular relevance to the proposed DPL is the strengthening of the capacity and powers of the Moroccan CC that took place within the framework of a twinning program between German and Moroccan Competition Authorities financed by the EU. Twinning agreements involve experts from the administrations of EU Member States passing on their knowledge and experience regarding the implementation of EU law. The Twinning programme is accessible to Morocco within the framework of the European Neighborhood Policy (ENP). The Bank team has held extensive consultations with representatives of the EU, to ensure full coordination with ongoing donor supported activities and to share insights on reform priorities and constraints.

66. ***Other donors involved in the competitiveness agenda were also consulted with respect to several actions included in the proposed DPL.*** The Morocco Economic Competitiveness program of the United States Agency for International Development (USAID) supported the Moroccan Government's policy to improve investment climate reforms in several respects, notably the development of the common business entity identifier that constitutes a prior action of the proposed DPL. The OECD was also consulted during preparation with respect to the findings of its report on the investment climate in Morocco, which offers specific recommendations on how the policy, institutional and legal framework can be improved to enhance the business climate. This report notably confirms that the focus on economic governance issues, policy coordination failures, access to information and investment climate reforms is a priority to improve competitiveness in Morocco.

C. RELATIONSHIP TO OTHER BANK OPERATIONS

67. ***The ECSP DPL I is closely linked with three other lending operations recently approved or under preparation***: (i) Skills and Employment DPL series; (ii) the Second

Financial Sector DPL, and (iii) the Accountability and Transparency DPL. All three are instrumental in supporting the Government of Morocco in accelerating growth and employment creation and have been developed in close coordination.

- The *First Skills and Employment DPL* signed with the Government on July 27, 2012, focuses on: (i) improving relevance of skills produced by the higher education and vocational education and training systems to the labor market needs; (ii) increasing efficiency of Active Labor Market Programs (ALMPs) and strengthening intermediation services; (iii) improving job quality; and (iv) establishing a Labor Market Information System. Key reforms supported are: introducing non-technical skills (language, computer, communication, methodology) in university programs; establishing specialized training institutes managed by the private sector for key sectors identified in the PNEI; designing more efficient ALMPs for the unemployed, and implementing them in a transparent manner; designing and implementing a strategy to strengthen very small enterprises.

- The *Second Financial Sector DPL,* under preparation, supports the reform agenda already initiated under the First DPL "Sustainable Access to Finance DPL" (Report No. 52301-MA) approved by the Board in January 2010. Specifically, it fosters: (i) household and SME access to financial services; (ii) increased financial stability, supervision and regulation; and (iii) capital market development. Key reforms supported include a new guarantee scheme targeting micro-enterprises administered by the Caisse Centrale de Garantie (CCG) and measures to strengthen the functioning of private equity markets. In addition to this DPL, the "Micro, Small and Medium Enterprise (MSME) Development Project" (Report No. 68550-MA), approved on June 28, 2012, aims to improve access to finance for MSMEs.

- The Accountability *and Transparency DPL,* under preparation, provides additional complementarities on the economic governance agenda as it will focus on (i) corporate governance of public enterprises through adoption of the code of corporate governance for SOEs; (ii) a new law for public procurement, to include all public agencies and entities, and strengthen transparency in the tendering process; and (iii) fighting corruption in delivery of administrative services through improving the transparency and predictability of several key administrative procedures.

68. ***In addition, the Judicial Performance Enhancement for Service to Citizens Project (Report No. 66921-MA), approved on June 12, 2012, aims notably at improving commercial justice, hence contributing to the broader governance/competitiveness agenda.*** This project supports inter alia the strengthening of the transparency and efficiency of commercial tribunals, thereby reducing the uncertainty associated with the rule of law in the business environment. Finally, the ECSP DPL I is complementary to the First DPL in Support of the Plan Maroc Vert (Report No. 58499-MOR), approved by the Board in March 2011, which supports the new Government program for agriculture and agribusiness development (*Plan Maroc Vert*), with a particular focus on small scale agriculture in underprivileged and non-irrigated areas. The Second DPL in Support of the Plan Maroc Vert is under preparation.

69. ***Key policy actions included in this DPL have been supported by the Bank and will continue to benefit from technical assistance during implementation***:

- In the investment climate area, the Bank will continue to provide technical assistance to the CNEA to ensure that the public-private coordination mechanism institutionalized in 2010 continues to be operational. Past assistance led to support in designing the CNEA, its internal processes and institutional structure. It also included support in identifying and prioritizing the investment climate reform agenda, jointly with the private sector. Several actions included in the proposed DPL are included in the annual reform agenda of the CNEA, in particular standardizing and simplifying administrative procedures for businesses. This technical assistance is being currently supported by an Institutional Development Fund grant. The Bank is also developing a new technical assistance aimed at providing tools to the Government decision makers in order to better monitor and evaluate the concrete impact of reforms for citizens and businesses.

- In the trade policy and logistics area, the Bank has provided technical assistance since 2007. This technical assistance focused on the design of a trade policy impact evaluation model with the Ministry of Foreign Trade, and support to the customs and ports authorities in simplifying trade logistics at ports of entry.

- In the economic governance area, in addition to the support to the CNEA mentioned above, the Bank, at the request of the Government, will provide technical assistance to the AMDI and other concerned departments to develop common guidelines for collecting data and undertaking cost benefit analysis assessments of investment projects submitted to the National Investment Commission. The Bank will also support the CC in putting in place the regulatory mechanisms, the processes and the analytical capacity to identify monopolistic behavior and conduct sector-specific investigations.

D. LESSONS LEARNED

70. ***Multi-sector operations have proved to be particularly complex to manage, the ECSP DPL I will therefore focus on selected issues among the broad competitiveness agenda***. Focusing on issues like policy coordination, transparency and monitoring in policy making, information sharing across administrations or the process of regulatory simplification and standardization enables support to broad, cross-cutting issues. The proposed DPL avoids addressing sector-specific strategies (like agribusiness, industry or ICT services) or issues that involve strong and complex coordination among different entities (like the land issue). Such issues are addressed by sector specific operations (like the "First DPL in Support of the Plan Maroc Vert" to support the agribusiness strategy, or the "Judicial Performance Enhancement for Service to Citizens Project" to support the justice sector reform).

71. ***The effectiveness of budget support operations is greatly increased if accompanied by targeted technical assistance for the implementation of the policy reforms***. This is particularly important for the first of a series of programmatic DPLs on such a complex topic like competitiveness. Providing technical assistance on a few key areas to help implement the reforms will be key to ensure impact and to inform the second wave of reforms planned for the ECSP DPL II.

72. ***Increasing our knowledge base and strengthening our dialogue with the Government with rigorous and focused analytical products form the basis of successful policy operations***. As much as ECSP DPL I is built on a series of analytical pieces and technical assistance work developed over the recent years, the next operation (ECSP DPL II) will need to rest on solid analytical grounds. For that purpose, and in order to inform the trade policy agenda, a series of focused technical notes are in preparation with the Customs Administration. These notes will focus on estimating the impact of past FTAs and overall trade policies by using a unique dataset combining firm-level information with transaction-level trade information from the Customs Administration.

E. ANALYTICAL UNDERPINNINGS

73. ***This operation is the first DPL on the competitiveness theme***. It builds upon a series of analytical pieces and technical assistance activities conducted over the recent years by the Government of Morocco, the World Bank Group and other organizations. In particular, the following provided key analytical underpinnings for the design of this operation:

- **Surveys of industrial firms, including notably the Investment Climate Assessment surveys conducted in 2001 and 2005**. These surveys were instrumental in diagnosing key issues in the industrial sector. They identified key constraints to enterprises and quantified the firm-level productivity gap in manufacturing, which can partly be explained by high factor costs (particularly high labor costs and low labor productivity).
- **Analysis on trade and competitiveness (2007-11).** A series of analytical notes on trade in services, competitiveness in Morocco, policy framework to improve competitiveness, a review of the Doing Business indicators and a comparative analysis of the Morocco enterprise surveys with other countries were conducted to support the dialogue with the Government of Morocco in this area.
- **Business legal and regulatory review focused on the Doing Business indicators (2009).** This technical note identified legal and regulatory constraints in the Moroccan business environment as measured by the Doing Business indicators. It later led to technical assistance that focused in particular on simplifying business entry (reducing and then abolishing the mandatory minimum capital requirement) and commercial law (including alternative dispute resolution).
- **Country Economic Memorandum (CEM) (2006) and Trade Chapter Update (2011).** The issues identified at the time of the Morocco CEM (lack of diversification, lack of structural transformation of the industrial sector, need to have sector-specific policies, uncertainty and discretion in how the business environment rules apply, competition issues and trade policy distortions) remain valid today, even if improvements have taken place in a number of areas.
- **MENA region flagship report on private sector development "*From Privilege to Competition*" (2009).** The analysis in this regional report identified economic governance issues as a key impediment to private sector development in MENA. Most of the reports' messages apply to the Moroccan context and the report itself built on Morocco-specific case studies and analysis. The report highlighted in particular the gap between business regulations as they appear on the books, and

their implementation. Issues of discretion, arbitrariness, competition and lack of transparency and accountability were prominent in the report's findings. The ECSP DPL I explicitly builds on these findings to address concretely these issues in the proposed policy matrix (in the areas of investment incentives, standardization of regulatory processes and forms, sharing of firm-level information between administrations and competition policy).

- **OECD's report on the investment climate in Morocco (2011).** This comprehensive report provides a detailed overview of investment climate and competitiveness issues in 12 distinct areas, ranging from the legal and regulatory environment, to trade policy issues and competition and economic governance issues. Its findings reinforce the overall messages from the other analytical work conducted by the Bank, and confirm that the focus on economic governance issues, policy coordination failures, access to information and investment climate reforms is a priority to improve competitiveness in Morocco.

V. THE PROPOSED OPERATION

A. PROGRAM DEVELOPMENT OBJECTIVES AND POLICY AREAS

74. ***The program development objective of the proposed operation is to support policy reforms in three key areas of the Government's comprehensive economic strategy*: the investment climate, trade policy and trade logistics and economic governance.** These reforms will in turn contribute to enhanced prospects for competitiveness, growth and job creation. This program will clearly position the Bank as a strong supporter of the ongoing reforms in these three areas. Also, beyond supporting policy reforms, the loan will help the Government of Morocco finance its budget deficit and maintain macroeconomic stability in the current global environment. This is the first in a series of two programmatic DPLs on the competitiveness theme. The ECSP DPL II will be prepared in 2013 and will continue to support further reforms in these three areas.

75. ***In agreement with the authorities, this DPL addresses only a sub-set of key areas relevant for increased competitiveness of the Moroccan economy. It focuses on key cross cutting themes ready for implementation***. Other relevant issues are either addressed under parallel World Bank operations (e.g. labor market policy and higher education, financial sector reform, reform in public procurement and SOE governance) or will require additional policy dialogue before a credible and sustainable reform agenda can be designed (most notably energy policy and land policy reform).

76. ***The operation will contribute to improving the investment climate, through:***

- Reduced barriers to entry to SMEs by abolishing the mandatory minimum capital requirement for limited liability companies, and improved governance of corporations.
- Reduced room for discretion and arbitrariness in the implementation of regulations, by upgrading, standardizing and publishing new forms for a first set of 20 priority administrative procedures identified by the private sector, in addition to simplifying their respective processes.

- Strengthened administrative information sharing among four key agencies interacting with firms, by the implementation of a unique enterprise identifier and a central database of firms, sharing administrative information from all relevant agencies.
- Reduced delays in payments to SMEs, by the adoption of a "Payment Delays" law regulating that aspect of commercial contracts and defining late payment penalties.

77. ***It also aims at furthering trade policy reform and trade facilitation, through:***

- Reduced tariff rates for manufacturing goods.
- Updated and modernized legal and regulatory framework for import standards and their enforcement (as it relates to the safety of products and services), as well as for WTO-compliant trade defense mechanisms.
- Reduced delays for trade operations by streamlining port logistics through the integration of pre-shipment administrative steps into the online PORTNET system and adoption of the articles of association of the PORTNET company.

78. ***Finally, it will support reforms in the economic governance area, through:***

- Increased transparency and accountability in the process by which investment incentives are granted and monitored.
- Improved Government coordination and private sector involvement in the design, implementation and monitoring of investment climate reforms, leading to increased and more effective business environment policies.
- Reduced anti-competitive conduct by strengthening the competition legal framework and the CC in charge of enforcing anti-trust and competition regulation.

Box 1. Prior Actions for ECSP DPL I and Indicative Triggers for ECSP DPL II.

A. Prior Actions for ECSP DPL I

D1. The Inter-ministerial Committee in charge of Managing the Common Business Entity Identifier has appointed the Tax Administration to be in charge of hosting, managing and operating the database centralizing the common business identification codes in accordance with Decree No 2-11-63.

D2. The National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*) has approved a priority list of at least 20 administrative procedures for businesses that will be simplified and standardized.

D3. The Law No 32-10 modifying the Code of Commerce and imposing minimum standards in payment delays in commercial contracts has been approved by Parliament and published in the National Gazette No. 5984 dated October 6, 2011.

D4. The Law No 24-10 amending the Law No 05-96 and abolishing the requirement of a minimum capital for incorporating a limited liability company (*Société à responsabilité limitée - SARL*) has been approved by Parliament and published in the National Gazette No 5956 bis dated June 30, 2011.

D5. The Ministry of Economy and Finance has issued Circular No. 5306/210 dated December 30, 2011 regarding the tariffs reduction on imports of industrial products for 2012.

D6. The Head of Government has issued the implementing Decree regulating anti-dumping, anti-subsidy and safeguard measures in accordance with the Law No 15-09 on Trade Defense published in the National Gazette No 5956 bis dated June 30, 2011.

D7. The company PORTNET in charge of operating and managing the IT system for data exchange between public authorities and private trade operators has been established by its shareholders on January 19, 2012.

D8. The Head of Government has issued a Circular providing for the mandatory preparation of cost and benefit assessments of investment projects submitted to the National Investment Commission.

D9. The Ministry of General Affairs and Governance (MAGG) has issued a Decision dated October 29, 2012 establishing within the MAGG a Department in charge of improving the investment climate and acting as the secretariat of the National Business Environment Committee *(Conseil National de l'Environnement des Affaires – CNEA)*.

D10. The Government Council has approved the draft Laws modifying the Competition and Freedom of Pricing Law No 06-99, reinforcing the powers and independence of the Competition Council *(Conseil de la Concurrence - CC)*.

B. Indicative Triggers for ECSP DPL II

Di1. The database centralizing the common business identification codes (in accordance with Decree No 2-11-63) is operational and used by at least four key concerned authorities (Tax, Office Marocain de la Propriété Industrielle et Commerciale - OMPIC, Commercial Register, CNSS).

Di2. The National Business Environment Committee (CNEA) has validated the simplification and standardization of the first batch of at least 20 administrative procedures and approved an additional batch of at least 20 other administrative procedures that will be simplified and standardized.

Di3. Implementing regulations to regulate penalties for late payments provided under Law No 32-10 have been issued.

Di4. The Government Council has approved the draft Law modifying the Law No 17-95 on corporations (*Société anonyme- SA*) to simplify the creation of *SA* and improve its governance.

Di5. The Head of Government has issued the implementing Decree of the Law 24-09 dated August 17, 2011 on the safety of products and services.

Di6. The Law modifying the Law No 13-89 dated November 9, 1992 on International Trade has been adopted and is in force.

Di7. The IT system managed by PORTNET for data exchange is operational and used by the key public authorities and private trade operators involved in import and export operations (Customs, freight forwarders, banks, Foreign Trade Department, and the National Office of Food Sanitary Security (ONSSA))

Di8. The new Investment Law and its implementing regulations have been adopted and are in force, and provide for a legal framework encouraging investment, bringing more transparency on incentives and how they are granted by the National Investment Commission (CII), and provide for the modalities of the evaluation of costs and benefits of investment projects submitted to the CII.

Di9. The National Business Environment Committee (CNEA) has met to approve and review its annual reform program for 2013 in accordance with Decree No 2-10-259 dated October 29, 2010 establishing the CNEA.

Di10. The new legal framework modifying the Competition and Freedom of Pricing Law No 06-99 and reinforcing the powers and independence of the CC has been published in the National Gazette and is in force.

Box 2. Good Practice Principles for Conditionality

Principle 1: ***Reinforce ownership.*** The design of this program has been fully client-driven and thus enjoys solid country ownership. All key reforms supported are either envisaged in the new Constitution approved by popular referendum in July 2011 or central to the new Government agenda as presented to the Parliament by the Head of Government in January 2012. The reform program is consistent with a shared call for reform stemming from many stakeholders for increased efforts to improve Morocco's overall competitiveness.

Principle 2*: Agree up front with the Government and other financial partners on a coordinated accountability framework.* In preparing the ECSP DPL I, the World Bank team has taken into consideration other donors' ongoing operations. In particular, the program preparation was aligned with the overall objectives and supported activities of the EU. Flexibility in program design is also retained to further align the supported actions to the EU Advanced Status Program (under preparation).

Principle 3: ***Customize the accountability framework and modalities of World Bank support to country circumstances.*** By design, the program fully reflects the country's circumstances, priorities and institutional responsibilities, as indicated by the Government. The Program accompanies the Government in implementing its own reforms. The ECSP DPL I also benefits from the lessons learned from previous operations such as the Technical Assistance to the CNEA and other DPL operations in Morocco, and from the flexibility embedded in the CPS.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement.*** Prior actions and triggers focused on critical actions for achieving the objectives of the program have been identified through a process of extensive consultations with the Ministry Economy and Finance, Ministry of General Affairs and Governance, and the Ministry of Industry, Commerce and New Technologies.

Principle 5*: Conduct transparent progress reviews conducive to predictable and performance-based financial support.* Progress reviews will take place twice a year, timed so as to allow for a predictable review of progress and announcement of support levels at the beginning of the budget year. In addition, the Task Team Leader and other key World Bank staff are located in the Rabat office so as to ensure continued dialogue and client support throughout the implementation of the operation.

B. OPERATION DESCRIPTION

First Policy Area – IMPROVING THE INVESTMENT CLIMATE

I.1 Enhancing e-governance for regulatory and administrative simplification.

79. *Prior action (D1):* The Inter-ministerial Committee in charge of Managing the Common Business Entity Identifier has appointed the Tax Administration to be in charge of hosting, managing and operating the database centralizing the common business identification codes in accordance with Decree No 2-11-63.

80. *Indicative trigger for ECSP DPL II (Di1)*: The database centralizing the common business identification codes (in accordance with Decree No 2-11-63) is operational and used by at least four key concerned authorities (Tax, OMPIC, Commercial Register, CNSS).

Rationale. The main administrative agencies that interact with businesses in Morocco (customs, taxes, social security administration, Ministry of Justice) do not use a common enterprise identifier. They therefore cannot communicate. It affects the

ability of the Government to implement ICT-enabled reforms (like electronic business registration, a project that is stalled because of this constraint). It also affects the quality and the availability of statistical data on the enterprise sector (which is very scarce), and increases the risks of fraud, as administrations like tax authority or the social security administration cannot cross-check data and tax reports. Establishing a common enterprise identifier is an essential prerequisite to other important business environment reforms, in particular when they involve e-Government measures. It is also essential to improve access to reliable administrative and financial data on enterprises.

Policy action. A project to introduce a common enterprise identifier was launched in 2008. Agreement between the key agencies has been reached and an organizing Decree has been adopted. To enable the implementation of the Decree, many steps need to take place, including the appointment of the principal agency that will manage the common identifier database (the tax authority). The ECSP DPL II will support the actual implementation of the inter-connectivity project to finally enable ICT-based administrative simplification reforms in the business environment area.

Expected results. The system will enable all relevant administrations to share and exchange information on enterprises, through connected databases. Ultimately, this will enable e-registration of business companies. It will also enable other ICT-based reforms in the investment climate area. Tax compliance enforcement will also be improved as different agencies will be able to share easily updated enterprise data. The statistical system for the enterprise sector will also greatly benefit from this reform as up-to-date firm-level databases with reliable data on employment and financial statements will become available. These concrete improvements in the way Government agencies interact with the private sector will be key to the success of many other reforms contributing to the competitiveness of Morocco.

I.2 Simplifying administrative procedures and improving transparency.

81. *Prior action (D2):* The National Business Environment Committee (Comité National de l'Environnement des Affaires - CNEA) has approved a priority list of at least 20 administrative procedures for businesses that will be simplified and standardized.

82. *Indicative trigger for ECSP DPL II (Di2)*: The CNEA has validated the simplification and standardization of the first batch of at least 20 administrative procedures and approved an additional batch of at least 20 other administrative procedures that will be simplified and standardized.

Rationale. Despite progress over the recent years, Morocco's business environment remains cumbersome to entrepreneurs in many areas. Moreover, beyond the need to simplify administrative procedures, there is a need to reduce the room for discretionary implementation of the rules by public officials. One way of reducing such uncertainty to businesses is to implement e-enabled administrative procedures that restrict the room for discretion. Another way is to not only simplify procedures, but make the rules transparent, clear, unambiguous and spelled out in high quality and standardized forms as is the purpose of this measure.

Policy action. The policy action relates to the ongoing simplification of administrative procedures spearheaded by the MFPMA. This ongoing process aims at simplifying and standardizing forms for the most important administrative procedures for firms, making them available online and simplifying processes. Its objective is to reduce uncertainty, discretion and arbitrariness in the implementation of business regulations. The prior action of the ECSP DPL I consists of adopting at least 20 priority procedures (see Annex 5). ECSP DPL II will support the implementation of this simplification and standardization effort for this first batch and the identification of another batch of at least 20 procedures.

Expected results. Standardizing forms and making them available online will enable to significantly reduce the uncertainty, the discretion and the arbitrariness often associated with administrative procedures, via increased access to reliable information and transparency. The 20 procedures selected for this pilot phase will be chosen amongst the list of 30 procedures (see Annex 5) identified by various ministries, which do not include environmental procedures (i.e. licensing) and should not adversely impact existing standards for public health, safety and the environment.

I.3 Reducing the financial burden on SMEs resulting from excessive payment delays.

83. *Prior action (D3):* The Law No 32-10 modifying the Code of Commerce and imposing minimum standards in payment delays in commercial contracts has been approved by Parliament and published in the National Gazette No. 5984 dated October 6, 2011.

84. *Indicative trigger for ECSP DPL II (Di3):* Implementing regulations to regulate penalties for late payments provided under Law No 32-10 have been issued.

Rationale. Access to finance is among the top constraints mentioned by Moroccan firms as an investment climate impediment. For SMEs, this problem is exacerbated by the burden on their treasury management resulting in long delays in getting paid when contracting with larger firms or with public administrations. Because they often lack the bargaining power vis-à-vis these important clients, SMEs are often reluctant to actually claim payments and interest on late payments they are entitled to under contractual agreement or case law. Regulating the payment delays in commercial contracts by imposing a cap on maximum contractual delays (3 months) and imposing automatic calculation of penalties as well as rapid judicial procedures for SMEs to enforce their contractual rights, will contribute to reducing this important constraint to small firm growth and competitiveness.

Policy action. The new law on payment delays will protect firms that are subject to payment delays, by regulating the minimum interest on late payments and the maximum payment delays that contracts can include. Beyond the law itself, what will be key is its enforcement in practice, in particular the adoption of the corresponding regulatory text on late payment interests. Once these regulations are in place, companies suffering from payment delays will be entitled to claim damages and/or request payment before the commercial courts.

Expected results. It is expected that the burden on treasury and cash flow management of small firms will be lessened by the reduction of the average payment

delays for SMEs when they contract with larger firms.

I.4 Simplifying the regulatory environment and reducing barriers to entry and operations for SMEs.

85. *Prior action (D4):* The Law No 24-10 amending the Law No 05-96 and abolishing the requirement of a minimum capital for incorporating a limited liability company (*Société à responsabilité limitée - SARL*) has been approved by Parliament and published in the National Gazette No 5956 bis dated June 30, 2011.

86. *Indicative trigger for ECSP DPL II (Di4):* The Government Council has approved the draft Law modifying the Law No 17-95 on corporations (*Société anonyme- SA*) to simplify the creation of *SA* and improve its governance.

Rationale. Despite recent progress in regulatory simplification reforms (see Table 4), reducing constraints to business entry and operations remains a key priority to improve the investment climate and competitiveness of the economy. In line with global trends in this area, abolishing the mandatory minimum capital requirement for limited liability companies will help a greater number of SMEs to either formalize or adopt that legal status. Beyond reducing barriers to entry, regulatory simplification across the board is a continuous process. Yet, as this often involves small legal changes to more than one law, it is often a lengthy process. Introducing further regulatory simplification laws would enable to address this issue.

Policy action. In line with recent trends in simplifying business entry, the mandatory minimum social capital requirement for limited liability companies (SARL) is abolished. In a second phase, in the context of the follow-up ECSP DPL II, a draft law for further simplifying the creation of corporations (SA) and improving their governance will be finalized and approved by the Government Council.
Expected results. A simplified legal and regulatory environment for commercial companies will encourage entrepreneurship, a critical step towards improved competitiveness. Greater entry and lower compliant costs for SARL will contribute to increasing competition, productivity growth and, ultimately, strengthened economic competitiveness and job creation. Better governance and transparency in the management of the SA, which is the legal form under which all major firms are incorporated in Morocco, will contribute to leveling the playing field among main business operators.

Second Policy Area – FURTHERING TRADE POLICY REFORM AND TRADE FACILITATION

87. ***In addition to the sustained reduction of tariffs implemented over the years, Morocco has implemented numerous trade facilitation reforms***: infrastructure investments in roads and ports have increased significantly, customs procedures have been streamlined as well as ports procedures; an online trade platform has been implemented by the customs administration; services liberalization has been successfully implemented in the civil aviation area and to a lesser extent, in the commercial shipping sector and logistics. Moreover, a new trade logistics strategy has been launched in 2012 and Morocco is pioneering dedicated logistical platforms in the region in support of foreign trade and the retail sector.

II.1 Harmonizing trade policy by reducing distortions in tariff structure.

88. *Prior action (D5):* The Ministry of Economy and Finance has issued Circular No. 5306/210 dated December 30, 2011 regarding the tariffs reduction on imports of industrial products for 2012.

Rationale. In line with the gradual opening of the Moroccan economy to foreign trade which started more than a decade ago, the Government launched in 2009 a MFN tariff reduction program, which aims at reducing tariff levels and the number of tariff bands for industrial goods. Further reducing barriers to trade is key to enable the needed structural transformation of the Moroccan economy, support the growth and diversification of its exports and strengthen competitiveness. This tariff reduction agenda for industrial goods is all the more important as Morocco has put in place an extensive array of bilateral FTAs which can lead to distortions and trade diversion if this strategy is not complemented by MFN tariff reductions. More generally, assessing the impact of these FTAs is now necessary to inform a new phase of the trade and integration strategy.

Policy action. The last in a series of MFN tariff reductions for manufacturing goods planned in 2009, the current reduction will, among other, reduce maximum tariff quota applicable to industrial products from 30 percent in 2011 down to 25 percent in 2012.

Expected results. Reduced tariff barriers, if complemented by other reforms that improve the investment climate and spur productivity, will be key to improving the competitiveness of the Moroccan economy. It is expected that competition in the local market will increase, the cost of inputs for local manufacturers will be reduced, and ultimately, exports and productivity growth should benefit from the reduction of trade barriers.

II.2 Modernizing the legal and institutional framework of foreign trade and consumer protection.

89. *Prior action (D6):* The Head of Government has issued the implementing Decree regulating anti-dumping, anti-subsidy and safeguard measures in accordance with the Law No 15-09 on Trade Defense published in the National Gazette No 5956 bis dated June 30, 2011.

90. *Indicative triggers for ECSP DPL II (Di5):* The Head of Government has issued the implementing Decree of the Law 24-09 dated August 17, 2011, on the safety of products and services. *(Di6)*: The Law modifying the Law No 13-89 dated November 9, 1992, on International Trade has been adopted and is in force.

Rationale. In the context of increased openness to trade, it is essential that Morocco upgrades its norms and standards framework for imports and strengthens its capacity to protect its market from non-competitive behavior (anti-dumping, etc.). While standards on the safety of products and services apply to both imported and locally produced goods and services, they contribute to aligning the legal and regulatory framework of Morocco with best international practices, and hence favor better integration of Morocco's private sector in international trade.

Policy action. The Law on Trade Defense aims at strengthening the tools to protect the Moroccan market from dumping and other non-competitive or illegal practices, while ensuring compliance with WTO rules (see Box 3). It defines the modalities for the Government to act against dumping, show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and demonstrate that the dumping is causing injury or threatening to do so to the competing domestic industry. Regarding consumer protection, the implementation of regulations on product safety and standards will be supported in the context of ECSP DPL II. These regulations will apply to domestic products as well as to imported products.

Box 3. Morocco's trade defense law is in compliance with WTO rules (proposed Law 15-09)

The WTO agreement gives the option to governments to apply trade defense instruments in three exceptional cases: actions against dumping when foreign producers sell at an unfairly low price; subsidies and special "countervailing" duties to offset the subsidies; and emergency measures to limit imports temporarily, designed to "safeguard" domestic industries.

The WTO agreement focuses on how governments can or cannot react to dumping and disciplines trade defense measures. Based on the WTO agreement, the Moroccan defense law defines the modalities for the Government to act against dumping, show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and demonstrate that the dumping is causing injury or threatening to do so to the competing domestic industry. It also defines the maximum time for investigation and implementation of duties. For example, anti-dumping investigations are to end immediately in cases where the authorities determine that the margin of dumping is insignificantly small and anti-dumping measures must expire five years after the date of imposition.

The impact of trade defense measures is largely procedural and its fairness will depend on the investigation process and the capacity of governments to demonstrate that a domestic industry is hurt or at risk because of imports, often requiring complex costing and accounting calculations.

Expected results. The regulatory and institutional framework will be strengthened to protect the Moroccan market from uncompetitive trade behavior as well as from the imports of non-compliant products in terms of safety and standards; this new framework will enhance transparency and predictability on use of mechanisms for adapting local industries to the international competition.

II.3 Streamlining trade logistics at the ports of entry.

91. *Prior action (D7):* The company PORTNET in charge of operating and managing the IT system for data exchange between public authorities and private trade operators has been established by its shareholders on January 19, 2012.

92. *Indicative trigger for ECSP DPL II (Di7):* The IT system managed by PORTNET for data exchange is operational and used by the key public authorities and private trade operators involved in import and export operations (Customs, freight forwarders, banks, Foreign Trade Department, and the National Office of Food Sanitary Security (ONSSA)).

Rationale. As part of the ongoing trade facilitation reforms, increasing the electronic data exchange between key operators is essential to streamline port and customs

operations. In particular, enabling shipping agents to perform administrative requirements before the arrival of ships should reduce import clearance delays.

Policy action. PORTNET, the company in charge of operating and managing the IT system for data exchange between port stakeholders, has been established following a meeting of the public and private shareholders. ECSP DPL II will further operationalize the PORTNET single window and ensure it is used by the key public authorities and private trade operators involved in import and export operations (Customs, freight forwarders, banks, Foreign Trade Department, National Office of Food Sanitary Security (ONSSA))

Expected results. Port clearance delays will be reduced through enabling shipping agents to perform administrative requirements before the arrival of ships. Further reductions in total transit time are expected when the PORTNET single window will be fully in place and operational. Discretion and corruption should also be reduced when the automated data exchange system is fully in place.

Third Policy Area – STRENGTHENING ECONOMIC GOVERNANCE.

93. This pillar focuses on three essential aspects of economic governance: III.1 *Transparency and effectiveness in Government interventions in the investment area*; III.2 *Coordination of investment climate reforms*; and, III.3 *Competition policy*. It should be noted that the new Government's priorities explicitly include a focus on governance issues. It is therefore expected that in the context of the follow-up ECSP DPL II operation, the economic governance pillar will be further reinforced.

III.1 Increasing transparency and effectiveness of the Government interventions in support of investment and selected sectors.

94. *Prior action (D8):* The Head of Government has issued a Circular providing for the mandatory preparation of costs and benefits assessments of investment projects submitted to the National Investment Commission.

95. *Indicative trigger for ECSP DPL II (Di8)*: The new Investment Law and its implementing regulations have been adopted and are in force, and provide for a legal framework encouraging investment, bringing more transparency on incentives and how they are granted by the National Investment Commission (CII), and provide for the modalities of the evaluation of costs and benefits of investment projects submitted to the CII.

Rationale. Starting with the launch of the Programme Emergence in 2005, the Government has embarked on an ambitious set of sectoral strategies in order to support the structural transformation of the industrial sector and to support emerging activities, in particular in exports. Most of these sectoral strategies essentially aim at developing activities of high export potential, support by foreign direct investments. This sectoral approach rests notably on the idea that the Government focuses on dedicated sectoral or geographical "enclaves" where a compact of World-class business environment mixed with investment incentives ought to attract investment, especially large foreign investments. The Moroccan Investment Promotion Agency

(AMDI), as the secretary of the CII headed by the Head of Government, is a key institution in this strategic framework of selective Government interventions. The challenge for the Government is to ensure that these sector-specific and investment-specific incentives are effective, and that the subsidies embedded are outweighed by the benefits and externalities generated.

Policy action. The proposed prior action supports reinforcing the capacity and the transparency by which AMDI evaluates investments to be supported and tracks past investments that have received the Government's support. Evaluating in a transparent manner the direct and indirect subsidies embedded in each investment support plan is an essential step to increased accountability of AMDI and more effective Government interventions. Such measure will be followed in the context of ECSP DPL II by similar measures to improve the monitoring, the transparency and the effectiveness of sectoral strategies, notably through the adoption of a new investment law.

Expected results. Government subsidized interventions and sectoral strategies will be more effective through better targetingAs interventions that prove too costly will be dropped or reformed.

III.2 Improving the public-private coordination for the monitoring and implementation of business environment reforms.

96. *Prior action (D9):* The Ministry of General Affairs and Governance (MAGG) has issued a Decision dated October 29, 2012 establishing within the MAGG a Department in charge of improving the investment climate and acting as the secretariat of the National Business Environment Committee (Comité National de l'Environnement des Affaires - CNEA).

97. *Indicative trigger for ECSP DPL II (Di9):* The CNEA has met to approve and review its annual reform program for 2013 in accordance with Decree No 2-10-259 dated October 29, 2010 establishing the CNEA.

Rationale. Investment climate and competitiveness reforms being cross-sectoral by nature, the complexity of inter-ministerial and inter-agency coordination have often constrained the ability of the Government to make progress. Willing to address this issue, the Moroccan Government has in the past launched several reform initiatives supported by ad-hoc inter-ministerial working groups or committees. The efficiency of this institutional structure to foster reforms of the business environment has had mixed results. These committees tended to suffer from a number of recurrent weaknesses such as the lack of a clear mandate, unclear political commitment and leadership, insufficient capacity, and absence of structured processes and monitoring tools. To improve coordination and implementation of business environment reforms, the Government launched in 2010 the CNEA. The CNEA, supported by a strong dedicated team, explicit processes and strong political capital was successful in significantly improving inter-ministerial coordination and speeding-up the implementation of business environment reforms. The CNEA met in May 2011 and May 2012 to approve and review its annual reform program.

Policy action. Policy actions aim at further institutionalizing the CNEA by instituting a dedicated department in the MAGG that will act as the secretariat of the CNEA and ensuring, in the context of ECSP DPL II, that it continues to further reform the investment climate area through the adoption for 2013 of a new list of reforms to be monitored by the CNEA.

Expected results. The public-private platform to identify, coordinate and implement investment climate reforms is strengthened and institutionalized. Reforms in the investment climate area are accelerated and sustained, especially when they involve more than one agency.

III.3 Strengthening the institutional framework for the competition policy.

98. *Prior action (D10):* The Government Council has approved the draft Laws modifying the Competition and Freedom of Pricing Law No 06-99, reinforcing the powers and independence of the Competition Council (*Conseil de la Concurrence - CC*).

99. *Indicative trigger for ECSP DPL II (Di10):* The new legal framework modifying the Competition and Freedom of Pricing Law No 06-99 and reinforcing the powers and independence of the CC has been published in the National Gazette and is in force.

Rationale. Many sectors of the Moroccan economy suffer from lack of competition and oligopolistic positions by a few large established firms. This affects economic competitiveness as rent-seeking prevents healthy creative destruction and innovation which drives economic growth. It also hurts the credibility and the impact of the Government's reforms. The Government has launched a ground-breaking reform of the Competition Law to fight such monopolistic behavior and reduce the rents in the Moroccan economy. This reform will in particular enable the CC (whose role has been largely strengthened in the new Constitution) to play an active anti-trust role.
Policy action. The reform of the Competition Law will significantly strengthen the capacity of the CC, which is currently mainly an advisory body to the Government. New laws will give the CC the power to investigate and sanction monopolistic behavior, mergers and collusion to address long lasting entrenched monopolistic situations. It integrates best practices on regulating competition and it is in line with the new Constitution that provides specifically for the independence of the CC and enlarges its scope of responsibilities. The credibility of this institution and its supporting laws will however only be established in the medium term after the actual implementation of the new legal framework will have been tested. This reform will therefore be sustained in the context of the ECSP DPL II and supported by technical assistance to strengthen the capacity of the CC.

Expected results. The CC has established itself as a credible and independent institution in charge of promoting and maintaining market competition by regulating anti-competitive conduct by companies.

VII. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACTS

100. ***The proposed ECSP DPL I does not support reforms that are expected to have any significant negative distributional impacts.*** Dedicated analysis is jointly developed with the authorities – and in some instances already started – on key pillars of the program. There is no available qualitative or quantitative evidence that suggests significant distributional impact of the tariff reductions implemented in the 2009-11 period, nor for the final reduction implemented in 2012 supported by this operation. Nevertheless, to further investigate the potential impacts of its trade policy as a whole, the Government has launched, in collaboration with the Bank, a comprehensive analytical program on the impact of trade reform measures taken in the last decade and, to the extent possible, the distributional impact of the tariff reduction policy will be investigated as part of this work. In parallel, the analytical work program on growth, labor markets and poverty recently launched by the Bank with the Higher Planning Commission (HCP) will also investigate the impact of key reforms on poverty and inequality. Currently, one of the priorities of this joint work is on the understanding of labor mobility over time, including in relation to trade reforms. Lastly, a study is undertaken by the Ministry of Economy and Finance (MEF) with assistance from the African Development Bank (AfDB) in order to assess the employment content of growth.

101. ***ECSP DPL I reform actions aimed at improving the investment climate will address many of the problems experienced by informal firms, the majority of which are owned and managed by women.*** Informality, defined as "lack of social security coverage" (usually understood as pensions, or if pension system does not exist, as health insurance) is widespread in Morocco, with informality rates of 80 percent compared to the MENA region average of 67 percent. In terms of size of employment, employment in the informal sector increased from 1.9 million in 1999 to 2.22 million in 2007 (annual creation of 40,000 jobs). Rural areas are more affected than urban areas: in 2009, 41.1 percent of urban women were registered with social security, compared to only 1.6 percent of women in rural areas.[7] As women often work in unpaid/subsistence agriculture, women are positively associated with informality.[8] Removing the constraints and barriers to business establishment and growth so that the private sector can contribute more to economic growth and job creation contributes to reducing poverty. More than 75 percent of informal workers can be found in small firms (less than five workers) that engage in low productivity activities. The most important external factor influencing the decision to become formal is the tax and regulatory burden.[9]

B. ENVIRONMENTAL ASPECTS

102. ***The ECSP does not have any significant environmental implications.*** The development policy loan supports a broad program of policy and institutional reforms, for which the environmental requirements of OP/BP 8.60 apply. The policies supported by the proposed operation are unlikely to cause significant effects on the country's environment,

---

[7] Troisièmes assises, Royaume du Maroc, 2011

[8] Gatti, R.; Angel-Urdinola, D.; Silva J. and Bodor, A. 2011. *Striving for better jobs: The challenge of Informality in the Middle East and North Africa.* Washington D.C.: World Bank

[9] Gatti, R.; Angel-Urdinola, D.; Silva J. and Bodor, A. 2011. *Striving for better jobs: The challenge of Informality in the Middle East and North Africa.* Washington D.C.: World Bank

forests, and other natural resources. The measures supported under the operation are primarily geared toward improving the competitiveness of the Moroccan economy and the business environment and do not include physical investments. All of the actions supported throughout the operation are policy oriented (policy reforms for increased competitiveness of the Moroccan economy in three key areas of the Government's comprehensive economic strategy: the investment climate, trade policy and trade logistics and economic governance) and none support direct investments, involve civil works or involve policy actions that would lead to significant environmental impact. In particular, it must be noted that the proposed simplification, standardization and certification of administrative procedures for businesses supported by this operation does not target environmental procedures (i.e. licensing) and should not adversely impact existing standards for public health and safety and the environment.

C. IMPLEMENTATION, MONITORING AND EVALUATION

103. ***The responsibility for implementing the program rests with the Ministry of Economy and Finance and the Ministry of General Affairs and Governance.*** Building on the positive experience accumulated over the course of several World Bank-financed development policy operations, the two ministries will continue to take the lead in monitoring progress in implementation. World Bank staff, both in Headquarters and in the field, will continue to maintain dialogue with the key counterparts and the relevant sector ministries and will conduct periodic reviews to assess progress in implementation of the program supported by this operation, as well as of the broader reform agenda pursued by the Government. In this context, dialogue and reviews will continue to focus on the outcomes of the program and eventual adjustments that may be necessary in order to take into account the latest country developments, stakeholder support, and feasible options for realizing the intended development goals. Consequently, specific attention will be devoted to monitoring indicators and goals of the program.

104. ***This operation will be supervised from the Morocco field office.*** Implementation support of this operation, as well as preparation of the ECSP DPL II, will be done by staff in the World Bank Rabat Office.

D. FIDUCIARY ASPECTS

105. ***A Public Expenditure and Financial Accountability (PEFA) assessment was undertaken in 2009 jointly by the European Commission and the Bank.*** The PEFA report has confirmed substantial progress in Public Financial Management (PFM) reforms in Morocco. The results, based on the PEFA ratings, indicate in particular that Morocco has an overall credible, comprehensive, and transparent budget. The annual budget is published in the National Gazette and is accessible to the general public in printed form and on Government's websites. The PFM system also supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The main strengths of the Moroccan PFM are the following aspects: (i) credible and transparent budget; (ii) transparency of taxpayer obligations and liabilities; (iii) timeliness and regularity of Government's bank accounts reconciliation; (iv) accurate and timely in-year budget reports covering expenditures at both commitment and payment stages; and (v) strong cash and debt management. The main challenges of the Morocco PFM relate to: (i) improvement of the

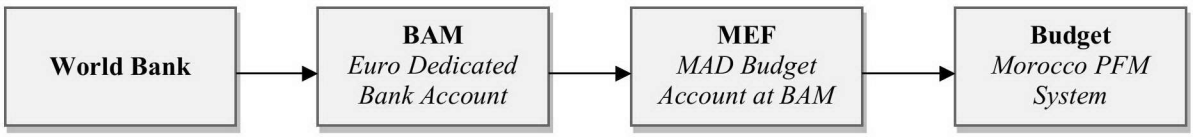
budget classification, since despite the level of detail, accuracy, and reliability, it does not yet allow for reliable direct tracking of program-related spending being financed under priority programs; (ii) timeliness of annual statements which are submitted for external audit 15 months after the end of the fiscal year; (iii) the limited extent of legislative scrutiny of external audit reports; and (iv) the frequency and scope of audit rated average and the follow-up of audit recommendations. The Government is committed to addressing these challenges, and, in order to do so, has introduced measures to: (i) move to a performance based budgeting framework; (ii) develop a Medium Term Expenditure Framework (MTEF) to assist in fiscal sustainability; (iii) modernize its accounting and internal audit framework; and (iv) improve revenue management. The 2009 PEFA is also contributing to the Government's reform process by providing information on the extent to which reforms are yielding improved performance. A new Organic Law supporting performance based budget, transparency, and Parliament's oversight is being finalized and is expected to be approved in the next year. In conclusion, the strength of Morocco's PFM system and the Government's commitment to reform, taken together, are in the Bank's view, adequate to support this DPL.

106. ***Foreign Exchange. No safeguard assessment of the Central Bank of Morocco (BAM) was conducted by the IMF***. However, BAM is audited on a yearly basis with the audit report being disclosed publicly. The 2009, 2010 and 2011 audits were unqualified. The World Bank was not able to review the Management Letter, and therefore has limited information on the foreign exchange control environment.

E. DISBURSEMENT AND AUDITING

107. ***Flow of funds.*** The proposed loan will follow the Bank's disbursement procedures for development policy loans. Once the loan is approved by the World Bank's Board of Executive Directors and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions as defined in the Loan Agreement and in a single installment. The flow of funds (including foreign currency exchange) is subject to standard public financial processes. The Government budget is comprehensive, unified and subject to centralized Treasury account.

108. ***Disbursement***. Loan proceeds will be deposited in a Government dedicated account at the BAM and the equivalent of the funds in local currency will be transferred to the Treasury current account being the Government budget account. The MEF will then furnish to the Bank a confirmation of this transfer, advising that the total sum of the loan has been received in an account that forms part of the country's official foreign exchange reserves and credited to the account used to finance budget expenditures. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, the Bank will require the Borrower to promptly, upon notice, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled. The loan proceeds will be administered by the MEF.



109. ***Although an audit of the use of the funds may not be required, the Bank reserves the right to ask for a transaction audit.*** This audit, when asked for, will cover the accuracy of the transactions i.e., receipts and payments of the dedicated account, including accuracy of exchange rate conversions; confirming that the dedicated account was used only for the purposes of the operation where no other amounts have been deposited into the account. Also the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the Bank is six months from the date a request for such audit is issued.

F. RISKS AND RISK MITIGATION

110. ***Political risk.*** There are high expectations for meaningful and quick change amongst the population and therefore real pressure that reforms be implemented in a credible manner. The new Government's articulated reform agenda – and the discussions that the Bank has held with key ministries to date – confirm that there is a credible and strong commitment to the proposed reforms. The envisaged agenda has broad support and the Government has reiterated its willingness to continue to work for the quick implementation of key measures that should not be delayed in light of political constraints. The Bank team will continue to monitor the political evolution closely and will continuously assess the potential for political developments to influence the implementation of the Bank's program and this operation. The Bank will stand ready to adapt its assistance program, particularly with respect to specific reform measures supported by this DPL, to additional measures and reform areas that the Government would like to implement.

111. ***Macroeconomic risk.*** Morocco faces three macroeconomic exogenous risks, the: (i) possible deterioration of the ongoing global economic difficulties; (ii) impact of poor weather on the agricultural sector; and (iii) continued high prices of food and energy. Should the current global economic uncertainty further deteriorate, Morocco would face reduced growth prospects. In the event that the current European economic turmoil evolves in a recession in the order of a -1 to -1.5 percent GDP growth in 2013, World Bank estimates for Morocco indicate a reduced growth rate by half point for the same year. Should oil prices remain at current levels, Morocco would likely see its GDP growth prospects reduced by about 0.5 percent relative to the baseline scenario. This would also have important fiscal implications that pose perhaps the most significant medium term macroeconomic risk - that of deterioration of the fiscal balance which would be exacerbated by the increasing costs of the subsidy system. Morocco's management and mitigation of these risks are predicated on the new Government's strong commitment to proceed with the ongoing and envisaged reforms outlined earlier. The Government is also adopting specific measures in the event of a negative agricultural outcome that relate to the suspension of import duties on cereals and support to affected farmers and livestock producers. It is devising strategies to cope with potentially sustained high oil prices, including requesting World Bank support to develop mechanisms to hedge commodity price risks. More importantly, it is devising measures to mitigate the impact of subsidies on public finances to be eventually introduced in 2013 after the partial adjustment to oil prices implemented in early June 2012. In this regard, there is broad understanding that the needed consolidation of public finances will require three critical measures the Government is already working on: deepening of fiscal reform, regaining control over the wage bill evolution; and subsidy reform.

112. ***Governance and institutional capacity risk***. Ensuring adequate institutional capacity to support this DPL's reform implementation could pose a key challenge. The Government is aware of this issue and is drawing from previous reform implementation experience to identify mechanisms to address this issue and improve inter-ministerial coordination. In addition, sustained efforts have been deployed by the main donors to mobilize sizeable resources to support institutional capacity building and technical assistance needs. Improving governance remains central to Morocco's success of development efforts as there are risks posed by implementation deficiencies, monitoring and evaluation. Public administration reforms have taken place for more than a decade but have not yet led to tangible and visible results that can be appreciated by citizens. The new Constitution and the revision and strengthening of the country's overall governance structure now provide the Government with a new opportunity to address past shortcomings by allowing for an enhanced framework to improve the checks and balances between the legislative, the executive and the judiciary powers, empower the key governance institutions and consolidate the principles of modern governance in Morocco. Reform of the budget process, justice reform and the new access to information right are key levers to foster greater transparency and accountability, all of which are priorities of the new Government. The World Bank-supported program remains aligned to these priorities including with this DPL as it aims to mitigate this risk through encompassing support to improving the regulatory environment, particularly as concerns business environment. As mentioned above, a new Accountability and Transparency DPL series is also under preparation to support the Government on key governance reforms.

113. ***Risk specific to this operation***. This DPL is focused on key structural reform that will take time to materialize in concrete and visible results. Consequently there is a risk associated with the management of increasing demands for rapid results that will need to be addressed. This risk is particularly acute in the case of the strengthening of the powers and independence of the CC, which will notably depend on the final legal framework and its implementing regulations, and will constitute a trigger of the second Development Policy Loan of the program. The CC may face strong technical and political challenges in the short and medium term in the implementation of its newly extended powers. The Government is aware of these challenges and is determined to increase consultations and dialogue with all the relevant stakeholders so as to ensure the appropriate buy-in with the pace of reforms and understanding of their long-term nature for implementation. For its part, the Bank will support such efforts and scale up as necessary its engagement in support, assistance and participation in the policy dialogue with both Government and stakeholders.

ANNEX 1: LETTER OF DEVELOPMENT POLICY

Royaume du Maroc

Chef du Gouvernement

Ministère Délégué auprès du Chef du Gouvernement
Chargé des Affaires Générales et de la Gouvernance

المملكة المغربية
رئيس الحكومة

الوزارة المنتدبة لدى رئيس الحكومة
المكلفة بالشؤون العامة والحكامة

ⵜⴰⴳⵍⴷⵉⵜ ⵏ ⵍⵎⵖⵔⵉⴱ

ⴰⵙⵇⵙⵓⵏ ⵏ ⵜⵓⵎⵔⵜ

ⵜⴰⵎⴰⵡⴰⵙⵜ ⵜⴰⵎⴰⵔⵜ ⵖⵔ ⵓⵙⵇⵙⵓⵏ ⵏ ⵜⵓⵎⵔⵜ
ⵣⵜⵜⵓⵎⴰⵡⵏ ⴷ ⵜⵖⴰⵡⵙⵏⵉ ⵜⵣⵎⴰⵜⴰⵏⵉ ⴷ ⵓⵙⵇⵎ

05 FEV 2013

Monsieur Jim YONG KIM
Président de la Banque Mondiale
1818 H Street N.W –Washington-

OBJET : Lettre de Politique de Développement relative à l'Appui au Programme de Renforcement de la Compétitivité Economique du Maroc

Monsieur le Président,

Comme vous le savez, le Maroc a engagé, au cours de la dernière décennie, une politique dynamique pour améliorer la compétitivité de son économie et promouvoir son attractivité pour les investisseurs. Des stratégies sectorielles dans les domaines notamment du développement industriel, des exportations et de la logistique ont été mises en œuvre. Des réformes transversales visant à améliorer l'environnement des entreprises dans les domaines de la simplification des procédures, de la douane, de la fiscalité, de la justice, des institutions de réglementations et du secteur financier ont été également mises en place.

Parallèlement à ces réformes, le Maroc s'est engagé dans une politique d'ouverture de son économie à travers la ratification de plusieurs accords bilatéraux et régionaux.

Bien que des progrès aient été réalisés dans tous ces domaines, il s'avère nécessaire aujourd'hui de consolider les efforts déjà entrepris et de mettre en place de nouvelles réformes pour faire face aux nouveaux défis que rencontre l'économie nationale dans un contexte de forte concurrence au niveau régional et mondial et de crise économique et financière.

Le gouvernement est déterminé dans ce cadre à poursuivre ces réformes et à veiller à la préservation des équilibres financiers conformément aux dispositions de la nouvelle constitution.

Dans son programme 2012-2016 adopté par le Parlement, le Gouvernement s'est engagé à œuvrer à la préservation et à la consolidation des équilibres financiers et macro-économiques, en vue notamment de garantir un climat des affaires incitatif pour les investisseurs aussi bien nationaux qu'internationaux.

Afin d'assurer les équilibres extérieurs, le Gouvernement veillera à corriger les déséquilibres structurels externes enregistrés au niveau de la balance commerciale et du compte courant de la balance des paiements, à travers notamment l'identification et l'élimination des contraintes à l'investissement et à la compétitivité dans le cadre d'une vision intégrée, y compris les contraintes liées au coût des facteurs de production, à la logistique, aux exportations, à l'éducation et à la formation et au climat des investissements.

La présente lettre de politique a pour objet d'exposer, d'une part, l'état des lieux et défis qui se posent à l'économie en matière de compétitivité et d'autre part, le programme de réforme qui sera mis en place par le Gouvernement pour améliorer la compétitivité de l'économie marocaine.

I- ETAT DES LIEUX DE LA COMPETITIVITE DE L'ECONOMIE MAROCAINE

Grâce aux politiques de libéralisation des échanges et la baisse des tarifs douaniers, le commerce extérieur du Maroc n'a cessé de progresser depuis une dizaine d'années. Néanmoins, le développement des échanges commerciaux s'est traduit par une augmentation soutenue des importations par rapport aux exportations et par une perte des parts de marché, entraînant même une aggravation en 2011 du déficit commercial de 25,2%. Ainsi, le taux de couverture de la balance commerciale s'est situé à 47,7% à fin 2011, contre 50,2% en 2010.

Bien que cette situation soit le résultat de la conjugaison de plusieurs facteurs liés au fléchissement de la demande extérieure dû à la crise économique mondiale et à la dépendance du Maroc des marchés extérieurs en matière énergétique et alimentaire, il n'en demeure pas moins que la problématique du déficit commercial se pose en terme de compétitivité des entreprises sur le marché aussi bien national qu'international.

Le manque de compétitivité de l'économie nationale est lié, entres autres, à une diversification réduite des exportations des produits et des marchés à l'accès limité au foncier et au financement des entreprises, notamment les Petites et Moyennes Entreprises (PME), à la lenteur des procédures administratives liées à la réalisation des investissements et à l'activité informelle qui fausse la concurrence, notamment dans le secteur des PME.

Face à ces contraintes, le Gouvernement s'est engagé dans un vaste chantier de réformes pour la promotion du secteur privé, le renforcement de l'attractivité du Maroc et l'amélioration de la compétitivité du tissu productif.

Ainsi, le Maroc a poursuivi sa stratégie d'ouverture commerciale par la signature de plusieurs accords bilatéraux et régionaux permettant d'intensifier l'intégration de l'économie marocaine dans l'économie mondiale.

Dans ce cadre, le Maroc a procédé au renforcement de sa performance logistique et la dématérialisation des procédures douanières. La poursuite de la politique des grands travaux constitue également une opportunité pour améliorer la compétitivité logistique du pays.

En matière de diversification de l'économie, le Maroc a lancé en 2006 le Plan Emergence qui vise le repositionnement du tissu industriel sur des métiers porteurs et dans lesquels le Maroc pourrait faire valoir ses atouts de proximité, de main d'œuvre qualifiée et d'accès aux marchés. Ce Plan a été suivi par l'élaboration d'un Pacte National pour l'Émergence Industrielle, Contrat-programme 2009-2015.

Ce contrat-programme s'articule autour des Métiers Mondiaux du Maroc (industrie automobile, aéronautique et spatial, électronique, offshoring, textile et cuir, agro-alimentaire), de la compétitivité des PME, de la formation, des plates-formes Industrielles intégrées (P2I) et du climat des Affaires.

Parallèlement, plusieurs autres Plans Stratégiques ont été lancés, notamment le Plan Maroc Vert, la Vision 2020 pour le tourisme, le Plan Maroc Numeric 2013, le Programme Energie Solaire, le Programme de Parc Eolien, la Stratégie e-Maroc et le Plan logistique.

Dans le cadre de l'amélioration du climat des affaires, un Comité National de l'Environnement des affaires (CNEA), organe public-privé présidé par le Chef du Gouvernement, a été créé en 2009, avec pour missions d'impulser, de coordonner et de superviser les réformes à même de faciliter la pratique des affaires au Maroc pour les opérateurs nationaux et internationaux.

Il a été procédé également en 2009 à la mise en place de l'Agence Marocaine de Développement des Investissements (AMDI) à l'effet de renforcer et de consolider la stratégie marocaine de promotion des investissements.

En vue de permettre la facilitation des procédures liées à la création et à la fermeture d'entreprises, un certain nombre de textes juridiques ont été amendés : la loi sur les Sociétés Anonymes (SA), la loi sur les Sociétés à Responsabilité Limitée (SARL) et le code de commerce.

Comme vous pouvez le constater, plusieurs réformes ont été engagées par le Maroc pour améliorer le niveau de compétitivité de son économie. Le Gouvernement est engagé à poursuivre son programme de réforme, objet de la présente lettre, qui sera basé sur l'amélioration de l'environnement de l'entreprise et de la politique commerciale ainsi que la facilitation du commerce extérieur.

II- PROGRAMME DE REFORME POUR L'AMELIORATION DE LA COMPETITIVITE DE L'ECONOMIE MAROCAINE

L'appui à la compétitivité de l'économie marocaine a pour objectif de développer un programme cohérent visant le renforcement de la mise en oeuvre des stratégies sectorielles en cours, orientées essentiellement vers l'export et le renfoncement de la capacité des entreprises marocaines à reconquérir le marché intérieur et à développer leurs exportations.

Ce programme vise essentiellement l'amélioration du climat des affaires et l'environnement de l'entreprise, l'amélioration de la politique commerciale et la facilitation du commerce, ainsi que la gouvernance des politiques économiques.

Pour concrétiser ces objectifs, le Gouvernement mettra en place les actions portant sur :

I- Climat des affaires et environnement de l'entreprise

Cet axe sera focalisé sur quatre objectifs stratégiques, à savoir la transparence et l'accès à l'information au niveau des entreprises, la simplification des procédures administratives, la réduction de la charge financière des petites et moyennes entreprises et la simplification de l'environnement réglementaire.

Ainsi, dans le but d'accroître la transparence et l'accès à l'information au niveau des entreprises par toutes les Administrations concernées et les utilisateurs non gouvernementaux, et engager des réformes de l'e-gouvernance pour la simplification réglementaire, la Direction Générale des Impôts a été désignée par le comité interministériel de gestion de l'identifiant commun de l'entreprise pour héberger la gestion et l'exploitation de la base de données centrale de l'Identifiant Commun de l'Entreprise en accord avec le décret n° 2-11-63.

A moyen terme, la base de données centralisant l'identifiant commun de l'entreprise sera opérationnelle et utilisée au moins par quatre administrations concernées (impôts, OMPIC, registre de commerce, CNSS).

Pour ce qui est de la simplification des procédures administratives et de l'amélioration de leur transparence, les mesures suivantes seront prises :

- A court terme la validation par le Comité National de l'Environnement des Affaires (CNEA) d'une liste prioritaire d'au moins 20 procédures administratives applicables aux entreprises qui feront l'objet d'actions de simplification et de standardisation.

- A moyen terme, la préparation et l'adoption d'une validation d'un deuxième lot d'au moins 20 autres procédures qui seront simplifiées et standardisées.

Concernant la réduction de la charge financière des PME résultant des délais de paiement des contrats commerciaux, les délais maximaux et les pénalités de retard ont été réglementés.

Dans ce cadre, il a été procédé, dans un premier temps, à la publication de la loi 32-10 complétant le Code de Commerce et réglementant les délais de paiement. Il sera procédé dans une seconde étape à l'adoption des textes réglementaires d'application prévus pour régir les pénalités de retard.

En matière de simplification de l'environnement réglementaire et de la réduction des barrières à l'entrée et les opérations pour les PME, le Gouvernement a retenu les mesures suivantes :

- La suppression de l'exigence de capital minimum et de la formalité de blocage du capital pour les sociétés à responsabilité limitée (SARL) dont le capital ne dépasse pas 100.000 DH par la publication en juin 2011 de la loi 24-10 modifiant et complétant la loi 05-96 sur les SARL avec l'adoption à moyen terme des textes réglementaires.

A moyen terme, un projet de loi modifiant la loi n° 17-95 sur les sociétés anonymes, visant à simplifier la création et améliorer la gouvernance des sociétés anonymes (SA) sera adopté.

II- Politique commerciale et logistique du commerce extérieur

Dans le cadre des efforts consentis en matière d'amélioration de la politique commerciale et de logistique, le Gouvernement a fixé comme objectifs d'harmoniser la politique commerciale, de moderniser le cadre juridique et institutionnel du commerce extérieur et la protection du consommateur et de rationaliser la logistique du commerce dans les ports d'entrée.

En ce qui concerne l'harmonisation de la politique commerciale et en vue de réduire les distorsions dans la structure tarifaire, la circulaire d'application en date du 30 décembre 2011 relative à la mise en œuvre pour 2012 de la réduction des tarifs sur l'importation des produits industriels a été adoptée.

Sur le plan de la modernisation du cadre juridique et institutionnel du commerce extérieur et de la protection du consommateur, les mesures suivantes ont été prises.

- La publication de la loi 24-09 du 17 août 2011 sur la sécurité des produits et services et l'adoption à moyen terme du décret d'application de cette loi.

- La signature du Décret d'application de la loi 15-09 sur les mesures de défense Commerciale.

- A moyen terme, il sera procédé à l'adoption de la nouvelle loi sur le commerce extérieur.

S'agissant de l'accompagnement et de la rationalisation de la logistique du commerce dans les ports d'entrée, il a été procédé à

- L'approbation des statuts de la société PortNet destinée à exploiter et à gérer la plateforme portuaire d'échange de données informatisées entre les différents intervenants de la communauté portuaire lors d'une réunion des actionnaires publics et privés tenue le 19 janvier 2012.

- Le démarrage du système Portnet dans sa phase escale aux agents maritimes leur permettant notamment de déposer des déclarations sommaires avant l'arrivée des navires.

- L'inscription de l'obligation de l'anticipation de la déclaration sommaire par les agents maritimes dans le projet de Loi de Finances 2012

- A moyen terme, il sera procédé à la mise en œuvre opérationnelle du guichet unique virtuel PortNet et la connexion à ce système des principaux intervenants dans les procédures d'importation et d'exportation.

- Le Ministère du Commerce, de l'Industrie et des Nouvelles Technologies a lancé à travers le département du Commerce Extérieur, une étude sur la conception, le développement et la mise en service d'une plateforme technique d'hébergement pour la dématérialisation des procédures du commerce extérieur dénommée « Guichet Unique des formalités du Commerce Extérieur/GUCE » et l'acquisition du matériel permettant la connexion de la plateforme (GUCE) à PortNet. Cette étude d'une durée de 9 mois définira les modalités de la connexion et de l'intégration du GUCE à PortNet. La première phase de l'étude, déjà en cours, a pour objet l'élaboration du cadre fonctionnel de la solution plateforme GUCE.

III- Gouvernance économique

Le dernier axe retenu dans le cadre de ce programme d'appui à la réforme de la compétitivité de l'économie marocaine porte sur la transparence et l'efficacité des interventions publiques en matière d'investissement, la coordination des réformes du climat des affaires et le renforcement du cadre institutionnel de la politique de la concurrence.

A l'effet d'assurer l'accroissement de la transparence et l'efficacité des interventions publiques en faveur de l'investissement et de certains secteurs, il a été procédé à la publication d'une Circulaire du Chef du Gouvernement précisant les modalités d'évaluation des coûts et bénéfices des projets de convention d'investissement soumis à la Commission des investissements et, la production d'un rapport annuel rendu public présentant un état d'avancement des conventions d'investissements signées dans l'année, de celles en cours, et de celles arrivées à l'échéance.

A moyen terme, Il est prévu l'adoption d'une nouvelle loi sur l'investissement et des textes d'applications reprenant, notamment, les éléments contenus dans la circulaire du Chef du Gouvernement mentionnée ci-dessus relative aux évaluations des coûts et bénéfices des projets de convention d'investissement soumis à la Commission des investissements.

Dans le domaine de l'amélioration de la coordination et de la mise en œuvre des réformes de l'environnement des affaires, un Service « Climat des Affaires » a été créé au sein du Ministère chargé des Affaires Générales et de la Gouvernance avec pour missions d'œuvrer au renforcement de la compétitivité de l'économie nationale et de développer des partenariats avec les différents organismes internationaux dans le domaine ; de coordonner et d'assurer le suivi et la gestion des travaux du Comité National de l'Environnement des Affaires (CNEA) ; de renforcer la veille sur l'image du Maroc à l'international et son classement dans les rapports internationaux en lien avec le climat des affaires et l'investissement.

- Le CNEA, présidé par le Chef du Gouvernement, a validé le 22 mai 2012 le rapport d'activités de l'année 2012-2013 comprenant notamment, des actions visant le renforcement de la bonne gouvernance et de la transparence du monde des affaires, la modernisation de l'environnement juridique des affaires, l'amélioration de la résolution des litiges commerciaux, l'amélioration de l'accès au foncier et l'urbanisme, et la promotion de la compétitivité au niveau régional.

Concernant le renforcement du cadre institutionnel de la politique de la concurrence, le Conseil de Gouvernement a adopté les projet de Lois modifiant la Loi No 06-99 sur la liberté des prix et la concurrence et renforçant les pouvoirs et l'indépendance du Conseil de la Concurrence le 31 janvier 2013. A moyen terme, il est prévu que ce nouveau cadre légal sera pleinement applicable.

Compte tenu de l'ampleur de ce programme, le Gouvernement compte sur l'appui de votre Institution par un Prêt de Politique de Développement.

En vous remerciant de l'intérêt que porte la Banque à l'amélioration de la compétitivité de l'économie marocaine, je vous prie de croire, Monsieur le Président, à l'expression de ma considération distinguée.

Le Ministre Délégué Auprès du Chef du Gouvernement
Chargé des Affaires Générales et de la Gouvernance

Mohamed Najib BOULIF

[UNOFFICIAL TRANSLATION]

Mr. Jim YONG KIM
President of the World Bank
1818 H Street N.W –Washington-

SUBJECT: Letter of Development Policy relating to the Morocco Economic Competitiveness Support Program (February 5, 2013)

Dear Mr. President:

As you are aware, over the past decade Morocco has instituted a dynamic policy geared to improving the competitiveness of its economy and promotion of its attractiveness to investors. Sectoral strategies in the areas of industrial development, exports and logistics have been implemented. Cross-cutting reforms with the aim of improving the environment of enterprises in matters concerning the simplification of procedures, customs, taxation and justice, regulatory institutions and the financial sector have also been instituted.

In parallel to these reforms, Morocco has instituted a policy of openness of its economy via the ratification of several bilateral and regional agreements.

Although progress has been made in all these areas, today it appears necessary to consolidate the efforts already undertaken and to establish new reforms designed to confront the new challenges facing the national economy in a context of high competition at the regional and world level and economic and financial crisis.

The government is determined in this regard to carry out these reforms and to keep close watch over financial balance in compliance with the provisions of the new constitution.

In its 2012-2016 program adopted by the Parliament, the Government undertook to strive for the preservation and consolidation of financial and macroeconomic balances so as to guarantee an investment climate attractive to both domestic and international investors.

To ensure external equilibriums, the Government will do the utmost to correct the external structural imbalances at the level of the trade balance and current balance of payments via the identification and elimination of constraints to investment and competiveness within the framework of an integrated vision, including constraints in connection with the production cost factors, logistics, exports, education and training and the investment climate.

The purpose of this policy letter is to present the inventory and challenges confronting the economy from the standpoint of competitiveness and the reform program which shall be established by the Government to improve the competitiveness of the Moroccan economy.

I- OVERVIEW OF THE COMPETITIVENESS OF THE MOROCCAN ECONOMY

Thanks to the trade liberalization and lower customs tariffs policy, Morocco's external trade has seen continuous progress over the past decade. Nevertheless, the development of trade has led to a steady increase of imports vs. exports and the loss of market shares in 2011 leading to worsening of the trade balance by 25.2%. Hence, the rate of coverage of the trade balance settled at 47.7% at the end of 2011 vs. 50.2% in 2010.

Even though this situation is the result of the compounding of several factors linked to slowing external demand largely due to the world economic crisis and the dependency of Morocco on external energy and food markets, the issue of the trade deficit is posed in terms of the competitiveness of enterprises both nationally and internationally.

The lack of competitiveness of the national economy, among other elements, is linked to reduced diversification of product exports and limited access to land and enterprise financing especially for Small and Medium Size Enterprises (SMEs), the slowness of administrative procedures in connection with investments and the informal sector which distorts competition, especially for SMEs.

In view of these constraints, the Government has initiated a wide ranging series of reforms for promoting the private sector strengthening the attractiveness of Morocco and, improving the competitiveness of its productive base.

For instance, Morocco has carried on its strategy of openness to trade via the signing of several bilateral and regional agreements making it possible to integrate the Moroccan economy into the world economy.

In this regard, Morocco has initiated the strengthening of its logistic performance and the dematerialization of customs procedures. The continuation of the public works policy also represents an opportunity conducive to improving the logistical competitiveness of the country.

With regard to diversification of the economy, in 2006 Morocco launched the *Plan Emergence* (Emergence Plan) With the aim of repositioning its industries toward forward looking sectors in which Morocco could make good use of its proximity advantages, skilled labor force and market access. This Plan was followed by a National Pact for Industrial Emergence, a program contract for the 2009-2015 period.

This program contract is organized around identified areas for Morocco's development (automotive, aviation and space industries, offshoring, textiles and leather, and agro-food industries), the competitiveness of SMEs, training, integrated industrial platforms (P2I) and the business environment.

At the same time, several other Strategic Plans have been initiated, in particular the Agricultural Plan (*Plan Maroc Vert), Vision* 2020 for tourism, the Digital Morocco Plan 2013, the Solar Energy Plan, the Wind Farm Program, the e-Morocco Strategy, and the Logistics Plan.

As part of the improvement of the business environment, a National Business Environment Committee (CNEA), a public-private body chaired by the Head of Government, was created in 2009 with the task of supporting, coordinating and supervising reforms likely to facilitate doing business in Morocco for national and international investors.

In 2009, the Moroccan Agency for the Development of Investments (AMDI) was set up to strengthen and consolidate the Moroccan strategy of investment promotion.

To enable the facilitation of the procedures in connection with the creation and closing of businesses, a number of legal texts have been amended: the law on business corporations (*Societe Anonymes-SA*), the law on limited liability companies (*Société à Responsabilité Limité-SARL*) and the commercial code.

As you can see, several reforms have been undertaken by Morocco to improve the level of competitiveness of its economy. The Government is committed to follow through with its reform program as mentioned in this letter, which shall be based on the improvement of the business environment and trade policy as well as the facilitation of foreign trade.

II- REFORM PROGRAM FOR IMPROVING THE COMPETITIVENESS OF THE MOROCCAN ECONOMY

The purpose of support program for the competitiveness of the Moroccan economy is to sort out a coherent program aiming at the strengthening and implementation of the ongoing sectoral strategies mainly directed at exports and the reinforcement of the ability of Moroccan enterprises to reestablish themselves on the domestic market and develop exports.

This program basically aims at improving the investment climate and business environment, the trade policy and facilitation of commerce, as well as the governance of economic policies.

To bring these objectives into fruition, the Government will establish actions dealing with:

I- Investment climate and business environment

This pillar will focus on four strategic objectives, i.e. the transparency and access to information at the level of businesses, the simplification of administrative procedures, the reduction of financial costs for small and medium size enterprises and the simplification of the regulatory environment.

Therefore, in order to enhancing transparency and access to information on businesses by all the relevant Administrations and non-governmental users, and instigating e-governance reforms for streamlining regulations, the Tax Administration has been appointed by the inter-ministerial Committee for the management of a common business identifier, to be in charge of hosting, managing and operating the database centralizing the common business identifier in accordance with Decree n° 2-11-63.

In the medium term, the database centralizing the joint corporate identifier will be operational and used by at least four concerned administrations (taxes; OMPIC/industrial property, trade register, social security office).

As for the simplification of administrative procedures and the transparency thereof, the following measures will be taken:

- In the short term, validation by the National Business Environment Committee (CNEA) of a priority list of at least 20 administrative procedures applicable to enterprises which will be tagged for simplification and standardization.

- In the medium term, the preparation and adoption of the validation of a second batch of at least 20 other procedures which will be simplified and standardized.

As for the reduction financial costs of SMEs resulting from late payment in commercial transactions, the maximum deadline and late delivery penalties have been regulated.

To this effect, as a first step, law 32-10 was passed completing the Commercial Code and regulating payment deadlines. A second step will be the adoption of regulatory texts designed for governing late payment penalties.

With regard to simplification of the regulatory environment and the reduction of barriers to entry and operation for SMEs, the Government has proceeded with the following measures:

- Abolishing the legal requirement of minimum capital for SARL and blocking of paid-in capital for SARL whose capital does not exceed 100.000 MAD, by the publication in June 2011 of Law 24-10 amending and completing Law 05-96 on limited liability companies, and with the adoption of needed regulatory texts in the medium term.

In the medium term, a draft law modifying law n° 17-95 on corporations (SA) aimed at simplifying the creation and improving the governance of such corporations will be adopted.

II- Trade policy and foreign trade logistics

As part of the efforts made for improving trade policy and logistics, the Government has set as objectives the harmonization of trade policies, modernization of the legal and institutional framework of foreign trade and protection of the consumer and rationalization of trade logistics in ports of entry.

As concerns the harmonization of trade policy and in view of reducing distortions in tariff structures, the circular dated 30 December 2011 pursuant to the implementation for 2012 of the reduction of tariffs on the import of industrial products was adopted.

With regard to modernization of the legal and institutional framework for foreign trade and consumer protection, the following measures have been taken.

- Publication of Law 24-09 of 17 August 2011 on the security of products and services and, in the medium term, adopting the implementing decree of this law.

- Signing of the implementing decree of Law 15-09 on commercial defense measures.

- In the medium term, the new law on foreign trade will be adopted.

With regard to assistance and rationalization of the logistics of trade in the ports of entry, the following has been done:

- Approval of the by-laws of the PortNet company in charge of operating and managing the port system for the exchange of computerized data between the various stakeholders in the port community during a meeting of its public and private shareholders held on 19 January 2012.

- Start-up of the calls function ("escale") of the Portnet system, enabling forwarding agents to submit summary declarations before arrival of vessels.

- Registration of the obligation of advance filing of the summary declaration by the forwarding agents in the draft Finance Act of 2012.

- In the medium term, operational implementation of the virtual one-stop-shop PortNet and connection to this system of the major stakeholders involved in import and export operations.

- The Ministry of Trade and Industry and New Technologies has launched through the Foreign Trade Department a study on the design, development and commissioning of an information and technology system for the dematerialization of foreign trade procedures entitled « One-stop shop for Foreign Trade formalities/GUCE » and the acquisition of equipment enabling connection of the GUCE system to PortNet. This study spreading over a period of 9 months will spell out the modalities of connection and integration of GUCE

to PortNet. The first stage of the study, already underway, aims at providing a functional framework of the GUCE system.

III- Economic governance

The last pillar included in the program for supporting the reform and competitiveness of the Moroccan economy deals with transparency and efficiency of public support to investment, the coordination of reforms affecting the business environment, and the strengthening of the institutional framework related to the competition policy.

To ensure greater transparency and effectiveness of public intervention in support of investment and of certain sectors, publication occurred of a Circular from the Head of Government pointing out the modalities of evaluation of the costs and benefits of the investment agreement projects submitted to the Investment Commission and the editing of an annual report made public presenting the state of progress of the investment agreements signed during the year, those underway, and those expiring.

In the medium term, the adoption of a new law on investment and related implementing decrees is planned, reiterating notably the items contained in the aforementioned Circular of the Head of Government relating to evaluation of the costs and benefits of the draft investment projects submitted to the Investment Commission.

With regard to improving the coordination and implementation of reforms on the business environment, a « Business Environment » department has been set up within the Ministry in charge of General Affairs and Governance, tasked with achieving the strengthening of competitiveness of the national economy and the development of partnerships with a variety of international bodies operating in this field, coordinating and ensuring the monitoring and management of the work of the National Business Environment Committee (CNEA); reinforcing of the oversight of Morocco's image abroad and its ranking in international reports in connection with the business and investment climate.

- The CNEA, chaired by the Head of Government will validate the activities report for 2012 and in the medium term will adopt its action program for 2013 comprising actions having the aim of strengthening good governance and transparency of the business world, modernizing the legal environment, improving the resolution of trade disputes, improving land availability and urban development, as well as the promoting competitiveness at the regional level.

With regard to the reinforcement of the institutional framework for competition policy, the Government Council has adopted the draft laws modifying law N° 06-99 on the freedom of pricing and competition, reinforcing the powers and independence of the Competition Council. In the medium term this new legal framework modifying the law on competition and freedom of pricing N° 6-99 will be fully applicable.

Given the ambitious scope of this program, the Government counts on the support from your institution via a Development Policy Loan.

Thanking you for the interest the Bank shows in the competitiveness of the Moroccan economy, please accept, Mr. President, our very best regards.

Signature

Mohamed Najib Boulif

Deputy Minister to the Head of Government for General Affairs and Governance

ANNEX 2: KINGDOM OF MOROCCO - FIRST ECONOMIC SUPPORT PROGRAM DPL POLICY MATRIX

(ONLY MEASURES IN BOLD ARE PRIOR ACTIONS OR INDICATIVE TRIGGERS)

I: IMPROVING INVESTMENT CLIMATE				
Areas of intervention and objectives of the program	***Prior Actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
Enhancing e-governance for regulatory and administrative simplification.	**D1. The Inter-ministerial Committee in charge of Managing the Common Business Entity Identifier has appointed the Tax Administration to be in charge of hosting, managing and operating the database centralizing the common business identification codes in accordance with Decree No 2-11-63.**	**Di1. The database centralizing the common business identification codes (in accordance with Decree No 2-11-63) is operational and used by at least four key concerned authorities (Tax, OMPIC, Commercial Register, CNSS).**	Increasing transparency and facilitating access to firm-level information by all relevant administrations and non-governmental users	Key authorities concerned (Tax, OMPIC, trade register, CNSS) using the common business entity identifier. *Baseline: 0* *Target: 4* *Source: Inter-ministerial Committee in charge of Managing the Common Business Entity Identifier*
Simplifying administrative procedures and improving transparency.	**D2. The National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*) has approved a priority list of at least 20 administrative procedures for businesses that will be simplified and standardized.**	**Di2. The National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*) has validated the simplification and standardization of the first batch of at least 20 administrative procedures and approved an additional batch of at least 20 other administrative procedures that will be simplified and standardized.**	Reducing the administrative burden on businesses and limiting discretionary behavior.	Number of procedures whose implementation is modified by the provision of new forms for users *Baseline: 0* *Target: 20* *Source: MFPMA and Secretariat of the CNEA*

I: IMPROVING INVESTMENT CLIMATE *(cont'd)*				
Areas of intervention and objectives of the program	***Prior actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
Reducing the financial burden on SMEs resulting from excessive payment delays.	**D3. The Law No 32-10 modifying the Code of Commerce and imposing minimum standards in payment delays in commercial contracts has been approved by Parliament and published in the National Gazette No. 5984 dated October 6, 2011.**	**Di3. Implementing regulations to regulate penalties for late payments provided under Law No 32-10 have been issued**	Reducing delays in payments of SMEs and improving their cash flow	Reduction by at least 20% in average payment delay in commercial contracts in sectors where the average payment delay is over 120 days. *Source: BAM*
Simplifying the regulatory environment and reducing barriers to entry and operations for SMEs.	**D4. The Law No 24-10 amending the Law No 05-96 and abolishing the requirement of a minimum capital for incorporating a limited liability company (*Société à responsabilité limitée - SARL*) has been approved by Parliament and published in the National Gazette No 5956 bis dated June 30, 2011.**	**Di4. The Government Council has approved the draft Law modifying the Law No 17-95 on corporations (*Société anonyme-SA*) to simplify the creation of *SA* and improve its governance.**	Facilitating business creation and simplifying the legal framework applicable to business operations.	Number of *SARL* formally registered with a capital below 10,000 Dirham *Baseline: 0* *Source: OMPIC*

II: FURTHERING TRADE POLICY REFORM AND TRADE FACILITATION				
Areas of intervention and objectives of the program	***Prior actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
Harmonizing trade policy by reducing distortions in tariff structure.	**D5. The Ministry of Economy and Finance has issued Circular No. 5306/210 dated December 30, 2011 regarding the tariffs reduction on imports of industrial products for 2012.** Launching of a series of analytical notes on Morocco's trade policy to support the integration of the Moroccan economy in the global economy.	Analytical notes on Morocco's trade policy are prepared with concerned authorities and are disseminated in a public-private forum.	Rationalization of tariff structure and diversification of sources of imports	Reduction of maximum tariff quota applicable to industrial products (chapter 25 to 97 of customs duties) *Baseline: 30% in 2011* *Target: 25% in 2012*
Modernizing the legal and institutional framework of foreign trade and consumer protection	The Law No 24-09 dated August 17, 2011 on the safety of products and services. Publication has been approved by Parliament and published in the National Gazette No. 5984 of October 6, 2011.	**Di5. The Head of Government has issued the implementing Decree of the Law 24-09 dated August 17, 2011 on the safety of products and services.**	Enhancement of transparency and predictability on the regulatory framework applicable to safety and hygiene standards for local producers and importers	Increase in number of complaints from consumers and users of products and services that are deemed formally receivable under the Law 24-09 *Baseline: 0* Number of controls on imported products: *Baseline: 71,000 (2011)* *Target: over 100,000* *Source: MCINT*
	D6. The Head of Government has issued the implementing Decree regulating anti-dumping, anti-subsidy and safeguard measures in accordance with the Law No 15-09 on Trade Defense published in the National Gazette No 5956 bis dated June 30, 2011.		Adaptation of the national legal framework with the trade agreements signed by Morocco. Enhancing transparency and predictability on use of mechanisms for adapting local industries to the competition with imports(commercial defense)	Number of petitions requesting the application of measures deemed formally receivable under the Law 15-09 and which have led to investigations. *Baseline: 9 petitions received in 2011 and 2012.* *Target: Launching of 4 new official investigations* *Source: Commerce Department*

II: FURTHERING TRADE POLICY REFORM AND TRADE FACILITATION *(Cont'd)*				
Areas of intervention and objectives of the program	***Prior actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
		Di6. The Law modifying the Law No 13-89 dated November 9, 1992 on International Trade has been adopted and is in force.	Improved organization of the trade professions and harmonization of the legal framework for export incentives and regulation of services	Number of importers and exporters formally registered *Baseline: absence of central database for registering trade operators* *Target: 80% of trade operators deemed to be registered are actually registered in the central database , equivalent to around 21 600 trade operators* *Source: Commerce Department*
Streamlining trade logistics at the ports of entry	**D7. The company PORTNET in charge of operating and managing the information and technology system for data exchange between public authorities and private trade operators has been established by its shareholders on January 19, 2012.** PORTNET system is open to shipping agents and features the "escale" function allowing shipping agents to file summary statement of cargo (DS) before the arrival of ships, and the Budget Law for 2012 provides for the mandatory filing by the shipping agents of a summary statement of cargo.	**Di7. The IT system managed by PORTNET for data exchange is operational and used by the key public authorities and private trade operators involved in import and export operations(Customs, freight forwarders, banks, Foreign Trade Department , National Office of Food Sanitary Security (ONSSA))** Regular production of performance and monitoring indicators to inform the business community, including indicators of transit time of containers and trailers.	Reduction of administrative burden (time and costs) and increased transparency for importers and exporters.	Reduction in transit time observed in the statistics: -reducing the time between unloading and filing of the summary declaration : *Baseline: 2 days* *Target: zero* -reducing the total time (discharge outlet) for containers compared to the 2011 average. *Source: Customs authorities*

III: STRENGTHENING ECONOMIC GOVERNANCE				
Areas of intervention and objectives of the program	***Prior actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
Increasing transparency and effectiveness of the Government interventions in support of investment and selected sectors.	**D8. The Head of Government has issued a Circular providing for the mandatory preparation of costs and benefits assessments of investment projects submitted to the National Investment Commission.**	**Di8. The new Investment Law and its implementing regulations have been adopted and are in force, and provide for a legal framework encouraging investment, bringing more transparency on incentives and how they are granted by the National Investment Commission (CII), and provide for the modalities of the evaluation of costs and benefits of investment projects submitted to the CII.** Preparation of an annual report on state aid to companies attached to the draft budget law starting in 2014, as planned in the current draft of the Organic Budget Law.	Improved effectiveness and transparency of the Government interventions to support investment and competitiveness.	Costs and benefits analyses of each investment project submitted to the National Investment Commission (CII) are provided to the CII when examining projects *Baseline: no costs benefits analyses* *Target: costs benefits analyses are implemented for all investment projects submitted to the CII* Annual reports prepared by AMDI on investment agreements are provided to the CII and made public. *Baseline: assessments on the activity of the CII prepared in 2006 and 2007* *Target: reports prepared and published annually.* *Source* : AMDI
Improving the public private coordination for the monitoring and implementation of business environment reforms	**D9. The Ministry of General Affairs and Governance has issued a Decision dated October 29, 2012 establishing within the Ministry of General Affairs and Governance a Department in charge of improving the investment climate and acting as the secretariat of the National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*).** The CNEA has met to approve and review its annual reform program for 2012 in accordance with Decree No 2-10-259 dated October 29, 2010 establishing the CNEA.	**Di9. The CNEA has met to approve and review its annual reform program for 2013 in accordance with Decree No 2-10-259 dated October 29, 2010 establishing the CNEA.**	Public and private policy stakeholders are able to carry out better dialogue and coordinate with the CNEA	The CNEA has approved its annual reform programs and published a progress report on its website *Source: Secretariat of the CNEA*

III: STRENGTHENING ECONOMIC GOVERNANCE *(Cont'd)*				
Areas of intervention and objectives of the program	***Prior actions (ECSP I)***	***Indicative Triggers (ECSP II)***	***Outcomes***	***Indicators***
Strengthening the institutional framework for the competition policy	**D10. The Government Council has approved the draft Laws modifying the Competition and Freedom of Pricing Law No 06-99, reinforcing the powers and independence of the Competition Council (*Conseil de la Concurrence - CC*).**	**Di10. The new legal framework modifying the Competition and Freedom of Pricing Law No 06-99 and reinforcing the powers and independence of the CC has been published in the National Gazette and is in force.** The Competition Council (Conseil de la Concurrence) has strengthened its investigative capacity by doubling the number of sworn investigators to at least 20.	The Competition Council is able to fulfill its task independently	Number of investigations formally launched by the Competition Council. *Baseline: 0* *Target : 4 official investigations, including 2 self-referrals* *Source: CC*

ANNEX 3. MACROECONOMIC DEVELOPMENTS OVER THE LAST DECADE

Morocco made significant economic headways during the last decade. Growth pattern shifted to a higher level averaging 4.9 percent over 2001-2011, much higher than the average rate of the 1990s (2.8 percent). Inflation was subdued, recording less than 2 percent in average over the period. The growth and inflation performance allowed gross domestic product (GDP) per capita to almost double over the last decade to reach the equivalent of US$3,100 in 2011. The unemployment rate declined from 12.3 percent in 2000 to 8.9 percent in 2011. Absolute poverty decreased from 15.3 percent to roughly 9 percent between 2001 and 2007. Based on these achievements, Morocco gained "investment grade" rating in 2007, which was confirmed over 2009-2011 despite ongoing world economic turmoil.

These achievements were in part the result of sound macroeconomic policies. The steady consolidation of public finance turned fiscal deficits[10] into surpluses in 2007 and 2008 (averaging 0.3 percent of GDP). The fiscal deficits widened to 2.2 percent of GDP in 2009 and 4.7 percent of GDP in 2010 but remained manageable. The Treasury total debt steadily declined from 68 percent of GDP in 2000 to 50.3 percent of GDP in 2010. Monetary policy sought to keep inflation under check while managing both liquidity and the exchange rate in an effective manner. In addition to timely adjustments of its money policy rate and reserve requirement rate, the Central Bank implemented an adequate mix of its other instruments, including foreign exchange swaps, issuance or buyback of debt securities, and the purchase or sale of securities in the secondary market.

Morocco's economic improvement was also due to the implementation of ambitious structural reforms. During the last decade, Morocco liberalized a number of sectors, including transport, energy, and telecommunications. The financial sector was strengthened in support of the new dynamism of the nonagricultural sector. Ambitious sector-specific strategies were implemented to increase investment and employment opportunities. Gross investment, which used to hover around 25 percent of GDP on average in the 1990s, picked up in the 2000s to reach 38 percent of GDP in 2008 (Figure 1). Morocco also sought to deepen its integration into the world economy through the signing of many FTAs culminating with the "Advanced Status" awarded by the European Union (EU) in 2008. Foreign direct investments (FDI) inflows increased to reach an average of 4.3 percent of GDP over 2006-2011, thus contributing to the expansion of the country's stock of capital.

Notwithstanding those economic achievements, Morocco remains confronted with important human and social challenges. Morocco's social and human development outcomes are still below expectations. Economic vulnerability (poor and vulnerable) remains widespread, meaning that a quarter of the population–around 8 million people–is either in absolute poverty or under constant threat of falling back into poverty. The partial closure of the rural-urban income gap has not cancelled disparities: 70 percent of poverty in Morocco is still rural and in 2007 the urban poverty rate was 4.8 percent compared to 14.5 percent in rural areas. Income of the poor has been growing at a slower rate than the average income. There has been a remarkable increase in access to education, but overall illiteracy rates and gender disparity in access to secondary education remain high. Both education quality and learning outcomes lag behind those of other countries with similar income levels. Even with progress in increasing overall life expectancy and reducing average infant mortality rate, levels of infant and maternal mortality remain high, and lag Millennium Development Goals (MDG) targets.

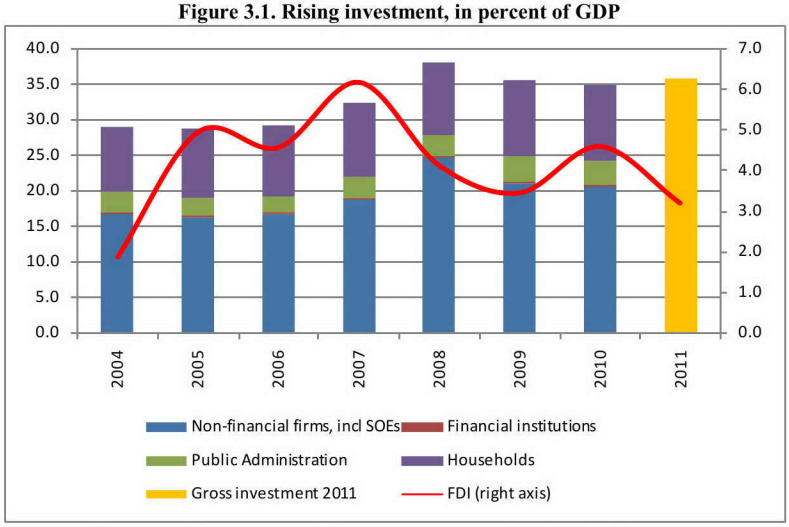
Morocco's ongoing human and social challenges reflect the slow structural transformation of

[10] Budget figures do not include privatization receipts.

the economy. To be sure, Morocco's production structure has gradually shifted toward services with both primary and secondary sectors' shares in GDP declining over time. However, while the increased service orientation of the economy is emulating trends observed throughout the world, the weak performance of the manufacturing sector stems from the relatively slow modernization of the industrial sector, which also explains the performance of Moroccan exports. The latter continue to be concentrated around relatively undiversified, low knowledge, low value-added, traditional products. As a result, Morocco has not fully reaped the benefits from the market access opportunities and trade dynamics of its trading partners. Exports have been kept below potential and their contribution to growth and employment has yet to be unleashed.

Morocco's slow structural transformation seems to be less due to the lack of investment than the low return on investment. Investment in Morocco appears to be less productive than in other emerging economies. Public investments are concentrated in relatively low productive projects or in projects that need time to fully mature. Indeed, a large share of public investments made over the last years has been directed to the tourism sector, phosphate related industries, energy, and infrastructure projects (highways, ports, airports, small dams, free trade zones, etc.). Investments in those sectors require time to be operational at full capacity and thus profitable. The Government has launched analytical efforts to investigate the issue and propose remedies.

Figure 3.1. Rising investment, in percent of GDP



Source: Moroccan Government and Staff estimates.

Figure 3.2 Growth shifted to higher path and is less volatile and less dependent on agriculture (in percent)

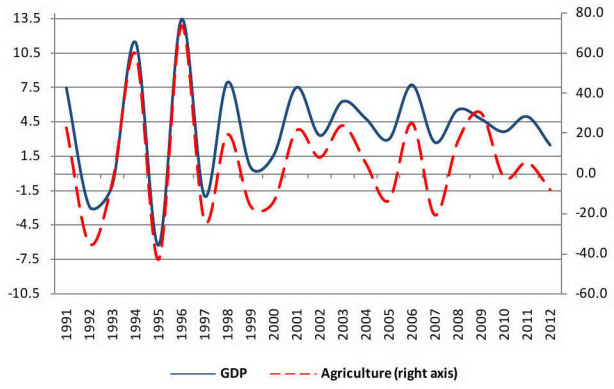


Figure 3.3. Unemployment declined, but remains high for urban youth and educated (in percent)

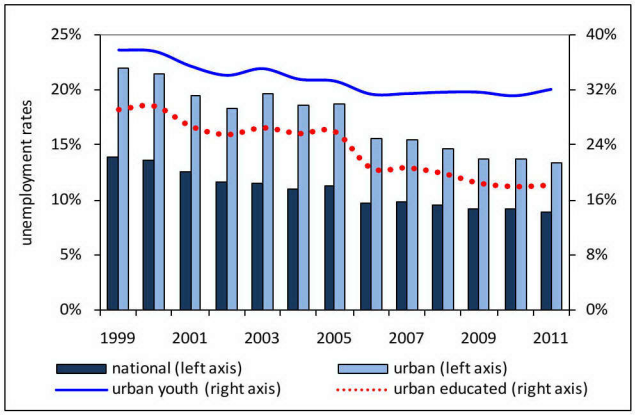


Figure 3.4. External position is deteriorating with vulnerability in trade (in percent of GDP)

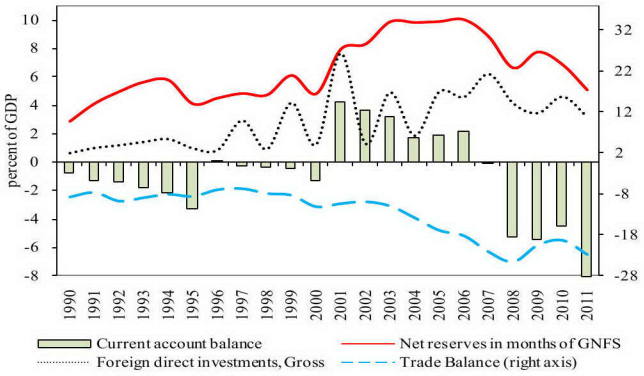


Figure 3.5. Public Finances have improved before the global crisis but are now under pressure (in percent of GDP)

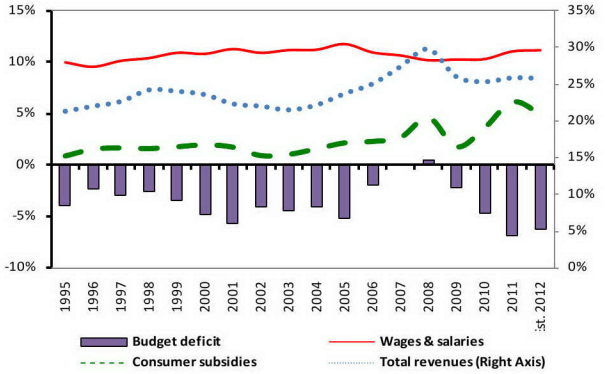


Figure 3.6. Inflation remains subdued Cumulated year over year (in percent)

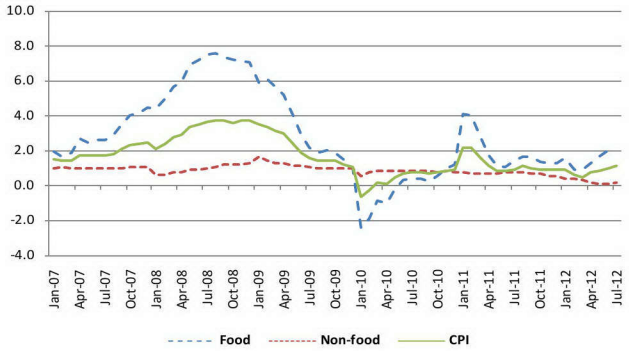
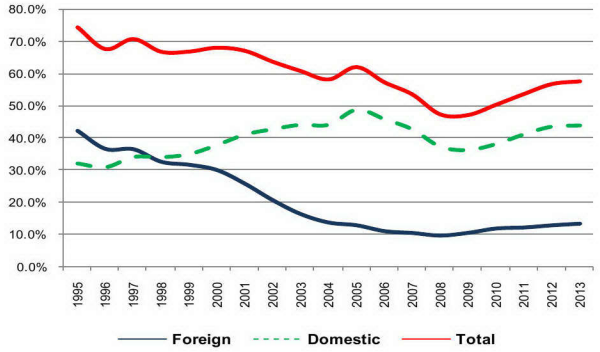


Figure 3.7. After a steady decline, Central Government debt increased in 2011, but is sustainable in the MT (in percent of GDP)



ANNEX 4: MOROCCO PUBLIC DEBT SUSTAINABILITY AND EXTERNAL FINANCING REQUIREMENTS

Figure 4.1- External debt sustainability analysis, main scenarios

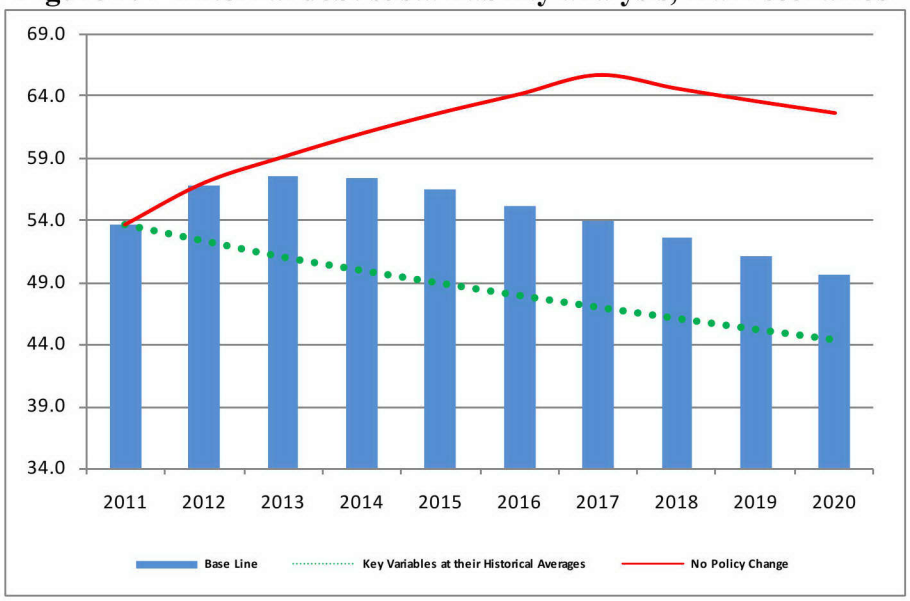


Figure 4.2- External debt sustainability analysis, alternative scenarios

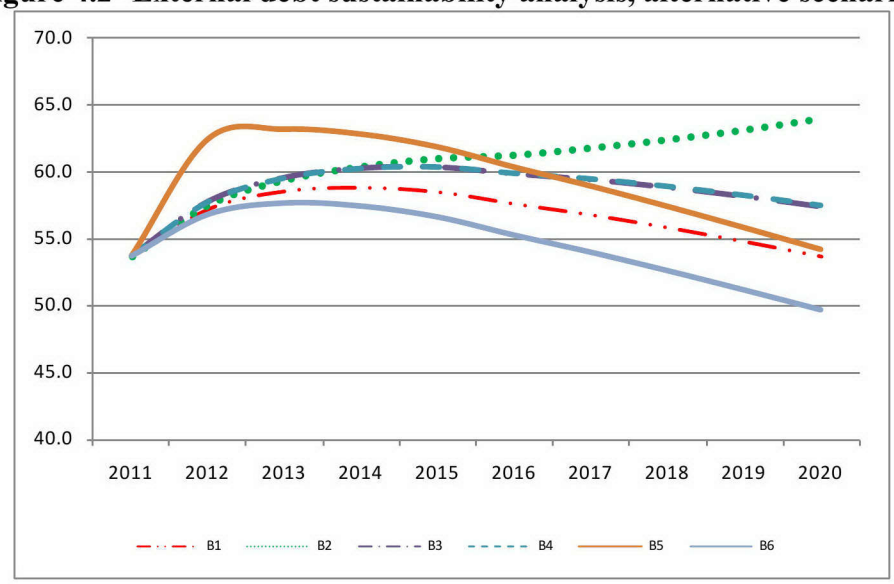


Table 4.1 Public Sector Debt Sustainability Framework, 2006-2020
(In percent of GDP, unless otherwise indicated)

	2006	2007	2008	2009	2010	Est. 2011	Proj. 2012	Proj. 2013	Proj. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
							I. Baseline Projections								
Public sector debt 1/	57.3	53.5	47.3	47.1	50.3	53.7	56.8	57.6	57.4	56.6	55.2	54.0	52.6	51.2	49.7
o/w foreign-currency denominated	11.3	10.7	9.9	10.7	12.1	12.4	13.1	13.6	14.1	14.7	15.0	15.1	15.1	15.0	14.8
Change in public sector debt	-4.8	-3.8	-6.2	-0.2	3.2	3.4	3.1	0.8	-0.2	-0.8	-1.4	-1.3	-1.4	-1.4	-1.5
Identified debt-creating flows (4+7+12)	-4.9	-5.2	-5.6	-0.9	3.4	4.2	3.5	1.2	0.1	-0.5	-1.1	-1.0	-1.0	-0.9	-0.9
Primary deficit	-1.3	-3.3	-3.1	-0.2	2.4	4.6	3.6	2.7	1.8	1.4	0.9	0.9	0.8	0.8	0.8
Revenue and grants	25.1	27.4	29.7	26.0	25.4	25.9	25.8	26.4	26.8	26.8	26.7	26.7	26.7	26.7	26.7
Primary (noninterest) expenditure	23.8	24.1	26.6	25.8	27.7	30.5	29.4	29.1	28.6	28.2	27.6	27.6	27.5	27.4	27.4
Automatic debt dynamics 2/	-3.2	-1.5	-2.5	-0.7	1.0	0.2	0.3	-1.1	-1.5	-1.7	-1.8	-1.7	-1.8	-1.8	-1.9
Contribution from interest rate/growth differential 3/	-2.1	-0.5	-3.0	-0.5	0.4	-0.1	0.2	-1.2	-1.5	-1.8	-1.8	-1.8	-1.8	-1.9	-1.9
Of which contribution from real interest rate	2.3	1.0	-0.3	1.7	2.0	2.2	1.5	1.2	1.1	1.0	1.0	1.1	1.0	0.9	0.8
Of which contribution from real GDP growth	-4.4	-1.5	-2.7	-2.1	-1.6	-2.4	-1.3	-2.4	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.7
Contribution from exchange rate depreciation 4/	-1.1	-1.0	0.5	-0.3	0.7	0.3	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	-0.4	-0.5	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	0.0	0.1	0.3
Privatization receipts (negative)	-0.4	-0.5	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Residual, including asset changes (2-3)	0.1	1.5	-0.6	0.8	-0.2	-0.8	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6
Public sector debt-to-revenue ratio 1/	228.6	195.5	159.2	181.2	198.6	207.6	220.1	218.2	214.1	211.5	206.8	202.5	197.3	191.9	186.4
Gross financing need 5/	15.2	16.2	15.8	20.3	25.6	22.1	21.0	20.8	19.7	18.2	17.1	16.3	15.5	14.6	14.0
in billions of U.S. dollars	10.0	12.2	14.0	18.4	23.3	20.7	20.5	21.5	21.9	21.7	21.9	22.5	22.9	23.3	23.9
Key Macroeconomic and Fiscal Assumptions															
Real GDP growth (in percent)	7.8	2.7	5.6	4.8	3.6	5.0	2.5	4.5	4.9	5.2	5.4	5.5	5.6	5.7	5.7
Average nominal interest rate on public debt (in percent) 6/	5.7	5.8	5.5	5.3	5.1	4.7	4.9	4.9	4.7	4.5	4.4	4.2	4.1	3.9	3.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.2	1.9	-0.3	3.8	4.4	4.7	2.9	2.4	2.1	2.1	2.0	2.2	2.1	1.9	1.8
Nominal appreciation (increase in US dollar value of local currency, in percent)	9.4	9.6	-4.8	3.0	-5.9	-2.8	-0.5	-0.5	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Inflation rate (GDP deflator, in percent)	1.5	3.9	5.9	1.5	0.6	0.1	2.0	2.5	2.6	2.5	2.4	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	3.9	16.7	1.5	11.4	15.4	-1.1	3.5	3.1	3.5	3.4	5.2	5.3	5.5	5.6
Primary deficit	-1.3	-3.3	-3.1	-0.2	2.4	4.6	3.6	2.7	1.8	1.4	0.9	0.9	0.8	0.8	0.8
							II. Stress Tests for Public Debt Ratio								
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2011-2016 7/						**53.7**	**52.4**	**51.1**	**50.0**	**49.0**	**48.0**	**47.1**	**46.1**	**45.3**	**44.4**
A2. No policy change (constant primary balance) in 2011-2016						**53.7**	**57.0**	**59.1**	**61.0**	**62.7**	**64.2**	**65.7**	**64.6**	**63.6**	**62.7**
B. Bound Tests															
B1. Real interest rate is at baseline plus one standard deviations						**53.7**	**57.3**	**58.6**	**58.9**	**58.5**	**57.6**	**56.8**	**55.8**	**54.8**	**53.7**
B2. Real GDP growth is at baseline minus one-half standard deviation						**53.7**	**57.5**	**59.4**	**60.4**	**61.0**	**61.2**	**61.8**	**62.4**	**63.1**	**63.9**
B3. Primary balance is at baseline minus one-half standard deviation						**53.7**	**57.8**	**59.6**	**60.2**	**60.3**	**59.8**	**59.4**	**58.8**	**58.1**	**57.4**
B4. Combination of B1-B3 using one-quarter standard deviation shocks						**53.7**	**57.8**	**59.6**	**60.3**	**60.4**	**59.9**	**59.5**	**58.9**	**58.3**	**57.5**
B5. One time 30 percent real depreciation in 2012 9/						**53.7**	**62.5**	**63.3**	**62.9**	**61.9**	**60.4**	**59.0**	**57.4**	**55.8**	**54.2**
B6. 10 percent of GDP increase in other debt-creating flows in 2012						**53.7**	**56.8**	**57.6**	**57.4**	**56.6**	**55.2**	**54.0**	**52.6**	**51.2**	**49.7**

Source: Government of Morocco and staff calculation and estimate

1/ Indicate coverage of public sector, e.g., generalGovernment or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 4.2 Morocco: External Financing requirements (in percent of GDP)

	Actual		Est.	projections			
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Financing Requirements	**8.3**	**7.1**	**8.7**	**10.1**	**9.6**	**9.9**	**9.4**
Current account deficit	4.5	8.0	9.0	8.4	7.2	6.2	5.5
Long term amortizations	2.7	2.5	2.5	2.3	2.1	2.1	2.1
Reserves Changes of Monetary Auth.	1.2	-3.4	-2.3	0.2	0.2	0.6	1.8
Financing sources	**8.3**	**7.1**	**8.7**	**10.1**	**9.6**	**9.9**	**9.4**
Official capital grants	0.0	0.2	0.4	0.3	0.3	0.3	0.3
Private investment, (FDI+Portfollio) (net)	1.2	2.1	2.3	2.9	3.5	3.6	3.6
Long term Disbursements	5.5	4.5	6.7	7.2	6.0	6.4	5.8
Other capital flows	1.6	0.3	-0.7	-0.2	-0.3	-0.3	-0.3

ANNEX 5. PROCEDURES IDENTIFIED UNDER PRIOR ACTION D.2

PROCEDURES	PUBLIC AGENCIES
1. Registering a trade name	Office of Intellectual Property (*OMPIC*)
2. Registering a company (including the with local tax administration, the commercial registry, the central tax administration, and the social security)	Local Investment Center (*Centre Régional d'Investissement*)
3. Registering a branch or a commercial office	Ministry of Justice and Liberties
4. Changing corporate headquarters in the commercial registry	Ministry of Justice and Liberties
5. Increasing the corporate capital in the commercial registry	Ministry of Justice and Liberties
6. Removing a company from the commercial registry	Ministry of Justice and Liberties
7. Declaring monthly and quarterly turnover for VAT purposes	Tax Authority (*Direction Générale des Impôts*)
8. Registering for business tax (*taxe professionnelle*)	Tax Authority (*Direction Générale des Impôts)*
9. Declaring a modification of the registered tax address	Tax Authority (*Direction Générale des Impôts*)
10. Declaring profits from capital gains	Tax Authority (*Direction Générale des Impôts*)
11. Requesting a tax discharge (*quitus fiscal*)	Tax Authority (*Direction Générale des Impôts*)
12. Registering a trademark	Office of Intellectual Property (*OMPIC*)
13. Requesting a subsidy for investment projects	Moroccan Investment Promotion Agency (*AMDI*)
14. Providing a progress report on investment projects	Moroccan Investment Promotion Agency (*AMDI*)
15. Registering company documents (articles of association, minutes, lease agreement)	Tax Authority (*Direction Générale des Impôts*)
16. Requesting information on corporations with the commercial registry	Office of Intellectual property (*OMPIC*)
17. Registering security agreements on business assets	Ministry of Justice and Liberties
18. Payment injunction	Ministry of Justice and

	Liberties
19. Declaration of cessation of payments	Ministry of Justice and Liberties
20. Requesting a copy of a court ruling	Ministry of Justice and Liberties
21. Introducing a claim before a court	Ministry of Justice and Liberties
22. Declaring the hiring of employees	Ministry of Employment and Vocational Training
23. Committing to exchange	Currency Control Bureau (*Office des changes*)
24. Applying to the fast-track procedure for custom clearance	Customs Authorities
25. Renewing an enterprise custom categorization approval	Customs Authorities
26. Authorizing the operating of a business	Ministry of Interior, Department of Local Governments
27. Registering a pledge of a business	Ministry of Justice and Liberties
28. Registering a pledge of professional equipment and tools	Ministry of Justice and Liberties
29. Registering a business management contract	Ministry of Justice and Liberties
30. Registering a contribution of a business in the capital of a company	Ministry of Justice and Liberties

ANNEX 6: FUND RELATIONS NOTE

IMF Executive Board Concludes 2012 Article IV Consultation with Morocco

Public Information Notice (PIN) No. 13/13
February 5, 2013

On February 1, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.[11]

Background

Morocco has a track record of strong macroeconomic policies that, over the last decade, contributed to solid growth, low inflation, comfortable external reserves, financial deepening, and poverty reduction. These favorable developments have helped Morocco cushion the impact of the international crisis and respond to pressing social needs. In the context of political transitions in many countries in the region and high social demands, a new constitution was adopted in July 2011 in order to pave the way for broad-ranging political changes and reforms, including strengthened roles for the head of government and Parliament. Morocco's positive record helped it qualify last August for a 24-month arrangement under the Precautionary and Liquidity Line (PLL), which aims to provide insurance against external shocks. More recently, this performance has been challenged by a deteriorating external environment and, in 2012, poor rainfall. Growth is expected to slow in 2012 to 3.2 percent, largely due to a lower-than-average cereal crop, but nonagricultural GDP growth is projected to remain robust at around 4.5 percent. Headline inflation has remained subdued at 1.6 percent (year-on-year) in November 2012, despite significant increases in the prices of several subsidized energy products in June, as part of the government's effort to contain the fiscal cost of subsidies. Core inflation (excluding food and transport) was close to zero due to the large negative contribution of lower communication tariffs. Despite relatively strong growth, unemployment has remained around 9 percent since 2010.

The fiscal deficit should decline to about 6 percent of GDP in 2012, thanks to a combination of measures notably the increase in some energy-administered prices in June and the control of nonessential spending. Delays in the adoption of the 2012 budget and in disbursement of external grants resulted in lower-than-projected investment. This, in turn, helped offset the

[11] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

subsidy bill that reached about 6.2 percent of GDP. The 2013 budget envisions a further reduction of the deficit by 1.4 percent point of GDP to 4.7 percent of GDP. For the medium term, the authorities aim at a deficit below 3 percent of GDP.

The current account deficit is expected to increase to 8.8 percent of GDP in 2012 as import growth, pushed by energy-related imports, outpaced slow export growth. Tourism receipts and remittances are projected to fall slightly relative to 2011, reflecting the deterioration in the European economy. While gross international reserves (GIR) fell steadily in 2011 and most of 2012, they stabilized at around four months of imports in the last quarter. The issuance of a US$1.5 billion sovereign bond at favorable terms in late 2012 provided additional support in this regard.

Monetary conditions have remained broadly supportive. Lower international reserves had a substantial restrictive impact on bank liquidity, contributing to slowing credit growth to 7 percent in 2012. To help fill the liquidity shortage, the central bank stepped up its liquidity injection, including by extending eligible collateral for its repo. The policy interest rate was cut by 0.25 percentage point to 3 percent in March 2012 and has remained unchanged since then. In September 2012, it also cut its reserve requirements for banks by 2 percentage points to 4 percent.

Morocco's social indicators have improved over the past decade. Higher economic growth, lower unemployment, better health and educational outcomes, better access to basic infrastructure, and a marked reduction in poverty rates are tangible evidence of the progress made in fostering inclusive growth. However, unemployment remains high particularly among the youth. The authorities' reform agenda includes measures to boost potential growth, tackle inequalities in the distribution of income and access to health care, particularly across regions as well as reduce unemployment.

Executive Board Assessment

Executive Directors commended the authorities for their overall sound macroeconomic policies, which, over the past decade, have helped deliver solid growth, low inflation, and poverty reduction despite continued high youth unemployment. This strong performance has been challenged recently by external and domestic shocks in a context of pressing social demands. Directors agreed that the authorities' program of fiscal consolidation, prudent monetary and financial policies, and structural reforms to boost competitiveness and inclusive growth and rebuild shock buffers is appropriate to deal with these challenges. They emphasized that the outlook hinges on the timely and sustained implementation of the reform agenda.

Directors welcomed the fiscal consolidation envisioned in the 2013 budget and beyond to help maintain external and fiscal sustainability, while emphasizing that consolidation should be as growth-friendly as possible. They welcomed the steps being taken toward reforming the subsidy system, and called on the authorities to move ahead resolutely in this area to aid medium-term fiscal adjustment and better assist the most vulnerable groups of the population. Directors also stressed the importance of moving ahead with pension reform to ensure the system's viability. They encouraged a careful approach to fiscal decentralization so as not to increase fiscal risks.

They welcomed plans to lower the ratio of the government wage bill to GDP and accelerate tax reforms. Directors concurred that clear communications and high-quality social dialogue will be key to successful implementation of the fiscal reform agenda.

Directors considered the current monetary policy stance to be appropriate. They encouraged the authorities to move toward greater exchange rate flexibility to enhance external competitiveness and the economy's ability to absorb shocks, in coordination with other macroeconomic and structural policies.

Directors called for stepped-up efforts to foster higher and more inclusive growth, including by boosting youth employment and reducing inequalities in income and in access to health care and education. They underscored the importance of structural reforms to enhance external competitiveness and diversify the export base. They welcomed planned reforms to improve the business climate and promote small and medium-sized enterprises, both crucial to accelerate private-sector-led growth.

Directors noted that the financial sector remains sound overall. They commended the authorities' efforts to further strengthen financial regulation and supervision, particularly in light of increasing international exposure of Moroccan banks. In this regard, they welcomed the authorities' interest in a Financial Sector Assessment Program update. Directors encouraged the authorities to strengthen legislation against money laundering and terrorism financing, and to intensify reforms to promote financial development and deepening.

Directors agreed that Morocco continues to meet the qualification criteria for a Precautionary and Liquidity Line (PLL) arrangement. They noted that the arrangement provides useful insurance against exogenous shocks and that the program supported by the PLL is on track. Directors welcomed the authorities' intention to continue to treat the PLL as precautionary.

Morocco: Selected Economic Indicators, 2010–18 (IMF)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
				(Annual percentage change)					
Output and Prices									
Real GDP	3.6	5.0	3.2	4.5	4.8	5.0	5.4	5.7	5.8
Real nonagricultural GDP	4.9	5.0	4.5	4.5	4.7	5.0	5.4	5.8	5.9
Consumer prices (end of period)	2.2	0.9	2.3	2.5	2.5	2.5	2.5	2.6	2.6
Consumer prices (period average)	1.0	0.9	1.3	2.4	2.5	2.5	2.5	2.6	2.6
				(In percent of GDP)					
Investment and Saving									
Gross capital formation	35.0	36.0	36.1	36.6	37.4	37.8	38.2	38.4	38.8
Of which: Nongovernment	31.2	31.5	31.9	31.8	31.9	32.1	32.4	32.6	32.9
Gross national savings	30.9	27.9	27.3	30.4	31.7	32.6	33.4	33.9	34.3
Of which: Nongovernment	28.9	28.5	28.4	29.4	29.5	29.5	29.7	29.9	29.9
				(In percent of GDP)					
Public Finances									
Revenue 1/	27.5	27.8	27.7	28.2	28.3	28.2	28.2	28.1	28.2
Expenditure	31.9	34.6	33.8	32.9	32.4	31.7	31.2	30.7	30.6
Budget balance	-4.4	-6.8	-6.1	-4.7	-4.1	-3.5	-3.0	-2.7	-2.4
Primary balance (excluding grants)	-2.3	-4.7	-3.8	-3.4	-2.7	-2.0	-1.5	-1.1	-0.8
Total government debt	51.3	54.4	58.2	59.0	59.0	58.4	57.0	55.2	53.3
			(Annual percentage change; unless otherwise indicated)						
Monetary Sector									
Credit to the private sector 2/	7.5	9.9	7.0	8.0	...	...	...	...	...
Broad money	4.8	6.5	3.3	7.9	...	...	...	...	...
Velocity of broad money	0.9	0.8	0.9	0.8	...	...	...	...	...
Three-month treasury bill rate (period average, in percent) 3/	3.4	3.5	3.2	...	...	...	...	...	...
			(In percent of GDP; unless otherwise indicated)						
External Sector									
Exports of goods (in U.S. dollars, percentage change)	26.7	21.0	-3.5	10.4	8.1	5.6	6.5	6.9	7.1
Imports of goods (in U.S. dollars, percentage change)	7.7	25.4	-1.6	5.9	5.0	5.4	5.9	6.8	7.6
Merchandise trade balance	-16.4	-19.6	-20.0	-18.8	-17.8	-17.5	-17.1	-16.8	-16.7
Current account excluding official transfers	-4.4	-8.4	-8.9	-7.9	-6.8	-6.4	-5.8	-5.4	-5.3
Current account including official transfers	-4.1	-8.0	-8.8	-6.3	-5.7	-5.3	-4.8	-4.5	-4.5
Foreign direct investment	0.8	2.3	2.2	2.8	2.8	2.9	3.0	3.0	3.0
Total external debt	24.7	23.6	26.4	27.5	27.1	26.6	25.9	24.6	23.8
Gross reserves (in billions of U.S. dollars)	23.6	20.6	17.5	18.4	18.8	19.7	21.3	22.6	24.6
In months of next year imports of goods and services	5.7	5.1	4.1	4.1	4.0	4.0	4.0	4.0	4.1
In % of short-term external debt (on remaining maturity basis)	1,546	1,222	1,037	1,091	1,112	1,168	1,259	1,339	1,455
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	90.8	99.2	97.5	104.8	112.2	120.4	129.7	140.6	152.6
Unemployment rate (in percent)	9.1	8.9	…	...	...	...	...	...	...
Net imports of energy products (in billions of U.S. dollars)	-8.1	-11.2	-11.8	-11.5	-11.4	-11.3	-11.2	-11.1	-11.1
Local currency per U.S. dollar (period average)	8.4	8.1	…	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-4.1	-1.7	…	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Includes changes in the balance of other special treasury accounts.

2/ Includes credit to public enterprises. 3/ Most recent data for 2012.

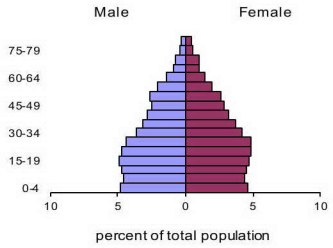
ANNEX 7: COUNTRY AT A GLANCE

Morocco at a glance

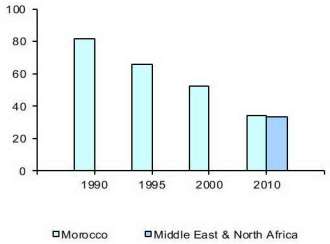
1/8/13

Key Development Indicators (2011)	Morocco	M. East & North Africa	Lower middle income
Population, mid-year (millions)	32.3	331	2,494
Surface area (thousand sq. km)	*447*	8,775	20,842
Population growth (%)	1.0	1.7	1.5
Urban population (% of total population)	57	59	38
GNI (Atlas method, US$ billions)	97.6	1,281	3,980
GNI per capita (Atlas method, US$)	3,020	3,869	1,596
GNI per capita (PPP, international $)	4,910	*8,026*	3,581
GDP growth (%)	4.5	4.2	7.3
GDP per capita growth (%)	3.5	2.4	5.7
(most recent estimate, 2005–2011)			
Poverty headcount ratio at $1.25 a day (PPP, %)	3	3	30.2
Poverty headcount ratio at $2.00 a day (PPP, %)	14	14	59.5
Life expectancy at birth (years)	72	72	66
Infant mortality (per 1,000 live births)	28	27	48
Child malnutrition (% of children under 5)	1	7	25
Adult literacy, male (% of ages 15 and older)	69	84	80
Adult literacy, female (% of ages 15 and older)	44	68	62
Gross primary enrollment, male (% of age group)	117	108	106
Gross primary enrollment, female (% of age group)	110	101	102
Access to an improved water source (% of population)	83	89	87
Access to improved sanitation facilities (% of population)	70	88	47

Age distribution, 2011

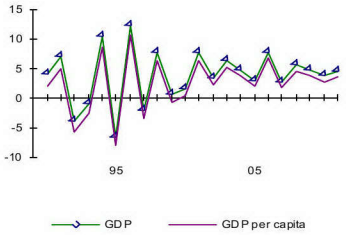


Under-5 mortality rate (per 1,000)



Net Aid Flows	1980	1990	2000	2011 [a]
(US$ millions)				
Net ODA and official aid	1,159	1,241	434	993
Top 3 donors (in 2010):				
France	135	217	155	254
European Union Institutions	12	29	117	223
Japan	4	111	103	121
Aid (% of GNI)	6.3	5.0	1.2	1.1
Aid per capita (US$)	59	50	15	31

Growth of GDP and GDP per capita (%)



Long-Term Economic Trends					1980–90	1990–2000	2000–11
					(average annual growth %)		
Consumer prices (annual % change)	9.4	7.0	1.9	2.4			
GDP implicit deflator (annual % change)	15.2	5.5	-0.6	1.5			
Exchange rate (annual average, local per US$)	3.9	8.2	10.6	8.1			
Terms of trade index (2000 = 100)	80	75	100	82			
Population, mid-year (millions)	19.6	24.8	28.8	32.3	2.4	1.5	1.0
GDP (US$ millions)	18,821	25,821	37,021	100,221	4.2	2.4	4.8
		(% of GDP)					
Agriculture	18.5	18.3	14.9	15.1	6.7	-0.4	5.9
Industry	31.0	33.4	29.1	29.9	3.0	3.2	3.7
Manufacturing	16.9	19.0	17.5	15.5	4.1	2.6	2.9
Services	50.5	48.3	56.0	55.1	4.0	3.1	5.0
Household final consumption expenditure	66.8	64.6	61.4	63.1	4.5	1.8	4.6
General gov't final consumption expenditure	18.3	15.5	18.4	15.4	4.4	3.9	4.0
Gross capital formation	24.2	25.3	25.5	34.9	1.6	2.5	7.9
Exports of goods and services	17.4	26.5	28.0	34.6	8.0	5.9	5.7
Imports of goods and services	26.7	31.9	33.4	48.0	4.6	5.1	7.5
Gross savings	..	..	..	..			

Note: Figures in italics are for years other than those specified. .. indicates data are not available.
a. Aid data are for 2010.

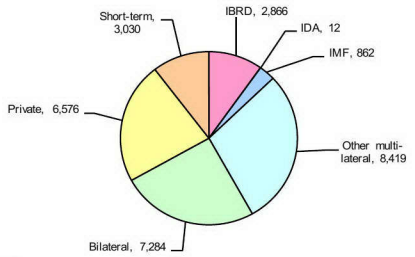
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2011
(US$ millions)		
Total merchandise exports (fob)	7,419	21,047
Total merchandise imports (cif)	11,531	39,928
Net trade in goods and services	-2,085	-13,529
Current account balance	-475	-6,808
as a % of GDP	-1.3	-6.8
Workers' remittances and compensation of employees (receipts)	2,161	*6,423*
Reserves, including gold	5,138	38,467

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	23.6	25.9
Tax revenue	21.7	23.9
Current expenditure	23.4	26.1
Overall surplus/deficit	-4.8	-4.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	20,790	29,049
Total debt service	2,713	3,234
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	56.2	29.0
Total debt service (% of exports)	21.0	6.0
Foreign direct investment (net inflows)	221	2,521
Portfolio equity (net inflows)	18	166

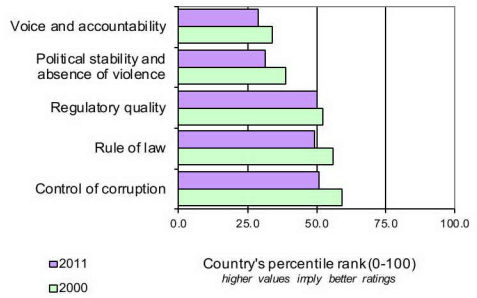
Composition of total external debt, 2011



US$ millions

Private Sector Development	2000	2011
Time required to start a business (days)	–	12
Cost to start a business (% of GNI per capita)	–	15.7
Time required to register property (days)	–	75
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2011**
Access to/cost of financing	..	*84.4*
Tax rates	..	*62.6*
Stock market capitalization (% of GDP)	29.4	60.0
Bank capital to asset ratio (%)	9.8	7.9

Governance indicators, 2000 and 2011



Source: Worldwide Governance Indicators (www.govindicators.org)

Technology and Infrastructure	2000	2011
Paved roads (% of total)	56.4	*70.3*
Fixed line and mobile phone subscribers (per 100 people)	13	124
High technology exports (% of manufactured exports)	11.3	*7.7*

Environment		
Agricultural land (% of land area)	69	*67*
Forest area (% of land area)	11.2	*11.5*
Terrestrial protected areas (% of land area)	1.5	*1.5*
Freshwater resources per capita (cu. meters)	*985*	*917*
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	1.2	*1.5*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	8.3	*8.8*
Energy use per capita (kg of oil equivalent)	356	*477*

World Bank Group portfolio	2000	2011
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	2,837	2,866
Disbursements	138	711
Principal repayments	307	208
Interest payments	190	60
IDA		
Total debt outstanding and disbursed	27	12
Disbursements	0	0
Total debt service	2	1
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	29	122
of which IFC own account	29	122
Disbursements for IFC own account	1	5
Portfolio sales, prepayments and repayments for IFC own account	7	6
MIGA		
Gross exposure	–	–
New guarantees	–	–

Note: Figures in italics are for years other than those specified.
.. indicates data are not available. – indicates observation is not applicable.

1/8/13

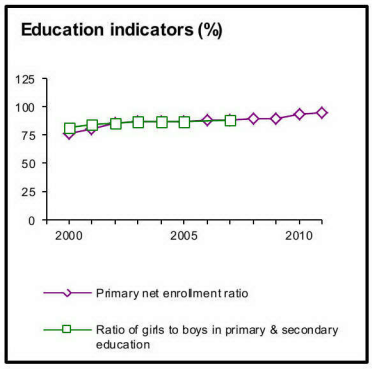
Development Economics, Development Data Group (DECDG).

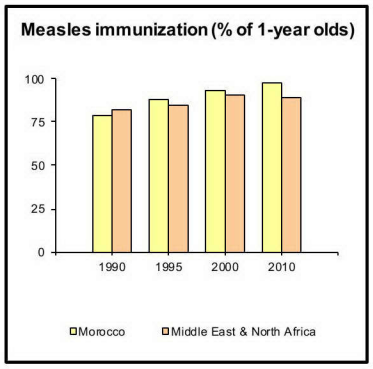
Millennium Development Goals

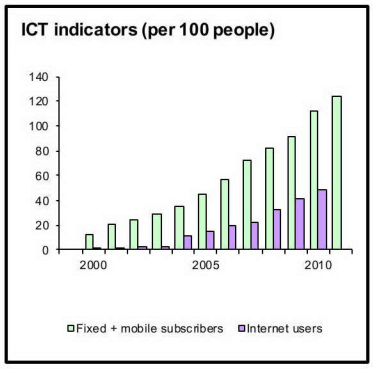
Morocco

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Morocco			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2011**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*2.5*	..	*6.3*	*2.5*
Poverty headcount ratio at national poverty line (% of population)	..	..	*15.3*	*9.0*
Share of income or consumption to the poorest quintile (%)	*6.6*	..	*6.5*	*6.5*
Prevalence of malnutrition (% of children under 5)	*2.4*	*2.2*	..	0.8
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	57	63	76	96
Primary completion rate (% of relevant age group)	52	48	57	*85*
Secondary school enrollment (gross, %)	37	38	38	*56*
Youth literacy rate (% of people ages 15-24)	..	*58*	..	*79*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	69	74	83	*89*
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	*21*	*22*	*21*
Proportion of seats held by women in national parliament (%)	0	*1*	1	17
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	81	66	53	33
Infant mortality rate (per 1,000 live births)	64	54	44	28
Measles immunization (proportion of one-year olds immunized, %)	79	88	93	95
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	300	230	170	*100*
Births attended by skilled health staff (% of total)	*31*	40	..	..
Contraceptive prevalence (% of women ages 15-49)	*42*	50	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	*0.1*
Incidence of tuberculosis (per 100,000 people)	147	152	117	103
Tuberculosis case detection rate (%, all forms)	76	73	92	*97*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	73	76	78	*83*
Access to improved sanitation facilities (% of population)	53	59	64	*70*
Forest area (% of land area)	11.3	..	11.2	*11.5*
Terrestrial protected areas (% of land area)	1.2	1.5	1.5	*1.5*
CO2 emissions (metric tons per capita)	1.0	1.1	1.2	*1.5*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	9.7	8.2	8.3	*8.8*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	1.6	4.2	4.9	11.0
Mobile phone subscribers (per 100 people)	0.0	0.1	8.1	113.3
Internet users (per 100 people)	0.0	0.0	0.7	51.0
Computer users (per 100 people)	..	..	..	*50.9*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 1/8/13

Development Economics, Development Data Group (DECDG).