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MEMORANDUM

TO : THE BOARD OF DIRECTORS

FROM : Cheikh I. FALL
Secretary General

SUBJECT : MOROCCO – FISAP AND PDEI PROJECT PERFORMANCE EVALUATION REPORT *

Please find attached the above-mentioned document.

Attach:

cc: The President

***Questions on this document should be referred to:**

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SCCD : G.G.

AFRICAN DEVELOPMENT BANK

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MOROCCO

FISAP AND PDEI PROJECT PERFORMANCE EVALUATION REPORT

OPERATIONS EVALUATION DEPARTMENT

SCCD : G. G.

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The report was prepared by Mr. H.RAZAFINDRAMANANA, Principal Evaluation Officer and Mr. Mamadi CAMARA, Consultant, following a mission to Morocco from April 11-28, 2005. For further information, please contact Mr. G. G. GIORGIS, Director, OPEV at extension 2041.

ACRONYMS AND ABBREVIATIONS

AFD	:	French Development Agency
ADB	:	African Development Bank
BAM	:	Bank Al-Maghrib
BCP	:	*Banque Centrale Populaire* (Peoples' Central Bank)
BMCE	:	*Banque Marocaine pour le Commerce Extérieur* (Moroccan Bank for External Trade)
BNDE	:	*Banque Nationale de Développement Economique* (National Bank for Economic Development)
CC	:	*Comptes Courants Postaux* (Giro Accounts)
CEN	:	*Caisse d'Epargne Nationale* (National Savings Bank)
CDG	:	Deposit and Management Fund
CDVM	:	*Conseil Déontologique des Valeurs Mobilières (*Securities Ethics Board)
CEC	:	*Comité des Etablissements de crédit* (Committee of Credit Institutions)
CDEC	:	*Conseil de Discipline des Etablissements de crédit* (Disciplinary Council for Credit Institutions)
CGEM	:	*Confédération Générale des Entreprises du Maroc* (Confederation of Moroccan Businesses)
CIH	:	*Crédit Immobilier et Hôtelier(Construction and Hotel Credit Organization)*
CIMR	:	*Caisse Interprofessionnelle Marocaine de retraite* (Moroccan Inter-professional Fund)
CMR	:	*Caisse marocaine de Retraite* (Moroccan Pension Fund)
CNCA	:	National Agricultural Credit Bank
CNME	:	*Conseil National de la Monnaie et de l'Epargne* (National Monetary and Savings Council)
CNSS	:	*Caisse Nationale de Sécurité Sociale* (Social Security Fund)
DAPS	:	*Direction des Assurances et de la Prévoyance Sociale* (Directorate of Insurance and Social Security)
GFCF	:	Gross Fixed Capital Formation
IMF	:	International Monetary Fund
GPBM	:	*Groupement Professionnel des Banques du Maroc* (Professional Association of Moroccan Banks)
PFI	:	Public Financial Institution
IVT	:	*Intermédiaire en Valeurs du Trésor* (Secondary dealer)
MAROCLEAR	:	Central Depository
OCP	:	*Office Chérifien des Phosphates (Phosphates Authority)*
ODEP	:	*Office d'Exploitation des Ports* (Ports Authority)
UCITS:		Undertakings for Collective Investments in Transferable Securities
OPV	:	*Offre Publique de Vente* (Public Sale)
ONCF	:	*Office National des Chemins de Fe*r (National Railway Company)
ONE	:	National Electricity Authority
PARAP	:	Public Administration Reform Support Programme
SAP	:	Structural Adjustment Programme
FI-SAP	:	Financial Sector Adjustment Programme
PDEI	:	Institutional Savings Development Programme
GDP	:	Gross Domestic Product
SME	:	Small- and Medium-sized Enterprise
SMI	:	Small- and Medium-sized Industries
GNP	:	Gross National Product
UNDP	:	United Nations Development Programme
ESRP	:	Economic and Social Reform Programme
RCAR	:	*Régime Commun d'Assurance Retraite* (Collective Retirement Pension)
SBVC	:	*Société de Bourse de Valeur de Casablanca* (Casablanca Stock Exchange)
SDB	:	*Société de Bourse* (Brokerage company)
SICAF	:	*Société d'Investissement à Capital Fixe* (Closed-end Investment Company)
SICAV	:	*Société d'Investissement à Capital Variable* (Open-end Investment Company)
ICT	:	Information and Communication Technologies
VAT	:	Value-added tax
UA	:	Unit of account
EU	:	European Union
USD	:	American Dollar

PREFACE

1. Since the 1970s, Morocco has been involved in a long process of profound transformation of its economy with a view to achieving strong and sustainable growth based on greater private sector participation in collaboration with the government. It has also opted for a market economy and for opening up gradually to the outside world.

2. Based on these fundamental choices, Morocco undertook a series of economic and social reforms, which reached a higher level in 1983, when the country opted for an intensive stabilization and structural adjustment programme. This adjustment process was expected to ensure a sustainable transition from a protected, centrally planned and managed economy to a liberalized economy driven by a strong private sector that would play a dominant role in the production and distribution of goods and services. In this context, the Government would increasingly restrict its responsibilities to its classic sovereignty and economic arbitrage duties. Based on this choice, in 1995, Morocco and the European Union signed a Partnership Agreement whose entry into force in 2012 will help make concrete Morocco's determination to open up to the vast European market, with a view to capitalizing on its agricultural exports.

3. To sustain the achievements of structural adjustment, Morocco undertook a series of structural adjustment programmes focused on stabilizing the macroeconomic framework, enhancing the quality of the environment for private-sector investment, and rehabilitating the different sectors of the economy, in particular, the industrial sector, the banking and financial sector, the regulatory and legal framework, the administrative machinery and basic infrastructure.

4. To take advantage of economic liberalization, it was necessary to (i) modernize the regulatory framework of the financial sector (banks, insurance, and capital markets) and (ii) mobilize institutional savings internally and externally, with a view to increasing private-sector investment in productive sectors. These two fundamental thrusts of the Government's economic policy are at the heart of the reforms undertaken in the financial sector from the first phase launched in 1992 and continued under FISAP-II, PDEI, and FISAP-IV.

5. In spite of the positive results achieved under these different programmes, the Government must pursue its efforts to deepen and strengthen reforms so as to further enhance the competitiveness of the Moroccan economy in view of its future association with the European Union and the United States of America.

6. This report was prepared following a FISAP and PDEI performance evaluation mission to Morocco from 11–28 April 2005. It draws on the appraisal and completion reports of these programmes, as well as on (i) information available at Bank headquarters; (ii) information and documentation obtained during the mission; and (iii) discussions and interviews with Moroccan authorities, the resident representatives of the World Bank, the UNDP, and the European Union in Morocco.

RATINGS

1. Relevance	Satisfactory
2. Achievements of objectives and outcomes	Satisfactory
3. Efficiency	Satisfactory
4.Institutional development impact	Satisfactory
5. Sustainability	Satisfactory
6. Aggregate performance indicator	Satisfactory
7. Borrower's performance	Satisfactory
8. Bank's performance	Satisfactory

BASIC PROGRAMME DATA

1. Financial Sector Adjustment Programme – Phase II

Preliminary Data

1. Loan Number : B/MRC/PASF-2/95/55
2. Borrower : The Government of the Kingdom of Morocco
3. Beneficiary : The Government of the Kingdom of Morocco
4. Implementing Agency : Directorate of the Treasury and of External Finance

A. THE LOAN

1. Amount : UA 150 000 000
2. Interest rate : Variable rate
3. Repayment period : 30 half-yearly instalments after a 5-year grace period
4. Grace period : 5 years
5. Loan negotiation date : 31 October to 3 November 1995
6. Loan approval date : 21 November 1995
7. Loan signature date : 30 November 1995
8. Effectiveness date : 19 December 1995

B. PROGRAMME DATA

1. Total cost : not applicable

2. Financing Plan (In UA million)

Financing Plan (In UA million)	Foreign Exchange	Local Currency
ADB	150	not applicable
IBRD 160		
Government	535 (Withholding on international reserves)	

3.

Date of first disbursement

:

22 December 1995

4. Date of last disbursement : 16 December 1996

C. PERFORMANCE INDICATORS

1.	Overrun	:	None
2.	Time Overrun	:	None
	-Slippage on effectiveness	:	None
	-Slippage on completion date	:	6 months early
	-Slippage on last disbursement	:	None
3.	Programme implementation status	:	Completed
4.	Institutional performance	:	Satisfactory

D. MISSIONS

	Number of persons	Composition	Person/days
Appraisal	2	Financial analyst	30
Monitoring	1	Lead financial analyst	5
Financial supervision	2	Financial consultants	20
Mid-term review	1	Lead financial analyst	5
Completion	2	Financial consultants	20

E. DISBURSEMENTS

- Total amount disbursed : UA 150 million

1st tranche : UA 90 million on 22 December 1995
2nd tranche : UA 60 million on 16 December 1996

- Amount cancelled : 0

- Undisbursed balance : Not applicable

2. Institutional Savings Development Programme (PDEI)

BASIC PROGRAMME DATA

1. Name of programme: Institutional Savings Development Programme (PDEI)

1 Loan agreement number	B/MRC/PRO-DES/98/56
2 Borrower	Kingdom of Morocco
3 Beneficiary	Kingdom of Morocco
4 Executing agency	Ministry of the Economy, Finance, Privatisation and Tourism

2. Loan Data

LOAN	ESTIMATE	ACTUAL
1-Loan Amount	FF 405 000000 and US$ 68 260 000	FF 526 500 000 US$ 88 738 000
2-Commitment charge	0.75% per year on the undisbursed loan amount over a period starting 60 days after signature	0.75% per year on the undisbursed loan amount over a period starting 60 days after signature
3-Repayment	In 15 years, after a grace period of 5 years, totalling 30 half-yearly instalments	In 15 years, after a grace period of 5 years, totalling 30 half-yearly instalments
4-Appraisal date	June 1997	June 1997
5-Negotiation date	November 1997	21 and 22 October 1997
6-Date of presentation to Board	November 1997	19 November 1997
7-Date of approval	November 1997	19 November 1997
8-Date of signature	January 1998	28 May 1998
9-Start-up date	January 1998	January 1998
10-Effectiveness date	-	10 June 1998
11-Date of supervision missions	-	22 to 31 March 1999, October 1999 (monitoring)
12-Date of audit mission	-	18 July to 2 August 1999
13-Date of completion mission	May 2001	2 to 19 May 2001
14-Deadline for last disbursement	31 December 1999	31 December 2000
15-Closing date	31 December 1999	31 December 2000

3-Data on Financing Sources

3.1-Financing from all Donors

PROGRAMME DATA	ESTIMATE	ACTUAL	VARIATION
ADB	Approved amount granted in UA million	Amount disbursed in UA million	
	UA 130 million	UA 130 million	0.0
World Bank	Amount approved in US$ million	Amount disbursed in US$ million	
	100 million	100 million	0.0

3.2-Disbursement of ADB Loan

DISBURSEMENT	ESTIMATE			ACTUAL			Variation in UA
	Date	Amount in UA	Amount in the loan currency	Date	Amount (in UA)	Amount in the loan currency	
1st tranche	June 1998	78 000 000	FF 243 000 000 US$ 40 956 000	10 June 1998	78 000 000	FF 316 500 000 US$ 53 243 000	0.0
2nd tranche	December 1999-	52 000000	FF 162 000 000 US$ 27 304 000	24 July 2000	52 000 000	FF 210 000 000 US$35 495 000	0.0
TOTAL		130 000 000	FF 405 000 000 US$ 68260 000		130 000 000	FF 526 500 000 US$ 88 738 000	0

4. Performance Indicators

1-Cost overrun/balance as a percentage	0.0
2-Time overrun Slippage on effectiveness Slippage on completion date Slippage on date of estimated last disbursement	One year 0.0 One year One year
Programme implementation status	Completed
Completion indicator	100%
Institutional performance	Satisfactory
Borrower's completion report	Completed

5. Information on missions

Missions	Number of missions	Number of persons	Composition	Person/weeks
1-Identification	01	02	2 financial economists	04
2-Preparation	01	02	1 macro-economist 1 financial economist	04
3-Appraisal	01	02	1 macro-economist 1financial economist	06
4-Supervision Monitoring	1 1	02 01	2 macro-economists 1 macro- economist	04 1
5-PCR	01	02	1 macro-economist 1 financial expert specialized in insurance and pension schemes	04

6. Review of Disbursements (in UA million)

Disbursement	Estimate/Appraisal	Actual
Total disbursed	130 million	130 million
Annual disbursement 1998 2000	 78 million 52 million	 78 million 52 million

CURRENCY EQUIVALENTS

Currency	Appraisal (June 1997)	Completion (June 2002)
1 Unit of account	1	1
1Dirham	5.10926	14. 449
1 French Franc	8.00474	9.33145
1 US Dollar	1.39179	1.26429

3. Financial Sector Adjustment Programme – Phase IV

PROGRAMME INFORMATION SHEET

Date: October 2002

1.	COUNTRY	:	Kingdom of Morocco
2.	TITLE OF PROGRAMME	:	Financial Sector Support Programme IV (4th Bank loan)
3.	BORROWER	:	Government of Morocco
4.	LOCATION	:	Countrywide
5.	EXECUTING AGENCY	:	Ministry of Economy, Finance, Privatisation and Tourism
6.	PROGRAMME DESCRIPTION	:	The reform programme focuses on:

(i) Improving regulation of banking sector activities and upgrading public financial institutions;

(ii) Boosting capital markets.

7.	TOTAL COST	:	Not Applicable
8.	SOURCE OF LOAN	:	ADB
9.	LOAN AMOUNT	:	137.5 million euros
10.	OTHER SOURCES OF FINANCING	:	European Union: 52 million euro grant
11.	DATE OF APPROVAL	:	December 2002
12.	DATE OF LAUNCH AND DURATION	:	December 2002 for 24 months
13.	PROCUREMENT OF GOODS AND SERVICES	:	Loan resources were used to finance imports of goods and services, except for those on the non-eligible list. With respect to procurement, supply of goods and services valued at 5.327 million euros or higher, will be done through International Competitive Bidding, in accordance with the Bank's rules. Petroleum and food products were exempted because of the existence of special international trade practices in this area. However, resources allocated to these two types of products had a ceiling of 30 percent of the loan amount. All

procurement of supplies by government bodies, with an estimated value of less than 5.327 million euros, was done in accordance with procedures normally used by the borrower and acceptable to the Bank. Contracts for supplies for private entities were executed in accordance with procedures generally used by the concerned parties.

14. <u>DISBURSEMENT</u> : The loan was disbursed in two tranches of 68.78 million euros each. The disbursement of the first tranche was subject to the fulfilment of conditions precedent to the entry into force of the loan and to the fulfilment of conditions for the disbursement of the 1st tranche. The disbursement of the 2nd tranche was subject to satisfactory mid-term review results and to the fulfilment of conditions for the disbursement of the second tranche.

15. <u>CONSULTANCY SERVICES REQUIRED</u> : None

CURRENCY EQUIVALENTS

(March 2002)

Currency Unit	=	Dirham (MAD)
UA 1	=	$ US1.24163
UA 1	=	EURO1.43524
UA 1	=	MAD14.6263

EXECUTIVE SUMMARY OF THE EVALUATION

1. Objectives and Scope

1.1 This performance evaluation report focuses primarily on the four financial sector reform programmes (FISAP I, FISAP-II, FISAP-III or PDEI, and FISAP-IV), and, subsidiarily, on the two structural adjustment programmes (SAP I and II). The evaluation will focus primarily, but not exclusively, on the 1996-2004 period.

1.2 The financial sector reform programmes were economic policy measures to accompany the liberalization of the economy, which was transitioning from a managed and protected economy to a market economy. In this context, the goal of the FISAPs was to support economic development and lay the foundation for a full employment competitive economy by promoting a more competitive and efficient financial system.

1.3 The specific objectives of the programme focused on four main areas: (i) modernizing the regulatory and legal framework; (ii) strengthening the autonomy and capacity of supervisory bodies; (iii) re-establishing the financial balance of government banking and financial institutions; and (iv) boosting the capital market.

2. Implementation Performance

2.1 The programmes did not experience funding difficulties as planned amounts had all been mobilized. In general, the Moroccan Government fulfilled the conditions for disbursement of funds and no major difficulties were encountered during implementation. Loans were disbursed in accordance with defined procedures. However, there was a one-year delay with respect to the completion date of the PDEI.

2.2 All the programmes were subject to an adequate number of supervision missions. The FISAP-1 was subject to appraisal, monitoring, financial supervision, and mid-term review missions; FISAP-II was subject to an appraisal mission and a mid-term review mission. A total of five missions were conducted with respect to the PDEI (identification, preparation, appraisal, supervision and audit missions). FISAP-IV, currently in the completion stage, was subject to supervision missions in 2003 and 2004. At the Government level, executing agencies failed to provide regular status and audit reports.

3. Institutional Performance

Borrower's Performance

3.1 The performance of the Borrower was deemed satisfactory. The borrower fulfilled all loan conditions related to the implementation of the FISAPs. However, performance varied from one phase to another. With respect to FISAP-I, the Directorate of the Treasury and External Finance *(Direction du trésor et des finances extérieures)* was able to supervise the implementation of the programme in a satisfactory manner. And BAM monitored the reform of the banking system since it had to divest from the capital of public banks. The programme helped strengthen the institutional framework for banking activities by creating the *Conseil national de la monnaie et de l'épargne* (advisory body), the *Comité des établissements de crédit*, the *Commission de discipline des établissements de crédit*, responsible for enforcing sanctions for non-observance of prudential regulations. With respect to FISAP-II, the Borrower was able to implement almost all planned measures, except for the condition related to the elimination, as of 1996, of the floor on government securities (*Plancher des effets publics -PEP),* which, nevertheless, had a reduced rate. With respect to FISAP-III or the PDEI, the Borrower fulfilled all loan conditions. However, some of the conditions for disbursement of the second tranche were fulfilled with a one-year slippage in the schedule as a result of significant delay in recruiting a consultant to conduct the study on pension funds and the completion of financial audits of pension schemes and actuarial studies. With respect to the FISAP-IV, which is in the completion phase, the Borrower submitted a progress report dated 18 August 2004.

Bank's Performance

3.2 The Bank's performance under the different programmes was satisfactory, despite the fact that it did not participate in the identification and preparation of the first programme - which was done by the World Bank and the Directorate of the Treasury and External Finance. The Bank played a more significant role in the preparation, appraisal and negotiations of the other programmes. In addition, supervision was done in a satisfactory manner since the Bank conducted monitoring missions, financial supervision missions and mid-term reviews of the different FISAPs to ensure that measures were implemented within the time specified, that justifications for disbursements were in conformity with the Loan Agreements, and that there were no major obstacles to the completion of the programmes within the deadlines.

4. Impact of Programmes

4.1 The macroeconomic and financial performance of the three FISAP programmes and of the PDEI was deemed satisfactory on the whole. GDP growth depends, to a large extent, on that of the agriculture sector, which is itself dependent on weather contingencies. In spite of the uncertainty surrounding the performance of the agricultural sector, GDP growth stood at around 4 percent on average between 1996 and 2004.

4.2 Since the implementation of the programmes, there has been a strong liberalization of the existing regulations and practices in the banking sector and sound management of credit portfolios. The BAM has been vested with its prerogatives as a banker's bank, with banking supervision extending to micro-credit institutions, and the formulation and implementation of monetary policy. The Bank of Morocco has become more independent from the Ministry of Finance and Privatisation. Interest rates have been liberalized, credit control ended, and the State has increasingly divested part of its participation in public lending institutions. The performance of the Casablanca Stock Exchange, boosted by the privatisation of government enterprises, is very efficient and could reach a higher level of performance if it succeeded in diversifying its operations.

4.3 The performance of the financial sector reform programmes was satisfactory, since the banking sector, henceforth, respects international norms, in particular those related to prudential standards. In addition, the deregulation of activities has helped boost private sector investment.

5. Sustainability

5.1 The sustainability of the achievements of financial sector reforms depends essentially on the Government's commitment to pursue and strengthen the reforms undertaken. In this regard, there has been no weakening in the authorities' will to make the financial system a cornerstone for enhancing competitiveness, with a view to raising the level of the economic base to that of the most successful medium income countries. As well, the country's strong institutional capacity has facilitated ownership of the programmes by stakeholders.

5.2 With liberalization of the economy, reduction of export taxes and customs duties are indispensable measures. Since 1994, Morocco's competitiveness potential has been critically analysed each year, in comparison to a sample of 15 countries, including Greece and Portugal, to measure progress in upgrading the productive base. Eight competitiveness factors are assessed: economic dynamism, financial dynamism, dynamism of the domestic market, foreign trade, human resources, technology development, physical and institutional infrastructure, and investment climate.

6. Conclusion

6.1 The financial sector reform programmes have, on the whole, attained their specific and overall objectives. The regulatory framework for credit institutions has been liberalized and aligned with international norms; interest rates are no longer regulated. The new statutes of the Bank of Issue and the new banking law adopted by the Government confer upon the BAM a leadership role in the formulation and implementation of monetary policy and banking supervision. The macroeconomic framework has been stabilised.

6.2 The fight against poverty is well underway; however, significant effort still needs to be made to achieve strong and sustainable growth, which remains a major challenge. Indeed, only the creation of equitably distributed wealth through the implementation of appropriate social policies will ensure success in poverty reduction.

7. Lessons and Recommendations

7.1 The performance of the programmes was attributable to Morocco's institutional capacity and business environment. In this regard, the Directorate of the Treasury (*Direction du Trésor)* and BAM have demonstrated great expertise in implementing financial sector reform programmes.

7.2 The regularity of financial supervision, monitoring and mid-term review missions conducted by the Bank helped ensure good programme implementation.

7.3 Moroccan authorities should continue to (i) strive to finalize pension fund reform; (ii) pursue streamlining of the banking sector and the implementation of new orientations for developing capital markets; and (iii) consolidate the mechanisms put in place to address social and regional inequalities into future programmes and projects. Such consolidation will make it possible to gradually correct social inequalities, reduce poverty rates, and share the benefits of growth among a larger percentage of the population. At the level of the Bank, the major follow-up actions should focus on pursuing policy dialogue with the Government with a view to strengthening financial sector reform.

I. PROGRAMMES

1.1 Economic Context

1.1.1 Between 1986 and 1991, the GDP growth rate was 3.3 percent on average with strong fluctuations from one year to the next (it fell from 8.3 percent in 1986 to –2.6 percent in 1987, then rose to 10.4 percent in 1988 and 4.8 percent in 1991). However, the Moroccan economy has performed well during the last five years. Indeed, after suffering from the impact of two years of drought in 1992, 1993 and 1995, the economy recorded remarkable highs in 1996 and in 1998, with GDP growth rates of 12.2 percent and 7.7 percent, respectively. But these two years were interspersed in 1997 by a sharp fall (-2.2 percent) resulting from a shortfall in the agricultural sector. In 1999, GDP growth was once again negative at –0.1 percent. However, from this date on, the economy gradually recovered as a result of the strong economic and financial reform measures implemented by the authorities. Indeed, the GDP growth rate was once again positive in 2000 (1.0 percent), rising to 5.2 percent in 2003 before falling to 3.5 percent in 2004. The investment ratio rose from 19.6 percent of GDP in 1996 to 24.1 percent in 2004, while the fiscal deficit stood at –3.3 percent of GDP on average over the period. The compelling fiscal policy issue is to reduce the budget deficit by finding good tradeoffs between potential revenue limited by the reduction in customs tariffs and the inevitable slowdown in privatisation operations, and control spending without jeopardizing the objectives of reducing poverty and unemployment. From 1999 to 2004, the rate of inflation was controlled and stabilised at below 2 percent.

1.1.2 Because of the volatility of the GDP from the end of the 1980s on, Morocco deemed it necessary to resort to classic structural adjustment programmes to correct the structural dysfunctions of its economy, with support from donors. The Bank financed two structural adjustment programmes (SAP). Because the first programme, implemented from 1988 to 1990, was not deemed satisfactory, particularly in the social sector where there were persistent pockets of poverty, a second SAP, known as the SAP Consolidation Programme, was implemented in 1992. This programme was co-financed by the Bank, with a UA 100 million loan, the World Bank and the European Union. It sought to restore the macroeconomic balance, boost investment and redirect credit towards the social and agricultural sectors with a view to further reducing social inequalities.

1.1.3 It was against this backdrop that the Moroccan Government undertook a series of financial sector adjustment programmes (FISAP), which were implemented in four phases: FISAP 1 (1993-1994), FISAP II (1995-1996), the Institutional Savings Development Programme (PDEI, 1998-1999), and FISAP IV (2002-2004). This performance appraisal focuses primarily on these four phases.

1.1.4 Over the 1993-2005 period, the Bank contributed up to UA 455 million in financing for the four financial sector programmes, with other donors such as the World Bank and the European Union.

1.1.5 A review of the Ninth Five-year Economic and Social Development Plan (2000/2004) and the Government’s general policy statements indicates that Morocco’s objective is to attain a high and sustainable growth rate and to upgrade its economic fabric in view of the entry into force of its partnership agreement with the European Union by 2012 and the free trade agreements with the United States, Turkey and some Arab countries. To this end, it is particularly important to support Moroccan businesses and prepare them to cope under competitive conditions. This is the rationale for the formulation of the economic and sector reform programmes.

1.2 Formulation of Programmes

1.2.1 The two structural adjustment programmes (SAP and SAP Consolidation) and the four financial sector reform programmes sought to build on and consolidate the transformation of the productive base and financial intermediation towards a market-oriented economy where prices would be freely determined by a more competitive market. Within the context of this deep transformation process, the objectives and components of these programmes were aligned with the Government's objectives in the five-year economic and social development plan. Indeed, under the last two five-year development plans, financial sector reform was a key component of the Government's strategy, with the adoption of new banking legislation, liberalization of interest rates, development of monetary policy instruments, creation of a more dynamic stock exchange, restructuring of the insurance sector, pension scheme reform and search for adequate financing with a view to developing small and medium sized enterprises and key sectors such as housing, tourism and information technologies. Morocco was able to implement these reforms with support from its major development partners, in particular, the World Bank, the International Monetary Fund and the European Union. The participatory approach used in programme preparation must be emphasized since the government involved the Confederation of Moroccan Businesses (*Confédération générale des entreprises du Maroc)* and the Professional Association of Moroccan Banks (*Groupement professionnel des banques du Maroc)* in the financial sector reforms.

1.2.2 The Bank helped enrich the content of the programmes. This contribution, facilitated by the fact that the programmes were prepared by the World Bank, sometimes consisted of adding components to the matrix of co-financed projects. For example, under FISAP-I, the Bank was responsible for changing the system for calculating the maximum lending rate in the banking system. Each phase of the FISAP took over from the previous one by (i) finishing incomplete measures; (ii) escalating the reform to a higher level; and (iii) tackling hitherto unaddressed components.

1.2.3 For the most part, the structural adjustment programmes sought to tackle the structural dysfunctions of the economy, at the general as well as sectoral level, on the basis of the following key ideas: (i) introduce basic competition in the economic sector; (ii) attain a sustained reduction of the budget deficit and stimulate investment in productive sectors; and (iii) contribute to greater social justice by elaborating and implementing a strategy to reduce social and regional disparities. The performance of the SAPs was insufficient to correct either the macroeconomic imbalances or the restructuring of the productive base. However, the two SAPs and FISAP-1 set the stage for greater success of the other FISAPs, which were implemented in a more stable macroeconomic context.

1.3 Objectives and Scope at Appraisal

1.3.1 The overall objectives of the programme were to strengthen competitiveness in the medium term and ensure the viability of the macro-economic framework necessary for stronger growth that would contribute to the reduction of poverty. In this regard, the objectives were to (i) strengthen the stability of the major macroeconomic and financial balances; (ii) relaunch private-sector-led growth, with a view to reducing unemployment and improving the living conditions of the population; and (iii) reduce poverty by strengthening social welfare and increasing the access rate of disadvantaged populations to basic infrastructure such as water, and electricity, as well as to education and basic health services.

1.3.2 The specific objectives are outlined in the appraisal and completion reports prepared by the Bank. Those of the FISAP, which was implemented in 4 phases between 1992 and 2005, were the mobilization of savings and their efficient allocation to productive investments by the financial system. More specifically, the objectives of the programme were to: (i) replace quantitative credit control with indirect control of monetary aggregates and strengthen the means of intervention of the central bank; (iii) improve and deepen the Treasury Bill market; (iv) develop financial markets; (v) deregulate interest rates; (vi) establish a market-based foreign currency hedge mechanism; (vii) deregulate the credit market (viii) improve the legal and regulatory framework and strengthen the Central Bank's means of intervention in carrying out its functions; (ix) enhance the capitalization of banks; and (x) strengthen prudential regulations and supervision of banks. The programme also sought to (i) enhance the structure of savings and their allocation to productive private-sector investment by restructuring the insurance sector; (ii) launch pension scheme reform; and (iii) enhance capital markets development.

1.3.3 The financial sector reforms were well aligned with the Government's strategy to provide the country with a viable banking financial system that is competitive and adheres to the prudential regulations of the Basel 1 Committee. With respect to quality at entry, FISAP IV included some conditions that were difficult for the Borrower to fulfil, in particular, conduct a pension fund study on which Morocco requested a waiver, which was granted. In addition, the Moroccan party believes that Bank loans are onerous.

1.3.4 The risks and important assumptions identified during the appraisal of FISAP-II included the possibility of financing the private sector with varied financial instruments in a deregulated system. Although no specific risk was identified at the outset, the 1995 drought impeded the attainment of macroeconomic objectives. With respect to the PDEI, the Government's strong commitment to fiscal discipline and the excellent cooperation from the insurance industry and consumers constituted potential risk factors. However, during the implementation of these programmes, these concerns turned out not to be a problem. As for FISAP IV, the most significant risk lies in the fact that its success depends essentially on political will. The second lies in the crowding-out effect that treasury-financing needs could have on the attainment of the objective related to mobilizing savings and allocating them to the financing of productive-sector activities by private operators. Finally, the last risk is related to the rehabilitation of the banking sector (in particular, official capital banks) whose costs are high.

1.4 Financing

1.4.1 The first phase of the FISAP was jointly financed by the Bank and the World Bank in the amount of UA 75 million and UA 125 million, respectively. The second phase, in the amount of UA 150 million from the Bank and UA 160 million from the World Bank. The third phase, known as the PDEI, was jointly financed by the Bank and the World Bank, in the amount of UA 130 million and UA 100 million, respectively. Finally, FISAP IV received a UA 100 million loan from the Bank and 52 million euros from the European Union. All donors have met their financial commitments with respect to these programmes.

1.4.2 There were no non-loan activities, either in the form of studies or in the form of technical assistance. The Bank reviewed and drew on the financial sector strategy paper prepared by the World Bank in September 2000.

II. EVALUATION

2.1 Evaluation Methodology and Approach

2.1.1 The methodology was based on collection of information, in particular, reviewing documents available at Bank headquarters on the programmes concerned (appraisal, completion, mid-term review, portfolio review, aide mémoires, CSP and SAP reports). During the mission to Morocco, information was gathered from the concerned departments, in particular, the Ministry of

Finance and Privatisation, Bank Al-Maghrib, the Planning Commissariat, the Minister Delegate in the Prime Minister's Office Responsible for Economic and General Affairs, the Professional Association of Banks in Morocco (*Groupement Professionnel des Banques du Maroc),* Confederation of Moroccan Businesses *(Confédération générale des entreprises du Maroc), t*he Minister In charge of Modernization of the Public Sector and the Ministry of Industry, Trade and Economic Rehabilitation. The information gathered was supplemented and substantiated through interviews with those responsible for these structures, as well as with the resident missions of the UNDP, the World Bank, and the European Union.

2.1.2 The performance evaluation was done by judging the outputs in relation to one of the generally used factors (relevance and quality at entry, efficiency, efficacy, impact on institutional development, sustainability, rating of overall performance, Borrower performance, Bank performance and risk factors affecting performance and output). Objectives and outputs were evaluated by focusing attention on the period under review, specifically, 1996-2004.

2.2 Key Performance Indicators

The appraisal and completion reports of the programmes defined the main macroeconomic and sector performance indicators. At the macroeconomic level, the performance indicators concerned strong economic growth. The non-agricultural GDP was expected to rise from 3.2 percent in 1996 to 3.6 percent in 1997 thanks to an investment rate of 22 percent and 22.8 percent of GDP, respectively, over the period. The GDP growth rate, excluding agriculture, was expected to rise to 3.8 percent between 1998/1999; the real GDP growth rate climbed to 4.5 percent over the same period. The PDEI does not provide quantifiable indicators, only indicating that it must contribute to the attainment of a high and sustainable economic growth rate. According to the FISAP IV matrix, the overall objectives sought were as follows: the GDP was expected to increase from 4.5 percent in 2002 to 4.5 percent in 2003 and 5 percent in 2004); the rate of the budget deficit, excluding privatisation on GDP should be 6 percent in 2002, 5.5 percent in 2003 and 3.5 percent in 2004; sustainable development should be achieved and would strengthen the competitiveness of the economy while ensuring, in the medium term, macroeconomic viability, reducing the budget deficit and maintaining the inflation rate at 2 percent over the 2002-2004 period. At the sector level, the indicators focused on strengthening the capacity of the financial systems to mobilize savings and its allocation to productive private sector investment (increase domestic savings from 19 percent of GDP in 2000 to 20 percent of GDP in 2004), the adoption of the insurance code, the preparation of insurance company mortality tables, the development of capital markets and the privatisation of some official banks.

III. IMPLEMENTATION PERFORMANCE

3.1 Loan Effectiveness, Start Up and Implementation

3.1.1 In general, the launching of the programmes, through the disbursement of the first tranches, was done without any major difficulties, since the Government was set on implementing the programmes within the period specified in the loan agreements. Co-financing by the Bank and the World Bank, whose procedures are similar in many aspects to those of the Bank, has often helped accelerate the entry into force process and the launching of programmes after fulfilment of the specific and general conditions.

3.1.2 The different FISAPs did not encounter any problems concerning the disbursement of funds, except for FISAP IV, where the disbursement of the second tranche was subject to a condition related to insurance and pension funds. Morocco was required to conduct two studies covering two components: (i) strengthening and extending the supervisory power of the Directorate of Insurance and Social Security (*Direction des Assurances et de la Prévoyance sociale)* to all pension plans; and (ii) accelerating the rate of settlement of claims. To help Morocco overcome this hindrance, the Bank unsuccessfully presented a request for financing to bilateral donors to fund these studies. Finally, the Bank granted a request for a waiver from Morocco to delay the immediate fulfilment of this condition, thus resulting in the disbursement of the second tranche of the loan. However, it is understood that the Government must continue to deploy efforts to conduct the studies.

3.1.3 In general, the implementation of financial sector reform programmes was deemed satisfactory because of the timely fulfilment of all conditions. As a result of this performance, the funding process continued smoothly. There were no slippages in the implementation schedules that could adversely affect the successful implementation of the programmes.

3.2 Adherence to Project Costs, Disbursements and Financial Arrangements

The programmes did not encounter any financial problems; all donors met their commitments. In general, loans were disbursed in accordance with defined procedures, despite the slight delays caused by the difficulty of fulfilling certain conditions deemed difficult to fulfil by the Borrower (financial audit of pension funds, for example).

3.3 Programme Management, Transmission of Reports, Monitoring and Evaluation

3.3.1 The Directorate of the Treasury at the Ministry of Finance and Privatisation was responsible for managing the financial sector reform programmes. With competent staff and extensive experience in managing Bank financing, the management of these programmes encountered no institutional problems. Collaboration between the executing agency and the Central Bank was successfully done. Bank Al-Maghrib monitored the impact of the reform on the banking system and made recommendations that were appreciated.

3.3.2 However, reports on the implementation status of planned actions were not submitted on a regular basis. On the contrary, monitoring by the Bank was done at a satisfactory pace and helped resolve difficulties encountered during implementation.

IV. PERFORMANCE EVALUATION AND RATINGS

4.1 Preliminary Remarks

4.1.1 Evaluating the performance of financial sector reform programmes financed by the Bank is a difficult exercise. Indeed, it is difficult to establish a direct correlation between the development of macroeconomic aggregates and programme measures because several actors and factors intervene in the development of economic indicators. However, it is safe to assert that lower interest rates encourage economic operators to borrow more from banks and to thus boost investments, which has a positive impact on growth. This virtuous circle is common in developed countries because of the rationale that underpins economic activity.

4.1.2 Thus, in the absence of a direct correlation between financial sector reform measures and economic variables such as the GDP, investment, consumption, proxy indicators are used to assess the impact of reform programmes; these include the budget/GDP deficit, domestic savings/GDP, the share of the private sector in the GFCF, the real GDP growth rate, the rate of inflation, etc.

4.1.3 The impact of programmes may not be visible for a while. The following performance evaluation should therefore be reviewed with the foregoing remarks in mind. However, one thing is clear: the Moroccan economic fabric, be it banks, insurance, SME-SMI, MRA, agriculture, tourism, etc., was responsive to the Bank-financed reforms of the financial sector. Each economic sector has successfully adopted the reforms undertaken, leading to profound changes in regulations and practices previously in force.

4.2 Relevance and Quality at Entry Assessment

4.2.1 Performance achieved during the consolidation of the SAPs in 1993 and 1994 is mitigated. Although real progress had been made in opening up the economy and in reforming the incentive framework, the social situation remained of concern, while stabilization of the macroeconomic framework remained weak. It was to address this situation that Morocco, at the same time as the SAPs, sought to (i) implement a series of sector reform programmes, particularly in the financial sector and in the public service; (ii) prepare a social development strategy, the first phase of which started in 1996. These programmes addressed the Governments desire to further deepen the structural transformation of the Moroccan economy to make it more competitive in view of globalisation. They also addressed the need to improve the social situation.

4.2.2 The objectives of these programmes, as revealed by a review of the appraisal and completion reports, were complementary and sought primarily to implement a sound macro-economic framework, capable of generating strong and sustainable private-sector led growth. They also sought to reduce unemployment and improve the living conditions of the population.

4.2.3 These objectives, as well as the measures planned to achieve them, were appropriate and coherent. However, efforts deployed to implement the programmes were often thwarted by a number of endogenous and exogenous factors (drought, disruptions in the tourism industry by the Casablanca attacks, decline in world market prices for phosphate and increase in oil prices), which had an impact on performance.

4.2.4 The objectives and actions confirmed the Government's willingness to rehabilitate the economy to ensure that Morocco would be ready for the entry into force of the free trade agreements signed with its free trade partners. The Bank provided support to Morocco because it perceives the need to pilot these reforms in the financial sector as the condition for increased efficiency in its interventions. Indeed, the more an economy is open and competitive, the higher the chances that loans will yield positive results and be reimbursed on the due date. An open economy also attracts foreign capital and facilitates transfer of technology.

4.3 Achievements of Objectives and Outcomes (Efficacy)

4.3.1 The Moroccan Government implemented a series of economic and sector reform programmes, with financial sector reform as an important component. The overall objective was to strengthen macroeconomic stability and to correct economic dysfunctions at the general and sector levels, with a view to enabling strong and sustainable GDP growth, high and world-class competitiveness of the productive sector, as well as reducing social and regional inequalities.

- **Stabilization of the Macro-Economic Framework**

4.3.2 The two SAPs helped correct the structural dysfunctions of the economy and achieve the macroeconomic stabilisation objectives. But performance in boosting investment and redirecting credit towards social and agricultural sectors so as to further mitigate social inequalities were below expectations.

4.3.3 Indeed, results achieved during the programme period were not entirely satisfactory: (i) GDP growth did not exceed 4 percent, except for a peak of 11.6 percent recorded in 1994 following a 65 percent growth in agricultural production; (ii) exports of manufactured goods declined; and (iii) the gross investment rate remained weak. In fact, the gross investment rate stagnated at 22.4 percent over the 1990/2003 period. However, direct investment flows and net foreign assets of the Bank Al-Maghrib increased significantly. Foreign direct investment rose from 0.7 percent of GDP during the 1980-1989 period to 1.6 percent during the 1990-1995 period and 4.1 percent during the 1996-2003 period. This increase is attributable to privatisation operations. Foreign assets rose from 5.2 months of import in 1996 to 9.6 months of imports in 2004. The liberalization of the economy was pursued and deepened and more attention was paid to the issue of social inequality with the creation of a Ministry of Social Development.

- **GDP Growth and Other Aggregates**

4.3.4 Between 1996 and 2004, the real GDP growth rate, which was 4.08 percent per year on average, became volatile, oscillating between –2.2 percent in 1997 and 12.2 percent in 1996. This mixed performance results from the strong dependence of the economy on the agricultural sector (which accounted for 14 percent of real GDP on average during the 1996-2003 period) whose development continues to depend on the vagaries of the weather. The estimated GDP growth rate in 2004 is 3.6 percent, well below the 5 percent target envisaged in the Economic and Social Development Plan.

4.3.5 The savings rate grew from 19.7 percent of GDP in 1996 to 26.4 percent in 2004. This increase is attributable, in part, to external savings whose share in domestic savings rose from 19.1 percent of GDP during the 1990-1995 period to 23.8 percent during the 1996-2003 period. In the meantime, the investment rate (GFCF) grew at a slower pace, from 19.6 percent of GDP in 1996 to 24.1 percent in 2004, well below the 28 percent target set in the Five Year Plan (see Annex 5). Consequently, the savings collected was used to cover all investments, and even to mobilize a lending capacity of 2.2 percent of GDP in 2004. In addition, public sector contribution to the domestic GFCF fell from 24.9 percent in 1980 to 11.8 percent in 1998, which indicates stronger private investment growth.

4.3.6 With respect to monetary aggregates, credit to the economy grew steadily, from 149.442 billion dirhams in 1996 to 208.022 billion in 2000, and 262.618 billion in 2004. In the meantime, claims on the Treasury declined steadily, from 81.637 billion dirhams in 1996 to 72.695 billion in 2004. Foreign assets were firmed up during the period under review, in particular from 2001, to account for an average of 9 months of imports (2001-2004), compared to 5 months of imports between 1996 and 2000 (Annex 5).

4.3.7 In light of these results, the top challenge facing Morocco consists in achieving strong and sustainable growth, capable of significantly reversing the unemployment and poverty rates. It is estimated that a growth rate of at least 6 percent per year would be necessary to reverse the unemployment rate, which was estimated at 11.9 percent (19 percent in urban areas) in 2003. The second challenge that the Government must face is the persistent pressure on government finances attributable to the high level of the wage bill, at 12.8 percent of GDP in 2004. The third challenge lies in the high level of the poverty rate, estimated at 10 percent in 2003. The fourth challenge involves finding the mechanisms necessary to make more dynamic private sector investments that can benefit from the opportunities arising from deregulation of the financial sector and the current excess liquidity of banks. Finally, the fifth challenge facing the Government is economic diversification, so as to reduce the dependence of the economy on agriculture.

- **Inflation Control**

4.3.8 Progress in macroeconomic stabilization translated into remarkable results with respect to inflation control, currently placing Morocco in a leading position among middle-income countries. Indeed, inflation is under control as its rate fell from 6.2 percent during the 1990-1995 period to 1.7 percent during the 1996-2003 period. The inflation rate was 1.5 percent in 2004. Inflation control should be maintained in 2005, in spite of the persistent increase in oil prices. In addition to controlling inflation, the Government sought to defend the value of the dirham. The exchange rate rose from 4 DH per dollar in the 1980's to 8.5–9.5 DH per dollar for about ten years (1996/2004). After the introduction of the euro in 1999, which undermined economic competitiveness, the Government set out to restructure the dirham's peg basket, entailing a 5 percent de facto depreciation in relation to the dollar.

- **Improvement of the external position**[1]

4.3.9 The trade deficit further widened during the period under review, from 9.5 percent of GDP in 1990-95 to 10.2 percent of GDP during the 1996-2003 period, as a result of the increase in the price of oil imports, which stood at 21.8 percent of aggregate exports and 4.5 percent of GDP. In spite of this decline, the rate of coverage of imports by exports remained almost stable, rising from 66.5 percent during the 1990-1995 period to 67 percent in 1996-2003.

4.3.10 The current balance of payments improved considerably, from –2 percent of GDP during the 1990-1995 period to 1.4 percent during the 1996-2003 period, with substantial surpluses in 2001 (4.8 percent), 2002 (4.1 percent), and 2003 (3.7 percent). The positive developments in the current balance of payments results from the increase in remittances from Moroccans living abroad (*Marocains résidents à l'étranger -MRE*) and to tourism receipts. The latter rose from 4.3 percent of GDP during the 1990-1995 period to 6.1 during the 1996-2003 period. In 2004, the current account surplus stood at 2.2 percent of GDP, boosted by of tourist receipts and MRE remittances.

4.3.11 Foreign direct investment posted a 1.6 percent increase over the 1990-1995 period and 4.1 percent during the 1996-2003 period. This increase is attributable primarily to privatisation operations, particularly in the telecommunications sector: in 1999, the sale of the second GSM licence to a Spanish-Portuguese-Moroccan consortium (US$ 1.1 billion) and, in 2001, the sale of 35 percent of the capital of Maroc Télécom to Vivendi Universal (US$ 2.3 billion). In 1997 and 1998, Morocco ranked third, after South Africa and Egypt, among African FDI recipients[2].

4.3.12 There were positive developments in net foreign assets, which rose from 5.2 months of imports during the 1990-1995 period to 7.7 months over the 1996-2003 period. In 2003, foreign exchange reserves reached a high of 11.3 months of imports of goods as a result of, among others, proceeds from the sale of the second GSM license in 1999 and from the privatisation of part of the Government's shares in Maroc Télécom in 2001. In 2004, foreign assets covered more than 10 months of imports of nonfactor goods and services[3].

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[1] N.B. : The statistical data used in the elaboration of the following points : growth in non-agricultural output, inflation control, and improvement in the external position, were drawn from « Repères statistiques», the data of which were also drawn from the chapter *Classification of economies* of the 2004 World Bank report, page 127, in *Rapport du Social 2004,* Bulletin Economique et Social du Maroc, Editions OKAD, Rabat, February 2005

[2] See «Le développement dans les accords bilatéraux d'investissements signés avec le Maroc», by Prof. Mohamed Oudebji, Faculty of legal, economic, and social sciences of Marrakech, in *Repères et Perspectives*, N°5-2004, Rabat

[3] See *Rapport sur l'évolution de l'économie marocaine* (2004), Direction du Trésor et des Finances Extérieures, Ministère des Finances et de la Privatisation, Royaume du Maroc

4.3.13 External public debt outstanding improved from 1996 to 2004, falling from 41.0 percent of GDP to 15.9 percent of GDP in 2004. These results were achieved through active management of the debt (refinancing, conversion of investments, all-risk hedging instruments with the Swap agreements, treatment of old debt with the European Union, etc.). Other measures include the signing of agreements with four banks to monitor international financial markets. ADB loans account for 7 percent of outstanding debt (US$ 1 billion), making the ADB Morocco's 4^{th} creditor. In terms of new commitments, the Bank has been the Kingdom's first creditor in the last two years.

- **Financial Sector**

4.3.14 Until 1983, Morocco's banking system was very specialized, characterized in particular by credit control. From 1983 on, Morocco undertook, with support from the IMF, the World Bank and the Bank an extensive reform of its banking and financial system. To this end, four programmes were implemented successively under FISAP-1, FISAP-II, PDEI and FISAP-IV.

4.3.15 FISAP-I sought specifically to (i) replace quantitative credit control with indirect control of monetary aggregates, and strengthen the central bank's instruments; (ii) increase the role of market mechanisms in financing treasury needs; (iii) develop financial markets ; (iii) liberalize interest rates; (iv) establish a market-based foreign exchange risk coverage mechanism ; (v) improve and deepen the Treasury bills market; (vi) liberalize interest rates; (vii) decompartmentalize the credit market; (viii) improve the legal and regulatory framework and strengthen the central bank's operational instruments; (ix) strengthen the capitalization of banks ; and (x) strengthen prudential regulations and banking supervision.

4.3.16 All the reforms planned during the 1991-1993 period were implemented to the satisfaction of the Bank, except for the removal of state guarantee on bond issues or external borrowing by *Crédit immobilier et hôtelier (CIH).* Almost all the other measures were satisfactory, namely:

i. The transition to indirect management of money and credit was achieved through the replacement of quantitative credit control with the indirect control of monetary aggregates. This required the introduction of a monetary reserve rate calculated on a new basis and capped at 25 percent of sight deposits and 10 percent of term deposits, and the use of rediscount at Bank Al-Maghrib was limited and/or replaced by variable rate advances; credit control had already been abolished in January 1991;

ii. The development of the financial market required the reform of the Treasury's instruments and funding sources and the dynamization of the stock exchange. Treasury financing became gradually dependent on market mechanisms: gradual reduction in the floor of government paper from 35 percent to 25 percent on sight deposits, and Treasury bill auction market opened up to insurance companies and enterprises. Banks may make available to the public all financial instruments issued by the Treasury, notably, long-term Treasury bills. Three laws of 21 September 1993 reformed the Casablanca Stock Exchange and set up the *Conseil déontologique des valeurs mobilières (CDVM),* and the *Undertakings for Collective Investments in Transferable Securities (UCITS)*;

iii. The improvement of financial ; intermediation efficiency is marked by the liberalization of deposit rates, the introduction of a ceiling on lending rates, the introduction of a foreign exchange risk coverage mechanism, and the abolition of a selective credit policy; and

iv. Prudential management and banking supervision were reinforced by to the new July 1993 banking law. This law, together with its implementing orders and circulars, enhanced the role of BAM, setting the minimum capital requirements for banks, especially the level of net equity as well as the new ratios for solvency, liquidity, risk sharing, the new risk classification system, and provisioning. Banking supervision has been improved by an accounting system imposed on all banks, including the former specialised financial institutions (Organismes financiers spécialisés, OFS), and by the obligation for them to have their accounts audited every six months by external auditors approved by BAM, which receives the reports.

4.3.17 The main objective of FISAP-II was to consolidate the new assets of the Moroccan economy, following a comprehensive adjustment that was officially completed in 1993 and to the improvements introduced by FISAP-I. The implementation of the programme resulted in good financial results, in spite of unfavourable domestic conditions (the 1995 drought which caused the GDP to plummet because of a decline in agricultural production, fiscal deficit, inflation rising from 4.6 percent to 6.5 percent). Results were satisfactory in the following areas:

i. Indirect currency control: the conditions for BAM’s intervention on the money market have been set, the ceiling on lending rates has been eliminated, and the issuing of negotiable debt securities has been authorised; and

ii. Financial market development: the laws governing the Stock Exchange have been published, the mutual fund accounting system, the government guarantee for public enterprise bond issues has been eliminated, the corporations bill has been presented to the house of representatives, the level of brokerage fees has been modified, and the transactions of the Casablanca Stock Exchange have been published, and a study conducted on the development of institutional savings. This led to a significant boom at the Casablanca Stock Exchange, with stock market capitalisation increasing from 14 percent of GDP in 1994 to 23 percent in 1996.

4.3.18 FISAP-II encountered some problems in areas where set objectives could not be reached: privatisation of the *Banque centrale populaire (BCP)*, the *Banque nationale de développement économique (BNDE)* and the CIH was postponed, the reinforcement of banking supervision could not be finalised, and the harmonisation prudential regulations in the banking sector was postponed.

4.3.19 The Bank was called on to co finance the PDEI, together with the World Bank. Although it had been prepared with several studies and completed with satisfactory institutional performance, the last loan was disbursed a year late; as a result, PDEI implementation ran from January 1988 to December 2000. The results obtained were centered on the following:

i. With regard to the restructuring of the insurance sector, the liquidation of five companies in 1995 demonstrated control of the sector: these companies were: Arabia, Cada, Remar, Renaissance and Victoire , accounting for a total of 256,196 claims affecting one million people;

ii. With regard to the Insurance Code, there was a long delay since it could only be adopted in July 2002, more than 18 months after programme completion. The advantage of adopting the Code was that it led to the compilation of all texts pertaining to the insurance sector into a single document and ensures consistency between texts that were sometimes contradictory. The code will also make it possible to address three important issues: (i) *bancassurance* will be authorized; (ii) the guarantee fund will be reformed; (iii) the insurance control mechanism will be strengthened, with clearer liquidation procedures and deadlines, in particular. Furthermore, the current procedure eliminates the legal constraint of shareholder nationality and defines the conditions under which the government may refuse the entry of a foreign shareholder, provided it justifies its refusal and explains its reasons.

iii. With regard to the liberalization of insurance rates, the law on free pricing and competition (Law No. 06-99) adopted on 5 June 2000, became effective on 1 July 2001, leading *ipso facto* to liberalization of insurance rates, with some exceptions in principle.

iv. With respect to life insurance, a tax incentive was used to promote it. With long-term maturities, life insurance can help boost capital markets. This is why this measure provides for a 10 percent tax deduction on the amount of premiums or contributions for individual life insurance contracts with a duration of at least 10 years. From 1997, there was a real boom in life insurance (7 percent a year on average).

v. With respect to pension funds, several studies were conducted with a view to ensuring their harmonization and their viability in the long term. A national Colloquium on pension scheme reform was held in December 2004 and concluded that restructuring was an imperative. Today, their financial health and sustainability are in question. According to a study by the Actuaria firm, the current situation of pension funds is generally positive. In 2002, the demographic ratio was 3.3 contributors for 1 retiree, compared to 5.28 contributors to 1 retiree in 2003. Medium and long-term sustainability is therefore compromised if nothing is done now as the rate of charge (benefits-contributions) deteriorates and the deficits widens. Hence, the Colloquium established a National Commission responsible for the reform of pension schemes. However, some measures have already been taken to consolidate the financial structures and the demographic ratios of the schemes, namely the inclusion of certain institutions' pension funds into the *Régime collectif d'allocation de retraite (RCAR)*. It is the case of the pension funds of the *Office national des chemins de fer (ONCF)*, the *Régie des Tabacs*, and the *Office d'exploitation des ports*. This measure has made it possible to save 1 billion DH. However, such actions, however important, are not sufficient given the extent of the problem, of which the stakeholders remain very aware: government, unions, economic and social partners. According to some studies, if nothing is done in the next 12 years, "the deficit of pension funds in Morocco will be close to annual GNP by 2040".[4].

4.3.20 Furthermore, although some programme components could not be completed before the end of the programme, specifically, the Insurance Code, the settlement of claims, the full liberalization of insurance rates and the pension scheme, the Government successfully implemented measures to restructure insurance companies in difficulty. Thus, five companies were liquidated and a plan was put in place to settle their claims, prepare a new insurance code, and liberalize rates. Other achievements included the computerization of off-site inspection of companies, the redefinition of prudential rules applicable to solvency margins and constraints on representative

[4] See Maroc Hebdo International, No.80, 5-11 October 2001.

assets or modalities for evaluating technical provisions. Implementing texts for the new insurance code were also promulgated. With respect to insurance and the pension fund, the definition of CDG's role, and the boosting of capital markets, reforms still have to be pursued. To this end, the various reform measures were again undertaken under FISAP-IV.

4.3.21 The FISAP-IV, which was signed in December 2002, comprised 4 components: (i) adapting the financial sector institutional and regulatory framework with a view to strengthening the capacities of supervisory bodies ; (ii) rehabilitating government financial institutions; (iii) boosting capital markets; and (iv) strengthening institutional savings. Although the programme is being completed, the implementation status of planned actions is promising. The new BAM statutes and the new banking law have already been approved by the Cabinet and will soon be by the Parliament. The *Caisse nationale de crédit agricole (CNCA)* has been transformed into a corporation with management board and oversight body under the new name of *Crédit agricole du Maroc (CAM),* the redeployment plan of the BNDE is being implemented, several tax-type incentives have been created to increase the supply and demand of stock market securities, the roles of CDVMs and UCITS s have been reinforced.

4.3.22 The various successive FISAPs from 1992 to 2005 effected profound changes in Morocco's financial system. From the outset, there was a clear option to de-skill and decompartmentalize banking activity, so as to establish universal credit institutions that can handle all credit operations. This option was adopted because specialisation had led to the bankruptcy of several banks, following difficulties encountered by their clients. This was the case with banks financing tourist activity that ran into problems when the tourism industry was hard hit by the Casablanca attacks. This was also the case with institutions granting only agricultural loans after the drought years.

4.3.23 Adjustment programmes and financial sector reforms had a positive impact on the revival of the financial system introduced by the new banking bill. This bill proposes banking specialisation and a monetary policy based on credit control, interest rate management and obligatory employment. Banking deregulation had dual objectives: liberalisation and risk sharing. The banking law also extended banking control and supervision to postal financial services, micro-credit associations, *Caisse Centrale de Crédit* and offshore banks, as well as credit institutions. There are currently twelve micro-credit associations, eleven of which are operational and cover about 600,000 beneficiaries, with a total commitment of 5 billion dirhams. These institutions mostly target and assist the poor, with the long-term objective of turning them over to standard banks. Furthermore, a new guarantee fund has been set up for people with irregular or modest incomes (FOGARIM), which can guarantee up to 70% of the committed amount. It is also important to note that the protection of savers was reinforced with the constitution of a solidarity fund that allows for repayment at a higher ceiling. Lastly, thanks to a multifaceted patronage system, the banks are contributing to poverty alleviation by assisting handicapped persons, financing low cost housing, assisting the Children's Parliament, granting subsidized loans for education, etc.

4.3.24 Since 1996, all interest rates, including deposit or lending rates have been liberalised and are therefore determined by market forces, whereas the banks have diversified portfolios. But since the early 90s, banks started releasing substantial excess liquidities, mainly due to the financial flows from privatisation and tourism that were deposited in the interbank market. Over the last 5 years, 100 billion dirhams have been collected as privatisation receipts and remittances from Moroccans living abroad. There is a real policy encouraging Moroccans abroad to transfer their savings to the country (banking system, preferential exchange rate, Ministry of Moroccans abroad, call for patriotism, etc.). A recent study has shown that of the 100 billion dollars remitted by foreigners to their countries of origin, Morocco occupies a leading position together with countries like India and Lebanon. The underlying causes of such excess liquidities in the banking system are exogenous and therefore do not arise from any weakness in the absorptive capacity of the Moroccan economy.

4.3.25 However, there are some constraints to the development of investment and employment. SMEs/SMIs are still not receiving all the financial support they seek from banks because of their poor solvency and the high risk attached to the financing documents presented. Prudence on the part of banks can be explained by their fear of increasing their outstanding credit portfolio which today stands at 40 billion Dirhams.

4.3.26 Several monetary policy instruments have been used to mop up excess liquidity: (i) the level of reserve requirements was increased from 14% to 16.5% in 2003 and 2004, enabling the Bank Al Maghrib (BAM) to freeze 10 billion dirhams in its accounts, representing a little over US$1 billion ; (ii) the Fonds Hassan II was used as an instrument to mop up excess liquidity, especially part of privatisation receipts; (iii) in 2004, the SWAP or futures sale of foreign currency held by BAM was introduced; and (iv) the current system used the open market policy in the form of calls for tenders on financial markets. The rate used for these calls for tenders is the guide rate to which all interbank rates must be aligned.

4.3.27 Manipulation of these instruments depends on the discretion of BAM, which uses them depending on the circumstances, since the commercial banks can only take initiatives in the case of 24-hour requests for advances whose rates have dropped from 3.25% to 2.25%. Every year, the bank of issue sets a price and trend objective for monetary aggregates. The new BAM statutes promulgated by Parliament and the new banking law awaiting approval by the National Assembly helped to clarify the prerogatives of BAM by specifying its mandate:

i. reinforcing its autonomy both in monetary policy management and in the supervision and control of credit institutions, thanks to an overhaul of the former 1993 Banking Law, and its disengagement from the capital, the boards and the management of commercial banks. This helped to eliminate conflicts of interest with financial institutions under its supervision;

ii. transferring some responsibilities of the Minister of finance to the Governor of BAM, like the granting and withdrawal of licenses, the regulation and supervision of credit institutions, the management of institutions in difficulty, and the introduction of new intervention instruments (prohibition or limitation of dividend distribution) ; and

iii. revising the conditions for consultation and reinforcing its institutional framework, including the disciplinary committee for credit institutions, the national currency council or the disciplinary committee for credit institutions.

4.3.28 BAM recently published a memo addressed to the banks specifying the documents that SMEs /SMIs must submit to be eligible for bank loans. SMEs that have shown proper management, transparency in management, and a solid financial base may receive bank loans. The State has made chartered accountants available to Chambers of Commerce to help SMEs improve their management and become more eligible for bank loans.

4.3.29 Furthermore, significant progress has been made in cleaning up public financial institutions. Hence, the redeployment of BNDA as a commercial bank backed by the Caisse de dépôt et de gestion (CDG) with its commercial activities transferred to the Caisse nationale de crédit agricole is under completion. In consultation with the BNDE trade union, 128 workers out of 232 have already left the bank, while 63 departures have been scheduled. Forty-one more cases are still to be processed. The network staff (110 people) will be transferred to the BMAO (Banque marocaine pour l`Afrique et l`Orient) in the same capacity as in the network. As for shareholders, CDG has bought over almost all minority shares. Institutional shareholders, like the treasury, have handed over their shares at a symbolic dirham to CDG. To reduce the bank's deficit, its capital was reduced to zero and then increased to 300 million dirham. The bank is riddled with a heavy domestic debt burden, which at end 2004 stood at close to 5 billion DH, 88% percent of which was held CDG and 10% by BCP. External debt for its part stands at 68 million DH. BNDE's share portfolio was sold for 1.2 billion DH, yielding a capital gain in terms of book value of close to 31 million DH by end 2002. BNDE's transformation into an investment bank is underway and will launch its operations in that capacity in 2005.

4.3.30 As for Crédit immobilier et hôtelier, its financial recovery plan is being implemented. Consolidation of savings collection has already yielded positive results: (i) deposits increased from 7.7 billion DH in 2002 to close to 10 billion DH in 2003; (ii) resource cost fell from about 8.5 percent in 2000 to 4.4 percent in 2003; and (iii) there was a significant drop in under-provisioning, and negotiations are underway to clear off third party debt owed CIH. It should be noted that the reform of the financial services of the postal authority is underway and should help boost the collection of savings and the development of small savings.

4.3.31 Lastly, the capital market is being consolidated. Several laws were adopted by both houses of parliament on 30 September 2003, promulgated and published in Official Gazette No. 5210 of 6 May 2004. They concern the following actions: (i) reinforcing the oversight and enforcement powers of the *Conseil déontologigue des valeurs mobilières;* (ii) modernising the functioning of the Stock Exchange and improving control conditions; (iii) tightening security regulations for the conservation and circulation of stocks traded by the central depositary; (iv) adopting procedures to govern public offer operations in the stock market upholding the principles of transparency, market integrity and protection of minority shareholders; (v) introducing new standards for the classification of UCITS s and transferring UCITS licensing power to CDVM; (vi) establishing the legal framework for stakeholders, as well as stocks that can be subject to a reverse repurchase agreement, and formulating provisions for securing these operations. Actually, all the other measures taken seek to define the legal framework governing the stock market. Other actions have been undertaken to increase the demand and supply for securities through tax incentives. The road show practice by the stock market has helped to promote the products it offers to the public.

4.3.32 The results of financial system reforms have been generally positive and have led Morocco to be showcased as an example of financial deregulation by the IMF, which conducted, at the request of monetary authorities, an evaluation of the monetary policy in 2004. Inflation has been maintained below 2 percent in the last 10 years; deposit and lending rates show a downward trend (8 percent of lending rates in 2004, compared to 16 percent a few years ago). But only part of bank customers benefited from this downward trend in lending rates: big business. Claims on the government are negative, whereas the exchange rate strengthens the national currency, which became convertible in 1993. Thus, the credit portfolio is increasing steadily. Deregulation of banking activities made it possible to abolish employment obligations and the non-administration of interest rates, now set by the market. The development of stock market capitalisation was boosted in 1990 by the increase in bank equity capital and, from 1993 onwards, by privatisations. In terms of GDP, market capitalisation reached 31.2 percent during 1996-2003, compared to 10 percent during 1990-1995 and 2 percent during 1985-1989. It decreased to 21.9 percent of GDP in 2002, but climbed back to 27.6 percent of GDP in 2003. This dynamism allowed economic operators to finance their activities on the domestic market at favourable conditions in a context of excess liquidity.

4.3.33 In addition to the reduction in the government's stake in some banks, credit to the private sector soared, from 25 percent of GDP to in 1993 to 48 percent in 1998. However, investment credit remains relatively scarce because of the current structure of savings, where sight and medium term deposits prevail. The strong demand for housing credit is the greatest development opportunity for the banking market. Overall, the financial situation of commercial banks is sound and has improved markedly since 1993, except for a few state banks with major overdue obligations. Based on accounting rules that were in force in Morocco before the adoption of the new accounting system in January 2000, the net product of the banking system clearly exceeds international standards, and the return on assets and equity is better than in other countries.

4.3.34 In spite of these encouraging results, Morocco must: (i) pursue its efforts to liberalize the financial system; (ii) deepen reforms in the real economy; (iii) speed up the creation of a legal environment conducive to the promotion of a private sector bound to become the engine of economic and social development; and (iv) achieve a sufficient rate of growth to reduce poverty and unemployment. If these conditions are fulfilled, there is no doubt that Morocco can increase the investment rate to a level above the 24.7 percent of GDP recorded at the end of FY 2004.

4.3.35 Monetary policy alone cannot solve all economic and social development issues in Morocco. Appropriate measures must be taken in the real economy to provide a sound and sustainable basis to some macroeconomic aggregates. The emerging dialogue between banks and SMEs for a mutual understanding of everyone's problems should give new impetus to the promotion of investment and employment. The resolution of problems related to land and to equity financing by investors themselves should allow SMEs to obtain more financial support from commercial banks.

4.3.36 Furthermore, liberalization must be carried on in the coming years in order to achieve higher rates of savings and investment. Reforms should make it possible to translate into a more tangible reality the central role that authorities would like the private sector to play in economic development. They should even be amplified because the productive sector needs to be more competitive in the perspective of the implementation of the free trade agreements that Morocco has signed with the European Union, the US and some Arab countries.

4.3.37 The exposure of the Moroccan economy, often weakened by poor weather conditions, to the economies of the developed world, will be a difficult experience if adequate measures are not taken right away. The US-Morocco free trade agreement gives a considerable advantage to Moroccan exporters of certain agricultural products and textiles, but support measures are essential to maximize its benefits. For example, it will be necessary to double the pace of restructuring and targeting the sectors that are able to compete and to appeal to the US consumer. Contrary to the agreement with the EU that was signed in 1995 and that only involved a few products, the one signed with the US is a general liberalization agreement covering all products and characterized by the mention that "it involves no matching aid". Witness, the recent opening of western market to Chinese textiles hit hard the Moroccan textile industry, which lost 30 percent of its orders within a few months (January-April 2005). This situation caused the stoppage of some production units as well as job losses.

Socio-economic impact of programmes

4.3.38 The outputs of the first traditional structural adjustment programmes initiated by the Moroccan Government in 1988 showed social shortcomings, with persistent pockets of poverty affecting a significant percentage of the population. The 'SAP Consolidation' programme established in 1992 tried to correct this by paying more attention to social inequalities. This second PAS sought, among other objectives, to promote greater social justice, by designing a social development strategy for low-income households and by redirecting credit towards social sectors and agriculture with a view to further mitigating social inequalities. The first phase of this strategy has been implemented within the social priorities programme (BAJ1) in 1996. BAJ1 seeks to reduce poverty in 14 provinces among the most disadvantaged: access to basic education, basic health services, and increase in employment supply. The evaluation of its results is ongoing with UNDP support. In addition to BAJ1, other initiatives have been undertaken and implemented to improve employment and reduce poverty, including the creation of the Agence de promotion de l'emploi, the establishment of the Fonds Hassan II, one component of which provides assistance to the disadvantaged, and the implementation of PAS-EAU, which seeks to provide a sustainable supply of drinking water at affordable prices and in sufficient quantities for rural populations, with a view to reaching a 92 percent coverage in 2007, compared to 50 percent in 2002.

4.3.39 A recent study conducted by Moroccan academics has shown that the overall poverty rate fell from 21 percent in 1984-85 to about 13 percent in 1990-91, i.e. at the end of the SAP, but shot back to 19 percent in 1998-99. Poverty is more a rural than an urban phenomenon (in 1999, 66 percent of the poor lived in rural areas)[5].

4.3.40 In view of macroeconomic and social performance, one has to wonder about the interruption of the structural adjustment process in Morocco. The consolidation of the SAP was not sufficient to correct all macroeconomic imbalances, especially in public finance. But the authorities believed that it was necessary to move to a higher level, more targeted, with sector adjustments whose overall objectives are similar to those contained in SAPs.

4.3.41 The measures to fight unemployment or to spur employment have not yet produced significant results. While initiatives such as BAJ1 (basic education, basic health and national promotion) or the Fonds Hassan II (drinking water supply in rural areas and employment promotion) contain well targeted social actions, significant results are yet to materialise: only 12 percent of rural were served by the drinking water supply network in 2002. Morocco has significant financial resources, but the persistence of current poverty levels raises questions about the relevance of their use to fight poverty.

4.3.42 Measures taken to promote employment have not reversed this trend in any significant manner. The unemployment rate at the national level was 11.9 percent in 2003, a 0.3 percentage point increase from 2002. Urban unemployment increased slightly, from 18.3 percent in 2002 to 19.3 percent in 2003. Finally, young graduates' unemployment increased from 25.6 percent in 2002 to 26.5 percent in 2003[6].

4.4 Efficiency

4.4.1 The average contribution of gross investment to real economic growth has improved: 27 percent over the 1996-2003 period against –2.9 percent over the 1990-1995 period. This increase is attributable to legal and regulatory improvements in the business environment and to consolidation of the Government's investment efforts since 1996. A structural change in investment is underway and is characterized by an increase in the share of the gross fixed capital formation (GFCF) in supplies and equipment, from 40.6 percent during the 80's to 49.5 percent over the 1990-1995 period and 50.3 percent over the 1996-2003 period, to the detriment of the GFCF in public works and civil engineering during the same periods, whose shares declined from 0.8 percent to 27.8 percent and 27.7 percent, for the former, and from 25 percent to 18.1 percent and 17.4 percent for the latter. However, the capital-output ratio has declined as indicated by the average development

[5] See *«Suivi de la pauvreté au Maroc : Organismes et indicateurs»*, by Prof. Aziz AJBILOU, Equipe MIMAP-Maroc, INSEA, Rabat

[6] See *Rapport annuel présenté à sa Majesté le Roi*, Bank El-Maghrib, FY 2003, page 59.

of the ICOR[7]. The latter rose from 2.6 units of capital per production unit over the 1990-1995 period to 5.6 percent over the 1996-2004 period. On the whole, economic efficiency declined, and can be attributable to the lack of diversification in the productive system.

4.4.2 It is difficult to attribute the development of all these aggregates solely to reforms implemented under programmes financed by the Bank and other donors. The development of the Moroccan economy during the period under consideration is attributable to a combination of factors: the impact of the reforms, climate contingencies (drought, earthquakes, locust invasions, but also good rains, surge in world oil prices, decline in the world prices for phosphate and its derivatives.

4.4.3 Significant progress was made with respect to macroeconomic stabilization (positive growth, controlled inflation, positive current account) and strengthening the liberal and competitive nature of the productive system. However, this performance was poor because of the impact of the agricultural sector on the rest of the economy. Tourism and the textile are helping diversify the economy; however, progress made in these sectors must be sustainable.

4.4.4 Another approach can be used to assess the efficiency of the reform programmes, specifically, the way in which the government successfully implemented the programmes. In general, the private sector reforms were well managed by the Directorate of the Treasury and External Finance, with support from Bank Al-Maghrib. Coordination between these two organizations was satisfactory. The initial objectives of the programmes were adopted and implemented within the period specified, except for a few delays, which did not have any serious consequences on the completion of the reforms.

4.4.5 The funds, the expertise and the time invested in the different FISAPs produced the convincing results that were analysed above. There were no slippages on the initial budgets. Funds committed over the 1992-2005 period, a twelve-year period, were uncommonly efficient, for they were used to fundamentally transform the banking sector and its operating rules. The Bank’s intervention encouraged competitiveness among credit establishments and diversification of opportunities to finance economic activities. Private banks are healthier, official banks adhere to private-sector management rules, with a view to maximizing the financial and economic return of the credit policies.

4.5 Institutional Development Impact

4.5.1 The implementation of the four financial sector reform programmes helped strengthen the analytical capacity of the Moroccan government, in general, and the implementing agency, the Directorate of the Treasury, as well as the Central Bank.

4.5.2 The implementation of the reforms translated into enhanced transparency by financial sector operators who upgraded their accounting, management and auditing practices. Most banks satisfy the conditions for good management, organization, transparency and adherence to prudential regulations, in conformity with international norms and standards, in particular the Basle accord. These norms and standards include the solvency ratio, the risk diversification ratio, derating and delinquent loan provisioning, as well as the minimum cash ratio. In 2007, banks that have not adopted these standards will have difficulty operating because of the requirements of BAM. The restructuring of official capital banks has helped shed light on a number of procedures that were not conducive to their profitability.

[7] ICOR-Incremental Capital Output Ratio=Running average over 5 years of the GFCF/running average over 5 years of the GDP variation, excluding agriculture. The running mean was introduced to correct erratic fluctuations of GDP excluding agriculture.

4.5.3 The new statutes of Bank Al-Maghrib have confirmed and strengthened its banking supervision role and its independence in the implementation of monetary policy, which is, henceforth, the responsibility of the Bank Council (Conseil de la Banque). The statutes have also reduced the Treasury's reliance on financial assistance from BAM by limiting Central Bank advances to the Government to an overdraft facility with a maximum amount of 5 percent of tax revenues. In addition, the new bank law, which is awaiting approval by Parliament, seeks to further open up the financial sector and enhance the universal nature of credit establishments. In fact, this law stipulates (Article 7) that credit institutions (banks and finance companies) can carry out transactions related to their usual activities, such as foreign exchange operations, transactions on gold, precious metals, investments, negotiable debt instruments or any financial product, etc. [8]

4.5.4 Most banking and financial institutions now approach globalisation with more knowledge about international norms and standards. The IMF conducted an audit of Morocco on the basis of these standards and has asked for regular dissemination of its statistics for the sake of visibility. Financial incentives have been put in place by the government to promote bank credit and support investments through special funds: guarantee funds in the area of subsidized housing, guarantee funds for financing new enterprises, support fund for businesses in the textile sector, support fund for hotel units, etc.

4.5.5 The Casablanca Stock Exchange has consolidated its position as the securities exchange. The declining trend experienced by the stock market during the last four years reversed itself in 2003, the MASI index appreciated by 32.3 percent and the MADEX by 26.3 percent. As well as the appreciation in prices, market capitalization progressed by 32.5 percent to attain 115.5 billion Dirhams in 2003. At this amount, it represented 27.6 percent of GDP against 23 percent during the year 2002.

4.5.6 The Interbank Electronic Banking Centre *(Centre monétique interbancaire* -CMI), created at the initiative of banks in February 2001, centralizes the processing of all national and international interbank electronic flows. In this regard, it manages all relations with merchants affiliated with the card payment network. In addition, its computer system is connected, on the one, to major international networks and, on the other hand, to all banks to allow the routing of authorizations and the transmission of compensation files: this is the Moroccan interbanking system for electronic compensation and a number of information centres, automated management and rating of risks and clients.

4.6 Sustainability

4.6.1 The sustainability of gains from financial sector reforms lies in the firm will of the government to pursue and deepen these reforms. In this regard, there has been no weakening in the commitment of the authorities to make the financial system the key to strengthening the competitiveness of the productive base and raising the economic base to international levels. Reflections and discussions are underway between the Government and its development partners (World Bank and European Union), with a view to defining the scope of a new generation of financial sector reforms.

4.6.2 The rehabilitation of the economy has made reduction of export taxes and customs duties indispensable measures. Every year, since 1994, Morocco's potential competitiveness has been analysed, in comparison with a sample of fifteen countries, to assess the status of the rehabilitation of the productive base. These countries are: South Africa, Argentina, Brazil, Chile,

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[8] Cf. Draft Bill N°34-03 on credit establishments and assimilated bodies, The Prime Minister, Secretary General of the Government, Kingdom of Morocco, Rabat, 2003

Greece, Hungary, India, Indonesia, Malaysia, Mexico, the Philippines, Poland, Portugal, Thailand and Turkey. In general, six competitiveness factors are reviewed: economic strength, financial strength, strength of the national market, trade, human resources, technology development, physical and institutional infrastructure and investment climate. [9]

4.6.3 This periodic assessment forces the authorities to initiate discussions around measures to be taken to complete or adjust the mechanisms and the indicators put in place. It makes it possible to gauge industrial policy and to identify constraints to Morocco's industrial base, 90 percent of which consists of SME/SMI. Some constraints seem to be recurrent: land, taxation, cost of production factors and justice. However, according to the World Bank, Morocco is among the countries that are making efforts to eliminate these constraints. The core constraints identified by business leaders include those related to the tax burden, unfair competition, corruption and the difficulty to enforce their legal rights. The 2003 assessment revealed a net easing of the constraints related, in particular, to administrative red tape and credit-granting procedures.

4.6.4 It also seems that financing is not always the problem, but rather, the weaknesses of the businesses. A financial restructuring fund is being put in place, with the support of the French Cooperation Agency, to redress this situation. Studies of the potential of each sector are currently being conducted to identify niches where Morocco has a competitive advantage.

4.6.5 The 2003 assessment led to the following conclusions: in general, Morocco was placed in the following categories:

1. **Upper middle performance countries** ***for financial strength, dynamism of*** *national market, and investment conditions.*

2. **Lower middle performance countries for** *macro-economic dynamism, human resources, technology development and physical and institutional infrastructure.*

3. **Poor performance countries** *for trade.*

4.6.6 In the ranking of constraints in the industrial sector, on a scale of 1 to 34, in the year 2003, red tape in granting credit was ranked in the 13th position, and red tape in banking procedures related to international trade was ranked in the 33rd position. Although a direct correlation cannot be established between this ranking and the scope of the financial sector reforms, it can be concluded that gains from the deep transformation of the system are sustainable and lasting. The best indication of the sustainability of the gains from the reforms is the fact that Morocco remains firm in its desire to rehabilitate its financial institutions, especially as it has its sights set on the entry into force of free trade agreements.

4.6.7 The private sector's willingness to boost investment and the conditions created by the Government to facilitate its development constitute factors of sustainability. The new law adopted in 1995, in relation to investment incentives and known as the Investment Charter ("*Charte de l'investissement* ") eliminated a group of disparate texts, which each applied to specific activity sectors. It is based on three essential principles: (i) apply all benefits to all investments, irrespective of their sector and location; (ii) harmonize tax benefits and integrate them into the common law, applicable during both the creation the operational phases of a business; and (iii) simplify granting procedures by eliminating the conformity endorsement precondition which slows down the process and penalizes investors.

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[9] Cf. *Observatoire de la compétitivité internationale de l'économie marocaine*, Observation 2003, Annual Report, OCIEM 2003, Ministry of Industry, Trade, and Rehabilitation of the Economy, Kingdom of Morocco.

4.6.8 On the whole, economic performance during the 1996-2004 period is promising. However it is not sustainable because of the Moroccan economy's strong susceptibility to exogenous shocks, which have often hampered the achievement of economic and social development plans. Reducing economic and social disparities is also driven by sustainability since unemployment and increased marginalization can constitute fertile ground for social unrest, which has a negative effect on the impact of the reform programmes.

4.7 Rating of Overall Performance of Financial Sector Reform

4.7.1 The performance rating tables are presented in the annex. Overall performance was deemed satisfactory. Consequently, the achievement of objectives and outputs was satisfactory. Efficiency and impact on institutional support were also satisfactory and were rated 3. In spite of the sustainable effects of the programme, it presents signs of weakness because of the dominance of agriculture on the country's economy, an agriculture that is strongly dependent on weather conditions. Diversifying the productive base would guarantee the sustainability of gains

4.7.2 In other words, the banking sector, as well as the rules pertaining to the activities of banks, has changed fundamentally. BAM, which is in charge of banks, is more and more independent in its role of supervision and implementation of fiscal policy.

4.8 Borrower Performance

4.8.1 In general, the Borrower's performance was satisfactory (note 3). The preparation of the programme was done properly and implementation generally satisfactory for FISAP-I, FISAP-II, the PDEI and FISAP-IV. There were significant delays in recruiting a consultant and in conducting audits and actuarial studies for the disbursement of the second tranche of the PDEI, whereas the FISAP-II did not encounter any major difficulty in the implementation of its measures, except for the condition related to the elimination of the floor for government securities. Under FISAP-IV, a waiver was requested with respect to the study on pension funds - a waiver granted by the Bank. In general, two programmes did not submit regular quarterly progress reports (FISAP-I) and programme loan account audits (FISAP IV). However, under the PDEI, the authorities prepared two audit reports and a completion report. However, it was difficult to find analytical notes on the implementation status of programme measures. With respect to the PDEI, which is currently being implemented, the Borrower has transmitted a Project Progress report dated 18 August 2004. However, there was a slight delay as a result of the failure to complete the measure related to the conducting a study on pension funds as a condition for the disbursement of the second tranche of the loan.

4.8.2 In general, measures were implemented in a satisfactory manner by the Directorate of the Treasury and External Finance and executed by BAM. These two institutions have adequate technical expertise to implement the reform programmes in a satisfactory manner. The general environment contributed greatly to enhancing the performance of the Borrower.

4.8.3 Finally, there seems to be a problem with knowledge transfer to the extent that transferring a manager who has managed a phase of the financial sector reform programme results in the new manager not being able to successfully work on files processed by his predecessor. This situation makes it difficult to keep track of projects and to gather information about them.

4.9 Bank Performance

4.9.1 In response to a request from the Moroccan authorities, in September 2000, the World Bank prepared a Financial Sector Strategy Paper, which reflects a synthetic analysis of the system and identifies the areas likely to contribute to its full development. It is based on the assessment conducted primarily during 1988. The Bank prepared the programme based on the relevance of the documents underpinning the request for financing. An appraisal mission that was based on the World Bank appraisal document did not raise any concerns about the programme components or about the policy package to be implemented.

4.9.2 In reality, the appraisal of the programmes by the Bank was, in general, facilitated by the availability of the World Bank documents, in particular, the Financial Sector Strategy Paper. Nevertheless, the appraisal mission consulted all the institutions concerned; this led to the determination that the programme, as formulated by the Government, is well designed and the analysis of constraints and problems was properly done in general. Coordination with other donors, especially the World Bank, went well. This appraisal would be much more consistent if the Bank were present in the field like the World Bank.

4.9.3 Supervision was satisfactory, because the Bank conducted monitoring missions, financial supervision missions and mid-term review missions of the different FISAPs, and noted that the justifications and disbursements were done in accordance with the loan conditions and that there were no major obstacles to the completion of the programmes within the deadlines.

4.9.4 In addition, the intervention of several donors in the same programme has the advantage of increasing the range of contributions and enriching the matrix. For example, in the case of FISAP-1, the Bank was responsible for changing the system for calculating the maximum lending rate in the banking system.

4.9.5 During the conception phase of the PDEI, the Bank used the services of a consultant and successfully coordinated its activities with those of the World Bank. The Bank’s performance was therefore deemed satisfactory.

4.9.6 Monitoring, financial supervision, mid-term review and completion missions were well equipped and comprised on average teams of two experts each.

4.10 Factors affecting Implementation Performance and Outcomes

4.10.1 Although satisfactory on the whole, the macroeconomic performance of Morocco during the 1996-2004 period was affected to a large extent by endogenous and exogenous factors which have often raised concerns about the chances of success of economic and sector reform programmes.

4.10.2 Exogenous factors mostly include persistent drought, which affects the overall output of reforms, since the agricultural sector, in a good or a bad year, accounts for 12 – 17 percent of GDP. Other exogenous factors include earthquakes, locust invasions as well as fluctuations in the prices of petroleum products, of which Morocco is a big consumer, and the prices of phosphate, which it exports. One endogenous factor deserves special mention: the rather timid reaction of the private sector with regard to investment, whose rate, although on the rise, has not yet received the boost the authorities would like for it to raise the growth rate to a level that will have a significant impact on poverty.

4.10.3 Finally, there are psychological, cultural and religious factors which have not been sufficiently taken into account in some of the approaches to aspects of the reform programme, in particular: the transformation of the structure of savings (households prefer short-term deposits to long-term investments, since the former gives them access to their funds whenever they want them) and life insurance (the Muslim religion does not encourage intrusion into an area as sacred as that of life and death which is generally left to divine will).

V. CONCLUSIONS, LESSONS AND RECOMMENDATIONS

5.1 Conclusions

5.1.1 Morocco undertook fundamental reform of considerable magnitude with the financial sector adjustment programme. The FISAPs were very successful as a result primarily of the (i) firm will of the Government to implement the reforms; and (ii) the country's strong institutional capacity, the availability of statistical data and of certain studies, the consistency of the Bank's operations with development strategies defined in the five-year development plans, and the coordination of Bank interventions with those of the World Bank. However, the experience needs to be pursued with a new generation of financial sector reforms that the Bank should support with technical and financial assistance. It is a successful model that can be held up as an example and that the Bank can replicate elsewhere with the necessary adjustments.

5.1.2 On the whole, the financial sector reform programmes attained their objectives, particularly during the 1996-2004 period. Indeed, the macroeconomic framework was stabilized; macroeconomic and financial balance re-established and maintained in a sustainable manner. In this regard, rigorous fiscal and monetary policies were implemented, leading to a lowering of inflation, the constitution of a structurally positive current account balance, with large surpluses in 2001, 2002 and 2003. In addition, foreign exchange reserves rose sharply to high levels, covering 7 to 9 months of imports of nonfactor goods and services.

5.1.3 Morocco's economic performance depends on agricultural output, which remains dependent on climate contingencies, as well as on an increase in remittances of MRE and on revenue from the tourist industry. As a result, gains from macroeconomic stabilization and from economic recovery remain weak. It is therefore necessary to pursue and deepen economic and sector reforms to further consolidate gains by diversifying the economic base, making the productive base more competitive, transforming the government into a development-oriented government and supporting private sector investments. Involvement in all these sectors will allow Morocco to seize the opportunities offered by international trade with chances of success. The Bank should support all these reforms, which will strengthen the sustainability of the positive results obtained during the implementation of the financial sector reform programmes.

5.1.4 Enhancing cooperation with Morocco and strengthening economic policy dialogue by drawing on the relevance and efficiency of Bank operations will continue to yield tangible and sustainable results in future years. The war against poverty is well underway, but the battle is not won. The challenge of strong and sustainable growth is difficult to meet. Yet, it is the creation of wealth and its equitable distribution, supported by appropriate social policies that will ensure final victory in the fight against poverty.

5.1.5 The Bank's objective in supporting financial sector reforms was to contribute effectively to the modernization and strengthening of the institutional and regulatory base for financing the economy. This was achieved through the new banking law, the new statutes of the BAM, the liberalization of interest rates, "de-skilling" and decompartmentalization of credit establishments.

5.2 Lessons

5.2.1 The political commitment of a country's government and the support of its principal development partners are necessary to ensure the success of large-scale reform programmes such as the FISAPs (Paragraph 1.2.1).

5.2.2 Slow privatisation of some official banks hampers the dynamics of reforms in the financial sector and do not allow the private sector to play a more significant role in Morocco's banking sector (4.3.34).

5.2.3 The performance of a programme is also dependent on the institutional capacity of the country and on its business environment. One of success factors of the FISAPs was the strong institutional capacity and the extensive expertise demonstrated by the implementing agency (the Directorate of the Treasury and of External Finance) and the main beneficiary institution of the reform (Bank Al-Maghrib) during the implementation and monitoring of programmes (4.8.2).

5.2.4 The development of institutional savings is still limited because of the difficulties encountered by insurance companies in mobilizing long-term resources and the delays in reforming the pension system (4.10.4).

5.2.5 Financial sector reform is necessary, but not adequate, to increase private investment in productive sectors. The Bank's failure to provide direct support to the private sector constitutes, in this regard, a considerable loss (4.3.36).

5.2.6 The advantage of co financing a reform programme is that each donor can enrich the matrix with complementary actions. The Bank and the World Bank demonstrated this in financing the FISAPs (4.9.4).

5.3 Recommendations

<u>For the Government</u>

- The Government's political will must not waiver in the implementation of uncompleted programme components, in particular, the privatisation of banks which are still under its portfolio, the adoption by the two houses of Parliament of the banking law implementation guidelines before the completion of FISAP-IV.

- The Government should pursue its divestiture of official banks to allow private operators to be more involved in the financial sector as owners as well as clients of banks.

- The Government should speed up the study on pension schemes to prevent more serious difficulties in the future in relation to responsibility for retirees whose number is increasing faster than the number of those contributing.

- With the increasing modernization of economic life, the Government must pursue reform of the insurance sector, in particular, the life insurance sub-sector, which has the advantage of mobilizing long-term resources, with a view to financing investment in productive sectors .

- The Government must pursue its efforts to modernize the other sectors of the economy to complement the success of financial sector reforms, in particular by deepening the consolidation of the business environment, reform of the legal framework, land reform, etc.

For the Bank

- The Bank must pursue and deepen economic policy dialogue, specifically with regard to the Government's divestiture of financial banks and institutions, pension scheme reform, development of life insurance.

- To be more efficient, the Bank should ensure its presence in Morocco through a representative's office. This would facilitate policy dialogue with the Moroccan authorities, and the coordination of its operations with those of other donors, in particular, the World Bank and the European Union, who are both present in the field.

- The Bank should provide direct support to the private sector through the Private Window, which would complete its operations in the financial sector.

Kingdom of Morocco

Financial Sector Reform Programmes (FISAP)

Matrix of Recommendations

Principal findings and conclusions	Recommendations	Responsibility
Formulation and rationale of programmes		
The formulation of the programmes took into consideration the socio-political context (Government comprising several political parties) and the economic environment	Since the programmes are well aligned with current needs, there are no specific recommendations	Government
Social partners were involved in the formulation of the sector reform programmes, in this case, the *Confédération Professionnelle des Entreprises du Maroc (CGEM)* and the *Groupement Professionnel des Banques du Maroc (GPBM)*	Their interest was taken into consideration; this participatory approach must be maintained in use in future programmes	Government
Implementation of programme		
In general, no funds were frozen during the implementation of the programmes, except for the delay in disbursing funds under FISAP-IV, a situation that was quickly resolved.	Bank rules and procedures were adhered to, although some difficulty was encountered in this area.	Government
Progress status and programme account audit reports for a number of phases were not prepared and transmitted to the Bank.	Ensure that these documents, which help ensure regular monitoring, are provided.	Government
The monitoring of programme implementation by the Bank was deemed satisfactory	This exercise should be pursued for ongoing programmes.	Bank (Operations Department)
Evaluation of performance of programmes		
The good macro-economic results achieved remain weak because of the dependence of the economy on agriculture, which is itself dependent on weather conditions	Strengthen the macro-economic and financial framework.	Government

Principal findings and conclusions	Recommendations	Responsibility
Evaluation of performance of programmes		
Constraints in the industrial sector hamper its proper development (tax burden, unfair competition, corruption and legal problems)	Gradually eliminate the constraints	Government
Agriculture is beset by weather conditions and its shortfall is reflected in the performance of the economy	Find alternatives to the dominance of agriculture	Government
Poverty persists in spite of the numerous initiatives undertaken to reduce it to reasonable levels	Coordinate the numerous initiatives and strengthen the fight against poverty by extending basic social services to poor populations	Government
Bank assistance does not include technical assistance	Efforts must be made to address this situation	Bank
Bank rules and regulations are rather rigid	An easing of procedures would eliminate some causes of delay	Bank
The ADB is not involved in financing infrastructure, in particular highways	Financial instruments should be created to allow the Bank to intervene in these sectors.	Bank
The Bank is also well known for its failure to support the private sector.	Discussions should be held on the relevance of the Bank's intervention in the private sector	Bank(Private Sector Window)
Conducting preliminary studies before the appraisal of reform programmes would help ensure the smooth implementation of these reforms	The Bank's commitment in this regard would be appreciated by the Borrower	Bank
There is no general summary of Bank loans which would show an overall balance, including the level of disbursements	Such an auditing instrument should be put in place, thus allowing the Borrower to know its absorptive capacity	Bank

Kingdom of Morocco
Financial Sector Reform Programmes
Programme Performance Evaluation Reports

Performance Evaluation Ratings

N°	Indicators	Note (1to4)	Observations
1	**Relevance and Quality at entry assessment**		
i)	Consistency with the country's development strategy	3	The programmes were aligned with the orientations of the country's economic and social development: strong and sustainable development and competitive economy
ii)	Consistency with the Bank's assistance strategy	3	The programmes were responsive to the Bank's desire to support and accompany the government's reform policies
iii)	Macro-economic policies	3	Structural adjustment policies were justified in the light of the Government's desire to restore macroeconomic and financial balance and to revive the economy within the framework of the marketing act.
iv)	Sector policy	3	Sector programmes, in particular in the financial sector, were all aligned with the rehabilitation of the economy, in view of the entry into force of the partnership agreements with the European Union in 2012
v)	Public sector reform	2	Reform of the sector is underway; it seeks to transform the government into a development-oriented government and to reduce the burden of the wage bill.
vi)	Poverty reduction	N/A	In spite of the numerous measures taken to reduce poverty, the results are not impressive, and social inequalities have worsened.
vii)	Social aspects and gender equality	N/A	Despite the measures taken to reduce poverty and unemployment, employment has not been boosted in a convincing manner, with unemployment becoming worse among young graduates and women
viii)	Environmental issues	N/A	
ix)	Human resources development	3	The participation of the senior staff of the ministries concerned by the financial sector reform programmes has helped strengthen their capacities.
x)	Institutional development	3	The Moroccan administration already has highly qualified staff. The implementation of the FISAPs helped strengthen the analytical capacities of the administration in general, and of the Directorate of the Treasury, in particular.
xi)	Quality at entry (including complexity, risks, etc.)	2	The appraisal reports were of good quality, risks were very low because of the Government's willingness to implement reform
2	**Achievement of Objectives and Outcomes ("Efficacy")**		
i)	Structural adjustment policies - Stabilization of macro-economic framework - Growth	 3 2	 Macroeconomic balances were restored and stabilized In the wake of the SAP, GDP growth did not exceed 4 percent, except for a high of 11.6 percent in 1994. The GDB rate should climb to 5 percent at least.

N°	Indicators	Note (1to4)	Observations
ii)	Financial sector reform (main outputs) - Debt management - Labour code - Procurement policies Physical objectives (outputs)	3 2 N/A N/A N/A	De-skill banks, boost capital markets. The inflation rate is lower than 2%; institutional savings are on the rise, as is investment; the current account balance is now structurally positive, FDIs are increasing, driven by the acceleration in privatisations; however, the trade balance and the national budget are in a deficit. All these gains indicate that the reform of the banking and financial sector was satisfactory, overall. Active management of the external debt has helped maintain it at acceptable levels.
3	**Efficiency** - Economic efficacy - Financial rate of return [p.30] Estimate at appraisal Re-estimation at completion	2 na.	The average contribution of gross investment to real economic growth stood at 27 % over the 1996-2002 period against 2.9 % over the 1990-1995 period. However, the capital-output ratio declined, down from 2.6 units of capital for a unit of production from 1990-1995 to 5.6 over the 1996-2003. Naturally, it is difficult to attribute this development only to financial sector reforms.
4	**Institutional Development Impact** - Banking and financial institutions - BAM - Securities Exchange	3 3 3	Banks and financial institutions have upgraded with respect to accounting, management and monitoring. The statutes of the BAM were approved, the new banking law is awaiting approval by Parliament the autonomy and supervisory role of BAMs have been approved. The treasury refinances itself less from the central bank, but rather on the financial markets

N°	Indicators	Note (1to4)	Observations
	- Interbank Electronic Banking Centre (CMI)	3	The Casablanca Stock Exchange is better structured and regulated and market capitalization has been strengthened and stood at 27.6 % of GDP in 2003 against 23% in 2002. The CMI facilitates the centralization of all national and international interbank monetary flows
5	**Sustainability**		
i)	Willingness and commitment of Moroccan Government	3	The Government is using the financial sector as the cornerstone to strengthen the competitiveness of businesses.
ii)	Measure of competitive potential of the industry	3	Each year, *OCIEM* assesses the competitiveness of the Moroccan economy with respect to a group of 15 countries which include Portugal and Greece
iii)	Private sector development	2	The sector is gradually mobilizing to play the role it is expected to play by the authorities (dialogue with banks); and the conditions created for its development by the Government constitutes a factor of sustainability (Investment Charter, significant reduction of the tax burden, etc.)
iv)	Poverty reduction	2	Taking into consideration the reduction of economic and social disparities is also driven by sustainability concerns since unemployment and increased marginalization can constitute fertile ground for social unrest, which has a negative effect on the impact of the reform programmes
v)	Resistance to endogenous and exogenous factors	1	The Moroccan economy is very sensitive to the versatile development of agriculture which has a decisive impact on the rest of the economy, similar to exogenous shocks
6	**Overall assessment**		
	I. Quality of preparation i) Controls, participation of beneficiaries	3	With support from the World Bank, Morocco conducted, in 1990, a preparatory study on financial sector reforms. The Government played the role of a catalyst and leadership in the preparation of the programmes, but it associated banks and employers, the main actors concerned
	ii) Government commitment	3	The Government's commitment and determination have been effective

N°	Indicators	Note (1to4)	Observations
	iii) Macro-economic and sector policies iv) Institutional arrangements	3	Reform of the financial system has had a positive impact on the macroeconomic framework and on other sectors. The executing agency has been set up (Directorate of the Treasury)
	2. Quality of implementation		
	i) Assignment of personnel adequate	3	The staff assigned to manage the programme were well qualified to accomplish their duties
	ii) Management performance of implementing agency	2	The performance of the management body was satisfactory, despite the failure to submit the progress and audit reports during one of the phases of the programme
	iii) Use of technical assistance	1	No technical assistance component was planned in the programme
	iv) Respect schedules and costs	3	The different phases were implemented normally, schedules were respected and there were no cost overruns
7	**Overall Performance**	3	Overall performance can be considered satisfactory as long as the reforms have changed the country's banking landscape
	Borrower Performance [p.34]	3	
	During the identification stage		
	i) Alignment of programme with the government's development strategy	3	The financial sector reform programmes are consonant with the strategies defined in the various economic and social development plans
	ii) Participation of government/beneficiaries	3	The Moroccan authorities discussed the content of the different phases of the reform with the World Bank, which has prepared a financial sector strategy paper.
	iii) Commitment of the government	3	The Government's commitment never wavered
	During implementation	3	
	i) Management performance	3	The programme management organs fulfilled their missions in a satisfactory manner in general, because of strong institutional capacity

N°	Indicators	Note (1to4)	Observations
	ii) Respect of schedule	3	The programmes were implemented without any serious slippages, except for a few delays that had no impact on operations
	iii) Adequate monitoring and evaluation	2	Some weaknesses were noted in the preparation and transmission of implementation and audit reports
9	**Bank Performance** - During identification phase	2	The Bank did not take the initiative to identify the programmes; it intervened after the World Bank's
	- During preparation phase	2	The Bank did not undertake any specific preparation of the programmes. It only became involved when the authorities requested its contribution to finance the programmes
	- During appraisal phase	3	As soon as the Bank was notified, it proceeded with an appraisal on the basis of the appraisal documents of the IBRD, but did not question the programme components or the measures to be implemented. Its intervention was thus very active.
	-Quality of coordination with other donors	3	The Bank coordinated its activities with those of the World Bank in a satisfactory manner
	-During monitoring and evaluation phase	3	The Bank has conducted monitoring, financial supervision, mid-term review and completion missions with well qualified teams.

FACTORS AFFECTING IMPLMENTATION PERFORMANCE AND OUTCOMES

Factors	Substantial	Partial	Negligible	NA	Remarks
1. Not subject to Government Control					
1.1 World Market prices	X				World oil prices have a critical impact
1.2 Natural events	X				Climate conditions seriously affect agricultural performance and, consequently, that of the economy
1.3 Bank performance		X			
1.4 Civil war				NA	There is no civil war
1.5 Domestic and regional socio-political instability		X			The Casa incidents had a negative impact on the tourist industry
2. Subject to Government Control					
2.1 Macroeconomic policies	X				The SAPs facilitated macroeconomic stabilization
2.2 Sector policies	X				Sector reform programmes have been undertaken to make the economy competitive
2.3 Government commitment	X				The government collaborated closely with donors and worked to ensure the success of the programmes
2.4 Administrative capacity	X				The government demonstrated expertise and experience in the implementation of programmes
3. Subject to Executing Agency Control					
3.1 Management	X				In spite of the failure to provide some reports on implementation, the management of the programmes was satisfactory

Factors	Substantial	Partial	Negligible	NA	Remarks
3.2 Use of technical assistance					
3.3 Monitoring & Evaluation	X				Monitoring and evaluation was done in a satisfactory manner by the Bank which conducted supervision missions throughout the life cycle of the programmes
3.4 Beneficiary Participation	X				Beneficiaries participated in the preparation of reform measures, specifically, the *Confédération Générale des Entreprises du Maroc* and *Groupement Professionnel des Banques du Maroc*
3.5 Implementation Schedule	X				There were no slippages in the implementation schedule that could jeopardize the successful completion of the measures

ECONOMIC AND FINANCIAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NATIONAL AGGREGATES										
GDP(constant prices)	113197	127027	124197	133729	133622	134900	143395	147970	155725	161246
Trend as %	-6.6	12.2	-2.2	7.7	-0.1	1	6.3	3.2	5.2	3.5
GDP (current prices)	281702	319340	318342	344005	345594	354208	383184	397782	418655	441773
Trend as %	0.9	13.4	-0.3	8.1	0.5	2.5	8.2	3.8	5.2	5.5
GDP DEFLATOR	0.8	1	2	0.4	0.5	1.5	1.8	0.6	0	1.9
COST OF LIVING	6.1	3	1	2.7	0.7	1.9	0.6	2.8	1.2	1.5
GROSS NATIONAL SAVINGS	48703	62843	65061	74837	78275	78895	105930	106592	115124	116445
Savings rate	17.3	19.7	20.4	21.8	22.6	22.3	17.6	26.8	27.5	26.4
GFCF investment	58396	62537	65901	75739	81896	85422	85375	91142	98380	106612
Trend as %	-2.1	7.1	5.4	14.9	8.1	4.3	-0.1	6.8	7.9	8.4
RATE OF INVESTMENT	20.7	19.6	20.7	22	23.7					
INVEST AND PRIVATE LOANS ETR (*)	4231	4887	12337	5448	18460	12647	33268	6811	23257	15084
Trend as %	-47.8	15.5	152.4	-55.4	238.8	-31.5	163.1	-79.5	241.5	
PUBLIC FINANCES (1)		69/97	97/98	98/99	99/00		2001	2002	2003	ActLF2004
RECURRENT REVENUE	67462	79748	81203	89516	99916	41289	116045	98833	109411	116604
Recurrent revenue\ GDP	23.9	51.7	48.7	49.8	49.8	19.1	30.3	24.8	26.1	26.4
Recurrent revenue (excluding *TVA CL*)	62716	74316	75290		93569	37981	109055	91697	101548	107883
Recurrent revenue\ GDP	22.3	48.2	45.1	46.6	46.6	17.5	28.5	23.1	24.3	24.4
RECURRENT EXPENDITURES	62335	67699	73113	77463	81028	41323	90180	90491	97545	104037
Recurrent expenditures\GDP	22.1	43.9	43.8	43.1	40.4	19.1	23.5	22.7	23.3	23.5
RECURRENT BALANCE	5127	12049	8090	12053	18888	-34	25865	8342	11866	12567
Recurrent balance\ GDP	1.8	7.8	4.8	6.7	9.4	0	6.7	2.1	2.8	2.8
RECURRENT BALANCE (excluding *TVA CL*)	381	6617	2177	6312	12541	-3342	18875	1206	4039	3846
Recurrent balance\ GDP	0.1	4.3	1.3	3.5	6.3	-1.5	4.9	0.3	1	0.9
CAPITAL EXPENDITURE	19680	18360	18267	20114	21029	13973	25294	25272	25702	26902
Capital expenditure \ GDP	7	11.9	10.9	11.2	10.5	6.5	6.6	6.4	6.1	6.1
CAPITAL EXPENDITURE (excluding *TVA CL*)	14934	12928	12354	14373	14682	10665	18304	18136	17875	18181
Capital Expenditure \ GDP	5.3	8.4	7.4	8	7.3	4.9	4.8	4.6	4.3	4.1
HASSAN II Fund					250	1652	10613	120		
OVERALL DEFICIT	-14553	-6311	-10177	-8061	-2391	-15659	-10042	-17050	-13836	-14335
Overall deficit \ GDP	-5.2	-4.1	-6.1	-4.5	-1.2		-2.6	-4.3	-3.3	-3.2
FINANCING NEEDS	-9430	-6102	-11970	-13090	-2154	-4644	-18838	-17281	-15934	-13345
Financing needs \ GDP	-3.3	-4	-7.2	-7.3	-1.1	-2.1	-4.9	-4.3	-3.8	-3
EXTERNAL ACCOUNTS										
IMPORTS	85494	84612	90711	98676	105931	122527	124718	130409	136070	156296
Trend as a %	12.4	-1	7.2	8.8	7.4	15.7	1.8	4.6	4.3	14.9
EXPORTS	58672	60013	67057	68608	73617	78827	80667	86389	83887	86365
Trend as a %	15.1	2.3	11.7	2.3	7.3	7.1	2.3	7.1	-2.9	3
TRADE BALANCE	-26821	-24599	-23654	-30068	-32314	-43700	-44051	-44020	-52183	-69931
Trend as a %	6.9	-8.3	-3.8	27.1	7.5	35.2	0.8	-0.1	18,5	34
COVERAGE RATE	68.6	70.9	73.9	69.5	69.5	64.3	64.7	66.2	61.6	55.3
TOURISM REVENUE	11227	14597	13778	16754	19112	21666	29196	29158	30881	34768
Trend as a %	-0.9	30	-5.6	21.6	14.1	13.4	34.8	-01	5.9	12.6
Remittances of M.R.E	16820	18874	18033	19311	19002	22962	36858	31709	34582	37401
Trend as a %	0	12.2	-4.5	7.1	-1.6	20.8	60.5	-14	9.1	8.2
CURRENT ACCOUNT\ GDP	-10138	306	-831	-1380	-1605	-5079	18211	16277	15084	9833
Current account\ PIB	-3.6	0.1	-0.3	-0.4	-0.5	-1.4	4.8	4.1	3.6	2.2
OUTSTANDING EXTERNAL DEBT (in M.DH)	191932	188141	186070	179380	177538	170899	163103	142317	126024	115230
Outstanding national debt \GDP	68.1	58.9	58.4	52.1	51.4	48.2	42.6	35.8	30.1	26.1
Including Treasury (in Million DH)	133272	131038	130377	125864	123955	118646	110597	92562	78924	70400
Outstanding external treasury debt \ GDP	47.3	41	41	36.6	35.9	33.5	28.9	23.3	18.9	15.9
OUTSTANDING INTERNAL TREASURY DEBT	101133	110461	121526	131034	136668	149388	175886	191554	211590	224077
Outstanding internal treasury debt/GDP	35.9	34.6	38.2	38.1	39.5	42.2	45.9	48.2	50.5	50.7
TREASURY DEBT AS % OF GDP	83.2	75.6	79.1	74.7	75.4	75.7	74.8	71.4	69.4	66.7
MONEY (M3)										
MONEY SUPPLY (M3)	198254	211543	230964	244909	269886	292784	333987	355512	386340	415882
Trend as a %	7.7	6.7	9.2	6	10.2	8.5	14.1	6.4	8.7	7.6
LIQUIDITY RATIO (M3/PIB)	70.4	66.2	72.6	71.2	78.1	82.7	87.2	89.4	92.3	94.1
Narrow Money	124481	130793	140860	150272	167528	181263	210112	229078	251137	275361
Trend as %	5.5	5.1	7.7	6.7	11.5	8.2	15.9	9	9.6	9.6
Demand investment (M2-M1)	21279	23466	25983	29523	33069	35240	39582	43097	47843	52780
Trend as %	13.9	10.3	10.7	13.6	12	6.6	12.3	8.9	11	10.3
Fixed-term investment (M3-M2)	52494	57284	64121	65114	69389	76281	84294	83337	87360	87741
Trend as %	10.6	9.1	11.9	1.5	6.6	9.9	10.5	-1.1	4.8	0.4
TREASURY DEBTS	78231	81637	86369	84511	76033	85934	78329	80697	78537	72695
Trend as %	12.1	4.4	5.8	-2.2	-10	-13	-8.8	3	-2.7	-7.4
CREDIT TO THE ECONOMY	136602	149442	159424	175885	193097	208022	216951	226221	246008	262618
Trend as %	11.8	9.4	6.7	10.3	9.8	7.7	4.3	4.3	8.7	6.8
FOREIGN ASSETS (BAM)	32347	35214	40355	42710	58884	52651	99264	104490	122351	134825
MONTHS of imports	4.7	5.2	4.8	4.7	6	4.7	8.6	8.6	9.6	9.6
STOCK MARKET										
SALES	23200	20357	32335	58267	95070	38460	26720	22470	53695	71763
Trend as %	168.3	-12.3	60	80.2	63.2	-59.5	-30.5	-15.9	139	33.7
MARKET CAPITALIZATION	50780	75580	118569	145147	138051	114878	104740	87170	115507	206517
Trend as %	27.5	48.8	56.9	22.4	-4.9	-16.8	-8.8	-16.8	32.5	78.8
GENERAL INDEX (MASI et MADEX en 2002 et:	342.4	447	667.52	803.68	777.08	658.43	609.74	3179.81; 224	3943.51; 317	4521.98; 3522
IGB trend as %	0.9	30.5	49.3	20.4	-3.3	-15.3	-74	-13.9; -21.3	+24; +41.7	+14.7; 11

PUBLIC EXTERNAL DEBT STATISTICS DECEMBER 2004

	1999	2000	2001	2002	2003	2004	2004-T3	2004-T4
I- OUTSTANDING DEBT								
In millions of US dollar	**17548**	**16047**	**14067**	**13957**	**14360**	**13980**	**13248**	**13980**
In million euros	**17488**	**17321**	**15894**	**13336**	**11366**	**10247**	**10688**	**10247**
In million DH	**177538**	**170899**	**163109**	**142317**	**126024**	**115230**	**118082**	**115230**
As % of GDP	**51.4%**	**48.2%**	**42.6%**	**35.8%**	**30.1%**	**26.1%**		
II- OUSTANDING DEBT PROFILE (Share as %)								
A- BY CREDITOR								
Medium and long term	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**99.6%**	**100.0%**	**99.8%**	**100.0%**
Bilateral Creditors	43.7%	43.0%	40.8%	40.7%	41.5%	40.5%	41.9%	40.5%
Paris Club	36.4%	35.6%	36.1%	36.3%	37.2%	36.8%	37.3%	36.8%
Other Countries	7.3%	7.4%	4.7%	4.4%	4.3%	3.7%	4.6%	3.7%
Commercial Banks	20.8%	20.4%	19.6%	17.9%	18.4%	16.9%	17.1%	16.9%
International Institutions	35.5%	36.6%	39.6%	41.4%	39.7%	42.6%	40.8%	42.6%
Short term	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.4%**	**0.0%**	**0.2%**	**0.0%**
B- BY BORROWER								
Treasury debt	**69.8%**	**69.4%**	**67.8%**	**65.0%**	**62.6%**	**61.2%**	**61.9%**	**61.2%**
Guaranteed debt	**30.2%**	**30.6%**	**32.2%**	**35.0%**	**37.4%**	**38.8%**	**38.1%**	**38.8%**
Government agencies	21.9%	22.5%	24.1%	27.2%	30.8%	33.3%	32.3%	33.3%
Banking sector	7.6%	7.3%	7.3%	7.0%	5.9%	4.8%	5.0%	4.8%
Municipalities	0.7%	0.8%	0.8%	0.8%	0.7%	0.7%	0.8%	0.7%
C- BY CURRENCY								
U.S Dollar	39.8%	40.3%	37.5%	32.4%	24.9%	21.6%	23.4%	21.6%
Euro	42.4%	41.2%	42.9%	47.9%	56.5%	59.9%	57.3%	59.9%
Japanese Yen	8.8%	8.5%	8.4%	8.3%	7.8%	7.8%	7.5%	7.8%
Other	9.0%	10.0%	11.2%	11.4%	10.8%	10.7%	11.8%	10.7%
D- BY INTEREST RATE								
Fixed	56.6%	57.2%	57.1%	58.5%	64.2%	66.7%	66.1%	66.7%
Semi-fixed	17.3%	15.8%	15.3%	15.2%	11.8%	9.2%	9.7%	9.2%
Floating	26.1%	27.0%	27.6%	26.3%	24.0%	24.1%	24.2%	24.1%
III- DEBT SERVICING (In million DH)								
Total debt servicing	**29002**	**26838**	**28313**	**28434**	**29825**	**22853**	**7515**	**6305**
Equivalent amount in $U.S m	**2959**	**2556**	**2500**	**2559**	**3100**	**2568**	**833**	**740**
As % of current revenue	22.6%	18.9%	16.5%	16.1%	16.5%	12.1%		
Principal Charges	**19758**	**17598**	**19768**	**21552**	**24392**	**18409**	**6338**	**5067**
Bilateral creditors	9916	7522	8545	8116	6494	7357	1725	3183
Paris Club	9521	7136	7711	6983	5851	5969	1575	2174
Other countries	395	386	834	1133	643	1388	150	1009
Commercial Banks	4392	4058	5181	4544	6187	3971	1636	199
International institutions	5450	6018	6042	8892	11711	7081	2977	1685
Interest Charges	**9244**	**9240**	**8545**	**6882**	**4533**	**4444**	**1177**	**1238**
Bilateral creditors	3384	2914	2747	2342	1821	1571	334	600
Paris Club	3226	2767	2524	2170	1650	1442	295	568
Other Countries	158	147	223	172	171	129	39	32
Commercial Banks	1986	2407	2076	893	669	751	394	62
International institutions	3874	3919	3722	3647	2943	2122	449	576
IV- DRAWINGS ON THE DEBT (In million DH)								
Total drawings	**14718**	**8873**	**7100**	**7288**	**13490**	**8103**	**1649**	**3481**
Bilateral creditors	4348	3054	2653	1743	2224	1760	314	556
Paris Club	2983	2836	2356	1461	1867	1321	287	384
Other countries	1364	218	297	282	357	439	27	172
Commercial Banks	2844	961	0	425	5782	598	0	0
International institutions	7526	4859	4447	5120	5484	5745	1335	2925

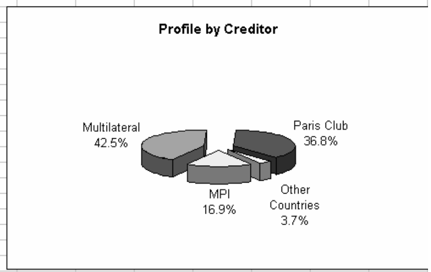
V- PROJECTIONS OF SERVICE BASED ON OUTSTANDING AMOUNT AT END DECEMBER 2004

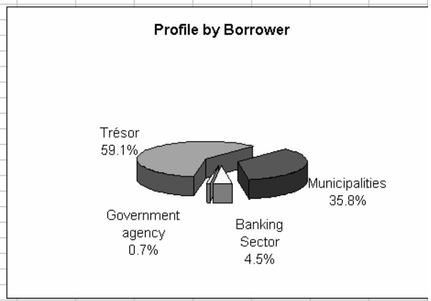
	2005	2006	2007	2008	2009	2010	2011
Total debt servicing	**18600**	**16335**	**15130**	**17641**	**10961**	**8762**	**7843**
Equivalent amount in $U.S mill	**2257**	**1982**	**1832**	**2140**	**1330**	**1063**	**952**
Charges on Principal	**14619**	**12912**	**12198**	**15151**	**9100**	**7175**	**6502**
Bilateral creditors	5787	4663	4483	3616	3366	3111	2735
Paris Club	5456	4402	4107	3293	3042	2786	2413
Other Countries	332	261	377	323	325	325	321
Commercial Banks	3518	2927	2902	7121	1545	354	240
International Institutions	5314	5322	4814	4414	4188	3710	3528
Charges on Interest	**3980**	**3423**	**2931**	**2490**	**1862**	**1588**	**1341**
Bilateral Creditors	1357	1125	949	796	695	606	522
Paris Club	1211	1010	842	713	623	545	474
Other Countries	146	116	108	83	72	61	48
Commercial Banks	715	604	504	407	74	52	39
International Institutions	1908	1693	1478	1286	1093	930	780

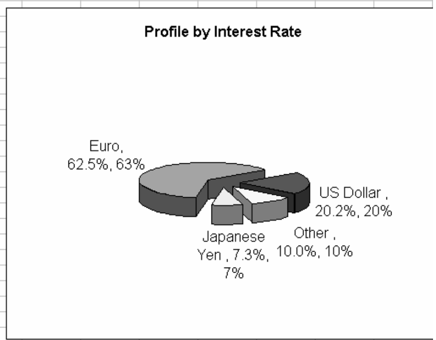
VI- SHORT TERM PROJECTIONS

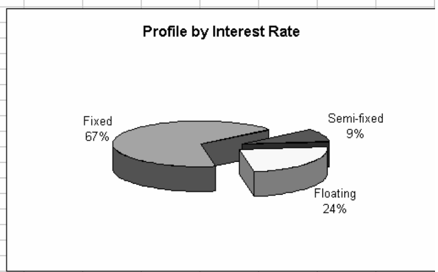
	2005-M1	2005-M2	2005-M3	2005-T1	2005-T2	2005-T3	2005-T4
Total debt service	2591	1251	1171	5013	3837	5198	4551
Equivalent amount in $U.S milli	314	152	142	608	466	631	552
Charges on Principal	2225	987	902	4114	2918	4097	3491
Charges on Interest	366	264	268	899	919	1102	1061

Schedule for dissemination: Quarterly update with a three month lag in dissemination
Source: *Direction du Tresor et desFinances Exterieures* (DGDE)
Web Site: http://www.finances.gov.ma/Chiffres/chiffres.htm









Kingdom of Morocco

Updated Matrix of the Financial Sector Structural Adjustment Programme (FISAP – II)

HIERARCHY OF OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	Observation
General Objective 1. Lay the foundation for a competitive and full employment economy	(in % of GDP) 1.1 The investment rate will rise from 22 % in 96 to 22.8 % in 97 1.2 The growth of non-agricultural GDP in real terms will attain 3.2% and 3.6% in 1996 and 1997, respectively 1.3 the current deficit will be 2.9% in 1996 2.8% in 1997 1.4 the fiscal deficit will reduce by 0.5% each year to attain 2.5% in 1997 1.5 national savings will reach 20% of GDP in 1997	1.1 Rate of 20% in 1996 1.2 2% to 3% in non-agriculture GDP in 1996 1.3 Deficit limited to 1.2% in 1996 1.4 Estimated at between 2.5% and 3% in 1996 1.5 Figure not available, strong development in market capitalization
PROJECT OBJECTIVE 1. Be able to finance the private sector with a variety of financial instruments in a liberalized system	1.1 The share of the GFCF in the private sector will increase from 14.3% in 96 to 15% in 97 1.2 The evolution of M2/GDP in 96 and in 97	1.1 Not available, but in general by 20% in 1996 1.2 Declining, to 62 % of GDP in September 1996
A achievements 1. The treasury finances its needs at market level	1.1 Weighted annual average rate of Treasury loans compared to weighted annual average rate of money market. 1.2 Treasury bill auction will cover at least 70% of the needs of the Treasury in 97 1.3 Three SVT at least intervene in the Treasury bill auction	1.1 Narrowing of the gap 1.2 Not achieved
2. The money market has become significant	2.1 The number of interventions will increase from three (3) units in 96 and two units in 97 2.2 Five businesses will issue commercial papers in 96 and ten in 97 2.3 Structure of differential interest rates	2.Achieved in 96 2.2 Not achieved 2.3 Yes
3. The financial market operates within an enhanced institutional framework and offers a variety of financial instruments	3.1 Ten new businesses listed in 97 3.2 Market capitalization will account for 17 % of GDP in 97 3.3 The settlement period in 97 will be 48 hours from the placement of the order	3.1 Not applicable 3.2 Market capitalization of 23% of GDP in 1997 3.3 Not applicable
4. The national financial sector is integrated with international capital markets thanks to the creation of a foreign exchange market 4.2 The relevant prudential regulations are set and the Central Bank has enhanced its controls. 4.3 BCP, BNDE and CIH are privatised	4.1 External resources mobilized by the private sector will amount to 7.2 billion DH in 1996 and 7.8 billion DH in 97 4.2 Once every two year, BAM will audit each bank and the main financial establishments. CDVM will audit securities dealers and the OCPVM through its endorsement 4.3 The product of their privatisation will constitute fiscal revenue in 96	4.1 Not applicable 4.2 This frequency has not yet been attained CDVM is operational Not accomplished

HIERARCHY OF OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	Observation
Activities (Components) 1. Financing of the Treasury 1.1 Reduce the floor for government securities to 15% before end 95 then eliminate in 1996 1.2 Issue a circular related the treasure bills auction envisaging their marketability 1.3 Put in place a debt management training programme	Resources (in millions de DH) 1995 1996 1997 Mar.Cap. 5331 5764 6068 Fac. IMF -861 -423 0 Gap fin. -5112 -3113 -2855 IBRD 1261 841 0 ADB -/- 1180 787 Resid.Gap -3851 -1092 -2068 PRC 3851 1092 2068	1.1 PEP reduced to 10% in September 1996 and will be eliminated in the 1997-98 budget 1.2 Done and texts published 1.3 Partial realization
2. Indirect control of money 2.1 Establish the conditions for BAM intervention in the money market 2.2 Eliminate the ceiling lending interest rates 2.3 Authorize the issuing of negotiable certificates of indebtedness (TCN)		2.1 Done 2.2 Done 2.3 Done
3. Development of the financial market 3.1 Publish the Securities Exchange documents 3.2 Approve the accounting plan of UCITS 3.3 Table the draft bill on corporations in the House of Representatives 3.4 Eliminate the government insurance on public enterprise bond issues 3.5 Modify the level of brokerage fees and publish the transactions of the Casablanca Stock Exchange 3.6 Conduct a study on the development of institutional savings and prepare an action plan 3.7 Action Plan /Create a central depository		3.1 Done 3..2 Done 3..3 Done 3.4 Done 3..5 Done 3. 6 Done 3.7 Done
4. Creation of foreign exchange market and banking supervision 4 .1 Publish the operating mechanisms of the foreign exchange market 4.2 Publish accounting standards related to the foreign exchange operations 4..3 Privatise BCP, BNDE and CIH 4.4 Gradually harmonize the prudential rules for banks and des OFS 4.5 Strengthen banking supervision		4.1 Done 4..2 Done 4..3 Differed 4.4 Done 4.5 Ongoing

Kingdom of MOROCCO
Logical Framework of the Institutional Savings Development Program (PDEI)

Hierarchy of objectives	Objectively verifiable indicators		Means of verification	Important assumptions/risks
	Estimate	**Achievements**		
SECTOR GOAL The development of strengthened financial markets	Increased flow of non-bank Financial resources		National accounts Annual reports of BAM	
PDEI OBJECTIVES 1. Institutional savings increased	1.1 Ratio of institutional savings (flows) to GDP increased from 3.2% in 1996 to 4% in 1998.	The ratio of institutional savings (flows) to GDP reached 5% in 1998 and 4% in 1999.	BAM and Ministry of Finance reports	Continuation of implementation of reforms in the sector
2. Competitive financial market promoted	2.1 The ratio of new security issues (including negotiable debt securities) to net flows of bank credit increased from 42.9% in 1996 to 45% in 1999.	The ratio of new security issues (including negotiable debt securities) to net flows of bank credit reached 47% in 1998 and 72% in 1999.	BAM report	Strong government commitment to implement the reforms. Good budget discipline.
3.Viability of pension schemes enhanced	3.1 Actuarial studies and financial audit of pension schemes completed.	Summary report of 10 actuarial studies on the 4 main schemes and 6 internal schemes validated by the follow-up committee in June 2000 and forwarded to the Bank in July 2000.	Summary report prepared by the monitoring committee.	Macroeconomic stability Strong government commitment
Programme outcome 1. Insurance sector streamlined and made more competitive	1.1. Insurance code deemed satisfactory by the Bank and adopted by the Government Council before loan effectiveness	An initial version was presented to the Government Council in May 1988. A second version, excluding the clause on the « Morocanization » of capital was resubmitted to the Government Council in April 2001 and to the Council of Ministers in June 2001.	Government Council report	Strong Government commitment
	1.2. Agreement between the Ministry of Finance and representatives of the insurance sector on the liberalization of insurance rates before 2001.	The law on price liberalization and competition, adopted on 5 June 2000, led to a *de facto* liberalization of insurance rates from 1 July 2001, excluding third-party liability automobile insurance which represents 39% of total premium income	DAPS report	Excellent cooperation from the insurance industry and consumers.
	1.3 Arrears of liquidated insurance companies settled in accordance with the plan agreed with the Bank.	Ongoing payment of claims. Reserves for life insurance and occupational accidents are covered 100%; the other claims are paid 50%, with the State financing the asset shortfall.	Report of DAPS and the Directorate of the Budget	Financial support from donors
2. Improved capital market	2.1 Bill on management of funds for third party accounts drafted.	Bill drafted by the Ministry of Finance without consulting the professionals (situation as at June 2002).	Report of the Ministry of Finance.	Strong support from social partners.

	2.2 Bill on securitization mortgage market adopted by the Government Council.	Adopted by Parliament in June 1998; promulgated on 25 August 1999.	Government's report.	
	2.3 Bill on creation of money-market UCITS drafted	The bill to amend the *dahir* in relation to the UCITS to allow the creation of money market UCITS was adopted by parliament.	Report of the Ministry of Finance.	
3. Pension scheme reform	3.1 Reports of the actuarial studies, financial audits and pension schemes prepared.	Summary report of actuarial studies prepared in June 2000.	Reports of the technical committee for supervision of actuarial studies. DAPS report.	
4. Role and relations of the CDG with the CNSS and CEN modified.	4.1 Separate UCITS created for the CNSS and CEN.	The mutual funds /FCP "CDG SECUR" and "CDG BARID" created in 1997 for CNSS and CEN respectively.	Report of the CDG, CNSS and CEN.	
	4.2 Administered interest rate on deposits in the CDG abolished and replaced with a rate determined by the market/market terms.	Orders signed in 1997 indexing the interest rate on CNSS and CDG deposits to interest rates determined through auctioning of treasury bills with 5-year maturity.	Report of the CDG, CNSS and CEN	
<u>ACTIVITIES</u>	<u>INPUT/RESOURCES</u>			
1.1 Finalize drafting of the insurance code and have it adopted by the Government.		An initial version was presented to the Government Council in May 1998. A second version, excluding the clause on the " Moroccanization" of capital was resubmitted to the Government Council in April 2001 and to the Council of Ministers in June 2001.	Government's report	
1.2 Implement the plan for settlement of claims owed by liquidated insurance companies.		Settlement underway.	Report of DAPs and the technical committee	
1.3 Liberalize insurance rates		Partial liberalization of rates.	Report of DAPS and the technical committee	
2.1 Conduct actuarial studies as well as financial and management audits of pension schemes.		Actuarial studies conducted on 10 schemes and audits conducted for the four main pension funds.	Report of the follow-up committee monitoring the actuarial studies	
2.2 Conduct a sensitisation campaign		Sensitization campaign initiated with a presentation made at a session of the Social Dialogue Commission in December 2000.	Report of the Ministry of Finance	
3.1 Create separate mutual funds for CNSS and CEN.		Done	Report of the Ministry of Finance	
3.2 Abolish administered interest rates on all CDG deposits and replace them with portfolio rates of return		Done	Report of the Ministry of Financed and Official Gazette	
3.3 Put up CDG assets in the hotel for sale		One hotel put up for sale.	Report of the Department of the Treasury and External Finance, Ministry of Finance	
4.1 Draft a bill on management of funds on behalf of third parties.		Bill currently being drafted		

4.2 Draft and ensure adoption of bill on securitization 4.3 Prepare the bill on the creation of money market UCITSs. 4.4 Mobilization of resources.	Contributions: 1.ADB: FF 405 million and US$ 68.26 million. 2.WB: US$ 100 million.	Law adopted. Bill currently under review by the Government. ADB: FF 526..5 million and US$ 88.738 million. W.B: US$ 100 million.		

NAME: FINANCIAL SECTOR SUPPORT PROGRAMME IV

DATE OF THIS RECAPITULATION 12/01/07

PROGRAMME LOGICAL FRAMEWORK

HIERARCHY OF OBJECTIVES	*OBJECTIVELY VERIFIABLE INDICATORS*	*MEANS OF VERIFICATION*	*IMPORTANT ASSUMPTIONS AND RISKS*
MACRO-ECONOMIC OBJECTIVE Promote high economic growth while maintaining the stability of the macro-economic framework. Increase in budgetary savings	GDP growth rate of 4.5% in 2002, 4.5% in 2003 and 5% in 2004. Annual inflation rate of 2%over the 2002-2004 period. Current account balance of +1% of GDP in 2002; +0.5% of GDP in 2003 and +0.6% of GDP in 2004. Rate of fiscal deficit, excluding privatisation revenues on GDO by 6% in 2002, 6 in 2003 et 5.5% en 2004.	Directorate of Statistics, Ministry in charge of Planning. Directorate of Statistics, Ministry in charge of Planning. Statistics of the Exchange Office Ministry of Finance	
SECTOR GOAL Increase the volume of mobilized savings and diversify savings products to increase the financing of productive investment. .	- Increase domestic savings from 18% of GDP in 2002 to 20% of GDP in 2004 - The share of short and medium-term investments in financial savings of non-financial agents (flow) increases from 17% on average over the1999-2001 period to 19% in 2002-2004. The contribution of institutional savings in financial savings of non-financial agents (flow) from an average of 15% in 1999-2001 to 17% in 2002-2004. - The contribution of Company deeds in financial savings of non-financial agents (flow) from an average of 29% in 1999-2001 to 32% in 2002-2004.	Directorate of Statistics, Ministry of Planning Annual Reports, Bank Al Maghrib Bank Al Maghrib Annual reports, Annual Reports, Bank Al Maghrib	Implement a sound economic policy

HIERARCHY OF OBJECTIVES	*OBJECTIVELY VERIFIABLE INDICATORS*	*MEANS OF VERIFICATION*	*IMPORTANT ASSUMPTIONS AND RISKS*
	- The financial savings /FBCF ratio from an average of 62% in 1999-2001 to 65% in 2002-2004. - -The investment rate from rises from 22.3% in 2002 to 25% in 2004	Economic and financial report, Ministry of Finance. Directorate of Statistics, Ministry in charge of Planning	